

Telia AB

The Telia Group

1999 Annual Report Summary

Telia AB (publ)
SE-123 86 FARSTA
Co. reg. no. 556103-4249
Reg'd. office: Stockholm
E-mail: telia@telia.se
www.telia.se

ANNUAL REPORT SUMMARY

- TELIA ACHIEVED ITS BEST ADJUSTED OPERATING INCOME EVER.
- SWEDISH OPERATIONS DELIVERED HEALTHY EARNINGS AND GROWTH DESPITE PRICE CUTS AND THE INTRODUCTION OF CARRIER PRESELECTION.
- THE GROWTH SECTORS MOBILE COMMUNICATIONS, INTERNET/ BROADBAND, DATA COMMUNICATIONS, AND INTERNATIONAL CARRIER EXPANDED VIGOROUSLY.
- ASSOCIATED COMPANIES INFONET AND EIRCOM FLOATED SUCCESSFULLY.

The Year in Brief

MSEK	1999	1998	1997
Net sales	52,121	49,569	45,665
Sales growth (%)	5.2	8.6	7.6
Gross margin (%)	26.1	29.0	23.0
Operating income	5,946	7,220	3,218
Operating margin (%)	11.4	14.6	7.0
Income after financial net	5,980	7,143	3,128
Interest coverage rate (multiple)	8.5	10.4	5.3
Net income	4,222	5,011	2,222
Earnings per share (SEK)	480	569	252
Investments	12,145	11,684	10,812

MSEK	Dec 31 1999	Dec 31 1998	Dec 31 1997
Balance sheet total	75,991	67,278	65,910
Capital employed	50,323	43,440	46,329
Operating capital	38,553	34,921	39,192
Net interest-bearing liability	7,533	6,766	14,608
Return on capital employed (%)	14.5	17.6	8.6
Return on equity (%)	14.4	19.2	9.3
Equity/assets ratio (%)	40.5	41.5	36.8
Debt/equity ratio (multiple)	0.24	0.24	0.60
Number of employees	30,643	30,593	32,549

CEO's Comments

In 1999, Telia achieved earnings excluding capital gains that were the Group's most outstanding ever. It is particularly encouraging that new growth sectors expanded strongly. That means that Telia has kept pace with its competition in growth markets, at the same time as we demonstrated that we can streamline and develop our traditional activities.

Now that the merger with Telenor has been canceled, it is time for Telia to move on. The Group's new strategic focus will enable us to exploit aggressively our unique competencies even in the European and global arenas.

The decision to have the Group prepare to list on the stock exchange soon is heartening. By floating our shares, we will be able to access the capital markets and act quickly on the same terms as other players, for example in mergers and acquisitions.

The outlook for the year 2000 is bright. I expect ongoing growth in our established operations.

Stockholm, March 1, 2000

Jan-Åke Kark

President and CEO

Sales and Earnings

The telecommunications market grew apace. Internet traffic and mobile telephony made the biggest advances. In Sweden, the market for mobile services grew about 22%, for fixed services more than 4%.

Net sales rose more than 6%, adjusted for divested operations. That increase was generated by volume growth. Prices were cut almost 6% during the year.

Sales in markets outside Sweden expanded, to MSEK 8,040 (6,068) or more than 15% of net sales. Including Telia's share of associated companies' net sales, the proportion of foreign sales was 21% (21%).

Telia's sales of fixed services increased 4%. In Sweden, the increase was 1%. The introduction of equal access with carrier preselection on September 11 reduced revenues somewhat, chiefly in the household segment. Traffic on the Internet and to mobile networks kept expanding. Traditional data communications also reported healthy growth, as did operations in other markets.

Sales of mobile services in Sweden advanced 11%. Growth was attributable to GSM, which attracted more subscribers and generated more traffic per subscriber. Growth was also strong in Denmark. NMT service in Sweden is being closed down.

Telia's directory operations advanced, while sales of goods and installations encountered less demand.

Competition in the Swedish market maintained pressure on prices in the most profitable service and customer segments for all businesses. However, volume growth and actions taken to boost efficiency yielded positive results. Earnings from established Swedish operations improved year-on-year. Telia's gross margins in fixed and mobile services are on a par with those of competing operators.

To ensure long-term growth, Telia invested in new, sophisticated services and in geographic expansion. These initiatives boost expenditure for development of goods and services. For example, Telia is investing aggressively in services based on the Internet and broadband technology. Actions taken by all segments to expand geographically and position Telia in its markets will grow value in the long run but incur costs of market entry in the short run.

Altogether, adjusted operating income improved 23%.

MSEK	1999	1998	1997
Adjusted operating income and operating income			
Mobile	2,299	1,485	1,237
Carrier & Networks	3,409	4,417	4,565
Business Solutions	680	526	129
People Solutions	1,631	1,172	398
Enterprises	1,354	396	917
Other, Group-wide	-2,646	-2,537	-2,395
Adjusted operating income	6,727	5,459	4,851
Personnel restructuring	-722	-2,473	-1,871
Common pension commitments etc.	189	-147	-641
Year 2000 compliance	-604	-548	-40
Costs of the merger	-226	-	-
Capital gains/losses	582	4,929	919
Operating income	5,946	7,220	3,218

During a period of three years, Telia carried out extensive staff restructuring in all operations. The restructuring was facilitated by a Recruitment division in the parent company. The division's operations are virtually wound up, so related costs were much less than in 1998. The cost of common pension commitments was affected by changes in the assumed real interest rate used for calculating Group pension liabilities.

IT systems underwent extensive modification in anticipation of the turn of the century. The changeover went according to plan. Operating income was charged with the cost of activities to integrate operations with Telenor, which were called off in December.

