

TELIASONERA AB  
Form 20-F  
April 06, 2006

## SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

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### FORM 20-F

(Mark One)

- REGISTRATION STATEMENT PURSUANT TO SECTION 12(b) OR 12(g)  
OF THE SECURITIES EXCHANGE ACT OF 1934  
OR
- ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d)  
OF THE SECURITIES EXCHANGE ACT OF 1934  
For the fiscal year ended December 31, 2005  
OR
- TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE  
SECURITIES EXCHANGE ACT OF 1934  
For the transition period from \_\_\_\_\_ to \_\_\_\_\_  
OR
- SHELL COMPANY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE  
SECURITIES EXCHANGE ACT OF 1934

Date of event requiring this shell company report \_\_\_\_\_

Commission File No. 000-50121

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## TeliaSonera AB

(Exact name of Registrant as specified in its charter)

**Sweden**

(Jurisdiction of incorporation)

**Sturegatan 1, SE-106 63 Stockholm, Sweden**

(Address of principal executive offices)

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

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

**Shares, nominal value SEK 3.20**

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

Indicate the number of outstanding shares of each of the issuer's classes of capital or common stock as of the close of the period covered by the Annual Report:

Shares, nominal value SEK 3.20: 4,490,457,213

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes  No

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If this report is an annual or transition report, indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934. Yes  No

Indicate by check mark whether the registrant (1) has filed all reports to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2), has been subject to such filing requirements for the past 90 days. Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer  Accelerated filer  Non-accelerated filer

Indicate by check mark which statement item the registrant has elected to follow. Item 17  Item 18

If this is an annual report, indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes  No

(APPLICABLE ONLY TO ISSUERS INVOLVED IN BANKRUPTCY PROCEEDINGS DURING THE PAST FIVE YEARS)

Indicate by check mark whether the registrant has filed all documents and reports required to be filed by Section 12, 13 or 15(d) of the Securities Exchange Act of 1934 subsequent to the distribution of securities under a plan confirmed by a court. Yes  No

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TeliaSonera AB is a public limited liability company incorporated under the laws of Sweden. TeliaSonera was created as a result of the merger of Telia AB and Sonera Corporation in December 2002. In this annual report, references to Group, Company, we, our, TeliaSonera and us to TeliaSonera AB or TeliaSonera AB together with its subsidiaries, depending upon the context.

In this document, information about market share and penetration for each country is based on our estimations. The market share is based on the number of subscriptions, except for Sweden where the market share is based on the estimated net sales of market participants. Penetration is based on, for mobile services, the number of SIM cards as a percentage of population, for fixed voice services, the number of subscriptions as a percentage of population, and for Internet and broadband services, the number of subscriptions as a percentage of households.

**Cross Reference to Form 20-F**

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|                           | 1               | Articles of Association of TeliaSonera AB (incorporated herein by reference to Exhibit 1 to the Annual Report on Form 20-F for the period ended December 31, 2004, filed by TeliaSonera AB with the Securities and Exchange Commission on April 7, 2005)                                       |             |
|                           | 4.1             | Combination Agreement, dated as of March 26, 2002, by and between Telia AB and Sonera Corporation (incorporated herein by reference to Exhibit 2.1 to the Registration Statement on Form F-4 filed by Telia AB with the Securities and Exchange Commission on October 1, 2002 (the Form F-4)). |             |
|                           | 4.2             | Amendment to the Combination Agreement, dated as of September 27, 2002, by and between Telia and Sonera (incorporated herein by reference to Exhibit 2.2 to the Form F-4).   |             |
|                           | 4.3             | Framework Agreement, dated as of March 15, 2001, between Telia AB and Telia Mobile AB, NetCom AB and Tele2 AB (incorporated herein by reference to Exhibit 10.1 to the Form F-4).  |             |
|                           | 4.4             | Shareholder Agreement, dated as of March 15, 2001, between Telia AB, Telia Mobile AB, NetCom AB and Tele2 AB (incorporated herein by reference to Exhibit 10.2 to the Form F-4).   |             |
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|                           | 13.2            | Certification by the Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes Oxley Act of 2002.   |             |

### Forward-looking Statements

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

- the level of demand for telecommunications services generally and for particular services such as mobile services;
- regulatory developments and changes, including with respect to the levels of tariffs, the terms of interconnection, customer access and national roaming;
- the outcome of legal and regulatory proceedings in which we are involved, may become involved or are affected by;
- the effects of competition from current and future competitors, products and services;
- technological innovations, including the cost of developing new products and the need to increase expenditures to improve the quality of service;
- the performance of Universal Mobile Telecommunications System (UMTS) networks and other new, enhanced or upgraded networks, systems, products and services;
- the success of our international investments;
- changes in the telecommunications industry generally, including as a result of mergers and consolidations;
- fluctuations in interest rates, exchange rates, currency devaluations and other macroeconomic factors, including governmental actions such as devaluations; and
- other factors, including those described under Risk Factors.

We undertake no obligation to update or alter our forward-looking statements, whether as a result of new information, future events or otherwise.

### Non-GAAP Financial Information

In this document, we use non-GAAP financial measures called EBITDA and EBITDA excluding non-recurring items in addition to the presentation of operating income. We believe that especially EBITDA excluding non-recurring items is a measure commonly reported and widely used by analysts, investors and other interested parties in the telecommunications industry. Accordingly, we have presented EBITDA excluding non-recurring items to enhance understanding of our operating performance in 2005, 2004 and 2003. See Note 30 to our consolidated financial statements for more details and the reconciliation of EBITDA excluding non-recurring items to operating income.

Additionally, we present a non-GAAP financial measure called free cash flow, which we define as cash flow from operating activities less cash used to acquire intangible assets and property, plant and equipment. We believe that free cash flow is a measure commonly reported and widely used by analysts, investors and other interested parties in the telecommunications industry. Accordingly, we have presented free cash flow to enhance understanding of our cash flow generation in 2005, 2004 and 2003. However, our definition of free cash flow may not be directly comparable to other similarly titled measures for other companies.





**Information on the Company**

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*Overview*

We are the leading provider of telecommunications services in the Nordic and Baltic region. We are also a leading provider of mobile services in Eurasia and have significant holdings in leading mobile operators in Turkey and Russia. For the year ended December 31, 2005, our net sales amounted to SEK 87.7 billion and our operating income to SEK 17.5 billion, and we had on average approximately 27,400 employees. For detailed information on our employees, see Note 31 to our consolidated financial statements.

*History and Development of the Company*

TeliaSonera AB is a public limited liability company incorporated under the laws of Sweden. TeliaSonera was created as a result of the merger of Telia AB and Sonera Corporation in December 2002. Origins of Telia date back to a public service corporation, Televerket, established by the Swedish State in the beginning of the 1850s. Origins of Sonera date back to a state organization, the Telegraph Office of Finland, established in 1917.

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

We present our segment information based on the following principally geographical-based reporting units: (1) Sweden, (2) Finland, (3) Norway, (4) Denmark (5) the Baltic countries, (6) Eurasia, (7) Russia, (8) Turkey, and (9) Other operations, which comprise TeliaSonera International Carrier and TeliaSonera Holding.

The shares of TeliaSonera are listed on the Stockholm and Helsinki stock exchanges. On August 6, 2004, we completed the delisting of our ADSs from the Nasdaq National Market.

Our principal executive office is located at Sturegatan 1, SE-106 63 Stockholm, Sweden, and our telephone number in Sweden is +46-8-504 550 00. Our agent in the United States is TeliaSonera International Carrier, Inc., 2201 Cooperative Way, Suite 302, Herndon, Virginia, 20171, and its telephone number is +1-703-546-4000. Our website is [www.teliasonera.com](http://www.teliasonera.com). Information on our website does not form part of this document.

### *Strategic Focus*

Our strategy is based on dual opportunities stemming from operations in markets with different degrees of maturity. In the more mature home markets in the Nordic and Baltic countries our strategic priorities are to create growth via new mobile and IP-based services and offers, increase simplicity in services and consider selected acquisitions. In addition, we will maintain profitability via the ongoing programs to achieve competitive cost levels and the focusing of the service portfolio. In the more emerging International Mobile operations in Eurasia, Russia and Turkey our strategy is to exploit the inherent growth and enhance the value of the companies. Based on the current strengths in these regions, complementary acquisitions can be considered, which may lead to additional growth.

By taking advantage of the opportunities available in our two different markets, the Group creates value development that gives us the strength to actively participate in a future consolidation of the European market.

The strong multidomestic presence of our operations enhances our strength from a more global perspective and provides us with not only regional economies of scale but also the opportunity to lead the migration from fixed to mobile and IP-based services.

We are also focusing on developing the commercial competence that a customer-driven company with a focus on mobile and IP-based services requires.

### *Business Structure*

We operate as an integrated company with country based profit centers and strong corporate Head Office control over group matters. The independence of the profit centers is limited by corporate control mainly to exploit synergies and scale advantages. A customer perspective analysis is the basis for decision making in profit centers and on group level.

The geographic profit centers have full profit responsibility for their business and are responsible for all operations, including marketing, sales, product and service development as well as production and network operations, unless decisions are made to exploit group synergies and scale advantages. In the latter case, certain operations are shared between profit centers and costs are allocated accordingly. The profit centers make autonomous operational decisions within the framework of centrally established corporate policies and road maps. Within the geographic profit centers, operations are organized based on the offerings in each market and vary according to the demands of the local market.

Corporate Head Office acts on behalf of the CEO by making policies, by coordinating TeliaSonera group matters and by exercising a strong central control to exploit scale advantages and synergies.

As part of the Corporate Head Office, we have also established two group-wide units: (1) Marketing, Products and Services (MPS) and (2) Networks and Technology (NT). These are operational units with significant decision-making authorities and have the group responsibility for exploiting scale advantages and synergies. Corporate policies and road maps are used to set the framework for decisions in the profit centers.

Our MPS unit is responsible for common products and services, use of brands, pricing policies, common marketing and market segment initiatives, global account management, common research and development, and common lobbying initiatives. Our NT unit is responsible for network strategy and overall architecture, common network systems, IT strategy and overall architecture, common IT systems, corporate sourcing, and key vendor contracts.

Norway, Denmark and the Baltic countries (NDB) is an operational unit with the same responsibilities as profit centers but operating within the Corporate Head Office on a delegated authority from the CEO to assist in managing the large number of country based profit centers.

Additionally, we have created several competence centers that focus on high-priority areas for our business and take care of our common resources. These competence centers are located and hosted within the geographical profit centers, and consist of specialists with expertise within a particular technology or product or service area. MPS and NT manage the competence centers required to carry out their responsibilities. Other competence centers and common resources are managed by each profit center on behalf of others.

*Markets and Operations*

The following tables present a summary of our operations, our market position and our main competitors in each of the markets we operate, as of December 31, 2005.

*Mobile customers and competition by market*

| Country                     | Population<br>(1)<br>(million) | Pene-<br>tration<br>(2)<br>(%) | Our main<br>brands               | Owner-<br>ship(3)<br>(%) | Market<br>share(4)<br>(%) | Sub-<br>scriptions(5)<br>(thousand) | Of which<br>pre-paid<br>(%) | Growth<br>(6)<br>(%) | Main<br>competitors<br>(7)     |
|-----------------------------|--------------------------------|--------------------------------|----------------------------------|--------------------------|---------------------------|-------------------------------------|-----------------------------|----------------------|--------------------------------|
| <i>Consolidated</i>         |                                |                                |                                  |                          |                           |                                     |                             |                      |                                |
| Sweden                      | 9.0                            | 101                            | Telia,<br>Halebop                | 100.0                    | 52                        | 4,387                               | 55                          | 3.4                  | Tele2,<br>Telenor,<br>3        |
| Finland                     | 5.3                            | 99                             | Sonera,<br>Tele Finland          | 100.0                    | 47                        | 2,507                               | 4                           | 9.1                  | Elisa, DNA                     |
| Norway                      | 4.6                            | 104                            | NetCom,<br>Chess                 | 100.0                    | 34                        | 1,651                               | 35                          | 26.2                 | Telenor,<br>Tele2              |
| Denmark                     | 5.4                            | 97                             | Telia                            | 100.0                    | 22                        | 1,154                               | 27                          | 3.5                  | TDC,<br>Sonofon,<br>Debitel    |
| Lithuania                   | 3.4                            | 112                            | Omnitel,<br>Ezys                 | 100.0                    | 49                        | 1,889                               | 59                          | 41.2                 | Bite, Tele2                    |
| Latvia                      | 2.3                            | 71                             | Latvijas<br>Mobilais<br>Telefons | 60.3                     | 45                        | 735                                 | 34                          | 13.3                 | Tele2,<br>Zetcom               |
| Estonia                     | 1.3                            | 106                            | EMT,<br>Diil                     | 50.3                     | 47                        | 677                                 | 40                          | 13.8                 | Tele2, Elisa                   |
| Kazakhstan                  | 14.8                           | 33                             | KCell                            | 51.0                     | 67                        | 3,320                               | 73                          | 85.0                 | K-mobile,<br>Altel,<br>Dalacom |
| Azerbaijan                  | 8.4                            | 27                             | Azercell                         | 51.3                     | 78                        | 1,741                               | 95                          | 34.9                 | Bakcell                        |
| Georgia                     | 4.5                            | 30                             | Geocell                          | 83.2                     | 49                        | 715                                 | 91                          | 48.6                 | Magticom                       |
| Moldova                     | 3.5                            | 23                             | Moldcell                         | 100.0                    | 47                        | 370                                 | 84                          | 23.7                 | Voxtel                         |
| Total                       | 62.5                           |                                |                                  |                          |                           | 19,146                              | 53                          | 24.2                 |                                |
| <i>Associated companies</i> |                                |                                |                                  |                          |                           |                                     |                             |                      |                                |
| Russia                      | 143.2                          | 87                             | MegaFon                          | 43.8                     | 18                        | 22,836                              | 36                          | 67.3                 | MTS,<br>Vimpelcom              |
| Turkey                      | 73.2                           | 60                             | Turkcell                         | 37.3                     | 64                        | 26,700 (8)                          | 80                          | 19.7                 | Telsim,<br>Avea                |
| Ukraine                     | 46.5                           | 64                             | life:)                           | 20.3 (9)                 | 5                         | 1,300 (8)                           | n/a (10)                    | n/a                  | Kyivstar,<br>UMC               |
| Total                       | 262.9                          |                                |                                  |                          |                           | 50,836                              | 61                          | 41.4                 |                                |

(1) Source: UN Common Database, estimate as of December 31, 2005. Except for Moldova, where the local official statistics are used.

(2) Estimated penetration rate as of December 31, 2005, measured as the number of SIM cards divided by the amount of population. Rates between countries may not be directly comparable especially due to many pre-paid customers holding more than one pre-paid SIM card at a time. The higher the share of pre-paid customers on the market, the higher the SIM card penetration rate is likely to be. Source: TeliaSonera estimates.

(3) Ownership as of December 31, 2005. For Estonia, our ownership has increased in 2006 and was 53.7 percent as of March 2, 2006. For Kazakhstan, Azerbaijan, Georgia and Moldova, the number indicates Fintur Holding B.V.'s ownership in the four companies. We hold directly and indirectly 74.0 percent in Fintur Holdings. For other companies, the number indicates our share of net income of the company, including both direct and indirect ownership.

(4) Based on the number of subscriptions on the market, except for Sweden where market share is based on estimated net sales of the market participants. Source: TeliaSonera estimates.



(5) Excluding customers through service providers operating in our networks. Amount of customers as of December 31, 2005, except for Turkey and Ukraine as of September 30, 2005.

(6) Growth in the amount of subscriptions between December 31, 2004 and December 31, 2005, except for Turkey between September 30, 2004 and September 30, 2005.

(7) Competitors with at least a five percent market share.

(8) As of September 30, 2005. We report our holding in Turkcell with a one-quarter lag. As of December 31, 2005, Turkcell had 27.9 million customers in Turkey and 2.5 million customers in Ukraine.

(9) Through our ownership in Turkcell.

(10) Information not available.

**Fixed voice customers and competition by market**

| Country                     | Population (1)<br>(million) | Pene-<br>tration<br>(2)<br>(%) | Our main<br>brand     | Owner-<br>ship(3)<br>(%) | Market<br>share(4)<br>(%) | End<br>customer<br>subscriptions<br>(thousand) | Change<br>(5)<br>(%) | Main<br>competitors<br>(6) |
|-----------------------------|-----------------------------|--------------------------------|-----------------------|--------------------------|---------------------------|--|----------------------|----------------------------|
| <i>Consolidated</i>         |                             |                                |                       |                          |                           |  |                      |                            |
| Sweden                      | 9.0                         | 70                             | Telia                 | 100.0                    | 53                        | 5,036  | -17.6                | Tele2, Telenor             |
| Finland                     | 5.3                         | 40                             | Sonera,<br>Auria      | 100.0                    | 31                        | 647  | -12.6                | Elisa, Finnet              |
| Denmark                     | 5.4                         | 63                             | Telia                 | 100.0                    | 5                         | 195  | -8.0                 | TDC, Tele2                 |
| Lithuania                   | 3.4                         | 23                             | Lietuvos<br>Telekomas | 60.0                     | 99                        | 798  | -2.6                 |                            |
| Estonia                     | 1.3                         | 31                             | Elion                 | 50.3                     | 85                        | 388  | -8.9                 | Tele2, Starman             |
| Total                       | 24.4                        |                                |                       |                          |                           | 7,064  | -15.0                |                            |
| <i>Associated companies</i> |                             |                                |                       |                          |                           |  |                      |                            |
| Latvia                      | 2.3                         | 27                             | Lattelekom            | 49.0                     | 98                        | 624  | -1.1                 |                            |

(1) Source: UN Common Database, estimate as of December 31, 2005.

(2) Estimated penetration rate as of December 31, 2005, measured as the number of subscriptions divided by the amount of population. Source: TeliaSonera estimates.

(3) Ownership as of December 31, 2005. For Estonia, our ownership has increased in 2006 and was 53.7 percent as of March 2, 2006.

(4) Based on the number of subscriptions on the market, except for Sweden where market share is based on estimated net sales of the market participants from fixed voice traffic. Source: TeliaSonera estimates.

(5) Change in the amount of subscriptions between December 31, 2004 and December 31, 2005.

(6) Competitors with at least a five percent market share.

**Internet and broadband customers and competition by market**

| Country                     | Population(1)<br>(million) | Pene-<br>tration<br>(2)<br>(%) | Our main<br>brand     | Owner-<br>ship(3)<br>(%) | Market<br>share(4)<br>(%) | Sub-<br>scriptions(5)<br>(thousand) | Of which<br>broadband<br>(%) | Growth<br>(6)<br>(%) | Main<br>competitors<br>(7)          |
|-----------------------------|----------------------------|--------------------------------|-----------------------|--------------------------|---------------------------|-------------------------------------|------------------------------|----------------------|-------------------------------------|
| <i>Consolidated</i>         |                            |                                |                       |                          |                           |                                     |                              |                      |                                     |
| Sweden                      | 9.0                        | 81                             | Telia                 | 100.0                    | 41                        | 1,439                               | 50                           | 6.6                  | Telenor,<br>Com Hem,<br>UPC         |
| Finland                     | 5.3                        | 56                             | Sonera                | 100.0                    | 32                        | 426                                 | 82                           | 19.7                 | Elisa, Finnet,<br>HTV               |
| Denmark                     | 5.4                        | 40                             | Telia,<br>Telia Stofa | 100.0                    | 14                        | 151                                 | 100                          | 19.8                 | TDC, Tele2,<br>Cybercity            |
| Lithuania                   | 3.4                        | 6                              | Lietuvos<br>Telekomas | 60.0                     | 45                        | 126                                 | 83                           | 46.5                 | Skynet,<br>Telerena,<br>Balticum TV |
| Estonia                     | 1.3                        | 32                             | Elion                 | 50.3                     | 50                        | 121                                 | 88                           | 22.2                 | Tele2,<br>Starman                   |
| Total                       | 24.4                       |                                |                       |                          |                           | 2,263                               | 63                           | 12.2                 |                                     |
| <i>Associated companies</i> |                            |                                |                       |                          |                           |                                     |                              |                      |                                     |
| Latvia                      | 2.3                        | 13                             | Lattelekom            | 49.0                     | 30                        | 68                                  | 100                          | 74.4                 | Baltkom TV,<br>Izzi                 |

(1) Source: UN Common Database, estimate as of December 31, 2005.

(2) Estimated consumer broadband household penetration rate as of December 31, 2005, measured as the number of consumer subscriptions divided by the number of households. Source: TeliaSonera estimates.

(3) Ownership as of December 31, 2005. For Estonia, our ownership has increased in 2006 and was 53.7 percent as of March 2, 2006.

(4) Estimated broadband market share. Based on the number of subscriptions on the market, except for Sweden where market share is based on estimated net sales of the market participants from consumer broadband services. Source: TeliaSonera estimates.

(5) Including dial-up Internet and broadband access. In Denmark and Latvia, only broadband access.

(6) Growth in the amount of subscriptions between December 31, 2004 and December 31, 2005.

(7) Competitors in broadband with at least a five percent market share.

We are subject to substantial and historically increasing competition. Virtually all of our markets are characterized by direct and indirect competition. The scope and the potential financial impact of increasing competition are further discussed in Risk Factors.

**Sweden**

In Sweden, we offer a wide range of mobile, fixed voice, datacom, Internet and broadband services for businesses, consumers and organizations and also provide wholesale services to operators and service providers. We do business on the retail market under the brands Telia and Halebop and market wholesale products under the brands Skanova and Telia. We are the leader in Sweden within all our product areas. The Swedish market represented approximately 44 percent of our consolidated net sales in 2005.

**Finland**

In Finland, we offer a wide range of mobile, fixed voice, datacom, Internet and broadband services for businesses, consumers and organizations and also provide wholesale services to operators and service providers. We do business on the Finnish market under the brands Sonera, Auria and Tele Finland. We are the leading provider in Finland of mobile, broadband and corporate data services and one of the three largest operators in fixed voice services. The Finnish market represented approximately 18 percent of our consolidated net sales in 2005.





### **Norway**

We are the second largest mobile operator on the Norwegian market, where we offer mobile services under the NetCom and Chess brands. We acquired the service operator Chess in November 2005, and are in the process of gradually transferring the traffic of Chess customers into our network. The Norwegian market represented approximately eight percent of our consolidated net sales in 2005.

### **Denmark**

We offer both mobile and fixed services, cable TV services and broadband Internet access in Denmark. We offer mobile and fixed voice services under the Telia brand and cable TV and broadband services under the Telia Stofa brand. We have completed the integration of our Danish mobile operations and the Orange Denmark operations which we acquired in October 2004. We are the third largest mobile operator, the third largest provider of fixed voice to end users, the second largest provider of broadband services, and the second largest cable TV operator in Denmark. The Danish market represented approximately eight percent of our consolidated net sales in 2005.

### **The Baltic Countries**

We offer mobile, fixed voice, Internet and broadband services in each of the three Baltic countries. In Lithuania, we offer mobile services under the Omnitel brand and fixed network services through Lietuvos Telekomas, our 60 percent owned subsidiary, which is also listed on the Vilnius and London stock exchanges. In Latvia, we offer mobile services through our 60.3 percent owned subsidiary Latvijas Mobilais Telefons and fixed network services through Lattelekom, a 49 percent owned associated company. In Estonia, we offer mobile services through EMT and fixed line services through Elion, both of which are 53.7 percent owned subsidiaries. Eesti Telekom, the holding company for EMT and Elion, is listed on the Tallinn and London stock exchanges. The Baltic markets represented approximately ten percent of our consolidated net sales in 2005.

### **Eurasia**

We offer mobile services in four Eurasian countries through Fintur, in which we have a direct and indirect 74.0 percent interest. Fintur's other shareholder is Turkcell, our associated company in Turkey. In Kazakhstan, Fintur owns 51 percent of the country's leading mobile operator, KCell. In Azerbaijan, Fintur owns 51.3 percent of the country's leading mobile operator, Azercell. In Georgia, Fintur owns 83.2 percent of Geocell, the country's second largest mobile operator. In Moldova, Fintur holds 100 percent of Moldcell, the country's second largest mobile operator. The Eurasian markets represented approximately seven percent of our consolidated net sales in 2005.

