# Annual Report 2011

TELE2

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# Highlights Full Year 2011

- **NET SALES GROWTH FOR THE GROUP AMOUNTED TO 7 PERCENT EXCLUDING EXCHANGE RATE DIFFERENCES**
  Net sales amounted to SEK 40,750 (40,164) million corresponding to a growth excluding exchange rate difference and one-off items of 7 percent in the year. EBITDA for the year 2011 amounted to SEK 10,852 (10,284) million, equivalent to an EBITDA margin of 27 (26) percent. EBITDA growth excluding exchange rate differences was 10 percent.

- **RECORD EBITDA CONTRIBUTION IN MARKET AREA RUSSIA**
  In 2011, Tele2 Russia added 2,198,000 (3,987,000) customers leading to a total customer base of 20.6 (18.4) million. EBITDA amounted to SEK 4,480 (3,573) million, equivalent to an EBITDA margin of 39 (35) percent.

- **ROBUST MOBILE REVENUE GROWTH IN MARKET AREA NORDIC**
  Mobile revenue in Sweden grew by 10 percent, as customer demand for smartphones and data services remained strong during the year. Mobile customer intake in Sweden was good, amounting to 117,000 (212,000). At the end of 2011, Tele2 acquired Network Norway, creating the third largest mobile operator in the Norwegian market.

- **SIGNIFICANT OPERATIONAL PROGRESS IN MARKET AREA CENTRAL EUROPE & EURASIA**
  During the year, Tele2 Kazakhstan carried out its successful launch of new regions and the total customer base amounted to 1,371,000 (332,000) at December 31, 2011. Tele2 Croatia reached for the first time free cash-flow breakeven in Q3 2011. The Baltic countries drove cost cutting throughout the year, thereby maintaining a firm EBITDA margin development.

- **IMPROVED MARGIN DEVELOPMENT IN FIXED BROADBAND IN MARKET AREA WESTERN EUROPE**
  Tele2 Netherlands expanded its fixed broadband margin further to 33 (31) percent during 2011 thanks to scale benefits from the BBned acquisition. At the end of 2011, Tele2 Austria acquired Silver Server, strengthening its position in the business segment.

- **THE BOARD OF DIRECTORS PROPOSED A DIVIDEND FOR 2011 AMOUNTING TO SEK 13.00**
  The Board of Tele2 AB decided to recommend an increase in the ordinary dividend of 8 percent to SEK 6.50 (6.00) per share in respect of the financial year 2011. The Board also decided to recommend an extraordinary dividend of SEK 6.50 (21.00).

**TELE2 IS ONE OF EUROPE'S LEADING TELECOM OPERATORS, ALWAYS PROVIDING THE BEST DEAL.**
We have 34 million customers in 11 countries. Tele2 offers mobile services, fixed broadband and telephony, data network services, cable TV and content services. Ever since Jan Stenbeck founded the company in 1993, it has been a tough challenger to the former government monopolies and other established providers. Tele2 has been listed on the NASDAQ OMX Stockholm since 1996. In 2011, we had net sales of SEK 41 billion and reported an operating profit (EBITDA) of SEK 10.9 billion.

**For more information, tele2.com**
If you visit our website www.tele2.com you will always find the latest information. Here we publish our press releases, our interim reports and much more. Furthermore you will find links to our European operations.

**Annual General Meeting**
The Annual General Meeting will be held at 13.00 on May 7, 2012 at Hotel Rival, Mariatorget 3, Stockholm. The doors will open at 12.00 and registration will take place until 13.00 when the doors will close.

# A strong year in promising markets

Tele2 has a strong position. The telecom industry is rapidly changing with significant opportunities and challenges for us. Established telecom services today fulfill core needs of consumers and businesses for whom mobile handsets are essential communication tools not least with the shift from voice to data. In the present macroeconomic turmoil, with consumers ever more cost conscious, we can summarize another successful year.

I am proud to report record results for Tele2 in 2011. Net sales growth adjusted for exchange rate fluctuations and one-off items increased by 7 percent to SEK 41 billion and EBITDA reached SEK 10,852 (10,284) million at a margin of 27 (26) percent. I believe that these formidable results demonstrate our striving to understand and meet our customers' needs.

**New market realities to embrace**

In our markets, change is a constant, driven by consumers' ever-evolving needs and behaviors. They increasingly demand real time connectivity everywhere to fulfill many communication needs – on handsets as well as tablets and other mobile devices. Average revenue per subscriber is increasing as demand for data and the use of more mobile devices per individual grows while the trend in average revenue per SIM, expressed as ARPU, is down.

Differentiating quality in networks and customer relations is paramount for telecom operators wishing to offer attractive services. The need for speed will only continue to grow, customers expect seamless access to data and voice services and high quality networks become a necessity for reliable operators. To be the telecom service provider of choice will require even more; as customer experience is becoming more important operators must offer both attractive and easy-to-use packages of access, devices and services and even easier-to-understand price models with proactive customer service. Put shortly, customers want to know what they get for their money. These trends prevail in all our market areas and countries at their different stages of growth and maturity.

**Ceaseless focus on our challenges**

Against this backdrop in line with our strategic challenges, we have been working to improve the quality of our operations – and the customers' perception of the value we offer. In April 2011, we initiated the extensive Quality Challenge project by taking an outside-in approach to Tele2's quality work. We have mapped the "customer journey" and assess our performance on a number of indicators, down to local levels. Proactivity in customer relations, education of co-workers and strong relationships with outsourcing partners are cornerstones of this work.

Next to our enhancement of quality, we cannot risk losing our position as industry price leader. To differentiate ourselves, we must always deliver what the customer needs, for less. Price leadership, in turn, requires cost leadership. We are today number two in the telecom industry, according to our global cost benchmark. With a target to be number one within two years, without sacrificing quality, relentless cost focus and continuous improvements in all areas are necessities. During the year, we initiated efficiency programs in the Netherlands and Sweden, where we cancelled projects that do not support our core business.

I am convinced that our road to continued success is to stay true to our core business. In 2011 we stepped up our efforts in the corporate market across our footprint. We aim to leverage the value of our networks and service functions. The acquisition of internet service provider Silver Server in late 2011 is another example of how we strengthen our offer and position in the Austrian B2B market just as BBned does in the Netherlands.

Machine-to-machine (M2M) communication is a future growth area that takes advantage of the quality of our existing networks and services.

**Best of both worlds**

To be able to deliver the greatest total shareholder return in our industry, Tele2 also needs to capture attractive geographic growth opportunities. We continuously evaluate structural opportunities in our existing markets, as well as for new markets that meet our strict financial criteria and requirements. Our latest addition to the family, the operations in the Republic of Kazakhstan, is already a growth engine. By the year-end, the Tele2 brand was launched in twelve out of 16 regions and our customer base totaled 1.4 million, showing good average revenue per customer. These are results ahead of our schedule, and the brand rollout is around the corner in the four remaining regions.

In Russia, we reached a customer base of 20.6 million customers, near our year-end target of 21 million. At the same time, attracting and keeping the most valuable customers is more important to us, rather than building a large customer base: we aim for value over volume. On the regulatory side, the conclusions of the technology neutrality study for the Russian 900/1800 spectrum are expected during 2012. The new LTE license tenders, in which Tele2 will participate, will be conducted at the same time. We believe that the regulatory authorities will maintain their support for the regional operators and ensure that they will have the capacity to provide future-proof data services.

The Nordic market continues to be a mobile telecom phenomenon. Smartphone penetration is almost 50 percent and smartphones account for nine out of ten mobile handsets sold. In Norway, we acquired Network Norway during the year and integration has since then proceeded expeditiously. The market area delivers strong cash flows and is an important test bed for new technology and services.

In the Netherlands, we are evaluating the potential to build our own 4G networks. We believe that both the regulatory and market environments provide interesting conditions for a possible fourth telecom competitor. We have successfully completed the integration of BBned.

I believe that Tele2 offers the best of both worlds – high growth markets dominated by 2G services for several years to come and mature markets with increasing demand for data. The cash flows generated in our mature markets allow for strategic flexibility and shareholder remuneration.

**Transparency in all aspects**

In the complexity of the technological developments we are witnessing it is ever more important to maintain high ethical standards and the trust of our stakeholders. Enabling connectivity in societies is our point of departure; we consider that connectivity drives economic growth. Our responsibility extends beyond that. To gain the trust of the customer, safeguarding personal integrity through secure and private services is critical. Transparency in our operations and business activities is in the eyes of our customers an important part of our value creation, and will eventually become a competitive edge. Customer relations must be flawless in this regard. For us, this means that we need to have and express clear views on our responsibility as a corporate citizen.

Ultimately, every activity and success of Tele2 has its foundation in our people. I am very proud of the open and action-oriented culture that characterizes us. This is confirmed by the outstanding results of our latest employee survey. 96 percent of our co-workers are very satisfied with the overall working climate, the quality and relevance of the information they receive, their relationship with their manager and their work in general. We also notice, among other things, remarkable results in our co-workers' engagement of 43 percent compared with 19 percent of benchmarked employees elsewhere. Active performance and talent management, as well as communication and compensation are critical to us.

**Always a challenger**

Telecom is a future-proof industry as people will communicate more and more. This is a fantastic opportunity for a telecom operator. At Tele2, we will continue to embrace change and work to be customers' operator of choice. We will continue to focus on the shift from voice to data – building network and consumer relations to deliver great customer experiences. We will invest our money where the return is greatest. And we will keep executing better, faster and more cost-effectively than our competitors.

Although we have many reasons to be proud of our performance in the past year, being satisfied is not a part of Tele2's cultural DNA. We will never stop challenging ourselves and the world around us in order to constantly deliver more value to our customers, employees and shareholders.

Mats Granryd,
*President and CEO*

# Administration report

## The Board of Directors and CEO herewith present the annual report and consolidated financial statements for Tele2 AB (publ), corporate reg. no. 556410-8917 for the financial year 2011.

The figures shown in parentheses correspond to the comparable period last year.

Tele2 AB's shares are listed on the NASDAQ OMX Stockholm Large Cap list under the ticker symbols TEL2 A and TEL2 B. The fifteen largest shareholders at December 31, 2011 hold shares corresponding to 51 percent of the capital and 62 percent of the voting rights, of which Investment AB Kinnevik owns 30 percent of the capital and 47 percent of the voting rights. No other shareholder owns, directly or indirectly, more than 10 percent of the shares in Tele2.

The Board of Directors received authorization by the Annual General Meeting in May 2011 to purchase up to 10 percent of the shares in the company.

For further information on the number of shares and their conditions and important agreements which cease to apply if control over the company is changed, see Note 32 Number of shares and earnings per share.

### FINANCIAL OVERVIEW

With 34 million customers in 11 countries, Tele2 is one of Europe's leading telecom operators. Ever since Tele2 was founded in 1993, it has been a tough challenger to the former government monopolies and other established providers. Tele2 offers mobile communication services, fixed broadband and telephony, data network services, cable TV and content services. Mobile communication is our primary focus area and it is our most important growth segment. In some countries, Tele2 also offers fixed communication services. Mobile telephony currently accounts for more than 73 (68) percent of Tele2's net sales.

The cornerstone of Tele2's concept is to always offer the Best Deal on the market. We do this by continuously listening to our customers' needs while keeping costs under tight control. Tele2 has steadily increased market shares, while maintaining a healthy return on capital employed. We will make every effort to ensure that this positive development continues and that more people cut the cord and become truly mobile.

In 2011, the company generated net sales of SEK 40.8 billion and reported an operating profit (EBITDA) of SEK 10.9 billion.

Comments below relate to Tele2's continuing operations unless otherwise stated.

#### Net customer intake

In 2011, the total customer base increased to 34,186,000 (30,883,000). Net customer intake, excluding acquired and divested companies, was 2,770,000 (3,932,000) customers. The customer intake in mobile services amounted to 3,413,000 (4,443,000). The good intake in mobile services resulted from a solid performance mainly in Tele2 Kazakhstan, Tele2 Russia and Tele2 Sweden. Fixed broadband lost -70,000 (32,000) customers in 2011, due to increased competition within dual and triple play offerings throughout the Tele2 footprint. Fixed telephony had an expected outflow of customers during the year.

#### Net sales

Tele2's net sales amounted to SEK 40,750 (40,164) million corresponding to a growth excluding exchange rate differences and one-off items of 7 percent. The positive revenue development was driven by good trends in core mobile services.

#### EBITDA

EBITDA amounted to SEK 10,852 (10,284) million, with an EBITDA margin of 27 (26) percent. EBITDA growth excluding exchange rate differences was 10 percent. EBITDA amounted to positively affected by strong operational development in mobile services, particularly driven by Tele2's operations in Russia.

#### EBIT

Operating profit, EBIT amounted to SEK 6,972 (6,704) million excluding one-off items. Including one-off items, EBIT amounted to SEK 6,968 (7,088) million. The EBIT margin was 17 (18) percent.

#### Profit before tax

Net interest expense and other financial items amounted to SEK –599 (–353) million. Exchange differences of SEK –11 (282) million were reported under other financial items. The average interest rate on outstanding liabilities was 6.7 (10.0) percent. Profit after financial items, EBT, amounted to SEK 6,369 (6,735) million.

#### Net profit

Profit after tax amounted to SEK 4,904 (6,481) million. Earnings per share amounted to SEK 11.00 (14.63) after dilution. Reported tax for the year amounted to SEK –1,465 (–254) million. Tax payment affecting cash flow amounted to SEK –948 (–740) million.

#### Cash flow

Cash flow from operating activities amounted to SEK 9,248 (9,610) million and cash flow after CAPEX amounted to SEK 4,581 (6,007) million.

#### CAPEX

During 2011, Tele2 made investments of SEK 5,093 (3,651) million in tangible assets and intangible assets, mainly driven by expansion in Russia and Kazakhstan together with acquired licenses.

**Net debt**

Net debt amounted to SEK 11,369 (1,691) million at December 31, 2011, or 1.05 times EBITDA in 2011. Excluding receivables from joint ventures, the net debt to EBITDA in 2011 amounted to 1.25 times. Tele2's available liquidity amounted to SEK 9,936 (12,814) million.

## FIVE-YEAR SUMMARY

| SEK million | 2011 | 2010 | 2009 | 2008 | 2007 |
|---|---|---|---|---|---|
| **CONTINUING OPERATIONS** | | | | | |
| Net sales | 40,750 | 40,164 | 39,436 | 38,330 | 39,082 |
| Number of customers (by thousands) | 34,186 | 30,883 | 26,579 | 24,018 | 22,768 |
| EBITDA | 10,852 | 10,284 | 9,394 | 8,227 | 6,721 |
| EBIT | 6,968 | 7,088 | 5,736 | 2,906 | 1,740 |
| EBT | 6,369 | 6,735 | 5,236 | 1,893 | 1,009 |
| Net profit/loss | 4,904 | 6,481 | 4,755 | 1,758 | –78 |
| **Key ratios** | | | | | |
| EBITDA margin, % | 26.6 | 26.0 | 23.8 | 21.4 | 17.1 |
| EBIT margin, % | 17.1 | 17.6 | 14.5 | 7.6 | 4.5 |
| **Value per share (SEK)** | | | | | |
| Earnings | 11.05 | 14.69 | 10.72 | 3.91 | 0.05 |
| Earnings, after dilution | 11.00 | 14.63 | 10.70 | 3.91 | 0.05 |
| **TOTAL** | | | | | |
| Shareholders' equity | 21,452 | 28,875 | 28,823 | 28,405 | 27,010 |
| Shareholders' equity, after dilution | 21,455 | 28,894 | 28,823 | 28,415 | 27,054 |
| Total assets | 46,509 | 40,369 | 40,737 | 47,337 | 48,809 |
| Cash flow from operating activities | 9,248 | 9,610 | 9,118 | 7,896 | 4,350 |
| Cash flow after CAPEX | 4,581 | 6,007 | 4,778 | 3,288 | –819 |
| Available liquidity | 9,936 | 12,814 | 12,410 | 17,248 | 25,901 |
| Net debt | 11,369 | 1,691 | 2,171 | 4,952 | 5,198 |
| Investments in intangible and tangible assets, CAPEX | 5,093 | 3,651 | 4,439 | 4,623 | 5,198 |
| Investments in shares and other long-term receivables, net | 3,190 | 1,742 | –3,357 | –2,255 | –11,444 |
| Average number of employees | 7,517 | 7,381 | 6,647 | 5,859 | 5,285 |
| **Key ratios** | | | | | |
| Equity/assets ratio, % | 46 | 72 | 71 | 60 | 55 |
| Debt/equity ratio, multiple | 0.53 | 0.06 | 0.08 | 0.17 | 0.19 |
| Return on shareholders' equity, % | 19.5 | 24.0 | 16.4 | 8.9 | –5.6 |
| Return on shareholders' equity after dilution, % | 19.5 | 24.0 | 16.4 | 8.9 | –5.6 |
| Return on capital employed, % | 20.8 | 23.6 | 17.6 | 12.9 | 2.0 |
| Average interest rate, % | 6.7 | 10.0 | 6.9 | 6.2 | 5.2 |
| **Value per share (SEK)** | | | | | |
| Earnings | 11.03 | 15.70 | 10.61 | 5.53 | –3.50 |
| Earnings, after dilution | 10.98 | 15.64 | 10.59 | 5.53 | –3.50 |
| Shareholders' equity | 48.33 | 65.44 | 65.31 | 63.93 | 60.67 |
| Shareholders' equity, after dilution | 48.09 | 65.23 | 65.18 | 63.90 | 60.70 |
| Cash flow from operating activities | 20.84 | 21.78 | 20.71 | 17.80 | 9.78 |
| Dividend, ordinary | 6.50[1] | 6.00 | 3.85 | 3.50 | 3.15 |
| Extraordinary dividend and redemption | 6.50[1] | 21.00 | 2.00 | 1.50 | 4.70 |
| Market price at closing day | 133.90 | 139.60 | 110.20 | 69.00 | 129.50 |

1) Proposed dividend.

## OVERVIEW BY REGION

Tele2's markets have been divided into four distinct regions, in order to make the best use of the company's resources: Nordic, Russia, Central Europe & Eurasia and Western Europe. These regions include both emerging and mature markets, where cultural, economic and competitive differences are significant. However, the trend towards mobility is universal, and is clearly evident in all countries. While mobile communication services are fairly standardized across different regions, the level of maturity differs widely. As a consequence, the focus of Tele2's operations in each region is different. In the Western European region, Tele2 aims to develop its operations with emphasis on the business segment. The Nordic region is the test bed for new services. In Central Europe & Eurasia, Tele2 keeps growing and expanding businesses. Lastly, Russia is the growth engine of the group.

Tele2's position and priorities vary within the regions. Local market characteristics differ in many ways, even in the same country. Our green field operations, e.g. Kazakhstan, are focused on increasing market share, brand awareness and price leadership. As a challenger in Latvia and Estonia, Tele2 pays particular attention to price, market share, expected quality, and network capabilities. As a defender in many parts of Russia, in Sweden and in Lithuania, Tele2 focuses on retention, price stability, Value Added Services, and quality.

While there are important local differences, Tele2 has established a number of general priorities to address opportunities and challenges for 2012. These objectives go beyond the local context and are common to all the regions and countries where Tele2 operates.

- Customers – Tele2 shall offer its customers what they need, for less.
- Employees – Tele2 shall be considered a great place to work at by its employees.
- Shareholders – Tele2 shall have the best Total Shareholder Return (TSR) within its peer group.

These fundamental objectives will guide the company's regional activities through 2012 and beyond.

## NORDIC

### Sweden

| SEK million | 2011 | 2010 | Growth |
|---|---|---|---|
| Number of customers (in thousand) | 4,742 | 4,744 | 0% |
| Net sales, external | 12,398 | 11,881 | 4% |
| EBITDA | 3,347 | 3,272 | 2% |
| EBIT [1] | 2,054 | 2,201 | |

[1] excluding one-off items

*Key priorities in 2011*

In 2011, Tele2 Sweden continued to focus on three areas: growth in the postpaid and mobile broadband segments, improved quality, and market share expansion in the business segment.

The continued uptake of smartphones in the postpaid segment (mobile phones with text and data capacity that handle voice and data and are able to download different applications) further boosted mobile data revenues and equipment sales. At the end of 2011, the smartphone penetration within the postpaid residential segment exceeded 50 percent. The iPhone is the most sold smartphone but 2011 also saw the entry of more low-end smartphones taking market shares primarily in the prepaid segment. As a result, nine out of the top ten phones sold were smartphones, the majority of them sold together with a data subscription. This development is not expected to stop as the entry and popularity of cheaper low-end smartphones is gaining momentum.

To capitalize on the mobility trend among customers in Sweden, Tele2 continued the roll-out of its 4G network. At the end of the year, Tele2 Sweden had successfully rolled out 4G in 71 municipalities covering 4,055,000 residents in the country. The roll-out progress is according to plan, with the aim to cover 99 percent of the population by 2012. Faster mobile connections allow customers to do everything they are used to doing via the fixed ADSL connection but through the 4G network. During 2011, Tele2 launched a 4G Wi-Fi home router which offers a good substitute for fixed connections. At end of the year, Tele2 was carrying 25,000 4G customers in its network.

Despite increased competition, Tele2 Sweden managed to demonstrate strong results through quality-enhancing activities combined with cost containment efforts. The ongoing upgrade of Tele2's network and IT systems has started to show results. Productivity was improved by Tele2's cost effective networks.

As to the business segment, Tele2 Sweden completed the integration of Spring Mobil. The one-phone solution will further strengthen Tele2's product portfolio and position within the SME segment. The continued focus on integrated services led to the acquisition of a number of customers for whom the product Communication as a service is particularly important. The customer base continued to grow, as the domestic economy strengthened.

The total mobile broadband customer base amounted to 387,000 (361,000) in 2011. The total mobile net intake amounted to 117,000 (212,000) in 2011. Net sales for mobile services grew by 10 percent to SEK 9,321 (8,474) million. EBITDA contribution for mobile was SEK 2,842 (2,803) million in 2011, affected by an increased amount of subscriptions sold with monthly instalments. Tele2 Sweden continued to grow market shares within the prepaid segment and further strengthened its position as the market leader in this segment. The mobile operations in Sweden reported an ARPU of SEK 179 (184). ARPU for mobile broadband increased during the year to SEK 134 (130). MoU per customer, excluding mobile broadband, grew to 246 (242) in 2011.

Tele2 Sweden's EBITDA includes invoiced costs from the joint ventures SUNAB and Net4Mobiliy of SEK –658 (–491) million in 2011.

Tele2's broadband services also showed profitability in 2011. During the coming year, Tele2 expects demand for high-speed access to increase. Tele2 will meet the accelerating demand for data capacity by further developing its LAN business, and by complementing its fixed broadband services with a high-speed mobile broadband network (4G). Fixed telephony showed profitability and positive cash flow during 2011. Mobile and fixed services are converging, a trend that Tele2 capitalizes on by offering the latest product Home telephony via the mobile network. This product enables the customer to keep the home phone, but over the mobile network, making it a simple and cost efficient solution for all parties.

*Challenges to address in 2012*
The postpaid strategy of investing in high ARPU customers will continue into 2012. A stagnating market with fierce price competition and decreasing termination rates might put pressure on margins. Tele2 expects to deliver revenue growth through postpaid sales that generate higher ARPU. Tele2 Sweden will attract customers by responding to the increasingly price-conscious market as the undisputable price leader.

Growth in new areas will also contribute to increasing sales, e.g. mobile broadband, mobile advertising and mobile payments. Tele2 Sweden expects an increased growth in data as customers go mobile. Voice over IP is still on very low levels, but Tele2 Sweden will monitor the development going forward to be able to meet customer demand when the time is right.

In addition, profitability will be enhanced through cost savings from operating joint-venture networks, the efficient use of distribution channels, stronger focus on online activities, and increased levels of self-service.

Furthermore, Tele2 Sweden will continue to roll-out the combined 2G and 4G-network through the joint venture Net4Mobility as cost efficiency is a necessity to be a price leader.

**Norway**

| SEK million | 2011 | 2010 | Growth[1] |
|---|---|---|---|
| Number of customers (in thousands) | 1,158 | 600 | 93% |
| Net sales, external | 3,245 | 3,016 | 11% |
| EBITDA | –22 | 196 | –112% |
| EBIT | –101 | 157 | |

[1] excluding exchange rate differences, including acquired companies

*Key priorities in 2011*
Tele2 Norway acquired Network Norway on October 3, 2011, thereby capturing an undisputable number three position in the Norwegian mobile market. The purchase of Network Norway also resulted in a 100 percent ownership of the former joint venture Mobile Norway, which is building out Norway's third mobile network. Tele2's Norwegian operations now consist of the brands Tele2, One Call, Lebara and Network Norway Business. Focus on the acquisition and the integration process has been a key priority in 2011.

Tele2's revenue was 3,245 in 2011, up from 3,016 in 2010. The increase was mainly driven by the acquisition affecting the fourth quarter with SEK 567 million.

In 2011, Tele2 Norway continued its efforts to keep costs down and target high ARPU customers by focusing more strongly on fixed-price subscriptions and subscriptions bundled with smartphones. Tele2 Norway delivered on the Best Deal concept by strengthening its price position and enhancing quality perception. Tele2 Norway experienced fierce competition in the marketplace during the second half of the year as competitors launched aggressive low-price campaigns negatively impacting customer growth and end-user prices.

At the end of the year, the brand Tele2 started to transfer traffic on to own mobile network (i.e. Mobile Norway's mobile network). The other brands, Lebara, One Call and Network Norway Business, have routed traffic through own net during the entire year.

In the fixed telephony segment, Tele2 Norway concentrated its efforts on defending market share and maintaining profitability.

*Challenges to address in 2012*
In 2012, Tele2 Norway will focus on finalizing the integration process and securing synergy effects from the acquisition of Network Norway.

Tele2 Norway will continue to roll out a 2G/3G mobile network enabled also for 4G/LTE, and increase its share of traffic on own network to improve profitability.

Tele2 will keep providing the Best Deal for its customers by delivering expected quality and maintaining price leadership.

Growth will be secured through improved customer retention and enhanced multi-channel distribution toward residential and corporate customers utilizing the company's 4 segmented brands.

**RUSSIA**

| SEK million | 2011 | 2010 | Growth[1] |
|---|---|---|---|
| Number of customers (in thousands) | 20,636 | 18,438 | 12% |
| Net sales, external | 11,463 | 10,142 | 21% |
| EBITDA | 4,480 | 3,573 | 35% |
| EBIT | 3,584 | 2,770 | |

[1] excluding exchange rate differences

*Key priorities in 2011*
The Russian operation is Tele2's most important growth engine. Tele2 has GSM licenses in 43 regions in Russia covering 62 million inhabitants. Tele2 Russia can be split into three categories, during a transitional period, depending on maturity level: Newcomers, Challengers and Defenders.

In 16 out of 43 regions, Tele2 acts as a Newcomer. In these regions, the main goal is to acquire customers and expand market share. Through clear price leadership, wide distribution and innovative marketing, Tele2 can quickly expand its market position.

In 17 out of 43 regions, Tele2 acts as a Challenger. When moving from a Newcomer to a Challenger position, Tele2 Russia will concentrate its efforts on ARPU development and retention activities beyond the strong focus on subscriber acquisition.

Tele2 Russia is market leader/Defender in 10 out of 43 regions. As a market leader, Tele2 focuses on retaining its existing customer base and maximizing its contribution. Through simple and easy-to-understand pricing plans, combined with attractive add-on services such as data access, the company is able to improve average revenue per user in mature regions.

Tele2 Russia's total customer base amounted to 20,636,000 (18,438,000) on December 31, 2011. The competitive environment in Russia is, and will remain, very tough. Tele2's main differentiator is a clear price leadership position. However, as the market evolves it will become increasingly important to find other means of differentiation against competition, be it marketing concepts, distribution channels or customer care. Customer perception is even more critical when the total customer base uses prepaid services.

In 2011, Tele2 Russia successfully pursued its strategy of improving the operational contribution of its more mature regions to support the roll-out of commercial networks in new regions. Tele2 gained totally 2,198,000 (3,987,000) new customers during the year. The turnover of the total customer base was improved during 2011, despite increased competition. Tele2 Russia maintained its effort to stay best in class when it comes to customer retention and continued to work with commission structure to the retail channels in order to further enhance the quality of the customer intake.

Despite an impact from customer base growth in new regions, MoU for the total operations increased by 4 percent compared to 2010, amounting to 240 (231). ARPU amounted to SEK 49 (51) or RUB 220 (216). The general pricing environment remained highly competitive throughout Tele2 Russia's footprint.

Tele2 Russia continued to deliver solid financial performance throughout the year. Net sales grew by 14 percent in 2011 compared to last year. The EBITDA margin development was driven by strong operational performance in the more mature regions, focusing on customer retention measures and stimulating usage. EBITDA amounted to SEK 4,480 (3,573) million, equivalent to a margin of 39 (35) percent.

*Challenges to address in 2012*
Tele2 Russia will keep looking for possibilities to carefully expand its operations through new licenses, which the company will attempt to obtain in regions where it does not yet operate while trying to secure next generation mobile licenses in its existing footprint, as well as by complementary acquisitions.

On the regulatory side, we have gained a better understanding of the Russian market and set clear operational priorities in a complex environment. The conclusions of the authorities' technology neutrality study of the Russian 900/1800 spectrum are expected during 2012. We believe that the regulatory authorities will maintain their established support to the regional operators and enable them to provide essential future-proof data services.

Distribution will remain an important differentiator in the Russian mobile market. Tele2 Russia will further pursue its multi-pronged approach with local distributors, together with federal dealers and mono brand stores. In 2012, it will be important to develop long term relationships with all parties and secure a well performing distribution network.

## CENTRAL EUROPE & EURASIA

**Estonia**

| SEK million | 2011 | 2010 | Growth[1] |
|---|---|---|---|
| Number of customers (in thousands) | 498 | 479 | 4% |
| Net sales, external | 839 | 880 | 1% |
| EBITDA | 234 | 219 | 13% |
| EBIT | 166 | 152 | |

[1] excluding exchange rate differences

*Key priorities in 2011*
Throughout 2011, the Estonian economy kept showing clear signs of recovery. However, the situation remained challenging as consumer confidence was still relatively weak and price pressure persisted in all segments.

In 2011, Tele2 Estonia continued to focus on enhancing efficiency and cost reduction measures – mainly consisting in outsourcing decisions, staff cuts and a better management of bad debt – to maintain a solid price position in the market. As a result, the absolute EBITDA and EBITDA margin in 2011 improved compared to 2010.

Net intake remained stable compared to the same period last year; however, Tele2 gained more valuable residential and business customers.

The mobile broadband segment grew steadily throughout the year.

In 2011, Tele2 Estonia looked into the possibility of acquiring a backbone provider to offer competitive data services without a significant increase in transmission costs. This resulted in the announced acquisition of Televõrgu AS on January 16, 2012, which was approved by the Estonian Completion Authority in February 2012.

Furthermore, Tele2 Estonia secured an additional 8.3 MHz on 1800 MHz band together with two other mobile operators at the end of 2011.

*Challenges to address in 2012*
Tele2 Estonia will upgrade/swap the existing 2G and 3G networks and start deploying LTE. The company plans to put on air 150 LTE base stations in 2012.

Tele2 Estonia will continue to concentrate its efforts on attracting residential and business customers by means of a distinct price leadership position and improved quality.

In the prepaid segment, Tele2 Estonia will strive to shift focus from easy sales, only contributing to growing the customer base, to taking the market leadership position. A turnaround program has been planned to that end for 2012.

**Lithuania**

| SEK million | 2011 | 2010 | Growth[1] |
|---|---|---|---|
| Number of customers (in thousands) | 1,723 | 1,731 | 0% |
| Net sales, external | 1,254 | 1,319 | 0% |
| EBITDA | 451 | 455 | 5% |
| EBIT | 366 | 358 | |

[1] excluding exchange rate differences

*Key priorities in 2011*
Tele2 Lithuania demonstrated solid financial performance during the year, despite enduring difficult market conditions and sustained levels of competition. The company achieved the market leader position in absolute EBITDA and the second position in total revenue with a modest gap to the incumbent. Tele2 Lithuania further improved its profitability in 2011 compared to the same period last year and was found to be the most valuable mobile operator according to the investment bank GILD Bankers.

Tele2 Lithuania's participation in public tenders – a process through which state organizations purchase services – proved to be very successful. Tele2 Lithuania gained four times more business customers in 2011 than it did the year before and won one of the biggest tenders in the country. Strong results were also achieved in the postpaid residential segment, by means of efficient sales and marketing campaigns.

Tele2 capitalized on the mobile broadband sales growth momentum in 2011 and grew its customer base in that segment.

In 2011, Tele2 Lithuania managed to keep its strong perceived price leadership position and improved its real and perceived quality, with the result that Tele2 Lithuania's quality perception was on a par with the incumbent's by year end.

*Challenges to address in 2012*
Tele2 Lithuania will have to defend both its actual and perceived price leadership and constantly improve its quality of service to ensure that it keeps delivering the best deal in the market.

The upgrade/swap of the 2G and 3G networks is planned to take place during 2012 to further improve the quality and reliability of Tele2 Lithuania's network.

In February 2012, Tele2 Lithuania participated in the auction for 2 x 20 MHz on the 2.6 GHz with the aim to utilize these frequencies to deploy its LTE network.

**Latvia**

| SEK million | 2011 | 2010 | Growth[1] |
|---|---|---|---|
| Number of customers (in thousands) | 1,019 | 1,027 | –1% |
| Net sales, external | 1,094 | 1,261 | –9% |
| EBITDA | 380 | 398 | 0% |
| EBIT | 286 | 313 | |

[1] excluding exchange rate differences

*Key priorities in 2011*
The mobile market in Latvia remained highly competitive during 2011. However, Tele2 Latvia managed to keep its leading market position in terms of active customer base. The company concentrated its efforts on improving profitability; the EBITDA margin increased significantly and reached 35 percent in 2011 compared to 32 percent in 2010. The total revenue decreased, mostly due to a 29 percent drop of interconnect rates.

Fierce price pressure and harsh competition persisted across all customer segments. Although the prepaid market declined, the residential customer base grew, supported by efficient sales and marketing campaigns.

On January 5, 2012 Tele2 Latvia was awarded a 2.6GHz license for the deployment of LTE.

*Challenges to address in 2012*
Tele2 Latvia will defend its perceived price leadership position and work on increasing market share in the postpaid and business customer segments, while defending its position in prepaid.

Tele2 will continue to strengthen its sales by means of targeted campaigns and offers in order to pursue growth, most particularly in the corporate segment. Likewise, Tele2 Latvia will aim to enhance customer loyalty and provide good retention offers to defend its customer base.

The network upgrade/swap of 2G and 3G networks is planned to take place during 2012 to further improve the quality and reliability of Tele2 Latvia's network.

**Croatia**

| SEK million | 2011 | 2010 | Growth[1] |
|---|---|---|---|
| Number of customers (in thousands) | 710 | 738 | –4% |
| Net sales, external | 1,301 | 1,346 | 5% |
| EBITDA | 78 | –21 | 490% |
| EBIT | –42 | –134 | |

[1] excluding exchange rate differences

*Key priorities in 2011*
During Q3 2011, Tele2 Croatia achieved its positive free cash flow milestone a quarter ahead of own market guidance. The company finished the year with an EBITDA margin of 6 percent.

During 2011, Tele2 Croatia proved to be the only growing operator in an overall declining market; year over year, revenue grew by 5 percent in local currency.

Throughout the year, the company gained valuable residential and business customers. Due to a strong competition in prepaid, to the decline of the prepaid market in general and to some adjustments of the company's prepaid customer base, Tele2's annual net intake in prepaid appeared to be negative.

In 2011, Tele2 Croatia managed to keep its leading position in perceived price leadership and improved its quality perception significantly, by means of better customer service and an attractive store concept. Brand tracking proves the strengthening of almost all KPIs throughout the year.

*Challenges to address in 2012*
Tele2 Croatia will concentrate its efforts on increasing market share especially in the prepaid customer segment.

Tele2 Croatia will focus on maintaining price leadership, while providing products that are tailored to customer needs. At the same time, Tele2 Croatia will keep enhancing quality perception and customer experience across all touch points.

Tele2 Croatia will intensify work on customer retention in order to generate higher revenue and increase customer lifetime value.