Telia is refining and concentrating its business. Operations divested during the year included the consulting and software company AU-System, the Group's directory business in the Netherlands, and in-house vehicle management. All three sales generated capital gains, though not on a level with 1998's sales of the Italian company Omnitel and the Group's commercial property holdings.

Financial Position

The Group's financial position remains solid. The rate of turnover of capital declined somewhat owing to the balance sheet total expanding 13% while sales rose 5%. The current ratio increased because current assets were relatively large in proportion to long-term loans.

Fixed assets expanded in 1999 as leasing operations grew apace and stronger earnings from associated companies more than offset the sale and disposal of tangible assets. Fixed assets represented 70% (73%) of total assets at year-end. The proportion of tangible assets in total assets in particular is declining, as a result of technical advances that push down the price/capacity ratio, shorter depreciation schedules, and the divestiture of non-strategic assets.

In addition, current assets expanded, partly because of the growth of leasing business and loans to associated companies for the acquisition of additional shares in Eircom. Accounts receivable from customers totaled MSEK

10,637 (9,501), equal to 16% (15%) of net sales adjusted for value-added tax. Including accruals and deferrals, total accounts receivable from customers ended at MSEK 13,857 (12,144). Bad debt expense declined, to MSEK 332 (354), corresponding to 0.6% (0.7%) of net sales.

Non-interest-bearing provisions increased owing to higher provisions for taxes. The rise in operating liabilities primarily consisted of corporate income and value-added tax and advance invoicing. Invoiced and accrued accounts payable rose, to MSEK 4,835 (4,585).

Financing

Operating cash flow after investments was negative. Increases in working capital, interest-bearing accounts receivable, and investments were too great to be offset by positive cash flow from operations in other respects.

MSEK	1999	1998	1997
Operating cash flow	-2,032	6,842	394
Net cash flow	-767	7,842	-1,074

The provision for pension liabilities increased through compensation from the pension funds. Actions taken to avoid new borrowings at the turn of the century temporarily increased short-term investments. Combined with more lending to associated companies and healthy growth in leasing operations, this boosted interest-bearing assets, to MSEK 11,249 (7,719), and limited the expansion of operating capital.

During the year, fund-raising activities focused on extending the period of fixed interest rates and fixed principal of borrowings, while borrowings became more diverse with Telia utilizing its Euro Medium Term Note (EMTN) program for the first time.

However, Telia's Swedish Flexible Term Notes (FTN) program, with a limit of MSEK 8,000, and the Euro Commercial Paper (ECP) program still account for the majority of funds borrowed.

Investments

Total Group investments rose slightly, chiefly owing to further investment in telecom operations outside the Nordic region. Investments equaled 23% (23%) of sales.

Investments in Sweden ended at MSEK 6,266 (6,106). Activity in the other Nordic countries slowed, to MSEK 1,133 (1,607), while investments outside the Nordic countries accelerated, to MSEK 4,746 (3,971).

Depreciation, amortization, and write-downs totaled MSEK 7,652 (7,146). No general changes in depreciation schedules were implemented in 1999. Depreciation and amortization equaled 15% (14%) of net sales.

On the whole, investments in intangible and tangible fixed assets were on a par with the preceding year's. Investments in buildings and land have been low since Telia divested its commercial properties. Investments in fixed networks were dominated in Sweden by efforts to implement equal access and number portability (with total

investment exceeding GSEK 1) and outside Sweden by the Viking Network initiative.

MSEK	1999	1998	1997
Investments			
Goodwill	335	223	50
Other intangible assets	373	248	233
Properties	53	370	1 478
<i>Fixed telephony installations</i>	3,364	2,158	3,023
<i>Mobile telephony installations</i>	1,166	1,273	1,360
<i>Other machinery and equipment</i>	2,745	3,560	3,491
Machinery and equipment	7,275	6,991	7,874
Shares and participations	4,109	3,852	1,177
Total	12,145	11,684	10,812

The major investments in shares and participations were MSEK 1,903 in the U.S. company Infonet, MSEK 1,196 in Tess in Brazil, and MSEK 640 in Netia in Poland.

Human Resources

The number of employees at December 31 was 30,643 (30,593). Excluding the Recruitment division and taking into account divested operations, the number of employees in business operations increased by 1,463, to 30,333.

Operations in Sweden added 323 persons, for a total of 25,527. Other markets added 1,140, for a total of 4,806.

Market Position

In 1999, Telia retained its leading position in the Swedish market, although market shares in certain areas declined somewhat as a result of the equal access reform and intensifying pressure from competition. In other Nordic countries and the Baltic region, the Group bolstered its position. The international carrier operation progressed favorably, and in a short time Telia has established itself as a major network wholesaler in the global market.

Strategic Focus

The Nordic IT market, in particular the Swedish market, has delivered outstanding growth. IDC/World Times compared 55 countries, based on parameters related to IT maturity, and Sweden ranked No. 1, right before the United States.

Telia is a significant player in the Swedish market. The Group will continue to work the Swedish market by developing services and network platforms at the cutting edge of technology and using its solid position in Sweden as a base for broad international expansion.

The Group is expanding in two dimensions: a geographic dimension and a product dimension. In the neighboring geographic markets of the Nordic and Baltic regions, Telia is pursuing a strategy of offering a wide spectrum of services to large groups of customers.

In expansive growth areas, in which the Group commands unique competencies, expansion will extend beyond neighboring markets, at a European or global level. Telia

will invest aggressively to internationalize operations in several growth areas, primarily mobile communications, Internet and IP-based services, and carrier business.