### **Russia**

We have a combined direct and indirect 43.8 percent interest in MegaFon, the third largest mobile operator in Russia. MegaFon is a pan-Russian operator offering mobile services in 76 of the 88 federal regions, with licenses covering all the 88 federal regions. The other major shareholders in MegaFon are OJSC Telecominvest, OJSC CT-Mobile, and IPOC International Growth Fund Limited. We do not consolidate MegaFon but include it as an associated company in our operating income.

### **Turkey**

We have a combined direct and indirect 37.3 percent interest in Turkcell, the largest mobile operator in Turkey. Turkcell has also established a subsidiary in Ukraine with a local partner, which launched mobile operations in February 2005. Turkcell is listed on the Istanbul and New York stock exchanges. The other major shareholders are Cukurova Group, an industry conglomerate in Turkey, which has a combined

direct and indirect 27.1 percent interest, and Alfa Group Consortium, an industry conglomerate in Russia, which, through Cukurova, purportedly has an indirect 13.2 percent interest. We have disputed Cukurova's right to sell the 13.2 percent indirect stake to Alfa as a breach of shareholders agreement and a previous share sale agreement with us, and have initiated arbitration proceedings. We do not consolidate Turkcell but include it as an associated company in our operating income.

#### **Other operations**

Other operations includes TeliaSonera International Carrier, which comprises our international wholesale telecommunications operations, and TeliaSonera Holding, which comprises our non-core/non-strategic operations to be restructured, wound up or sold.

We provide wholesale services on the European market, offering international IP, capacity and voice services on a wholesale basis to larger operators, service providers and system integrators. We are the largest provider of wholesale services in the Nordic and Baltic regions and in the western part of Russia. We also have a strong position in the wholesale telecommunications market in Central and Western Europe and with respect to trans-Atlantic traffic.

TeliaSonera Holding currently manages approximately 110 investments, including investments in subsidiaries, associated companies and other minority holdings. Our overall goal is to restructure, wind up, liquidate or sell all or a portion of our interest in the businesses managed by TeliaSonera Holding. In addition, we may also from time to time transfer businesses from our profit centers to be managed by TeliaSonera Holding.

Other operations represented approximately four percent of our consolidated net sales in 2005.

#### ***Marketing and Distribution***

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

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

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

*Licenses and Networks*

The following table presents the significant mobile network licenses held by our subsidiaries and associated companies and information on the related network infrastructure:

| Country                        | License type | License expiration date | Network type | Network coverage (% of population) | Date when commercial services started |
|--------------------------------|--------------|-------------------------|--------------|------------------------------------|---------------------------------------|
| <i>Consolidated operations</i> |              |                         |              |                                    |                                       |
| Sweden                         | 1G           | December 2007           | NMT 450      | 99                                 | October 1981                          |
|                                | 2G           | December 2010           | GSM 900/1800 | 99                                 | November 1992                         |
|                                | 3G (1)       | December 2015           | UMTS         | 90                                 | March 2004                            |
| Finland                        | 2G           | November 2017           | GSM 900/1800 | 99                                 | March 1992                            |
|                                | 3G           | March 2019              | UMTS         | 25                                 | October 2004                          |
| Norway                         | 2G           | December 2017           | GSM 900      | 99 (2)                             | September 1993                        |
|                                | 2G           | March 2010              | GSM 1800     | 99 (2)                             |                                       |
|                                | 3G           | December 2012           | UMTS         | 76                                 | March 2005                            |
| Denmark                        | 2G           | February 2011           | GSM 900      | 99 (2)                             |                                       |
|                                | 2G           | June 2007               | GSM 1800     | 99 (2)                             | February 1998                         |
|                                | 3G           | October 2021            | UMTS         |                                    | No date set yet                       |
| Lithuania                      | 2G           | October 2007            | GSM 900      | 99 (2)                             | March 1995                            |
|                                | 2G           | September 2008          | GSM 1800     | 99 (2)                             |                                       |
|                                | 3G           | February 2026           | UMTS         |                                    | February 2006                         |
| Latvia                         | 2G           | January 2016            | GSM 900/1800 | 98 (2)                             | January 1995                          |
|                                | 3G           | December 2017           | UMTS         | 32                                 | December 2004                         |
| Estonia                        | 2G           | December 2010           | GSM 900/1800 | 99                                 | January 1995                          |
|                                | 3G           | July 2013               | UMTS         | 20                                 | October 2005                          |
| Kazakhstan                     | 2G           | June 2013               | GSM 900      | 62                                 | February 1999                         |
| Azerbaijan                     | 2G           | December 2016           | GSM 900      | 99                                 | December 1996                         |
| Georgia                        | 2G           | April 2007              | GSM 900      | 96 (2)                             | March 1997                            |
|                                | 2G           | August 2009             | GSM 900/1800 | 96 (2)                             |                                       |
|                                | 2G           | May 2013                | GSM 900      | 96 (2)                             |                                       |
| Moldova                        | 2G           | November 2014           | GSM 900      | 89                                 | May 2000                              |
| <i>Associated companies</i>    |              |                         |              |                                    |                                       |
| Russia                         | 2G           | 2008-2011(3)            | GSM 900/1800 | n/a (4)                            | December 1994                         |
| Turkey                         | 2G           | April 2023              | GSM 900      | 100 (5)                            | February 1994                         |
| Ukraine                        | 2G           | November 2020           | GSM 900      | 66 (2)                             | January 2006                          |
|                                | 2G           | June 2008               | GSM 1800     | 66 (2)                             | February 2005                         |

(1) Our network sharing agreement in Sweden, established in 2001, gives us access to the UMTS license of our Swedish associated company, Svenska UMTS-nät AB, of which we own 50 percent. The other shareholder is Tele2.

(2) Combined GSM 900/1800 coverage.

(3) Several regional licenses.

(4) Information not available.

(5) 100% of population living in cities and towns of 5,000 or more.

We have UMTS licenses in Finland, Norway, Denmark, the three Baltic countries, and access to a UMTS license in Sweden through our network sharing agreement with Tele2. No UMTS licenses have yet been issued in Kazakhstan, Azerbaijan, Moldova, Russia and Turkey. In Georgia, one UMTS license has been issued to our main competitor, Magticom, after a license auction held in 2005. In Ukraine, one UMTS license has been issued to Ukrtelecom, the national fixed line operator.

In Denmark, following our acquisition of Orange Denmark, we returned one of our two UMTS licenses to the Danish regulator in January 2005. We have not yet determined the timing of the launch for our third generation services in Denmark. We also currently hold two sets of GSM 900/1800 licenses and frequencies in Denmark, following our acquisition of Orange Denmark. The Danish regulator issued a



decision on November 11, 2005 that one set of GSM 900/1800 licenses and frequencies shall be returned by October 1, 2006. We have filed an appeal on the decision, and estimate that returning one set of licenses and frequencies would result in additional network investments of approximately DKK 75 million, in order to maintain the present service quality.

#### *Fixed-line Infrastructure*

Our Swedish and Finnish fixed line networks feature all-digital transmission; all-digital local, trunk and international switching with wide access to ISDN; IP/Ethernet network; wide broadband access; and ATM and Frame Relay Network.

Our Danish fixed line networks feature all-digital transmission; all-digital local, trunk and international switching with wide access to ISDN; IP/Ethernet network; wide broadband access; and ATM.

Our Baltic companies' fixed line networks feature all-digital transmission; mainly digital local switching, all-digital trunk and international switching with wide access to ISDN; IP/Ethernet network; wide broadband access; and ATM and Frame Relay Network.

#### *International Network*

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

### **Regulation**

#### **European Union**

As member states of the European Union (EU), Sweden, Finland, Denmark, Lithuania, Latvia and Estonia are required to follow EU regulations and enact domestic legislation to give effect to EU directives. Norway is under similar obligations as a party to the European Economic Area Agreement.

In 2002, the European Parliament and the Council adopted a new regulatory framework for electronic communications networks and services (the EU Communications Framework), which applies to the types of telecommunications services that we offer. It aims to bring the sector-specific rules for electronic communications more into line with the general competition rules. Under the related Framework Directive, the definition of significant market power is based on the concept of a dominant position used in EU competition law. It embraces single company dominance and joint dominance, and ex ante regulatory measures are intended to redress identified competition concerns.

National regulatory authorities (NRAs), including those in the countries in which we operate, are expected to undertake a market analysis on the basis of markets listed in so-called Relevant Market Recommendations established by the European Commission. The present Recommendation comprises 18 markets that the NRAs must analyze. NRAs then determine and designate companies having significant market power (SMP) within those markets. They can also impose or maintain ex ante sector-specific obligations when ex post remedies of competition law are not adequate to meet the market problems identified. Possible obligations could include inter alia transparency, accounting separation, network access and price control. If a market is found to be effectively competitive, existing obligations should, according to regulatory framework, be withdrawn.

Other applicable EU directives included in the EU Communications Framework cover areas such as authorization of networks and services, access and interconnection (including local loop access), universal

service, and privacy and security issues. There are also special directives on electronic commerce and on a number of other areas of relevance to our operations. The regulatory regimes in each of the aforesaid countries in which we operate are generally based on the requirements of the EU Communications Framework and other directives.

In December 2005, a political agreement was reached at EU level on a Directive on data retention. On February 21, 2006, the Directive was approved by the Council of the European Union. The Directive will require all 25 member states to impose obligations on the telecommunications service and network providers operating in their jurisdiction to retain traffic data and location data for law enforcement purposes. Depending on the national transpositions of the Directive, there may be adverse economic effects on our operations. Following entry into force of the Directive, member states will have as a general rule 18 months in which to comply with its provisions.

### **Implementation of EU Communications Framework**

#### *Sweden*

In Sweden, the Act on Electronic Communication implements the legislation relating to the EU Communications Framework. In 2005, the Swedish NRA published final SMP decisions on the retail markets for access to the public telephone network and on the market for wholesale terminating segments of leased lines. In these markets the NRA imposed obligations on TeliaSonera. On the retail markets for telephone services and the wholesale market for access to mobile networks, TeliaSonera was not found to have SMP status, and hence no obligations were imposed. On the wholesale market for international roaming, preliminary assessments were published for consultation in January 2006. Final decisions on two remaining markets are expected in 2006. A decision on the market for wholesale broadband access (bit stream access) in 2004 has been stayed after appeal by TeliaSonera, with a decision in lower Court expected during 2006.

#### *Finland*

In Finland, we are subject to the Communications Market Act, the Act on the Protection of Privacy in Electronic Communications, and related regulations, decrees and administrative decisions, which implement the EU Communications Framework.

The Finnish NRA has published during 2004 and 2005 its SMP decisions on all 18 relevant markets. TeliaSonera and its competitors are subject to obligations in the following markets: access to the fixed network and local telephone services (retail markets), call origination and call termination on individual fixed networks, wholesale unbundled access, regional transit in the fixed network, wholesale terminating segments of leased lines, wholesale broadband access and voice call termination on individual mobile networks. Markets for access and call origination on public mobile networks, wholesale national market for international roaming, wholesale trunk segments of leased lines, retail international telephone services and retail national telephone services were found competitive.

An amendment to the Communications Market Act was approved by the Finnish Parliament in December 2005, allowing operators to offer subsidised 3G-handsets to end customers. The amendment will enter into force on April 1, 2006.

#### *Other*

In Denmark, the Danish NRA made several market analyses and published SMP decisions during 2005. Telia was designated an SMP operator in the wholesale markets of fixed and mobile termination, and on January 24, 2006, the NRA imposed price controls resulting in a 33 percent phased reduction over a two-year period for the mobile termination price. The latter decision has been appealed by TeliaSonera.

In Norway, NetCom has been designated an SMP operator in the market for mobile termination. In September 2005, the Norwegian NRA imposed a reduction of NetCom's termination price of NOK 0.18 in total in a phased reduction starting November 1, 2005. NetCom has appealed the decision and a stay of execution has been granted.

In Latvia and Lithuania, legislation which implements the EU Communications Framework entered into force during 2004, whereas in Estonia the implementation was delayed until January 1, 2005. During 2005, the SMP process has started in all the Baltic countries. In Lithuania, Omnitel was designated as an SMP operator in the market of mobile termination and a number of obligations were imposed. The decision has been appealed by TeliaSonera.

Implementation of pricing restrictions such as fixed or cost-based pricing or other obligations by the NRAs on us in any of the jurisdictions we operate might have an adverse effect on our business, financial condition and results of operations.

### **Competition Laws**

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

#### *The European Union*

The EU competition rules set out in the EC Treaty and EU legislation are binding on EU member states and are therefore applicable to our operations in the EU. If those rules are breached, the European Commission may impose fines of up to ten percent of a company's revenues on a consolidated basis in the preceding financial year. Regulation 1/2003 on the implementation of the rules on competition laid down in Articles 81 and 82 of the EC Treaty, which entered into force on May 1, 2004, may lead to a more rigorous application of the EU competition rules at the national level. The European Commission has prepared notices and guidelines implementing Regulation 1/2003. The EU competition rules will remain applicable to restrictions on competition which may have an appreciable effect on trade between member states.

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

Given that the Swedish State and the Finnish State hold 45.3 percent and 13.7 percent of our outstanding shares, respectively, there is always a risk that our competitors might allege that our transactions with the Finnish State or the Swedish State involve an element of state aid, or that the European Commission may launch a formal investigation of such a transaction on its own initiative. The European Commission has the power to order suspension of aid payments and require the recovery of aid already granted, including accrued interest. These rules do not apply when a state contributes capital in circumstances that would be acceptable to a private investor operating under normal market economy conditions.

#### *Sweden*

The Competition Act has been harmonized with Regulation 1/2003 and the implementing amendments entered into force in July 2004. The Swedish Competition Authority is empowered to issue injunctions, and to enjoin a party to discontinue immediately practices that are not permitted under the



Competition Act. The Swedish Competition Authority and the Swedish NRA cooperate to facilitate investigations of anti-competitive behavior in the telecommunications services sector.

*Finland*

The Act on Competition Restrictions has been harmonized with Regulation 1/2003 and the implementing amendments entered into force in May 2004. The Finnish Competition Authority is empowered to issue injunctions, and to enjoin a party to discontinue immediately practices that are not permitted under the Act on Competition Restrictions.

**International Obligations**

Over 70 member countries of the World Trade Organization (WTO) have entered into a Basic Telecommunications Agreement (BTA) to provide market access to some or all of their basic telecommunications services. The BTA took effect in February 1998. Signatories under the BTA have made commitments to provide market access, requiring them to refrain from imposing certain quotas or other quantitative restrictions in specified telecommunications services sectors, and to provide national treatment by ensuring that foreign telecommunications service suppliers are accorded the same treatment as national service suppliers. In addition, a number of signatories, including Sweden and Finland, have agreed to abide by certain pro-competitive principles set forth in a reference paper relating to the prevention of anti-competitive behavior, interconnection, universal service, transparency of licensing criteria, independence of the regulator and non-discriminatory allocation of scarce resources.

**Environmental Matters**

The principal environmental impact of our operations arises from vehicle use, travel, transport, energy use and the consumption and use of materials. Pursuant to European Union legislation, we may be responsible for the recycling costs of used telephone poles and cleaning up of impregnation sites in several of the jurisdictions in which we operate.

## Shareholder Information

The Board of Directors and the CEO propose to the Annual General Meeting (AGM) an increase of the ordinary dividend to SEK 1.25 per share (1.20) due to the strong earnings in 2005 and the expected earnings improvement for 2006. The proposed dividend totals SEK 5,613 million, which is in line with our policy to distribute 30-50 percent of net income, excluding minority interests. The Board of Directors and the CEO also recommend an extraordinary dividend of SEK 2.25 per share as a part of the distribution of capital to shareholders.

TeliaSonera has previously communicated that the company, in addition to the ordinary dividend, plans to distribute SEK 30 billion to shareholders during the period 2005-2007. The amount may be adjusted if attractive investment opportunities arise that are beyond the current plan.

As a first step, SEK 10,163 million was distributed during 2005 through the repurchase of shares in a public offer that entitled shareholders to sell every twenty-fifth share at a price of SEK 55 per share, which corresponded to a premium of approximately 33 percent. A total of 184,774,856 shares were sold by shareholders in the repurchase offer, representing a response rate of 98.8 percent. The payments for the repurchased shares were made in the beginning of July 2005. The Board of Directors proposes to the AGM that the shares acquired through the repurchase offer be cancelled.

As a second step in the distribution of capital to shareholders, the Board of Directors and the CEO decided to propose to the AGM a transfer of SEK 10,104 million to shareholders during 2006. The method proposed for the distribution is an extraordinary dividend of SEK 2.25 per share. Payment of the extraordinary dividend is proposed to take place at the same time as the ordinary dividend.

## Price Development and Trading Volumes

TeliaSonera's share price on Stockholm Stock Exchange rose during 2005 from SEK 39.80 to SEK 42.70. On average, 15 million shares were traded per trading day, corresponding to a value of SEK 585 million per day.

TeliaSonera's market capitalization totaled SEK 200 billion at year-end, which is 5.7 percent of the total value of Stockholm Stock Exchange. The development of the share price during 2005 and during the three-year period between 2003-2005 was weaker than Stockholm Stock Exchange on average. On Dow Jones STOXX Telecommunications index, which includes the larger telecom operators in Europe, the TeliaSonera share measured over a three-year period was approximately in line with the industry index.

The number of shareholders decreased during the year from 822,306 to 745,172. TeliaSonera acquired 4.0 percent of the total number of shares through the repurchase offer, which decreased the number of outstanding shares to 4,490,457,213. The Swedish and Finnish states' holdings as a percentage of the outstanding shares remained unchanged, 45.3 and 13.7 percent, respectively. Holdings outside of Sweden and Finland increased from 12.1 percent to 12.8 percent. At year-end, Swedish private investors owned 3.2 percent (3.5) and Finnish private investors 2.2 percent (2.4) of the outstanding shares. Swedish institutional investors owned 19.7 percent (19.1) of the outstanding shares and Finnish institutional investors owned 3.2 percent (3.9).

**The TeliaSonera Share**

Listing: Stockholm Stock Exchange and Helsinki Stock Exchange

|                                    |                 |
|------------------------------------|-----------------|
| <i>Stockholm Stock Exchange:</i>   |                 |
| Ticker symbol                      | TLSN            |
| Highest price 2005                 | SEK 43.40       |
| Lowest price 2005                  | SEK 35.50       |
| At close 2005                      | SEK 42.70       |
| Shares traded 2005, volume         | 3,786 million   |
| Shares traded 2005, value          | SEK 148 billion |
| Market capitalization Dec 31, 2005 | SEK 200 billion |
| <i>Helsinki Stock Exchange:</i>    |                 |
| Ticker symbol                      | TLS1V           |
| Shares traded 2005, volume         | 361 million     |
| Shares traded 2005, value          | EUR 1.5 billion |

*Nasdaq:*

TeliaSonera terminated the listing of the company's ADSs (American Depository Shares) on Nasdaq on August 6, 2004, in light of the low trading level and high costs.

**The Largest Shareholders**

| As of December 31, 2005<br>Shareholder     | Number of<br>outstanding shares(1) | Percent of outstanding<br>shares/votes |
|--|------------------------------------|--|
| Swedish State(2)                           | 2,033,547,131                      | 45.3                                   |
| Finnish State(2)                           | 616,128,221                        | 13.7                                   |
| Robur funds                                | 113,463,161                        | 2.5                                    |
| SHB/SPP funds                              | 84,566,646                         | 1.9                                    |
| SEB funds                                  | 80,575,748                         | 1.8                                    |
| Nordea funds                               | 50,897,140                         | 1.1                                    |
| Skandia Liv                                | 49,447,181                         | 1.1                                    |
| SEB Trygg Försäkring                       | 45,775,720                         | 1.0                                    |
| Alecta                                     | 44,330,000                         | 1.0                                    |
| AFA Försäkring                             | 42,179,250                         | 0.9                                    |
| Shareholders outside Sweden and Finland(3) | 573,540,010                        | 12.8                                   |
| Total other shareholders                   | 756,007,005                        | 16.8                                   |
| <b>Total shares outstanding</b>            | <b>4,490,457,213</b>               | <b>100.0</b>                           |
| Repurchased shares (treasury shares)(4)    | 184,774,856                        |  |
| <b>Total shares issued</b>                 | <b>4,675,232,069</b>               |  |

Source: SIS Ägarservice AB

- (1) Each share of TeliaSonera represents one vote at the general meeting of shareholders and no shareholder has any special voting rights.
- (2) In connection with the merger between Telia and Sonera, the Kingdom of Sweden and the Republic of Finland entered into a shareholders' agreement with respect to their shareholdings in TeliaSonera and consult with each other from time to time on certain matters related to their shareholdings.
- (3) Of which as nominees: State Street Bank and Trust 79,088,636 shares and JP Morgan Chase Bank 74,898,436 shares.



(4) The Board of Directors proposes to the AGM that the shares acquired through the repurchase offer be cancelled.

#### The Largest Countries by Number of Shares

| As of December 31, 2005<br>Country | Number of<br>outstanding shares | Percent of outstanding<br>shares/votes |
|------------------------------------|---------------------------------|--|
| Sweden                             | 3,059,125,066                   | 68.1                                   |
| Finland                            | 857,792,137                     | 19.1                                   |
| United States                      | 176,243,877                     | 3.9                                    |
| United Kingdom                     | 173,614,375                     | 3.9                                    |
| Luxembourg                         | 49,442,905                      | 1.1                                    |
| France                             | 24,174,952                      | 0.5                                    |
| Germany                            | 22,846,455                      | 0.5                                    |
| Netherlands                        | 20,441,256                      | 0.5                                    |
| Norway                             | 15,264,871                      | 0.3                                    |
| Ireland                            | 14,640,829                      | 0.3                                    |
| Total others                       | 76,870,490                      | 1.7                                    |
| <b>Total shares outstanding</b>    | <b>4,490,457,213</b>            | <b>100.0</b>                           |

Source: Swedish Central Security Depository (VPC)

#### Changes in Issued Share Capital

|                                       | Number of shares     | Par value,<br>SEK/<br>share | Share capital, SEK<br>thousand |
|---------------------------------------|----------------------|-----------------------------|--------------------------------|
| Share capital, Dec 31, 2001           | 3,001,200,000        | 3.20                        | 9,603,840                      |
| - New share issue, Dec 3, 2002        | 1,604,556,725        | 3.20                        | 5,134,582                      |
| Share capital, Dec 31, 2002           | 4,605,756,725        | 3.20                        | 14,738,422                     |
| - New share issue, Feb 10, 2003       | 69,475,344           | 3.20                        | 222,321                        |
| Share capital, Dec 31, 2003           | 4,675,232,069        | 3.20                        | 14,960,743                     |
| Share capital, Dec 31, 2004           | 4,675,232,069        | 3.20                        | 14,960,743                     |
| <b>Share capital, Dec 31, 2005(1)</b> | <b>4,675,232,069</b> | <b>3.20</b>                 | <b>14,960,743</b>              |

(1) Includes 184,774,856 treasury shares, which the Board of Directors proposes to the AGM be cancelled. In case the cancellation is approved by the AGM, share capital will decrease by SEK 591,280 thousand.

## Corporate Governance

TeliaSonera is a Swedish public limited liability company with its Annual General Meeting (AGM) as its highest decision-making body.

### Composition of the Board of Directors

TeliaSonera's Board of Directors consists of eight members elected by the AGM, serving one-year terms. The members elected by the AGM are considered to be independent in relation to the company and to the shareholders. The Board of Directors also includes three employee representatives, with an additional employee representative being entitled to be present at board meetings but not having the right to vote. The employee representatives are not considered to be independent members.

The composition of the Board of Directors and the shareholdings and biographies of the members of the Board of Directors is set forth below:

| Name                     | Year<br>born | Number of shares<br>owned as of<br>February 8, 2006 | Position           |
|--------------------------|--------------|---|--------------------|
| <i>Ordinary Members:</i> |              |   |                    |
| Tom von Weymarn          | 1944         | 4,316   | Chairman           |
| Carl Bennet              | 1951         | 10,560 (1)  | Vice Chairman      |
| Eva Liljebloom           | 1958         | 999   | Director           |
| Lennart Låftman          | 1945         |   | Director           |
| Sven-Christer Nilsson    | 1944         |   | Director           |
| Timo Peltola             | 1946         | 3,000   | Director           |
| Paul Smits               | 1946         |   | Director           |
| Caroline Sundewall       | 1958         | 2,000   | Director           |
| Yvonne Karlsson          | 1959         | 175   | Director(2)        |
| Berith Westman           | 1945         | 1,000   | Director(2)        |
| Elof Isaksson            | 1942         | 750 (1)   | Director(2)        |
| <i>Deputy Members:</i>   |              |   |                    |
| Magnus Brattström        | 1953         |   | Deputy Director(2) |
| Stefan Carlsson          | 1956         | 650   | Deputy Director(2) |
| Arja Kovin               | 1964         |   | Deputy Director(2) |

(1) Including shareholdings by spouse and/or affiliated persons.