**Kazakhstan**

| SEK million | 2011 | 2010 | Growth[1] |
|---|---|---|---|
| Number of customers (in thousands) | 1,371 | 332 | 313% |
| Net sales, external | 346 | 119 | 226% |
| EBITDA | –401 | –173 | –159% |
| EBIT | –720 | –376 | |

[1] excluding exchange rate differences

*Key priorities in 2011*
In 2011, the roll out of the combined 2G and 3G networks was a key focus area for Tele2 Kazakhstan. As a result, the Tele2 brand was launched in 12 out of 16 regions. The network roll-out has been ongoing in the whole country during the past year.

Throughout 2011, Tele2 Kazakhstan gained 1,039,000 customers and the total base reached 1,371,000 by year end.

*Challenges to address in 2012*
In 2012, Tele2 Kazakhstan will focus on the launch of the Tele2 brand in the four remaining regions, thereby scaling up operations and growing market share.

The company will work steadily on strengthening the network infrastructure in terms of coverage, capacity, performance, service quality and development of 2G and 3G capabilities.

Tele2 Kazakhstan will also concentrate its efforts on intensive marketing activities, on enhancing the efficiency of distribution channels and on improving customer care in order to further drive sales.

Being aggressive on price leadership, creating innovative offers and strengthening public relations in the market will be other focus points for Tele2 Kazakhstan.

## WESTERN EUROPE

### Netherlands

| SEK million | 2011 | 2010 | Growth[1] |
|---|---|---|---|
| Number of customers (in thousands) | 984 | 1,081 | –9% |
| Net sales, external | 5,823 | 5,838 | 5% |
| EBITDA | 1,806 | 1,735 | 10% |
| EBIT | 1,128 | 978 | |

[1] excluding exchange rate differences, including acquired companies

*Key priorities in 2011*

In 2011, Tele2 Netherlands showed solid financial results, despite the general declining trend in voice usages in both the residential and business markets. Tele2 Netherlands maintained its high EBITDA levels in spite of the costs originating from the integration of BBned. A quick and successful merge of the two organizations paid off within 12 months from the acquisition date, as the company managed to lower operational costs through synergy and effective cuttings in headcount and premises costs. Synergies derived from the BBned acquisition reinforced the company's number two position in the carrier market. In addition, Tele2 Netherlands acquired ISP Connect Data Solutions to reinforce its position in the SME segment.

Furthermore, a strong focus on the working capital position, combined with a smart and effective investment strategy led to a robust cash flow result for the full year.

The addition of new retail and online distribution channels in the second half of the year as well as the growing demand for smart phones stimulated the intake of Tele2 Netherlands' mobile base. The increased number of smartphone users pushed the demand for mobile data services, resulting in higher ARPUs. Furthermore, a decision of the European Commission aiming at lowering mobile terminating rates caused a cost reduction.

In 2011, a greater number of residential customers opted for bundled services. The national coverage of Tele2 Netherlands' TV product, in combination with a successful marketing campaign, enabled the company to benefit from this trend. Although this meant a decline of Tele2 Netherlands' total customer base in the fixed broadband segment, it led to higher ARPUs.

In the business segment, competition remained fierce during the year. The good performance of Tele2 Netherlands' sales force contributed to adding new business contracts to the company's portfolio. However, renewals suffered from price erosion, resulting in a top line revenue decrease.

Both customer base development and voice usage in the fixed telephony segment showed a gradual decline in line with market trends throughout the year. Tele2 continues to focus on retention to maximize value by up- and cross-selling bundled offerings to its fixed telephony customer base.

*Challenges to address in 2012*

Tele2 Netherlands aims to realize top line revenue growth in 2012. In order to achieve this goal, the company will focus on growing its mobile customer base and its bundled broadband services.

Furthermore, Tele2 Netherlands will expand its indirect B2B sales distribution capacity in order to expand its customer base in the SME segment.

During 2012, the company will further evaluate the possibility of participating in the mobile license auction planned for October.

### Germany

| SEK million | 2011 | 2010 | Growth[1] |
|---|---|---|---|
| Number of customers (in thousands) | 980 | 1,298 | –24% |
| Net sales, external[2] | 1,096 | 1,515 | –24% |
| EBITDA | 352 | 357 | 4% |
| EBIT[2] | 302 | 300 | |

[1] excluding exchange rate differences and one-off items

[2] excluding one-off items

*Key priorities in 2011*

During 2011, Tele2 Germany effectively managed the transformation of its business from a network operator to a service provider, and from a fixed only to a fixed and mobile provider. With its retention strategy, the company once more succeeded in stabilizing its customer base during the year and the business maintained its high profitability, despite the top line decrease in fixed telephony which was expected in line with market development.

The launch of the new mobile product line was successfully realized. In the first months of 2011, Tele2 Germany migrated a large portion of its CPS (Carrier Pre-Select) customers to the mobile product. The mobile segment reached operational break-even and the fourth quarter 2011 ended EBITDA positive.

The fixed broadband segment benefited from cost reductions through network optimizations based on the wholesale agreement with QSC. By focusing on customer retention activities and by outperforming customer base development expectations, Tele2 Germany achieved good profitability.

Thanks to successful retention measures and customer base management in the fixed telephony segment, Tele2 Germany could defend its leading position in Pre-Selection in the market. By means of cost optimizations resulting from the network migration to a wholesale model, fixed telephony maintained high and solid EBITDA margins in 2011.

*Challenges to address in 2012*

Tele2 Germany will aim to ensure high quality and powerful sale structures for its mobile services during 2012.

In the fixed telephony segment, the compliance with a price announcement obligation in Call by Call will be addressed by new commercial and technical solutions.

Customer satisfaction after the launch of the new mobile products will be another strong focus area for Tele2 Germany.

### Austria

| SEK million | 2011 | 2010 | Growth[1] |
|---|---|---|---|
| Number of customers (in thousands) | 365 | 415 | –12% |
| Net sales, external | 1,377 | 1,580 | –8% |
| EBITDA | 325 | 328 | 5% |
| EBIT | 185 | 155 | |

[1] excluding exchange rate differences, including acquired companies

*Key priorities in 2011*

Tele2 Austria showed good operational progress during 2011, as the company managed to deliver an all-time high EBITDA and cash flow performance in local currency. Tele2 strengthened its position in the business segment by acquiring the alternative B2B-focused Internet service provider Silver Server.

As regards top line development, Tele2 Austria kept enhancing its focus on growth within the business segment by providing the business community with a superior customer experience at a low price. Data network services in particular showed healthy revenue development. In 2011, Tele2 Austria therefore worked across all business areas on increasing sales efficiency and on improving customer retention.

In the residential segment, Tele2 Austria concentrated its efforts on retaining its customer base by emphasising value based-segmentation through retention campaigns.

*Challenges to address in 2012*

In 2012, Tele2 Austria's target is to continue on its successful growth path in the B2B segment through the optimization of the company's structure and sales processes, including the full integration of Silver Server.

In the residential segment, Tele2 Austria will keep focusing on retention by offering the most value to its customers.

## ACQUISITIONS AND DIVESTMENTS

In 2011, Tele2 acquired all shares in Network Norway, a Norwegian mobile operator and Tele2's joint venture partner in Mobile Norway, all shares in Connect Data Solution, a Dutch operator, and all shares in Silver Server, an Austrian internet service provider. During 2011, Tele2 has also contributed capital to its joint ventures.

In 2011, Tele2 divested its IT outsourcing operation in Sweden, Datametrix Outsourcing, and KRT, its cable TV operation in Lithuania.

Further information can be found in Note 16.

## CORPORATE RESPONSIBILITY

The year 2011 was characterised by the continued implementation of the Corporate Responsibility (CR) programme launched in 2010. The focus has shifted from establishing policies and guidelines to determining strategies, hands-on actions and following up on set targets.

**Focus on Corporate Responsibility**

In the beginning of 2011, a CR working group was established with participation both from the Board (Mia Brunell Livfors, John Shakeshaft and Lars Berg) and senior executives (Mats Granryd). The CR working group held two meetings during 2011, and dealt with such issues as the Code of Conduct, supply chain follow-up and the new CR strategy.

**Implementation of the Code of Conduct**

During 2011, a programme to implement the Code of Conduct, adopted by the Board of Directors in 2010, was initiated in all countries. The Code is available on Tele2's website www.tele2.com and has so far been signed by 92 percent of the more than seven thousand Tele2 employees. The remaining 8 percent are expected to sign during the first six months of 2012. As from 2011, all new employees are asked to sign the Code of Conduct as part of their employment contract.

The Code of Conduct does not only apply to the company itself, but also to suppliers and others parties representing Tele2. As first step of implementing the Code of Conduct in the supply chain, the largest suppliers, together constituting 80 percent of the spending, were asked to sign. By December 31, 2011 752 out of the 898 suppliers had signed the Code of Conduct. Since 2011, the Code of Conduct is included in the purchasing agreements when Tele2 renews contracts with existing suppliers or contracts new suppliers and agents.

**A new CR strategy**

A new CR strategy has been developed to facilitate the integration of CR issues throughout the organisation, i.e. making it part of everyday business. The strategy gives clear guidance on how the CR issues will be handled, and the division of responsibilities within the company.

**Supply chain in focus**

The screening of suppliers' fulfilment of the requirements stated in the Code of Conduct was intensified during the year. To ensure efficient supply chain follow-ups, Tele2 has developed criteria for supplier selection based on risk, as well as checklists for evaluation of supplier compliance. In December 2011, representatives of Tele2 visited one of the biggest suppliers, a SIM-card producer in Slovakia. As this is one of Tele2's prioritised focus areas, screening of the supply chain will be reinforced in 2012.

**Communicating with our stakeholders**

Upholding the mutually rewarding dialogues with our stakeholders is a priority for Tele2. During the year, several dialogues with identified key CR stakeholder groups were performed. In order to facilitate regular communication and increase transparency, a new Corporate Responsibility web site was introduced to supplement the annual Corporate Responsibility report. For the second year in a row, Tele2 publishes a Corporate Responsibility report in accordance to the GRI (Global Reporting Initiative) guidelines. Tele2 also continued to report the organisation's carbon emissions to the Carbon Disclosure Project (CDP). For 2011, the group received the score of 73 out of 100, which indicates that senior management understands the business issues related to climate change and are building climate related risks and opportunities into core business. Tele2 further received a notable ranking in the Responsible Business index published by Folksam, and was one of the companies highlighted in the Sustainable Value Creation Initiative due to the rapid progression of the company's CR work.

## EMPLOYEES

Tele2 had 7,878 (7,337) numbers of employees at the end of the year. The increase is largely due to Russia and acquired operation in Norway. See also Note 33 Number of employees and Note 34 Personnel costs.

Preparing and growing employees, in order to meet the requirements and future needs of the business, is of highest priority at Tele2. Employees need to be highly engaged and motivated identifying themselves with the corporate values and the strategy of the company. Tele2 strongly focuses on further increasing employee engagement and on strengthening the value- and performance-driven culture of the company. The corporate values (the Tele2 Way) as well as company Code of Conduct provide the guidelines for the professional behaviors in the organization.

Tele2 conducts an employee survey called My Voice every year. The purpose of the survey is to get the organization's opinions on how to continuously develop the company as an employer and as a workplace within a number of areas, such as communication and leadership. The results of the survey lead to local action plans with concrete measures and improvements linked to KPIs and results. In 2011, a Tele2 Way Index, measuring how Tele2 and its employees are living the corporate values, was introduced as the Tele2 Way was taken to the next level.

Tele2 is proud, but not satisfied with the very high employee satisfaction results of the employee survey. From 2011 onwards, the ambition level has been raised from employee satisfaction to employee engagement. An engaged employee is not only satisfied but highly motivated and inspired by his or her job, believes in and shares the company's values, lives the company's vision and follows its strategic direction. To be engaged, an employee must know the link between his or her own targets and performance and the company's targets and performance.

A common performance management was developed in 2011 for the whole Tele2 group. Employees will be assessed on both target completion (what) and professional behavior (how) based on the Tele2 Way. The new aligned process provides a consistent way of setting targets and assessing performance as well as a foundation for individual development and talent management worldwide. The individual performance management and target setting is also strongly linked to the overall strategy process and the company´s strategic KPIs.

Tele2 strongly supports and encourages internal promotions, both horizontally and vertically. The mapping of talents as well as key roles started in 2011, and will continue during 2012.

## EVENTS AFTER THE END OF THE FINANCIAL YEAR

In February 2012, 1,194 Class A shares were reclassified into Class B shares.

Tele2 announced on February 20, 2012 that Tele2 AB issued a NOK 1.3 billion bond in the Norwegian bond market. The amount is split between a 3 year bond of NOK 300 million priced at NIBOR +1.70 percent and a 5 year bond of NOK 1 billion priced at NIBOR +2.35 percent.

Tele2 announced on February 9, 2012 that Tele2 Russia issued a 7 billion rouble bond (with 2 tranches). The bond has a final maturity of 10 years and a put option providing for an effective tenor of 2 years. The coupon rate for the 5-year period is 8.90 percent per annum with semi-annual coupon payments.

Tele2 announced on January 24, 2012 that Tele2 AB carried out a first issue under a recently established Swedish commercial paper program. The program enables Tele2 to issue commercial papers up to a total amount of SEK 1.5 billion. Commercial papers can be issued up to 12 months under the program. The commercial paper program is a complement to Tele2's core funding.

Tele2 announced on January 16, 2012 that Tele2 Estonia acquired the telecommunication service provider Televörgu AS. The acquisition was approved by the Estonian Completion Authority in February 2012. Tele2 will pay in cash approximately SEK 225 million on a cash and debt free basis. The acquisition will give Tele2 Estonia a stronger presence towards business customers in the Estonian market, and full control over its transmission network until 2025.

Tele2 announced on January 5, 2012 that Tele2 Latvia was awarded a mobile license in Latvia of 2 x 20 MHz in the 2.6 GHz frequency band for SEK 9 million. The frequencies are specifically suited for next generation mobile broadband (LTE). The frequencies will become available as from 2014 and Tele2 Latvia will have rights to use it for the next 15 years.

## RISK AND UNCERTAINTY FACTORS

Tele2's operations are affected by a number of external factors. The most important risks are described below.

**Operating risks**

The risk factors considered to be most significant to Tele2's future development are described below.

*Availability of frequencies and telecom licences*

The company is dependent on licences and frequencies to be able to operate its business. Tele2 needs to comply with licence requirements, secure the extension of existing licenses and obtain new licenses that will be distributed. Tele2's ability to retain customers by providing improved services or maintain its low cost structure may be hampered by not obtaining required licences or frequencies at all or at a reasonable price. Tele2 works in close contact with regulators and other industry associations to become aware of upcoming licence distributions or redistributions.

*Operations in Russia and Kazakhstan*

Tele2's operation in Russia has a significant influence on the group's operational result and financial position. The political, economic, regulatory and legal environment as well as the tax system in Russia and Kazakhstan are still developing and are less predictable than in countries with more mature institutional structures. This also applies to prevailing corporate governance codes, business practices and the reporting and disclosure standards. The market and the operations in Russia and Kazakhstan therefore represent a different risk from those associated with investments in other countries and can affect Tele2's abilities to operate and develop its operations in these countries. Tele2 continuously monitors the development in these markets and has contact with relevant authorities.

*Network sharing with other parties*

In Sweden, Tele2 has reached agreements with other telecom operators to build and operate common network infrastructure. In Norway, Netherlands and Croatia, Tele2 depend on agreements with network operators to provide mobile services. Such agreements enable Tele2 to provide the best deal to its customers by sharing the risks of investing in new technologies and adjusting quicker to technological developments. At the same time, these agreements also impose risks in the form of delays in roll out, limitations for customised development and limitations on operating profitability. Finally, such agreements inherently present the risk that Tele2´s partners are unable or unwilling to fulfil their commitments under these agreements. Tele2 currently evaluates these forms of co-operations and has a dialogue with its partners in these co-operations.

*Integration of new business models*
Tele2's business environment is experiencing continuous internal and external changes, which may affect our future operational result and financial position. Change may be in the form of new business models such as mobile VOIP, revenue migration from voice to data or new revenue models introduced by handset companies. There is also internal change in the form of information technology infrastructure makeovers which, if successful, will improve our capability to provide enhanced services to our customers. Tele2's executive management closely reviews the progress of internal and external change, to adjust its strategies and maximise returns for our shareholders.

*Destructive price competition, primarily in mobile markets*
Tele2 operates in highly competitive markets with high penetration. Tele2's strategy is to be a price leader in all market segments. In this situation, competitors' aggressive actions can lead to overall price decreases and lower profitability. To counteract the effects of such actions, Tele2 monitors price perception index on a regular basis and works to obtain a clear price leadership position through its product offering and marketing communication.

*Changes in regulatory legislation*
Changes in legislation, regulations and decisions from authorities for telecommunications services can have a considerable effect on Tele2's business operations and the competitive situation in its operating markets. Large scale deregulation has historically been advantageous for Tele2's development, while a limited or slow deregulation process has restricted the company's opportunities for development. These decisions also influence the prices which apply to interconnection agreements with the local former monopolist in the various markets and mobile termination rates. Also, certain decisions such as the regulation of next generation fixed broadband technology may include conditions that exclude Tele2 from offering similar products to its customers. Tele2 works actively with telecom regulators and industry associations, in order to create fair competition in its operating markets.

**Financial Risk Management**
Through its operations, the group is exposed to various financial risks such as currency risk, interest risk, liquidity risk and credit risk. Financial risk management is mainly centralized to Tele2 corporate. The aim is to minimize the group's capital costs through appropriate financing and effective management and control of the group's financial risks. Further information on financial risk management can be found in Note 2.

## WORK OF THE BOARD OF DIRECTORS
The Board of Directors is appointed by the Annual General Meeting for terms extending until the next Annual General Meeting. At the Annual General Meeting in May 2011, all Board members were re-elected. In addition, Mike Parton was re-elected as new Chairman of the Board of Directors.

The Board is responsible for the company's organization and management, and is composed in such a way as to enable it to effectively support and manage the responsibility of the company's senior executives. The Board makes decisions on overall strategies, organizational matters, acquisitions, corporate transactions, major investments, and establishes the framework of Tele2's operations by defining the company's financial goals and guidelines. In 2011, the Board convened six times on different locations in Europe. In addition, seven per capsulam meetings and five telephone conference meetings were held.

In order to carry out its work more effectively, the Board has at the constituent Board meeting appointed members for a Remuneration Committee and an Audit Committee with special tasks. These committees are the Board's preparatory bodies and do not reduce the Board's overall and joint responsibility for the handling of the company and the decisions made. All Board members have access to the same information. Further, certain members of the Board have been selected to form preparatory working groups on topics of special interest, such as Corporate Responsibility. Further, certain members of the Board have been selected to form preparatory working groups on topics of special interest, such as Corporate Responsibility.

The work of the Remuneration Committee includes salary matters, pension conditions, bonus systems and other terms of employment for the CEO and other senior executives. The Audit Committee's role is to maintain and improve the efficiency of contact with the group's auditors and to supervise the procedures for accounting and financial reporting and auditing within the group.

Remuneration to the Board is stated in Note 34.

**Corporate Governance Report**
The Corporate Governance Report is available on Tele2's website www.tele2.com.

**Remuneration guidelines for senior executives**
The Board proposes the following guidelines for determining remuneration for senior executives for 2012, to be approved by the Annual General Meeting in May 2012.

The objectives of Tele2's remuneration guidelines are to offer competitive remuneration packages to attract, motivate, and retain key employees within the context of an international peer group. The aim is to create incentives for management to execute strategic plans and deliver excellent operating results and to align management's incentives with the interests of the shareholders. Senior executives covered by the proposed guidelines include the CEO and members of the Leadership Team ("senior executives"). At present, Tele2 has eleven senior executives.

Remuneration to the senior executives should comprise annual base salary and variable short-term incentive (STI) and long-term incentive (LTI) programs. The STI shall be based on the performance in relation to established objectives. The objectives shall be related to the company's overall result and the senior executives' individual performance. The STI can amount to a maximum of 100 percent of the annual base salary.

Over time, it is the intention of the Board to increase the proportion of variable performance based compensation as a component of the senior executives' total compensation.

The Board is continually considering the need of imposing restrictions in the variable short-term incentive program regarding making payments, or a proportion thereof, of such variable compensation conditional on whether the performance on which it was based has proved to be sustainable over time, and/or allowing the company to reclaim components of such variable compensation that have been paid on the basis of information which later proves to be manifestly misstated.

Other benefits may include e.g. company cars and for expatriated senior executives e.g. housing benefits for a limited period of time. The senior executives may also be offered health care insurances.

The senior executives are offered premium based pension plans. Pension premiums for the CEO can amount to a maximum of 25 percent of the annual base salary. For the other senior executives pension premiums can amount to a maximum of 20 percent of the annual base salary.

The maximum period of notice of termination of employment shall be 12 months in the event of termination by the CEO and six months in the event of termination by any of the other senior executives. In the event of termination by the company, the maximum notice period during which compensation is payable is 18 months for the CEO and 12 months for any of the other senior executives.

In special circumstances, the Board may deviate from the above guidelines. In such a case, the Board is obligated to give account of the reason for the deviation on the following Annual General Meeting.

There are no deviations during 2011 compared with the remuneration guidelines for senior executives approved by the Annual General Meeting in May 2010 and May 2011.

The guidelines for 2011 as proposed by the Board and approved by the Annual General Meeting in May 2011 are stated in Note 34 Personnel costs.

## PARENT COMPANY

The parent company performs functions and conducts certain group wide development projects. In 2011, the parent company paid an ordinary dividend of SEK 6.00 per share for 2010 and an extraordinary dividend of SEK 21.00 per share corresponding to a total of SEK 11,991 million to shareholders.

## PROPOSED APPROPRIATION OF PROFIT

The Board and CEO propose that, from the SEK 12,427,775,253 at the disposal of the Annual General Meeting, an ordinary dividend of SEK 6.50 per share and an extraordinary dividend of SEK 6.50 per share be paid to shareholders, corresponding at December 31, 2011 to SEK 2,886,974,733.50 and SEK 2,886,974,733.50 respectively, resulting in a total dividend of SEK 5,773,949,467, and that the remaining amount, SEK 6,653,825,786, be carried forward.

Based on this annual report, the consolidated financial statements and other information which has become known, the Board has considered all aspects of the parent company's and group's financial position. This evaluation has led the Board to the conclusion that the dividend is justifiable in view of the requirements that the nature and scope of, and risks involved in, Tele2's operations have on the size of the company's and group's equity, as well as on its consolidation needs, liquidity and financial position in general.

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## Financial statements – Parent company



## Notes – Group



## Notes – Parent company

# Consolidated income statement

| SEK million | Note | 2011 | 2010 |
|---|---|---|---|
| **CONTINUING OPERATIONS** | | | |
| Net sales | 5 | 40,750 | 40,164 |
| Cost of services sold | 6 | –23,287 | –22,409 |
| **Gross profit** | | **17,463** | **17,755** |
| Selling expenses | 6 | –6,944 | –7,339 |
| Administrative expenses | 6 | –3,733 | –3,305 |
| Result from shares in associated companies and joint ventures | 7 | 17 | –74 |
| Other operating income | 8 | 330 | 207 |
| Other operating expenses | 9 | –165 | –156 |
| **Operating profit** | 6 | **6,968** | **7,088** |
| PROFIT FROM FINANCIAL INVESTMENTS | | | |
| Interest income | 10 | 77 | 14 |
| Interest costs | 11 | –485 | –511 |
| Other financial items | 12 | –191 | 144 |
| **Profit after financial items** | | **6,369** | **6,735** |
| Tax on profit for the year | 13 | –1,465 | –254 |
| **NET PROFIT FROM CONTINUING OPERATIONS** | | **4,904** | **6,481** |
| **DISCONTINUED OPERATIONS** | | | |
| Net profit/loss from discontinued operations | 37 | –7 | 447 |
| **NET PROFIT** | 4 | **4,897** | **6,928** |
| ATTRIBUTABLE TO | | | |
| Equity holders of the parent company | | 4,897 | 6,926 |
| Minority interest | | – | 2 |
| **NET PROFIT** | | **4,897** | **6,928** |
| Earnings per share, SEK | 32 | 11.03 | 15.70 |
| Earnings per share after dilution, SEK | 32 | 10.98 | 15.64 |
| FROM CONTINUING OPERATIONS | | | |
| Earnings per share, SEK | | 11.05 | 14.69 |
| Earnings per share after dilution, SEK | | 11.00 | 14.63 |

# Consolidated comprehensive income

| SEK million | Note | 2011 | 2010 |
|---|---|---|---|
| **Net profit** | | **4,897** | **6,928** |
| **OTHER COMPREHENSIVE INCOME** | | | |
| **Components not to be reclassified to net profit:** | | | |
| Withholding tax dividends | | –153 | –12 |
| Pensions, actuarial gains/losses | | –59 | – |
| Pensions, actuarial gains/losses, tax effect | | 15 | – |
| **Total components not to be reclassified to net profit** | | **–197** | **–12** |
| **Components to be reclassified to net profit:** | | | |
| Exchange rate differences | | –163 | –2,780 |
| Exchange rate differences, tax effect | | 17 | –1,504 |
| Reversed cumulative exchange rate differences from divested companies | 16 | 11 | –50 |
| Cash flow hedges | 26 | –133 | 46 |
| Cash flow hedges, tax effect | | 35 | –12 |
| **Total components to be reclassified to net profit** | | **–233** | **–4,300** |
| **Total other comprehensive income for the year, net of tax** | | **–430** | **–4,312** |
| **TOTAL COMPREHENSIVE INCOME FOR THE YEAR** | | **4,467** | **2,616** |
| ATTRIBUTABLE TO | | | |
| Equity holders of the parent company | | 4,467 | 2,614 |
| Minority interest | | – | 2 |
| **TOTAL COMPREHENSIVE INCOME FOR THE YEAR** | | **4,467** | **2,616** |

# Consolidated balance sheet

| SEK million | Note | Dec 31, 2011 | Dec 31, 2010 |
| --- | --- | --- | --- |
| **ASSETS** | | | |
| **FIXED ASSETS** | | | |
| **Intangible assets** | | | |
| Goodwill | 14 | 10,510 | 10,010 |
| Other intangible assets | 14 | 4,681 | 3,191 |
| **Total intangible assets** | | **15,191** | **13,201** |
| **Tangible assets** | | | |
| Machinery and technical plant | 15 | 13,327 | 12,780 |
| Other tangible assets | 15 | 2,906 | 2,350 |
| **Total tangible assets** | | **16,233** | **15,130** |
| **Financial assets** | | | |
| Shares in associated companies and joint ventures | 17 | 336 | 788 |
| Receivables from joint ventures | 18 | 2,199 | 286 |
| Other financial assets | 19 | 157 | 67 |
| **Total financial assets** | | **2,692** | **1,141** |
| **Deferred tax assets** | 13 | 2,886 | 3,200 |
| **TOTAL FIXED ASSETS** | | **37,002** | **32,672** |
| **CURRENT ASSETS** | | | |
| **Materials and supplies** | 20 | 486 | 273 |
| **Current receivables** | | | |
| Accounts receivable | 21 | 3,822 | 3,280 |
| Current tax receivables | | 65 | 115 |
| Other current receivables | 22 | 519 | 484 |
| Prepaid expenses and accrued income | 23 | 3,574 | 2,599 |
| **Total current receivables** | | **7,980** | **6,478** |
| **Short-term investments** | 24 | 65 | 112 |
| **Cash and cash equivalents** | 25 | 976 | 834 |
| **TOTAL CURRENT ASSETS** | | **9,507** | **7,697** |
| **TOTAL ASSETS** | 4 | **46,509** | **40,369** |

*Continued Consolidated balance sheet*

| SEK million | Note | Dec 31, 2011 | Dec 31, 2010 |
|---|---|---|---|
| **SHAREHOLDERS' EQUITY AND LIABILITIES** | | | |
| **SHAREHOLDERS' EQUITY** | | | |
| **Attributable to equity holders of the parent company** | | | |
| Share capital | 32 | 561 | 559 |
| Other paid-in capital | | 16,980 | 16,967 |
| Reserves | | –2,966 | –2,733 |
| Retained earnings | | 6,874 | 14,079 |
| **Total attributable to equity holders of the parent company** | | **21,449** | **28,872** |
| **Minority interest** | | 3 | 3 |
| **TOTAL SHAREHOLDERS' EQUITY** | | **21,452** | **28,875** |
| **LONG-TERM LIABILITIES** | | | |
| **Interest-bearing** | | | |
| Liabilities to financial institutions and similar liabilities | 26 | 12,085 | 1,038 |
| Provisions | 27 | 335 | 183 |
| Other interest-bearing liabilities | 26 | 548 | 471 |
| **Total interest-bearing liabilities** | | **12,968** | **1,692** |
| **Non-interest-bearing** | | | |
| Deferred tax liability | 13 | 1,114 | 851 |
| **Total non-interest-bearing liabilities** | | **1,114** | **851** |
| **TOTAL LONG-TERM LIABILITIES** | | **14,082** | **2,543** |
| **SHORT-TERM LIABILITIES** | | | |
| **Interest-bearing** | | | |
| Liabilities to financial institutions and similar liabilities | 26 | 210 | 160 |
| Provisions | 27 | 139 | 139 |
| Other interest-bearing liabilities | 26 | 1,347 | 957 |
| **Total interest-bearing liabilities** | | **1,696** | **1,256** |
| **Non-interest-bearing** | | | |
| Accounts payable | 26 | 3,167 | 2,602 |
| Current tax liabilities | | 42 | 77 |
| Other short-term liabilities | 26 | 685 | 561 |
| Accrued expenses and deferred income | 28 | 5,385 | 4,455 |
| **Total non-interest-bearing liabilities** | | **9,279** | **7,695** |
| **TOTAL SHORT-TERM LIABILITIES** | | **10,975** | **8,951** |
| **TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES** | 4 | **46,509** | **40,369** |

# Consolidated cash flow statement

| SEK million | Note | 2011 | 2010 |
|---|---|---|---|
| **OPERATING ACTIVITIES** | | | |
| **Cash flow from operations before changes in working capital** | | | |
| Operating profit from continuing operations | | 6,968 | 7,088 |
| Operating profit/loss from discontinued operations | 37 | –7 | 453 |
| **Operating profit** | | **6,961** | **7,541** |
| Adjustments for non-cash items in operating profit | | | |
| Depreciation and amortization | 6 | 3,773 | 3,597 |
| Impairment | 6 | 124 | 29 |
| Result from shares in associated companies and joint ventures | 7 | –17 | 74 |
| Gain/loss on sale of fixed assets and operations | 8, 9, 37 | 80 | –442 |
| Interest received | | 73 | 11 |
| Interest paid | | –364 | –357 |
| Finance costs paid | | –21 | –4 |
| Dividend received | | 1 | 1 |
| Taxes paid | | –948 | –740 |
| **Cash flow from operations before changes in working capital** | 31 | **9,662** | **9,710** |
| **Changes in working capital** | | | |
| Materials and supplies | | –202 | –64 |
| Operating assets | | –1,188 | –443 |
| Operating liabilities | | 976 | 407 |
| **Changes in working capital** | 31 | **–414** | **–100** |
| **CASH FLOW FROM OPERATING ACTIVITIES** | | **9,248** | **9,610** |
| **INVESTING ACTIVITIES** | | | |
| Acquisition of intangible assets | 31 | –583 | –283 |
| Sale of intangible assets | 31 | – | 20 |
| Acquisition of tangible assets | 31 | –4,323 | –3,356 |
| Sale of tangible assets | 31 | 239 | 16 |
| Acquisition of shares in group companies (excluding cash) | 16 | –1,575 | –1,371 |
| Sale of shares in group companies | 16 | 14 | 324 |
| Capital contribution to joint ventures | 16 | –17 | –139 |
| Dividend from joint ventures | 16 | 375 | – |
| Sale of joint ventures | 16 | –6 | –271 |
| Long-term receivables from joint ventures, lending | 18 | –1,999 | –200 |
| Other financial assets, lending | | – | –2 |
| Other financial assets, received payments | | 18 | 2 |
| **Cash flow from investing activities** | | **–7,857** | **–5,260** |
| **CASH FLOW AFTER INVESTING ACTIVITIES** | | **1,391** | **4,350** |
| **FINANCING ACTIVITIES** | | | |
| Proceeds from credit institutions and similar liabilities | 26 | 10,671 | – |
| Repayment of loans from credit institutions and similar liabilities | 26 | –124 | –2,587 |
| Proceeds from other interest-bearing liabilities | 26 | 5 | – |
| Repayment of other interest-bearing lending | 26 | –51 | –219 |
| Dividends | 32 | –11,991 | –2,580 |
| New share issues | 32 | 13 | 74 |
| Repurchase of own shares | 32 | –2 | – |
| Sale of own shares | 32 | 46 | 256 |
| Shareholders contribution from minority | 16 | 105 | 241 |
| **Cash flow from financing activities** | | **–1,328** | **–4,815** |
| **NET CHANGE IN CASH AND CASH EQUIVALENTS** | | **63** | **–465** |
| Cash and cash equivalents at beginning of the year | 25 | 834 | 1,312 |
| Exchange rate differences in cash | 25 | 79 | –13 |
| **CASH AND CASH EQUIVALENTS AT END OF THE YEAR** | 25 | **976** | **834** |

Cash flow for discontinued operations, please refer to Note 37.
For additional cash flow information, please refer to Note 31.

# Change in consolidated shareholders' equity

| SEK million | Note | Share capital | Other paid–in capital | Hedge reserve | Translation reserve | Retained earnings | Total | Minority interest | Total shareholders' equity |
|---|---|---|---|---|---|---|---|---|---|
| | | Attributable to equity holders of the parent company | | | | | | | |
| **Shareholders' equity at January 1, 2010** | | **558** | **16,898** | **–406** | **1,973** | **9,737** | **28,760** | **63** | **28,823** |
| Costs for stock options | 34 | – | –4 | – | – | 58 | 54 | – | 54 |
| New share issues | 32 | 1 | 73 | – | – | – | 74 | – | 74 |
| Sale of own shares | 32 | – | – | – | – | 256 | 256 | – | 256 |
| Dividends | 32 | – | – | – | – | –2,580 | –2,580 | – | –2,580 |
| Purchase of minority | 16 | – | – | – | – | –306 | –306 | –62 | –368 |
| Comprehensive income for the year | | – | – | 34 | –4,334 | 6,914 | 2,614 | 2 | 2,616 |
| **SHAREHOLDERS' EQUITY AT DECEMBER 31, 2010** | | **559** | **16,967** | **–372** | **–2,361** | **14,079** | **28,872** | **3** | **28,875** |
| **Shareholders' equity at January 1, 2011** | 36 | **559** | **16,967** | **–372** | **–2,361** | **14,079** | **28,872** | **3** | **28,875** |
| Costs for stock options | 34 | – | – | – | – | 44 | 44 | – | 44 |
| New share issues | 32 | 2 | 11 | – | – | – | 13 | – | 13 |
| Repurchase of own shares | 32 | – | –2 | – | – | – | –2 | – | –2 |
| Sale of own shares | 32 | – | 4 | – | – | 42 | 46 | – | 46 |
| Dividends | 32 | – | – | – | – | –11,991 | –11,991 | – | –11,991 |
| Comprehensive income for the year | | – | – | –66 | –167 | 4,700 | 4,467 | – | 4,467 |
| **SHAREHOLDERS' EQUITY AT DECEMBER 31, 2011** | | **561** | **16,980** | **–438** | **–2,528** | **6,874** | **21,449** | **3** | **21,452** |

# Notes to the consolidated financial statements

## NOTE 1 ACCOUNTING PRINCIPLES AND OTHER INFORMATION

The consolidated financial statements were prepared in accordance with the International Financial Reporting Standards (IFRS) and the interpretations of the International Financial Reporting Interpretations Committee (IFRIC) at the date of publication of this annual report, as adopted by the EU. The group also applies the Swedish Financial Reporting Board recommendation RFR 1 *Supplementary Accounting Rules for groups* which specifies additional disclosures required under the Swedish Annual Accounts Act.

The financial reports were prepared on the basis of historical cost, apart from financial instruments which are normally based on the amortized cost method, with the exception of other long-term securities and derivatives which are measured at fair value.

### CHANGE IN ACCOUNTING PRINCIPLES

From 2011 the following new standards, amendments and interpretations are applied.

**Revised IAS 24 concerning related party transactions**

The revised IAS 24 clarifies the definition of a related party. In accordance with the revised IAS 24 the associated companies to Kinnevik are no longer classified as related parties to Tele2. Thus the number of related companies is reduced.

**Other new and amended IFRS standards and IFRIC interpretations**

The other new or amended IFRS standards and IFRIC interpretations, which became effective January 1, 2011, have had no material effect on the consolidated financial statements. The revised IFRS-standards are the following; IAS 32 *Financial Instruments: Presentation* and *Improvements to IFRSs 2010*. The new IFRIC interpretations are the following: IFRIC 19 *Extinguishing Financial Liabilites with Equity Instruments* and amendments to interpretation IFRIC 14 *Prepayments of a Minimum Funding Requirement*.