The international expansion will be achieved through company acquisitions, partnering, licensing, and the export of service concepts. One example is the recent agreement between Telia and Oracle forming a jointly owned company to develop mobile Internet services aimed at the global market. Telia will make the most of new market regulation and increasingly open value chains, for example by offering services directly to end-customers over other operators' networks and by expanding its own network business.

Open Value Chains

The trend is toward increasingly open value chains. Traditional telecom operators acted within a model for an integrated value chain, producing on their own everything they needed to provide complete services to end-customers.

Deregulation and technological change have gradually disassociated the links in the value chain, such as access, applications, backbone, installation, and service. For the most part, new players are the ones that are trying to carve out positions in these individual business segments, cultivating niche competencies and building strong positions in the market.

Open value chains are forming a new industrial structure and new markets with somewhat different business paradigms. One emerging segment is wholesaling of network capacity, another the retail segment for players that bundle and integrate services for end-customers.

These changes in the industrial structure accelerate the pace of activity in the market and drive growth. To help Telia successfully act as a network wholesaler and retailer while maximizing sales in all of its business segments, the Group structure was modified at year-end.

Group Structure

Five business areas were formed to take full responsibility for their own businesses, including international activities. The Business Solutions and People Solutions business areas serve as the Group's service providers in the "retail" market.

Telia has chosen not to form a separate business area for Internet and IP-based services. The reason is the shift currently under way that will lead eventually to all platforms and services being based on IP technologies. This will mean that the business areas will develop IP-based services for their own customer segments and thus serve as Internet service providers (ISPs). The five new business areas are as follows.

MOBILE

Responsible for the mobile business: mobile networks, mobile services, and other wireless solutions.

CARRIER & NETWORKS

Responsible for network wholesaling in the Nordic region and running the international carrier operation. Sells network services, capacity, and access to service providers within Telia and those owned by other operators.

BUSINESS SOLUTIONS

Develops and packages its own and others' products into offers aimed at specific customer segments in the business market.

PEOPLE SOLUTIONS

Develops and packages its own and others' products into offers aimed at specific customer segments in the private consumer market.

ENTERPRISES

Includes the business units Infomedia, Systems and Support, Financial Services, and telecom operations outside the Nordic countries. Also contains the development units Telia Research and Telia Business Innovation as well as several support units.

Business Review

VIGOROUS EXPANSION IN GROWTH AREAS

In 1999, the Telia Group achieved satisfying growth in its operations overall. The growth areas mobile communications, Internet/broadband, data communications, and International Carrier reported particularly robust growth. Net sales and sales growth were as follows.

- Mobile communications	MSEK 10,624	(+10%)
- Internet/broadband	MSEK 1,621	(+58%)
- Data communications	MSEK 2,009	(+16%)
- International Carrier	MSEK 3,466	(+62%)

Another growth area is portals, where Telia has extensive business activities. Portals are attractive information centers and marketplaces and bring in a growing number of visitors.

PORTALS

At year-end, the wholly owned portals in the fixed network had 1,502,000 unique visitors each month, thus reaching 41% of Sweden's "netizens." This put Telia in fourth place among all companies in Sweden. The biggest wholly owned portals are the following.

<telia.se> Customer portal for information, service, and sales. 598,000 unique visitors a month.

<[Mina Sidor](http://Mina.Sidor)> Personalized portal at telia.se where customers can check their account balances and try out new services. 200,000 registered customers in 1999.

<startsidan.telia.se> Start page for Telia's Internet customers and the channel for new content services and applications. 343,000 unique visitors a month.

<[gula sidorna.se](http://gula.sidorna.se)> "Yellow pages" directory on-line. 354,000 unique visitors a month.

<MyDOF> Recently launched mobile Internet portal.

Telia is also an investor in several other portals in the Nordic countries, of which the Swedish Passagen is the biggest, with 1,916,000 unique visitors a month.

MOBILE

Mobile achieved strong growth. Sales increased 10% despite price cuts averaging 13%. That meant that volumes grew 23% in 1999. Healthy sales growth and efficiency gains improved adjusted operating income 55%. Stronger income was chiefly attributable to the Swedish operations. The Danish operations performed better but continued to make a loss. In Finland, earnings deteriorated as a result of trouble obtaining agreements for nationwide roaming. The Finnish anti-trust authorities have declared that Telia is entitled to these agreements.

MSEK	1999	1998	1997
Total			
Net sales	10,624	9,680	7,894
of which external	8,392	7,300	6,206
Gross operating margin (%)	32.5	26.0	27.2
Adjusted operating income	2,299	1,485	1,237
Investments	1,261	1,495	1,600
Sweden			
Net sales	10,197	9,489	7,830
of which external	7,977	7,181	6,205
Gross operating margin (%)	39.2	35.2	27.0

Sales growth came primarily from GSM, and Telia's prepaid card accounted for two-thirds of new customers. The number of prepaid card customers at year-end was 923,000.

The total number of mobile service customers rose 432,000 in Sweden, to 2,638,000. In Denmark and Finland, the number of customers also grew, from 120,000 to 203,000.

An array of new services were introduced. Under the DOF brand, Telia launched one of the world's first WAP portals: MyDOF. The portal, developed in collaboration with Oracle, provides access to Internet services from mobile phones. MyDOF has attracted intense interest internationally. Another new service, HomeRun, targets business travelers and offers broadband, wireless access to their company's data networks and to the Internet from locations such as airports and hotels.

In 1999, the business area was granted a license in Finland for the next generation of mobile communication, UMTS. In Sweden, UMTS licenses will be awarded in 2001. In September, the first call was made in the Swedish test network at Telia's and Ericsson's joint UMTS center in Kista, outside Stockholm.