(2) Employee representative appointed by the trade unions.

Below is a summary biography of the members of the board of directors of TeliaSonera:

*Tom von Weymarn* is the Chairman of the Board of TeliaSonera. Mr. von Weymarn was elected to the Board of Directors of TeliaSonera in 2002. He has participated in all 17 meetings of the Board of Directors of TeliaSonera in 2005. Mr. von Weymarn is the Chairman of the Remuneration Committee of TeliaSonera and has participated in all three meetings of the Committee in 2005. Mr. von Weymarn is also a member of the Audit Committee of TeliaSonera and has participated in all six meetings of the Committee in 2005. In addition to being a member of the Board of Directors of TeliaSonera, Mr. von Weymarn is the Chairman of the Board of Directors of Lännen Tehtaat Oyj and Turku Science Park Oy, a board member of OKO Bank Oyj, Kaukomarkkinat Oy, CPS Color Group Oy, Hydrios Biotechnology Oy, a member of the Supervisory Board of Industri Kapital and a shareholder and board member of Boardman Oy. Mr. von Weymarn served as the President and Chief Executive Officer of Oy Rettig Ab between 1997 and 2004, as Executive Vice President of Cultor Oyj between 1991 and 1997 and as a Director of Oy Karl

Fazer Ab between 1983 and 1991, the last two years as President and Chief Executive Officer of Oy Karl Fazer Ab. Mr. von Weymarn holds a Master of Science degree in Chemical Engineering.

*Carl Bennet* is the Vice Chairman of the Board of Directors of TeliaSonera. Mr. Bennet was elected to the Telia–Sonera Board of Directors in 2000. Mr. Bennet has participated in all 17 meetings of the Board of Directors of TeliaSonera in 2005. Mr. Bennet is a member of the Remuneration Committee of TeliaSonera and has participated in all three meetings of the Committee in 2005. In addition to being a member of the Board of Directors of TeliaSonera, Mr. Bennet is the Chairman of the Boards of Directors of Elanders AB, Getinge AB, Lifco AB, Sorb Industri AB and the Swedish National Agency for Higher Education and the Vice Chairman of the Boards of Directors of Boliden AB and SNS (Center for Business and Policy Studies). Mr. Bennet is a member of the Board of AMS (the National Labor Market Board) and SSAB and also a member of the Swedish Government's Research Advisory Council. Mr. Bennet served as President and Chief Executive Officer of Getinge AB between 1989 and 1997. Mr. Bennet holds a Bachelor of Science degree in Economics.

*Eva Liljebloom* was elected to the Board of Directors of TeliaSonera in 2002. Ms. Liljebloom has participated in all 17 meetings of the Board of Directors of TeliaSonera in 2005. Ms. Liljebloom is a member of the Audit Committee of TeliaSonera and has participated in all six meetings of the Committee in 2005. In addition to being a member of the Board of Directors of TeliaSonera, Ms. Liljebloom is Professor of Finance and the Head of the Department of Finance and Statistics at the Swedish School of Economics and Business Administration in Helsinki, Finland. Furthermore, Ms. Liljebloom is a member of the Boards of Directors of Stockmann Oyj, Fennia Mutual Insurance Company and Municipal Finance (Kuntarahoitus). Ms. Liljebloom is also the Official Controller of the HEX-indexes for the OMX and Chairman of the Investment Committee of the Finnish Government Pension Fund. Ms. Liljebloom is also a member of the investment committee for the State Pension Fund Global in Norway. Ms. Liljebloom holds a Doctor degree in Economics.

*Lennart Låftman* was elected to the Board of Directors of TeliaSonera in 2004. Mr. Låftman has participated in all 17 meetings of the Board of Directors of TeliaSonera in 2005. Mr. Låftman is a member of the Remuneration Committee of TeliaSonera and has participated in all three meetings of the Committee in 2005. In addition to being a member of the Board of Directors of TeliaSonera, Mr. Låftman is the Chairman of the Pension Fund of Vattenfall, Stiftelsen Framtidens Kultur, Stadshagen Fastighets AB, Intervallor AB and Plena AB. He is also a Deputy Chairman of the Board of Directors of the Swedish Foundation for Strategic Research and a non-executive director of several non-listed companies and foundations. Mr. Låftman served as Chief Executive Officer of Affärsvärlden between 1977 and 1984 and in the management of pension funds between 1984 and 1991 and between 1996 and 1998. Mr. Låftman holds a Bachelor of Science degree in Economics.

*Sven-Christer Nilsson* was elected to the Board of Directors of TeliaSonera in 2003. Mr. Nilsson participated in all 17 meetings of the Board of Directors in 2005. Mr. Nilsson is a member of the Audit Committee of TeliaSonera and has participated in all six meetings of the Committee in 2005. He has held various executive positions within Saab-Scania AB, Computer and Electronics Group and Telefonaktiebolaget LM Ericsson, where he served as Chief Executive Officer and President 1998 - 1999. In addition to being a member of the Board of Directors of TeliaSonera, Mr. Nilsson is a member of the Boards of Directors of Assa Abloy AB, CEVA, Inc., I3 Micro Technologies AB, and Innovationsbron AB. Mr. Nilsson also serves as the Chairman of the Boards of Directors of Swedish ICT Research AB and the Swedish Public Broadcasting Foundation. Mr. Nilsson holds a Bachelor of Science degree.

*Timo Peltola* was elected to the Board of Directors of TeliaSonera in 2004. Mr. Peltola has participated in 15 of the 17 meetings of the Board of Directors of TeliaSonera in 2005. Mr. Peltola is a member of the Remuneration Committee of TeliaSonera and has participated in all three meetings of the Committee in 2005. In addition to being a member of the Board of Directors of TeliaSonera, Mr. Peltola





has been the President and CEO of the packaging company Huhtamäki Oyj until 2004. He is also the Chairman of the Board of Directors of Neste Oil Oyj and AW-Energy Oy, Deputy Chairman of the Board of Directors of Nordea Bank AB, member of the Board of Scandinavian Airlines, Chairman of the Management Council for Keskinäinen Vakuutusyhtiö Ilmarinen, as well as a member of the Management Council for Suomen Messut. Mr. Peltola is also a member of the Advisory Board of CVC Capital Partners. Mr. Peltola holds a Doctor degree in Economics hc.

*Paul Smits* was elected to the Board of Directors of TeliaSonera in 2003. Mr. Smits has participated in 16 of the 17 Board of Directors meetings of TeliaSonera in 2005. Mr. Smits was the Chairman of the Board of Directors and Chief Executive Officer of Royal KPN N.V. between 2000 and 2002. In addition to being a board member of TeliaSonera, Mr. Smits is Chairman of the Supervisory Board of Telfort N.V. (Amsterdam), a member of the Supervisory Boards of Enertel B.V. Rotterdam, Unit 4 Agresso, Byelex B.V. Rotterdam and Feyenoord Rotterdam N.V., Chairman of the Advisory Board of Media Plaza, and Chairman of the Board of Stichting Centrale Discotheek Rotterdam. Mr. Smits holds a Master degree in Electronic Engineering.

*Caroline Sundewall* was elected to the TeliaSonera Board of Directors in 2001. Ms. Sundewall has participated in 16 of the 17 Board of Directors meetings of TeliaSonera in 2005. Ms. Sundewall is a Chairman of the Audit Committee of TeliaSonera and has participated in all six meetings of the Committee in 2005. In addition to being a member of the TeliaSonera Board of Directors, Ms. Sundewall is a board member of Förenings Sparbanken AB, Electrolux AB, Strålfors AB, Haldex AB, Lifco AB and Aktiemarknadsbolagens Förening. Ms. Sundewall has previously served as business editor for Finanstidningen and business commentator and business editor of Sydsvenska Dagbladet. Ms. Sundewall has also held the position of business controller of Ratos AB. Ms. Sundewall holds a Bachelor of Science degree in Economics.

*Yvonne Karlsson*, an employee representative, was appointed by the trade union to the Board of Directors of TeliaSonera in 2002. Ms. Karlsson has participated in 14 of the 17 Board of Directors meetings of TeliaSonera in 2005. In addition to being a member of the Board of Directors of TeliaSonera, Ms. Karlsson is the Vice Chairman of the Swedish Union of Clerical and Technical Employees in Industry, telecommunications section (SIF-TELE).

*Berith Westman*, an employee representative, was appointed by the trade union to the Board of Directors of TeliaSonera in 1993. Ms. Westman has participated in 13 of the 17 Board of Directors meetings of TeliaSonera in 2005. In addition to being a member of the Board of Directors of TeliaSonera, Ms. Westman is the Chairman of SIF-TELE and a board member of Telia Pension Fund.

*Elof Isaksson*, an employee representative, was appointed by the trade union to the Board of Directors of TeliaSonera in 2000. Mr. Isaksson has participated in all 17 meetings of the Board of Directors of TeliaSonera in 2005. In addition to being a member of the Board of Directors of TeliaSonera, Mr. Isaksson is the Chairman of the Union of Service and Communication Employees within TeliaSonera, SEKO TELE, and a board member of the Telia Pension Fund.

Below is a summary biography of the deputy members of the TeliaSonera board of directors:

*Magnus Brattström*, an employee representative, was appointed by the trade union SEKO TELE to serve as a deputy member of the Board of Directors of TeliaSonera in 2001.

*Stefan Carlsson*, an employee representative, was appointed by the trade union SIF-TELE to serve as a deputy member of the Board of Directors of TeliaSonera in 2002.

*Arja Kivin*, an employee representative, was appointed by the trade union SIF-TELE to serve as a deputy member of the Board of Directors of TeliaSonera in 2002.



No member or deputy member of the board of directors currently holds a management position in TeliaSonera. No member or deputy member of the board of directors has a family relationship with any other board member or any group management member.

No board member has been elected pursuant to an arrangement or understanding between us and any major shareholder, customer, supplier or other person.

#### **Responsibilities and duties of the Board of Directors**

The Board of Directors is responsible for the company's organization and the management of the company's business, which means that the Board of Directors determines the Group's general strategy and makes strategic decisions.

The AGM elects the Chairman and Deputy Chairman from among the Board members. The Board of Directors appoints the Chief Executive Officer, CEO, and issues guidelines for his management of the Group.

The guidelines for the work of the Board of Directors are set down in standing orders. The standing orders contain rules regarding the number of ordinary Board meetings (at least five per calendar year), the business on the agenda of ordinary Board meetings, responsibilities within the Board, including the duties of the Chairman of the Board, division of responsibilities of the members of the Board and the CEO, and how work is carried out in committees.

To improve efficiency of the board work, the Board has appointed two committees with special tasks. These committees handle business within their respective areas and present recommendations and reports on which the Board may base its actions. However, all members of the Board of Directors have the same responsibility for decisions made irrespective of whether the issue in question has been reviewed in a committee or not. The following committees have been appointed:

**Remuneration Committee.** Handles issues regarding salary and other remuneration to the CEO, executive management and group vice presidents and incentive programs that target a broader group of employees. The Committee consists of Tom von Weymarn (chairman), Carl Bennet, Lennart Låftman and Timo Peltola.

**Audit Committee.** Reviews the Group's financial information, financial reporting processes and systems for internal financial controls. The Committee consists of Caroline Sundewall (chairman), Eva Liljeblom, Sven-Christer Nilsson and Tom von Weymarn. All Committee members are considered to be independent and qualify as financial experts.

#### **Work of the Board of Directors during 2005**

The Board of Directors held seven ordinary meetings and ten extra meetings during the year.

In addition to following up the day-to-day business of the Group, the Board of Directors focused on the following areas during 2005:

- value creating strategic options,
- defining targets for the operations,
- associated companies in Russia and Turkey,
- control over financial reporting,
- restructuring of operations in Sweden and Finland,
- development of competencies and succession planning,



- company acquisitions, and
- remuneration issues.

TeliaSonera's General Counsel Jan Henrik Ahrnell served as secretary at the meetings.

#### **Evaluation of the Board of Directors' work**

The Board of Directors has engaged external consultants to evaluate the Board's work. The Board has discussed the results of the evaluation.

#### **External auditors**

TeliaSonera's external auditors are appointed by the AGM and it is their task to audit the Group's financial reporting as well as the Board's and CEO's management of the Group. The auditors report to the shareholders at the AGM.

At the AGM 2004, PricewaterhouseCoopers AB was appointed as auditors for TeliaSonera. At the same time, it was decided that the auditors' remuneration would be paid based on invoice. Fees to auditors are reported in Note 33 Auditors' Fees and Services to our consolidated financial statements. The appointment is for a period of four years.

#### **Nomination of Board members**

At the 2005 AGM, a decision was made to establish a nomination committee, which shall consist of between five and seven members.

Four members shall represent the four shareholders that are largest in terms of votes and wish to participate in the nomination process. The Chairman of the Board of Directors shall also be a member of the committee. The nomination committee can appoint additional two members.

At the moment, the nomination committee consists of Jonas Iversen, chairman (Swedish state), Markku Tapio (Finnish state), KG Lindvall (Robur funds), Lennart Ribohn (SEB funds) and the Chairman of the Board of Directors.

The 2005 AGM also adopted rules for the work of the nomination committee, which includes nominating members of the Board of Directors, nominating the Chairman of the Board and, where appropriate, nominating auditor, as well as presenting proposals for remuneration to Board members. The nomination committee shall also nominate members for election to the following year's nomination committee.

All proposals made by the nomination committee shall be published in the AGM notice.

#### **Remuneration to the Board of Directors**

At the 2005 AGM, annual remuneration for the Chairman of the Board of Directors was set at SEK 750,000 and for the Deputy Chairman SEK 550,000, while other Board members elected by the AGM shall receive annual remuneration of SEK 400,000.

The 2005 AGM also determined that annual remuneration shall be paid to the chairman of the Board's Audit Committee in the amount of SEK 150,000 and to other members of the Audit Committee in the amount of SEK 100,000, and that annual remuneration shall be paid to the chairman of the Board's Remuneration Committee in the amount of SEK 40,000 and to the other members of the Remuneration Committee in the amount of SEK 20,000.

Remuneration is paid monthly. No remuneration is paid to members who are employees of the TeliaSonera Group.

### Executive Management and Group Vice Presidents

The composition of our Executive Management and Group Vice Presidents and their shareholdings and biographies are set forth below:

| Name                 | Year born | Number of shares owned as of February 8, 2006 | Principal occupation   |
|----------------------|-----------|---|--|
| Anders Igel          | 1951      | 33,696  | President and Chief Executive Officer  |
| Kim Ignatius         | 1956      | 3,028   | Executive Vice President, Chief Financial Officer                                |
| Marie Ehrling        | 1955      | 2,000   | President of TeliaSonera Sweden  |
| Juho Lipsanen        | 1961      | 8,000   | President of TeliaSonera Finland   |
| Kenneth Karlberg     | 1954      | 1,600 (1)                                     | President of TeliaSonera Norway, Denmark and the Baltic Countries                |
| Terje Christoffersen | 1952      |   | Group Vice President responsible for Corporate Marketing, Products and Services  |
| Håkan Dahlström      | 1962      | 1,600 (1)                                     | Group Vice President responsible for Corporate Networks and Technology           |
| Rune Nyberg          | 1949      | 1,000   | Group Vice President responsible for Corporate Human Resources                   |
| Michael Kongstad     | 1960      | 2,000   | Group Vice President responsible for Corporate Communications                    |
| Jan Henrik Ahrnell   | 1959      | 2,500   | Group Vice President and General Counsel responsible for Corporate Legal Affairs |

(1) Including shareholdings by spouse and minor.

Below is a summary biography of the members of the executive management and group vice presidents:

*Anders Igel* is President and Chief Executive Officer of TeliaSonera. Mr. Igel previously served as CEO of Esselte AB and, before that, as Executive Vice President of Telefonaktiebolaget LM Ericsson. While at Ericsson, Mr. Igel was, over the course of his career, the Head of Infocom Systems, which was one of Ericsson's three global business areas comprising fixed networks, Internet and IP communication, the Head of Ericsson's Public Networks business area, the Head of Ericsson UK and an operations executive for Ericsson in the Middle East, Southeast Asia and Latin America. Mr. Igel left Ericsson to become the CEO of Esselte in 1999. Mr. Igel holds a Master of Science degree in Engineering and a Bachelor of Science degree in Business Administration and Economics.

*Kim Ignatius* is Executive Vice President and Chief Financial Officer of TeliaSonera. Mr. Ignatius was appointed Executive Vice President and Chief Financial Officer of Sonera in 2000. Prior to joining Sonera, Mr. Ignatius was Chief Financial Officer and a member of the executive board of Tamro Corporation.

Mr. Ignatius has also held various management positions at Amer Group Plc. Mr. Ignatius holds a Bachelor of Science degree in Business Administration and Economics.

*Marie Ehrling* is President of TeliaSonera Sweden. Ms. Ehrling was employed by TeliaSonera in 2003 and previously held the position of Deputy Chief Executive Officer of SAS AB and Head of SAS Airlines. In addition, Ms. Ehrling has served as Information Officer at the Swedish Ministry of Finance and the Swedish Ministry of Education and Science and as a financial analyst for the Fourth National Pension Insurance Fund (Fjärde AP-fonden). Ms. Ehrling is a member of the Board of Directors of Securitas AB. Ms. Ehrling holds a Bachelor of Science degree in Business Administration and Economics.

*Juho Lipsanen* is President of TeliaSonera Finland. Mr. Lipsanen has been employed by TeliaSonera since 2005. Mr. Lipsanen was previously President and CEO of Alma Media Corporation. He has held several management positions at ABB Ltd Switzerland and ABB Finland, including President of ABB New Ventures Ltd and Chief Financial Officer of Automation Segment. Mr. Lipsanen holds a Master of Science degree in Business Administration and Economics.

*Kenneth Karlberg* is President of TeliaSonera Norway, Denmark and the Baltic countries. Mr. Karlberg has been employed by TeliaSonera since 1987. Mr. Karlberg previously held several executive positions in Telia, including Executive Vice President of Telia and head of the Telia Mobile business area. Mr. Karlberg holds a Senior Officer examination from the Swedish Military Academy.

*Terje Christoffersen* is Group Vice President and head of the Group-wide unit Marketing, Products and Services. Mr. Christoffersen has been employed by TeliaSonera since 2001. Mr. Christoffersen previously served as President of Telia Danmark, CEO of NetCom in Norway and country manager for Hewlett-Packard in Norway and Sweden. Mr. Christoffersen holds a Master degree in Business Administration.

*Håkan Dahlström* is Group Vice President and head of the Group-wide unit Networks and Technology. Mr. Dahlström has been employed by TeliaSonera since 1998 and has served as the Head of Mobile Networks in TeliaSonera Sweden and Head of Wireless Communication at Telia Research AB. Mr. Dahlström previously served as an officer in the Swedish Royal Navy with the rank of Commander. Mr. Dahlström holds a Master of Science degree in Engineering.

*Rune Nyberg* is Group Vice President and head of Corporate Human Resources. Mr. Nyberg was employed by TeliaSonera in 2003. Prior to joining TeliaSonera, Mr. Nyberg was Group Vice President of Human Resources at Sandvik AB, President of Pair Ltd. and Personnel Manager at Sandvik Coromant, JS Saba and Distributions AB DAGAB. Mr. Nyberg holds a Bachelor of Science degree in Business Administration and Economics.

*Michael Kongstad* is Group Vice President and head of Corporate Communications. Mr. Kongstad joined TeliaSonera in 2001. He has served as managing director of Swedish Operations for Burson-Marsteller International Inc. and as communications director for Posten AB, WASA Insurance Group and the OM Group. Mr. Kongstad holds a Bachelor of Science degree in Business Administration and Economics.

*Jan Henrik Ahrnell* is Group Vice President and General Counsel of TeliaSonera. Mr. Ahrnell has been employed by TeliaSonera since 1989 and has served as General Counsel since 1999. Prior to his service as General Counsel, Mr. Ahrnell was the head of various legal departments within the TeliaSonera Group and served as corporate counsel in various TeliaSonera companies. Mr. Ahrnell holds a Master of Laws degree.

The business address of each of the members of the TeliaSonera board of directors, the CEO of TeliaSonera and each other member of TeliaSonera's executive management and group vice presidents is c/o TeliaSonera AB, Sturegatan 1, SE-106 63 Stockholm, Sweden, telephone +46-8-504 550 00.





No member of the executive management and group vice presidents has a family relationship with any other member of the executive management and group vice presidents or any board member.

### **Salary structure within TeliaSonera**

According to the remuneration policy established by the Board of Directors, TeliaSonera shall offer a competitive package of rewards and remuneration to executives, managers and employees without being market leader in this area. Employees' remuneration consists of a fixed part and a variable part based on performance.

The fixed pay follows the pay structure in each country in which the Group operates, while the variable pay is established in a plan for each calendar year and consists of a Group-related part, a country-related part and individual performance objectives. Variable pay is linked to the employee's position and varies depending on the level of the position in the company. The variable pay model has been approved by the Board of Directors.

The CEO's variable pay may be a maximum of 50 percent of the fixed annual salary, while others within executive management and group vice presidents may receive variable pay of a maximum of 25-35 percent of the fixed annual salary. For other managers and key employees who are included in the variable pay model for managers, variable pay can, with certain exceptions, total a maximum of 15-25 percent of the fixed annual pay.

Country-specific plans apply to remaining employees where the variable pay can total a maximum of 6.25-16.6 percent of the fixed annual pay.

For employees who work with direct sales, a commission-based pay system applies.

For more detail regarding compensation, see Note 31 to our consolidated financial statements.

### **Pensions**

The CEO is guaranteed early retirement at the age of 60, pursuant to which his total annual pension benefits will equal 70 percent of his base salary up to the age of 65. From the age of 65 onwards, the CEO's pension benefits will be paid according to the ITP plan with supplemental benefits for that portion of his salary exceeding 20 income base amounts (as defined under Swedish law), so that the total pension equals 50 percent of the base salary.

The retirement age for members of the executive management other than the CEO varies between 60 and 65.

Almost all of our employees in Sweden, Finland and Norway are covered by defined pension benefit plans, providing a pension equal to a certain percentage of the employee's final salary. The pension plans mainly include old-age pension, disability pension and family pension. The pension obligations are secured mostly by pension funds, but also by provisions in the balance sheet and by insurance premiums. The part of Swedish obligation that is recorded as a provision is also secured through an external credit guarantee.

TeliaSonera's employees outside Sweden, Finland and Norway are usually covered by defined contribution pension plans. Contributions to these plans are normally set at a certain percentage of the employee's salary.

For additional details regarding our pensions, see Note 23 to our consolidated financial statements.

### **Severance pay**

TeliaSonera's employment contract with the CEO requires both parties to provide six months' notice of resignation or termination of employment. Upon termination by the company, the CEO shall be entitled

to severance pay equal to his fixed monthly salary for a period of 24 months. Other income shall be deducted from the severance amount. If the CEO resigns his position, he shall not be entitled to severance pay.

TeliaSonera's employment contract with other members of the executive management requires a period of notice of six months from the employee and 12 months from the company. Upon termination by TeliaSonera, such member of the executive management and group vice presidents will be entitled to a severance pay equal to the fixed monthly salary for a period of 12 months. Other income shall be deducted against the salary during the notice period and the severance amount. If a member of the executive management resigns his or her position, he or she shall not be entitled to severance pay.

#### **Employee stock option plans**

In 2001 and 2002, General Meetings of our shareholders decided to implement a number of employee stock option plans. Due to non-fulfillment of certain subscription criteria, most of the option programs were cancelled in 2003 and 2004 and the subscription periods for the two remaining programs expired on May 31, 2005 and June 30, 2005, respectively. No option holder subscribed for shares under these programs.

#### **Organization and management principles**

See Information on the Company Business Structure.

#### **Planning and follow-up**

Planning and follow-up are done in rolling 7-quarter plans. The CEO sets goals for the operations based on the guidelines of the Board of Directors. To ensure performance, managers usually have balanced scorecards with goals for their particular operations.