### NEW REGULATIONS

The following revised standard has been issued by the International Accounting Standards Board (IASB) and adopted by the EU; Amendments to IFRS 7 *Financial Instruments: Disclosures – Transfers of Financial Assets* (effective for annual periods beginning on or after July 1, 2011) which are estimated to have no material effect on Tele2's financial statements.

IASB has also issued, which have not yet been adopted by the EU:

- Amendments to IAS 1 *Presentation of Items of Other Comprehensive Income* (effective for annual periods beginning on or after July 2012),
- Amendments to IAS 12 *Deferred tax: Recovery of underlying Assets* (effective for annual periods beginning on or after January 1, 2012)
- Amendments to IAS 19 *Employee Benefits*, IFRS 7 *Financial Instruments: Disclosures – Offsetting Financial Assets and Financial Liabilities*, IFRS 10 *Consolidated Financial Statements*, IFRS 11 *Joint Arrangements*, IFRS 12 *Disclosures of Interests in Other Entities*, IAS 27 *Separate Financial Statements*, IAS 28 *Investments in Associates and Joint Ventures* and IFRS 13 *Fair Value Measurement* (effective for annual periods beginning on or after January 1, 2013).
- IAS 32 *Financial Instruments: Presentation – Offsetting Financial Assets and Financial Liabilities* (effective for annual periods beginning on or after January 1, 2014), and
- IFRS 9 *Financial Instruments (2009 and 2010)* (effective for annual periods beginning on or after January 1, 2015).

IFRS 11 focuses on the rights and obligations that exist between the parties in a joint arrangement. This is determinative when deciding which type of joint arrangement exists. A joint arrangement is a construction where two or more parties contractually agree on joint control. It is not only the legal form that should be considered. There are two types of joint arrangements: joint operation and joint venture. A joint operation arises when the joint control owners have rights to the assets and obligations for the liabilities that are connected to the investment. A joint venture applies to the case where the joint determinative owners have rights to the net assets of the investment. Depending on whether one is dealing with a joint operation or a joint venture, different accounting principles shall be applied. According to the new standard, only the equity method is allowed when consolidating joint ventures, i.e. proportional consolidation is no longer allowed. The parties in a joint operation shall report their assets, liabilities, revenues and expenses and their share of joint assets, liabilities, revenues and expenses.

Tele2 has reviewed its joint ventures. The assessment shows that the major part of these will be classified as joint operations according to IFRS 11. As a consequence, Tele2 plans to change accounting principle already from January 1, 2012, within the current IAS 31 Interests in Joint Ventures, from the present equity method to the proportional consolidation method for joint ventures. The decision is additionally based on the fact that Tele2 Sweden is building its 3G and 4G networks in joint ventures and that the proportional consolidation method is expected to give a more true and fair view. The change of accounting principle will increase the net sales, EBITDA, assets and liabilities of the group and has a minor effect on operating profit and net cash flows. The change will have no effect on net profit or shareholders' equity. The effects from the change of accounting principle are presented in Note 36. For more information concerning Tele2's joint ventures please refer to Note 17.

The introduction of IFRS 12 will result in new disclosure requirements for investments in subsidiaries, joint arrangements and associated companies.

The amended IAS 1, IAS 12, IAS 19, IAS 27, IAS 28, IAS 32 and IFRS 7 as well as the new standards IFRS 9, IFRS 10 and IFRS 13 are estimated to have no material effect for Tele2.

IFRIC has issued IFRIC 20 *Stripping Costs in the Production Phase of a Surface Mine* (effective for annual periods beginning on or after January 1, 2013) which is not applicable to Tele2's operations.

### CONSOLIDATION

The consolidated accounts include the parent company and companies in which the parent company directly or indirectly holds more than 50 percent of the voting rights or in any other way has control.

The consolidated accounts are prepared in accordance with the acquisition method. This means that consolidated shareholders' equity only includes the subsidiary's equity that have arisen after the acquisition and the consolidated income statements only include earnings from the date of acquisition until the date of divestment, if the subsidiary is

*Continued Note 1*

sold. The group's acquisition value of the shares in subsidiaries consists of the total of the fair value at the time of the acquisition of what is paid in cash, through transfer of liabilities or emitted shares. Contingent consideration is included in the acquisition value and is reported to its fair value at the time of the acquisition. Subsequent effects from the revaluation of contingent consideration are reported in the income statement. Acquired identifiable assets and assumed liabilities are reported initially to their fair value at the time of the acquisition. Exemptions from this principle are made for acquired tax assets/liabilities, employee benefits, share-based payment awards and assets held for sale which are measured according to the principles described below for each item. Exemptions are also done for indemnity assets and reacquired rights. Indemnity rights are valued according to the same principle as the indemnified item. Reacquired rights are valued based on the remaining contractual period despite if other market participants would consider the possibilities for contract renewal when doing the valuation. Reported goodwill is measured as the difference between on one side the total purchase price for the shares in the subsidiary, the value of the minority in the acquired subsidiary and the fair value of the previous owned share and on the other side the group's reported value of acquired assets and assumed liabilities. Acquisition related costs (transaction costs) are recognized as expenses in the period in which they arise.

Minority interest is reported at the time of the acquisition either to its fair value or to its proportional share of the group's reported value of the acquired subsidiary's identified assets and liabilities. The choice of valuation method is done for each business combination. Subsequent profit or loss and other comprehensive income that are related to the minority is allocated to the minority interest even if it leads to a negative value for the minority.

The accounts of all foreign group companies are prepared in the currency used in the primary economic environment of each company, which is normally the local currency.

The assets and liabilities of foreign group companies are translated to Tele2's reporting currency (SEK) at the closing exchange rates, while income and expense are translated at the year's average exchange rates. Exchange rate differences arising from translation are reported in other comprehensive income. When foreign group companies are divested, the accumulated exchange rate difference attributable to the sold group company is recognized in the income statement.

Goodwill and adjustments to fair value which arise from the acquisition of a foreign entity are treated as assets and liabilities of the acquired entity and are translated at the closing rates.

The group treats transactions with minority owners as transactions with equity owners of the group. At acquisitions from minority owners, the difference between any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to minority owners are also recorded in equity if the group retains the control.

At acquisition of a controlling interest in a company where Tele2 already holds an interest the carrying value of the previously held interest is adjusted to its fair value. Any gain or loss is recorded in the income statement.

When the control of the subsidiary ceases to exist but the group retains shares in the company the remaining shares are initially reported to their fair value. Any gain or loss is reported in the income statement.

**ASSOCIATED COMPANIES AND JOINT VENTURES**

Associated companies are companies in which Tele2 has voting power of between 20 percent and 50 percent or in some other way has significant influence. Joint ventures are companies over which the owners have a joint control.

Associated companies and joint ventures are accounted for in accordance with the equity method. This means that the group's carrying amount of the shares in the company corresponds to the group's share of shareholders' equity as well as any residual value of consolidated surplus values after application of the group's accounting principles. The share of the company's profit or loss after tax is reported under "Operating profit" as "Result from shares in associated companies and joint ventures", along with depreciation of the acquired surplus value.

In the event of an increase or decrease in the group's equity share in associated companies and joint ventures through share issues, the gain or loss is reported in the consolidated income statement as result from shares in associated companies and joint ventures. In the event of negative equity in an associated company and joint venture, where the group is committed to contribute additional capital, the negative portion is reported as a liability.

Group surplus values relating to foreign associated companies and joint ventures are reported as assets in foreign currencies. These values are translated in accordance with the same principles as the income statements and balance sheets for subsidiaries.

When the significant influence of the associated company or joint venture ceases to exist but the group retains shares in the company the remaining shares are initially reported to its fair value. Any gain or loss is reported in the income statement.

**REVENUE RECOGNITION**

Net sales include revenue from services within mobile and fixed telephony, broadband and cable TV, such as connection charges, subscription charges, call charges, data and information services and other services. Net sales also include interconnect revenue from other operators and income from the sale of products such as mobile phones and modems. Revenues are reported at fair value which usually is the selling value, less discounts and VAT.

Connection charges are recognized at the time of the sale to the extent that they cover the connection costs. Any excess is deferred and amortized over the estimated period of contract. Subscription charges for mobile and fixed telephony services, cable TV, ADSL, dial-up internet, leased capacity and internet connection for direct access customers are recognized in the period covered by the charge. Call charges and interconnect revenue are recognized in the period during which the service is provided. Revenue from the sale of products is recognized at the time the product is supplied to the customer. Revenue from the sale of cash cards is recognized based on actual use of the card or when the expiry date has passed.

Revenue from data and information services such as text messages and ring tones is recognized when the service is provided. When Tele2 acts as agent for another supplier, the revenue is reported net, i.e. only the part of the revenue that is allocated to Tele2 is reported as revenue.

**OPERATING EXPENSES**

Operating expenses are classified according to function, as described below. Depreciation and amortization and personnel costs are stated by function. Total costs for depreciation and amortization are presented in Note 6 and the total personnel costs are presented in Note 34.

**Cost of services sold**

Cost of services sold consists of costs for renting networks and capacity as well as interconnect charges. The cost of services sold also includes the part of the cost for personnel, premises, purchased services and depreciation and amortization of fixed assets attributable to production of sold services.

**Selling expenses**

Selling expenses include costs for the internal sales organization, purchased services, personnel costs, rental costs, bad debt losses as well as depreciation and amortization of fixed assets attributable to sales activities. Advertising and other marketing activities are also included and are expensed as incurred.

*Continued Note 1*

**Administrative expenses**
Administrative expenses consist of the part of the personnel costs, rental costs, purchased services as well as depreciation and amortization of fixed assets attributable to the other joint functions. Costs associated with the Board of Directors, executive management and corporate functions are included in administrative expenses.

**Other operating income and other operating expenses**
Other operating income and other operating expenses include secondary activities, exchange rate differences in operating activities and profit/loss on the sale of tangible and intangible assets.

**NUMBER OF EMPLOYEES, SALARY AND REMUNERATION**
The average number of employees (Note 33) as well as salaries and remuneration (Note 34) in companies acquired during each year are reported in relation to how long the company has been part of the Tele2 group.

**SHARE-BASED PAYMENTS**
Tele2 grants options and other share-based instruments to certain employees.

Share-based payments which are settled with the company's own shares or other equity instruments are reported at their fair value calculated by an independent party at the date of grant. These payments are reported as employee costs during the vesting period. To the extent the earning-conditions in the program are linked to market-related factors (such as the market value of the company's shares) and non-vesting conditions (requirement to keep), these are taken into consideration when determining the fair value of the program. Other conditions than market-related (as for example return on capital employed) are affecting the employee cost during the vesting period by changing the number of shares or other equity based instruments that are expected to vest. Payments received, after deductions for any costs directly related to transactions, are credited to shareholders' equity.

Tele2 records a liability for social security expenses, at each reporting period, for all outstanding incentive programs. The liability for social security expenses are calculated according to UFR 7, IFRS 2 and social security contributions for listed enterprises. The valuation method applied when the incentive programs were issued is also used for the valuation of the social security liability. The liability is revalued at the end of each reporting period and reflects the best estimate of the social security expense expected to be paid when the incentive program is exercised.

**PENSIONS**
The group has a number of pension schemes, with the main part of Tele2's pension plans consisting of defined-contribution plans (Note 34) for which the group makes payments to public and private pension institutions. Fees with regard to defined-contribution pension plans are reported as an expense during the period in which the employees perform the services to which the contribution relates. The defined-contribution plans ensure a certain predefined payment of premiums and changes in the value of investments are not compensated by Tele2. Therefore Tele2 does not bear the risk at the time of pension payment. Only a small part of the group's pension commitments relate to defined-benefit plans. The net present value of the obligation for these are calculated separately for each defined-benefit plan on the basis of assumptions of the future benefits earned during previous and currents periods. The obligation is reported in the balance sheet as the net present value of the obligation deducted with fair value of any plan assets.

The cost for the defined-benefit plans are calculated by application of the so called Projected Unit Credit Method, which means that the cost is distributed over to the employee's period of service. The calculation is carried out yearly by an independent actuary. The obligation is valuated to net present value of the expected future payments, taking into account assumptions as expected future increase in salaries, inflation, increases in health expenses and life span. Expected future payments are discounted with an interest that is effective on the closing day for first class commercial bonds or government bonds considering the estimated remaining tenor for each obligation. Actuarial gains and losses are reported in other comprehensive income.

**INCOME TAX**
Income taxes consist of actual and deferred tax. Income tax is reported in the income statement except when the underlying transaction is reported in other comprehensive income. In those cases the related tax effect is also reported in other comprehensive income.

Current tax is tax that is to be paid or received in respect of the taxable profit (tax loss) for the year including any adjustment of current tax related to previous periods.

When accounting for income taxes, the balance sheet method is applied. The method implies that deferred tax liabilities and assets are recognized for all temporary differences between the carrying amount of an asset or liability and its tax base, as well as other tax-related deductions or deficits. The following temporary differences are not considered: temporary difference that arises at the initial recognition of goodwill and the initial recognition of assets and liabilities that are not part of a business combination and at the time of the transaction affect neither accounting nor taxable profit/loss. An item which alter the time when an item is taxable or deductible is considered a temporary difference. Deferred tax liabilities and assets are measured at the tax rates that are expected to apply to the period when the asset is realized or the liability settled, based on the tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

Profit or loss for the year is charged with the tax on taxable income for the year ("current tax"), and with estimated tax on temporary differences ("deferred tax").

The recognition of deferred tax assets takes into account tax loss carry-forwards and temporary differences where it is probable that losses and temporary differences will be utilized against future taxable profits. In cases where a company reports losses, an assessment is made of whether there is any convincing evidence that there will be sufficient future profits.

Valuation and accounting of deferred taxes in connection with business combination is done as part of the measurement of assets and liabilities at the time of acquisition. In these circumstances, the deferred tax assets are assessed at a value corresponding to what the company expects to utilize. Deferred income tax liabilities are recognized on temporary differences related to subsidiaries and associates, except when the timing of the reversal of the temporary difference is controlled by the group and it is probable that the temporary difference will not reverse in the foreseeable future.

If a deferred tax liability exists and unvalued tax loss carry-forwards exist, a deferred tax asset is reported to the extent it can be netted against the deferred tax liability.

Current and deferred tax assets and liabilities are netted only among group companies within the same tax jurisdiction. This form of reporting is only applied when Tele2 intends to offset tax assets and liabilities.

**DISCONTINUED OPERATIONS**
A discontinued operation (Note 37) is a component of the group which either has been disposed of or is classified as held for sale, and represents a separate line of business or geographical area of operation. A discontinued operation is reported separately from continuing operations, and comparable information for prior periods is re-presented.

Assets classified as held for sale and associated liabilities are presented separately on the face of the balance sheet. Prior periods are not affected. Assets classified as held for sale are valued at the lower of carrying value and fair value less costs to sell.

*Continued Note 1*

**EARNINGS PER SHARE**

Earnings per share before dilution are calculated by dividing the profit or loss of the year attributable to the parent company's owners by the weighted average number of outstanding shares during the period. To calculate earnings per share after dilution the weighted average numbers of outstanding shares are adjusted for the dilutive effect of the total potential number of shares consisting of personnel options and other share based instruments settled with shares. The options and the shared based instruments have a dilutive effect if the exercise price is below the quoted price and the dilutive effect increases when the size on this difference increases (Note 32).

**FIXED ASSETS**

Intangible assets (Note 14) and tangible assets (Note 15) with a finite useful life are reported at acquisition value with deductions for accumulated depreciation and amortization. Depreciation and amortization are based on the acquisition value of the assets less estimated residual value at the end of the useful life and are recognized on a straight-line basis throughout the asset's estimated useful life. Useful lives and residual values are subject to annual assessments. Useful lives for fixed assets are illustrated below.

| | |
|---|---|
| *INTANGIBLE ASSETS* | |
| Licenses, utilization rights and software | 1–25 years |
| Customer agreements | 2.5–5 years |
| Trademarks | 2–4 years |
| | |
| *TANGIBLE ASSETS* | |
| Buildings | 5–40 years |
| Modems | 3 years |
| Machinery and technical plant | 1–20 years |
| Equipment and installations | 1–10 years |

At the end of each reporting period an assessment is made of whether there is any indication of impairment of any of the group's assets over and above the scheduled depreciation plans. If there is any indication that a fixed asset has declined in value, a calculation of its recoverable amount is made.

The recoverable amount is the higher of the asset's value in use and its fair value less costs to sell, which is the value that is obtainable from the sale of the asset to an independent party less costs of disposal. The value in use consists of the present value of all cash flows from the asset during the utilization period as well as the addition of the present value of the fair value less costs to sell at the end of the utilization period. If the estimated recoverable amount is less than the carrying amount, the asset is written down to its recoverable amount.

Impairments are reported in the income statement. Impairments that have been recorded are reversed if changes are made in the assumptions that led to the original impairment. The impairment reversal is limited to the carrying amount, net of depreciation according to plan, had the original impairment not occurred. A reversal of impairment is reported in the income statement. Impairment of goodwill is not reversed.

**Intangible assets**

Tele2 holds a number of licenses entitling it to conduct telephony operations. The costs related to the acquisition of these licenses are recognized as an asset and amortized on a straight-line basis through the duration of the license agreements.

Goodwill is measured as the difference between on one side the total purchase price for the shares in the subsidiary alternatively the acquired assets and liabilities, the value of the minority in the acquired subsidiary and the fair value of the previous owned share and on the other side the group's reported value of acquired assets and assumed liabilities less any write-downs.

Goodwill is allocated to the cash generating units that are expected to obtain benefits as a result of the acquisition and is, along with the intangible assets with indefinite lives and intangible assets that are not ready to use, subject to annual impairment testing even if there is no indication of a decline in value. Impairment testing of goodwill is at the lowest level at which goodwill is monitored for internal management purposes and for which there are separately identifiable cash flows (cash generating units). The recoverable value of the respective cash generating unit is based on the higher of estimated value in use and fair value less costs to sell. The most important factors that have influenced this year's impairment testing are presented in Note 14.

In the case of reorganization or divestment involving a change in the composition of cash generating units to which goodwill have been allocated, the goodwill is allocated to the relevant units. The allocation is based on the relative value of the part of the cash generating unit to which the reorganization or divestment relates, and the part that remains after the reorganization or the divestment.

Customer agreements are valued at fair value in conjunction with business combinations. Tele2 applies a model where the average cost of acquiring new customers or alternatively, the present value of expected future cash flows, is applied to value customer agreements.

Tele2 capitalizes direct development expenses for software which are specific to its operations when the recognition criteria are fulfilled. These costs are amortized over the utilization period, which begins when the asset is ready for use. Costs relating to the planning phase of the projects as well as costs of maintenance and training are expensed as incurred. Other expenses relating to development work are expensed as they arise, since they do not meet the criteria for being reported as an asset.

**Tangible assets**

Land and buildings relate to assets intended for use in operations. The acquisition value includes the direct costs attributable to the building.

Machinery and technical plant include equipment and machinery intended for use in operations, such as network installations. The acquisition value includes the direct expenses attributable to the construction and installation of networks.

Additional expenses for extension and value-increasing improvements are reported as an asset, while additional expenses for repairs and maintenance are charged to income as an expense during the period in which they arise.

Equipment and installations comprise assets used in administration, sales and operations.

Expenses for modems that are rented to or used for free by customers are capitalized and amortized over a period of three years.

**Borrowing costs**

Borrowing costs which are directly attributable to the acquisition, construction or production of a qualifying asset which requires considerable time to complete for its intended use are included in the acquisition value of the asset. Other borrowing costs are expensed in the period in which they arise.

**Leases**

Leases are classified as finance or operating leases. A lease is classified as a finance lease if it transfers substantially all the economic risks and rewards of ownership of an asset to the lessee. When reporting a financial lease in the consolidated accounts, the leased object is recognized as a tangible asset at the lower of its fair value and the present value of the minimum lease payments, and a corresponding amount is recognized as a lease obligation under financial liabilities (Note 15 and Note 26). The asset is depreciated on a straight-line basis over the shorter of the lease term and its useful life, with the estimated residual value deducted at the end of the utilization period. Lease payments are

*Continued Note 1*

apportioned between interest and repayment of the outstanding liability. A lease is classified as an operating lease if substantially all the economic risks and rewards of ownership of an asset remain with the leasing company. Payments are expensed in the income statement on a straight-line basis over the leasing period.

**Dismantling costs**
When there is a commitment to a third party, the estimated cost of dismantling and removing an asset and restoring the site/area is included in the acquisition value. Any change to the estimated cost of dismantling and removing an asset and restoring the site is added to or subtracted from the carrying amount of the particular asset.

**FINANCIAL ASSETS AND LIABILITIES**
Financial assets recognized in the balance sheet include other financial assets, accounts receivable, other current receivables, short-term investments and cash and cash equivalents. Financial liabilities recognized in the balance sheet include liabilities to credit institutions and similar liabilities, other interest-bearing liabilities, accounts payable and other current liabilities.

Acquisitions and sales of financial assets are reported on the trading date, which is the date that the group has an undertaking to acquire or sell the asset. Financial liabilities are recognized in the balance sheet when the counterparty has performed and a contractual liability to pay exists.

A financial asset is derecognized when the rights to receive benefits have been realized, expired or the Company loses control over them. The same applies to components of a financial asset. A financial liability is derecognized when the contractual obligation is discharged or extinguished in some other way. The same applies to components of a financial liability.

Financial instruments are initially recognized at fair value, which normally corresponds to the acquisition value and subsequently to either fair value or amortized cost based on the initial categorization. The categorization reflects the purpose of the holding and is determined on initial recognition.

**Measurement of the fair value of financial instruments**
Various measurement methods are used to measure the fair value of financial instruments not traded on an active market. When determining the fair value of interest swaps, official market listings are used. When determining the fair value of forward currency contracts, the listed forward rates at the balance sheet date are used. The fair value of loan liabilities is measured using generally accepted methods, such as discounting expected future cash flows at prevailing interest rates.

**Calculation of amortized cost of financial instruments**
Amortized cost is calculated using the effective interest method, which means that any premiums or discounts and directly attributable costs or income are recognized on an accrual basis over the life of the contract using the calculated effective interest. The effective interest is the interest which gives the instrument's cost of acquisition as a result when discounting the future cash flows.

**Offsetting financial assets and liabilities**
Financial assets and liabilities are offset and the net amounts presented in the balance sheet when a legal right of set-off exists and the company intends to settle on a net basis or to realize the asset and settle the liability simultaneously.

**Financial assets**
Tele2's other long-term securities mainly consist of holdings of unlisted shares, and these are classified as "Assets at fair value through profit or loss". Assets in this category are initially reported at acquisition value, i.e. fair value at the time of acquisition, and valued thereafter on a continuous basis at fair value. The change in values is reported in the income statement among other financial items. If Tele2 has not obtained a reliable valuation, the securities are valued at their acquisition cost.

Tele2's accounts receivables and other receivables are categorized as "Loans and receivables" initially reported at fair value and subsequently at amortized cost, which corresponds to their nominal amounts as the duration is short. On each closing day, a revaluation is made of these assets based on the time each individual accounts receivable has been overdue. Any impairment loss is reported as an operating expense.

Cash and cash equivalents are categorized as "Loans and receivables" initially reported at fair value and subsequently at amortized cost. Cash and cash equivalents consist of cash and bank balances as well as current investments with a maturity of less than three months from the time of acquisition.

Restricted cash and cash equivalents are reported as short-term investments if they may be released within 12 months and as long-term financial assets if they will be restricted for more than 12 months.

Financial assets in foreign currency are translated at the closing exchange rate.

**Financial liabilities**
Financial liabilities are categorized as "Financial liabilities valued at amortized cost". These are initially measured at fair value and then at amortized cost using the effective interest method. Direct costs related to the origination of loans are included in the acquisition value. For accounts payables and other financial debts, with a short maturity, the subsequent valuation is done at the nominal amount. Financial liabilities in foreign currency are translated at the closing exchange rate.

Financial guarantee agreements are measured at the higher of the best estimate of the expenditure required to settle the present obligation and the amount at which it was originally valued.

**Derivatives and hedge accounting**
Changes in fair value of loans in foreign currency and changes in value of other financial instruments (forward agreements) that fulfill the hedge accounting requirements of net investment in foreign operations are reported on a continuous basis in other comprehensive income. The ineffective portion of the change in value is reported in the income statement under other financial items. When divesting foreign subsidiaries, the accumulated exchange rate difference attributable to the divested subsidiary is recorded in the income statement.

Cash flow hedges are reported in the same way as hedges of net investments in foreign operations. This means that the effective portion of the gain or loss on an interest swap which meets the criteria for cash-flow hedge accounting is recognized in other comprehensive income and the ineffective portion is recognized in profit or loss within financial items. When cash flows relating to the hedged item are reported in profit or loss, amounts are transferred from equity to offset them. For more information regarding cash flow hedges, please refer to Note 2 and Note 26.

When a hedging instrument related to hedging of net investments in foreign operations or future cash flows is due, sold, divested or settled or the group discontinue the hedge relation before the hedged transaction has occurred and the forecasted transaction still is expected to occur the accumulated reported profit or loss remains in the hedge reserve in equity and is reported in the income statement when the transaction occurs. If the hedged transaction no longer is expected to occur the hedging instrument's accumulated profit or loss are immediately reported in the income statement.

Other derivatives are reported to their fair value through profit or loss.

*Continued Note 1*

**Receivables and liabilities in foreign currency**

Receivables and liabilities of the group denominated in foreign currencies have been translated to Swedish kronor applying the year-end rates.

Gains or losses on foreign exchanges relating to regular operations are included in the income statement under Other operating income/ expenses. Gains or losses on foreign exchanges in financial assets and liabilities are reported within profit/loss from financial items.

When long-term lending to/borrowing from Tele2's foreign operations is regarded as a permanent part of the parent company's financing of/borrowing from foreign operations, and thus as an expansion/ reduction of the parent company's investment in the foreign operations, the exchange rate changes of these intra-group transactions are reported in other comprehensive income.

A summary of the exchange rate differences reported in other comprehensive income is presented in the statement of comprehensive income and the differences which affected profit or loss of the year are presented in Note 3.

**INVENTORIES**

Inventories of materials and supplies are valued in accordance with the first-in, first-out principle at the lower of acquisition value and net realizable value. Tele2's inventories essentially consist of telephones, SIM cards and modems held for sale.

**SHAREHOLDERS' EQUITY**

Shareholders' equity consists of registered share capital, other paid-in capital, hedge reserve, translation reserve, retained earnings, profit/ loss for the year and minority interests.

Other paid-in capital relates to share premiums from the issues of new shares. Additional direct costs attributable to the issue of new shares are reported directly against shareholders' equity as a reduction, net after taxes, of proceeds from the share issue.

The hedge reserve include translation differences on external loans in foreign currencies and changes in values for financial instruments (forward agreements) which are used to secure net investments in foreign subsidiaries and the effective portion of gains or losses on interest swaps used to secure future interest payments.

Translation reserves include translation differences attributable to translation of foreign subsidiaries to Tele2's reporting currency as well as translation differences on intra-group transactions which are considered an expansion/reduction of the parent company's net investment in foreign operations.

Minority interest involves the value of minority shares in subsidiaries included in the consolidated accounts. The reporting and valuation of minority interest is presented in the section regarding consolidation above.

**PROVISIONS**

Provisions are reported when a company within the group, as a result of past events, has a legal or constructive obligation, it is probable that payments will be required in order to settle the obligation and a reliable estimate can be made of the amount to be paid.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognized as interest expense.

**CONTINGENT LIABILITIES**

A contingent liability exist if there is a possible obligation related to a past event and whose existence is confirmed only by one or several uncertain future events, and when there is an obligation that is not reported as a liability or a provision because it is not probable that an outflow of resources will be required or the amount of the obligation can not be calculated with sufficient reliability. Disclosure is made unless the probability of an outflow of resources is remote.

**SEGMENT REPORTING**

**Segment**

Since the risks in Tele2's operations are mainly controlled by the various markets in which Tele2 operates, Tele2 follow up and appraise the business on country level. Hence each country represents Tele2's segment apart from the segment Other. The segment grouping is in line with the internal reporting to the chief operating decision maker, which is Tele's "Leadership Team" (LT).

Segment Other mainly includes the parent company Tele2 AB, central functions, Datametrix (excluding Datametrix Integration AB), Radio Components and Procure IT Right, and other minor operations. Divested operations, which have not previously been classified as discontinued operations, are also reported in the segment Other.

Tele2 Sweden is split into core operations and central group functions. Core operations is reported in segment Sweden and central functions are included in the segment Other. The core operations of Tele2 Sweden comprise the commercial activities within Sweden, including the communications services of mobile, fixed telephony, fixed broadband, and domestic carrier business. The central functions of Tele2 Sweden comprise the activities which provide services for the benefit of Tele2 AB's shareholders, other group companies (including the core operations of Sweden), and the sold entities. These services are provided for example from group wide departments such as group finance, legal, product development, sales & marketing, billing, information technology, international network, and international carrier.

Assets in each segment include all operating assets that are utilized by the segment and consist mainly of intangible and tangible assets, shares in associated companies and joint ventures, materials and supplies, accounts receivable, other receivables, prepaid expenses and accrued revenues. Goodwill is distributed among the group's cash generating units, identified in accordance with Note 14.

Liabilities in each segment include all operating liabilities that are utilized by the segment and consist mainly of accounts payable, other non-interest-bearing liabilities, accrued expenses and deferred income.

Assets and liabilities not divided into segments include current and deferred taxes and items of a financial or interest-bearing nature.

Segment information is presented in Note 4.

The same accounting principles are applied for the segments as for the group.

**Internal pricing**

The sales of services in the Tele2 group are made on market terms. Group-wide costs are invoiced to operations that have used the services.

**Services**

Services that are offered within the segments are mobile telephony, fixed broadband and fixed telephony.

The service mobile comprises various types of subscriptions for residential as well as business and prepaid cards. Mobile also includes mobile internet (also called mobile broadband). Tele2 either owns the networks or rents them from other operators, a set-up called MVNO.

Fixed broadband includes direct access & LLUB, i.e. our own services based on access via copper cable, and other forms of access, such as cable TV networks, wireless broadband and metropolitan area networks. Fixed broadband also includes resold broadband. The product portfolio within direct access & LLUB includes telephony services (including IP telephony), internet access services (including Tele2's own ADSL) and TV services.

Fixed telephony includes resold products within fixed telephony. The product portfolio within resold fixed telephony consists of prefix telephony, pre-selection (dial the number without a prefix) and subscriptions.

Other operations mainly include carrier operations, IT-outsourcing and system integration through Datametrix as well as holding companies.

*Continued Note 1*

**CHOICE OF ACCOUNTING PRINCIPLES**

When choosing and applying Tele2's accounting principles, the Board and the President have made the following choices:

**Choice of accounting principle for put options**

For reporting of put options in connection with business combinations, where put options give the minority owner a right to sell its shares or part of its shares to Tele2 in a company in which Tele2 is the majority stockholder Tele2 has chosen the following principle. The chosen method means that initially, at the business combination, a minority interest is recognized according to the principles for reporting of minority interest. This minority interest is then immediately reclassified as a financial liability. The financial liability is recognized at its fair value at each reporting date, with the changes reported within financial items in profit or loss.

An alternative method, not chosen by Tele2, would be to report both a minority interest and a financial liability with opposite booking of the liability initially directly to shareholders' equity and the following changes in the liability's fair value reported in profit and loss. Another additional alternative is to on a current basis report a minority interest which is reclassified as a financial liability at each reporting period. The difference between the reclassified minority interest and the fair value of the financial liability is reported as a change of the minority interest within equity.

**Reporting of joint ventures**

Tele2 reports joint ventures according to the equity method of accounting. Another accepted method is the proportional method, which means that the consolidated balance sheet includes the group's share of assets and liabilities in joint ventures as well as any residual value of consolidated surplus values. The consolidated income statement includes the group's share of joint ventures' revenues and expenses.

Application of the proportional method would increase Tele2's total assets and liabilities, while net income would be unchanged.

**Revenue reporting for agreements containing several components**

For customer agreements containing several components or parts, revenue is allocated to each part, based on its relative fair value. Accounting estimates are used to determine the fair value. If functionally important parts have not been delivered and the fair value of any of these is not available, revenue recognition is postponed until all important parts have been delivered and the fair value of non-delivered parts has been determined.

Tele2's mobile service agreements, including free and discounted mobile phones, can be divided into different deliveries. For arrangements with subsidized phones and other equipment, the total revenues of the contract is allocated to each component based on its relative fair value of the total fair values of the bundled offer and is recognized as revenue upon delivery of each component to the customer.

**Customer acquisition costs**

Customer acquisition costs are normally recognized directly.

When companies and operations are acquired, customer agreements and customer contacts acquired as part of the acquisition are fair valued and capitalized as intangible assets.

**Goodwill – choice of level for goodwill impairment testing**

Goodwill arising from business combinations is allocated to the cash-generating units which are expected to receive future economic benefits, in the form of synergies, for example, from the acquired operation. If separate cash-generating units cannot be identified, goodwill is allocated to the lowest level at which the operation and its assets are monitored for internal management purposes, which is the operating segment.

**ESTIMATES AND JUDGMENTS**

As part of preparing the consolidated financial statements management is required to make certain estimates and judgments. The estimates and judgments are based on historical experience and a number of other assumptions aimed at providing a decision regarding the value of the assets or liabilities which cannot be determined in any other way. The actual outcome may vary from these estimates and judgments.

The most crucial assessments and estimates used in preparing the group's financial reports are as follows:

**Valuation of acquired intangible assets**

When acquiring businesses, intangible assets are measured at fair value. If there is an active market for the acquired assets, the fair value is measured based on the prices on this market. Since there are often no active markets for these assets, valuation models have been developed to estimate the fair value. Examples of valuation models are discounted cash flows analysis and estimates of Tele2's historical costs of acquiring corresponding assets. Please refer to Note 16 for acquisitions during the year.

**Valuation of goodwill**

When estimating the recoverable amount of cash generating units for goodwill impairment purposes the group makes assumptions regarding future events and key parameters. The assumptions made and sensitivity analyses are disclosed in Note 14. These kind of assessments include for natural reasons always some uncertainty. Should actual outcome during the following year differ from the expected outcome for the same period, the expected future cash flows may need to be reconsidered which could lead to a write-down.

**Valuation of fixed assets with a finite useful life**

If the recoverable amount falls below the book value, an impairment loss is recognized. At each balance sheet date, a number of factors are analyzed in order to assess whether there is any indication of impairment. If such indication exists, an impairment test is prepared based on management's estimate of future cash flows including the applied discount rate. Please refer to Note 14 and Note 15.

**Useful lives of fixed assets**

When determining the useful life of groups of assets, historical experience and assumptions about future technical development are taken into account. Depreciation rates are based on the acquisition value of the fixed assets and the estimated utilization period less the estimated residual value at the end of the utilization period. If technology develops faster than expected or competition, regulatory or market conditions develop differently than expected, the company's evaluation of utilization periods and residual values will be influenced.

**Valuation of deferred income tax**

Recognition of deferred income tax takes into consideration temporary differences and unutilized loss carry-forwards. Deferred tax assets are reported for deductible temporary differences and loss carry-forwards only to the extent that it is considered probable that they can be utilized to offset future profits. Management updates its assessments at regular intervals. The valuation of deferred tax assets is based on expectations of future results and market conditions, which for natural reasons are subjective. The actual outcome may differ from the assessments, partly as a result of future changes in business circumstances, which were not known at the time of the assessments, changes in tax laws or the result of the taxation authorities' or courts' final examination of submitted tax returns. See further Note 13.

*Continued Note 1*

**Valuation of disputes and damages**
Tele2 is party to a number of disputes. For each separate dispute an assessment is made of the most likely outcome, and is reported in the financial statements accordingly, see Note 27 and Note 30.

**Valuation of accounts receivable**
Accounts receivables are valued on a current basis and are reported at amortized cost. Reserves for doubtful accounts are based on various assumptions as well as historical experience, see Note 21.

**OTHER INFORMATION**
Tele2 AB (publ) is a limited company, with its registered office in Stockholm, Sweden. The company's registered office (phone +46 8 5620 0060) is at Skeppsbron 18, Box 2094, 103 13 Stockholm, Sweden. The annual report was approved by the Board of Directors on March 16, 2012. The balance sheet and income statement are subject to adoption by the Annual General Meeting on May 7, 2012.