The business area opened its networks to non-Group service providers in 1999. Three service providers gained access to Mobile's infrastructure and thus the ability to offer services to end-customers.

The business area shows a good trend for "churn," that is, the propensity of customers to switch operators. In 1999, the churn rate declined, from 14% to 9%.

CARRIER & NETWORKS

Sales rose 3%. Prices decreased 10%, so volumes expanded 13% during the year. A steady focus on efficiency measures and the transition to new technology had a positive impact on costs and provided room for substantial price cuts.

Costs increased because a sales organization for carrier operations was built up, the network was restructured prior to the turn of millennium, and carrier preselection, number portability, and a new dialing prefix for international calls were introduced. In addition, provisions were made for losses from unutilized capacity on a telecom satellite. Altogether, adjusted operating income dropped 23%.

To refine Telia's role as a network wholesaler, the operations were divided into three independent businesses: Network, International Carrier Services, and Contracting. The range of services was packaged into products and refined at the same time as the business area expanded its role of supplier to serve even more operators and service providers outside the Group.

MSEK	1999	1998	1997
Total			
Net sales	25,159	24,329	20,590
of which external	4,613	3,898	2,891
Gross operating margin (%)	32.8	37.4	44.0
Adjusted operating income	3,409	4,417	4,565
Investments	5,066	3,980	4,589
Sweden			
Net sales	23,742	22,956	20,001
of which external	3,617	3,466	2,834
Gross operating margin (%)	33.5	39.8	44.3

The Network unit is responsible for network wholesale business in the Nordic market, where the business area acts as a wholesaler offering products and services that enable service providers and operators to deliver their services to end-customers.

Growth in traffic in the Swedish wholesale operations was 17%, the strongest ever. Factors driving this were heightened use of the Internet, increased traffic to and from mobile networks, and rapid growth in ISDN. The Internet accounted for 38% of all local traffic. Demand for network capacity in other Nordic countries also increased greatly.

An intense effort was made to expand broadband access with the aim of being able to offer broadband services to one million households in Sweden in the year 2000. The first major broadband deal was closed with HSB in Malmö. The agreement covers 35,000 accesses based on LAN in buildings and ADSL in the copper network.

The number of kilometers of paired fiber-optic cable in the Swedish network has increased 30% a year during the past few years, to 1.6 million kilometers at year-end 1999. This cable now connects all Swedish municipalities.

Extensive renovation work was performed on the network to prepare for the new millennium and to implement the

reforms for equal access with carrier preselection, number portability, and the new international dialing prefix.

International Carrier builds infrastructure and sells transport (backbone) services and network capacity to operators and service providers throughout the world, with the emphasis on Europe and the United States. Investments are financed partly through the sale of infrastructure. The goal is to become the third biggest carrier in Europe and one of the world's largest suppliers of trans-Atlantic network capacity by rapidly entering markets and creating a cost-effective network platform.

MSEK	1999	1998	1997
Net sales by business			
Network wholesaling, Sweden	21,425	20,294	17,960
Network wholesaling, other			
Nordic markets	1,588	929	562
International carrier	3,466	2,143	1,800
Contracting	6,256	6,017	6,500
Less intercompany sales	-7,576	-5,684	-6,232
Total	25,159	24,329	20,590
Gross operating margin by business (%)			
Network wholesaling, Sweden	33.3	40.5	47.4
Network wholesaling, other			
Nordic markets	13.8	1.9	13.5
International carrier	20.4	20.2	22.2
Contracting	3.5	2.7	1.9

Telia took aggressive initiatives in European infrastructure during the year through investments in a pan-European IP network, the Viking Network. Telia also invested in the transatlantic TAT-14 cable, of which International Carrier controls 10% of the capacity. During 1999, a high-speed Scandinavian network was also built up: Scandinavian Ring. At year-end, the network in Europe comprised 4,070 kilometers of fiber-optic cable, 3,055 kilometers more than one year previous.

To increase the coverage of the network, the business area swaps capacity with other operators. That kind of swap gave access to a fiber-optic network in the United States.

BUSINESS SOLUTIONS

Sales rose 3%. In 1999, the price level was lowered on average 6%, so sales volumes increased 9%.

Efficiency measures in production systems and distribution channels, combined with lower prices for traffic purchased from the Carrier & Networks business area, made it possible to check cost increases at a low level.

MSEK	1999	1998	1997
Total			
Net sales	14,647	14,235	11,721
of which external	11,494	11,041	10,210
Gross operating margin (%)	6.4	5.6	3.2
Adjusted operating income	680	526	129
Sweden			
Net sales	13,892	13,510	11,165
of which external	10,661	10,371	9,665
Gross operating margin (%)	9.1	8.0	6.6

Adjusted operating income rose 29%. Stronger earnings were mainly attributable to the Swedish market. Profitability improved in Denmark and Finland, but those operations still reported losses for the year.

Higher sales resulted from healthy growth in Internet access and data communications. Sales for Internet access surged 95%, while demand for broadband also mushroomed. The business area broke into the market for electronic commerce and signed several key agreements.

During the year, it became possible to gain access to the nationwide ATM network via ADSL, which offered cost reductions for customers.

MSEK	1999	1998	1997
Net sales by business			
Fixed telephony	8,212	7,826	6,882
Network capacity	1,861	1,705	1,536
Internet/broadband	791	408	270
Data communications	2,002	1,726	1,364
Other	1,781	2,570	1,669
Total	14,647	14,235	11,721

The equal access reform did not influence this business area's traffic revenues as much as it did People Solutions'. One explanation is that business customers actively chose their operators before the reform was carried out.