#### **Internal control and financial reporting procedures**

Corporate internal audit reviews various operations of the company and proposes measures to improve internal control, to streamline control processes and to increase internal efficiency.

In response to changes in Swedish, U.S. and other regulations, we continue to conduct a major review of our internal control in processes and IT systems. We expect that as a result of this review we may identify areas where we believe changes or improvements are appropriate or required.

#### **Code of ethics**

We have adopted a code of ethics that applies to the Chief Executive Officer, Chief Financial Officer and principal accounting officers. The purpose of the code is to implement a system to deter dishonest conduct and to promote business ethics, in conformity with the requirements of the Sarbanes-Oxley Act of 2002.

A copy of the code can be obtained free of charge by sending a request via e-mail to:

[investor-relations@teliasonera.com](mailto:investor-relations@teliasonera.com).

#### **Personnel and competence development**

The telecoms industry is knowledge-intensive and highly competitive. Providing an effective supply of competent employees with good opportunities for development is therefore of crucial importance for TeliaSonera.

In order to share resources, make development opportunities evident to employees and strengthen the we feeling of solidarity within the Group, a common internal job marketplace has been created for the wholly owned operations. New jobs and large project assignments are normally posted on a website to which all employees have access. In the longer term, the ambition is also to involve the partially owned businesses.

To increase knowledge of TeliaSonera s business operations and how they can be developed a Group-wide business education program, TeliaSonera Business School has been established. This Group-wide program also enables participants to exchange experiences and build networks.

During 2005, TeliaSonera has taken inventory of successors at senior management level and started a talent management process, including the relevant training programs.

### **Corporate social responsibility**

TeliaSonera wishes to support sustainable development and be a good corporate citizen. The Board of Directors has therefore adopted a Corporate Social Responsibility (CSR) policy. TeliaSonera has also undertaken to comply with the ETNO (European Telecommunications Network Operators Association) Sustainability Charter and is a member of CSR Sweden, a corporate-run network that focuses on corporate social responsibility and social commitment.

In 2005, TeliaSonera Sweden decided to broaden the coverage of its combined environmental/quality certification ISO 14001/9001 from network issues to the customer front. The decision was made because a great number of TeliaSonera s large business customers demand that suppliers have environmental and quality certification.

**Operating and Financial Review and Prospects**

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*Introduction*

The following information summarizes the results of operations of TeliaSonera in 2005, when we increased our customer base by 2.7 million in majority-owned operations and by 14.8 million in associated companies, increased our net sales by 7 percent, and recorded operating income of SEK 17.5 billion and free cash flow of SEK 15.6 billion.

Our consolidated financial statements are prepared in accordance with International Financial Reporting Standards (IFRS). See Note 36 to our consolidated financial statements for a description of the principal differences between IFRS and U.S. GAAP and for a description of the anticipated impact of the adoption of recently issued U.S. GAAP accounting standards.

Effective January 1, 2004, TeliaSonera applies IFRS 3, which means that goodwill was no longer amortized in 2004 and 2005.

*Merger of Telia and Sonera*

The merger of Telia and Sonera, first announced on March 26, 2002, was carried out through an exchange offer in which Sonera shareholders received shares in Telia. Upon completion of the exchange offer in December 2002, Telia changed its name to TeliaSonera. We have accounted for the merger as an acquisition by TeliaSonera of Sonera using the purchase method of accounting.

In connection with the merger, we set a goal of reaching an annual rate of SEK 2.7 billion of pre-tax cash flow synergy savings at the end of 2005. Our actions in 2003 and 2004 resulted in a rate of annual cost savings of SEK 1.8 billion and annual capital expenditure savings of SEK 0.9 billion, totaling SEK 2.7 billion, measured at the end of 2004. This means that the goal we set in connection with the merger was reached a year early.

*Restructuring and Streamlining Measures and Impairment Losses*

Since the beginning of 2003, we have taken several actions to restructure and streamline our operations and improve our efficiency. For instance, in Sweden and Finland, we have launched transition programs to keep the profitability by achieving competitive cost levels and focusing the service offerings. In

Sweden, the restructuring program is expected to reduce annual costs by SEK 4-5 billion as of 2008, and to reduce the amount of personnel by approximately 3,000. In Finland, streamlining efforts initiated in 2005 are expected to lower annual costs by SEK 1 billion as of 2006. Late in 2005, additional initiatives were taken and a turn-around program was launched in Finland, with estimated additional annual cost reduction of SEK 2 billion as of 2008.

Our restructuring and streamlining programs have also led to significant implementation costs and provisions since the beginning of 2003, mainly related to a SEK 1.0 billion restructuring charge in 2003 for redundancies and streamlining in Sweden, Finland and Lithuania, and for the post-merger integration of Telia's and Sonera's international carrier operations; a SEK 0.6 billion restructuring charge in 2004 to integrate our Danish mobile operations with Orange Denmark operations which we acquired in 2004; and a SEK 2.6 billion restructuring charge in 2005 for redundancies and other streamlining in Sweden and Finland.

For a detailed discussion of each of these restructuring and streamlining efforts, see Note 32 to our consolidated financial statements.

Since the beginning of 2003, we have also recorded significant non-cash impairment losses not connected with our restructuring and streamlining programs, mainly related to a SEK 1.0 billion impairment loss on our minority investment in Infonet Services Corporation in 2003 and a SEK 3.3 billion impairment loss on our international carrier operations in 2004. For a detailed discussion of each of these and other impairment losses, see Notes 11 and 12 to our consolidated financial statements.

### *Financial Results*

| (SEK in millions, except earnings per share)                                 | 2005    | 2004    | 2003    |
|--|---------|---------|---------|
| Net sales  | 87,661  | 81,937  | 82,425  |
| Operating expenses (except depreciation, amortization and impairment losses) | -60,153 | -51,096 | -50,390 |
| Depreciation, amortization and impairment losses                             | -13,188 | -15,596 | -17,707 |
| Income from associated companies   | 3,229   | 3,548   | 382     |
| Operating income   | 17,549  | 18,793  | 14,710  |
| Financial revenues and expenses  | -530    | -1,345  | -811    |
| Income after financial items   | 17,019  | 17,448  | 13,899  |
| Income taxes   | -3,325  | -3,184  | -3,850  |
| Net income   | 13,694  | 14,264  | 10,049  |
| Attributable to:   |         |         |         |
| Shareholders of the parent company   | 11,697  | 12,964  | 9,080   |
| Minority interests in subsidiaries   | 1,997   | 1,300   | 969     |
| Earnings per share (SEK)   | 2.56    | 2.77    | 1.95    |

Our net sales increased by 7.0 percent in 2005, mainly due to the acquisition of majority in Eesti Telekom in December 2004, the acquisition of Orange Denmark operations in October 2004, the acquisition of Chess operations in Norway in November 2005, and due to a positive impact of 1.2 percent from exchange rate fluctuations. In 2004, our net sales decreased by 0.6 percent, mainly due to the divestments of our Swedish cable TV operations and Telia Mobile Finland in June 2003 that were required by the EU Commission as part of the merger of Telia and Sonera.

Throughout the period, volume growth within mobile communications and broadband has been strong in most markets, but the impact on net sales has been partly offset by price erosion. Additionally, net sales from fixed voice services have declined throughout the period.

The following table presents net sales for each of our reporting segments:

| SEK in millions, except percentages | 2005   | 2004   | Change (%) | 2003   | Change (%) |
|-------------------------------------|--------|--------|------------|--------|------------|
| Sweden                              | 38,960 | 40,448 | -3.7       | 42,601 | -5.1       |
| Finland                             | 16,308 | 18,267 | -10.7      | 17,697 | 3.2        |
| Norway                              | 7,481  | 6,299  | 18.8       | 6,081  | 3.6        |
| Denmark                             | 7,178  | 4,495  | 59.7       | 3,278  | 37.1       |
| Baltic countries                    | 9,293  | 5,868  | 58.4       | 5,881  | -0.2       |
| Eurasia                             | 6,367  | 4,084  | 55.9       | 2,742  | 48.9       |
| Other operations                    | 4,922  | 5,422  | -9.2       | 7,478  | -27.5      |
| Corporate and eliminations          | -2,848 | -2,946 | -3.3       | -3,333 | -11.6      |
| The Group                           | 87,661 | 81,937 | 7.0        | 82,425 | -0.6       |

- Net sales in Sweden decreased throughout the period mainly due to lower volumes and net sales in fixed voice, partly offset by growth in mobile and broadband services, where increased usage and amount of customers has been able to offset or exceed the effects of price erosion. In 2004, net sales were also negatively affected by a change in reporting third-party content services on a net basis instead of gross basis.
- Net sales in Finland decreased in 2005 due to substantially reduced price level in mobile communications, which was not sufficiently offset by increased usage and number of mobile customers, and a loss of mobile wholesale revenues. In 2004, net sales increased due to the acquisition of Auria fixed network operations in October 2003, while increased usage of mobile and broadband services was offset by price erosion and decreases in fixed voice.
- Net sales in Norway increased in 2005 due to the acquisition of Chess operations in November 2005, and increased throughout the period due to growth in customer base and increased usage of services, partly offset by price erosion.
- Net sales in Denmark increased in 2005 and 2004 due to the acquisition of Orange Denmark operations in October 2004, and increased throughout the period due to growth in our mobile customer base and increased usage of services, which has exceeded the effects from price erosion.
- Net sales in the Baltic countries increased in 2005 mainly due to the acquisition of majority in Eesti Telekom in December 2004, and remained stable in 2004. Excluding the effects from acquiring majority in Eesti Telekom, the net sales have been stable throughout the period, with the decline in fixed voice offsetting the growth in mobile and Internet services.
- Net sales in Eurasia increased throughout the period due to significant and continued growth in customer base.
- Net sales in Other operations decreased throughout the period mainly due to continued divestment of our non-core operations, and in 2004 also due to the discontinuation of unprofitable operations and substantial price erosion in International Carrier. In 2005, net sales from International Carrier increased due to higher demand for voice services offsetting price erosion, but the growth was not enough to offset the effect of divestments within TeliaSonera Holding.

Our operating expenses, excluding depreciation, amortization and impairment losses, increased in 2005, mainly due to the consolidation of Orange Denmark operations and Eesti Telekom for the full year, and the consolidation of Chess operations since November 2005, and also due to the SEK 2.1 billion restructuring charge recorded for our Swedish operations in 2005, a SEK 0.7 billion positive pension related one-time adjustment in 2004, and capital gains of SEK 0.5 billion in 2004. Additionally, operating



expenses increased especially in Norway, Denmark and Eurasia due to growing traffic and customer volumes. In Finland, operating expenses also increased, despite decreased net sales, due to settlement compensations paid to other operators in 2005, and also due to expenses for customer intake and increased traffic volumes. In 2004, operating expenses, excluding depreciation, amortization and impairment losses, increased slightly, mainly due to lower capital gains than in 2003. See Notes 8 and 9 to our consolidated financial statements.

Our depreciation, amortization and impairment losses decreased in 2005, mainly due to the SEK 3.0 billion impairment loss recorded on our international carrier operations in 2004. Increased depreciation and amortization due to the full-year consolidation of Orange Denmark and Eesti Telekom was partly offset by lower depreciation level in Sweden fixed network. In 2004, depreciation, amortization and impairment losses decreased due to discontinued goodwill amortization and lower depreciation level in Sweden fixed network, partly offset by the impairment loss recorded on our international carrier operations. See Note 11 to our consolidated financial statements.

Income from associated companies decreased in 2005 as compared to 2004, due to a SEK 1.0 billion capital gain in 2004 related to the earlier sale of our investment in Telefonos and due to consolidation of Eesti Telekom which was an associated company in 2004, partly offset by improved results in MegaFon and Turkcell. Income from associated companies increased in 2004 as compared to 2003, due to final recognition of gains in 2004 related to the sale of our majority interest in Telefonos in 2001; due to a SEK 1.0 billion impairment loss on Infonet in 2003; and also due to improved results in MegaFon and Turkcell. See Note 12 to our consolidated financial statements.

Our operating income decreased in 2005, despite increase in net sales, mainly due to restructuring charges in 2005 that exceeded the net amount of impairment losses, pension adjustment and capital gains in 2004, due to increased traffic and customer volumes and to increased costs for customer intake, due to settlement compensations paid to other operators in Finland, and due to lower income from associated companies. In 2004, our operating income increased mainly due to lower depreciation, amortization and impairment losses and higher income from associated companies. In 2003, our operating income increased mainly due to lower impairment losses and restructuring charges compared to 2002.

The following table presents operating income/loss for each of our reporting segments:

| SEK in millions            | 2005   | 2004   | Change | 2003   | Change |
|----------------------------|--------|--------|--------|--------|--------|
| Sweden                     | 8,359  | 12,696 | -4,337 | 10,892 | +1,804 |
| Finland                    | 321    | 3,278  | -2,957 | 1,980  | +1,298 |
| Norway                     | 1,682  | 1,183  | +499   | 423    | +760   |
| Denmark                    | -174   | -909   | +735   | -561   | -348   |
| Baltic countries           | 2,303  | 1,799  | +504   | 994    | +805   |
| Eurasia                    | 2,813  | 1,803  | +1,010 | 889    | +914   |
| Russia                     | 1,170  | 653    | +517   | 509    | +144   |
| Turkey                     | 1,709  | 973    | +736   | 619    | +354   |
| Other operations           | 130    | -1,764 | +1,894 | -137   | -1,627 |
| Corporate and eliminations | -764   | -919   | +155   | -898   | -21    |
| The Group                  | 17,549 | 18,793 | -1,244 | 14,710 | +4,083 |



- Operating income in Sweden decreased in 2005, mainly due to SEK 2.5 billion restructuring charges, decreased net sales and profitability for fixed voice, SEK 0.5 billion of increased costs and writedowns due to the exceptionally strong winter storm, and a SEK 0.7 billion positive pension related one-time adjustment in 2004. In 2004, operating income increased mainly due to extended depreciation schedules and the SEK 0.7 billion effect from a changed accounting practice for certain pension-related items.
- Operating income in Finland decreased in 2005, mainly due to significantly decreased net sales and profitability for mobile communications, settlement compensations of SEK 0.4 billion paid to other operators, and costs for increased customer intake in 2005. In 2004, operating income increased mainly due to discontinued goodwill amortization.
- Operating income in Norway increased in 2005, mainly due to increased usage per customer and the acquisition of Chess in November 2005. In 2004, operating income increased mainly due to discontinued goodwill amortization.
- Operating loss in Denmark decreased in 2005, mainly due to impairment losses, provisions and other additional costs in 2004 from integrating Orange Denmark operations. Accordingly, in 2004, operating loss increased due to costs of integrating Orange Denmark.
- Operating income in the Baltic countries increased in 2005, mainly due to the consolidation of Eesti Telekom. In 2004, operating income increased mainly due to discontinued goodwill amortization.
- Operating income in Eurasia increased in 2005 due to growth in net sales, and increased in 2004 due to growth in net sales and discontinued goodwill amortization.
- Operating income from Russia and Turkey improved throughout the period mainly due to continued customer growth in our associated companies in these countries. Additionally, results in Turkey in 2004 were negatively affected by provisions recorded by Turkcell.
- Operating income from Other operations increased in 2005 as compared to 2004, when we recorded a SEK 3.3 billion impairment loss on our international carrier activities. This improvement was partly offset by lower capital gains in TeliaSonera Holding in 2005 as compared to 2004. Operating loss from Other operations deepened in 2004 compared to 2003 due to the impairment loss on international carrier activities in 2004. This improvement was partly offset by higher capital gains in TeliaSonera Holding in 2004 as compared to 2003.

Our net financial expenses decreased in 2005, mainly due to impairment losses and provisions recorded on minority investments in 2004. Accordingly, net financial expenses increased in 2004 due to these impairment losses and provisions, as compared to capital gains from such minority investments in 2003.

Our income tax expense increased in 2005, mainly due to recording of previously unrecognized deferred tax assets in 2004. Accordingly, in 2004, income tax expense decreased despite higher income before taxes than in 2003, mainly due to the recording of previously unrecognized deferred tax assets. See Note 14 to our consolidated financial statements.

Our net income and our earnings per share decreased in 2005, mainly due to lower operating income. In 2004, net income and earnings per share increased mainly due to improved operating income.

*Liquidity and Capital Resources***Cash Flows**

| <b>SEK in millions</b>                                | <b>2005</b>   | <b>2004</b>   | <b>2003</b>   |
|---|---------------|---------------|---------------|
| Cash from operating activities                        | 26,990        | 24,403        | 26,443        |
| Cash used in capital expenditure                      | -11,396       | -10,285       | -9,092        |
| <i>Free cash flow</i>                                 | <i>15,594</i> | <i>14,118</i> | <i>17,351</i> |
| Cash used in/from other investing activities          | -840          | 2,294         | 5,649         |
| Cash flow before financing activities                 | 14,754        | 16,412        | 23,000        |
| Cash used in financing activities                     | -15,653       | -11,102       | -16,412       |
| Cash and cash equivalents, opening balance            | 17,245        | 12,069        | 5,465         |
| Net cash flow for the period                          | -899          | 5,310         | 6,588         |
| Exchange rate difference in cash and cash equivalents | 488           | -134          | 16            |
| Cash and cash equivalents, closing balance            | 16,834        | 17,245        | 12,069        |

Our principal source of liquidity is cash generated from operations. Historically, we have also generated significant amounts of cash from asset sales as part of our strategy to focus on our core business. Our liquidity requirements arise primarily from the need to fund capital expenditures for the maintenance of our facilities, to expand our business should management deem that such an expansion is in the interest of shareholders, to fund our working capital requirements and to pay dividends and other returns to shareholders. We believe that we are capable of meeting payables, when they become due, from our cash flow from operating activities. Additionally, we maintain credit facilities with available funds which can be used, if necessary, to meet current liabilities when they fall due.

Cash flow from operating activities increased in 2005, mainly due to lower tax payments than in 2004, a positive change in working capital compared to a negative change in 2004, and the consolidation of Eesti Telekom. Cash flow from operating activities decreased in 2004 mainly due to higher tax payments than in 2003.

Cash used in capital expenditure increased in 2005, mainly due to investments in the mobile network in Eurasia, Denmark and the Baltics, and also due to the consolidation of Eesti Telekom. In 2004, cash used in capital expenditure increased due to higher investments in the growth areas broadband, IP-based services and mobile communications.

Free cash flow (cash flow from operating activities less capital expenditure) increased in 2005 due to higher cash flow from operating activities, partly offset by higher capital expenditures. In 2004, free cash flow decreased due to both decreased cash flow from operating activities and increased capital expenditures.

Net cash was used in other investing activities in 2005, due to the cash payment for the Chess acquisition exceeding the effects from asset sales during the year. In 2004, net cash received from other investing activities decreased mainly due to higher amount of acquisitions than in 2003.

Net cash used in financing activities increased in 2005, due to higher dividends paid and the SEK 10.2 billion repurchase of shares in 2005, partly offset by net borrowings of new loans as compared to net repayment of loans in 2004. Net cash used in financing activities decreased in 2004 compared to 2003, despite higher dividends paid, due to lower net repayments of loans.

### Acquisitions, Investments and Divestitures

We have made a number of significant acquisitions and divestitures since the beginning of 2003.

- In December 2003, we acquired Motorola's 35 percent minority interest in our Lithuanian mobile operator UAB Omnitel, increasing our interest in Omnitel from 55 percent to 90 percent. The purchase price was USD 117 million. In August 2004, we acquired the remaining 10 percent minority interest from the Kazickas family for a purchase price of USD 64 million.
- To fulfill the EU conditions for the merger of Telia and Sonera, we sold our Swedish cable TV operations Com Hem AB to EQT Northern Europe for approximately SEK 2.2 billion and Telia's Finnish mobile operations to Finnet Oy for approximately EUR 14 million in cash, both in June 2003. We have subsequently in 2004-2005 received an additional EUR 14 million in cash for the sale of Telia's Finnish mobile operations. We recorded a capital gain of SEK 1.8 billion from the sale of Com Hem and a capital loss of SEK 0.1 billion from the sale of Telia's Finnish mobile operations.
- In March 2004, we sold our Telia Finans AB leasing portfolio and operations to De Lage Landen International B.V. for approximately SEK 6.2 billion, and recorded a gain of SEK 0.4 billion from the sale.
- In October 2004, we acquired France Telecom's Danish subsidiary, the mobile operator Orange A/S, for a purchase price of EUR 606 million.
- In February 2005, we sold our 20 percent holding in Infonet Services Corporation to British Telecom for SEK 1.3 billion, and recorded a capital loss of approximately SEK 20 million on the sale. We had in 2003 recorded a SEK 1.0 billion impairment loss on our investment in Infonet.
- On November 7, 2005, we acquired 91.2 percent of the mobile service operator Vollvik Gruppen AS in Norway, subsequently renamed TeliaSonera Chess Holding AS. After making a voluntary offer for the remaining shares, we owned all but a small fraction of the shares at December 31, 2005. We paid SEK 2.0 billion as purchase consideration and expect to pay an additional purchase consideration of SEK 0.2 billion, subject to certain conditions.

### Credit Facilities

We believe that our bank credit facilities and open-market financing programs are sufficient for our present liquidity requirements. Our cash and short-term investments totaled SEK 18.4 billion as of December 31, 2005. In addition, the aggregate principal unutilized amount we had available under our committed credit facilities amounted to SEK 10.3 billion as of December 31, 2005.

We currently have a credit rating from Moody's Investors Service of A2 for long-term borrowing and Prime-1 for short-term borrowing. From Standard & Poor's Ratings Services we have a rating of A- for long-term borrowing and A2 for short-term borrowing.

We generally seek to arrange our financing through our parent company TeliaSonera AB. Our primary means of external borrowing are described in Note 22 Financial Instruments and Financial Risk Management under subsections Liquidity and bank credit facilities and Open-market financing programs.

**Contractual Obligations**

The table below sets forth certain information on our contractual obligations as of December 31, 2005, including scheduled payment dates:

| SEK in millions                    | Total amount outstanding | Within 1 year | More than 1 year but within 3 years | More than 3 years but within 5 years | After 5 years |
|------------------------------------|--------------------------|---------------|-------------------------------------|--------------------------------------|---------------|
| Long-term loans                    | 20,520                   |               | 1,789                               | 3,409                                | 15,322        |
| Short-term loans(1)                | 6,215                    | 6,215         |                                     |                                      |               |
| Operating leases                   | 9,817                    | 1,876         | 2,602                               | 1,790                                | 3,549         |
| Financial leases                   | 390                      | 181           | 192                                 | 14                                   | 3             |
| License fees                       | 456                      | 73            | 141                                 | 157                                  | 85            |
| Unconditional purchase obligations | 2,088                    | 513           | 452                                 | 452                                  | 671           |
| Other contractual obligations      | 4,704                    | 2,944         | 1,528                               | 38                                   | 194           |
| Total contractual obligations      | 44,190                   | 11,802        | 6,704                               | 5,860                                | 19,824        |

(1) Including short-term portion of long-term loans.

***Interest-bearing liabilities***

We had long-term loans amounting to SEK 20,520 million as of December 31, 2005. Of such amount, SEK 203 million was in the form of loans incurred through long-term financial leasing, foreign currency interest rate swaps and interest rate swaps. Further, SEK 18,610 million was in the form of other foreign currency loans and EMTN program loans and SEK 907 million was in the form of other loans. Finally, SEK 800 million was in the form of FTNs. Our short-term loans include short-term financial leasing, short-term FTNs, short-term EMTNs, loans, foreign currency interest rate swaps and interest rate swaps. During 2005, we refinanced maturing debt with new longer-dated public bond issuance, thereby prolonging our debt maturity profile.

Our interest-bearing liabilities, consisting of long-term and short-term loans and our pension liability, totaled SEK 26,735 million as of December 31, 2005, compared to SEK 24,675 million as of December 31, 2004, and SEK 31,076 million as of December 31, 2003.

In 2006, our scheduled debt repayments are somewhat lower than they were in 2005. In addition to scheduled amortizations, we have in the past and may in the future decide to redeem or repurchase outstanding debt prior to its maturity.

In general, our policy is to place debt at the parent company level. However, as of December 31, 2005, our wholly owned subsidiary TeliaSonera Finland Oyj had interest-bearing liabilities to external parties of approximately SEK 2 billion outstanding. These liabilities were assumed as a result of the merger of Telia and Sonera in December 2002.