## NOTE 2 FINANCIAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS

Tele2's financial assets consist of receivables from end customers and resellers. Other significant financial assets are cash and cash equivalents and receivables on joint ventures. Tele2's financial liabilities consist mainly of loans to finance the operations and accounts payables. Classification of financial assets and liabilities including their fair value is presented below.

| Dec 31, 2011 | Fair value through profit/loss | Loans and receivables | Cash flow hedges | Financial liabilities at amortized cost | Total reported value | Fair value |
|---|---|---|---|---|---|---|
| Other financial assets | 18[1] | 2,315 | – | – | 2,333 | 2,333 |
| Accounts receivables | – | 3,822 | – | – | 3,822 | 3,822 |
| Other current receivables | – | 519 | – | – | 519 | 519 |
| Short-term investments | – | 65 | – | – | 65 | 65 |
| Cash and cash equivalents | – | 976 | – | – | 976 | 976 |
| **Total financial assets** | **18** | **7,697** | **–** | **–** | **7,715** | **7,715** |
| Liabilities to financial institutions and similar liabilities | – | – | – | 12,295 | 12,295 | 12,231[3] |
| Other interest-bearing liabilities | 1,136[2] | – | 172[3] | 587 | 1,895 | 1,917[3] |
| Accounts payable | – | – | – | 3,167 | 3,167 | 3,167 |
| Other short-term liabilities | – | – | – | 685 | 685 | 685 |
| **Total financial liabilities** | **1,136** | **–** | **172** | **16,734** | **18,042** | **18,000** |

| Dec 31, 2010 | Fair value through profit/loss | Loans and receivables | Cash flow hedges | Financial liabilities at amortized cost | Total reported value | Fair value |
|---|---|---|---|---|---|---|
| Other financial assets | 17[1] | 335 | – | – | 352 | 352 |
| Accounts receivables | – | 3,280 | – | – | 3,280 | 3,280 |
| Other current receivables | – | 484 | – | – | 484 | 484 |
| Short-term investments | – | 112 | – | – | 112 | 112 |
| Cash and cash equivalents | – | 834 | – | – | 834 | 834 |
| **Total financial assets** | **17** | **5,045** | **–** | **–** | **5,062** | **5,062** |
| Liabilities to financial institutions and similar liabilities | – | – | – | 1,198 | 1,198 | 1 238[3] |
| Other interest-bearing liabilities | 866[2] | – | 39[3] | 523 | 1,428 | 1,447[3] |
| Accounts payable | – | – | – | 2,602 | 2,602 | 2,602 |
| Other short-term liabilities | – | – | – | 561 | 561 | 561 |
| **Total financial liabilities** | **866** | **–** | **39** | **4,884** | **5,789** | **5,848** |

*Continued Note 2*

For the determination of fair values on financial assets and liabilities the following levels and inputs have been used:

1) Level 3: measured at fair value through profit/loss, which on initial recognition were designated for this type of measurement. Discounted future cash flow models are used to estimate the fair value.
2) Level 3: put option Tele2 Kazakhstan. Fair value determined on the basis of future discounted cash flows to determine the exercise price on the minority shares, please refer to Note 26.
3) Level 2: official market listings have been used to determine the fair value of interest rate derivatives, loans with fixed interest rate and other long-term non-interest bearing liabilities valued at fair value at initial recognition with subsequent measurement at amortized cost.

Since accounts receivables, accounts payables and other short-term liabilities are short-term, discounting of cash flows does not cause any material differences in their carrying amount.

During the period no reclassification of financial instruments between the different categories has been done.

Net gains/losses on financial instruments amounted to SEK –157 (–111) million, of which loan and trade receivables amounted to SEK 2 (24) million and financial liabilities at fair value through profit and loss to SEK –159 (–128) million.

Through its operations, the group is exposed to various financial risks such as currency risk, interest risk, liquidity risk and credit risk. Financial risk management is mainly centralized to the group treasury function. The aim is to minimize the group's capital costs through appropriate financing and effective management and control of the group's financial risks.

**Capital risk structure management**
The Tele2 group's view on capital management incorporates several inputs that are necessary to take into consideration with the current strategy of the company. The main items are listed below.

- Tele2 has a target net debt to EBITDA ratio of between 1.25 and 1.75 times over the medium term. The group's longer term financial leverage should be in line with the industry and the markets in which it operates, and reflect the status of its operations, future strategic opportunities and contingent liabilities.
- On a continuous basis, Tele2 will need to diversify its financing through a variation in duration and counterparts. A stable financial position is important to receive terms from the banks as well as other financial players that are in line with the business needs.
- Tele2 will seek to pay a progressive ordinary dividend of 50 percent or more of net income excluding one-off items. Extraordinary dividends and the authority to purchase Tele2's own shares will be sought when the anticipated total return to shareholders is deemed to be greater than the achievable returns from the deployment of the capital within the group's operating segments or the acquisition of assets within Tele2's economic requirements.

The Board of Directors reviews the capital structure annually and as needed.

The Board of Tele2 AB (publ) has decided to recommend a total dividend payment of 13.00 (27.00) SEK per ordinary A or B share to be comprised of an ordinary dividend of 6.50 (6.00) SEK and an extraordinary dividend of 6.50 (21.00) SEK in respect of the financial year 2011 to the Annual General Meeting (AGM) in May 2012.

*Continued Note 2*

**Currency- and interest rate risk**

Currency risk is the risk of changes in exchange rates having a negative impact on the group's result and equity. Currency exposure is associated with payment flows in foreign currency (transaction exposure) and the translation of foreign subsidiaries' balance sheets and income statements to SEK (translation exposure). The group does not hedge transaction exposure. When considered appropriate, the translation exposure related to some investments in foreign operations is hedged by issuing debt in the currencies involved. In the hedge reserve in equity the total amount related to net investment hedges amounts to SEK –311 (–343) million.

The loans per December 31, 2011 in SEK million are carried in the following currencies (equivalent SEK amounts).

| | Dec 31, 2011 | Dec 31, 2010 |
|---|---|---|
| SEK | 6,855 | 426 |
| RUB | 2,784 | – |
| EUR | 1,744 | 494 |
| NOK | 714 | – |
| USD | 182 | 233 |
| KZT | 16 | 45 |
| **Total loans** | **12,295** | **1,198** |

In 2011, 32 (31) percent of net sales is related to SEK, 28 (25) percent RUB and 22 (25) percent to EUR. For other currencies please refer to Note 3. During the year, Tele2's results were foremost affected by fluctuations in RUB and EUR but also in KZT, LVL and LTL.

Of the group's total net assets at December 31, 2011 of SEK 21.5 billion, 7.0 billion is related to EUR, 4.7 billion to RUB and 4.1 billion the Baltic currencies.

Tele2 keeps a close watch on interest market trends and decisions to change the interest duration strategy are assessed regularly. At the end of 2011, 65 (83) percent of the group's interest-bearing liabilities carried a variable interest rate. For additional information please refer to Note 26. The capital amount of outstanding interest rate derivatives at December 31, 2011 amount to SEK 2.2 billion converting variable interest rate to fixed interest rate. The cash flows related to outstanding interest rate derivative is expected to affect the income statement during the remaining duration of the interest rate swaps.

Official market listings have been used to determine the fair value of interest rate derivatives.

Outstanding interest rate derivatives for cash flow hedging at December 31, 2011 are shown below.

| | | | Dec 31, 2011 | | Dec 31, 2010 | |
|---|---|---|---|---|---|---|
| Currency | Fixed interest rate terms % | Maturity | Capital amount, nominal | Reported fair value | Capital amount, nominal | Reported fair value |
| SEK | 3.865 | 2018 | 1,400 | –147 | 1,400 | –39 |
| SEK | 2.7225 | 2018 | 300 | –11 | – | – |
| SEK | 2.5050 | 2016 | 300 | –7 | – | – |
| SEK | 2.6950 | 2018 | 200 | –7 | – | – |
| **Total outstanding interest rate derivatives** | | | **2,200** | **–172** | **1,400** | **–39** |

**Liquidity risk**

The group's cash and cash equivalents are invested on a short-term basis, so that excess liquidity can be used for loan repayments. Under the group's current financial policy, refinancing risk is managed by subscribing for long-term binding credit lines. At the end of 2011, the group had available liquidity of SEK 9.9 (12.8) billion. For additional information please refer to Note 25.

Tele2 currently has four separate loan facilities with participations from eleven different banks. Other liabilities to financial institutions and bond holders' are stated in Note 26.

Tele2 announced on January 24, 2012 that Tele2 AB carried out a first issue under a recently established Swedish commercial paper program. The program enables Tele2 to issue commercial papers up to a total amount of SEK 1.5 billion. Commercial papers can be issued with a tenor up to 12 months under the program. The commercial paper program is a complement to Tele2's core funding.

Tele2 announced on February 9, 2012 that Tele2 Russia issued a 7 billion rouble bond (with 2 tranches). The bond has a final maturity of 10 years and a put option providing for an effective tenor of 2 years. The coupon rate is 8.90 percent per annum with semi-annual coupon payments.

Tele2 announced on February 20, 2012 that Tele2 AB issued a NOK 1.3 billion bond in the Norwegian bond market. The amount is split between a 3 year bond of NOK 300 million priced at NIBOR +1.70 percent and a 5 year bond of NOK 1 billion priced at NIBOR +2.35 percent.

Undiscounted contractual commitments and commercial promises are presented below.

| | | Dec 31, 2011 | | | | |
|---|---|---|---|---|---|---|
| | Note | Within 1 year | 1–3 years | 3–5 years | After 5 years | Total |
| Financial liabilities[1] | 26 | 5,919 | 9,404 | 3,559 | 978 | 19,860 |
| Commitments, other | 30 | 1,657 | 947 | 3 | – | 2,607 |
| Financial guarantees, joint ventures[2] | 30 | 5 | – | – | – | 5 |
| Operating leases | 30 | 1,464 | 935 | 443 | 923 | 3,765 |
| **Total contractual commitments/ commercial pledges** | | **9,045** | **11,286** | **4,005** | **1,901** | **26,237** |

| | | Dec 31, 2010 | | | | |
|---|---|---|---|---|---|---|
| | Note | Within 1 year | 1–3 years | 3–5 years | After 5 years | Total |
| Financial liabilities[1] | 26 | 4,320 | 1,030 | 352 | 447 | 6,149 |
| Commitments, joint venture Mobile Norway | 30 | 133 | 409 | 469 | 888 | 1,899 |
| Commitments, other | 30 | 1,022 | 388 | 29 | – | 1,439 |
| Financial guarantees, joint ventures[2] | 30 | 1,459 | – | – | – | 1,459 |
| Operating leases | 30 | 1,273 | 823 | 381 | 747 | 3,224 |
| **Total contractual commitments/ commercial pledges** | | **8,207** | **2,650** | **1,231** | **2,082** | **14,170** |

1) Including future interest payments.

2) Maximum exposure. Tele2 considers it not to be likely that an amount will be payable.

**Credit risk**

Tele2's credit risk is mainly associated with accounts receivables and cash and cash equivalents. The group regularly assesses its credit risk arising from accounts receivables. As the customer base is highly diversified and includes individuals and companies, the exposure and associated overall credit risk is limited. The group makes provisions for expected credit losses.

Maximum credit exposure for accounts receivables amounts to SEK 3,822 (3,280) million.

## NOTE 3 EXCHANGE RATE EFFECTS

The consolidated balance sheet and income statement are affected by fluctuations in subsidiaries' currencies against the Swedish krona. Group net sales and EBITDA are distributed among the following currencies.

| | Net sales | | | | EBITDA | | | |
|---|---|---|---|---|---|---|---|---|
| | 2011 | | 2010 | | 2011 | | 2010 | |
| SEK | 12,913 | 32% | 12,290 | 31% | 3,160 | 29% | 3,174 | 31% |
| RUB | 11,463 | 28% | 10,141 | 25% | 4,496 | 41% | 3,561 | 35% |
| EUR | 9,134 | 22% | 9,788 | 25% | 2,714 | 25% | 2,433 | 24% |
| NOK | 3,245 | 8% | 3,016 | 8% | –22 | 0% | 196 | 2% |
| HRK | 1,301 | 3% | 1,346 | 3% | 78 | 1% | –21 | 0% |
| LTL | 1,254 | 3% | 1,321 | 3% | 450 | 4% | 456 | 4% |
| LVL | 1,094 | 3% | 1,260 | 3% | 382 | 4% | 401 | 4% |
| KZT | 346 | 1% | 119 | 0% | –401 | –4% | –173 | –2% |
| EEK | – | – | 880 | 2% | – | – | 219 | 2% |
| Other | – | – | 3 | – | –5 | – | 38 | – |
| **Total** | **40,750** | **100%** | **40,164** | **100%** | **10,852** | **100%** | **10,284** | **100%** |

*Continued Note 3*

A five percent currency movement against the Swedish krona affects the Group's net sales and EBITDA on an annual basis by SEK 1,392 (1,394) million and SEK 385 (356) million.

Tele2's operating profit for the year was mainly affected by fluctuations in RUB and EUR, but also in KZT, LVL and LTL. Tele2's net sales and EBITDA for 2011 were affected by SEK –1,724 (–1,762) million and SEK –484 (–438) million in 2011, as opposed to if the exchange rates had not been changed at all during the year.

Tele2's net sales growth and increase in EBITDA was 7 and 10 percent, respectively, excluding exchange rate differences.

Exchange rate differences which arise in operations are reported in the income statements and totals to the following amounts.

| | 2011 | 2010 |
|---|---|---|
| Other operating income | 107 | 64 |
| Other operating expenses | –72 | –82 |
| Other financial items | –11 | 282 |
| **Total exchange rate differences in income statement** | **24** | **264** |

## NOTE 4 SEGMENTS

The segment reporting is based on country level. Services offered within the different segments are mobile, fixed broadband and fixed telephony. The segment grouping is in line with the internal reporting to the chief operating decision maker, which is Tele2's Leadership team (LT).

Segment Other mainly includes the parent company Tele2 AB, central functions, Procure IT Right and other minor operations.

Tele2 Sweden has been split into core operations and central group functions. Core operations are reported in segment Sweden and central functions are included in the segment Other. The core operations of

*Continued Note 4*

Tele2 Sweden comprise the commercial activities within Sweden, including the communications services of mobile, fixed telephony, fixed broadband, and domestic carrier business. The central functions of Tele2 Sweden comprise the activities which provide services for the benefit of Tele2 AB's shareholders, other Group companies (including the core operations of Sweden), and the sold entities. These services are provided for example from group wide departments such as group finance, legal, product development, sales & marketing, billing, information technology, international network, and international carrier.

| | 2011 | | | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Sweden | Norway | Russia | Estonia | Lithuania | Latvia | Croatia | Kazakh-stan | Nether-lands | Germany | Austria | Other | One-off items (Note 6) | Undistri-buted as well as internal elimination | Total |
| **INCOME STATEMENT** | | | | | | | | | | | | | | | |
| Net sales | | | | | | | | | | | | | | | |
| external | 12,398 | 3,245 | 11,463 | 839 | 1,254 | 1,094 | 1,301 | 346 | 5,823 | 1,096 | 1,377 | 514 | – | – | 40,750 |
| internal | 48 | 42 | – | 28 | 9 | 9 | – | – | 4 | – | – | 147 | – | –287 | – |
| **Net sales** | **12,446** | **3,287** | **11,463** | **867** | **1,263** | **1,103** | **1,301** | **346** | **5,827** | **1,096** | **1,377** | **661** | **–** | **–287** | **40,750** |
| Result from shares in associated companies and joint ventures | 9 | 7 | – | – | – | – | – | – | – | – | 1 | – | – | – | 17 |
| **Operating profit** | **2,054** | **–101** | **3,584** | **166** | **366** | **286** | **–42** | **–720** | **1,128** | **302** | **185** | **–236** | **–4** | **–** | **6,968** |
| Interest income | – | – | – | – | – | – | – | – | – | – | – | – | – | 77 | 77 |
| Interest costs | – | – | – | – | – | – | – | – | – | – | – | – | – | –485 | –485 |
| Other financial items | – | – | – | – | – | – | – | – | – | – | – | – | – | –191 | –191 |
| Tax on profit for the year | – | – | – | – | – | – | – | – | – | – | – | – | – | –1,465 | –1,465 |
| **NET PROFIT FROM CONTINUING OPERATIONS** | **2,054** | **–101** | **3,584** | **166** | **366** | **286** | **–42** | **–720** | **1,128** | **302** | **185** | **–236** | **–4** | **–2,064** | **4,904** |
| **OTHER INFORMATION** | | | | | | | | | | | | | | | |
| CAPEX | 485 | 158 | 2,010 | 83 | 114 | 91 | 102 | 902 | 454 | 39 | 71 | 584 | | – | 5,093 |
| **Non-cash-generating profit/loss items** | | | | | | | | | | | | | | | |
| Depreciation/amortization and impairments | –1,302 | –86 | –896 | –68 | –85 | –94 | –120 | –319 | –678 | –50 | –141 | –58 | | – | –3,897 |
| Sales of fixed assets and operations | –2 | – | –6 | 1 | 2 | – | – | –2 | –2 | – | –2 | –62 | – | – | –73 |

Net sales above does not include internal sales within each segment (country). Internal sales including sales within each segment are presented in Note 5.

| | Dec 31, 2011 | | | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Assets | 8,828 | 3,479 | 9,154 | 1,404 | 1,568 | 1,921 | 1,593 | 3,023 | 7,532 | 229 | 610 | 2,069 | | 5,099 | 46,509 |
| Liabilities | 2,862 | 1,101 | 1,613 | 92 | 219 | 148 | 471 | 457 | 1,298 | 219 | 388 | –120 | | 16,309 | 25,057 |

*Continued Note 4*

| | 2010 | | | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Sweden | Norway | Russia | Estonia | Lithuania | Latvia | Croatia | Kazakh-stan | Nether-lands | Germany | Austria | Other | One-off items (Note 6) | Undistri-buted as well as internal elimination | Total |
| **INCOME STATEMENT** | | | | | | | | | | | | | | | |
| Net sales | | | | | | | | | | | | | | | |
| external | 11,881 | 3,016 | 10,142 | 880 | 1,319 | 1,261 | 1,346 | 119 | 5,838 | 1,515 | 1,580 | 694 | 573 | – | 40,164 |
| internal | 69 | 23 | – | 51 | 11 | 9 | – | – | 5 | 0 | 0 | 226 | – | –394 | – |
| **Net sales** | **11,950** | **3,039** | **10,142** | **931** | **1,330** | **1,270** | **1,346** | **119** | **5,843** | **1,515** | **1,580** | **920** | **573** | **–394** | **40,164** |
| Result from shares in associated companies and joint ventures | 184 | –12 | – | – | – | – | – | – | – | –247 | 1 | – | – | – | –74 |
| **Operating profit** | **2,201** | **157** | **2,770** | **152** | **358** | **313** | **–134** | **–376** | **978** | **300** | **155** | **–170** | **384** | **–** | **7,088** |
| Interest income | – | – | – | – | – | – | – | – | – | – | – | – | – | 14 | 14 |
| Interest costs | – | – | – | – | – | – | – | – | – | – | – | – | – | –511 | –511 |
| Other financial items | – | – | – | – | – | – | – | – | – | – | – | – | – | 144 | 144 |
| Tax on profit for the year | – | – | – | – | – | – | – | – | – | – | – | – | – | –254 | –254 |
| **NET PROFIT FROM CONTINUING OPERATIONS** | **2,201** | **157** | **2,770** | **152** | **358** | **313** | **–134** | **–376** | **978** | **300** | **155** | **–170** | **384** | **–607** | **6,481** |
| **OTHER INFORMATION** | | | | | | | | | | | | | | | |
| CAPEX | 397 | 16 | 1,495 | 59 | 112 | 94 | 115 | 169 | 578 | 7 | 65 | 544 | | – | 3,651 |
| **Non-cash-generating profit/loss items** | | | | | | | | | | | | | | | |
| Depreciation/amortization and impairments | –1,128 | –27 | –803 | –67 | –97 | –85 | –113 | –203 | –757 | –57 | –174 | –115 | | – | –3,626 |
| Sales of fixed assets and operations | –2 | – | –10 | – | – | – | – | –4 | – | – | –2 | 7 | – | – | –11 |
| | Dec 31, 2010 | | | | | | | | | | | | | | |
| Assets | 8,565 | 643 | 8,429 | 1,356 | 1,469 | 1,882 | 1,631 | 2,381 | 7,792 | 420 | 582 | 1,870 | | 3,349 | 40,369 |
| Liabilities | 2,171 | 541 | 1,475 | 83 | 185 | 195 | 513 | 226 | 1,341 | 351 | 463 | 447 | | 3,503 | 11,494 |

## NOTE 5 NET SALES AND NUMBER OF CUSTOMERS

Net sales include internal sales within each segment (country) and to other segments. Internal sales excluding sales within each segment are presented in Note 4.

In 2010, net sales and cash flow in Germany increased by SEK 573 million due to a settlement with Deutsche Telekom regarding several legal disputes dated back to 2003 (e.g. regarding verbal ordering procedures). The positive effect has been reported as a one-off item.

In 2010, net sales in Estonia decreased by SEK 18 million due to the settlement of a court dispute regarding excessive mobile termination rates during the years 2006–2007.

Net sales from external customers are comprised of the following categories.

| | 2011 | 2010 |
|---|---|---|
| Service revenue | 38,442 | 38,524 |
| Sales of products | 2,308 | 1,640 |
| **Total net sales** | **40,750** | **40,164** |

In 2011, the number of customers increased by 566,000 through the acquisitions of mobile operation in Mobile Norway, as well as 11,000 fixed broadband customers from the acquisition of Silver Server in Austria. In addition, the number of customers was reduced by 44,000 through the divestment of the cable TV operation in Lithuania.

In 2011, number of customers in Russia and Croatia decreased by 96,000 and 60,000 customers, respectively, as a one-time adjustment, due to changes in IT systems.

In 2010, the number of customers increased by 372,000 through the acquisitions of the mobile operations in Kazakhstan and Spring in Sweden as well as the fixed broadband operation in BBned in the Netherlands.

*Continued Note 5*

## NET SALES

| | Note | Net sales 2011 | Net sales 2010 | Internal sales 2011 | Internal sales 2010 |
|---|---|---|---|---|---|
| **Sweden** | | | | | |
| Mobile | | 9,721 | 8,701 | 400 | 227 |
| Fixed broadband | | 1,544 | 1,531 | 14 | 14 |
| Fixed telephony | | 1,408 | 1,773 | – | – |
| Other operations | | 145 | 140 | 6 | 23 |
| | | **12,818** | **12,145** | **420** | **264** |
| **Norway** | | | | | |
| Mobile | | 2,939 | 2,618 | 32 | – |
| Fixed broadband | | 6 | 8 | – | – |
| Fixed telephony | | 365 | 413 | 42 | 23 |
| Other operations | | 9 | – | – | – |
| | | **3,319** | **3,039** | **74** | **23** |
| **Russia** | | | | | |
| Mobile | | 11,669 | 10,296 | 206 | 154 |
| | | **11,669** | **10,296** | **206** | **154** |
| **Estonia** | | | | | |
| Mobile | | 834 | 872 | – | – |
| Fixed telephony | | 5 | 8 | – | – |
| Other operations | | 28 | 51 | 28 | 51 |
| | | **867** | **931** | **28** | **51** |
| **Lithuania** | | | | | |
| Mobile | | 1,261 | 1,306 | 9 | 12 |
| Fixed broadband | | 2 | 24 | – | – |
| Fixed telephony | | – | 1 | – | – |
| | | **1,263** | **1,331** | **9** | **12** |
| **Latvia** | | | | | |
| Mobile | | 1,103 | 1,270 | 9 | 9 |
| | | **1,103** | **1,270** | **9** | **9** |
| **Croatia** | | | | | |
| Mobile | | 1,301 | 1,346 | – | – |
| | | **1,301** | **1,346** | **–** | **–** |
| **Kazakhstan** | | | | | |
| Mobile | | 346 | 119 | – | – |
| | | **346** | **119** | **–** | **–** |
| **Netherlands** | | | | | |
| Mobile | | 844 | 859 | – | – |
| Fixed broadband | | 3,396 | 3,340 | 8 | 12 |
| Fixed telephony | | 823 | 1,064 | – | – |
| Other operations | | 822 | 595 | 54 | 8 |
| | | **5,885** | **5,858** | **62** | **20** |
| **Germany** | | | | | |
| Mobile | | 26 | – | – | – |
| Fixed broadband | | 254 | 313 | – | – |
| Fixed telephony | | 802 | 1,132 | – | – |
| Other operations | | 14 | 70 | – | – |
| | | **1,096** | **1,515** | **–** | **–** |
| **Austria** | | | | | |
| Fixed broadband | | 842 | 930 | – | – |
| Fixed telephony | | 294 | 373 | – | – |
| Other operations | | 241 | 277 | – | – |
| | | **1,377** | **1,580** | **–** | **–** |
| **Other** | | | | | |
| Other operations | | 666 | 931 | 152 | 237 |
| | | **666** | **931** | **152** | **237** |
| **TOTAL** | | | | | |
| **Mobile** | | **30,044** | **27,387** | **656** | **402** |
| **Fixed broadband** | | **6,044** | **6,146** | **22** | **26** |
| **Fixed telephony** | | **3,697** | **4,764** | **42** | **23** |
| **Other operations** | | **1,925** | **2,064** | **240** | **319** |
| | | **41,710** | **40,361** | **960** | **770** |
| Internal sales, elimination | | –960 | –770 | | |
| | | **40,750** | **39,591** | | |
| One-off items | 6 | – | 573 | – | – |
| **TOTAL NET SALES AND INTERNAL SALES** | | **40,750** | **40,164** | **960** | **770** |

## NUMBER OF CUSTOMERS

| by thousands | Number of customers Dec 31, 2011 | Number of customers Dec 31, 2010 | Net customer intake 2011 | Net customer intake 2010 |
|---|---|---|---|---|
| **Sweden** | | | | |
| Mobile | 3,724 | 3,607 | 117 | 212 |
| Fixed broadband | 474 | 486 | –12 | 42 |
| Fixed telephony | 544 | 651 | –107 | –95 |
| | **4,742** | **4,744** | **–2** | **159** |
| **Norway** | | | | |
| Mobile | 1,066 | 497 | 3 | 31 |
| Fixed telephony | 92 | 103 | –11 | –17 |
| | **1,158** | **600** | **–8** | **14** |
| **Russia** | | | | |
| Mobile | 20,636 | 18,438 | 2,198 | 3,987 |
| | **20,636** | **18,438** | **2,198** | **3,987** |
| **Estonia** | | | | |
| Mobile | 490 | 468 | 22 | 21 |
| Fixed telephony | 8 | 11 | –3 | –2 |
| | **498** | **479** | **19** | **19** |
| **Lithuania** | | | | |
| Mobile | 1,721 | 1,685 | 36 | 77 |
| Fixed broadband | – | 44 | – | – |
| Fixed telephony | 2 | 2 | – | –1 |
| | **1,723** | **1,731** | **36** | **76** |
| **Latvia** | | | | |
| Mobile | 1,019 | 1,027 | –8 | –31 |
| Fixed telephony | – | – | – | –1 |
| | **1,019** | **1,027** | **–8** | **–32** |
| **Croatia** | | | | |
| Mobile | 710 | 738 | –28 | 140 |
| | **710** | **738** | **–28** | **140** |
| **Kazakhstan** | | | | |
| Mobile | 1,371 | 332 | 1,039 | 67 |
| | **1,371** | **332** | **1,039** | **67** |
| **Netherlands** | | | | |
| Mobile | 327 | 338 | –11 | –61 |
| Fixed broadband | 475 | 510 | –35 | 17 |
| Fixed telephony | 182 | 233 | –51 | –74 |
| | **984** | **1,081** | **–97** | **–118** |
| **Germany** | | | | |
| Mobile | 45 | – | 45 | – |
| Fixed telephony | 100 | 116 | –16 | –23 |
| Fixed telephony | 835 | 1,182 | –347 | –286 |
| | **980** | **1,298** | **–318** | **–309** |
| **Austria** | | | | |
| Fixed broadband | 134 | 130 | –7 | –4 |
| Fixed telephony | 231 | 285 | –54 | –67 |
| | **365** | **415** | **–61** | **–71** |
| **TOTAL** | | | | |
| **Mobile** | **31,109** | **27,130** | **3,413** | **4,443** |
| **Fixed broadband** | **1,183** | **1,286** | **–70** | **32** |
| **Fixed telephony** | **1,894** | **2,467** | **–573** | **–543** |
| **TOTAL NUMBER OF CUSTOMERS AND NET CUSTOMER INTAKE** | **34,186** | **30,883** | **2,770** | **3,932** |
| Acquired companies | | | 577 | 372 |
| Divested companies | | | –44 | – |
| **TOTAL NUMBER OF CUSTOMERS** | **34,186** | **30,883** | **3,303** | **4,304** |

## NOTE 6 EBITDA, EBIT AND DEPRECIATION/AMORTIZATION AND IMPAIRMENT

| | | EBITDA | | EBIT | |
|---|---|---|---|---|---|
| | Note | 2011 | 2010 | 2011 | 2010 |
| **Sweden** | | | | | |
| Mobile | | 2,842 | 2,803 | 1,984 | 2,137 |
| Fixed broadband | | 111 | 24 | –239 | –293 |
| Fixed telephony | | 348 | 416 | 301 | 376 |
| Other operations | | 46 | 29 | 8 | –19 |
| | | **3,347** | **3,272** | **2,054** | **2,201** |
| **Norway** | | | | | |
| Mobile | | –89 | 122 | –163 | 87 |
| Fixed broadband | | 3 | 10 | 3 | 10 |
| Fixed telephony | | 67 | 64 | 62 | 60 |
| Other operations | | –3 | – | –3 | – |
| | | **–22** | **196** | **–101** | **157** |
| **Russia** | | | | | |
| Mobile | | 4,480 | 3,573 | 3,584 | 2,770 |
| | | **4,480** | **3,573** | **3,584** | **2,770** |
| **Estonia** | | | | | |
| Mobile | | 234 | 218 | 166 | 151 |
| Other operations | | – | 1 | – | 1 |
| | | **234** | **219** | **166** | **152** |
| **Lithuania** | | | | | |
| Mobile | | 451 | 450 | 366 | 357 |
| Fixed broadband | | – | 5 | – | 1 |
| | | **451** | **455** | **366** | **358** |
| **Latvia** | | | | | |
| Mobile | | 380 | 398 | 286 | 313 |
| | | **380** | **398** | **286** | **313** |
| **Croatia** | | | | | |
| Mobile | | 78 | –21 | –42 | –134 |
| | | **78** | **–21** | **–42** | **–134** |
| **Kazakhstan** | | | | | |
| Mobile | | –401 | –173 | –720 | –376 |
| | | **–401** | **–173** | **–720** | **–376** |
| **Netherlands** | | | | | |
| Mobile | | 115 | 162 | 97 | 146 |
| Fixed broadband | | 1,131 | 1,037 | 630 | 436 |
| Fixed telephony | | 229 | 307 | 173 | 237 |
| Other operations | | 331 | 229 | 228 | 159 |
| | | **1,806** | **1,735** | **1,128** | **978** |
| **Germany** | | | | | |
| Mobile | | –10 | – | –15 | – |
| Fixed broadband | | 45 | –89 | 35 | –101 |
| Fixed telephony | | 317 | 449 | 282 | 404 |
| Other operations | | – | –3 | – | –3 |
| | | **352** | **357** | **302** | **300** |
| **Austria** | | | | | |
| Fixed broadband | | 185 | 144 | 106 | 46 |
| Fixed telephony | | 129 | 164 | 93 | 119 |
| Other operations | | 11 | 20 | –14 | –10 |
| | | **325** | **328** | **185** | **155** |
| **Other** | | | | | |
| Other operations | | –178 | –55 | –236 | –170 |
| | | **–178** | **–55** | **–236** | **–170** |
| **TOTAL** | | | | | |
| **Mobile** | | **8,080** | **7,532** | **5,543** | **5,451** |
| **Fixed broadband** | | **1,475** | **1,131** | **535** | **99** |
| **Fixed telephony** | | **1,090** | **1,400** | **911** | **1,196** |
| **Other operations** | | **207** | **221** | **–17** | **–42** |
| | | **10,852** | **10,284** | **6,972** | **6,704** |
| One-off items | 6 | | | –4 | 384 |
| **TOTAL EBITDA AND EBIT** | | **10,852** | **10,284** | **6,968** | **7,088** |

In 2011, Sweden was negatively affected by SEK 54 million in relation to future rental costs for mobile sites to be dismantled. The negative effect has been reported as a one-off item. In addition, Sweden was negatively affected by SEK 45 million due to restructuring costs, of which the main part is related to mobile. In 2011, other operating income in Sweden increased by SEK 139 million relating to compensations in connection with the transferring and disposal of assets related to the 4G net co-operation. The positive effect has been reported as a one-off item. In 2010, Sweden was negatively affected by SEK 51 million, due to the ruling from the Administrative Court of Appeal in June 2010 regarding price on whole and split copper cable. The negative effect has been reported as a one-off item.

In 2011, the mobile operation in Norway was negatively affected by SEK 52 million, due to restructuring costs in connection with the acquisition of Network Norway.

In 2011, Netherlands was negatively affected by SEK 48 million due to restructuring costs related to the acquisition of BBned in 2010. Due to telecom regulatory changes Netherlands was positively affected by SEK 79 million in 2010, mainly in the fixed broadband and fixed telephony business.

### DEPRECIATION/AMORTIZATION AND IMPAIRMENT
### By function

| | 2011 | 2010 |
|---|---|---|
| **Depreciation/amortization** | | |
| Cost of service sold | –3,207 | –3,095 |
| Selling expenses | –65 | –87 |
| Administrative expenses | –501 | –415 |
| **Total depreciation/amortization** | **–3,773** | **–3,597** |
| **Impairment** | | |
| Cost of service sold | –79 | –29 |
| Selling expenses | –11 | – |
| Administrative expenses | –34 | – |
| **Total impairment** | **–124** | **–29** |
| **TOTAL DEPRECIATION/AMORTIZATION AND IMPAIRMENT FOR THE YEAR** | **–3,897** | **–3,626** |

### By type of asset

| | 2011 | 2010 |
|---|---|---|
| **Depreciation/amortization** | | |
| Utilization rights and software | –455 | –287 |
| Licenses (frequency) | –285 | –218 |
| Customer agreements | –215 | –145 |
| Buildings | –14 | –16 |
| Machinery and technical plant | –2,590 | –2,717 |
| Equipment and installations | –214 | –214 |
| **Total depreciation/amortization** | **–3,773** | **–3,597** |
| **Impairment** | | |
| Utilization rights and software | –30 | –19 |
| Buildings | –4 | – |
| Machinery and technical plant | –79 | –10 |
| Equipment and installations | –11 | – |
| **Total impairment** | **–124** | **–29** |
| **TOTAL DEPRECIATION/AMORTIZATION AND IMPAIRMENT FOR THE YEAR** | **–3,897** | **–3,626** |

### Impairment losses

In 2011, Tele2 recognized impairment losses of SEK 124 million, mainly attributable to obsolete equipment in Kazakhstan of SEK 59 million and abandoned IT-development projects etc, mainly in Sweden, of SEK 65 million.

In 2010, Tele2 recognized impairment losses of SEK 29 million attributable to mobile business solution (IP Centrex) in Sweden and Netherlands. Additional information is presented in Note 14.