In the Swedish market, traffic revenues for fixed telephony declined 8%, primarily owing to price cuts. The loss of revenue was largely offset by higher revenues from fixed fees on greater sales of ISDN subscriptions and network-based switchboard functions, such as Centrex and virtual call centers. In the other Nordic countries, net sales advanced 18%.

PEOPLE SOLUTIONS

Sales declined 1% in 1999. The average price level decreased 3%, which means volumes increased 2%. In the other Nordic countries, sales advanced 42% altogether. The expansion came in Denmark and Norway.

Efficiency measures and lower prices for the traffic supplied by the Carrier & Networks business area cut the cost of production.

The business area's adjusted operating income jumped 39% from the preceding year. Denmark and Finland continued to report losses, and corrective action has commenced to revamp those operations and boost sales.

MSEK	1999	1998	1997
Total			
Net sales	18,858	19,131	17,831
of which external	17,640	17,577	16,262
Gross operating margin (%)	9.1	6.6	2.5
Adjusted operating income	1,631	1,172	398
Sweden			
Net sales	18,374	18,789	17,763
of which external	17,181	17,235	16,194
Gross operating margin (%)	11.0	8.0	3.3

In the Swedish telephony operations, the level of prices on traffic fees was cut 5%, while the level of fixed fees was largely unchanged. Lower traffic fees combined with the

equal access reform in September 1999 to contribute much to the 3% decline in traffic revenues.

The number of private fixed subscriptions increased for the first time in many years. DuoCom, a product bundle containing ISDN service, the TeleSvar answering feature, caller ID, and Internet access, developed favorably, and a sales campaign at year-end netted 36,500 orders.

Internet business continued developing well, and sales of Telia Internet Access expanded a total of 34% in the private consumer market.

MSEK	1999	1998	1997
Net sales by business			
Fixed telephony	16,151	16,135	15,175
Internet/broadband	830	619	258
Customer premises equipment	960	1,091	1,107
Other	917	1,286	1,291
Total	18,858	19,131	17,831

The web site telia.se has been developed into a much appreciated channel and placed eighth among the most frequently visited corporate sites in Sweden. The new service Mina Sidor (my pages) that enables customers to check their account balances, try out IP telephony, and send text messages to mobile phones without charge attracted much attention.

ENTERPRISES

INFORMATION SERVICES

Information services, organized in the business unit Infomedia, primarily comprises directory services, caller ID and call center services, portals, and television services.

Sales rose 9%. The price level rose 4% on average, so volume gains were 5%.

Adjusted operating income rose 62%. The majority of the improvement was attributable to greatly increased sales and efficiency gains in the directory operations, healthier profitability in directory assistance, and a smaller deficit for the portals.

MSEK	1999	1998	1997
Total			
Net sales	4,698	4,296	4,404
of which external	4,283	3,788	3,908
Gross operating margin (%)	21.7	16.0	7.9
Adjusted operating income	687	424	56

Directory operations in Sweden reported strong growth partly because of higher advertising revenue from printed directories as well as Gula Sidorna (yellow pages) on the Internet. gula sidorna.se, named best Swedish site of the year in 1999, received 354,000 unique visitors a month at year-end. Gula Sidorna's share of the total advertising market was 25%.

Sales were also boosted for call center operations, which is still in a relatively early phase of establishment.

MSEK	1999	1998	1997
Net sales by business			
Directory services	3,146	2,816	2,610

Caller ID & Call Centers	946	694	622
Cable TV	808	747	768
Other, intercompany sales	-202	39	44
Total	4,698	4,296	4,044

The business unit established itself early in the market for Internet portals. Passagen is the biggest Swedish site, with more than 1.9 million unique visitors a month. Discussions with Telenor and Schibsted on concentrating the companies' portal ventures in the Nordic countries in a jointly owned group were concluded in February 2000. The three companies agreed to terms for creating a Nordic portal enterprise whose shares will be floated.

In the Swedish cable-TV operations, demand for digital TV rose when customers were offered the option of renting rather than purchasing set-top units. A powerful initiative was made to upgrade the existing network to broadband and within a three-year period the majority of customers are expected to have access to interactive broadband services.

In Denmark, comprehensive efforts were made to improve customer service and make it possible for Telia to deliver Internet services. The cable-TV networks in Estonia and Latvia were further expanded during the year. At year-end 1999, contracts were signed with a local operator in St. Petersburg to invest in a joint cable-TV network.

FINANCIAL SERVICES

Financial services comprise customer financing and various credit and payment services. Customer financing accounts for the overwhelming majority of business.

MSEK	1999	1998	1997
Orders received and volumes financed			
Orders received, Telia's products and services	4,261	4,504	4,419
Orders received, external IT vendors	2,957	2,622	1,342
of which, home PCs	996	1,228	249
Volumes financed	8,075	7,691	5,778
Earnings			
Income after financial net	346	269	422
Return on equity (%)	24	19	30

Customer financing chiefly of external vendors' products has mushroomed in recent years. Total new sales contracts by volume remained at the same high level in 1999 as in 1998, while sales volumes for external suppliers increased 13%. Contracts with external partners represented 41% of total volume. Financing for computer systems for home use remained buoyant although volumes were less than in 1998, when sales peaked. High volume growth resulted in net interest income for customer financing rising 18%.

CUSTOMER EQUIPMENT AND SERVICE

Customer premises equipment (CPE) spans a broad range, from business solutions (PBXs, computer-telephony integration (CTI), call centers, and so forth), customer premises networks, and local area networks (LANs), to simple terminals for the consumer market. This area also includes support and installation services.