***Leasing activities***

Our operating and financial lease obligations primarily relate to office space, technical sites, land, computers and other equipment.

We are also a party to a cross-border finance lease-leaseback agreement under which TeliaSonera Finland has leased some of its mobile telecommunications network equipment to a group of equity trusts based in the United States, which have in turn leased the equipment back to TeliaSonera Finland. See Note 28 to our consolidated financial statements Contingencies, Other Contractual Obligations and Litigation for more details regarding this transaction.

**License fees**

License fees in the above table relate to our remaining annual payments for the UMTS license in Denmark as of December 31, 2005.

**Unconditional purchase obligations**

Unconditional purchase obligations consist mainly of future payments under our restructuring provisions.

**Other contractual obligations**

Other contractual commitments consist of warranty provisions recorded in our balance sheet and our unrecognized contractual obligations to acquire intangible assets, property, plant and equipment and financial assets.

We have guarantee commitments on behalf of Ipse 2000 S.p.A., our 12.55 percent held UMTS investment in Italy, which we have recorded in our balance sheet as provisions. These commitments, consisting of our portion of Ipse's 3G license payments to the Italian government, have been secured by bank guarantees. As of December 31, 2005, the amount of provision for our future payments totaled SEK 856 million.

We have a capital commitment to invest in Xfera Móviles S.A. Our ownership in Xfera is 16.55 percent and our share of the shareholder capital commitments is 23.27 percent. Payments under the existing capital commitment were originally scheduled to start by the end of 2004, but have been postponed due to ongoing negotiations among Xfera owners. As of December 31, 2005, the amount of provision for our future payments and the amount of other unrecognized contractual obligations totaled SEK 2,463 million.

As of December 31, 2005, we had contractual obligations to acquire property, plant and equipment totaling SEK 871 million, mainly related to contracts for the construction of fixed networks in Sweden.

**Other commercial commitments**

In addition to our contractual obligations presented above, we also have certain commercial commitments (contingent liabilities), which mainly relate to guarantees issued by us. If exercised or called, these guarantees would affect our liquidity.

The table below sets forth certain information on our other commercial commitments as of December 31, 2005:

| SEK in millions                      | Total<br>amount<br>committed | Within<br>1 year | More<br>than<br>1 year<br>but within<br>3 years | More<br>than<br>3 years<br>but within<br>5 years | After<br>5 years |
|--------------------------------------|------------------------------|------------------|---|--|------------------|
| Credit and performance guarantees(1) | 2,581                        | 451              | 1,922   | 1  | 207              |

(1) Guarantees, for which we have recorded a provision, are not included in the table.

For all guarantees, except the credit guarantee on behalf of Svenska UMTS-nät AB and the performance guarantees on behalf of Xfera, the stated amounts in the table above equal the estimated maximum amount of future payments that we could be required to make under the respective guarantee.

As security for certain amounts borrowed by Svenska UMTS-nät under a third-party credit facility, we have issued to the lenders a guarantee, which totaled a maximum of SEK 2,650 million as of December 31, 2005. We have also granted pledges of our shares in Svenska UMTS-nät to the lenders. As of

December 31, 2005, Svenska UMTS-nät had, under the credit facility, borrowed SEK 2,950 million, of which we guarantee 50 percent, or SEK 1,475 million.

We have issued the following guarantees on behalf of Xfera, which totaled SEK 898 million as of December 31, 2005:

- Counter guarantee of EUR 41 million as our share on behalf of Xfera's performance requirements in relation to its UMTS license.
- Counter guarantees of EUR 52 million as our share to cover the payment of Xfera's spectrum fees for 2001-2005, which are currently subject to dispute with the Spanish government.
- Counter guarantee of EUR 3 million as our share to cover the payment of borrowings under Xfera's credit facility.

The guarantees may be partly overlapping with the capital commitment discussed above under Other contractual obligations. For instance, we believe that our investments pursuant to the contractual capital commitment would enable Xfera to meet the performance requirements in relation to its UMTS license. As of December 31, 2005, we had a provision of EUR 49 million, equivalent to SEK 462 million, for our commitments and obligations on behalf of Xfera, and we believe that there is currently no need for additional provisions.

As of December 31, 2005, other guarantees included approximately SEK 500 million related to divested businesses, and certain other guarantees in the normal course of business.

#### **Off-Balance Sheet Arrangements**

Except for credit and performance guarantees discussed above in Contractual Obligations, there are no off-balance sheet arrangements that have or are reasonably likely to have a current or future effect on our financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources that is material to investors.

#### *Financial Risk Management*

Our financial policy contains guidelines for interest rates and the average maturity of borrowings. Our current policy is that the duration of interest-bearing loans should be from six months to four years. We arrived at this duration interval by balancing the estimated running cost of borrowing and the risk of a significant negative impact on earnings should there be a sudden, major change in interest rates. Our basic goal is to optimize interest rate risk for the TeliaSonera group as a whole. We use Swedish krona as our accounting currency. Our borrowings are therefore normally swapped into or denominated in Swedish krona, unless directly linked to international operations. If the available loan form does not directly reflect the desired loan portfolio structure, in terms of interest or currency, various forms of derivative instruments are used to adapt the structure in terms of duration and currency. This adaptation is achieved chiefly through interest rate swaps and foreign currency interest rate swaps. Foreign currency interest rate swaps, normally, relate to loans denominated in foreign currencies that are swapped into Swedish krona, and thus do not entail any currency risk.

We typically use our uncommitted facilities for our financing needs.

See Note 22 to our consolidated financial statements Financial Instruments and Financial Risk Management under subsection Foreign exposure / Foreign-exchange derivatives for further reference regarding our portfolio of foreign currency interest rate swaps and our portfolio of foreign exchange derivatives hedging loans, investments and operational transaction exposure, as of December 31, 2005.

As of December 31, 2005, TeliaSonera AB and TeliaSonera Finland Oyj had interest-bearing liabilities of SEK 25,602 million with a duration of interest of approximately 0.9 years, including derivatives. The volume of loans exposed to changes in interest rates over the next 12-month period was, as of the same date, approximately SEK 21,145 million, assuming that existing loans maturing during the year are refinanced and after accounting for derivatives. The exact effect of a change in interest rates on the financial net depends on the timing of maturity of the debt as well as reset dates for floating rate debt, and that the volume of loans may vary over time, thereby affecting the estimate. The fair value of the loan portfolio would, however, change by approximately SEK 240 million, should the level in market interest rates make a parallel shift of one percentage point, and assuming the same volume of loans and a similar duration on those loans as per year-end 2005. See Note 22 to our consolidated financial statements Financial Instruments and Financial Risk Management under subsection Borrowings, maturity structure, interest rates and currencies for further reference regarding the borrowings and the average cost, including relevant hedges, of outstanding long-term and short-term borrowings as of December 31 for the past three years of TeliaSonera AB and TeliaSonera Finland Oyj.

The following table sets forth our portfolio of long-term and short-term borrowings (including accrued interest):

| SEK in millions                              | As of December 31, |            |
|--|--------------------|------------|
|  | 2005               |            |
|  | Book value         | Fair value |
| Long-term loans                              | 20,913             | 21,147     |
| Short-term loans                             | 6,221              | 6,265      |
| Interest rate swaps, gains                   | -534               | -534       |
| Foreign currency interest rate swaps, gains  | -305               | -305       |
| Interest rate swaps, losses                  | 124                | 124        |
| Foreign currency interest rate swaps, losses | 52                 | 52         |
| Other foreign currency derivatives, gains    | 9                  | 9          |
| Total borrowings (including derivatives)     | 26,480             | 26,758     |

Our operational currency transaction exposure is not significant at present, but it is expected to increase over time. Assuming an operational transaction exposure equivalent to that for the applicable year and provided that no hedging measures were taken and not including any potential impact on income due to currency translation of other income statement items, the negative impact on pre-tax income would have been approximately SEK 13 million for the year 2005 and SEK 17 million for the year 2004 on a full-year basis if the Swedish krona weakened by one percentage point against all the transaction currencies, provided that no hedging measures were taken and excluding any potential impact on income due to currency translation of other income statement items. Applying the same assumptions, the positive impact on income would have been approximately SEK 17 million for both 2005 and 2004 on a full-year basis, should the euro have weakened by one percentage point against all of the transaction currencies.

TeliaSonera Corporate Finance and Treasury is responsible for group-wide financial risk management, including netting and pooling of capital requirements and payment flows. TeliaSonera Corporate Finance and Treasury also seeks to optimize the cost of financial risk management, which in certain cases may mean that, for example, an intra-group transaction is not replicated with an identical transaction outside the group. TeliaSonera Corporate Finance and Treasury's deviation mandates are clearly defined, however, and the impact on earnings of deals made within those mandates is therefore not deemed to be substantial. TeliaSonera Corporate Finance and Treasury's risk mandate in the currency markets is currently capped at the equivalent of a nominal plus or minus SEK 200 million. As of December 31, 2005, the risk mandate was utilized by less than SEK 50 million.

Our conversion exposure is expected to continue to grow due to the ongoing expansion of our business operations outside Sweden. Any loss in value of currencies of such areas against the Swedish krona will have a negative impact on the shareholders' equity in our Swedish krona-denominated financial statements. We do not typically hedge our conversion exposure, unless the exposure is short-term and relates to a large amount of a freely-convertible foreign currency of a country with smoothly functioning financial markets.

As of December 31, 2005, the conversion exposure amounted to approximately SEK 143 billion (and as of December 31, 2004 to approximately SEK 123.5 billion). As of December 31, 2005, we did not hedge our conversion exposure. The negative or positive impact on the TeliaSonera group's equity would have been approximately SEK 1.4 billion as of December 31, 2005, and approximately SEK 1.2 billion as of December 31, 2004, if the Swedish krona had strengthened or weakened, respectively, by one percentage point against all currencies in which TeliaSonera has conversion exposure. This impact on the TeliaSonera group's equity does not include any potential positive or negative impact, respectively, due to our operational need to net purchase foreign currency.

We employ derivatives in our financial management activities. Derivatives are primarily used to obtain the duration of interest desired on the loans within the portfolio, and the risk profile desired in foreign exchange dealings. We accept only creditworthy counterparties for financial transactions such as interest rate swaps, foreign currency swaps and other transactions in derivatives. We require each counterparty to have an approved rating and an International Swaps and Derivatives Association, Inc. (ISDA) agreement. The permitted exposure to each counterparty depends on the rating of that counterparty. As of December 31, 2005, TeliaSonera group's aggregate exposure to counterparties in derivatives was SEK 704 million, calculated as the sum of net claims on all of the respective counterparties.

The credit risk with respect to our trade receivables is diversified among a large number of customers, both private individuals and companies in various industries. Solvency information is required for credit sales to minimize the risk of unnecessary bad debt expense and is based on group-internal information on payment behavior and, if necessary, credit and business information derived from external sources. Bad debt expense in relation to consolidated revenues was 0.3 percent, 0.3 percent and 0.7 percent in 2005, 2004 and 2003, respectively.

Almost all our employees in Sweden, Finland and Norway are covered by defined benefit pension plans, pursuant to which individuals are guaranteed a pension equal to a certain percentage of his or her salary. The pension plans mainly include old-age pensions, disability pensions and family pensions. The pension obligations are secured principally by pension funds, but also through provisions reflected in our balance sheet and through insurance policies. In Finland, a part of the pension is funded in advance and the remaining part financed as a pay-as-you-go pension. Our employees outside Sweden, Finland and Norway are usually covered by defined contribution pension plans. Contributions to the latter are normally set at a certain percentage of the employee's salary. Pension obligations are calculated annually, on the balance sheet date, based on actuarial principles. The assets of the pension funds constitute plan assets for pensions and are valued at market value. When the net cumulative unrecognized actuarial gain or loss on pension obligations and plan assets goes outside a corridor equal to ten percent of the greater of either pension obligations or the market value of plan assets, the surplus amount is amortized over the remaining employment period. See Note 4 to our consolidated financial statements Significant Accounting Policies, section Provisions for pensions and employment contracts for further reference regarding actuarial calculation assumptions.

As of December 31, 2005, we had pension obligations with a net present value of SEK 22,036 million. To secure these obligations we maintain pension funds, with plan assets equivalent to SEK 18,480 million based on market values as of December 31, 2005. The pension funds assets are used as the primary funding source for the pension obligations, and at the end of 2005, these assets consisted of approximately



61 percent of fixed income instruments and approximately 39 percent of shares and other investments. The expected return on plan assets is approximately 4.3 percent annually.

The pension obligations would have been SEK 3,200 million higher if the weighted average discount rate had been one percentage point lower than the 3.5 percent that we have used as of December 31, 2005. Such an increase in the pension obligations, were interest rates to fall, would be partly offset by a positive impact from the fixed income assets in the pension funds. Based on the duration of the pension funds' fixed income portfolios (including index-linked bonds) as of December 31, 2005, and assuming that the value of the other assets in the pension funds were unchanged, a similar reduction in interest rates is estimated to increase the value of the pension funds' assets by some SEK 1,000 million.

### *Critical Accounting Policies, Estimates and Assumptions*

The preparation of financial statements requires management and the Board of Directors to make estimates and judgments that affect reported amounts of assets, liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities. These estimates are based on historical experience and various other assumptions that management and the Board believe are reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions, significantly impacting our earnings and financial position.

Management believes that the following significant accounting policies comprise its most critical estimates and assumptions used in the preparation of the financial statements:

- revenue recognition,
- income taxes,
- valuation of intangible and other non-current assets,
- collecting trade receivables,
- provisions for pensions,
- restructuring activities, and
- contingent liabilities and litigation,

all of which are discussed and separately marked in the respective sections of Note 4 to our consolidated financial statements.

### *Legal and Regulatory Proceedings*

We are involved in a number of legal proceedings in the ordinary course of our business. These proceedings primarily involve claims arising out of commercial law issues and regulatory matters. We are also involved in administrative proceedings relating principally to telecommunications regulations, competition law and consumer protection issues. In particular, we are involved in numerous proceedings related to interconnection fees, which affects future revenues. Except for the proceedings described below, we or our subsidiaries are not involved in any legal, arbitration or regulatory proceedings which we believe could have a material adverse effect on our business, financial condition or results of operations.

The following is a brief summary of certain regulatory proceedings to which we or one of our subsidiaries is a party:

- The administrative courts in Sweden have ruled that Telia shall reimburse Tele2 for all traffic transferred by Telia to Tele2's mobile network, while Telia is entitled to be reimbursed by the originating operators who have transferred traffic on Telia's network. In connection with the proceedings above, Tele2 brought an action in the Swedish civil courts against Telia claiming SEK 1,000 million and accrued interest for interconnection fees for the period September 1998-June 2004. The action has been stayed pending the administrative procedures. Presently the level of the interconnection fee is still pending in the county administrative court. We have made provisions with an amount we believe to be sufficient.
- Telia is in disputes with Tele2 and Vodafone in Sweden regarding the level of interconnection fees for calls terminated in their respective mobile networks. The NPTA has decided that Tele2 and Vodafone were entitled to charge Telia approximately SEK 0.97 per minute until July 5, 2004 and thereafter SEK 0.80 per minute. Tele2 and Vodafone claim that the interconnection fees should be approximately SEK 1.40 per minute, while we claim that the fees should be substantially lower than the NPTA has decided. The issues are presently pending in the courts.
- During the second half of 2001, a number of operators filed complaints against Telia with the Swedish Competition Authority and the Swedish Competition Authority initiated an investigation regarding Telia's pricing of ADSL services. The complaints suggest that the difference between Telia's wholesale prices and retail prices is too low to effectively enable competition in the retail market. In December 2004 the Competition Authority sued us at the Stockholm District Court claiming that we have abused our dominant position. The Authority demands a fee of SEK 144 million. Our position is that we have not engaged in any prohibited pricing activities. Following the Competition Authority's lawsuit, Tele2 has on April 1, 2005 claimed damages from Telia due to the alleged abuse of dominant position. We will vigorously contest Tele2's claim.

The following is a brief summary of certain legal proceedings to which we or one of our subsidiaries is a party:

- We are currently involved in litigations with former shareholders of the Brazilian mobile operator Tess relating to such shareholders' disposal of their investment in Tess as well as certain call options and subscription rights in Tess. The litigations, which were initiated in 1998, are still in the procedural stage.
- Companies within the Alfa Group have sued the parties to the MegaFon shareholders' agreement in the Court of Khanty-Mansi Autonomous Area and asked the Court to declare most of the shareholders' agreement, including for example sections regarding board representation for TeliaSonera null and void. In its ruling in December 2004, the Court declared the relevant sections null and void. TeliaSonera and other shareholders have appealed this decision. The Alfa Group is also contesting the validity of the shareholders' agreement in an arbitration proceeding in Stockholm, Sweden.

### *Research and Development*

In a changing business environment, we see the role of research and development as very important. In order to create sustainable growth, a strategic renewal of our research and development has been initiated. We aim to have cost-efficient innovative service development by establishing partnerships with key external competences and resources across the globe as well as the required local value-chain actors. In 2005, we incurred research and development expenses of SEK 2,875 million as compared to SEK 2,783 million for 2004 and SEK 2,543 million for 2003.

In 2005, our research and development activities have also been preparing TeliaSonera for communication technology disruption. IP multimedia communication affects not only the services provided to customers, but also all parts of the value chain for a telecommunication service.

We have also been active in ensuring that new IP communication services are easy to use and that they work seamlessly between different operator networks. There are more than 50 telecom operators and vendors participating in a GSM Association project lead by TeliaSonera.

Mobile video and broadcasting has been one of the focus areas in our research and development work. In 2005, we saw some of the results of this work, with TeliaSonera deploying its 3G mobile video services and actively driving mobile broadcasting services on DVB-H (Digital Video Broadcast Handheld) networks, and running a mobile TV trial with 500 customers in the Helsinki area together with broadcasters, telecom operators and device vendors.

As of December 31, 2005, we had approximately 650 patent families and approximately 2,400 patents and patent applications, none of which, individually, is material to our business.

### *Environment*

In 2005, TeliaSonera Sweden decided to broaden the coverage of its combined environmental/quality certification ISO 14001/9001 from network issues to the customer front. The decision was made because a great number of TeliaSonera's large business customers demand that suppliers have environmental and quality certification.

### *Trend Information*

Our business and results of operations have been affected during the last several years by a number of important trends. The global communications market has experienced rapid growth, especially as the areas of voice and data transmission have converged and become digitalized. Overall growth, however, has slowed down in the Nordic and Baltic markets, but has continued to be rapid in the Eurasian, Russian and Turkish mobile services markets.

In the Swedish and Finnish mobile communications markets, growth has slowed as penetration levels have risen. However, price erosion has had a negative effect on our revenue growth especially in Finland, where mobile revenues decreased in 2005.

Retail revenues from our fixed telephony operations in Sweden have declined in the last several years as a result of the introduction of carrier pre-selection in long-distance, international and fixed to mobile calls in 1999 and in local calls in 2002 as well as fierce competition, which together have contributed to our declining market shares within the fixed telephony traffic market. In Finland, our fixed telephony business has steadily decreased over the last several years, mainly due to fixed-to-mobile migration and people moving out from our traditional service areas in Eastern and Northern Finland.

The Swedish and Finnish broadband markets have continued to expand with high demand for ADSL accesses. On the other hand, this has decreased the number of minutes per subscriber in our fixed line operations, as customers switch from dial-up Internet services to ADSL.

Our mobile operations in Norway have experienced revenue growth due to expanded customer base, increased average minutes of use, and substantial increase in the use of SMS messaging. Our acquisition of the service operator Chess in November 2005 further strengthened our number two position in the Norwegian mobile market.

In our Danish mobile operations, fast customer growth and restructuring measures have contributed to an increase in revenues and an improvement in profitability. Our acquisition of Orange Denmark in 2004 reinforced our position in the Danish mobile market.

Our Baltic mobile operations have continued to show growth. As a consequence, however, our Baltic fixed network operations have previously suffered from fixed-to-mobile migration and declining revenues. In 2005, this trend reversed especially in our Lithuanian fixed network operations, when the growth in Internet, broadband and data communications resulted in a three percent growth for the Lithuanian fixed network operations as a whole.

Our Eurasian mobile operations in Kazakhstan, Azerbaijan, Georgia and Moldova have continued to show customer growth. These countries currently have low GDP per capita but have been exhibiting strong economic development. The mobile penetration rate in these countries is still low.

Russia, where our associated company MegaFon operates, has continued to exhibit growth both generally and for the mobile market. Turkey, where our associated company Turkcell is the largest mobile operator, has exhibited strong recent economic growth after experiencing economic difficulties in 2000-2002.

Our TeliaSonera International Carrier operations have continued to face difficult market conditions and price erosion, together with the closing down of unprofitable businesses, has resulted in declining net sales in 2003 and 2004. In 2005, however, higher demand for voice services exceeded the effects from price erosion and net sales increased by five percent. Our restructuring efforts regarding our international carrier activities have been successful and we have significantly reduced losses, excluding impairment losses. In 2004, after an annual impairment test, we recorded the net book value of International Carrier fixed assets to zero.

### *Outlook for 2006*

#### **Strategy**

Our strategy is based on dual opportunities stemming from operations in markets with different degrees of maturity. In the more mature home markets in the Nordic and Baltic countries the strategic priorities are to create growth via new mobile and IP based services and offerings, increased simplicity in services as well as selected acquisitions, and to keep the profitability via the ongoing programs to achieve competitive cost levels and focusing of the service offerings. In the more emerging International Mobile operations in Eurasia, Russia and Turkey the strategy is to exploit the inherent growth and enhance the value of the companies. Based on the current strengths in the regions, complementary acquisitions can be considered, which may lead to additional growth.

#### **Group outlook**

Despite tough competition and price pressure in the home markets, we have been able to keep our leading position during 2005, which provides a good platform for development in 2006. Group net sales and results before tax are expected to grow. CAPEX is mainly driven by capacity and customer needs and CAPEX to sales ratio is expected to be somewhat higher than for 2005. Free cash flow will remain strong. Changes in the competitive landscape, currency fluctuations and political uncertainties, including tax and regulatory conditions, may impact the reported figures.

#### **Home markets**

The migration from traditional fixed voice to mobile and IP based services is estimated to continue. Competition in all product areas will remain strong in the home markets. Mobile and broadband volume growth is expected to be significant.

In Sweden, the migration to mobile and IP based services is most evident. This is expected to result in a continued decline in fixed voice sales. Mobile and broadband volumes are expected to show continued significant growth whereas prices will be under pressure. Still 2006, total sales are expected to decline. The ongoing restructuring program will affect positively but not offset the impact on EBITDA excluding non-recurring items.

In Finland, focus has been shifted from market share and price to customer loyalty, quality and services. However, in the short term the average price is still expected to decrease due to historical price changes. New possibilities to subsidize 3G mobile terminals may accelerate the use of mobile services. Subsidies should, however, be at moderate levels allowing for profitable growth. Streamlining initiatives taken in 2005 are expected to lower annual costs in 2006. Additional initiatives were taken and a turnaround program was launched to ensure future growth and restore profitability.

In Norway, organic growth is estimated to continue and the consolidation of Chess will increase sales. The margin will be impacted by the lower margin level of Chess and the synergies from the Chess transaction, which are mainly related to increased utilization of NetCom's network. Before implementation costs the transaction is expected to result in an annual EBITDA improvement of about SEK 0.8 billion from mid 2006.

In Denmark, the sales growth is estimated to continue. The integration of Orange is completed successfully. The increased volumes and internal efficiency improvements will impact profitability positively.

In the Baltic countries, competition and price pressure within the mobile operations is expected to increase, which will affect margins. This will to some part be compensated by the expected continued mobile volume growth. In the fixed operations, expected decline in fixed voice sales is estimated to be offset by continued growth in broadband.

#### **International Mobile operations**

The income from International Mobile operations is expected to grow in 2006.

In the Eurasian operations, strong sales growth is expected to continue, but a tougher competitive environment is estimated to impact sales and margins.

In Turkey, the competitive environment will change significantly due to new market entrants. In Russia, the increased penetration is expected to lead to increased price competition. We view both Turkcell and MegaFon to be well positioned to meet the new challenges in the respective markets.

In light of the prevailing uncertainties regarding ownership issues in both Turkcell and MegaFon, we reiterate our commitment to the Turkish and Russian markets and our interest and ambition to increase the ownership in both operators, should an opportunity arise.