*Continued Note 6*

### SPECIFICATION OF ITEMS BETWEEN EBITDA AND EBIT

| | Note | 2011 | 2010 |
|---|---|---|---|
| **EBITDA** | | **10,852** | **10,284** |
| Sale of operations | 8, 9 | –43 | –2 |
| Acquisition costs | 16 | –46 | –16 |
| Sale of shares in joint venture | 7 | – | –247 |
| Other one-off items in result from shares in joint ventures | 7 | – | 127 |
| Other one-off items | 5, 6, 8 | 85 | 522 |
| **Total one-off items** | | **–4** | **384** |
| Depreciation/amortization and other impairment | | –3,897 | –3,626 |
| Result from shares in associated companies and joint ventures | 7 | 17 | 46 |
| **EBIT** | | **6,968** | **7,088** |

## NOTE 7 RESULT FROM SHARES IN ASSOCIATED COMPANIES AND JOINT VENTURES

| | 2011 | 2010 |
|---|---|---|
| Participation in profit/loss of associated companies and joint ventures | 17 | 143 |
| Amortization on surplus values | – | –1 |
| | **17** | **142** |
| Sale of shares in Plusnet | – | –247 |
| Gain from valuation of Spring Mobil to fair value | – | 31 |
| **Total result of shares in associated companies and joint ventures** | **17** | **–74** |

| | 2011 | | | |
|---|---|---|---|---|
| | Sv UMTS-nät, Sweden | Mobile Norway, Norway | Net4 Mobility, Sweden | Other |
| Profit/loss after taxes in associated companies and joint ventures | 22 | 14 | –2 | –1 |
| Holdings | 50% | 50% | 50% | 20%–50% |
| Share of profit/loss after tax | 11 | 7 | –1 | – |
| | **11** | **7** | **–1** | **–** |
| **Total result of shares in associated companies and joint ventures** | | | | **17** |

During 2011, Tele2 acquired the remaining 50 percent of the shares in the Norwegian company Mobile Norway. Consequently, Tele2 adjusted the previously held shares of 50 percent to fair value, as a result of the acquisition of additional shares. The revaluation did not result in any effect on the income statement. For additional information please refer to Note 16.

| | 2010 | | | | |
|---|---|---|---|---|---|
| | Sv UMTS-nät, Sweden | Plusnet, Germany | Mobile Norway, Norway | Net4 Mobility, Sweden | Other |
| Profit/loss after taxes in associated companies and joint ventures | 333 | –2 | –24 | –20 | –2 |
| Holdings | 50% | 32.5% | 50% | 50% | 9.1%–50% |
| Share of profit/loss after tax | 167 | – | –12 | –10 | –2 |
| Amortization on surplus values | – | – | – | – | –1 |
| Sale of shares | – | –247 | – | – | – |
| Valuation of shares to fair value | – | – | – | – | 31 |
| | **167** | **–247** | **–12** | **–10** | **28** |
| **Total result of shares in associated companies and joint ventures** | | | | | **–74** |

During 2010, Tele2 sold the shares in Plusnet. During 2010, Tele2 acquired the remaining 50 percent of the shares in the Swedish company Spring Mobil. Consequently Tele2 adjusted the previously held shares of 50 percent to fair value, as a result of the acquisition of additional shares, and reported the difference (a positive effect of SEK 31 million) in the income statement. During 2010, Svenska UMTS-nät recognized tax loss-carry forwards with a positive effect on the result in Tele2 of SEK 96 million.

*Continued Note 7*

### EXTRACTS FROM THE BALANCE SHEETS AND INCOME STATEMENTS OF ASSOCIATED COMPANIES AND JOINT VENTURES

| | 2011 | | | |
|---|---|---|---|---|
| | Sv UMTS-nät, Sweden | Mobile Norway, Norway | Net4 Mobility, Sweden | Other |
| **Income statement** | | | | |
| Net sales | 1,182 | 223 | 152 | 45 |
| Operating profit/loss | 139 | 46 | 13 | – |
| Profit/loss before tax | 30 | 20 | –2 | – |
| Net profit/loss | 22 | 14 | –2 | –1 |

| | Dec 31, 2011 | | |
|---|---|---|---|
| | Sv UMTS-nät, Sweden | Net4 Mobility, Sweden | Other |
| **Balance sheet** | | | |
| Tangible assets | 3,604 | 1,675 | 1 |
| Deferred tax assets | 181 | – | – |
| Current assets | 464 | 137 | 30 |
| **Total assets** | **4,249** | **1,812** | **31** |
| Shareholders' equity | 488 | 169 | 21 |
| Long-term liabilities | 3,360 | 976 | – |
| Short-term liabilities | 401 | 667 | 10 |
| **Total shareholders' equity and liabilities** | **4,249** | **1,812** | **31** |

| | 2010 | | | | |
|---|---|---|---|---|---|
| | Sv UMTS-nät, Sweden | Plusnet, Germany | Mobile Norway, Norway | Net4 Mobility, Sweden | Other |
| **Income statement** | | | | | |
| Net sales | 1,227 | 1,332 | 184 | 15 | 174 |
| Operating profit/loss | 177 | –4 | – | –20 | –1 |
| Profit/loss before tax | 142 | –4 | –24 | –20 | –3 |
| Net profit/loss | 333 | –2 | –24 | –20 | –2 |

| | Dec 31, 2010 | | | |
|---|---|---|---|---|
| | Sv UMTS-nät, Sweden | Mobile Norway, Norway | Net4 Mobility, Sweden | Other |
| **Balance sheet** | | | | |
| Intangible assets | – | 63 | – | – |
| Tangible assets | 3,795 | 635 | 195 | 1 |
| Deferred tax assets | 189 | – | – | – |
| Current assets | 412 | 77 | 28 | 23 |
| **Total assets** | **4,396** | **775** | **223** | **24** |
| Shareholders' equity | 1,216 | 36 | 22 | 15 |
| Long-term liabilities | – | 605 | – | – |
| Short-term liabilities | 3,180 | 134 | 201 | 9 |
| **Total shareholders' equity and liabilities** | **4,396** | **775** | **223** | **24** |

## NOTE 8 OTHER OPERATING INCOME

| | 2011 | 2010 |
|---|---|---|
| Compensations for the transfer and disposal of assets | 139 | – |
| Exchange rate gains from operations | 107 | 64 |
| Associated companies and joint ventures | 16 | 27 |
| Sale of fixed assets | 7 | 21 |
| Sale of Cable TV operation, KRT Lithuania | 4 | – |
| Service level agreements, for sold operations | 17 | 53 |
| Sale of capacity, for sold operations | – | 6 |
| Other income | 40 | 36 |
| **Total other operating income** | **330** | **207** |

In 2011, other operating income in Sweden increased by SEK 139 million relating to compensations in connection with the transferring and disposal of assets related to the 4G net co-operation. The positive effect has been reported as a one-off item.

## NOTE 9 OTHER OPERATING EXPENSES

| | 2011 | 2010 |
|---|---|---|
| Exchange rate loss from operations | –72 | –82 |
| Sale/scrapping of fixed assets | –38 | –30 |
| Sale of operation, Datametrix Outsourcing, Sweden | –40 | – |
| Sale of operation, Calling Card company | –6 | –1 |
| Sale of operation, 3C Communications | –1 | –1 |
| Service level agreements, for sold operations | –7 | –34 |
| Sale of capacity, for sold operations | – | –3 |
| Other expenses | –1 | –5 |
| **Total other operating expenses** | **–165** | **–156** |

## NOTE 10 INTEREST INCOME

| | 2011 | 2010 |
|---|---|---|
| Interest, bank balances | 16 | 8 |
| Interest, penalty interest | 13 | 9 |
| Interest, related to disputes with other operators | – | –6 |
| Interest, receivables on joint ventures | 48 | 3 |
| **Total interest income** | **77** | **14** |

All interest income is for financial assets reported at amortized cost. Interest income related to impaired financial assets, such as accounts receivable, are not significant.

## NOTE 11 INTEREST COSTS

| | 2011 | 2010 |
|---|---|---|
| Interest, financial institutions and similar liabilities | –363 | –264 |
| Interest, other interest-bearing liabilities | –69 | –44 |
| Interest, penalty interest | –9 | 6 |
| Interest, related to disputes | – | –43 |
| Upfront fee for early repayment of loan | – | –116 |
| Other finance expenses | –44 | –50 |
| **Total interest costs** | **–485** | **–511** |

In 2010, the USD 220 million bond issued on the US market was repaid, which resulted in a termination fee of SEK 116 million.

Interest cost from a dispute with TeliaSonera affected 2010 negatively by SEK 43 million.

All interest costs are for financial instruments, not valued at fair value through profit/loss.

## NOTE 12 OTHER FINANCIAL ITEMS

| | 2011 | 2010 |
|---|---|---|
| Exchange rate differences, external | –24 | 104 |
| Exchange rate differences, intragroup | 13 | 178 |
| Change in fair value, put option Kazakhstan | –159 | –128 |
| Change in fair value, shares in Modern Holding Inc | – | –7 |
| Other finance expenses | –21 | –3 |
| **Total other financial items** | **–191** | **144** |

For information regarding the put option Kazakhstan please refer to Note 2 and Note 26.

## NOTE 13 TAXES

### TAX EXPENSE/INCOME

| | 2011 | 2010 |
|---|---|---|
| Current tax expense, on profit/loss current year | –784 | –656 |
| Current tax expense, on profit/loss prior periods | – | 9 |
| Current tax expense | –784 | –647 |
| Deferred tax expense/income | –681 | 393 |
| **Total tax on profit for the year** | **–1,465** | **–254** |

### THEORETICAL TAX EXPENSE

The difference between recorded tax expense for the group and the tax expense based on prevailing tax rates in each country consists of the below listed components.

| | 2011 | | 2010 | |
|---|---|---|---|---|
| Profit before tax | 6,369 | | 6,735 | |
| **Tax expense/income** | | | | |
| Theoretic tax according to prevailing tax rate in each country | –1,549 | –24.3% | –1,621 | –24.1% |
| **TAX EFFECT OF** | | | | |
| Sales of shares in subsidiaries, non-taxable | 1 | 0.0% | 10 | 0.1% |
| Write-down of shares in group companies | 2 | 0.0% | – | – |
| Result from associated companies and joint ventures | 5 | 0.1% | 59 | 0.9% |
| Other non-deductible expenses/ non-taxable revenue | 56 | 0.9% | 56 | 0.8% |
| Valuation of tax assets relating to loss carry-forwards from previous years | 113 | 1.8% | 1,168 | 17.3% |
| Valuation of temporary differences relating to transactions from previous years | – | – | 132 | 2.0% |
| Adjustment due to changed tax rate | –9 | –0.1% | 14 | 0.2% |
| Adjustment of tax assets from previous years | 27 | 0.4% | 22 | 0.3% |
| Change of not valued loss-carry forwards | –111 | –1.7% | –94 | –1.4% |
| **Tax expense/income and effective tax rate for the year** | **–1,465** | **–23.0%** | **–254** | **–3.8%** |

In 2011, the tax espense was positively affected by SEK 108 million as a result of a valuation of deferred tax assets related to BBned in Netherlands, as well as negatively by SEK 9 million due to decreased tax rate in Netherlands. In addition, the tax espense was positively affected by a revaluation of the deferred tax assets in Netherlands of SEK 62 million, and negatively affected by SEK 35 million as a result of a reassessment of the deferred tax liability in Estonia.

In 2010, the tax espense was positively affected by SEK 1,168 million mainly as a result of a valuation of deferred tax assets related to holding companies in Luxembourg of SEK 885 million, Netherlands of SEK 108 million and Germany of SEK 175 million, as well as positively by SEK 14 million due to increased tax rate in Luxembourg.

Income tax regarding the settlement with Deutsche Telekom according to Note 5 affected the income statement negatively in 2010 with SEK 73 million.

The weighted average tax rate was 24.3 (24.1) percent. The increase on the previous year's figure was mainly due to countries with higher tax rate, such as Sweden, having a relative higher impact on the result than countries with lower tax rate, such as the Baltics.

*Continued Note 13*

### DEFERRED TAX ASSETS AND LIABILITIES

Deferred tax assets and liabilities are attributable to the following items.

| | Dec 31, 2011 | Dec 31, 2010 |
|---|---|---|
| **Deferred tax assets** | | |
| Unutilized loss carry-forwards | 5,305 | 5,544 |
| Tangible assets | 169 | 248 |
| Receivables | 12 | 8 |
| Liabilities | 202 | 119 |
| Pensions | 30 | – |
| Other | 5 | – |
| **Total deferred tax assets** | **5,723** | **5,919** |
| Netted against deferred liabilities | –2,837 | –2,719 |
| **Total deferred tax assets according to the balance sheet** | **2,886** | **3,200** |
| | | |
| **Deferred tax liabilities** | | |
| Intangible assets | –412 | –250 |
| Tangible assets | –940 | –863 |
| Other | –2,599 | –2,457 |
| **Total deferred tax liabilities** | **–3,951** | **–3,570** |
| Netted against deferred assets | 2,837 | 2,719 |
| **Total deferred tax liabilities according to the balance sheet** | **–1,114** | **–851** |
| | | |
| **TOTAL DEFERRED TAX ASSETS AND TAX LIABILITIES** | **1,772** | **2,349** |

The movement in deferred income tax assets and liabilities during the year is as follows.

| | Dec 31, 2011 | Dec 31, 2010 |
|---|---|---|
| Deferred tax assets/-liabilities as of January 1 | 2,349 | 3,771 |
| Reported in income statement | –681 | 393 |
| Reported in other comprehensive income | 67 | –1,516 |
| Acquired companies | 47 | – |
| Exchange rate differences | –10 | –299 |
| **Deferred tax assets/-liabilities as of December 31** | **1,772** | **2,349** |

### LOSS CARRY-FORWARDS

The group's total loss carry-forwards as of December 31, 2011 were 23,014 (24,003) million of which SEK 19,968 (20,932) million were recognized as a deferred tax asset and the remaining part, SEK 3,046 (3,071) million, were valued at zero. Of the total loss carry-forwards, SEK 1,224 (1,369) million expires in five years and the remaining part, SEK 21,790 (22,634) million, expires after five years or has no expiration date.

| | Dec 31, 2011 | Dec 31, 2010 |
|---|---|---|
| **Deferred tax assets** | | |
| Companies reported a profit this year and previous year | 2,310 | 1,697 |
| Companies reported a profit this year but a loss the previous year | 112 | 1,340 |
| Companies reported a loss this year | 464 | 163 |
| **Total deferred tax assets** | **2,886** | **3,200** |

Deferred tax assets were reported only for loss carry-forwards to the extent convincing evidence showed that loss carry-forwards can be utilized against future profits. Deferred tax assets concerning operations which reported losses in 2011 were mainly related to a few new regions in Russia, as well as a part of the operations in Norway. The new regions in Russia are within the next years expected to report profit due to the synergies deriving from the replication of our successful operational model in Russia. The operation in Norway is also expected to show profit within the next years as a result of the synergies expected from the acquisition of Network Norway.

Deferred tax assets concerning operations that showed losses last year but profit 2011, were related to last year's acquisition of BBned in Netherland, that this year has turned losses into profit.

## NOTE 14 INTANGIBLE ASSETS

| | | Dec 31, 2011 | | | | | |
|---|---|---|---|---|---|---|---|
| | Note | Utilization rights and software | Licenses (frequency) | Customer agreements | Total other intangible assets | Goodwill | Total |
| **Acquisition value** | | | | | | | |
| Acquisition value at January 1 | | 2,420 | 2,627 | 2,294 | 7,341 | 13,928 | 21,269 |
| Acquisition value in acquired companies | 16 | 164 | 58 | 883 | 1,105 | 581 | 1,686 |
| Acquisition value in divested companies | 16 | –29 | – | – | –29 | – | –29 |
| Investments | | 249 | 289 | – | 538 | – | 538 |
| Sales and scrapping | | –83 | – | – | –83 | – | –83 |
| Reclassification | | 890 | 31 | – | 921 | – | 921 |
| Exchange rate differences | | –37 | –21 | –37 | –95 | –103 | –198 |
| **Total acquisition value** | | **3,574** | **2,984** | **3,140** | **9,698** | **14,406** | **24,104** |
| | | | | | | | |
| **Accumulated amortization** | | | | | | | |
| Accumulated amortization at January 1 | | –1,313 | –713 | –1,810 | –3,836 | | –3,836 |
| Amortization in divested companies | 16 | 22 | – | – | 22 | | 22 |
| Amortization according to plan | | –455 | –285 | –215 | –955 | | –955 |
| Sales and scrapping | | 37 | – | – | 37 | | 37 |
| Exchange rate differences | | 13 | 10 | 6 | 29 | | 29 |
| **Total accumulated amortization** | | **–1,696** | **–988** | **–2,019** | **–4,703** | | **–4,703** |
| | | | | | | | |
| **Accumulated impairment** | | | | | | | |
| Accumulated impairment at January 1 | | –270 | – | –44 | –314 | –3,918 | –4,232 |
| Impairment | | –30 | – | – | –30 | – | –30 |
| Sales and scrapping | | 30 | – | – | 30 | – | 30 |
| Exchange rate differences | | – | – | – | – | 22 | 22 |
| **Total accumulated impairment** | | **–270** | **–** | **–44** | **–314** | **–3,896** | **–4,210** |
| | | | | | | | |
| **TOTAL INTANGIBLE ASSETS** | | **1,608** | **1,996** | **1,077** | **4,681** | **10,510** | **15,191** |

In 2011 Tele2 Kazakhstan acquired additional frequencies in the 2100 MHz band for SEK 218 million.

CAPEX per business area within each country is presented in Note 15.

| | Dec 31, 2010 | | | | | |
|---|---|---|---|---|---|---|
| | Utilization rights and software | Licenses (frequency) | Customer agreements | Total other intangible assets | Goodwill | Total |
| **Acquisition value** | | | | | | |
| Acquisition value at January 1 | 2,086 | 2,052 | 1,979 | 6,117 | 14,629 | 20,746 |
| Acquisition value in acquired companies | 46 | 591 | 568 | 1,205 | 980 | 2,185 |
| Investments | 241 | 54 | – | 295 | – | 295 |
| Sales and scrapping | –33 | –7 | – | –40 | – | –40 |
| Reclassification | 197 | 60 | – | 257 | – | 257 |
| Exchange rate differences | –117 | –123 | –253 | –493 | –1,681 | –2,174 |
| **Total acquisition value** | **2,420** | **2,627** | **2,294** | **7,341** | **13,928** | **21,269** |
| | | | | | | |
| **Accumulated amortization** | | | | | | |
| Accumulated amortization at January 1 | –1,131 | –543 | –1,906 | –3,580 | | –3,580 |
| Amortization according to plan | –287 | –218 | –145 | –650 | | –650 |
| Sales and scrapping | 32 | 3 | – | 35 | | 35 |
| Reclassification | –4 | – | – | –4 | | –4 |
| Exchange rate differences | 77 | 45 | 241 | 363 | | 363 |
| **Total accumulated amortization** | **–1,313** | **–713** | **–1,810** | **–3,836** | | **–3,836** |
| | | | | | | |
| **Accumulated impairment** | | | | | | |
| Accumulated impairment at January 1 | –252 | – | –51 | –303 | –4,450 | –4,753 |
| Impairment | –19 | – | – | –19 | – | –19 |
| Exchange rate differences | 1 | – | 7 | 8 | 532 | 540 |
| **Total accumulated impairment** | **–270** | **–** | **–44** | **–314** | **–3,918** | **–4,232** |
| | | | | | | |
| **TOTAL INTANGIBLE ASSETS** | **837** | **1,914** | **440** | **3,191** | **10,010** | **13,201** |

*Continued Note 14*

**GOODWILL**

In connection with the acquisition of operations, goodwill is allocated to the cash generating units that are expected to receive future financial benefits such as for example synergies as a result of the acquired operations. In the event that separate cash generating units cannot be identified, goodwill is allocated to the lowest level at which the operation and its assets are controlled and monitored internally.

| | Dec 31, 2011 | Dec 31, 2010 |
|---|---|---|
| Sweden | 1,100 | 1,081 |
| Norway | 537 | – |
| Russia | 813 | 842 |
| Estonia | 749 | 754 |
| Lithuania | 756 | 761 |
| Latvia | 1,088 | 1,079 |
| Croatia | 90 | 93 |
| Kazakhstan | 891 | 899 |
| Netherlands | 4,459 | 4,482 |
| Austria | 8 | – |
| Other | 19 | 19 |
| **Total goodwill** | **10,510** | **10,010** |

**Allocation of goodwill and test for goodwill impairment**

Tele2 tests goodwill for impairment annually by calculating the recoverable value for the cash-generating units to which goodwill items are allocated. The recoverable value of the respective cash generating unit is based on the higher of estimated value in use and fair value less costs to sell.

The most important criteria in the calculations of values in use are growth rates, profit margins, investments and discount rates. The expected revenue growth rate, profit margin and investments are based on sector data as well as management's assessment of market-specific risks and opportunities, including expected changes in competition, the business model used by Tele2 and the regulatory environment. Management's assessment of the range of revenues, profits and investments are limited to Tele2's current telecom licenses and assets. The discount rate takes into account the prevailing interest rates and specific risk factors in a particular cash-generating unit. The discount rate before tax varies between 10 and 23 (10 and 20) percent.

Tele2 calculates future cash flows based on the most recently approved three-year (three-year) plan. In one case we extend the business case an additional seven (two to six) years until the forecasted cash flow growth is considered more stable. For the period after this, annual growth of –2 to 1 (–2 to 1) percent is assumed for mobile operations and –3 (–5) percent annual decline for fixed line operations. These rates do not exceed the average long-term growth for the sector as a whole nor do they exceed the expected long term GDP growth rates in the markets.

**Changes to important assumptions**

Tele2 assesses that reasonable possible changes in the major assumptions should not have such significant effects that they individually would reduce the value in use to a value that is lower than the carrying value on the cash generating units.

The value in use calculation is based on the following assumptions per country.

| | WACC pre tax | Forecast period | Growth rate after the forecast period |
|---|---|---|---|
| Sweden | 10% | 3 years | –2% |
| Russia | 18% | 3 years | –1% |
| Estonia | 12% | 3 years | 1% |
| Lithuania | 13% | 3 years | 1% |
| Latvia | 12% | 3 years | 1% |
| Croatia | 14% | 3 years | 1% |
| Kazakhstan | 23% | 10 years | 0% |
| Netherlands | 10% | 3 years | –3% |

Goodwill allocated to Norway and Austria originate from the acquisitions of Network Norway and Silver Server, see Note 16. Since the acquisitions were made at the end of the year, the recoverable amounts were based on fair value equivalent to the purchase price for each acquisition.

**OTHER FIXED ASSETS**

**Impairment test of other fixed assets**

In 2011, Tele2 recognized impairment losses of SEK 124 million, mainly attributable to obsolete equipment in Kazakhstan of SEK 59 million and abandoned IT-development projects etc, mainly in Sweden, of SEK 65 million. No need for impairment was identified during 2011 related to other fixed assets. For additional information please refer to Note 6.

## NOTE 15 TANGIBLE ASSETS

| Dec 31, 2011 | Note | Buildings | Equipment and installations | Construction in progress | Total other tangible assets | Machinery and technical plant | *of which finance leases* | Total |
|---|---|---|---|---|---|---|---|---|
| **Acquisition value** | | | | | | | | |
| Acquisition value at January 1 | | 229 | 1,807 | 1,873 | 3,909 | 31,894 | *613* | 35,803 |
| Acquisition value in acquired companies | | – | 18 | 304 | 322 | 619 | *17* | 941 |
| Acquisition value in divested companies | 16 | – | –139 | – | –139 | –65 | – | –204 |
| Investments | | 4 | 104 | 3,702 | 3,810 | 745 | *73* | 4,555 |
| Sales and scrapping | | –6 | –101 | –17 | –124 | –1,394 | *–1* | –1,518 |
| Reclassification | | 6 | 172 | –3,438 | –3,260 | 2,339 | – | –921 |
| Exchange rate differences | | – | –17 | –24 | –41 | –326 | *–3* | –367 |
| **Total acquisition value** | | **233** | **1,844** | **2,400** | **4,477** | **33,812** | ***699*** | **38,289** |
| **Accumulated depreciation** | | | | | | | | |
| Accumulated amortization at January 1 | | –128 | –1,431 | | –1,559 | –18,741 | *–380* | –20,300 |
| Amortization in divested companies | 16 | – | 120 | | 120 | 31 | – | 151 |
| Amortization according to plan | | –14 | –214 | | –228 | –2,590 | *–38* | –2,818 |
| Sales and scrapping | | 6 | 79 | | 85 | 1,146 | – | 1,231 |
| Reclassification | | – | 2 | | 2 | –2 | – | – |
| Exchange rate differences | | 1 | 12 | | 13 | 109 | *1* | 122 |
| **Total accumulated depreciation** | | **–135** | **–1,432** | | **–1,567** | **–20,047** | ***–417*** | **–21,614** |
| **Accumulated impairment** | | | | | | | | |
| Accumulated impairment at January 1 | | – | – | | – | –373 | – | –373 |
| Impairment | | –4 | –11 | | –15 | –79 | – | –94 |
| Sales and scrapping | | – | 11 | | 11 | 17 | – | 28 |
| Exchange rate differences | | – | – | | – | –3 | – | –3 |
| **Total accumulated impairment** | | **–4** | **–** | | **–4** | **–438** | **–** | **–442** |
| **TOTAL TANGIBLE ASSETS** | | **94** | **412** | **2,400** | **2,906** | **13,327** | ***282*** | **16,233** |

Machinery and technical plant in Kazakhstan of SEK 176 (197) million is pledged for loan in Kazakhstan according to Note 26.
Finance leases relate to the expansion of transmission capacity in Sweden, Russia and Austria.

| Dec 31, 2010 | Buildings | Equipment and installations | Construction in progress | Total other tangible assets | Machinery and technical plant | *of which finance leases* | Total |
|---|---|---|---|---|---|---|---|
| **Acquisition value** | | | | | | | |
| Acquisition value at January 1 | 222 | 1,766 | 1,553 | 3,541 | 31,505 | *668* | 35,046 |
| Acquisition value in acquired companies | 8 | 99 | 160 | 267 | 592 | – | 859 |
| Investments | 13 | 57 | 2,809 | 2,879 | 477 | – | 3,356 |
| Sales and scrapping | –3 | –53 | –16 | –72 | –837 | *–21* | –909 |
| Reclassification | 18 | 92 | –2,529 | –2,419 | 2,162 | – | –257 |
| Exchange rate differences | –29 | –154 | –104 | –287 | –2,005 | *–34* | –2,292 |
| **Total acquisition value** | **229** | **1,807** | **1,873** | **3,909** | **31,894** | ***613*** | **35,803** |
| **Accumulated depreciation** | | | | | | | |
| Accumulated amortization at January 1 | –130 | –1,403 | | –1,533 | –17,790 | *–378* | –19,323 |
| Amortization according to plan | –16 | –214 | | –230 | –2,717 | *–39* | –2,947 |
| Sales and scrapping | 3 | 52 | | 55 | 815 | *15* | 870 |
| Reclassification | –2 | 14 | | 12 | –8 | – | 4 |
| Exchange rate differences | 17 | 120 | | 137 | 959 | *22* | 1,096 |
| **Total accumulated depreciation** | **–128** | **–1,431** | | **–1,559** | **–18,741** | ***–380*** | **–20,300** |
| **Accumulated impairment** | | | | | | | |
| Accumulated impairment at January 1 | – | – | | – | –379 | – | –379 |
| Impairment | – | – | | – | –10 | – | –10 |
| Exchange rate differences | – | – | | – | 16 | – | 16 |
| **Total accumulated impairment** | **–** | **–** | | **–** | **–373** | **–** | **–373** |
| **TOTAL TANGIBLE ASSETS** | **101** | **376** | **1,873** | **2,350** | **12,780** | ***233*** | **15,130** |

*Continued Note 15*

### CAPEX

| | Dec 31, 2011 | Dec 31, 2010 |
|---|---|---|
| Intangible assets | 538 | 295 |
| Tangible assets | 4,555 | 3,356 |
| **Total CAPEX according to balance sheet** | **5,093** | **3,651** |

The difference between CAPEX in the balance sheet (below) and paid CAPEX in the cash flow statement is presented in Note 31.

| | CAPEX | |
|---|---|---|
| | Dec 31, 2011 | Dec 31, 2010 |
| **Sweden** | | |
| Mobile | 214 | 158 |
| Fixed broadband | 245 | 210 |
| Fixed telephony | 2 | 14 |
| Other operations | 24 | 15 |
| | **485** | **397** |
| **Norway** | | |
| Mobile | 152 | 14 |
| Fixed telephony | 6 | 2 |
| | **158** | **16** |
| **Russia** | | |
| Mobile | 2,010 | 1,495 |
| | **2,010** | **1,495** |
| **Estonia** | | |
| Mobile | 83 | 59 |
| | **83** | **59** |
| **Lithuania** | | |
| Mobile | 114 | 110 |
| Fixed broadband | – | 2 |
| | **114** | **112** |
| **Latvia** | | |
| Mobile | 91 | 94 |
| | **91** | **94** |
| **Croatia** | | |
| Mobile | 102 | 115 |
| | **102** | **115** |
| **Kazakhstan** | | |
| Mobile | 902 | 169 |
| | **902** | **169** |
| **Netherlands** | | |
| Mobile | 9 | 9 |
| Fixed broadband | 360 | 472 |
| Fixed telephony | 41 | 55 |
| Other operations | 44 | 42 |
| | **454** | **578** |
| **Germany** | | |
| Mobile | 38 | – |
| Fixed broadband | 1 | 4 |
| Fixed telephony | – | 3 |
| | **39** | **7** |
| **Austria** | | |
| Fixed broadband | 37 | 34 |
| Fixed telephony | 21 | 20 |
| Other operations | 13 | 11 |
| | **71** | **65** |
| **Other** | | |
| Other operations | 584 | 544 |
| | **584** | **544** |
| **TOTAL** | | |
| **Mobile** | **3,715** | **2,223** |
| **Fixed broadband** | **643** | **722** |
| **Fixed telephony** | **70** | **94** |
| **Other operations** | **665** | **612** |
| **TOTAL CAPEX ACCORDING TO BALANCE SHEET** | **5,093** | **3,651** |

## NOTE 16 ACQUISITIONS AND DIVESTMENTS

Acquisitions and divestments of shares and participations affecting cash flow refer to the following.

| | 2011 | 2010 |
|---|---|---|
| **ACQUISITIONS** | | |
| Silver Server, Austria | –97 | – |
| Network Norway | –1,441 | – |
| Connect Data Solutions, Netherlands | –37 | – |
| BBned, Netherlands | – | –471 |
| Spring Mobil, Sweden | – | –67 |
| Kazakhstan | – | –534 |
| Rostov, Russia | – | –274 |
| Izhevsk, Russia | – | –25 |
| **Group companies** | **–1,575** | **–1,371** |
| | | |
| Capital contribution to joint venture companies | –17 | –139 |
| Dividend from joint venture company | 375 | – |
| **Associated companies/joint ventures and other securities** | **358** | **–139** |
| **Total net of acquisitions and dividend** | **–1,217** | **–1,510** |
| | | |
| **DIVESTMENTS** | | |
| Datametrix Outsourcing, Sweden | –7 | – |
| KRT, Lithuania | 34 | – |
| Settlements of previous years' discontinued operations | 3 | 323 |
| Settlements of previous years' other divestments | –16 | 1 |
| **Group companies** | **14** | **324** |
| | | |
| Plusnet, joint venture in Germany | –6 | –271 |
| **Associated companies/joint ventures and other securities** | **–6** | **–271** |
| **Total divestments** | **8** | **53** |
| | | |
| **CASH FLOW EFFECT** | **–1,209** | **–1,457** |

### ACQUISITIONS

#### Silver Server, Austria

On December 22, 2011 Tele2 acquired 100 percent of the Austrian internet service provider Silver Server for SEK 100 million.

Silver Server is a provider of internet services, which specializes in serving B2B customers. The company operates a fiber-based network with focus on Vienna and upper Austria. The acquisition of Silver Server will give Tele2 Austria a stronger presence in the B2B market, and reinforce its position as Austria's leading alternative telecom provider.

Goodwill in connection with the acquisition is related to Tele2's expectation that Silver Server will strengthen Tele2's position in the Austrian market by increasing Tele2's overall market share and profitability in the B2B segment. Tele2 will benefit from the synergies that exist between Tele2 and Silver Server given the similarity between Silver Server's and Tele2's operations. Tele2's expectation is that the transaction will contribute positively to the group's growth opportunities.

Total acquisition costs of SEK 4 million have been reported in the income statement.

*Continued Note 16*

**Network Norway**

On October 3, 2011 Tele2 acquired 99.85 percent of the Norwegian mobile operator Network Norway and later during the month the remaining 0.15 percent was acquired. The 100 percent Tele2 now owns was acquired for SEK 1,637 million.

Network Norway is Tele2's 50/50 joint venture partner in Mobile Norway, the company established to roll out the third mobile network in Norway and which operates 900 MHz and 2100 MHz licenses in the country. The acquisition of Network Norway makes Tele2 the number three mobile operator in the Norwegian telecom market with more than 1 million customers and gives the operational leverage that is needed to complete Norway's third mobile network.

For Tele2 it was necessary to consolidate the Norwegian operations to reach sustainable profitability. Goodwill is related to economies of scale in the fields of sales, marketing, customer service and administration.

Total acquisition costs of SEK 28 million have been reported in the income statement.

**Connect Data Solutions, Netherlands**

On June 1, 2011 Tele2 acquired 100 percent of the Dutch operator Connect Data Solutions (CDS) for SEK 42 million.

CDS is an independent network service provider of integrated data communications (VPN), IP-telephony, internet and co-location services. CDS provides advice, implementation and management of these services, with a focus on the SME segment. CDS operates under the brand Connect.

Goodwill in connection with the acquisition is related to Tele2's expectation that CDS will strengthen Tele2's position in the Dutch market and help improve Tele2's distribution capabilities in the SME segment. Tele2 will benefit from the synergies that exist between Tele2 and CDS given the similarity between CDS's and Tele2's operations. Tele2's expectation is that the transaction will contribute positively to the group's growth opportunities.

Total acquisition costs of SEK 1 million have been reported in the income statement.

**Acquisition after closing date**

Tele2 announced on January 16, 2012 that Tele2 Estonia acquired the telecommunication service provider Televõrgu AS. The acquisition was approved by the Estonian Completion Authority in February 2012. Tele2 will pay in cash approximately SEK 225 million on a cash and debt free basis. The acquisition will give Tele2 Estonia a stronger presence towards business customers in the Estonian market, and full control over its transmission network until 2025.

**Previous year acquisitions**

In 2010, Tele2 acquired the remaining 50 percent of the shares in the Swedish company Spring Mobil. In 2011, Tele2 obtained new information about facts and circumstances that existed as of the acquisition date relating to the losses carried forward in Spring Mobil. The effect of the new information resulted in a decrease of the deferred tax asset and an increase of goodwill in the purchase price allocation of SEK 19 million.

In 2010, Tele2 acquired 51 percent of the mobile operator NEO in Kazakhstan, where Tele2 committed to a capital injection of SEK 360 million. In 2011, SEK 108 (251) million were paid by Tele2 and SEK 105 (241) million by the minority owner. Total acquisition costs for Tele2 Kazakhstan of SEK 48 million were reported in the income statement, whereof SEK 29 million were reported in 2009, SEK 6 million in 2010 and SEK 13 million in 2011.

**Net assets at the time of acquisition**

Fair value of assets, liabilities and contingent liabilities included in the operations acquired before December 31, 2011, are stated below:

| | Silver Server, Austria | Network Norway, Norway | Connect Data Solutions, Netherlands | Total |
|---|---|---|---|---|
| Customer agreements | 96 | 745 | 42 | 883 |
| Software | 1 | 98 | – | 99 |
| Licenses | – | 60 | – | 60 |
| Trademarks | – | 68 | – | 68 |
| Tangible assets | 38 | 918 | 5 | 961 |
| Financial assets | – | 142 | – | 142 |
| Deferred tax assets | 2 | 306 | – | 308 |
| Materials and supplies | – | 2 | – | 2 |
| Current receivables | 4 | 407 | 4 | 415 |
| Restricted cash | – | 5 | – | 5 |
| Cash and cash equivalents | 1 | 196 | 5 | 202 |
| Long-term liabilities | –5 | –989 | – | –994 |
| Deferred tax liabilities | –24 | –202 | –11 | –237 |
| Short-term liabilities | –22 | –808 | –9 | –839 |
| **Acquired net assets** | **91** | **948** | **36** | **1,075** |
| | | | | |
| Goodwill | 9 | 553 | 6 | 568 |
| Fair value of equity interest at acquisition | – | –174 | – | –174 |
| **Purchase price shares** | **100** | **1,327** | **42** | **1,469** |
| Payment of debts in acquired companies | – | 310 | – | 310 |
| Purchase price not yet paid | –3 | – | – | –3 |
| | **97** | **1,637** | **42** | **1,776** |
| Exchange rate differences | 1 | – | – | 1 |
| Less: cash in acquired companies | –1 | –196 | –5 | –202 |
| **NETEFFECT ON GROUP CASH ASSETS** | **97** | **1,441** | **37** | **1,575** |

The information above and pro forma below are to be viewed as preliminary.

**DIVESTMENTS**

**Datametrix Outsourcing, Sweden**

On March 27, 2011 Tele2 signed an agreement for the sale of its IT outsourcing operation in Sweden. The sale was completed in April, 2011 and resulted in a capital loss of SEK 40 million. The operation affected Tele2's net sales 2011 by SEK 34 (147) million, and EBITDA 2011 by SEK 4 (33) million.