Net sales increased 1%. In 1999, the price level declined 7% on average, so sales volumes increased 8%.

Adjusted operating income declined 6%. Efficiency measures put in place improved the profitability of the Swedish operations despite substantial price cuts, while such measures have not yet made an impact in the other Nordic countries.

MSEK	1999	1998	1997
Total			
Net sales	7,041	6,977	6,450
of which external	3,872	4,020	3,718
Gross operating margin (%)	6.2	6.5	2.5
Adjusted operating income	332	351	92

Sales of CPE declined overall because of weaker demand for basic terminals while demand for more complex systems rose. However, reported sales increased owing to internal one-off sales valued at roughly MSEK 400.

Demand for service on telephony and data communications products continued to rise sharply, but net sales fell as a result of significant price cuts. Telia IT-Service entered into the biggest outsourcing arrangement to date in Sweden by undertaking operational and upgrade services on IT systems for the insurance company Länsförsäkringar Wasa. Similar agreements were signed with several other business customers.

MSEK	1999	1998	1997
Net sales by business			
CPE/Consulting	2,974	2,730	2,788
Service IT/Audio/CTI	3,274	3,638	3,205
Installation and other service	793	609	457
Total	7,041	6,977	6,450

Telia FöretagsService introduced a new service enabling customers to monitor their service orders over the Internet. In 1999, the business unit broke into the market for installation of broadband infrastructure in buildings.

TELECOM OPERATIONS OUTSIDE THE NORDIC COUNTRIES

Investments in fixed and mobile telephony outside the Nordic countries increased. Demand for telephony services expanded considerably in the Baltic states, particularly for mobile services. In Poland, Netia (which provides fixed local telephony) doubled sales and in early 2000 received a license to operate a nationwide network.

MSEK	1999	1998	1997
Total			
Net sales	1,084	903	1 020
of which external	1,021	899	962
Adjusted operating income	277	-865	-421
Investments	4,255	4,016	1,166

Telia increased its shareholding in Eircom, Ireland's leading telecom service provider, as it did investments in Tess, which constructs and operates networks for mobile telephony in the São Paulo region of Brazil.

The shares of the associated companies Eircom (Ireland), Eesti Telekom (Estonia), Netia (Poland), and Infonet Services Corp. (United States) were listed to good effect.

The outstanding improvement in earnings resulted primarily from the divestiture of Unisource companies, but operations in the Baltic states and Ireland also contributed to healthier earnings. Unrealized exchange rate losses and an increased shareholding in Tess had a negative impact on earnings.

Merger with Telenor Broken Off

The merger of Telia and Telenor will be broken off with no major difficulties thanks to the fact that the businesses that the two groups created together are easily attributable to a single party and that the actual integration of the business areas' operations was not completed.

Telia has taken a charge of MSEK 226 to earnings, not including work by employees.

In conjunction with the European Commission's review of the merger, Telia agreed to make certain changes, including the divestment of overlapping businesses. The Commission has announced that Telia is no longer bound by these undertakings.

Parent Company

The parent company Telia AB (registered in Stockholm) conducts the Group's activities in network development, construction, and operation and provides basic production of network services. At January 1, 1999, the business support and contracting activities were transferred to the subsidiary Telia System och Service AB. The parent company also comprises Group management functions and several support units, including the Group's internal bank.

Net sales were MSEK 25,983 (28,833), of which MSEK 22,508 (25,584) was invoicing to subsidiaries. Earnings before appropriations and tax improved, to MSEK 8,362 (5,601), owing to the closure of the Recruitment division, capital gains on the sale of AU-System, and higher net financial income.

Net income after appropriations and tax ended at MSEK 5,095 (2,293). Equity was MSEK 19,739 (16,044), and retained earnings MSEK 9,084 (5,389).

The balance sheet total expanded, to MSEK 73,791 (66,746). Cash flow from regular business operations was MSEK 3,052 (218), while operating cash flow was MSEK -7,595 (-9,994). Net borrowings decreased, to MSEK 13,828 (16,262). Liquid funds ended at MSEK 1,368 (66).

The current ratio was 1.08 (0.88). The equity/assets ratio (including the equity component of untaxed reserves) improved, to 43.8% (39.0%).

The parent company invested MSEK 8,595 (8,564) in fixed assets, including MSEK 3,500 (3,976) in machinery and equipment, chiefly telecom installations. Other investments totaling MSEK 5,095 (4,588) were primarily

attributable to capital infusions in subsidiaries and associated companies.

The number of employees at December 31 was 6,514 (8,610). The decrease resulted from the closure of the Recruitment division and transfer of the business support and contracting activities to subsidiaries.

The Board of Directors has proposed the annual general meeting approve a dividend of MSEK 1,470. The annual general meeting will be held on April 27, 2000.