#### *Treasury Shares*

As of December 31, 2005, TeliaSonera AB held 184,774,856 treasury shares, as a result of a share repurchase program decided by the Annual General Meeting of shareholders on April 26, 2005. The transaction was concluded in July 2005. The price paid for each repurchased share was SEK 55.00 in cash and pre-tax transaction costs amounted to SEK 55 million, reducing retained earnings within shareholders' equity by SEK 10,203 million in total.

The repurchased shares represent 3.95 percent of all shares issued. The Board of Directors proposes to the Annual General Meeting of 2006 that the treasury shares be cancelled.

See Shareholder Information and Note 21 to the consolidated financial statements.

*Ordinary Dividend and Capital Distribution to Shareholders*

Our dividend policy is to distribute 30-50 percent of net income excluding minority interest in subsidiaries. For 2005, the Board of Directors and the CEO propose to the Annual General Meeting (AGM) an ordinary dividend of SEK 1.25 per share, totaling SEK 5,613 million.

The increase in the proposed dividend is made in light of the strong results in 2005 and the expected growth in results in 2006. The dividend level is in accordance with our dividend policy.

In addition to the ordinary dividend, we have communicated that we are planning to distribute SEK 30 billion to our shareholders during the period 2005-2007. As a first step, approximately 10 billion of this SEK 30 billion was distributed in 2005 by repurchasing shares through a public offer with tradable rights. The Board of Directors and CEO propose to the AGM, as a second step, an extraordinary dividend of SEK 2.25 per share, totaling SEK 10,104 million.

## Risk Factors

We operate in a broad range of geographic product and service markets in the highly competitive and regulated telecommunications industry. As a result, we are subject to a variety of risks and uncertainties. Set forth below is a description of some of the factors that may affect our business, financial condition and results of operations.

***Competition from a variety of sources, including current market participants, new entrants and new products and services, may adversely affect our results of operations.***

We are subject to substantial and historically increasing competition and price pressure. Competition has led to an increased customer churn and a decrease in customer growth rates as well as to declines in the prices we charge for our products and services and may have similar effects in the future.

Virtually all of our markets are characterized by direct and indirect competition. We have, for example, experienced significant competition in mobile voice services from new market entrants such as Hi3G Access AB (operating under the brand name 3 ), which owns a UMTS license in Sweden, Norway and Denmark. We are also experiencing increased competition from non-traditional operators, including service providers and mobile virtual network operators (MVNOs), which are telecommunications service providers that typically do not own their own network infrastructure but, rather, lease capacity from network operators. In addition, our fixed network businesses face competition from mobile operators as a result of the trend of traditional users of fixed network services switching some or all of their demand to mobile phone services. Our mobile operations may also be affected by how successful we are in implementing new technologies and capabilities, such as High-Speed Downlink Packet Access (HSDPA).

Our fixed network businesses also face increasing competition from cable TV companies, broadband companies, internet service providers and companies like Skype, which provide voice over Internet. There is also a risk that our revenues will decline as market prices for services decrease further. Furthermore our conversion to IP technology may not result in corresponding savings in our production cost and that traffic might be redirected to such new or existing competitors that provide IP networks at a much lower cost. The reduction in traffic and revenues may also lead to impairment losses on the existing platforms.

In order to meet the increased competition we have launched a program to focus our service portfolio to reduce technical and organizational complexity, with the aim to seek growth in the selected services and to achieve a competitive cost level. There is, however, a risk that we will not be successful in implementing our program due to operational or regulatory reasons or otherwise.

Further, our International Carrier business has historically been subject to fierce competition and severe price pressure, which may continue.

***We face structural impediments in continuing to grow our Nordic telecommunications business.***

The telecommunications industry in the Nordic countries is mature relative to many other European countries. In particular, each of Sweden, Finland, Norway and Denmark has among the highest mobile penetration rates and lowest mobile calling tariffs in the world. The high penetration rate in the Nordic countries for many of our products and services may make it more difficult for us to match our previous subscriber growth or to achieve growth rates that are comparable to less developed markets.

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

Our mobile and fixed line telecommunications operations are subject to regulatory and licensing requirements at both the national level and the transnational level, such as by the European Union. If we are found not to have complied with applicable regulations, we may be subject to damage awards, fines, penalties, injunctions or suspensions.

The regulations to which we are subject impose significant limits on our flexibility to manage our business. For example, in both Sweden and Finland, we have been designated as a party with significant market power in certain markets in which we operate, including the fixed and mobile telecommunications markets. As a result, we are required to provide certain services on non-discriminatory, cost-based and transparent terms, which may differ from the terms on which we would otherwise have provided those services.

Changes in legislation, regulation or government policy affecting our business activities, as well as decisions by competition and other regulatory authorities or courts, including granting, amending or revoking of licenses to us or other parties, could adversely affect our business and results.

For further information regarding the regulatory regimes to which our business is subject, see [Information on the Company Regulation](#).

***We have only limited control of our associated companies and the success of our investments in these companies depends on the actions of our co-owners.***

We conduct some of our activities, particularly outside of the Nordic region, through associated companies in which we do not have a controlling interest, such as Turkcell Iletisim Hizmetleri A.S. in Turkey, OAO MegaFon in Russia and Lattelekom SIA in Latvia and, as a result, we have limited influence over the conduct of these businesses. Under the governing documents for certain of these entities, our partners have control over or share control of key matters such as the approval of business plans and budgets, and decisions as to timing and amount of cash distributions. The risk of actions outside our or our associated company's control and adverse to our interests or disagreement or deadlock is inherent in jointly controlled entities. In Russia for instance, certain shareholders of MegaFon are involved in a dispute relating to the ownership of a 25.1 percent interest in MegaFon.

As part of our strategy we may, where practical, increase our shareholdings in our associated companies. The implementation of such strategy, however, may be difficult due to a variety of factors, including factors beyond our control, such as willingness on the part of other existing shareholders to dispose or accept dilution of their shareholdings and, in the event we gain greater control, our ability to successfully manage the relevant businesses. For example, we have initiated arbitration proceedings with the Cukurova Group as we claim that Cukurova has breached an agreement to sell an indirect shareholding in Turkcell to us and as we claim that Cukurova has breached the shareholders agreement with us in connection with the purported sale by Cukurova of a portion of its indirect shareholding in Turkcell to the Alfa Group.

***We are subject to emerging market risks including that the value of our investments in telecommunications companies may be adversely affected by political, economic and legal developments.***

We have made a number of significant investments in telecommunications providers with operations in countries such as Turkey, Russia, Kazakhstan, Azerbaijan, Georgia and Moldova. The political, economic and legal systems in these countries historically have been less predictable than in countries with more developed institutional structures. Each of these nations has in the past experienced financial difficulties, including weak local currencies and high external debt, and there is a risk that these types of issues may arise in the future. For example, the political situation in each of the Eurasian countries in which Fintur has operations has been unstable in the past and may also be in the future.

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



***Changes in the economic, political, legal and regulatory environment and in our business plans or the business plans of our associated companies could cause us to record impairment losses or otherwise adversely affect our results of operations and financial condition.***

Factors generally affecting the telecommunications and technology markets, including significant declines in stock prices and market capitalizations of market participants, and changes in the economic, regulatory, business or political environment, as well as our ongoing review and refinement of our business plans could adversely affect our affairs. In the future we may be required to recognize additional impairment losses with respect to assets if our expectations of future cash flows attributable to these assets change, including but not limited to goodwill and fair value adjustments we have recorded in the merger of Telia and Sonera, in our acquisitions of NetCom, Orange Denmark and Chess, and in connection with other acquisitions we have made or may make in the future.

In the past, we have also undertaken a number of restructuring and streamlining initiatives, including the restructuring and streamlining of our Swedish and Finnish operations and the restructuring of our international carrier and Danish operations, which have resulted in substantial restructuring and streamlining charges. We may undertake similar initiatives in the future.

In addition to affecting our results of operations, these actions may adversely affect our ability to pay dividends. Under Swedish law, the amount of dividends that we may pay is generally limited to profits and other non-restricted reserves available at the end of the preceding fiscal year for our parent company. Any write-down of intangible or other assets would have the effect of reducing, or possibly eliminating, our dividend capacity.

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

We have made investments in UMTS licenses and have invested and expect to invest substantial amounts over the next several years in the upgrading and expansion of our networks. The success of these investments will depend on a variety of factors beyond our control, including the availability of new and attractive services, the costs associated with providing these services, the timing of their introduction and competition. For example, we cannot be certain that multimedia services will achieve acceptance in the market, or that the demand for such services will justify the related costs to develop, upgrade and maintain our networks, including our UMTS networks.

Moreover, competition in this market could prove to be intense as a result of (1) new entrants such as MVNOs, which typically do not have their own network infrastructure and thus would not have our fixed cost burdens, (2) Wireless Local Area Network (WLAN) services, which are based on wireless short distance transmission networks and may be able to deliver wireless data services at a lower cost than UMTS in concentrated areas, and (3) operators using non-UMTS technological standards to deliver competitive services.

Under the terms of our UMTS licenses and the licenses of our joint venture UMTS investments, we have agreed to make significant investments in UMTS networks. If we or our UMTS joint ventures do not fulfill the conditions under such UMTS licenses or obtain their modification, such licenses could be revoked or, in certain cases, we could be subject to monetary penalties. For example, we have significant ongoing investment and guarantee obligations in connection with our investment in Xfera Móviles S.A. in Spain. For further information relating to our financial obligations in connection with our UMTS joint ventures, see Operating and Financial Review and Prospects Liquidity and Capital Resources Contractual Obligations.

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

While we were not awarded a UMTS license in Sweden in connection with a license tender held by the Kingdom of Sweden in 2000, we have entered into a cooperation arrangement with Tele2 to build and operate a UMTS network in Sweden through our 50 percent owned associated company Svenska UMTS-nät AB, which has rights to the Swedish UMTS license originally granted to Tele2. We have made significant investments in and financial commitments to this venture. As this is a jointly controlled venture, there is a risk that the partners may disagree on important matters, including the funding of the company. This risk may be magnified because TeliaSonera and Tele2 are significant competitors. A disagreement or deadlock regarding the company or a breach by one of the parties of the material provisions of the cooperation arrangements could have a negative effect on our ability to pursue our UMTS strategy. In addition, the current exemption for Svenska UMTS-nät from the prohibition against anti-competitive agreements included in the Swedish Competition Act will expire in 2007. Thereafter, a reassessment of the cooperation will be made from a competition law perspective. Accordingly, there can be no assurance that the Swedish Competition Authority will not in the future change its view on the cooperation, which could have a material adverse effect upon Svenska UMTS-nät and our operations.

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

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

***We are reliant upon a limited number of suppliers for the provision of important equipment and services.***

We are reliant upon certain suppliers, of which there are a limited number, to manufacture and supply network equipment and related software as well as handsets in our markets, to allow us to develop our networks and to offer our services on a commercial basis. We cannot be certain that we will be able to obtain network equipment or handsets from alternative suppliers on a timely basis if our existing suppliers are unable to satisfy our requirements. In addition, like our competitors, we currently outsource many of our key support services, including network construction and maintenance in most of our operations. The limited number of suppliers of these services, and the terms of our arrangements with current and future suppliers, may adversely affect us, including by restricting operational flexibility.

***MegaFon, our associated company operating in Russia, may not obtain future financing on satisfactory terms and may be adversely affected by weaknesses in its internal controls.***

MegaFon, a GSM operator in Russia in which we hold a 43.8 percent interest, may have to secure additional financing if it is to implement its current strategy of becoming a provider of nationwide GSM services in Russia. If MegaFon is unable to secure such financing on satisfactory terms or if the company is adversely affected by weaknesses in its internal controls, this may adversely affect MegaFon's growth prospects as well as the value we derive from our investment.

***We may not be able to fully realize anticipated tax benefits resulting from earlier-recorded impairment losses.***

We have a significant deferred tax asset resulting from an impairment loss on Sonera's UMTS investments in Germany and Italy in 2002. The major part of the deferred tax asset relates to tax loss

carry-forwards in Finland, which expire after ten years, while the remaining part of the tax asset is related to temporary differences between carrying value and tax value on assets in Finland. Although we currently estimate that the tax losses related to the impairment loss will be realized in eight to nine years from 2002 under different scenarios, there can be no assurance of sufficient taxable income in Finland within this period.

We also have deferred tax assets in other jurisdictions, especially related to our international carrier and Danish operations. There can be no assurance that we will be able to use these tax assets in full to reduce our tax obligations in the future.

***We may not be able to remain competitive and implement our strategy, or adapt to changing technologies, if we cannot recruit and retain skilled personnel.***

To remain competitive and implement our strategy, and to adapt to changing technologies, we will need to recruit, retain, and where necessary, retrain highly skilled employees with particular expertise. In particular, competition is intense for qualified telecommunications and information technology personnel in the Nordic countries and elsewhere. To a considerable extent, our ability to recruit and retain skilled personnel for growth business areas and new technologies will depend on our ability to offer them competitive remuneration packages. If we cannot implement competitive remuneration packages, we may be unable to recruit and retain skilled employees, which may limit our ability to develop our high growth business areas and new business areas or remain competitive in our traditional business areas.

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

Concerns have been expressed that the electromagnetic signals from mobile handsets and base stations, which serve as the platform for transmitting radio signals, may pose health risks and interfere with the operation of electronic equipment. These concerns may intensify with time and as new products are introduced. Actual or perceived risks of mobile handsets or base stations and related publicity or litigation could reduce the growth rate, customer base or average usage per customer of our mobile communications services, may result in significant restrictions on the location and operation of base stations or could subject us to claims for damages, any of which could have a negative impact on our business, financial condition and results of operations.

***Our affairs and the market prices of our shares could be influenced significantly by actions of the Kingdom of Sweden and the Republic of Finland, whose interests may be different from other shareholders.***

The Kingdom of Sweden holds approximately 45.3 percent and the Republic of Finland holds approximately 13.7 percent of our outstanding shares. The Kingdom of Sweden and the Republic of Finland have, furthermore, agreed to consult each other with respect to voting on matters to be resolved by the shareholders at general meetings of the company. Accordingly, the Kingdom of Sweden, acting alone, may have and the Kingdom of Sweden and the Republic of Finland, if they should choose to act together, will have the power to influence matters submitted for a vote of shareholders, including the approval of the annual financial statements, declarations of dividends, capital increases in connection with acquisitions, and the election and removal of members of our Board of Directors. The interests of the Kingdom of Sweden and the Republic of Finland in deciding these matters and the factors they consider in exercising their votes could be different from the interests of our other shareholders.

In addition, the Kingdom of Sweden and the Republic of Finland are not under any contractual commitment that would restrict their ability to sell any shares. It is currently not possible to assess the precise timing and manner of any future sales, if any, by the Kingdom of Sweden or the Republic of Finland of our shares. However, any sale by the Kingdom of Sweden or the Republic of Finland of a significant number of our shares, or the public perception that these sales could occur, may cause the market price of our shares to decline significantly and may also make it more difficult for us to issue new shares.

**Consolidated Financial Statements**

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TeliaSonera's holding in Turkcell Iletisim Hizmetleri A.S. meets the requirements of SEC Rule 3-09 under Regulation S-X for the provision of separate financial statements of Turkcell, a New York Stock Exchange listed company that has a December 31 fiscal year end and is required to file reports on Form 20-F with the Securities and Exchange Commission. Pursuant to SEC rules, the financial statements of Turkcell will be filed as an amendment to this Annual Report as soon as practicable after they become available.

**Consolidated Income Statements**

| SEK in millions, except per share data                     | Note   | January-December |               | 2003          |
|--|--------|------------------|---------------|---------------|
|  |        | 2005             | 2004          |               |
| Net sales  | 7, 30  | 87,661           | 81,937        | 82,425        |
| Costs of production  | 8, 11  | -47,287          | -43,104       | -46,688       |
| <b>Gross income</b>  |        | <b>40,374</b>    | <b>38,833</b> | <b>35,737</b> |
| Sales, administrative, and research & development expenses | 8, 11  | -23,706          | -21,367       | -23,161       |
| Other operating revenues                                   | 9      | 1,031            | 1,474         | 2,743         |
| Other operating expenses                                   | 9, 11  | -3,379           | -3,695        | -991          |
| Income from associated companies                           | 12, 30 | 3,229            | 3,548         | 382           |
| <b>Operating income</b>                                    | 30     | <b>17,549</b>    | <b>18,793</b> | <b>14,710</b> |
| Financial revenues and expenses                            | 13     | -530             | -1,345        | -811          |
| <b>Income after financial items</b>                        |        | <b>17,019</b>    | <b>17,448</b> | <b>13,899</b> |
| Income taxes   | 14     | -3,325           | -3,184        | -3,850        |
| <b>Net income</b>  |        | <b>13,694</b>    | <b>14,264</b> | <b>10,049</b> |
| Attributable to:   |        |                  |               |               |
| Shareholders of the parent company                         |        | 11,697           | 12,964        | 9,080         |
| Minority interests   |        | 1,997            | 1,300         | 969           |
| Shareholders' earnings per share (SEK)                     | 21     |                  |               |               |
| Basic  |        | 2.56             | 2.77          | 1.95          |
| Diluted  |        | 2.56             | 2.77          | 1.95          |

## Consolidated Balance Sheets

| SEK in millions                                  | Note       | December 31,   |                |                |
|--|------------|----------------|----------------|----------------|
| Assets   |            | 2005           | 2004           | 2003           |
| Goodwill and other intangible assets             | 15         | 74,367         | 69,534         | 61,820         |
| Property, plant and equipment                    | 16, 27     | 48,201         | 47,212         | 49,161         |
| Investments in associated companies              | 12         | 25,208         | 19,613         | 20,401         |
| Deferred tax assets                              | 14         | 12,305         | 12,381         | 14,960         |
| Other financial assets                           | 17, 22, 27 | 3,013          | 3,359          | 6,700          |
| <b>Total non-current assets</b>                  |            | <b>163,094</b> | <b>152,099</b> | <b>153,042</b> |
| <b>Non-current assets held-for-sale</b>          |            | <b>186</b>     |                |                |
| Inventories                                      | 18         | 765            | 655            | 501            |
| Trade and other receivables                      | 19, 27     | 18,919         | 20,007         | 20,156         |
| Current tax assets                               |            | 1,570          | 725            | 244            |
| Interest-bearing receivables                     | 20, 22, 27 | 2,407          | 1,241          | 4,048          |
| Cash and cash equivalents                        | 20, 22, 27 | 16,834         | 17,245         | 12,069         |
| <b>Total current assets</b>                      |            | <b>40,495</b>  | <b>39,873</b>  | <b>37,018</b>  |
| <b>Total assets</b>                              |            | <b>203,775</b> | <b>191,972</b> | <b>190,060</b> |
| <b>Equity and liabilities</b>                    |            |                |                |                |
| Share capital                                    |            | 14,961         | 14,961         | 14,961         |
| Other contributed capital                        |            | 60,538         | 70,741         | 70,741         |
| Reserves   |            | 12,115         | 2,215          | 1,752          |
| Retained earnings                                |            | 39,435         | 33,216         | 24,939         |
| Total shareholders' equity                       |            | 127,049        | 121,133        | 112,393        |
| Minority interests in equity                     |            | 8,645          | 6,934          | 3,441          |
| <b>Total equity</b>                              |            | <b>135,694</b> | <b>128,067</b> | <b>115,834</b> |
| Long-term loans                                  | 22, 27     | 20,520         | 12,942         | 25,867         |
| Provisions for pensions and employment contracts | 23         |                |                | 522            |
| Deferred tax liabilities                         | 14         | 9,578          | 7,906          | 8,537          |
| Other provisions                                 | 24         | 5,370          | 4,983          | 5,564          |
| Other long-term liabilities                      | 25, 27     | 2,343          | 2,450          | 2,489          |
| <b>Total non-current liabilities</b>             |            | <b>37,811</b>  | <b>28,281</b>  | <b>42,979</b>  |
| Short-term loans                                 | 22, 27     | 6,215          | 11,733         | 4,687          |
| Short-term provisions                            | 24         | 616            | 513            | 674            |
| Current tax liabilities                          |            | 706            | 647            | 2,338          |
| Trade payables and other current liabilities     | 26, 27     | 22,733         | 22,731         | 23,548         |
| <b>Total current liabilities</b>                 |            | <b>30,270</b>  | <b>35,624</b>  | <b>31,247</b>  |
| <b>Total equity and liabilities</b>              |            | <b>203,775</b> | <b>191,972</b> | <b>190,060</b> |
| Unrecognized contingent assets                   | 28         |                |                |                |
| Unrecognized collateral pledged                  | 28         | 1,584          | 1,675          | 2,789          |
| Unrecognized contingent liabilities              | 28         | 2,581          | 2,289          | 3,099          |

**Consolidated Cash Flow Statements**

| SEK in millions  | Note | January-December |                | 2003           |
|--|------|------------------|----------------|----------------|
|  |      | 2005             | 2004           |                |
| Net income   |      | 13,694           | 14,264         | 10,049         |
| Adjustments:   |      |                  |                |                |
| Amortization, depreciation and impairment losses                         |      | 13,211           | 15,726         | 18,248         |
| Capital gains/losses on sales/discards of fixed assets                   |      | -43              | -1,468         | -2,618         |
| Income from associated companies net of dividends                        |      | -2,470           | -1,790         | 251            |
| Pensions and other provisions  |      | 343              | -1,611         | -2,880         |
| Financial items  | 29   | 150              | -435           | 363            |
| Income taxes   | 29   | 1,278            | 52             | 2,542          |
| Miscellaneous non-cash items   |      | -5               | -52            | 9              |
| <b>Cash flow before change in working capital</b>                        |      | <b>26,158</b>    | <b>24,686</b>  | <b>25,964</b>  |
| Increase (-)/Decrease (+) in operating receivables                       |      | 1,693            | 728            | 1,423          |
| Increase (-)/Decrease (+) in inventories etc.                            |      | -88              | -37            | 125            |
| Increase (+)/Decrease (-) in operating liabilities                       |      | -773             | -974           | -1,069         |
| <b>Change in working capital</b>   |      | <b>832</b>       | <b>-283</b>    | <b>479</b>     |
| <b>Cash flow from operating activities</b>                               |      | <b>26,990</b>    | <b>24,403</b>  | <b>26,443</b>  |
| Intangible assets and property, plant and equipment acquired             | 29   | -11,396          | -10,285        | -9,092         |
| Intangible assets and property, plant and equipment divested             |      | 208              | 130            | 358            |
| Compensation received for divested IRUs                                  |      |                  | 8              | 10             |
| Compensation paid for acquired IRUs                                      |      |                  | -1             | 0              |
| Shares, participations and operations acquired                           | 29   | -1,770           | -6,169         | -2,188         |
| Shares, participations and operations divested                           | 29   | 1,654            | 6,795          | 3,902          |
| Loans made and other investments   |      | -119             | -10            | -172           |
| Repayment of loans made and other investments                            |      | 131              | 1,128          | 1,215          |
| Investment in finance lease receivables                                  |      | -249             | -458           | -2,962         |
| Amortization of finance lease receivables                                |      | 285              | 823            | 3,400          |
| Compensation from/Payment to pension fund                                |      | 100              |                | 1,000          |
| Net change in advances and short-term loans to associated companies etc. |      | -1,080           | 48             | 1,086          |
| <b>Cash flow from investing activities</b>                               |      | <b>-12,236</b>   | <b>-7,991</b>  | <b>-3,443</b>  |
| <b>Cash flow before financing activities</b>                             |      | <b>14,754</b>    | <b>16,412</b>  | <b>23,000</b>  |
| Purchase of treasury shares including transaction costs                  |      | -10,218          |                |                |
| Dividend to shareholders   |      | -5,610           | -4,675         | -1,870         |
| Transactions with minority shareholders                                  |      | -1,087           | -441           | -468           |
| Loans raised   |      | 13,126           | 260            | 374            |
| Loans amortized  |      | -11,791          | -8,544         | -6,272         |
| Net change in interest-bearing liabilities with short maturities         |      | -73              | 2,298          | -8,176         |
| <b>Cash flow from financing activities</b>                               |      | <b>-15,653</b>   | <b>-11,102</b> | <b>-16,412</b> |
| <b>Cash flow for the year</b>  |      | <b>-899</b>      | <b>5,310</b>   | <b>6,588</b>   |
| <b>Cash and cash equivalents, opening balance</b>                        |      | <b>17,245</b>    | <b>12,069</b>  | <b>5,465</b>   |
| Cash flow for the year   |      | -899             | 5,310          | 6,588          |
| Exchange rate differences in cash and cash equivalents                   |      | 488              | -134           | 16             |
| <b>Cash and cash equivalents, closing balance</b>                        | 20   | <b>16,834</b>    | <b>17,245</b>  | <b>12,069</b>  |