**KRT, Lithuania**

On December 15, 2010 Tele2 sold its cable TV operation in Lithuania for SEK 41 million. The sale was approved by the regulatory authorities on February 3, 2011 with a capital gain of SEK 4 million, of which SEK 2 million were related to reversed exchange rate differences which previously were reported directly in equity. The operation affected Tele2's net sales 2011 by SEK 2 (17) million, and EBITDA 2011 by SEK – (3) million.

**Other divestments**

Other cash flow changes include settlements of price adjustments and disputes in the amount of SEK 22 million for divestments which have not been classified as discontinued operations.

*Continued Note 16*

### Net assets at the time of divestment

Assets, liabilities and contingent liabilities included in the divested operations at the time of divestment are stated below:

| | Datametrix Outsourcing, Sweden | KRT, Lithuania | Total |
|---|---|---|---|
| Intangible assets | 8 | – | 8 |
| Tangible assets | 23 | 34 | 57 |
| Material and supplies | – | 1 | 1 |
| Current receivables | – | 1 | 1 |
| Cash and cash equivalents | – | 5 | 5 |
| Exchange rate difference | – | –2 | –2 |
| Short-term liabilities | –1 | –4 | –5 |
| **Divested net assets** | **30** | **35** | **65** |
| | | | |
| Capital gain/loss | –40 | 4 | –36 |
| **Purchase price shares** | **–10** | **39** | **29** |
| | | | |
| Sales costs etc, unpaid | 3 | – | 3 |
| Less: cash in divested operations | – | –5 | –5 |
| **TOTAL CASH FLOW EFFECT** | **–7** | **34** | **27** |

### Discontinued operations

Please refer to Note 37 for information.

### PRO FORMA

The table below shows how the acquired and divested companies and operations on December 31, 2011 should have affected Tele2's net sales and result if they had been acquired or divested at January 1, 2011.

| | 2011 | | | | | | |
|---|---|---|---|---|---|---|---|
| | | Acquired and divested operations | | | | | |
| | Tele2 Group[1] | Silver S, Austria | Network Norway, Norway | CDS, Netherlands | Datam Outs, Sweden | KRT, Lithuania | Tele2 Group, pro forma |
| Net sales | 40,750 | 12 | 1,731 | 21 | –34 | –2 | 42,478 |
| EBITDA | 10,852 | – | 158 | – | –4 | – | 11,006 |
| Net profit | 4,904 | –2 | –9 | –1 | 42 | – | 4,934 |

[1] continued operations.

## NOTE 17 SHARES IN ASSOCIATED COMPANIES AND JOINT VENTURES

| Company | Holding (capital/votes) | Dec 31, 2011 | Dec 31, 2010 |
|---|---|---|---|
| **Joint ventures** | | | |
| Svenska UMTS-nät AB, Sweden | 50% | 244 | 609 |
| Mobile Norway AS, Norway | | – | 162 |
| Net4Mobility HB, Sweden | 50% | 84 | 11 |
| 4T Sverige AB, Sweden | 25% | 2 | – |
| | | | |
| **Associated companies** | | | |
| SNPAC Swedish Nr Portability Adm.Centre AB, Sweden | 20% | 3 | 3 |
| GH Giga Hertz HB as well as 15 other trading companies with licenses, Sweden | 33.3% | 3 | 3 |
| **Total shares in associated companies and joint ventures** | | **336** | **788** |

| | Dec 31, 2011 | Dec 31, 2010 |
|---|---|---|
| **Acquisition value** | | |
| Acquisition value at January 1 | 1,131 | 1,441 |
| Investments | 77 | 125 |
| Reclassifications due to obtained control | –169 | –14 |
| Dividend | –375 | – |
| Share of profit/loss for the year | 17 | 142 |
| Amortization | – | –3 |
| Divestments | –343 | –465 |
| Change of deferred tax liabilities | – | 2 |
| Change of provisions | –1 | –1 |
| Exchange rate differences | –1 | –96 |
| **Total acquisition value** | **336** | **1,131** |
| | | |
| **Impairment** | | |
| Accumulated impairment at January 1 | –343 | –890 |
| Divestments | 343 | 465 |
| Exchange rate differences | – | 82 |
| **Total accumulated impairment** | **–** | **–343** |
| | | |
| **TOTAL SHARES IN ASSOCIATED COMPANIES AND JOINT VENTURES** | **336** | **788** |

None of the associated companies and joint ventures are listed on stock exchanges. Information regarding commitments please see Note 30.

### Svenska UMTS-nät AB, Sweden

Tele2 is one of two turnkey contractors which plan, expand and operate the joint venture Svenska UMTS-nät AB's 3G network. Tele2 and TeliaSonera each own 50 percent and both companies have contributed capital to the 3G company. In addition to this, the build-out has owner financing. Tele2 and TeliaSonera are technically MVNO's with the 3G company and hence act as capacity purchasers. The size of the fee is based on used capacity.

### Net4Mobility, Sweden

Net4Mobility is an infrastructure joint venture between Tele2 Sweden and Telenor Sweden, where each party owns 50 percent. The company's mission is to build and operate Sweden's most extensive network for next generation mobile communications, 4G. The new mobile network will enable Tele2 and Telenor to offer their customers mobile services for data communications (LTE/4G) and voice (GSM).

### Mobile Norway, Norway

During 2011 Tele2 acquired the remaining shares in Mobile Norway and obtained control of the company, and from October 3, 2011, the company is reported as a subsidiary.

*Continued Note 17*

### GROUP SURPLUS VALUES AND SHARE OF SHAREHOLDERS' EQUITY IN ASSOCIATED COMPANY AND JOINT VENTURE

| Dec 31, 2011 | Sv UMTS-nät, Sweden | Mobile Norway, Norway | Net4 Mobility, Sweden | Other |
|---|---|---|---|---|
| **SURPLUS VALUE** | | | | |
| **Acquisition value** | | | | |
| Acquisition value at January 1 | – | 144 | – | – |
| Reclassifications due to obtained control | – | –144 | – | – |
| **TOTAL SURPLUS VALUE** | **–** | **–** | **–** | **–** |
| **PROVISIONS** | | | | |
| Total provisions at January 1 | 1 | – | – | – |
| Change of provisions | –1 | – | – | – |
| **TOTAL PROVISIONS** | **–** | **–** | **–** | **–** |
| **SHARE OF SHAREHOLDERS' EQUITY** | | | | |
| Share of shareholders' equity at January 1 | 608 | 18 | 11 | 6 |
| Acquired companies opening balance | – | – | – | 2 |
| Share of capital contribution and new issues | – | – | 75 | – |
| Dividend | –375 | – | – | – |
| Share of profit/loss for the year | 11 | 7 | –1 | – |
| Reclassifications due to obtained control | – | –25 | – | – |
| Exchange rate differences | – | – | –1 | – |
| **TOTAL SHARE OF SHAREHOLDERS' EQUITY** | **244** | **–** | **84** | **8** |
| | **244** | **–** | **84** | **8** |
| **TOTAL SHARES IN ASSOCIATED COMPANIES AND JOINT VENTURES** | | | | **336** |

Surplus value in associated companies and joint ventures relates to goodwill. Provisions related to financial guarantees for loans.

| Dec 31, 2010 | Sv UMTS-nät, Sweden | Plusnet, Germany | Mobile Norway, Norway | Net4 Mobility, Sweden | Other |
|---|---|---|---|---|---|
| **SURPLUS VALUE** | | | | | |
| **Acquisition value** | | | | | |
| Acquisition value at January 1 | – | 470 | 155 | – | 29 |
| Divestments | – | –409 | – | – | – |
| Reclassifications due to obtained control | – | – | – | – | –29 |
| Exchange rate differences | – | –61 | –11 | – | – |
| **Total acquisition value** | **–** | **–** | **144** | **–** | **–** |
| **Accumulated amortization** | | | | | |
| Accumulated amortization at January 1 | – | –146 | – | – | –13 |
| Amortization | – | – | – | – | –3 |
| Divestments | – | 127 | – | – | – |
| Reclassifications due to obtained control | – | – | – | – | 16 |
| Exchange rate differences | – | 19 | – | – | – |
| **Total accumulated amortization** | **–** | **–** | **–** | **–** | **–** |
| **Accumulated impairment** | | | | | |
| Accumulated impairment at January 1 | – | –324 | – | – | – |
| Divestments | – | 282 | – | – | – |
| Exchange rate differences | – | 42 | – | – | – |
| **Total accumulated impairment** | **–** | **–** | **–** | **–** | **–** |
| **TOTAL SURPLUS VALUE** | **–** | **–** | **144** | **–** | **–** |
| **DEFERRED TAX LIABILITY** | | | | | |
| Deferred tax liability at January 1 | – | – | – | – | –6 |
| Reclassifications due to obtained control | – | – | – | – | 4 |
| Change of deferred tax liabilities | – | – | – | – | 2 |
| **TOTAL DEFERRED TAX LIABILITIES** | **–** | **–** | **–** | **–** | **–** |
| **PROVISIONS** | | | | | |
| Total provisions at January 1 | 2 | – | – | – | – |
| Change of provisions | –1 | – | – | – | – |
| **TOTAL PROVISIONS** | **1** | **–** | **–** | **–** | **–** |
| **SHARE OF SHAREHOLDERS' EQUITY** | | | | | |
| Share of shareholders' equity at January 1 | 316 | – | 32 | 21 | 15 |
| Share of capital contribution and new issues | 125 | – | – | – | – |
| Share of profit/loss for the year | 167 | – | –12 | –10 | –3 |
| Reclassifications due to obtained control | – | – | – | – | –5 |
| Exchange rate differences | – | – | –2 | – | –1 |
| **TOTAL SHARE OF SHAREHOLDERS' EQUITY** | **608** | **–** | **18** | **11** | **6** |
| | **609** | **–** | **162** | **11** | **6** |
| **TOTAL SHARES IN ASSOCIATED COMPANIES AND JOINT VENTURES** | | | | | **788** |

## NOTE 18 RECEIVABLES FROM JOINT VENTURES

| | Dec 31, 2011 | Dec 31, 2010 |
|---|---|---|
| Receivable from Svenska UMTS-nät, Sweden | 1,703 | 200 |
| Receivable from Mobile Norway, Norway | – | 86 |
| Receivable from Net4Mobility, Sweden | 496 | – |
| **Total receivables from associated companies and joint ventures** | **2,199** | **286** |

| | Dec 31, 2011 | Dec 31, 2010 |
|---|---|---|
| Acquisition value at January 1 | 286 | 18 |
| Lending | 2,004 | 200 |
| Reclassification | –91 | 68 |
| **Total receivables from associated companies and joint ventures** | **2,199** | **286** |

## NOTE 19 OTHER FINANCIAL ASSETS

| | Dec 31, 2011 | Dec 31, 2010 |
|---|---|---|
| VAT receivable, Kazakhstan | 72 | 47 |
| Restricted bankdeposits | 37 | – |
| Pension funds | 23 | 1 |
| Other long-term holdings of securities | 18 | 17 |
| Other receivables | 7 | 2 |
| **Total other financial assets** | **157** | **67** |

Other long-term securities consist of shares in the companies listed below.

| Company | Holding (capital/votes) | Dec 31, 2011 | Dec 31, 2010 |
|---|---|---|---|
| Modern Holdings Inc, US | 11.88% | 11 | 11 |
| OJSC Aero-Space Telecommunications, Russia | 1% | 5 | 5 |
| Radio National Skellefteå AB, Sweden | 5.5% | 1 | 1 |
| Telering AS, Norway | 10% | 1 | – |
| **Total other long-term securities** | | **18** | **17** |

## NOTE 20 MATERIALS AND SUPPLIES

| | Dec 31, 2011 | Dec 31, 2010 |
|---|---|---|
| Finished products & goods for resale | 452 | 248 |
| Other | 34 | 25 |
| **Total material and supplies** | **486** | **273** |

Tele2's materials and supplies are mainly telephones, SIM cards, modems held for sale and set-top boxes for cable TV. In 2011 material and supplies was expensed by SEK 2,088 (1,283) million, of which SEK 31 (11) million was related to write-down.

## NOTE 21 ACCOUNTS RECEIVABLE

| | Dec 31, 2011 | Dec 31, 2010 |
|---|---|---|
| Accounts receivable | 4,378 | 3,808 |
| Reserve for doubtful accounts | –556 | –528 |
| **Total accounts receivable, net** | **3,822** | **3,280** |

| | Dec 31, 2011 | Dec 31, 2010 |
|---|---|---|
| **Reserve for doubtful accounts** | | |
| Reserve for doubtful accounts at January 1 | 528 | 612 |
| Reserves in companies acquired during the year | 34 | 9 |
| Provisions | 102 | 36 |
| Recovery of previous provisions | –104 | –60 |
| Exchange rate differences | –4 | –69 |
| **Total reserve for doubtful accounts** | **556** | **528** |

| | Dec 31, 2011 | Dec 31, 2010 |
|---|---|---|
| **Accounts receivable, overdue with no reserve** | | |
| Overdue between 1–30 days | 277 | 336 |
| Overdue between 31–60 days | 51 | 74 |
| Overdue more than 60 days | 181 | 174 |
| **Total accounts receivable, overdue with no reserve** | **509** | **584** |

## NOTE 22 OTHER CURRENT RECEIVABLES

| | Dec 31, 2011 | Dec 31, 2010 |
|---|---|---|
| VAT receivable | 197 | 255 |
| Receivable from Net4Mobility, joint venture in Sweden | 167 | 24 |
| Receivable from Svenska UMTS-nät, joint venture in Sweden | 58 | 46 |
| Receivable from former owner of BBned | 36 | 36 |
| Receivables clearinghouse, traffic | 16 | 23 |
| Receivable from credit card companies, prepaid | 14 | 6 |
| Receivable from suppliers | 14 | 69 |
| Receivable from employees | 5 | 5 |
| Receivable related to given deposits | 3 | 7 |
| Other | 9 | 13 |
| **Total other current receivables** | **519** | **484** |

## NOTE 23 PREPAID EXPENSES AND ACCRUED INCOME

| | Dec 31, 2011 | Dec 31, 2010 |
|---|---|---|
| Revenues from mobile phones | 1,509 | 715 |
| Traffic revenues, from customers | 557 | 641 |
| Traffic revenues, from other telecom operators | 472 | 456 |
| Subscription fees etc, from customers | 103 | 55 |
| Accrued income, other | 77 | 61 |
| Rental cost | 475 | 382 |
| Fixed subscription charges | 77 | 70 |
| Frequency usage | 66 | 44 |
| Retailers' commissions, prepaid cards | 41 | 34 |
| Prepaid expenses, other | 197 | 141 |
| **Total prepaid expenses and accrued revenues** | **3,574** | **2,599** |

SEK 866 (478) million of the balance sheet item is estimated to be paid more than 12 months after the closing date, of which SEK 848 is attributable to revenues from mobile phones.

## NOTE 24 SHORT-TERM INVESTMENTS

| | Dec 31, 2011 | Dec 31, 2010 |
|---|---|---|
| Restricted funds | 65 | 112 |
| **Total short-term investments** | **65** | **112** |

## NOTE 25 CASH AND CASH EQUIVALENTS AND OVERDRAFT FACILITIES

### AVAILABLE LIQUIDITY

| | Dec 31, 2011 | Dec 31, 2010 |
|---|---|---|
| Cash and cash equivalents | 976 | 834 |
| Unutilized overdraft facilities and credit lines | 8,960 | 11,980 |
| **Total available liquidity** | **9,936** | **12,814** |

| | Dec 31, 2011 | Dec 31, 2010 |
|---|---|---|
| **Unutilized overdraft facilities and credit lines** | | |
| Overdraft facilities granted | 601 | 480 |
| Overdraft facilities utilized | –4 | – |
| **Total unutilized overdraft facilities** | **597** | **480** |
| Unutilized credit lines | 8,363 | 11,500 |
| **TOTAL UNUTILIZED OVERDRAFT FACILITIES AND CREDIT LINES** | **8,960** | **11,980** |

No specific collateral is provided for overdraft facilities.

### EXCHANGE RATE DIFFERENCE IN CASH AND CASH EQUIVALENTS

| | Dec 31, 2011 | Dec 31, 2010 |
|---|---|---|
| Exchange rate differences in cash and cash equivalents at January 1 | –11 | –81 |
| Exchange rate differences in cash flow for the year | 90 | 68 |
| **Total exchange rate difference in cash and cash equivalents** | **79** | **–13** |

## NOTE 26 FINANCIAL LIABILITIES

| | Dec 31, 2011 | Dec 31, 2010 |
|---|---|---|
| Liabilities to financial institutions and similar liabilities | 12,295 | 1,198 |
| Other interest-bearing liabilities | 1,895 | 1,428 |
| **Total interest-bearing financial liabilities** | **14,190** | **2,626** |
| | | |
| Accounts payable | 3,167 | 2,602 |
| Other short-term liabilities | 685 | 561 |
| **Total non-interest-bearing financial liabilities** | **3,852** | **3,163** |
| **TOTAL FINANCIAL LIABILITIES** | **18,042** | **5,789** |

Financial liabilities fall due for payment according to below.

| | Dec 31, 2011 | | Dec 31, 2010 | |
|---|---|---|---|---|
| | Nominal value | Recorded value | Nominal value | Recorded value |
| Within 3 months | 3,888 | 3,890 | 3,171 | 3,171 |
| Within 3–12 months | 1,521 | 1,519 | 1,109 | 1,109 |
| Within 1–2 years | 8,535 | 8,535 | 353 | 353 |
| Within 2–3 years | 285 | 276 | 631 | 631 |
| Within 3–4 years | 173 | 140 | 231 | 219 |
| Within 4–5 years | 2,978 | 2,920 | 116 | 76 |
| Within 5–10 years | 872 | 737 | 447 | 230 |
| Within 10–15 years | 25 | 25 | – | – |
| **Total financial liabilities** | **18,277** | **18,042** | **6,058** | **5,789** |

### INTEREST-BEARING FINANCIAL LIABILITIES

### Interest rate risk

Of interest-bearing financial liabilities as of December 31, 2011 SEK 9,206 million, corresponding to 65 percent, (SEK 2,175 million 83 percent) are at variable interest rates. An increase of the interest level of 1 percent would result in additional interest expenses of SEK 92 (22) million, and affect profit/loss after tax by SEK 68 (16) million, calculated on the basis of variable interest-bearing liabilities as of December 31, 2011.

Interest-bearing financial liabilities fall due for payments as follows.

| | Within 1 year | Within 1–2 years | Within 2–3 years | Within 3-4 years | Within 4–5 years | Within 5-15 years | Total |
|---|---|---|---|---|---|---|---|
| Variable interest rates | 1,557 | 6,331 | 276 | 140 | 140 | 762 | 9,206 |
| Fixed interest rates | – | 2,204 | – | – | 2,780 | – | 4,984 |
| **Total interest-bearing liabilities** | **1,557** | **8,535** | **276** | **140** | **2,920** | **762** | **14,190** |

### Collateral provided

| | Dec 31, 2011 | Dec 31, 2010 |
|---|---|---|
| Net assets in group companies | 315 | – |
| Fixed assets | 176 | 197 |
| **Total collateral provided for own liabilities** | **491** | **197** |

### Liabilities to financial institutions and similar liabilities

| | | | Dec 31, 2011 | | Dec 31, 2010 | |
|---|---|---|---|---|---|---|
| Creditors *(collateral provided)* | Interest rate terms | Maturity date | Short-term liabilities | Long-term liabilities | Short-term liabilities | Long-term liabilities |
| Syndicated loan facility | variable interest rates | 2013 | – | 8,197 | – | 426 |
| Bond holders' | Fixed: 8,4% | 2016 | – | 2,780 | – | – |
| Handelsbanken *(collateral: net assets in Mobile Norway)* | variable interest rates | 2012–2021 | 11 | 701 | – | – |
| Utilized bank overdraft facility | variable interest rates | | 4 | – | – | – |
| Other financial institutions *(collateral: fixed assets in Tele2 Kazakhstan)* | variable interest rates | | 195 | 407 | 160 | 612 |
| | | | **210** | **12,085** | **160** | **1,038** |
| **Total liabilities to financial institutions and similar liabilities** | | | | **12,295** | | **1,198** |

Tele2 has four different credit facilities in the total amount of SEK 16.1 (12.0) billion. The credit facilities are agreed with a group of eleven banks. The loans can be drawn in several currencies and the interest base is the relevant IBOR for that currency. At December 31, 2011 the loans were drawn in SEK and EUR. The facilities were conditioned by covenant requirements which Tele2 expects to fulfil.

In 2011, Tele2 Russia issued a 13 billion rouble bond (with 3 tranches). The bond has a final maturity of 10 years and a put option providing for an effective tenor of 5 years. The coupon rate for the 5-year period is 8.40 percent per annum with semi-annual coupon payments. The reported value of the bond amounted at December 31, 2011 to SEK 2.8 billion.

On October 3, 2011 Tele2 acquired Network Norway and thereby the full ownership of the previous joint venture Mobile Norway. Mobile Norway had, at the time of acquisition, existing liabilities to financial institutions. On 31 December 2011, these liabilities amounted to SEK 712 million.

Since 2010, Tele2 holds 51 percent of Tele2 Kazakhstan. The company had, at the time of acquisition, existing liabilities to several financial institutions. The interest base is KazPrime and LIBOR. At December 31, 2011 these liabilities amounted to KZT 484 (967) million, EUR 45 (54) million and USD 26 (34) million, corresponding to a total of SEK 600 (772) million.

Tele2 announced on January 24, 2012 that Tele2 AB carried out a first issue under a recently established Swedish commercial paper program. The program enables Tele2 to issue commercial papers up to a total amount of SEK 1.5 billion. Commercial papers can be issued with a tenor up to 12 months under the program. The commercial paper program is a complement to Tele2's core funding.

Tele2 announced on February 9, 2012 that Tele2 Russia issued a 7 billion rouble bond (with 2 tranches). The bond has a final maturity of 10 years and a put option providing for an effective tenor of 2 years. The coupon rate is 8.90 percent per annum with semi-annual coupon payments.

Tele2 announced on February 20, 2012 that Tele2 AB issued a NOK 1.3 billion bond in the Norwegian bond market. The amount is split between a 3 year bond of NOK 300 million priced at NIBOR +1.70 percent and a 5 year bond of NOK 1 billion priced at NIBOR +2.35 percent.

The average interest rate on loans during the year was 6.7 (10.0) percent. The high interest rate was a result of low level of loan during a great part of the year in combination with high share of commitment fees.

### Other interest-bearing liabilities

| | Dec 31, 2011 | | Dec 31, 2010 | |
|---|---|---|---|---|
| | Short-term liabilities | Long-term liabilities | Short-term liabilities | Long-term liabilities |
| Put option, Kazakhstan | 1,136 | – | 866 | – |
| Kazakhtelecom | – | 309 | – | 281 |
| Derivatives | 172 | – | 39 | – |
| Finance leases | 36 | 142 | 52 | 86 |
| Purchase price for purchase of Silver Server in Austria | 3 | – | – | – |
| Purchase price for purchase of Rostov | – | 93 | – | 88 |
| Purchase price for purchase of Izhevsk | – | 4 | – | 4 |
| Other | – | – | – | 12 |
| | **1,347** | **548** | **957** | **471** |
| **Total other interest-bearing liabilities** | | **1,895** | | **1,428** |

Tele2 owns 51 percent of the shares in Tele2 Kazakhstan with a call option to buy the remaining 49 percent from December 14, 2014 to April 14, 2015. The minority shareholder, Asianet Holding BV, has a put option to sell its shares to Tele2 from December 14, 2011. The exercise price of both options is the fair market value of the shares at the date of exercise. The put option is reported to its estimated fair value at the closing date. The increase in value consists of changes in fair value reported in profit/loss of SEK 159, capital contributions of SEK 108 million and exchange rate differences of SEK 3 million.

*Continued Note 26*

At the time of the acquisition of Tele2 Kazakhstan the company had an existing interest free liability to the former owner. At December 31, 2011 the reported debt amounted to SEK 309 (281) million and the nominal value to SEK 544 (550) million.

Derivatives consisted of interest swap, valued at fair value. The effective part of the interest swap was reported in the hedge reserve in other comprehensive income and the ineffective part was reported as interest costs in the income statement. For additional information please refer to Note 2.

Finance leases relate to the expansion of transmission capacity in Sweden, Russia and Austria. Total future minimum lease payments and their present value amount to:

| | Dec 31, 2011 | | Dec 31, 2010 | |
|---|---|---|---|---|
| | Present value | Nominal value | Present value | Nominal value |
| Within 1 year | 38 | 38 | 55 | 56 |
| Within 1–2 years | 27 | 27 | 50 | 52 |
| Within 2–3 years | 22 | 23 | 16 | 17 |
| Within 3–4 years | 15 | 16 | 10 | 11 |
| Within 4–5 years | 14 | 15 | 3 | 4 |
| Within 5–10 years | 39 | 41 | 4 | 5 |
| Within 10–15 years | 23 | 25 | – | – |
| **Total loan liability and interest** | | **185** | | **145** |
| Less interest portion | | –7 | | –7 |
| **TOTAL FINANCE LEASES** | **178** | **178** | **138** | **138** |

### OTHER SHORT-TERM LIABILITIES

| | Dec 31, 2011 | Dec 31, 2010 |
|---|---|---|
| VAT liability | 422 | 382 |
| Liability to joint venture, Net4Mobility, Sweden | 60 | – |
| Employee withholding tax | 61 | 57 |
| Other taxes | 8 | 28 |
| Debt to customers | 44 | 29 |
| Debt to content suppliers | 33 | 27 |
| Debt to other operators | 19 | 15 |
| Customer deposit | 14 | 9 |
| Other | 24 | 14 |
| **Total short-term liabilities** | **685** | **561** |

## NOTE 27 PROVISIONS

| | 2011 | | | | | | |
|---|---|---|---|---|---|---|---|
| | Rented buildings and cables | Legal disputes | Claims and guarantees for divested operations | Other provisions | Financial guarantee for loans | Pension and similar commit-ments | Total |
| Provisions as of January 1 | 15 | 69 | 101 | 107 | 1 | 29 | 322 |
| Provisions in acquired companies | – | – | – | 32 | – | – | 32 |
| Additional provisions | 56 | 13 | 1 | 85 | – | 99 | 254 |
| Utilized/paid provisions | –4 | –14 | –32 | –69 | – | –1 | –120 |
| Reversed unused provisions | – | –2 | –3 | –7 | –1 | – | –13 |
| Exchange rate differences | – | – | – | –1 | – | – | –1 |
| **Total provisions as of December 31** | **67** | **66** | **67** | **147** | **–** | **127** | **474** |

| | Dec 31, 2011 | Dec 31, 2010 |
|---|---|---|
| Provisions, short-term | 139 | 139 |
| Provisions, long-term | 335 | 183 |
| **Total provisions** | **474** | **322** |

Provisions is expected to fall due for payment according to below:

| | Dec 31, 2011 | Dec 31, 2010 |
|---|---|---|
| Within 1 year | 139 | 139 |
| Within 1–3 years | 117 | 120 |
| Within 3–5 years | 2 | 2 |
| More than 5 years | 216 | 61 |
| **Total provisions** | **474** | **322** |

## NOTE 28 ACCRUED EXPENSES AND DEFERRED INCOME

| | Dec 31, 2011 | Dec 31, 2010 |
|---|---|---|
| Traffic expenses to other telecom operators | 1,593 | 1,207 |
| Personnel-related expenses | 682 | 530 |
| External service expenses | 649 | 659 |
| Expenses for dealers | 243 | 171 |
| Leasing and rental expenses | 104 | 85 |
| Interest costs | 39 | 22 |
| Other accrued expenses | 323 | 140 |
| Deferred income, prepaid cards | 937 | 816 |
| Deferred income, other | 815 | 825 |
| **Total accrued expenses and deferred income** | **5,385** | **4,455** |

## NOTE 29 PLEDGE ASSETS

| | Dec 31, 2011 | Dec 31, 2010 |
|---|---|---|
| Fixed assets | 176 | 197 |
| Net assets in group companies | 315 | – |
| Shares in joint venture, Mobile Norway | – | 162 |
| Short-term investments, bank deposits | 65 | 112 |
| Other long-term receivables, bank deposits | 37 | – |
| Other pledged assets | 1 | – |
| **Total pledged assets** | **594** | **471** |

Pledged shares were reported at an amount corresponding to the carrying amount of the net assets which each subsidary represented in the group balance sheet.

The opposite parties can only take over the pledged items in case Tele2 neglects its duty to pay its debts according to the agreements.

## NOTE 30 CONTINGENT LIABILITIES AND OTHER COMMITMENTS

### CONTINGENT LIABILITIES

| | Dec 31, 2011 | Dec 31, 2010 |
|---|---|---|
| Disputes | 263 | 258 |
| Guarantee related to joint ventures | 5 | 1,459 |
| **Total contingent liabilities** | **268** | **1,717** |

Tele2 is the defendant in an arbitration regarding a dispute relating to a Share Option Agreement and related issues where the claimant has put forward claims of SEK 263 million. We estimate that the arbitration award will be announced during the first half of 2012. Based on current information, our assessment is that it is more likely than not that we will win.

Guarantees related to joint ventures is the maximum amount Tele2 could be forced to settle under the agreement. Tele2 considers it to be more likely than not that no amount will be payable, please refer to Note 17.

In 2011, the guarantees in favor of the joint venture Svenska UMTS-nät (December 31, 2010: SEK 1 260 million) were replaced with loans from the owners. During 2011 Tele2 acquired the remaining shares in Mobile Norway and obtained control of the company, and from October 3, 2011, the company was reported as a subsidiary and the guarantee was eliminated. At December 31, 2010, guarantees to Mobile Norway amounted to SEK 199 million.

### OPERATING LEASES

| | 2011 | 2010 |
|---|---|---|
| Leased capacity | 2,558 | 2,165 |
| Other operating leases | 618 | 587 |
| **Annual leasing expenses for operating leases** | **3,176** | **2,752** |

The cost of operating leases relates mainly to leased capacity. Other assets that are held under operating leases relate to rented premises, machines and office equipment. Tele2 has a multitude of agreements relating to rented connections. The majority of these involve some type of initiation fee and thereafter monthly or quarterly fees. Most of the agreements have terms ranging from six months to three years with the option of extending the terms. Generally these agreements have no index clauses or possibilities to acquire the asset.

Contractual future lease payments are stated below:

| | Dec 31, 2011 | Dec 31, 2010 |
|---|---|---|
| Within 1 year | 1,464 | 1,273 |
| Within 1–2 years | 544 | 490 |
| Within 2–3 years | 391 | 333 |
| Within 3–4 years | 246 | 212 |
| Within 4–5 years | 197 | 169 |
| Within 5–10 years | 553 | 480 |
| Within 10–15 years | 109 | 84 |
| More than 15 years | 261 | 183 |
| **Total future lease payments for operating leases** | **3,765** | **3,224** |

### OTHER CONTRACTUAL COMMITMENTS

| | Dec 31, 2011 | Dec 31, 2010 |
|---|---|---|
| Commitments, joint venture Mobile Norway | – | 1,899 |
| Commitments, other | 2,607 | 1,439 |
| **Total future fees for other contractual commitments** | **2,607** | **3,338** |

Other commitments mainly relate to commitments for networks, customer services and IT, as well as for purchse of handsets.

During 2011 Tele2 acquired the remaining shares in Mobile Norway and obtained control of the company, and from October 3, 2011, the company was reported as a subsidiary and the commitment was eliminated.

## NOTE 31 SUPPLEMENTARY CASH FLOW INFORMATION

### CASH FLOW FROM OPERATING ACTIVITIES BASED ON THE NET RESULT

| | 2011 | 2010 |
|---|---|---|
| **OPERATING ACTIVITIES** | | |
| Net profit | 4,897 | 6,928 |
| Adjustments for non-cash items in operating profit | | |
| Depreciation/amortization and impairment | 3,897 | 3,626 |
| Result from shares in associated companies and joint ventures | –17 | 74 |
| Gain/loss on sale of fixed assets | 30 | 9 |
| Gain/loss on sale of operations | 50 | –451 |
| Change in fair value, shares | – | 6 |
| Unpaid financial items | 288 | –2 |
| Unpaid/paid tax | –164 | –87 |
| Deferred tax expense | 681 | –393 |
| **Cash flow from operations before changes in working capital** | **9,662** | **9,710** |
| Changes in working capital | –414 | –100 |
| **CASH FLOW FROM OPERATING ACTIVITIES** | **9,248** | **9,610** |

### CAPEX

The difference between investments in intangible and tangible assets (CAPEX) in the balance sheet and the cash flow statement is stated below.

| | 2011 | 2010 |
|---|---|---|
| CAPEX according to cash flow statement | 4,667 | 3,603 |
| This year unpaid CAPEX and paid CAPEX from previous year | 187 | 12 |
| Sales price in cash flow statement | 239 | 36 |
| **CAPEX according to balance sheet** | **5,093** | **3,651** |

Of the year's investment in intangible and tangible assets, SEK 302 (176) million is unpaid at December 31, 2011 and has therefore not been reported as investments in the cash flow statement. Payment of the previous year's investment of SEK 115 (164) million has been reported as investment in the cash flow for 2011. These items amount to a net of SEK 187 (12) million.

CAPEX per business area within each country are presented in Note 15.

## NOTE 32 NUMBER OF SHARES AND EARNINGS PER SHARE

| | 2011 | 2010 |
|---|---|---|
| Number of outstanding shares, basic | 444,149,959 | 443,262,339 |
| Number of shares in own custody | 4,633,380 | 3,701,000 |
| Number of shares, weighted average | 443,851,976 | 441,229,755 |
| Number of shares after dilution | 446,492,847 | 445,120,571 |
| Number of shares after dilution, weighted average | 446,136,419 | 442,929,325 |

The share capital in Tele2 AB is divided into three classes of shares: Class A, B and C shares. All types of shares have a quota value of SEK 1.25 per share and Class A and B shares have the same rights in the company's net assets and profits while Class C shares are not entitled to dividend. Shares of Class A, however, entitle the holder to 10 voting rights per share and Class B and C shares to one voting right per share.

There are no limitations regarding how many votes each shareholder may vote for at general meetings of shareholders. The Articles of Association make no stipulation that limits the right to transfer the shares.

In the case of a bid for all shares or a controlling part of the shares in Tele2, the loan facility may be accelerated and due for immediate repayment. In addition, some interconnect agreements and some other agreements may be terminated.

*Continued Note 32*

### CHANGE OF NUMBER OF SHARES

| | A shares | | B shares | | C shares | | |
|---|---|---|---|---|---|---|---|
| | Change | Total | Change | Total | Change | Total | Total |
| **As of January 1, 2010** | | **25,131,996** | | **415,249,343** | | **5,798,000** | **446,179,339** |
| Reclassification of A shares to B shares | –4,141,846 | 20,990,150 | 4,141,846 | 419,391,189 | – | 5,798,000 | 446,179,339 |
| Reclassification of C shares to B shares | – | 20,990,150 | 2,529,000 | 421,920,189 | –2,529,000 | 3,269,000 | 446,179,339 |
| New share issue | – | 20,990,150 | 784,000 | 422,704,189 | – | 3,269,000 | 446,963,339 |
| **As of December 31, 2010** | | **20,990,150** | | **422,704,189** | | **3,269,000** | **446,963,339** |
| Reclassification of A shares to B shares | –100 | 20,990,050 | 100 | 422,704,289 | – | 3,269,000 | 446,963,339 |
| Reclassification of C shares to B shares | – | 20,990,050 | 920,000 | 423,624,289 | –920,000 | 2,349,000 | 446,963,339 |
| New share issue | – | 20,990,050 | 120,000 | 423,744,289 | 1,700,000 | 4,049,000 | 448,783,339 |
| **Total number of shares as of December 31, 2011** | | **20,990,050** | | **423,744,289** | | **4,049,000** | **448,783,339** |

#### New share issue and sale of shares

In 2011, Tele2 issued, and immediately repurchased, 1,700,000 new C shares to be used for future exercises of LTIs, resulting in an increase in share capital of SEK 2 million.

As a result of 120,000 stock options in the LTI 2006 being exercised in 2011, Tele2 issued new B shares, bringing an increase of shareholders' equity of SEK 11 million.