Group Income Statements

MSEK	1999	1998	1997
Net sales	52,121	49,569	45,665
Costs of production	-31,206	-30,988	-29,634
Gross income	20,915	18,581	16,031
Selling, administrative, and R&D expenses	-14,887	-15,045	-13,456
Other operating revenues and expenses, net	-805	4,388	806
Share of earnings in associated companies	723	-704	-163
Operating income	5,946	7,220	3,218
Financial net	34	-77	-90
Income after financial net	5,980	7,143	3,128
Taxes	-1,754	-2,092	-946
Minority shares	-4	-40	40
Net income	4,222	5,011	2,222

Quarterly Data

MSEK	1997		1998			1999			
	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Net sales	12,739	11,338	12,496	11,871	13,864	12,370	13,040	11,759	14,952
Adjusted operating income	1,418	1,160	1,505	1,194	1,600	766	1,957	1,455	2,549
Operating income	912	742	3,466	1,897	1,115	655	1,583	1,138	2,570
Income after financial net	852	688	3,469	1,892	1,094	758	1,658	1,307	2,257

Group Balance Sheets

MSEK	Dec 31	Dec 31	Dec 31
	1999	1998	1997
Intangible fixed assets	2,146	1,844	1,566
Tangible fixed assets	33,318	34,801	39,239
Financial fixed assets	17,410	12,553	8,666
Inventories etc.	971	946	982
Current receivables	20,369	16,451	13,898
Short-term investments	1,264	202	517
Cash and bank deposits	513	481	1,042
Total assets	75,991	67,278	65,910
Equity	32,280	29,344	25,487
Minority shares	210	210	306
Provisions for pensions	3,246	1,733	6,933
Other provisions	6,629	6,002	5,329
Long-term loans	9,123	6,491	7,082
Current loans	6,934	7,062	7,731
Non-interest-bearing liabilities	17,569	16,436	13,042
Total equity and liabilities	75,991	67,278	65,910

Statements of Changes in Equity

MSEK	Dec 31	Dec 31	Dec 31	Dec 31	Dec 31
	1999	1998	1997	1996	1995
Equity previously reported	–	–	–	–	19,842
Effect of changes in estimates and application of IAS	–	–	–	–	1,671
Restated equity, opening balance	29,344	25,487	24,413	23,083	21,513
Dividend	-1,400	-1,210	-1,152	-1,000	-900
Reclassifications	21	-10	6	3	-7
Conversion differences	93	66	-2	-10	-7
Net income for the period	4,222	5,011	2,222	2,337	2,484
Equity, closing balance	32,280	29,344	25,487	24,413	23,083

Group Cash Flow Statements

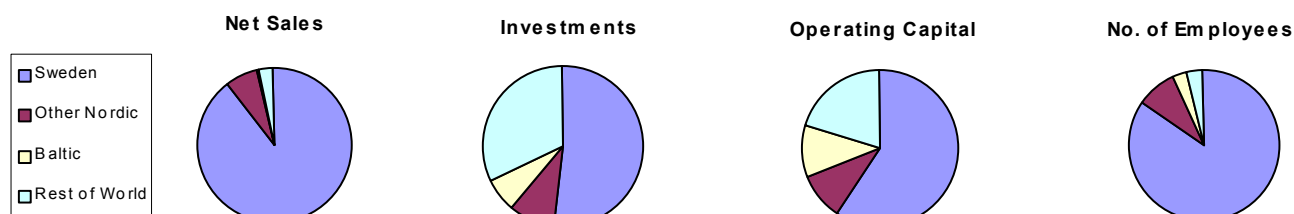
MSEK	1999	1998	1997
Funds from operations	11,612	10,045	10,775
Change in working capital	-1,364	1,171	-1,152
Interest	162	-915	-703
Cash flow from operating activities	10,410	10,301	8,920
Cash flow from investing activities	-12,442	-3,459	-8,526
Operating cash flow	-2,032	6,842	394
Cash flow from financing activities	3,062	-7,809	-4
Cash flow for the period	1,030	-967	390
Net interest-bearing liability, opening balance	6,766	14,608	13,534
Change in net borrowings	-746	-2,642	4,244
Change in pension liability	1,513	-5,200	-3,170
Net interest-bearing liability, closing balance	7,533	6,766	14,608

Segment Information 1999 (pro forma)

MSEK	Net sales	Adjusted operating income	Operating income	Investments	Operating capital	Number of employees
Mobile	8,392	2,299	2,320	1,261	4,216	1,734
Carrier & Networks	4,613	3,409	3,305	5,066	25,762	8,218
Business Solutions	11,494	680	477	219	1,013	3,444
People Solutions	17,640	1,631	1,286	111	1,177	4,033
Enterprises	9,931	1,354	1,321	5,456	12,417	12,654
Other, Group-wide	51	-2,646	-2,763	32	-6,032	560
Total	52,121	6,727	5,946	12,145	38,553	30,643

Segment Information 1998 (pro forma)

MSEK	Net sales	Adjusted operating income	Operating income	Investments	Operating capital	Number of employees
Mobile	7,300	1,485	1,427	1,495	4,492	1,959
Carrier & Networks	3,898	4,417	3,979	3,980	26,099	7,868
Business Solutions	11,041	526	332	412	2,734	3,640
People Solutions	17,577	1,172	1,009	118	802	3,930
Enterprises	9,703	396	5,123	5,658	8,770	11,832
Other, Group-wide	50	-2,537	-4,650	21	-7,976	1,364
Total	49,569	5,459	7,220	11,684	34,921	30,593