## Consolidated Statements of Changes in Equity

| SEK in millions  | Note | Share capital | Other contributed capital | Reserves      | Retained earnings | Total shareholders equity | Minority interests in equity | Total equity   |
|--|------|---------------|---------------------------|---------------|-------------------|---------------------------|------------------------------|----------------|
| <b>Closing balance, December 31, 2002</b>                    | 21   | <b>14,738</b> | <b>68,913</b>             | <b>7,436</b>  | <b>17,742</b>     | <b>108,829</b>            | <b>5,120</b>                 | <b>113,949</b> |
| Reporting financial instruments at fair value                | 21   |               |                           | -10           |                   | -10                       |                              | -10            |
| Exchange rate differences                                    | 21   |               |                           | -8,101        |                   | -8,101                    | -314                         | -8,415         |
| Inflation adjustments  | 21   |               |                           | 2,427         |                   | 2,427                     |                              | 2,427          |
| Transactions with non-related parties                        |      |               |                           |               | -13               | -13                       | -2,065                       | -2,078         |
| <i>Net income recognized directly in equity</i>              |      |               |                           | -5,684        | -13               | -5,697                    | -2,379                       | -8,076         |
| Net income   |      |               |                           |               | 9,080             | 9,080                     | 969                          | 10,049         |
| <i>Total recognized net income</i>                           |      |               |                           | -5,684        | 9,067             | 3,383                     | -1,410                       | 1,973          |
| Dividends  | 21   |               |                           |               | -1,870            | -1,870                    | -269                         | -2,139         |
| New share issue at a premium                                 | 21   | 223           | 1,828                     |               |                   | 2,051                     |                              | 2,051          |
| <b>Closing balance, December 31, 2003</b>                    |      | <b>14,961</b> | <b>70,741</b>             | <b>1,752</b>  | <b>24,939</b>     | <b>112,393</b>            | <b>3,441</b>                 | <b>115,834</b> |
| Revaluing fair values of net assets in business combinations | 21   |               |                           | 1,098         |                   | 1,098                     | 1,857                        | 2,955          |
| Reporting financial instruments at fair value                | 21   |               |                           | 146           |                   | 146                       |                              | 146            |
| Exchange rate differences                                    | 21   |               |                           | -2,233        |                   | -2,233                    | -164                         | -2,397         |
| Inflation adjustments  | 21   |               |                           | 1,452         |                   | 1,452                     |                              | 1,452          |
| Transactions with non-related parties                        | 21   |               |                           |               | -12               | -12                       | 968                          | 956            |
| <i>Net income recognized directly in equity</i>              |      |               |                           | 463           | -12               | 451                       | 2,661                        | 3,112          |
| Net income   |      |               |                           |               | 12,964            | 12,964                    | 1,300                        | 14,264         |
| <i>Total recognized net income</i>                           |      |               |                           | 463           | 12,952            | 13,415                    | 3,961                        | 17,376         |
| Dividends  | 21   |               |                           |               | -4,675            | -4,675                    | -468                         | -5,143         |
| <b>Closing balance, December 31, 2004</b>                    |      | <b>14,961</b> | <b>70,741</b>             | <b>2,215</b>  | <b>33,216</b>     | <b>121,133</b>            | <b>6,934</b>                 | <b>128,067</b> |
| Fair value amortization of revalued net assets               | 21   |               |                           | -132          | 132               |                           |                              |                |
| Reporting financial instruments at fair value                | 21   |               |                           | 46            |                   | 46                        |                              | 46             |
| Exchange rate differences                                    | 21   |               |                           | 8,809         |                   | 8,809                     | 732                          | 9,541          |
| Inflation adjustments  | 21   |               |                           | 1,177         |                   | 1,177                     |                              | 1,177          |
| Transactions with non-related parties                        | 21   |               |                           |               |                   |                           | -12                          | -12            |
| <i>Net income recognized directly in equity</i>              |      |               |                           | 9,900         | 132               | 10,032                    | 720                          | 10,752         |
| Net income   |      |               |                           |               | 11,697            | 11,697                    | 1,997                        | 13,694         |
| <i>Total recognized net income</i>                           |      |               |                           | 9,900         | 11,829            | 21,729                    | 2,717                        | 24,446         |
| Dividends  | 21   |               |                           |               | -5,610            | -5,610                    | -1,006                       | -6,616         |
| Treasury shares (repurchase decided by the AGM in 2005)      | 21   |               | -10,203                   |               |                   | -10,203                   |                              | -10,203        |
| <b>Closing balance, December 31, 2005</b>                    |      | <b>14,961</b> | <b>60,538</b>             | <b>12,115</b> | <b>39,435</b>     | <b>127,049</b>            | <b>8,645</b>                 | <b>135,694</b> |



## Notes to Consolidated Financial Statements

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**Notes to Consolidated Financial Statements (Continued)**

**1. Basis for Preparation**

**General**

TeliaSonera's consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) and, given the nature of TeliaSonera's transactions, in accordance with IFRSs as adopted by the European Union (EU).

In addition TeliaSonera complies with the Swedish Financial Accounting Standards Council's standard RR 30 – Supplementary Rules for Consolidated Financial Statements – and certain statements issued by the Council's Emerging Issues Task Force concerning purely Swedish circumstances. RR 30 is applicable to Swedish legal entities whose equities are listed on a Swedish stock exchange or authorized equity market place on the balance sheet date and specifies supplementary rules and disclosures in addition to IFRS requirements, caused by provisions in the Swedish Annual Accounts Act.

**Consolidation and accounting principles**

Applied consolidation and accounting principles are described below. Discrepancies between TeliaSonera accounting principles and U.S. GAAP are discussed in a separate note.

**Amounts and dates**

Unless otherwise specified, all amounts are in millions of Swedish kronor (SEK) or other currency specified and are based on the twelve-month period ended December 31 for income statement items and as of December 31 for balance sheet items, respectively.

**New accounting standards**

**Summary**

On January 1, 2005, a number of new or revised IFRSs, IASs, IFRICs and SICs became effective, the adoption of which did not entail such a change in accounting principles that require restatement of comparative figures. However, the revisions to IAS 1 involved reporting minority interests as a component of net income and equity, respectively, and the revised IAS 27 affected computation of certain financial key ratios. Comparative figures have been reclassified accordingly.

On December 9, 2004, IFRS 6 – Exploration for and Evaluation of Mineral Resources – was issued. IFRS 6 is effective for annual periods beginning on or after January 1, 2006. Earlier application is encouraged, and if an entity pre-adopts IFRS 6, transitional relief is available for some comparative disclosures.

On December 16, 2004, an amendment to IAS 19 – Employee Benefits – was issued. Previously, IAS 19 required actuarial gains and losses to be recognized in profit or loss, either in the period in which they occur or spread over the service lives of the employees. Under the amendment, entities that at present spread the gains and losses are not required to change their approach, but are now free to choose to do so and recognize actuarial gains and losses in full in the period in which they occur, outside profit or loss. The amendment also (a) specifies how group entities should account for defined benefit group plans in their separate or individual financial statements and (b) requires additional disclosures. The amendment to IAS 19 is effective for annual periods beginning on or after January 1, 2006, with earlier application encouraged.

**Notes to Consolidated Financial Statements (Continued)**

**1. Basis for Preparation (Continued)**

Amendments to IAS 39 Financial Instruments: Recognition and Measurement on intragroup hedges of forecast transactions and to the fair value option were published on April 14 and June 16, 2005, respectively. The amendments are effective January 1, 2006, with earlier application encouraged.

On June 30, 2005, amendments to IFRS 1 First-time Adoption of International Financial Reporting Standards and the Basis for Conclusions on IFRS 6 Exploration for and Evaluation of Mineral Resources were issued.

On August 18, 2005, IFRS 7 Financial Instruments: Disclosures, an amendment on capital disclosures to IAS 1 Presentation of Financial Statements and limited amendments to IAS 39 Financial Instruments: Recognition and Measurement and IFRS 4 Insurance Contracts were issued. IFRS 7 adds certain new disclosure requirements and compiles all financial instruments disclosure requirements into one standard. Henceforth, IAS 32 deals only with financial instruments presentation matters. The amendments to IAS 39 and IFRS 4 are intended to ensure that issuers of financial guarantee contracts include the resulting liabilities in their balance sheet. IFRS 7 and the amendment to IAS 1 will be effective for annual periods beginning on or after January 1, 2007. Earlier application is encouraged, and if an entity pre-adopts IFRS 7, some relief is given with respect to comparative prior period disclosures. The amendments to IAS 39 and IFRS 4 must be applied for annual periods beginning on or after January 1, 2006. Earlier application is encouraged.

On December 15, 2005, a limited amendment to IAS 21 The Effects of Changes in Foreign Exchange Rates was issued, available for adoption with immediate effect. The amendment clarifies, as regards a monetary item that forms part of an entity's investment in a foreign operation, that the accounting treatment in consolidated financial statements should not be dependent on the currency of the monetary item. Also, the accounting should not depend on which entity within the group conducts a transaction with the foreign operation.

On December 2, 2004, IFRIC 3 Emission Rights and IFRIC 4 Determining whether an Arrangement contains a Lease were issued. IFRIC 3 specifies the accounting for companies participating in government schemes aimed at reducing greenhouse gas emissions. IFRIC 4 gives guidance on determining whether arrangements that do not take the legal form of a lease should, nonetheless, be accounted for in accordance with IAS 17 Leases. On December 16, 2004, IFRIC 5 Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds was issued. IFRIC 5 explains how to treat expected reimbursements from funds set up to meet the costs of decommissioning plant or equipment or in undertaking environmental restoration or rehabilitation. IFRIC 3 and IFRICs 4 and 5 are effective for annual periods beginning on or after March 1, 2005 and January 1, 2006, respectively, with earlier adoption encouraged. In June 2005, IFRIC 3 was withdrawn, with immediate effect, in order to be able to address the underlying accounting in a more comprehensive way.

On September 1, 2005, IFRIC 6 Liabilities arising from Participating in a Specific Market Waste Electrical and Electronic Equipment was published, giving guidance on which date that is the triggering event for recognizing liabilities for waste management costs. IFRIC 6 is effective for financial periods beginning on or after December 1, 2005. Earlier application is encouraged.

On November 24, 2005, IFRIC 7 Applying the Restatement Approach under IAS 29 Financial Reporting in Hyperinflationary Economies, was issued. IFRIC 7 clarifies the requirements under IAS 29

**Notes to Consolidated Financial Statements (Continued)**

**1. Basis for Preparation (Continued)**

relating to how comparative amounts in financial statements should be restated when an entity identifies the existence of hyperinflation in its functional currency and how deferred tax items in the opening balance sheet should be restated. IFRIC 7 is effective for annual periods beginning on or after March 1, 2006. Earlier application is encouraged.

On January 12, 2006, IFRIC 8 *Scope of IFRS 2* was issued, clarifying that IFRS 2 *Share-based Payment* applies to arrangements where an entity makes share-based payments for apparently nil or inadequate consideration. IFRIC 8 explains that, if the identifiable consideration given appears to be less than the fair value of the equity instruments granted or liability incurred, this situation typically indicates that other consideration has been or will be received. IFRS 2 therefore applies. IFRIC 8 is effective for annual periods beginning on or after May 1, 2006. Earlier application is encouraged.

On March 1, 2006, IFRIC 9 *Reassessment of Embedded Derivatives* was issued, clarifying that reassessment of the treatment of an embedded derivative is prohibited unless there is a change in the terms of the host contract that significantly modifies the cash flows that otherwise would be required under the contract, in which case reassessment is required. IFRIC 9 is effective for annual periods beginning on or after June 1, 2006.

*Effects on TeliaSonera*

IFRSs 1 and 6 as well as IFRIC 5 are not applicable to TeliaSonera. TeliaSonera decided to pre-adopt the amendments to IAS 39 on intra-group hedges of forecast transactions and to the fair value option as of January 1, 2005. TeliaSonera had no such hedges that would require restatement of previous periods. As regards the amendments to IAS 39 and IFRS 4 on financial guarantee contracts, TeliaSonera in accordance with IAS 37 already recognizes financial guarantees at the best estimate of the expenditure required to settle the obligations. If the outflow of resources is not probable, the guarantees have been disclosed as contingent liabilities. TeliaSonera has decided not to recognize actuarial gains and losses according to the new option allowed under the amended IAS 19. Currently, TeliaSonera has no such monetary items that are addressed by the amendment to IAS 21.

Previously lacking IFRS guidance, TeliaSonera has recognized transactions involving Indefeasible Rights of Use as leases in accordance with U.S. GAAP, thereby pre-adopting IFRIC 4 in that respect. Adoption of IFRIC 6 will not have a material effect on TeliaSonera's consolidated financial statements. IFRIC 7, IFRIC 8 and IFRIC 9 are currently not relevant to TeliaSonera.

*EU endorsement status*

As of December 31, 2005, all standards, amendments to standards, and interpretations mentioned above had been adopted by the EU, except for IFRS 7, the amendments to IFRS 1 and IFRS 6, the amendments on financial guarantee contracts to IAS 39 and IFRS 4, the amendment on capital disclosures to IAS 1, and IFRIC 6, which were all adopted in January 2006; and the amendment to IAS 21, IFRIC 7, IFRIC 8 and IFRIC 9, which at the end of March 2006 were still waiting to be endorsed.

The EU Commission has announced that, if an IFRS (or equivalent) is endorsed after the balance sheet date but before the date the financial statements are issued, it can be treated as endorsed for the purposes of those financial statements if application prior to the date of endorsement is permitted by both the Regulation endorsing the document and the related IFRS, as is the case with all five of the IFRSs that were endorsed in January 2006.

## Notes to Consolidated Financial Statements (Continued)

### 1. Basis for Preparation (Continued)

#### New Swedish legislation

As of January 1, 2006, a new Swedish Companies Act was effective, among other things nullifying the requirement to divide equity into restricted and non-restricted funds. This change is applicable on financial statements decided upon by the AGM in 2006. Consequently, TeliaSonera has rearranged its presentation of equity components (see section Shareholders' equity in note Significant Accounting Principles ) for all periods presented, see section Reclassification within equity in note Equity and Earnings per Share.

#### Completion of provisional purchase price allocations

The provisional purchase price allocations for Orange Denmark and Eesti Telekom were finalized in the first quarter of 2005, which resulted in a restatement of certain preliminary figures recognized in 2004. For more information, see section Acquisition of Orange Denmark and Eesti Telekom in note Business Combinations.

### 2. Critical Accounting Policies, Estimates and Assumptions

The preparation of financial statements requires management and the Board of Directors to make estimates and judgments that affect reported amounts of assets, liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities. These estimates are based on historical experience and various other assumptions that management and the Board believe are reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions, significantly impacting TeliaSonera's earnings and financial position.

Management believes that the following significant accounting policies comprise its most critical estimates and assumptions used in the preparation of the financial statements: revenue recognition, income taxes, valuation of intangible and other non-current assets, collecting trade receivables, provisions for pensions, restructuring activities, and contingent liabilities and litigation, all of which are discussed and separately marked in the respective sections of note Significant Accounting Policies.

### 3. Consolidated Financial Statements

#### General

The consolidated financial statements comprise the parent company TeliaSonera AB and all companies in which TeliaSonera directly or indirectly owns more than 50 percent of the voting rights or otherwise has control. TeliaSonera's consolidated financial statements are based on accounts prepared by all controlled companies as of December 31, and have been prepared using the purchase method of accounting, as in previous years.

Values for companies acquired or divested during the year are included in the consolidated income statement only for the period during which they were controlled. Goodwill and fair value adjustments arising from the acquisition of foreign entities are considered to be denominated in the respective foreign currency. In subsidiaries not wholly owned, the share of equity and untaxed reserves owned by external shareholders is recorded as minority interests.

Internal sales and other inter-company transactions and profits within the Group have been eliminated in the consolidated financial statements.

**Notes to Consolidated Financial Statements (Continued)**

**3. Consolidated Financial Statements (Continued)**

**Minority interests**

Transactions with minority interests are treated as transactions with parties external to the Group. Disposals to minority interests result in capital gains or losses which are recorded in the income statement. Purchases from minority interests result in goodwill, being the difference between any consideration paid and the relevant share acquired of the Group's carrying value of net assets of the subsidiary.

**Foreign currency translation and inflation adjustments**

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates, normally the local currency.

The consolidated financial statements are presented in Swedish kronor (SEK), which is the functional currency of the parent company. Income statements and balance sheets of foreign operations (subsidiaries, associated companies, and branch offices) are translated into SEK based on the current rate method, that is, the exchange rate prevailing on the balance sheet date (closing rate) is used to convert all items in the balance sheets except for equity, which is converted at the historical rate. Each income statement item is translated using the average rate for that period. Differences resulting from translation, as well as realized and unrealized post-tax gains or losses on financial instruments used to hedge net foreign investments, do not affect income but are charged directly to equity.

When the functional currency for a subsidiary or an associated company is the currency of a hyperinflationary economy, the reported non-monetary assets and liabilities, and equity are restated in terms of the measuring unit current at the balance sheet date. The restated financial statements are translated into SEK at the closing rate. The restating effects are recorded as financial revenue or expense and in income from associated companies, respectively.

**Associated companies**

Companies in which the TeliaSonera Group has a long-term interest and directly or indirectly owns shares or participations granting control of 20-50 percent of the voting rights or otherwise has a significant influence are recorded as associated companies.

Holdings in associated companies are recorded in the consolidated income statement and balance sheet according to the equity method of accounting. In the income statement, the Group's share of net income in associated companies is recorded in operating income because the operations of associated companies are related to telecommunications and it is the Group's strategy to capitalize on industry know-how by means of investing in jointly owned operations. The income statement item Income from associated companies also includes amortization (until 2003) of and impairment losses on goodwill and similar assets on consolidation in associated companies as well as gains and losses on the sale of participations in associated companies.

Any internal profits are eliminated in relation to the share of equity owned.

**Business segments**

The Group's operations are managed and reported primarily by Profit Center and reported secondarily by product area. Segments are consolidated based on the same principles as the Group as a whole. When material operations are transferred between segments, comparative period figures are restated.

**Notes to Consolidated Financial Statements (Continued)**

**4. Significant Accounting Policies**

**Revenue recognition (Net sales)**

Net sales are recorded at the sales value, adjusted for discounts granted and sales-related taxes. Sales principally consist of traffic charges including interconnect and roaming, subscription fees, connection and installation fees, service charges and sales of customer premises equipment.

Revenue is recognized for the period in which the service is performed, based on actual traffic or over the contract term, as applicable, or when the product is delivered. Subscription fees are recognized as revenue over the subscription period. Sales relating to pre-paid phone cards, primarily mobile, are deferred and recognized as revenue based on the actual usage of the cards.

Connection fees are separately recognized at completion of connection, if the fees do not include any amount for subsequent servicing but only cover the connection costs. Customer hookup fees in the Swedish cable TV operations disposed of in the first half of 2003 were recorded as cost reductions over the useful life of the facility in question.

When invoicing end-customers for third-party content services, revenue is reported on a net basis if TeliaSonera under the agreement acts as an agent or broker without assuming the risks and rewards of ownership of the services.

TeliaSonera may bundle services and products into one customer offering. Offerings may involve the delivery or performance of multiple products, services, or rights to use assets (multiple deliverables). In some cases, the arrangements include initial installation, initiation, or activation services and involve consideration in the form of a fixed fee or a fixed fee coupled with a continuing payment stream. Telecom equipment is accounted for separately from service where a market for each deliverable exist and if title to the equipment passes to the end-customer. Costs associated with the equipment are recognized at the time of revenue recognized. The revenue is allocated to equipment and services in proportion to the fair value of the individual elements. Customized equipment that can be used only in connection with services or products provided by TeliaSonera is not accounted for separately and revenue is deferred over the total service arrangement period.

To corporate customers, TeliaSonera offers long-term functional service agreements for total telecom services, which may include switchboard services, fixed telephony, mobile telephony, data communication and other customized services. There are generally no options for the customer to acquire the equipment at the end of the service contract period. Revenue for such functionality agreements is recognized over the service period but part of the periodic fixed fee is deferred to meet the costs at the end of the contract period (maintenance and up-grades).

Service and construction contract revenues are recognized using the percentage of completion method. Assessment of the degree of completion is based on the value of contractual phases completed as a percentage of total undertakings. When it is probable that total contract costs will exceed total contract revenue, the expected loss is immediately expensed.

Within the international carrier operations, sales of Indefeasible Rights of Use (IRU) regarding fiber and duct are recognized as revenue over the period of the agreement (see also subsection *TeliaSonera as operating lessor* in section *Leasing agreements* below). When entering into swap contracts for infrastructure and capacity with other carriers, evenly balanced swap-deals and the non-cash part of unbalanced swap-deals are not recorded as revenue or expense in the consolidated accounts, as the contracts refer to assets of similar nature and value.

**Notes to Consolidated Financial Statements (Continued)**

**4. Significant Accounting Policies (Continued)**

For a telecom operator, management judgment is required in a number of cases to determine if and how revenue should be recognized and to determine fair values, such as when signing agreements with third-party providers for content services (is TeliaSonera principal or agent under a certain agreement?); in complex bundling of products, services and rights to use assets into one customer offering (should TeliaSonera recognize the separate components up-front or defer?); the sales of Indefeasible Rights of Use; when signing swap contracts for infrastructure, capacity and services; and in assessing the degree of completion in service and construction contracts.

**Operating costs**

TeliaSonera presents its analysis of expenses using a classification based on function. The production function comprises all costs for services and products sold as well as for installation, maintenance, service, and support. The sales function comprises all costs for selling and marketing services and products and includes expenses for advertising, PR, pricelists, commission fees, credit information, debt collection, etc. Bad debt losses as well as doubtful debts allowances are also included. Recovery of receivables written-off in prior years is included in Other operating revenues. The research and development (R&D) function includes expenses for developing new or substantially improving already existing services, products, processes or systems. Maintenance and minor adjustments to already existing products, services, processes or systems is not included in R&D. Activities that are tied to specific customer orders (customization) are included in the production function. Amortization, depreciation and impairment losses are included in each function to the extent referring to intangible assets or property, plant and equipment used for that function.

Costs for retailer commissions, other customer acquisition costs, advertising, and other marketing costs are expensed as incurred. Costs for customer-specific product development are recognized over the period necessary to match them with the related revenue. Applied research is expensed as incurred.

**Other operating revenues and expenses**

Other operating revenues and other operating expenses include: gains and losses on the sale of shares or operations in subsidiaries (cf. section Associated companies below), gains or losses on the sale or retirement of intangible assets or property, plant and equipment, and public grants. Exchange rate differences on operating transactions are also recorded here; including value changes in derivatives for hedging operational transaction exposure and possible hedging ineffectiveness (see also section Financial Instruments below). This item also includes restructuring costs, non-capitalizable costs in 2003 related to the merger with Sonera and other items of a non-recurring nature.

**Associated companies**

Income from associated companies includes TeliaSonera's share of earnings in each company's net income. The share of earnings is based on the company's most recent accounts, adjusted for any discrepancies in accounting principles, and with estimated adjustments for significant events and transactions up to TeliaSonera's close of books.

Income from associated companies also includes amortization of goodwill (until 2003) and fair value adjustments, and other consolidation adjustments made upon the acquisition of associated companies as well as capital gains and losses on divestitures of stakes in associated companies.



**Notes to Consolidated Financial Statements (Continued)**

**4. Significant Accounting Policies (Continued)**

The principles for consolidating associated companies are described in note Consolidated Financial Statements above. Effective January 1, 2004, goodwill and other indefinite lived intangible assets are not amortized. Negative equity participations in associated companies are recognized only for companies for which the Group has contractual obligations to contribute additional capital and are then recorded as Other provisions.

**Financial revenues and expenses**

Interest revenues and expenses are recognized as incurred, using the effective interest rate method, with the exception of interest during installation periods, which is capitalized (see also section Valuation of non-current assets below). Dividend revenues from equity investments are recognized when TeliaSonera's rights to receive payment have been established.