#### Change of number of shares in own custody

| | B shares | | C shares | | |
|---|---|---|---|---|---|
| | Change | Total | Change | Total | Total |
| **As of January 1, 2010** | | **–** | | **5,798,000** | **5,798,000** |
| Reclassification of C shares to B shares | 2,529,000 | 2,529,000 | –2,529,000 | 3,269,000 | 5,798,000 |
| Sale of own shares | –2,097,000 | 432,000 | – | 3,269,000 | 3,701,000 |
| **As of December 31, 2010** | | **432,000** | | **3,269,000** | **3,701,000** |
| New share issue/repurchase of own shares | – | 432,000 | 1,700,000 | 4,969,000 | 5,401,000 |
| Reclassification of C shares to B shares | 920,000 | 1,352,000 | –920,000 | 4,049,000 | 5,401,000 |
| Sale of own shares | –767,620 | 584,380 | – | 4,049,000 | 4,633,380 |
| **Total number of shares in own custody as of December 31, 2011** | | **584,380** | | **4,049,000** | **4,633,380** |

Shares in own custody amount to 1.0 (0.8) percent of the share capital.

As a result of stock options in the LTI 2007 being exercised in 2011, Tele2 sold B shares in own custody of 373,000, resulting in an increase of shareholders' equity of SEK 46 million. As a result of share rights in the LTI 2008 being exercised during 2011, Tele2 sold additional B shares in own custody of 394,620.

### NUMBER OF OUTSTANDING OPTIONS AND SHARE RIGHTS

| | Dec 31, 2011 | Dec 31, 2010 |
|---|---|---|
| Incentive program 2011–2014 | 992,936 | |
| Incentive program 2010–2013 | 858,057 | 869,120 |
| Incentive program 2009–2012 | 484,196 | 545,372 |
| Incentive program 2008–2011 | – | 401,120 |
| Incentive program 2007–2010/2012 | 59,000 | 432,000 |
| Incentive program 2006–2009/2011 | – | 120,000 |
| **Total number of outstanding options and share rights** | **2,394,189** | **2,367,612** |

Further information is provided in Note 34.

#### Number of shares after dilution

| | Dec 31, 2011 | Dec 31, 2010 |
|---|---|---|
| Number of shares | 448,783,339 | 446,963,339 |
| Repurchase of own shares | –4,633,380 | –3,701,000 |
| Number of outstanding shares, basic | 444,149,959 | 443,262,339 |
| Incentive program 2011–2014 | 992,936 | |
| Incentive program 2010–2013 | 858,057 | 869,120 |
| Incentive program 2009–2012 | 484,196 | 545,372 |
| Incentive program 2008–2011 | – | 401,120 |
| Incentive program 2007–2010/2012 | 7,699 | 13,049 |
| Incentive program 2006–2009/2011 | – | 29,571 |
| **Total number of shares after dilution** | **446,492,847** | **445,120,571** |

### EARNINGS PER SHARE

| | Earnings per share | | Earnings per share, after dilution | |
|---|---|---|---|---|
| | 2011 | 2010 | 2011 | 2010 |
| Net profit attributable to equity holders of the parent company | 4,897 | 6,926 | 4,897 | 6,926 |
| Weighted average number of shares | 443,851,976 | 441,229,755 | 443,851,976 | 441,229,755 |
| Incentive program 2011–2014 | | | 548,526 | |
| Incentive program 2010–2013 | | | 857,340 | 508,820 |
| Incentive program 2009–2012 | | | 507,005 | 582,434 |
| Incentive program 2008–2011 | | | 344,295 | 429,686 |
| Incentive program 2007–2010/2012 | | | 23,467 | 64,144 |
| Incentive program 2006–2009/2011 | | | 3,810 | 114,486 |
| Weighted average number of outstanding shares after dilution | | | **446,136,419** | **442,929,325** |
| **Earnings per share, SEK** | **11.03** | **15.70** | **10.98** | **15.64** |

### DIVIDEND

Tele2 will seek to pay a progressive ordinary dividend of 50 percent or more of net income excluding one-off items. Extraordinary dividends and the authority to purchase Tele2's own shares will be sought when the anticipated total return to shareholders is deemed to be greater than the achievable returns from the deployment of the capital within the group's operating segments or the acquisition of assets within Tele2's economic requirements.

In respect of the financial year 2011, the Board of Tele2 AB has decided to recommend to the Annual General Meeting (AGM) in May 2012, a total dividend payment of SEK 13.00 (27.00) per ordinary A or B share, to be comprised of an ordinary dividend of SEK 6.50 (6.00) and an extraordinary dividend of SEK 6.50 (21.00). At December 31, 2011 this correspond to a total of SEK 5,774 (11,968) million, of which ordinary dividend SEK 2,887 (2,660) million and extraordinary dividend SEK 2,887 (9,308) million.

## NOTE 33 NUMBER OF EMPLOYEES

| | Average number of employees | | | |
|---|---|---|---|---|
| | 2011 | | 2010 | |
| | Total | *of whom men* | Total | *of whom men* |
| Sweden | 1,633 | *69%* | 1,503 | *69%* |
| Norway | 125 | *70%* | 63 | *75%* |
| Russia | 3,096 | *49%* | 2,931 | *48%* |
| Estonia | 232 | *41%* | 237 | *43%* |
| Lithuania | 87 | *57%* | 112 | *54%* |
| Latvia | 280 | *40%* | 294 | *37%* |
| Croatia | 110 | *64%* | 97 | *61%* |
| Kazakhstan | 435 | *52%* | 375 | *45%* |
| Netherlands | 872 | *77%* | 1,048 | *80%* |
| Germany | 74 | *66%* | 79 | *68%* |
| Austria | 258 | *74%* | 276 | *72%* |
| Other | 315 | *62%* | 366 | *76%* |
| **Total average number of employees** | **7,517** | ***58%*** | **7,381** | ***59%*** |

| | 2011 | | 2010 | |
|---|---|---|---|---|
| | Women | Men | Women | Men |
| **For all group companies** | | | | |
| Board members | 19% | 81% | 23% | 77% |
| Other senior executives | 25% | 75% | 19% | 81% |
| **Total proportion of board members and other senior executives** | **22%** | **78%** | **21%** | **79%** |

## NOTE 34 PERSONNEL COSTS

| | 2011 | | | 2010 | | |
|---|---|---|---|---|---|---|
| | Board of Directors and CEO | *of which bonus* | Other employees | Board of Directors and CEO | *of which bonus* | Other employees |
| Sweden | 6 | *2* | 920 | 9 | *6* | 811 |
| Norway | 14 | *3* | 133 | 3 | *1* | 57 |
| Russia | 21 | *8* | 502 | 21 | *6* | 439 |
| Estonia | 2 | – | 40 | 2 | – | 43 |
| Lithuania | 2 | *1* | 24 | 4 | *1* | 26 |
| Latvia | 3 | *1* | 41 | 3 | *1* | 49 |
| Croatia | 4 | *2* | 38 | 4 | *2* | 36 |
| Kazakhstan | 4 | *1* | 77 | 3 | *1* | 46 |
| Netherlands | 4 | *2* | 494 | 3 | *2* | 500 |
| Germany | 4 | *2* | 40 | 2 | *2* | 40 |
| Austria | 3 | *1* | 146 | 3 | *1* | 159 |
| Other | 35 | *13* | 170 | 36 | *1* | 191 |
| **Total salaries and remuneration** | **102** | ***36*** | **2,625** | **93** | ***24*** | **2,397** |

| | 2011 | | | 2010 | | |
|---|---|---|---|---|---|---|
| | Salaries and remune-rations | Social security expenses | *of which pension expenses* | Salaries and remune-rations | Social security expenses | *of which pension expenses* |
| Board and President | 102 | 25 | *5* | 93 | 25 | *8* |
| Other employees | 2,625 | 848 | *182* | 2,397 | 754 | *166* |
| **Total** | **2,727** | **873** | ***187*** | **2,490** | **779** | ***174*** |

*Continued Note 34*

### PENSIONS

| | 2011 | 2010 |
|---|---|---|
| Defined-benefit plans, retirement pension | 31 | 28 |
| Defined-benefit plans, survivors' and disability pension | 7 | 6 |
| Defined-contribution plans | 149 | 140 |
| **Total pension expenses** | **187** | **174** |

Additional information regarding defined-benefit retirement plans is shown in the table below.

| | 2011 | 2010 |
|---|---|---|
| **Income statement** | | |
| Current service costs | –29 | –22 |
| Interest cost for the obligation | –5 | –1 |
| Expected return on plan assets | 3 | –2 |
| Actuarial gains/losses recognized for the year | – | –3 |
| | **–31** | **–28** |
| Special employer's contribution | –12 | – |
| **Net cost recognized in the income statement** | **–43** | **–28** |

| | Dec 31, 2011 | Dec 31, 2010 |
|---|---|---|
| **Balance sheet** | | |
| Present value of funded obligations | –209 | –140 |
| Fair value of plan assets | 128 | 111 |
| **Net** | **–81** | **–29** |
| Unrecognized actuarial gains/losses | 1 | 1 |
| Special employer's contribution | –24 | – |
| **Net asset (+) / obligation (–) in balance sheet** | **–104** | **–28** |
| *of which assets* | *23* | *1* |
| *of which liabilities* | *–127* | *–29* |

| | 2011 | 2010 |
|---|---|---|
| Net asset (+) / obligation (–) at beginning of year | –28 | –24 |
| Net asset/obligation at beginning of year, acquired operations | –1 | – |
| Net cost | –43 | –28 |
| Payments | 27 | 24 |
| Actuarial gains/losses in equity | –59 | – |
| **Net asset (+) / obligation (–) in balance sheet at end of year** | **–104** | **–28** |

| | Dec 31, 2011 | Dec 31, 2010 |
|---|---|---|
| **Important actuarial assumptions** | | |
| Discount rate | 2.2 – 3.3% | 3.2 – 4.4% |
| Expected return on plan assets | 2.8 – 4.8% | 3.8 – 5.6% |
| Annual salary increases | 3.0 – 4.0% | 3.0 – 4.3% |
| Annual pension increases | 0.5–2.0% | 2% |

*Continued Note 34*

**REMUNERATION FOR SENIOR EXECUTIVES**

| | 2011 | | | | | | |
|---|---|---|---|---|---|---|---|
| | Basic salary | Variable remune-ration | Share-based payment costs | Other benefits | Other remune-ration | Pension expenses | Total remune-ration |
| CEO and President, Mats Granryd | 9.0 | 7.1 | 2.0 | 1.0 | – | 2.2 | 21.3 |
| Other senior executives | 30.6 | 16.0 | 7.1 | 1.0 | 5.4[1] | 5.5 | 65.6 |
| **Total salaries and remuneration to senior executives** | **39.6** | **23.1** | **9.1** | **2.0** | **5.4** | **7.7** | **86.9** |

[1] remuneration during notice period.

The group Other senior executives comprises 10 (11) persons.

| | 2010 | | | | | | |
|---|---|---|---|---|---|---|---|
| | Basic salary | Variable remune-ration | Share-based payment costs | Other benefits | Other remune-ration | Pension expenses | Total remune-ration |
| CEO and President, Mats Granryd (Sep–Dec) | 3.2 | 2.4[2] | 0.6 | 0.1 | – | 0.2 | 6.5 |
| Lars Nilsson (Mar–Aug) | 4.6 | – | – | – | – | 0.4 | 5.0 |
| Harri Koponen (Jan–Feb) | 1.4 | – | – | 0.1 | 14.0[1] | 3.7 | 19.2 |
| Other senior executives | 21.9 | 14.3 | 9.1 | 0.4 | 3.8[1] | 4.2[1] | 53.7 |
| **Total salaries and remuneration to senior executives** | **31.1** | **16.7** | **9.7** | **0.6** | **17.8** | **8.5** | **84.4** |

[1] mainly remuneration during notice period to former CEO Harri Koponen and HR directors.

[2] Remuneration for senior executives for 2010 has been updated with a bonus for CEO Mats Granryd, of SEK 2.4 million, related to fiscal year 2010. The bonus will be paid in 2012.

During 2011 the senior executives received 254,000 (248,000) share rights in 2011 incentive program and 48,745 (10,736) share rights in the 2009 and 2010 (2008 and 2009) incentive programs as compensation for dividend. The market value of the stock rights at the time of issue was SEK 5.1 (4.4) million for the CEO and SEK 18.4 (15.4) million for other senior executives. No premium was paid for the share rights.

| | 2011 | | | | | |
|---|---|---|---|---|---|---|
| | LTI 2011 | | LTI 2010 | | LTI 2009 | |
| Number of stock options | CEO | Other senior executives | CEO | Other senior executives | CEO | Other senior executives |
| Outstanding as of January 1, 2011 | – | – | 56,000 | 184,000 | – | 190,624 |
| Allocated | 56,000 | 198,000 | | | | |
| Allocated, compensation for dividend | – | – | 8,617 | 19,712 | – | 20,416 |
| Forfeited | – | – | – | –56,000 | – | –58,016 |
| Exercised | – | – | – | – | – | – |
| **Total outstanding stock options** | **56,000** | **198,000** | **64,617** | **147,712** | **–** | **153,024** |

| | 2011 | | | |
|---|---|---|---|---|
| | LTI 2008 | | LTI 2007 | |
| Number of stock options | CEO | Other senior executives | CEO | Other senior executives |
| Outstanding as of January 1, 2011 | – | 110,516 | 70,000 | – |
| Allocated | | | | |
| Allocated, compensation for dividend | – | – | – | – |
| Forfeited | – | – | – | – |
| Exercised | – | –110,516 | –70,000 | – |
| **Total outstanding stock options** | **–** | **–** | **–** | **–** |

**Remuneration guidelines for senior executives 2011**

The following guidelines for determining remuneration for senior executives in 2011 were approved by the Annual General Meeting in May 2011.

The objectives of the Tele2 remuneration guidelines are to offer competitive remuneration packages to attract, motivate and retain key employees within the context of an international peer group. The aim is to create incentives for management to execute strategic plans and deliver excellent operating results and to align management's incentives with the interests of the shareholders. Senior executives covered by the guidelines include the CEO and members of the Leadership Team ("senior executives"). At present (May 2011) Tele2 has eleven senior executives.

Remuneration to the senior executives should comprise annual base salary and variable short-term incentive (STI) and long-term incentive (LTI) programs. The STI shall be based on the performance in relation to established objectives. The objectives shall be related to the company's overall result and the senior executive's individual performance. The STI can amount to a maximum of 100 percent of the annual base salary.

Over time, it is the intention of the Board to increase the proportion of variable performance based compensation as a component of the senior executives' total compensation.

The Board shall continually consider the need of imposing restrictions in the variable short-term incentive program, in accordance to which compensation shall be paid in cash, regarding making payments, or a proportion of such variable compensation, conditional on whether the performance on which it was based has proved to be sustainable over time, and/or allowing the company to reclaim components of such variable compensation that have been paid on the basis of information which later proves to be manifestly misstated.

Other benefits may include e.g. company cars and for expatriated senior executives e.g. housing benefits for a limited period of time. The senior executives may also be offered health care insurances.

The senior executives are offered premium based pension plans. Pension premiums for the CEO can amount to a maximum of 25 percent of the annual base salary. For the other senior executives pension premiums can amount to a maximum of 20 percent of the annual base salary.

The maximum period of notice of termination of employment shall be 12 months in the event of termination by the CEO and six months in the event of termination by any of the other senior executives. In the event of termination by the company, the maximum notice period during which compensation is payable is 18 months for the CEO and 12 months for any of the other senior executives.

In special circumstances, the Board may deviate from the above guidelines. In such case the Board is obligated to give account for the reason for the deviation on the following Annual General Meeting.

*Continued Note 34*

**BOARD OF DIRECTORS**

Total fees to the Board of Directors in 2011 were SEK 5,425 (4,975) thousand following a decision by the Annual General Meeting in May 2011.

| | Fees to the board | | Fees to the board committees | |
|---|---|---|---|---|
| SEK | 2011 | 2010 | 2011 | 2010 |
| Mike Parton | 1,300,000 | 1,200,000 | 25,000 | 25,000 |
| Lars Berg | 500,000 | 450,000 | 100,000 | 100,000 |
| Mia Brunell Livfors | 500,000 | 450,000 | 25,000 | 25,000 |
| Jere Calmes | 500,000 | 450,000 | 125,000 | 125,000 |
| John Hepburn | 500,000 | 450,000 | 50,000 | 50,000 |
| Erik Mitteregger | 500,000 | 450,000 | 100,000 | 100,000 |
| John Shakeshaft | 500,000 | 450,000 | 200,000 | 200,000 |
| Cristina Stenbeck | 500,000 | 450,000 | – | – |
| **Total fee to Board members** | **4,800,000** | **4,350,000** | **625,000** | **625,000** |

In addition, John Shakeshaft received SEK 0 (315) thousand and Jere Calmes received SEK 169 (158) thousand in remuneration for work in the Advisory Board for Tele2 Russia.

**SHARE-BASED PAYMENTS**

The objective of the long-term incentive programs (LTI) are to create conditions for retaining competent employees in the group. The plans have been designed based on the view that it is desirable that senior executives and other key employees within the group are shareholders in Tele2 AB. By offering an allotment of retention rights and performance rights which are based on profits and other retention and performance-based conditions, the participants are rewarded for increasing shareholder value. Furthermore, the plans reward employees' loyalty and long-term growth in the group. In that context, the Board of directors is of the opinion that the plans will have a positive effect on the future development of the Tele2 group and thus be beneficial to both the company and its shareholders.

| | Number of participants at grant date | Measure period | Exercise period | Exercise price | Dec 31, 2011 | Dec 31, 2010 |
|---|---|---|---|---|---|---|
| LTI 2011 | 283 | Apr 1, 2011 – Mar 31, 2014 | – | – | 992,936 | – |
| LTI 2010 | 142 | Apr 1, 2010 – Mar 31, 2013 | – | – | 858,057 | 869,120 |
| LTI 2009 | 72 | Apr 1, 2009 – Mar 31, 2012 | – | – | 484,196 | 545,372 |
| LTI 2008 | 70 | Apr 1, 2008 – Mar 31, 2011 | – | – | – | 401,120 |
| LTI 2007 | 83 | Jul 1, 2007 – Jun 30, 2010 | Jul 22, 2010 – Aug 2012 | SEK 116.60 | 59,000 | 432,000 |
| LTI 2006 | 23 | – | Mar 3, 2009 – Mar 31, 2011 | SEK 94.80 | – | 120,000 |
| **Total number of outstanding options and share rights** | | | | | **2,394,189** | **2,367,612** |
| *of which exercisable* | | | | | *59,000* | *552,000* |

Cost before tax for outstanding incentive programs and liability for social security costs is stated below.

| | 2011 | 2010 | Cumulative | Dec 31, 2011 | Dec 31, 2010 |
|---|---|---|---|---|---|
| | Actual costs before tax | Actual costs before tax | Estimated total costs | Liability for social security costs | Liability for social security costs |
| LTI 2011 | 15 | – | 74 | 4 | – |
| LTI 2010 | 27 | 13 | 72 | 13 | 3 |
| LTI 2009 | 15 | 13 | 39 | 13 | 6 |
| LTI 2007 | – | 14 | 59 | – | 2 |
| **Total** | **57** | **40** | **244** | **30** | **11** |

**Incentive program 2008, 2009, 2010 and 2011**

During the Annual General Meeting held on May 16, 2011, the shareholders approved a performance-based incentive program for senior executives and other key employees in the Tele2 group. The plan has the same structure as last year's incentive program.

In general, the participants in the Plan are required to own shares in Tele2. These shares could either be shares already held or shares purchased on the market in connection with notification to participate in the Plan. Thereafter the participants were granted retention rights and performance rights free of charge. As a consequence of market conditions, employees in Russia and Kazakhstan were offered to participate in the Plan without being required to hold shares in Tele2. In such cases, the number of allotted rights has been reduced, and corresponds to 37.5 percent of the number of rights allotted for participation with a personal investment.

Subject to the fulfilment of certain retention and performance-based conditions during the period April 1, 2011 – March 31, 2014 (the measure period), the participant maintaining employment within the Tele2 group at the release of the interim report January – March 2014 and subject to the participant maintaining the invested shares (where applicable) during the vesting period ending at the release of the interim report for the period January – March 2014, each right entitles the employee to receive one Class B share in the company. Dividends paid on the underlying share will increase the number of shares that each retention and performance right entitles to in order to treat the shareholders and the participants equally.

The rights are divided into Series A retention rights, and Series B and C performance rights. The number of shares the participant will receive depends on which category the participant belongs to and on the fulfilment of the following defined retention and performance-based conditions:

Series A Tele2's total shareholder return on the Tele2 shares (TSR) during the measure period exceeding 0 percent as entry level.

Series B Tele2's average normalized return of capital employed (ROCE), with a minimum hurdle of 20 percent during the Measure Period and a stretch target of 24 percent.

Series C Tele2's total shareholder return on the Tele2 shares (TSR) during the measure period being equal to the average TSR for a peer group including Elisa, KPN, Millicom, Mobistar, MTS – Mobile Telesystems, Telenor, TeliaSonera, Turkcell and Vodafone as entry level, and exceeding the average TSR for the peer group with 10 percentage points as the stretch target.

The determined levels of the conditions include an entry level and a stretch target with a linear interpolation applied between those levels as regards the number of rights that vests. The entry level constitutes the minimum level which must be reached in order to enable the vesting of the rights in that series. If the entry level is reached, the number of rights that vests is proposed to be 100 percent for Series A and 20 percent for Series B and C. If the entry level is not reached, all rights to retention and performance shares (as applicable) in that series lapse. If a stretch target is met, all retention rights or performance rights (as applicable) vest in that series.

The Plan comprised a total number of 275,234 shares, of which 217,234 related to employees who invested in Tele2 shares and 58,000 related to employees in Russia and Kazakhstan who choose not to invest in Tele2-shares. In total this resulted in an allotment of 1,053,936 share rights, of which 238,984 retention rights and 814,952 performance rights. The participants were divided into different categories and were granted the following number of share rights for the different categories:

*Continued Note 34*

| At grant date | No of partici-pants | Maximum no of shares | Share right Per Series A | B | C | Total | Total allotment |
|---|---|---|---|---|---|---|---|
| CEO | 1 | 8,000 | 1 | 3 | 3 | 7 | 56,000 |
| Other senior executives and other key employees | 10 | 4,000 | 1 | 2.5 | 2.5 | 6 | 222,000 |
| Category 1 | 25 | 2,000 | 1 | 1.5 | 1.5 | 4 | 198,000 |
| Category 1, no investment | 2 | 2,000 | 0.375 | 0.5625 | 0.5625 | 1.5 | 6,000 |
| Category 2 | 30 | 1,500 | 1 | 1.5 | 1.5 | 4 | 159,296 |
| Category 2, no investment | 6 | 1,500 | 0.375 | 0.5625 | 0.5625 | 1.5 | 13,500 |
| Category 3 | 50 | 1,000 | 1 | 1.5 | 1.5 | 4 | 174,464 |
| Category 3, no investment | 17 | 1,000 | 0.375 | 0.5625 | 0.5625 | 1.5 | 25,500 |
| Category 4 | 86 | 500 | 1 | 1.5 | 1.5 | 4 | 157,176 |
| Category 4, no investment | 56 | 500 | 0.375 | 0.5625 | 0.5625 | 1.5 | 42,000 |
| **Total** | **283** | | | | | | **1,053,936** |

Total costs before tax for outstanding rights in the incentive program are expensed as they arise over a three-year period.

The participant's maximum profit per share right in the Plan is limited to SEK 591, five times the average closing share price of the Tele2 Class B shares during February 2011 with deduction for the dividend paid in May 2011.

The estimated average fair value of the granted rights was SEK 80.00 on the grant date, June 17, 2011. The calculation of the fair values was carried out by external analysts. The following variables were used:

| | Serie A | Serie B | Serie C |
|---|---|---|---|
| Expected annual turnover of personnel | 7.0% | 7.0% | 7.0% |
| Expected value reduction parameter fulfilment | – | 50% | – |
| Weighted average share price | SEK 117.61 | SEK 117.61 | SEK 117.61 |
| Expected life | 2.84 years | 2.84 years | 2.84 years |
| Expected value reduction parameter market condition | 70% | – | 35% |

To ensure the delivery of Class B shares under the Plan, the Annual General Meeting decided to authorise the Board of Directors to resolve on a directed issue of a maximum of 1,700,000 Class C shares and subsequently to repurchase the Class C shares. The Class C shares will then be held by the company during the vesting period, after which the appropriate number of Class C shares will be reclassified into Class B shares and delivered to the participants under the Plan.

| Number of rights | LTI 2011 2011 | LTI 2011 Cumulative | LTI 2010 2011 | LTI 2010 Cumulative |
|---|---|---|---|---|
| Allocated at grant date | 1,053,936 | **1,053,936** | | **873,120** |
| Outstanding as of January 1, 2011 | | | 869,120 | |
| Allocated, compensation for dividend | – | – | 123,089 | 123,089 |
| Forfeited | –61,000 | –61,000 | –134,152 | –138,152 |
| Exercised | – | – | – | – |
| **Total outstanding rights** | **992,936** | **992,936** | **858,057** | **858,057** |

| Number of rights | LTI 2009 2011 | LTI 2009 Cumulative | LTI 2008 2011 | LTI 2008 Cumulative |
|---|---|---|---|---|
| Allocated at grant date | | **656,160** | | **635,272** |
| Outstanding as of January 1, 2011 | 545,372 | | 401,120 | |
| Allocated, compensation for dividend | 71,912 | 92,096 | – | 40,205 |
| Forfeited | –133,088 | –264,060 | –6,500 | –280,857 |
| Exercised | – | – | –394,620 | –394,620 |
| **Total outstanding rights** | **484,196** | **484,196** | **–** | **–** |

Corresponding principles and conditions have been used for 2009 and 2010 year incentive program except for the measure period and levels for retention and performance based conditions.

| | Maximum profit/right | Retention and performance based conditions Series A TSR | Series B ROCE | Series C TSR peer group |
|---|---|---|---|---|
| LTI 2011 | SEK 591 | > 0% | 20–24% | > 10% |
| LTI 2010 | SEK 529 | > 0% | 15–18% | > 10% |
| LTI 2009 | SEK 355 | > 0% | 14–17% | > 10% |

**Exercise of LTI 2008**

The exercise of the share rights in LTI 2008 was conditional upon the fulfilment of certain retention and performance based conditions, measured from April 1, 2008 until March 31, 2011. The outcome of these decided performance conditions was in accordance with below:

| Series | Retention and performance based conditions | Exercised during the year Minimum hurdle (20%) | Stretch target (100%) | Performance outcome | Allotment |
|---|---|---|---|---|---|
| A | Total Shareholder Return Tele2 (TSR) | | ≥ 0% | 53.5% | 100% |
| B | Average normalised Return on Capital Employed (ROCE) | 12% | 15% | 19.5% | 100% |
| C | Total Shareholder Return Tele2 (TSR) compared to a peer group | > 0% | ≥ 10% | 51.1% | 100% |

Weighted average share price at date of exercise for share rights amounted to SEK 152.53 during 2011.

**Exercise of LTI 2007**

Stock options in LTI 2007 can be exercised up until August 2012. The exercise price has been adjusted from SEK 122 to SEK 116.60 due to a compensation for the extraordinary dividend paid during 2011. Weighted average share price for stock options at date of exercise amounted to SEK 149.19 (139.21) during 2011.

| Number of options | 2011 | Cumulative |
|---|---|---|
| Allocated August 28, 2007 | | 3,552,000 |
| Outstanding as of January 1, 2010 | 432,000 | |
| Forfeited | – | –1,023,000 |
| Exercised | –373,000 | –2,470,000 |
| **Total outstanding stock options** | **59,000** | **59,000** |

**Exercise of LTI 2006**

Weighted average share price for stock options at date of exercise amounted to SEK 144.91 (121.69) during 2011 .

A total bonus of SEK 6 million was paid in connection with exercise during 2009–2011, as a compensation for the extraordinary dividend of SEK 6.20 and 8.20 paid during 2008–2010.

| Number of options | Stock options 2011 | Cumulative |
|---|---|---|
| Allocated March 7, 2006 | | 1,504,000 |
| Outstanding as of January 1, 2010 | 120,000 | |
| Forfeited | – | –570,000 |
| Exercised | –120,000 | –934,000 |
| **Total outstanding options** | **–** | **–** |

## NOTE 35 FEES TO THE APPOINTED AUDITOR

Total fees to the appointed auditor (Deloitte) during the year amounted to SEK 27 (29) million of which audit fees SEK 21 (25) million, audit-related fees SEK 1 (1) million and all other consultation fees SEK 5 (3) million. There was no tax-related consultation fees.

Audit fees consisted of fees expensed for the annual audit of the statutory financial statements and statutory audits of subsidiaries.

Audit-related fees consisted of fees expensed for assurance and other services which were closely related to the audit of the company's financial statements or which are normally performed by the appointed auditor, and consultations concerning financial accounting and reporting standards. Examples are limited reviews of quarterly reports, comfort letters and opinions.

All other fees included fees expensed for all other consultations, such as costs of investigations and analyses in conjunction with corporate acquisitions (due diligence).

## NOTE 36 CHANGED ACCOUNTING PRINCIPLE 2012

**JOINT VENTURES**

Tele2 plans to change accounting principles for joint ventures from the equity method to the proportional consolidation method, effective from January 1, 2012, with retrospective application.

The International Accounting Standards Board (IASB) has issued a new standard for joint arrangements, IFRS 11 (not yet adopted by the EU). IFRS 11 focuses on the rights and obligations that exist between the parties in a joint arrangement. This is determinative when deciding which type of joint arrangement exists. A joint arrangement is a construction where two or more parties contractually agree on joint control. It is not only the legal form that should be considered. There are two types of joint arrangements: joint operation and joint venture. A joint operation arises when the joint control owners have rights to the assets and obligations for the liabilities that are connected to the investment. A joint venture applies to the case where the joint determinative owners have rights to the net assets of the investment. Depending on whether one is dealing with a joint operation or a joint venture, different accounting principles shall be applied. According to the new standard, only the equity method is allowed when consolidating joint ventures, i.e. the proportional consolidation is no longer allowed. The parties in a joint operation shall report their assets, liabilities, revenues and expenses and their share of joint assets, liabilities, revenues and expenses.

Tele2 has reviewed its joint ventures. The assessment shows that the major part of these will be classified as joint operations according to IFRS 11. As a consequence, Tele2 plans to change accounting principle already from January 1, 2012, within the current IAS 31 Interests in Joint Ventures, from the present equity method to the proportional consolidation method for joint ventures. The decision is additionally based on the fact that Tele2 Sweden is building its 3G and 4G networks in joint ventures and that the proportional consolidation method is expected to give a more true and fair view. The change of accounting principle will increase the net sales, EBITDA, assets and liabilities of the group and has a minor effect on operating profit and net cash flows. The change will have no effect on net profit or shareholders' equity.

*Continued Note 36*

The effects from the change of accounting principle are stated below.

### Income statement

| | 2011 | 2010 |
|---|---|---|
| Net sales | 251 | 421 |
| Cost of services sold | –192 | –349 |
| Administrative expenses | –23 | –24 |
| Result from shares in associated companies and joint ventures | –16 | –145 |
| Other operating income | 62 | 31 |
| **Operating profit/loss** | **82** | **–66** |
| Interest income | –24 | –2 |
| Interest costs | –51 | –28 |
| **Profit/loss after financial items** | **7** | **–96** |
| Tax on profit/loss for the year | –7 | 96 |
| **Net profit** | **–** | **–** |

### Balance sheet

| | Dec 31, 2011 | Dec 31, 2010 |
|---|---|---|
| **ASSETS** | | |
| Goodwill | – | 144 |
| Other intangible assets | 450 | 32 |
| Intangible assets | 450 | 176 |
| Tangible assets | 2,189 | 2,312 |
| Financial assets | –2,529 | –1,068 |
| Deferred tax assets | 91 | 96 |
| **TOTAL FIXED ASSETS** | **201** | **1,516** |
| Current receivables | 104 | 164 |
| Cash and cash equivalents | 50 | 36 |
| **TOTAL CURRENT ASSETS** | **154** | **200** |
| **TOTAL ASSETS** | **355** | **1,716** |

| | Dec 31, 2011 | Dec 31, 2010 |
|---|---|---|
| **SHAREHOLDERS' EQUITY AND LIABILITIES** | | |
| Interest-bearing liabilities | – | 216 |
| **TOTAL LONG-TERM LIABILITIES** | **–** | **216** |
| Interest-bearing liabilities | – | 1,260 |
| Non-interest-bearing liabilities | 355 | 240 |
| **TOTAL SHORT-TERM LIABILITIES** | **355** | **1,500** |
| **TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES** | **355** | **1,716** |

### Cash flow statement

| | 2011 | 2010 |
|---|---|---|
| **OPERATING ACTIVITIES** | | |
| Cash flow from operations before changes in working capital | 285 | 330 |
| Changes in working capital | 157 | 42 |
| **Cash flow from operating activities** | **442** | **372** |
| **INVESTING ACTIVITIES** | | |
| CAPEX | –905 | –355 |
| ***Cash flow after CAPEX*** | ***–463*** | ***17*** |
| Acquisition of shares and participations | –372 | 125 |
| Long-term receivables from joint ventures | 1,999 | 200 |
| **Cash flow from investing activities** | **722** | **–30** |
| **CASH FLOW AFTER INVESTING ACTIVITIES** | **1,164** | **342** |
| **FINANCING ACTIVITIES** | | |
| Change of loans, net | –1,150 | –393 |
| **Cash flow from financing activities** | **–1,150** | **–393** |
| **Net change in cash and cash equivalents** | **14** | **–51** |
| Cash and cash equivalents at beginning of the year | 36 | 87 |
| **Net change in cash and cash equivalents** | **50** | **36** |

*Continued Note 36*

### Segments and other information

| | 2011 | | | | |
|---|---|---|---|---|---|
| | Net sales | Internal sales | EBITDA | EBIT | CAPEX |
| **Sweden** | | | | | |
| Mobile | 222 | 16 | 318 | 66 | 882 |
| Other operations | –4 | 25 | – | – | – |
| | **218** | **41** | **318** | **66** | **882** |
| **Norway** | | | | | |
| Mobile | 74 | – | 42 | 16 | 130 |
| | **74** | **–** | **42** | **16** | **130** |
| Internal sales, elimination | –41 | | | | |
| **Tele2 Group** | **251** | **41** | **360** | **82** | **1,012** |

| | 2010 | | | | |
|---|---|---|---|---|---|
| | Net sales | Internal sales | EBITDA | EBIT | CAPEX |
| **Sweden** | | | | | |
| Mobile | 382 | 12 | 345 | 18 | 254 |
| Other operations | –11 | 4 | – | – | – |
| | **371** | **16** | **345** | **18** | **254** |
| **Norway** | | | | | |
| Mobile | 66 | – | 14 | 12 | 190 |
| | **66** | **–** | **14** | **12** | **190** |
| Internal sales, elimination | –16 | | | | |
| One-off items | – | – | – | –96 | – |
| **Tele2 Group** | **421** | **16** | **359** | **–66** | **444** |

Specification of items between EBITDA and EBIT is stated below.

| | 2011 | 2010 |
|---|---|---|
| **EBITDA** | **360** | **359** |
| Depreciation/amortization and other impairment | –262 | –280 |
| Result from shares in associated companies and joint ventures | –16 | –49 |
| One-off items in result from shares in joint ventures | – | –96 |
| **EBIT** | **82** | **–66** |

| | 2011 | 2010 |
|---|---|---|
| **CAPEX according to cash flow statement** | 905 | 355 |
| This year unpaid CAPEX and paid CAPEX from previous year | 107 | 89 |
| **CAPEX according to balance sheet** | **1,012** | **444** |

### Key ratios

| | 2011 | 2010 | 2009 | 2008 |
|---|---|---|---|---|
| Net sales | 251 | 421 | 400 | 300 |
| EBITDA | 360 | 359 | 227 | 225 |
| EBIT | 82 | –66 | 45 | 120 |
| EBT | 7 | –96 | – | – |
| Total assets | 355 | 1,716 | 2,268 | 2,360 |
| Cash flow from operating activities | 442 | 372 | 309 | 192 |
| Cash flow after CAPEX | –463 | 17 | –143 | –251 |
| Available liquidity | 50 | 440 | 110 | 35 |
| Net debt | 2,149 | 1,726 | 1,842 | 2,060 |
| Investments in intangible and tangible assets, CAPEX | 1,012 | 444 | 452 | 443 |
| Investments in shares and other long-term receivables, net | –1,627 | –325 | –352 | –87 |
| **Key ratios** | | | | |
| EBITDA margin, % | 0.7 | 0.6 | –0.4 | 0.4 |
| EBIT margin, % | 0.1 | –0.3 | – | 0.2 |

## NOTE 37 DISCONTINUED OPERATIONS

Discontinued operations include settlements of sales costs and price adjustments for discontinued operations sold during the past years.