Geographic Segment Breakdown, 1999


Operational Data

	1999	1998	1997	1996	1995
<i>Infrastructure and market data</i>					
Fixed telephony PSTN subscriptions, Sweden ('000)	5,889	5,965	6,010	6,032	6,013
of which, household customers	4,552	4,527	4,542	4,569	4,577
of which, business customers	1,337	1,438	1,468	1,463	1,436
Fixed telephony ISDN subscriptions, Sweden ('000)	630	424	244	129	49
of which, household customers	68	23	–	–	–
of which, business customers	562	401	244	129	49
Fixed telephony, domestic calls, Sweden (millions of minutes)	33,600	33,800	30,200	29,000	29,000
Fixed telephony, international calls, Sweden (millions of minutes)	540	570	620	630	650
Fixed telephony, calls to mobile phones (millions of minutes)	1,420	1,190	1,050	840	710
Fixed telephony, prefix and contract customers, Denmark ('000)	310	243	86	13	–
Fixed telephony, prefix customers, Finland ('000)	302	407	380	–	–
Fixed telephony, contract customers, Finland ('000)	39	12	–	–	–
Internet subscriptions, Sweden ('000)	613	457	230	105	9
of which, household customers	438	323	160	73	6
of which, business customers	175	134	70	32	3
Internet subscriptions, Denmark ('000)	89	60	11	–	–
Mobile telephony subscriptions, Sweden ('000)	2,638	2,206	1,935	1,745	1,438
of which, prepaid cards	923	313	–	–	–
Mobile telephony churn, GSM Sweden (%)	9	14	12	n/a	n/a
Mobile telephony, average monthly revenue per subscription, Sweden (SEK)	332	362	345	n/a	n/a
excluding prepaid cards	427	390	345	n/a	n/a
Mobile telephony subscriptions, Denmark ('000)	170	112	–	–	–
Mobile telephony subscriptions, Finland ('000)	33	8	–	–	–
Cable-TV subscriptions, Sweden ('000)	1,348	1,330	1,308	1,291	1,275
Cable-TV subscriptions, Denmark ('000)	170	164	145	137	135
Cable-TV subscriptions, Estonia ('000)	41	24	14	11	–
Cable-TV subscriptions, Latvia ('000)	31	19	7	–	–
<i>Human Resources</i>					
Number of employees	30,643	30,593	32,549	34,192	33,065
Average number of full-time employees	29,546	31,320	33,930	34,031	32,825

Accounting Principles

In conjunction with work on the merger with Telenor and preparations for a public listing of shares, the Telia Group reviewed and evaluated in detail its accounting principles in relation to existing and anticipated recommendations from the Swedish Financial Accounting Standards Council (RR), the International Accounting Standards Committee (IASC), and the U.S. Financial Accounting Standards Board (FAS).

This review led to decisions on changes in valuations and estimates as well as changes in certain accounting principles. To simplify international comparison, a policy decision was made to prepare the Telia Group's final accounts based on International Accounting Standards (IAS). All changes have entailed a transition to the principles recommended by RR and the IASC, with the exception of pensions. Owing to uncertainty as to whether or not assets in Swedish pension funds should be regarded as plan assets in accounting for pensions, Telia reports pension expenses and liabilities based on the principles in FAS 87.

Because of Telia's circumstances, all changes were introduced in the fourth quarter rather than from January 1, thus deviating from recommended procedures. All comparative figures for the past five years have been restated according to new valuations, estimates, and accounting principles.

The accounts for the parent company Telia AB were prepared in accordance with Swedish legislation and generally accepted accounting principles in Sweden. The Telia Group's accounts have been prepared in accordance with the Swedish Annual Accounts Act and applying IAS.

Recommendations IAS 36 on write-downs, IAS 37 on provisions etc., and IAS 38 on intangible fixed assets were applied before the actual dates they took effect. The IAS 39 recommendation on financial instruments takes effect January 1, 2001. Application of that recommendation is not expected to have a material effect on earnings.

At the start of the year 2000, a new business organization was introduced in the Group. Hence, the business segment figures in this report have been restated pro forma.

Definitions

Adjusted operating income. Operating income before capital gains/losses, costs of personnel restructuring (including contractual pension obligations), some common pension commitments, year 2000 compliance, and the costs of the canceled merger with Telenor.

Adjusted equity. Reported equity less the proposed dividend.

Capital employed. Balance sheet total less non-interest-bearing liabilities, non-interest-bearing provisions, and the proposed dividend.

Operating capital. Capital employed excluding financial assets but including participations in associated companies and non-interest-bearing accounts receivable.

Net interest-bearing liability. Interest-bearing liabilities less interest-bearing assets.

Net borrowings. Interest-bearing liabilities less pension liability and interest-bearing assets.

Gross operating margin (operating EBITDA margin). Adjusted operating income plus depreciation, amortization, and write-downs expressed as a percentage of net sales.

Gross margin (EBITDA margin). Operating income plus depreciation, amortization, and write-downs expressed as a percentage of net sales.

Adjusted operating margin (operating EBIT margin). Adjusted operating income expressed as a percentage of net sales.

Operating margin (EBIT margin). Operating income expressed as a percentage of net sales.

Return on capital employed. Operating income plus financial revenues expressed as a percentage of average capital employed.

Return on equity. Net income expressed as a percentage of average adjusted equity.

Equity/assets ratio. Adjusted equity expressed as a percentage of the balance sheet total.

Interest coverage rate. Operating income plus financial revenues divided by financial expenses.

Debt/equity ratio. Net interest-bearing liabilities divided by adjusted equity.

Current ratio. Current assets expressed as a percentage of current liabilities.

Net cash flow. Increase (–) or decrease (+) in net interest-bearing liabilities.

GSM churn. Number of customers that have left the company expressed as a percentage of the average number of customers.

Financial Information from Telia

All reports are produced in Swedish and English by Telia AB, Investor Relations. Please direct questions on the content of these reports to: Telia AB, Investor Relations, SE-123 86 Farsta, Sweden, or by fax to +46 8 933 801.

Reports can be ordered by mail from: Telia AB, Trycksakslagret, SE-123 86 Farsta, Sweden, or by fax from +46 8 604 5472. Reports are also published at www.telia.se.

To conform with Swedish and international standards, this report applies the following notations:

Currencies:	Swedish kronor	SEK
Prefixes:	millions	M
	billions	G