The change in fair value of the interest component of borrowings recorded at fair value and of derivatives hedging loans and borrowings is included in Other interest revenues (gain) or in Interest expenses (loss).

Revenues and expenses relating to guarantee commissions are included in line items Other interest revenues and Interest expenses, respectively. Interest expenses include funding-related bank fees and fees to rating institutions and market makers.

**Income taxes**

The income statement item Income Taxes includes current and deferred corporate income tax. TeliaSonera Group companies are liable for taxation under current legislation in the countries where they are domiciled. The corporate income tax rate in Sweden was 28 percent in 2005, 2004 and 2003, and is applied to the nominal income recorded, plus non-deductible items such as share impairment losses and capital losses, and less non-taxable revenues such as share dividends and capital gains.

Income taxes are recognized using the liability method. According to this method, deferred tax liabilities and assets are recorded for temporary differences between carrying values and tax-effective values of assets and liabilities and for other tax-effective deductions or losses. Deferred tax liabilities and assets are calculated based on the tax rate expected when the temporary difference will be reversed. The effects of changes in applicable tax rates are charged to income in the period when the change is substantively enacted. Deferred tax assets are reduced by means of a valuation allowance to the extent that the ability of utilizing the tax asset within the foreseeable future is not likely. To the extent the likely recovery of a deferred tax asset changes, the effect is brought to income for the relevant period.

Deferred tax liabilities for undistributed earnings in subsidiaries and associated companies are not recognized because such retained earnings can be withdrawn as non-taxable dividends and the companies normally can be sold without tax consequences. However, some foreign jurisdictions impose withholding tax on dividends. In such cases, a deferred tax liability calculated based on the respective withholding tax rate is recognized.

**Notes to Consolidated Financial Statements (Continued)**

**4. Significant Accounting Policies (Continued)**

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

**Valuation of non-current assets**

Non-current assets represent approximately 80 percent of TeliaSonera's total assets.

Intangible assets are recorded in the balance sheet at acquisition value, including directly attributable borrowing costs, less accumulated scheduled amortization (for goodwill only until 2003), and impairment losses. Direct external and internal charges for the development of software for in-house administrative use are capitalized, provided that future economic benefits are probable and will exceed expenses incurred. Activities in projects at the feasibility study stage as well as maintenance and training activities are expensed as incurred.

Property, plant and equipment are recorded in the balance sheet at cost less accumulated scheduled depreciation, and impairment losses. Software that is a direct prerequisite for end-user service production is capitalized as plant and machinery. Property and plant under construction is valued at the expense already incurred, including interest during the installation period. Capitalized interest is normally calculated, based on the Group's estimated average cost of borrowing (4.75 percent for 2005, 5.25 percent for 2004 and 5.0 percent for 2003). However, actual borrowing costs are capitalized if individually identifiable, as interest paid on construction loans for buildings.

To the extent a legal or constructive obligation to a third party exists, the acquisition cost includes estimated costs of dismantling and removing the asset and restoring the site. A change in estimated expenditures for dismantling, removal and restoration is added to and/or deducted from the carrying value of the related asset. To the extent that the change would result in a negative carrying amount, this effect is recognized as income. The change in depreciation charge is recognized prospectively.

For a discussion on the valuation of financial assets, see section "Financial instruments" below.

Scheduled amortization on intangible assets and depreciation on tangible assets is based on historical acquisition values (purchase cost), with appropriate adjustment for impairment and taking into account the estimated useful lives of various asset classes or individual assets. Government grants are deducted from the carrying value of related assets and are recognized as income over the life of an asset by way of a reduced depreciation charge. For assets acquired during a year, amortization and depreciation is calculated from the date of acquisition. Amortization and depreciation is mainly recorded on a straight-line basis.

Effective January 1, 2004, TeliaSonera adopted IFRS 3, involving, among other things, that goodwill and other intangible assets with indefinite useful lives are not amortized but tested for impairment at least annually. Also effective January 1, 2004, the useful life of copper cables in the fixed local access network in

**Notes to Consolidated Financial Statements (Continued)**

**4. Significant Accounting Policies (Continued)**

Sweden was changed from 8 years to 20 years and of switching equipment for ADSL customers from 3 years to 10 years. In 2005 and 2003, no general changes in useful lives were applied.

Determination of the useful lives of asset classes involves taking into account historical trends and making assumptions related to future socio-economical and technological development and expected changes in market behavior. These assumptions are subject to review by management and the Audit Committee of the Board of Directors.

Further, non-current assets are reviewed for impairment at least annually and else whenever events or changes in circumstances indicate that the carrying value of an asset may not be recoverable, by analyzing individual assets or classes of assets that naturally belong together. If an analysis indicates that the carrying value is too high, the asset's recoverable amount is set, which is the higher of the fair value less costs to sell and value in use. Value in use is measured based on the expected future discounted cash flows (DCF model) attributable to the asset. An impairment loss is the difference between the carrying value and the recoverable amount of the asset.

A number of significant assumptions and estimates are involved in using DCF models to forecast operating cash flows, for example with respect to factors such as market growth rates, revenue volumes, market prices for telecommunications services, costs to maintain and develop communications networks and working capital requirements. Forecasts of future cash flows are based on the best estimates of future revenues and operating expenses using historical trends, general market conditions, industry trends and forecasts and other available information. These assumptions are subject to review by management and the Audit Committee of the Board of Directors. The cash flow forecasts are adjusted by an appropriate discount rate derived from TeliaSonera's cost of capital plus a reasonable risk premium at the date of evaluation.

If the projections for future cash flows for any of TeliaSonera's non-current assets change as a result of changes in business model or strategy, competitive pressures, or regulatory environment, impairment losses may have to be recognized.

**Assets-held-for-sale**

Non-current assets and disposal groups are classified as held for sale if their carrying amount will be recovered through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset (or disposal group) is available for immediate sale in its present condition. An asset-held-for-sale is measured at the lower of its previous carrying amount and fair value less costs to sell.

**Inventories**

Inventories and stock in trade are valued at acquisition value, based on FIFO (first in/first out), or net selling price, whichever is lower. Write-downs for obsolescence are made separately for each individual store. Obsolescence is assessed with reference to the age and rate of turnover of the articles. The entire difference between the opening and closing balance of the obsolescence allowance is charged to operating income for the year.

**Notes to Consolidated Financial Statements (Continued)**

**4. Significant Accounting Policies (Continued)**

**Trade receivables**

Trade receivables, which are non-interest-bearing and generally have 30 day terms, are recognized and carried at original invoice amount less an allowance for any uncollectible amounts. An estimate of doubtful receivables is made when collection of the full amount is no longer probable. Bad debt is written-off when identified.

TeliaSonera's allowance for doubtful receivables reflects estimated losses that result from the inability of customers to make required payments. Management determines the size of the allowance based on the likelihood of recoverability of accounts receivable taking into account actual losses in prior years and current collection trends. Should economic or specific industry trends worsen compared to management estimates, the allowance may have to be increased, negatively impacting earnings. See also section "Credit risk" in note "Financial Instruments and Financial Risk Management" for a description of how credit risks related to trade receivables are mitigated.

**Cash and cash equivalents**

Cash and cash equivalents include short-term investments with maturities up to and including three months, cash at hand and demand deposits in banks. Short-term investments consist primarily of surplus liquidity invested in the overnight market and are valued at the acquisition value plus accrued interest revenue, which approximates fair value. Investments with maturities over three months are reported as interest-bearing receivables, valued at fair value.

**Shareholders' equity**

Shareholders' equity is divided into share capital, other contributed capital, reserves and retained earnings. Share capital is the legally issued share capital. Other contributed capital comprises contributions made by shareholders in the form of share premiums in connection with new share issues, specific share holder contributions, etc. This item is reduced by reimbursements to shareholders made in accordance with separately decided and communicated capital repayment programs. Reserves include revaluation reserve, fair value reserve, translation reserve and inflation adjustment reserve. All other equity is retained earnings.

Dividend payments are proposed by the Board of Directors in accordance with the regulations of the Companies Act and decided by the General Meeting of shareholders. The proposed but not yet decided cash dividend for 2005 has not been recorded as a liability.

**Financial instruments**

Financial assets and liabilities are recognized and derecognized applying settlement date accounting.

Financial assets, with certain exceptions, are recorded at fair value. Official public quotes as of the close of books are used for determining fair value. If such a quote is not available, the instrument is valued by discounting future cash flows at a quoted market rate of interest for each maturity. Currency swaps and forward exchange contracts are valued at the forward rate. Conversion to Swedish kronor (SEK) is made at quoted exchange rates as per the close of books.

**Notes to Consolidated Financial Statements (Continued)**

**4. Significant Accounting Policies (Continued)**

Receivables arising from own lending and assets held to maturity are valued at amortized cost, using the effective interest rate method. TeliaSonera considers quoted securities as available for sale, with the unrealized gains and losses up to the date of sale recorded as a component of equity. Unlisted equity instruments whose fair value cannot be reliably determined are valued at cost.

Financial liabilities are valued primarily at amortized cost, using the effective interest rate method. Liabilities that are not held for trading and that are hedged against changes in fair value, however, are recorded at fair value.

Balances and transactions are hedged and hedge accounting is applied if the hedging actions have the express purpose of serving as a hedge, have a direct correlation to the hedged position and effectively hedge the position. An effective hedge produces financial effects that counteract the effects created by the position that is hedged.

TeliaSonera uses derivative instruments (interest and cross currency interest rate swaps, forward contracts, etc.) primarily to control exposure to fluctuations in exchange rates and interest rates. Derivatives and embedded derivatives, when their economic characteristics and risks are not clearly and closely related to other characteristics of the host contract, are recognized at fair value on the balance sheet. For fair value hedges, the effective and ineffective portions of the change in fair value of the derivative, along with the gain or loss on the hedged item attributable to the risk being hedged, are recorded in the income statement as incurred. The effective portion of the change in fair value of outstanding derivatives used to hedge anticipated cash flows is booked directly to equity until the underlying transaction is reflected in the income statement, at which time any deferred hedging gains or losses are recorded in earnings. The ineffective portion of the change in fair value of a derivative used as a cash flow hedge is recorded as incurred on the same line item as the gain or loss on the item being hedged.

Amounts to be paid or received as a result of cross currency interest rate swaps or interest rate swaps, which are expressly intended to and do effectively hedge interest-bearing assets or liabilities as specified above, are recorded on an ongoing basis as an interest revenue or expense.

Derivatives used for hedging of foreign net investments are designated as cash flow hedges. Upon maturity of the derivative the accumulated change of value is retained in equity until the subsidiary is divested or closed down.

Derivative instruments that do not meet the criteria for hedge accounting are recorded on the balance sheet at fair value and changes in fair value are recorded in the income statement immediately.

**Provisions for pensions and employment contracts**

Almost all of TeliaSonera's employees in Sweden, Finland and Norway are covered by defined benefit pension plans, which mean that the individual is guaranteed a pension equal to a certain percentage of his or her salary. The pension plans mainly include old-age pension, disability pension and family pension. Employees in TeliaSonera AB and most of its Swedish subsidiaries are eligible for retirement benefits under the ITP-Tele defined benefit plan. TeliaSonera's employees in Finland are entitled to statutory pension benefits pursuant to the Finnish Employees Pension Act, a defined benefit pension arrangement with retirement, disability, unemployment and death benefits (TEL pension). In addition, certain employees have additional pension coverage through a supplemental pension plan.

**Notes to Consolidated Financial Statements (Continued)**

**4. Significant Accounting Policies (Continued)**

The pension obligations are secured mostly by pension funds, but also by provisions in the balance sheet and by insurance premiums. In Sweden, the part of the ITP multiemployer pension plan that is secured by paying pension premiums is accounted for as a defined contribution plan due to lack of information necessary to account for the plan as a defined benefit plan. In Finland, a part of the pension is funded in advance and the remaining part financed as a pay-as-you-go pension.

The Group's employees outside Sweden, Finland and Norway are usually covered by defined contribution pension plans. Contributions to the latter are normally set at a certain percentage of the employee's salary.

The present value of pension obligations and pension costs are calculated annually, using the projected unit credit method. Actuarial assumptions are determined close to the balance sheet date. The assets of TeliaSonera's pension funds constitute pension plan assets and are valued at market value.

Changes in the present value of obligations due to revised actuarial assumptions as well as differences between expected and actual return on plan assets are treated as actuarial gains or losses. When the net cumulative unrecognized actuarial gain or loss on pension obligations and plan assets goes outside a corridor equal to 10 percent of the higher of either pension obligations or the market value of plan assets at the beginning of the year, the surplus amount is amortized over the average expected remaining employment period.

Net provisions or receivables for post-employment benefits in the balance sheet represent the present value of obligations at year-end less the market value of plan assets, unrecognized actuarial gains and losses and unrecognized past-service costs.

The most significant assumptions that management has to make in connection with the actuarial calculation of pension obligations and pension expenses affect the discount rate, the expected annual rate of compensation increase, the expected employee turnover rate, the expected average remaining working life, the expected annual income base amount increase, the expected annual adjustments to pensions, and the expected annual return on plan assets. These assumptions are subject to review by the Audit Committee of the Board of Directors. A change in any of these key assumptions may have a significant impact on the projected benefit obligations, funding requirements and periodic pension cost.

The discount rate reflects the rates at which the pension benefits could be effectively settled, which means a period somewhere from 15 to 30 years. Management has chosen to base the estimated discount rate on yields derived from domestic government bonds, as management regards such bonds as high-quality fixed income investments currently available and expected to be available during the period to maturity of the pension benefits. However, the longest term of domestic nominal bonds is 15 years. Yields for terms over 15 years have been estimated by extrapolating the yield-curve. See section Pension obligation risk in note Financial Instruments and Financial Risk Management for a sensitivity analysis related to a change in the weighted average discount rate in calculating pension provisions.

The expected annual rate of compensation increase reflects expected future salary increases as a compound of inflation, seniority and promotion. The estimate is based on historical data on salary increases and on the expected future inflation rate (see also below). Historical data is also the basis for estimating the employee turnover rate, which reflects the expected level of employees, by age class, leaving the company through natural attrition.

**Notes to Consolidated Financial Statements (Continued)**

**4. Significant Accounting Policies (Continued)**

The estimate for expected average remaining working life is based on current employee age distribution and the expected employee turnover rate. The income base amount, existing only in Sweden, is set annually and inter alia used for determining the ceiling for pensionable income in the public pension system. The estimate for the expected annual income base amount increase is based on the expected future inflation rate and the historical annual rate of compensation increase on the total labor market.

Expected annual adjustments to pensions reflect the inflation rate. In determining this rate, management has chosen to use the inflation target rates set by the national and European central banks.

The expected annual return on plan assets reflects the average rate of earnings expected on the investments made (or to be made) to provide for the pension benefit obligations that are secured by the pension funds. Plan assets chiefly consist of fixed income instruments and equity instruments.

The expected nominal return from the Swedish pension fund portfolio, representing approximately 85 percent of total plan assets, is approximately 4.1 percent per annum over a 10-year period, where inflation is assumed to be 2 percent per annum. The strategic allocation of plan assets is composed to give the expected average return, based on historical data, with some adjustment reflecting the lower inflation rate that is currently in place. More specifically the expected nominal return in the Swedish pension fund is based on the following assumptions; domestic fixed income 3.4 percent, domestic and global equity 6.9 percent and other investments 6.9 percent.

The assumptions used in the Finnish and Norwegian pension funds are similar.

As of December 31, 2005, the strategic asset allocation decided by the board of the Swedish pension fund was 60 percent fixed income, 30 percent equities and 10 percent other investments. Other investments include hedge funds, private equity, emerging market debt and high yield bonds. Out of the total assets 40 percent are domestic index (inflation) linked government bonds and 20 percent refers to other domestic fixed income assets with low credit risk. Out of the equity holdings one third is domestic and the rest is global equities. The actual allocation may fluctuate from the strategic allocation in a range of +/-10 percent between fixed income and equities.

All assets in the Swedish pension fund are managed by appointed external managers with specialist mandates.

**Restructuring and other provisions**

Provisions for restructuring costs, warranty commitments, environmental restoration, litigation, etc. are recognized when: a legal or constructive obligation exists as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and a reliable estimate can be made of the amount of the obligation. Provisions are not recognized for future operating losses. Provisions are measured at management's best estimate of the expenditure required to settle the obligation at the balance sheet date, and are discounted to present value where the effect is material.

Where there are a number of similar obligations, the probability that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognized even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small but it is probable that some outflow of resources will be needed to settle the class of obligations as a whole.

**Notes to Consolidated Financial Statements (Continued)**

**4. Significant Accounting Policies (Continued)**

TeliaSonera has engaged, and may in the future need to engage, in restructuring activities, which require management to make significant estimates related to expenses for severance and other employee termination costs, lease cancellation, site dismantling and other exit costs and to realizable values of assets made redundant or obsolete (see section Valuation of non-current assets above). Should the actual amounts differ from these estimates, future results could be materially impacted.

**Leasing agreements**

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

*TeliaSonera as lessee*

As a lessee, TeliaSonera has entered into finance and operating leases and rental contracts. For a finance lease agreement, the accounts include the leased asset as a tangible non-current asset and the future obligation to the lessor as a liability in the balance sheet, capitalized at the inception of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments. Initial direct costs are added to the capitalized amount. Lease payments are apportioned between the finance charges and reduction of the lease liability to produce a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly to income. Other agreements are operating leases, with the leasing costs recognized evenly throughout the period of the agreement.

*TeliaSonera as finance lessor*

TeliaSonera owns assets that it leases to customers under finance lease agreements. Amounts due from lessees are recorded as receivables at the amount of the net investment in the leases. Initial direct costs are included in the initial measurement of the financial lease receivable and reduce the amount of income recognized over the lease term.

In 2004, most of TeliaSonera's customer financing operations was divested. Some of the divested leasing receivables were securitized. Based on the terms of the securitization contracts, these leasing receivables were included in the Group balance sheet.

*TeliaSonera as operating lessor*

Rental revenues from operating leases are recognized on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and are recognized on the same basis as the lease revenues.

Fiber and duct are sold as part of the operations of TeliaSonera's international carrier business. TeliaSonera has decided to view these as integral equipment to land. Under the agreements, title is not transferred to the lessee. The transactions are therefore recorded as operating lease agreements. The contracted sales price is chiefly paid in advance and sales not recognized in income are recorded as long-term liabilities and deferred revenues.



**Notes to Consolidated Financial Statements (Continued)**

**4. Significant Accounting Policies (Continued)**

**Contingencies, other contractual obligations and litigation**

A provision is recognized if an adverse outcome is probable and the amount is reliably estimable. If the likelihood of an adverse outcome is less than probable but reasonably possible, or a reliable estimate is not determinable, the matter is disclosed provided that the contingency or the legal claim is material.

Determination of the treatment of contingent assets and liabilities in the financial statements is based on management's view of the expected outcome of the applicable contingency. Management consults with legal counsel on matters related to litigation and other experts both within and outside the company with respect to matters in the ordinary course of business.

**5. Transactions in Foreign Currencies**

Transactions denominated in foreign currencies are translated at the exchange rates prevailing at the time of each transaction. Monetary assets and liabilities denominated in foreign currencies and related forward contracts for foreign exchange are translated at the closing rate, any resulting exchange rate differences being charged to income. Accordingly, realized as well as unrealized exchange rate differences are recorded in the income statement. Exchange rate differences arising from operating receivables or liabilities are recorded in operating income, while differences attributable to financial assets or liabilities are recorded as earnings or losses on financial investments.

**6. Changes in Group Composition**

**Events in 2005 and after the balance sheet date**

*Satellite companies*

TeliaSonera's minority holding in the satellite company Intelsat, Ltd. was sold on January 28, 2005.

*Eesti Telekom*

On December 28, 2004, TeliaSonera became the owner of slightly more than 50 percent of the shares in Eesti Telekom, making Eesti Telekom a consolidated subsidiary. Exceeding the 50 percent threshold required Telia-Sonera to make a mandatory public offer for the remaining shares in Eesti Telekom. The offer period expired on February 23, 2005, resulting in a minor increase in TeliaSonera's shareholding, to 50.3 percent. For more information, see note Business Combinations. In February and March 2006, TeliaSonera acquired an additional 3.4 percent of the shares in Eesti Telekom.

*Infonet*

On February 25, 2005, the major shareholders of Infonet Services Corporation, including TeliaSonera with a 20 percent holding, sold their stakes in Infonet to British Telecommunications plc.

*Teleadress and Multicom Security*

On February 2 and 28, 2005, respectively, the shareholders of TA Teleadress Information AB and Multicom Security AB, including TeliaSonera with an indirect holding of 46 and 47 percent, respectively, sold all shares in Tele-address to Aftonbladet Hierta AB and in Multicom Security to the British investment company GMT Communications Partners.

**Notes to Consolidated Financial Statements (Continued)****6. Changes in Group Composition (Continued)*****MicroLink***

On October 31, 2005, TeliaSonera acquired the leading Baltic IT services company MicroLink AS, with operations in Estonia, Latvia and Lithuania.

***Chess Holding***

On November 7, 2005, TeliaSonera AB acquired 91.2 percent of Vollvik Gruppen AS (now renamed TeliaSonera Chess Holding AS) in Norway for cash consideration. At December 31, 2005, following a voluntary offer to acquire the remaining shares, TeliaSonera held all but a small fraction of the company's shares. Chess Holding owns 100 percent of the mobile service provider Chess/Sense. For more information, see note Business Combinations.

**Major acquisitions and divestitures during 2003-2005**

In 2005, 2004 and 2003, TeliaSonera acquired and divested a number of companies and businesses from and to independent parties outside the Group. None of those acquisitions or divestitures, individually or collectively, was of a size that would have had a material effect on the Group's pro forma net sales or net income for the year in which the transaction was executed or the year immediately preceding.

**7. Net Sales**

Net sales are broken down geographically by business segment in note Business Segments, section Profit Center breakdown. Sales (including exports) were distributed among economic regions as follows.

|  | <b>January-December<br/>2005</b> |                | <b>2004</b>                |                | <b>2003</b>                |                |
|--|----------------------------------|----------------|----------------------------|----------------|----------------------------|----------------|
|  | <b>SEK in<br/>millions</b>       | <b>Percent</b> | <b>SEK in<br/>millions</b> | <b>Percent</b> | <b>SEK in<br/>millions</b> | <b>Percent</b> |
| European Economic Area (EEA)                   | 80,030                           | 91.3           | 76,638                     | 93.5           | 71,824                     | 87.1           |
| of which European Union (EU) member states     | 72,743                           | 83.0           | 70,379                     | 85.9           | 65,472                     | 79.4           |
| of which other countries                       | 7,287                            | 8.3            | 6,259                      | 7.6            | 6,352                      | 7.7            |
| Rest of Europe                                 | 782                              | 0.9            | 675                        | 0.8            | 6,941                      | 8.4            |
| North-American Free Trade Agreement<br>(NAFTA) | 626                              | 0.7            | 442                        | 0.6            | 657                        | 0.8            |
| Rest of world                                  | 6,223                            | 7.1            | 4,182                      | 5.1            | 3,003                      | 3.7            |
| <b>Total</b>                                   | <b>87,661</b>                    | <b>100.0</b>   | <b>81,937</b>              | <b>100.0</b>   | <b>82,425</b>              | <b>100.0</b>   |
| of which outside Sweden                        | 49,812                           | 56.8           | 42,279                     | 51.6           | 40,641                     | 49.3           |
| of which Nordic markets outside Sweden         | 31,130                           | 35.5           | 28,301                     | 34.5           | 27,921                     | 33.9           |

**Notes to Consolidated Financial Statements (Continued)**

**7. Net Sales (Continued)**

Net sales were broken down by product category as follows.

| <b>SEK in millions</b>                       | <b>January-December</b> |             |             |
|--|-------------------------|-------------|-------------|
|  | <b>2005</b>             | <b>2004</b> | <b>2003</b> |
| Mobile communications                        | 44,191                  | 38,382      | 36,737      |
| Fixed telephony                              | 24,796                  | 25,023      | 27,791      |
| Internet                                     | 6,246                   | 5,586       | 4,325       |
| Data communications and network capacity     | 7,864                   | 7,972       | 8,524       |
| Service, installation and customer equipment | 1,810                   | 2,473       | 1,324       |
| Cable TV                                     | 655                     | 606         |             |