### Income statement

Income Statement for discontinued operations is stated below.

| | 2011 | 2010 |
|---|---|---|
| Net sales | – | – |
| Profit/loss after financial items | –7 | 453 |
| Tax on profit/loss for the year | – | –6 |
| **Net profit/loss** | **–7** | **447** |
| Earnings per share, SEK | –0.02 | 1.01 |
| Earnings per share after dilution, SEK | –0.02 | 1.01 |

### Cash flow statement

| | 2011 | 2010 |
|---|---|---|
| Cash flow from operating activities | – | – |
| Cash flow from investing activities | 3 | 323 |
| **Net change in cash and cash equivalents** | **3** | **323** |

## NOTE 38 TRANSACTIONS WITH RELATED PARTIES

Business relations and pricing between Tele2 and all related parties are based on commercial terms and conditions. During 2011, Tele2 engaged in transactions with the following related companies/persons. The revised IAS 24 Related Party Disclosures clarifies the definition of a related party. In accordance with the revised IAS 24 the associated companies to Kinnevik are no longer classified as related parties to Tele2.

### Senior executives and Board members

Information of senior executives and Board members is presented in Note 34.

### Kinnevik Group

Kinnevik buys IT services from Datametrix and Tele2 rents premises from Kinnevik. Korsnäs purchases certain consultancy services from the Tele2 company Procure IT right.

### Associated companies and joint ventures

Information of associated companies and joint ventures is presented in Note 17.

#### TRANSACTIONS BETWEEN TELE2 AND RELATED PARTIES

| | Net sales | | Operating expenses | | Interest revenue | |
|---|---|---|---|---|---|---|
| | 2011 | 2010 | 2011 | 2010 | 2011 | 2010 |
| Kinnevik | 4 | 3 | 13 | 9 | – | – |
| Associated companies and joint ventures | 210 | 120 | 737 | 747 | 48 | 4 |
| **Total** | **214** | **123** | **750** | **756** | **48** | **4** |

#### BALANCES BETWEEN TELE2 AND RELATED PARTIES

| | Other receivables | | Interest-bearing receivables | | Non-interest-bearing liabilities | |
|---|---|---|---|---|---|---|
| | Dec 31, 2011 | Dec 31, 2010 | Dec 31, 2011 | Dec 31, 2010 | Dec 31, 2011 | Dec 31, 2010 |
| Kinnevik | – | – | – | – | 1 | – |
| Associated companies and joint ventures | 250 | 89 | 2,199 | 286 | 112 | 37 |
| **Total** | **250** | **89** | **2,199** | **286** | **113** | **37** |

# Parent company's financial statement

## THE PARENT COMPANY'S INCOME STATEMENT

| SEK million | Note | 2011 | 2010 |
|---|---|---|---|
| Net sales | 2 | 65 | 48 |
| **Gross profit** | | **65** | **48** |
| Administrative expenses | | –117 | –120 |
| **Operating loss** | | **–52** | **–72** |
| PROFIT/LOSS FROM FINANCIAL INVESTMENTS | | | |
| Result from shares in group companies | 3 | 4,489 | 14,580 |
| Result from other securities and receivables classified as fixed assets | 4 | 274 | 42 |
| Other interest revenue and similar income | 5 | 2 | – |
| Interest expense and similar costs | 6 | –224 | –386 |
| **Profit after financial items** | | **4,489** | **14,164** |
| Tax on profit for the year | 7 | 6 | –316 |
| **NET PROFIT** | | **4,495** | **13,848** |

## THE PARENT COMPANY'S COMPREHENSIVE INCOME

| SEK million | Note | 2011 | 2010 |
|---|---|---|---|
| **Net profit** | | **4,495** | **13,848** |
| OTHER COMPREHENSIVE INCOME | | | |
| **Components to be reclassified to net profit:** | | | |
| Cash flow hedges | 12 | –133 | 46 |
| Cash flow hedges, tax effect | | 35 | –12 |
| **Total other comprehensive income for the year, net of tax** | | **–98** | **34** |
| **TOTAL COMPREHENSIVE INCOME FOR THE YEAR** | | **4,397** | **13,882** |

## THE PARENT COMPANY'S BALANCE SHEET

| SEK million | Note | Dec 31, 2011 | Dec 31, 2010 |
|---|---|---|---|
| **ASSETS** | | | |
| FIXED ASSETS | | | |
| **Financial assets** | | | |
| Shares in group companies | 8 | 13,507 | 13,507 |
| Receivables from group companies | 9 | 20,300 | 9,867 |
| Deferred tax assets | 7 | 81 | 40 |
| Other financial assets | 10 | 20 | – |
| **TOTAL FIXED ASSETS** | | **33,908** | **23,414** |
| CURRENT ASSETS | | | |
| **Current receivables** | | | |
| Accounts receivables from group companies | | 11 | 19 |
| Other receivables from group companies | 9 | 4,500 | 14,580 |
| Other current receivables | | 1 | 1 |
| Prepaid expenses and accrued income | | – | 1 |
| **Total current receivables** | | **4,512** | **14,601** |
| **Cash and cash equivalents** | 11 | 3 | 3 |
| **TOTAL CURRENT ASSETS** | | **4,515** | **14,604** |
| **TOTAL ASSETS** | | **38,423** | **38,018** |

| SEK million | Note | Dec 31, 2011 | Dec 31, 2010 |
|---|---|---|---|
| **SHAREHOLDERS' EQUITY AND LIABILITIES** | | | |
| SHAREHOLDERS' EQUITY | | | |
| **Restricted equity** | | | |
| Share capital | | 561 | 559 |
| Restricted reserve | | 16,985 | 16,974 |
| **Total restricted equity** | | **17,546** | **17,533** |
| **Unrestricted equity** | | | |
| Reserves | | –127 | –29 |
| Retained earnings | | 8,060 | 6,159 |
| Net profit | | 4,495 | 13,848 |
| **Total unrestricted equity** | | **12,428** | **19,978** |
| **TOTAL SHAREHOLDERS' EQUITY** | | **29,974** | **37,511** |
| LONG-TERM LIABILITIES | | | |
| **Interest-bearing** | | | |
| Liabilities to financial institutions and similar liabilities | 12 | 8,197 | 426 |
| Liabilities to group companies | | – | – |
| Pension and similar commitments | | 24 | – |
| **TOTAL LONG-TERM LIABILITIES** | | **8,221** | **426** |
| SHORT-TERM LIABILITIES | | | |
| **Interest-bearing** | | | |
| Other interest-bearing liabilities | 12 | 172 | 39 |
| **Total interest-bearing liabilities** | | **172** | **39** |
| **Non-interest-bearing** | | | |
| Accounts payable | 12 | 4 | 3 |
| Other short-term liabilities | 12 | 3 | 4 |
| Other liabilities to group companies | | 11 | – |
| Accrued expenses and deferred income | 13 | 38 | 35 |
| **Total non-interest-bearing liabilities** | | **56** | **42** |
| **TOTAL SHORT-TERM LIABILITIES** | | **228** | **81** |
| **TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES** | | **38,423** | **38,018** |
| PLEDGED ASSETS AND CONTINGENT LIABILITIES | | | |
| Pledged assets | | None | None |
| Contingent liabilities | 14 | 1,014 | 2,378 |

# Parent company's financial statement

## THE PARENT COMPANY'S CASH FLOW STATEMENT

| SEK million | 2011 | 2010 |
|---|---|---|
| **OPERATING ACTIVITIES** | | |
| Operating loss | –52 | –72 |
| Interest received | 2 | – |
| Interest paid | –174 | –283 |
| Finance costs paid | –16 | – |
| **Cash flow from operations before changes in working capital** | **–240** | **–355** |
| **CHANGES IN WORKING CAPITAL** | | |
| Operating assets | 1 | –6 |
| Operating liabilities | 12 | –5 |
| **Changes in working capital** | **13** | **–11** |
| **CASH FLOW FROM OPERATING ACTIVITIES** | **–227** | **–366** |
| **INVESTING ACTIVITIES** | | |
| Received dividend from group companies | 13,000 | – |
| Repayments from group companies | – | 9,462 |
| **Cash flow from investing activities** | **13,000** | **9,462** |
| **CASH FLOW AFTER INVESTING ACTIVITIES** | **12,773** | **9,096** |
| **FINANCING ACTIVITIES** | | |
| Proceeds from credit institutions and similar liabilities | 7,733 | – |
| Repayment of loans from credit institutions and similar liabilities | – | –2,445 |
| Repayment of loans from group companies | –8,572 | –4,402 |
| Dividends | –11,991 | –2,580 |
| Repurchase of own shares | –2 | – |
| Sale of own shares | 46 | 256 |
| New share issues | 13 | 74 |
| **Cash flow from financing activities** | **–12,773** | **–9,097** |
| **NET CHANGE IN CASH AND CASH EQUIVALENTS** | **–** | **–1** |
| Cash and cash equivalents at beginning of the year | 3 | 4 |
| **CASH AND CASH EQUIVALENTS AT END OF THE YEAR** | **3** | **3** |

For additional cash flow information, please refer to Note 15.

## CHANGE IN THE PARENT COMPANY'S SHAREHOLDERS' EQUITY

| | Restricted equity | | Unrestricted equity | | |
|---|---|---|---|---|---|
| SEK million | Share capital | Restricted reserve | Hedge reserve | Retained earnings | Total shareholders' equity |
| Shareholders' equity at January 1, 2010 | 558 | 16,901 | –63 | 8,483 | 25,879 |
| New share issues | 1 | 73 | – | – | 74 |
| Sale of own shares | – | – | – | 256 | 256 |
| Dividends | – | – | – | –2,580 | –2,580 |
| Comprehensive income for the year | – | – | 34 | 13,848 | 13,882 |
| **SHAREHOLDERS' EQUITY AT DECEMBER 31, 2010** | **559** | **16,974** | **–29** | **20,007** | **37,511** |
| Shareholders' equity at January 1, 2011 | 559 | 16,974 | –29 | 20,007 | 37,511 |
| New share issues | 2 | 11 | – | – | 13 |
| Repurchase of own shares | – | – | – | –2 | –2 |
| Sale of own shares | – | – | – | 46 | 46 |
| Dividends | – | – | – | –11,991 | –11,991 |
| Comprehensive income for the year | – | – | –98 | 4,495 | 4,397 |
| **SHAREHOLDERS' EQUITY AT DECEMBER 31, 2011** | **561** | **16,985** | **–127** | **12,555** | **29,974** |

## NOTES TO THE PARENT COMPANY'S FINANCIAL STATEMENTS

### NOTE 1 ACCOUNTING PRINCIPLES AND OTHER INFORMATION

The parent company's financial statements have been prepared according to the Swedish Annual Accounts Act, the Swedish Financial Reporting Board recommendation RFR 2 Reporting for legal entities and statements from the Swedish Financial Reporting Board.

In 2011, the parent company changed accounting principle, with retroactive effect for group contribution, from being reported in equity to being reported as financial items in the income statement. Comparable figures for 2010 were adjusted accordingly, where financial items were positively affected by SEK 1,580 million and tax costs increased by SEK 415 million.

The parent company follows the same accounting policies as the group (see group Note 1) with the following exceptions.

**Business combination**
At a business combination all expenses directly related to the acquisition are included in the acquisition value.

**Financial assets and liabilities and other financial instruments**
Value changes relating to foreign currency loans are recognized in other comprehensive income in the group, but in the income statement in the parent company.

IFRS 7 Financial Instruments: Disclosures has not been applied to the parent company's financial statements, as its disclosures do not deviate materially from the group's disclosures already submitted.

**Group contributions**
Group contributions that are made for the purpose of minimizing the group's tax expense are reported in the income statement.

**OTHER INFORMATION**
The annual report has been approved by the Board of Directors on March 16, 2012. The balance sheet and income statement are subject to adoption by the Annual General Meeting on May 7, 2012.

### NOTE 2 NET SALES

Net sales relates to sales to other companies in the group.

### NOTE 3 RESULT OF SHARES IN GROUP COMPANIES

| | 2011 | 2010 |
|---|---|---|
| Anticipated dividend from subsidiary | 4,500 | 13,000 |
| Group contribution | –11 | 1,580 |
| **Total result of shares in group companies** | **4,489** | **14,580** |

### NOTE 4 RESULT FROM OTHER SECURITIES AND RECEIVABLES CLASSIFIED AS FIXED ASSETS

| | 2011 | 2010 |
|---|---|---|
| Interest, group | 274 | 44 |
| Exchange rate difference on receivables from group companies | – | –2 |
| **Total result from other securities and receivables classified as fixed assets** | **274** | **42** |

### NOTE 5 OTHER INTEREST REVENUE AND SIMILAR INCOME

| | 2011 | 2010 |
|---|---|---|
| Interest, bank balances | 1 | – |
| Interest, penalty interest | 1 | – |
| **Total other interest revenue and similar income** | **2** | **–** |

### NOTE 6 INTEREST EXPENSE AND SIMILAR COSTS

| | 2011 | 2010 |
|---|---|---|
| Interest, credit institutions and similar liabilities | –251 | –412 |
| Interest, group | – | –24 |
| Exchange rate difference on financial liabilities | 43 | 50 |
| Other finance expenses | –16 | – |
| **Total interest expenses and similar costs** | **–224** | **–386** |

Other financial expenses is related to an amendment fee for the loan facility, when issuing a bond in Russia.

### NOTE 7 TAXES

| | 2011 | 2010 |
|---|---|---|
| Deferred tax income/expense | 6 | –316 |
| **Total tax on profit for the year** | **6** | **–316** |

The difference between recorded tax expense and the tax expense based on prevailing tax rate consists of the below listed components.

| | 2011 | | 2010 | |
|---|---|---|---|---|
| Profit before tax | 4,489 | | 14,164 | |
| Tax effect according to tax rate in Sweden | –1,181 | –26.3% | –3,725 | –26.3% |
| | | | | |
| **Tax effect of** | | | | |
| Non-deductible expenses | –1 | 0.0% | –3 | 0.0% |
| Non-taxable anticipated dividend | 1,184 | 26.4% | 3,419 | 24.1% |
| Changed tax rate | – | – | –7 | 0.0% |
| Capital insurance from previous years | 4 | 0.1% | – | – |
| **Tax expense/income and effective tax rate** | **6** | **0.1%** | **–316** | **–2.2%** |

Deferred tax asset of SEK 81 (40) million is attributable to liabilities of SEK 45 (11) million, pensions of SEK 7 (–) million and unutilized loss carry-forwards of SEK 29 (29) million.

## NOTE 8 SHARES IN GROUP COMPANIES

| Company, reg. No., reg'd office | Number of shares | Total par value | Holding (capital/ votes) | Dec 31, 2011 | Dec 31, 2010 |
|---|---|---|---|---|---|
| Tele2 Holding AB, 556579-7700, Stockholm, Sweden | 1,000 | tSEK 100 | 100% | 13,507 | 13,507 |
| **Total shares in group companies** | | | | **13,507** | **13,507** |

A list of all subsidiaries, excluding dormant companies, is presented in Note 19.

| | Dec 31, 2011 | Dec 31, 2010 |
|---|---|---|
| **Acquisition value** | | |
| Acquisition value at January 1 | 13,507 | 13,507 |
| **Total shares in group companies** | **13,507** | **13,507** |

## NOTE 9 RECEIVABLES FROM GROUP COMPANIES

| | Long term receivables | | Current receivables | |
|---|---|---|---|---|
| | Dec 31, 2011 | Dec 31, 2010 | Dec 31, 2011 | Dec 31, 2010 |
| Acquisition value at January 1 | 9,867 | 17,109 | 14,580 | – |
| Lending | 7,749 | 330 | 4,500 | 14,580 |
| Repayments | –12,004 | –4,886 | – | – |
| Reclassification | 14,580 | –2,202 | –14,580 | – |
| Other changes in cash pool | 108 | –484 | – | – |
| **Total receivables from group companies** | **20,300** | **9,867** | **4,500** | **14,580** |

Long term receivables from group companies relate to balances in the cash pool.

## NOTE 10 OTHER FINANCIAL ASSETS

| | Dec 31, 2011 | Dec 31, 2010 |
|---|---|---|
| Pension funds | 20 | – |
| **Total other financial assets** | **20** | **–** |

## NOTE 11 CASH AND CASH EQUIVALENTS AND OVERDRAFT FACILITIES

| | Dec 31, 2011 | Dec 31, 2010 |
|---|---|---|
| Cash and cash equivalents | 3 | 3 |
| Unutilized overdraft facilities and credit lines | 7,857 | 11,500 |
| **Total available liquidity** | **7,860** | **11,503** |

## NOTE 12 FINANCIAL LIABILITIES

| | Dec 31, 2011 | Dec 31, 2010 |
|---|---|---|
| Liabilities to financial institutions and similar liabilities | 8,197 | 426 |
| Other interest-bearing liabilities | 172 | 39 |
| **Total interest-bearing financial liabilities** | **8,369** | **465** |
| | | |
| Accounts payable | 4 | 3 |
| Other short-term liabilities | 3 | 4 |
| **TOTAL FINANCIAL LIABILITIES** | **8,376** | **472** |

Financial liabilities fall due for payment according to below.

| | Dec 31, 2011 | Dec 31, 2010 |
|---|---|---|
| Within 3 months | 179 | 46 |
| Within 1–2 years | 8,197 | – |
| Within 2–3 years | – | 426 |
| **Total financial liabilities** | **8,376** | **472** |

### INTEREST-BEARING FINANCIAL LIABILITIES

No specific collateral is provided for interest-bearing financial liabilities.

### Liabilities to financial institutions and similar liabilities

| | | | Dec 31, 2011 | | Dec 31, 2010 | |
|---|---|---|---|---|---|---|
| Creditors *(collateral provided)* | Interest rate terms | Maturity date | Short-term liabilities | Long-term liabilities | Short-term liabilities | Long-term liabilities |
| Syndicated loan facilities *(collateral: guarantee from Tele2 Sverige AB)* | variable interest rates | 2013 | – | 8,197 | – | 426 |
| | | | **–** | **8,197** | **–** | **426** |
| **Total liabilities to financial institutions and similar liabilities** | | | | **8,197** | | **426** |

For additional information please refer to group Note 26.

### Other interest-bearing liabilities

| | Short-term liabilities | |
|---|---|---|
| | Dec 31, 2011 | Dec 31, 2010 |
| Derivatives | 172 | 39 |
| **Total other interest-bearing liabilities** | **172** | **39** |

Derivatives consisted of interest swap, valued at fair value.
For additional information please refer to group Note 2.

### OTHER SHORT-TERM LIABILITIES

| | Dec 31, 2011 | Dec 31, 2010 |
|---|---|---|
| VAT liability | 2 | 3 |
| Other taxes | 1 | 1 |
| **Total short-term liabilities** | **3** | **4** |

## NOTE 13 ACCRUED EXPENSES AND DEFERRED INCOME

| | Dec 31, 2011 | Dec 31, 2010 |
|---|---|---|
| Interest costs | 11 | 15 |
| Personnel-related expenses | 26 | 18 |
| External services expenses | 1 | 2 |
| **Total accrued expenses and deferred income** | **38** | **35** |

## NOTE 14 CONTINGENT LIABILITIES AND OTHER COMMITMENTS

### CONTINGENT LIABILITIES

| | Dec 31, 2011 | Dec 31, 2010 |
|---|---|---|
| Guarantee related to group companies | 1,014 | 1,118 |
| Guarantee related to joint venture | – | 1,260 |
| **Total contingent liabilities** | **1,014** | **2,378** |

In 2011, the guarantees in favor of the joint venture Svenska UMTS-nät (December 31, 2010: SEK 1 260 million) were replaced with loans from the owners.

### OPERATING LEASES

The parent company's operating lease payments amounted to SEK 1 (1) million during the year. Future lease payments amount to SEK 2 (1) million and these are due for payment during the next year.

## NOTE 15 SUPPLEMENTARY CASH FLOW INFORMATION

In 2011, the parent company had interest revenues from other group companies of SEK 320 (47) million and interest expenses to other group companies of SEK 2 (27) million which were capitalized on the loan amount.

The parent company reported SEK 43 (50) million in currency effects from loans to financial institutions and similar liabilities. These did not have any cash effect.

In 2011, the parent company received an anticipated dividend from a subsidiary in the amount of SEK 4,500 (13,000) million, which did not have any cash effect.

In 2011, the parent company gave a group contribution in the amount of SEK 11 (–1,580) million, which did not have any cash effect.

## NOTE 16 NUMBER OF EMPLOYEES

The average number of employees in the parent company is 6 (6), of whom 2 (2) are women.

## NOTE 17 PERSONNEL COSTS

| | 2011 | | | 2010 | | |
|---|---|---|---|---|---|---|
| | Salaries and remune-rations | Social security expenses | *of which pension expenses* | Salaries and remune-rations | Social security expenses | *of which pension expenses* |
| Board and CEO | 23 | 9 | *2* | 31 | 11 | *4* |
| Other employees | 26 | 17 | *2* | 19 | 11 | *2* |
| **Total salaries and remuneration** | **49** | **26** | ***4*** | **50** | **22** | ***6*** |

The parent company's pension expenses relate to defined-contribution plans. Salary and remuneration for the CEO are presented in group Note 34.

## NOTE 18 FEES TO THE APPOINTED AUDITOR

Audit fees to the appointed auditor is SEK 1 (2) million and audit-related fees is SEK 1 (1) million.

## NOTE 19 LEGAL STRUCTURE

The table below lists all the subsidiaries, associated companies, joint ventures and other holdings that are not dormant companies or branches.

| Company, reg. No., reg'd office | Note | Holding (capital/ votes) |
|---|---|---|
| **TELE2 HOLDING AB**, 556579-7700, Stockholm, Sweden | | 100% |
| **Tele2 Treasury AB**, 556606-7764, Stockholm, Sweden | | 100% |
| **Tele2 Sverige AB**, 556267-5164, Stockholm, Sweden | | 100% |
| ***Triangelbolaget D4 AB,*** 556007-9799, Stockholm, Sweden | 17 | 25% |
| ***Modern Holdings Inc,*** 133799783, Delaware, US | 19 | 11.88% |
| ***Swefour GSM AB,*** 556646-2189, Stockholm, Sweden | | 100% |
| ***e-Village Nordic AB,*** 556050-1644, Stockholm, Sweden | | 100% |
| *Radio National Luleå AB*, 556475-0411, Stockholm, Sweden | 19 | 5.5% |
| *GH Giga Hertz HB* as well as 15 other partnerships with licenses | 17 | 33.3% |
| ***Radio Components Sweden AB,*** 556573-3846, Stockholm, Sweden | | 80.43% |
| ***Tele2Butikerna AB,*** 556284-7565, Stockholm, Sweden | | 100% |
| ***Spring Mobil AB,*** 556609-0238, Stockholm, Sweden | | 100% |
| ***4T Sverige AB AB,*** 556857-8495, Stockholm, Sweden | 17 | 25% |
| ***Svenska UMTS-nät Holding AB,*** 556606-7988, Stockholm, Sweden | | 100% |
| *Svenska UMTS-nät AB*, 556606-7996, Stockholm, Sweden | 17 | 50% |
| ***Interloop AB,*** 556450-2606, Stockholm, Sweden | | 100% |
| *Net4Mobility HB*, 969739-0293, Stockholm, Sweden | 17 | 50% |
| ***Procure IT Right AB,*** 556600-9436, Stockholm, Sweden | | 100% |
| ***SNPAC Swedish Nr Portability Adm.Centre AB,*** 556595-2925, Stockholm, Sweden | 17 | 20% |
| ***Datametrix AB,*** 556580-2682, Stockholm, Sweden | | 100% |
| *Datametrix BPO AB*, 556580-7871, Stockholm, Sweden | | 100% |
| UNI2 OÜ, 11010450, Tallinn, Estonia | | 100% |
| SIA Datametrix, 40003681691, Riga, Latvia | | 100% |
| Datametrix GmbH, HRB 58959, Düsseldorf, Germany | | 100% |
| ***Tele2 Norge AS,*** 974534703, Oslo, Norway | | 100% |
| *Mobile Norway AS*, 888 137 122, Oslo, Norway | | 50% |
| ***Network Norway AS,*** 983714463, Oslo, Norway | | 100% |
| *Mobile Norway AS*, 888 137 122, Oslo, Norway | | 50% |
| *Officer AS*, 992 898 089, Oslo, Norway | | 87.20% |
| ***Tele2 Netherlands Holding NV,*** 33272606, Amsterdam, Netherlands | | 100% |
| *Tele2 Nederlands BV*, 33303418, Amsterdam, Netherlands | | 100% |
| Versatel Internetdiensten BV, 34144876, Amsterdam, Netherlands | | 100% |
| *BBned NV*, 34137310, Hoofddorp, Netherlands | | 100% |
| *Connect Data Solutions BV*, 32090233, Naarden, Netherlands | | 100% |
| ***Tele2 d.o.o. Za telekomunikacijske usulge,*** 1849018, Zagreb, Croatia | | 100% |
| ***Mobile Telecom Service LLP,*** 66497-1910-T00, Almaty, Kazakhstan | | 51% |
| ***Tele2 UK Services Ltd,*** 4028792, London, UK | | 100% |
| ***Tele2 Eesti AS,*** 10069046, Tallinn, Estonia | | 100% |
| ***Tele2 Holding Lithuania AS,*** 11920703, Tallinn, Estonia | | 100% |
| *Tele2 Holding Lithuania AS Filialas*, 302514793, Vilnius, Lithuania | | 100% |
| UAB Tele2, 111471645, Vilnius, Lithuania | | 100% |
| UAB Tele2 Fiksuotas Rysys, 111793742, Vilnius, Lithuania | | 100% |
| ***Tele2 Holding SIA,*** 40003512063, Riga, Latvia | | 100% |
| *SIA Tele2*, 40003272854, Riga, Latvia | | 100% |
| *SIA Tele2 Shared Service Center*, 40003690571, Riga, Latvia | | 100% |
| *SIA Tele2 Telecom Latvia*, 40003616935, Riga, Latvia | | 100% |
| ***Tele2 Europe SA,*** R.C.B56944, Luxembourg | | 100% |
| *Tele2 Austria Holding GmbH*, FN178222t, Vienna, Austria | | 100% |
| Tele2 Telecommunication GmbH, FN138197g, Vienna, Austria | | 100% |
| Tele2 communication GmbH s.r.o., 35820616, Bratislava, Slovakia | | 100% |
| Silver Server GmbH, FN 204414, Vienna, Austria | | 100% |
| *Communication Services Tele2 GmbH*, 36232, Düsseldorf, Germany | | 100% |
| *IntelliNet Holding BV*, 34126307, Amsterdam, Netherlands | | 100% |
| 010033 Telecom GmbH, HRB 48344, Frankfurt, Germany | | 100% |
| *S.E.C. Luxembourg S.A.*, R.C. B-84.649, Luxembourg | | 100% |
| *SEC Finance SA*, B104730, Luxembourg | | 100% |
| Tele2 Finance Luxembourg SA, RCB112873, Luxembourg | | 100% |
| Tele2 Finance Belgium CVBA, 0878159608, Brussels, Belgium | | 100% |
| Tele2 Financial Services (Belgium), 0882.856.089, Wemmel, Belgium | | 100% |
| ***Tele2 Russia Telecom BV,*** 33287334, Rotterdam, Netherlands | | 100% |
| *Tele2 Russia Holding AB*, 556469-7836, Stockholm, Sweden | | 100% |
| Tele2 Financial Services AB, 556244-2466, Stockholm, Sweden | | 100% |
| St Petersburg Telecom, 1027809223903, St Petersburg, Russia | | 100% |
| Votec Mobile ZAO, 1023601558694, Voronezh, Russia | | 100% |
| Lipetsk Mobile CJSC, 1024840840419, Lipetsk, Russia | | 100% |
| Telecom Eurasia LLC, 1027739455215, Krasnodar, Russia | | 100% |
| JSC Adigeja Cellular Communications, 105025940, Adigeja, Russia | | 100% |
| PSNR Personal System Networks in region, 1025202610157, Niznhy Novgorod, Russia | | 100% |
| CJSC Arkhangelsk Mobile Networks, 2901068336, Arkhangelsk, Russia | | 100% |
| CJSC Novgorod Telecomunication, 5321059118, Novgorod, Russia | | 100% |
| CJSC Murmansk Mobile Networks, 5190302373, Murmansk, Russia | | 100% |
| CJSC Parma Mobile, 1101051099, Syktyvkar, Russia | | 100% |
| Chelyabinsk Cellular Network, 1027403876862, Chelyabinsk, Russia | | 100% |
| Kursk Cellular Communications, 1024600947403, Kursk, Russia | | 100% |
| Smolensk Cellular Communications, 1026701433494, Smolensk, Russia | | 100% |
| Belgorod Cellular Communications, 1023101672923, Belgorod, Russia | | 100% |
| Kemerovo Mobile Communications, 1024200689941, Kemerovo, Russia | | 100% |
| Rostov Cellular Communications, 1026103168520, Rostov, Russia | | 100% |
| Udmurtiya Cellular Communications, 1021801156893, Izhevsk, Russia | | 100% |
| Siberian Cellular Communications, 1025500746072, Omsk, Russia | | 100% |
| Teleset Ltd, 3906044891, Kaliningrad, Russia | | 100% |
| Tele2 Russia International Cellular BV, 33221654, Amsterdam, Netherlands | | 100% |
| OJSC Aero-Space Telecommunications, 1025002032648, Russia | 19 | 1% |

The consolidated financial statements and Annual Report have been prepared in accordance with the international financial reporting standards referred to in European Parliament and Council of Europe Regulation (EC) No. 1606/2002 of 19 July 2002, on application of International Financial Reporting Standards and generally accepted accounting principles, and gives a fair overview of the parent company's and group's financial position and results of operations.

The administration report for the group and parent company gives a fair overview of the group's and parent company's operations, financial position and results of operations, and describes significant risks and uncertainties that the parent company and companies included in the group face.

Stockholm March 16, 2012

| | | |
|---|---|---|
| Mike Parton<br>*Chairman* | Lars Berg | Mia Brunell Livfors |
| Jere Calmes | John Hepburn | Erik Mitteregger |
| John Shakeshaft | Cristina Stenbeck | Mats Granryd<br>*President and CEO* |

Our auditors' report was submitted on March 16, 2012

Deloitte AB

Jan Berntsson
*Authorized Public Accountant*

# Auditor's report

**To the annual general meeting of the shareholders of Tele2 AB (publ)**

**Corporate identity number 556410-8917**

**Report on the annual accounts and consolidated accounts**
We have audited the annual accounts and consolidated accounts of Tele2 AB (publ) for the financial year 2011.

*Responsibilities of the board of directors and the managing director for the annual accounts and consolidated accounts*
The board of directors and the managing director are responsible for the preparation and fair presentation of these annual accounts and consolidated accounts in accordance with International Financial Reporting Standards, as adopted by the EU, and the Annual Accounts Act, and for such internal control as the board of directors and the managing director determine is necessary to enable the preparation of annual accounts and consolidated accounts that are free from material misstatement, whether due to fraud or error.

*Auditor's responsibility*
Our responsibility is to express an opinion on these annual accounts and consolidated accounts based on our audit. We conducted our audit in accordance with International Standards on Auditing and generally accepted auditing standards in Sweden. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the annual accounts and consolidated accounts are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the annual accounts and consolidated accounts. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the annual accounts and consolidated accounts, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the company's preparation and fair presentation of the annual accounts and consolidated accounts in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the board of directors and the managing director, as well as evaluating the overall presentation of the annual accounts and consolidated accounts.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

*Opinions*
In our opinion, the annual accounts have been prepared in accordance with the Annual Accounts Act and present fairly, in all material respects, the financial position of the parent company as of December 31, 2011 and of its financial performance and its cash flows for the year then ended in accordance with the Annual Accounts Act, and the consolidated accounts have been prepared in accordance with the Annual Accounts Act and present fairly, in all material respects, the financial position of the group as of December 31, 2011 and of its financial performance and cash flows in accordance with International Financial Reporting Standards, as adopted by the EU, and the Annual Accounts Act. The statutory administration report is consistent with the other parts of the annual accounts and consolidated accounts.

We therefore recommend that the annual meeting of shareholders adopt the income statement and balance sheet for the parent company and the group.

**Report on other legal and regulatory requirements**
In addition to our audit of the annual accounts and consolidated accounts, we have examined the proposed appropriations of the company's profit or loss and the administration of the board of directors and the managing director of Tele2 AB (publ) for the financial year 2011.

*Responsibilities of the board of directors and the managing director*
The board of directors is responsible for the proposal for appropriations of the company's profit or loss, and the board of directors and the managing director are responsible for administration under the Companies Act.

*Auditor's responsibility*
Our responsibility is to express an opinion with reasonable assurance on the proposed appropriations of the company's profit or loss and on the administration based on our audit. We conducted the audit in accordance with generally accepted auditing standards in Sweden.

As a basis for our opinion on the board of directors' proposed appropriations of the company's profit or loss, we examined the board of directors' reasoned statement and a selection of supporting evidence in order to be able to assess whether the proposal is in accordance with the Companies Act.

As a basis for our opinion concerning discharge from liability, in addition to our audit of the annual accounts and consolidated accounts, we examined significant decisions, actions taken and circumstances of the company in order to determine whether any member of the board of directors or the managing director is liable to the company. We also examined whether any member of the board of directors or the managing director has, in any other way, acted in contravention of the Companies Act, the Annual Accounts Act or the Articles of Association.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

*Opinions*
We recommend to the annual meeting of shareholders that the profit be appropriated in accordance with the proposal in the statutory administration report and that the members of the board of directors and the managing director be discharged from liability for the financial year.

Stockholm March 16, 2012

Deloitte AB

Jan Berntsson
*Authorized Public Accountant*

# Definitions

The figures shown in parentheses correspond to the comparable period last year.

**EBITDA**
Operating profit/loss before depreciation/amortization and impairments, acquisition costs, one-off items and result from shares in associated companies and joint ventures.

**EBIT**
Operating profit/loss including depreciation/amortization and impairments, acquisition costs, one-off items and result from shares in associated companies and joint ventures.

**EBT**
Profit/loss after financial items.

**CASH FLOW FROM OPERATING ACTIVITIES**
Operating transactions affecting cash (cash flow) and change in working capital.

**CASH FLOW AFTER CAPEX**
Cash flow after investments in CAPEX affecting cash, but before investment in shares and other financial fixed assets.

**AVAILABLE LIQUIDITY**
Cash and cash equivalents including undrawn borrowing facilities.

**NET DEBT**
Interest-bearing liabilities less interest-bearing assets.

**CAPEX**
Investments in intangible assets and property, plant and equipment.

**AVERAGE NUMBER OF EMPLOYEES**
The average number of employees during the year, in which an acquired/sold company is reported in relation to the length of time the company has been a part of the Tele2 Group.

**EQUITY/ASSETS RATIO**
Shareholders' equity divided by total assets.

**DEBT/EQUITY RATIO**
Net debt divided by shareholders' equity at the end of the period.

**RETURN ON EQUITY**
Profit/loss after tax attributable to holders of the parent company divided by average shareholders' equity attributable to holders of the parent company.

**RETURN ON CAPITAL EMPLOYED**
Profit/loss after financial items less finance costs divided by average total assets less non-interest bearing liabilities (capital employed).

**AVERAGE INTEREST RATE**
Interest expense divided by average interest-bearing liabilities.

**EARNINGS PER SHARE**
Profit/loss for the period attributable to the parent company divided by the weighted average number of shares outstanding during the fiscal year.

**EQUITY PER SHARE**
Equity attributable to parent company shareholders divided by the weighted average number of shares outstanding during the fiscal year.

**ARPU – AVERAGE REVENUE PER USER**
Average monthly revenue for each customer less sale of equipment and terminals.

**MOU – MINUTES OF USAGE**
Monthly call minutes for each customer.

# Calendar

**Annual General Meeting**
The Annual General Meeting will be held at 13.00 on May 7, 2012 at Hotel Rival, Mariatorget 3, Stockholm. The doors will open at 12.00 and registration will take place until 13.00 when the doors will close.

**Financial Reports**
- Interim Report January – March 2012, April 19, 2012
- Interim Report January – June 2012, July 19, 2012
- Interim Report January – September 2012, October 19, 2012

Intellecta Corporate Photo: Klara Källström and Thobias Fäldt

**Tele2 AB**
Company registration nr: 556410-8917
Skeppsbron 18
Box 2094, SE-103 13 Stockholm
Tel: +46 (0) 8 5620 0060
www.tele2.com



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