# TeliaSonera January-June 2011

## A united TeliaSonera shows stronger profitability

### Second quarter

- **Net sales in local currencies and excluding acquisitions increased 3.0 percent. In reported currency, net sales decreased 4.3 percent to SEK 25,894 million (27,065).**
- **The addressable cost base in local currencies and excluding acquisitions increased 3.5 percent. In reported currency, the addressable cost base decreased 3.5 percent to SEK 7,900 million (8,185).**
- **EBITDA, excluding non-recurring items, increased 6.5 percent in local currencies and excluding acquisitions. In reported currency, EBITDA, excluding non-recurring items, fell 0.9 percent to SEK 9,109 million (9,194). The EBITDA margin, excluding non-recurring items increased to 35.2 percent (34.0).**
- **Operating income, excluding non-recurring items, decreased 12.0 percent to SEK 6,974 million (7,923) due to lower income from associated companies.**
- **Net income attributable to owners of the parent company decreased to SEK 3,860 million (5,238) and earnings per share decreased to SEK 0.89 (1.17).**
- **Free cash flow decreased to SEK 1,413 million (3,930) due to higher cash CAPEX and lower dividends received from associated companies.**
- **During the quarter the number of subscriptions grew by 1.7 million in the consolidated operations while subscriptions in the associated companies decreased by 0.3 million. The total number of subscriptions was 159.4 million.**
- **Group outlook for 2011 remains unchanged.**

### First half

- **Net sales in local currencies and excluding acquisitions increased 2.8 percent. In reported currency, net sales decreased 5.0 percent to SEK 50,619 million (53,255).**
- **Net income attributable to owners of the parent company decreased to SEK 8,506 million (9,960) and earnings per share decreased to SEK 1.93 (2.22).**
- **Free cash flow decreased to SEK 4,000 million (7,302).**

## Financial highlights

| **SEK in millions, except key ratios, per share data and changes** | **Apr-Jun 2011** | **Apr-Jun 2010** | ***Chg (%)*** | **Jan-Jun 2011** | **Jan-Jun 2010** | ***Chg (%)*** |
|---|---|---|---|---|---|---|
| Net sales | 25,894 | 27,065 | *-4* | 50,619 | 53,255 | *-5* |
| Addressable cost base[1, 2)] | 7,900 | 8,185 | *-3* | 15,616 | 16,216 | *-4* |
| EBITDA[2)] excl. non-recurring items[3)] | 9,109 | 9,194 | *-1* | 17,921 | 18,139 | *-1* |
| Margin (%) | 35.2 | 34.0 | | 35.4 | 34.1 | |
| Operating income | 6,437 | 7,904 | *-19* | 13,699 | 15,108 | *-9* |
| Operating income excl. non-recurring items | 6,974 | 7,923 | *-12* | 14,221 | 15,367 | *-7* |
| Net income | 4,540 | 5,886 | *-23* | 9,780 | 11,122 | *-12* |
| of which attributable to owners of the parent | 3,860 | 5,238 | *-26* | 8,506 | 9,960 | *-15* |
| Earnings per share (SEK) | 0.89 | 1.17 | *-24* | 1.93 | 2.22 | *-13* |
| Return on equity (%, rolling 12 months) | 17.5 | 15.9 | | 17.5 | 15.9 | |
| CAPEX-to-sales (%) | 14.9 | 15.1 | | 14.9 | 11.5 | |
| Free cash flow | 1,413 | 3,930 | *-64* | 4,000 | 7,302 | *-45* |

1) Additional information available at www.teliasonera.com.

2) Please refer to page 16 for definitions.

3) Non-recurring items; see table on page 21.

In this report, comparative figures are provided in parentheses following the operational and financial results and refer to the same item in the second quarter of 2010, unless otherwise stated.

## Comments by Lars Nyberg, President and CEO

“Growth in net sales improved compared to the first quarter and was achieved with significant improvement in profitability. The EBITDA margin, excluding non-recurring items, increased to 35.2 percent, an increase for the eleventh consecutive quarter on a rolling 12 month-basis. The decline in earnings per share can be explained by currency movements and weaker results from our associated companies.

The second quarter was an eventful quarter for TeliaSonera. In May, we took an important step in uniting the company by launching a common brand identity. The foundation of the new brand identity was launched already in 2009 in TeliaSonera’s Eurasian operations and has now been extended to the Nordic and Baltic countries.

The new brand identity reflects the combination of TeliaSonera’s international strength and strong local operations, as well as the heritage as one of the pioneers of the telecom industry. Our customers also get tangible benefits, as we in parallel lowered the price of data roaming in the Nordic and Baltic markets by as much as 90 percent. The new tariffs are well below the price caps on roaming as set by the European Commission for July 2012.

Within Mobility Services, Spain and Sweden continue to be the growth engines. Estonia and Latvia reported positive growth for the first time since early 2008. In the Danish mobile market, we announced a network sharing agreement with Telenor which will have a significant impact on both the customer experience and future network investments.

At our Investor Day in June, we revealed that we will invest more than SEK 8 billion in fiber until 2014, of which SEK 5 billion in Sweden. Our fixed networks remain a key strategic asset in order to meet customers’ demand for triple play and capacity hungry applications. It will be a selective roll-out to ensure a good return on investment. By the end of 2014, we aim to expand our coverage by fiber to 2.3 million connected homes in the Nordic and Baltic countries, of which almost 1 million in Sweden. At the same time, we continue our 4G roll-out and have now launched 4G services in all Nordic and Baltic countries. In Sweden, more than 200 municipalities will be covered with 4G by year-end.

In Eurasia, growth in net sales remained strong at 18 percent in local currencies. In Nepal, Ncell became the GSM market leader and revenues more than doubled compared to last year. In addition to increased penetration, we are very excited by the untapped potential in mobile data in Eurasia. In one year, mobile data as a percentage of total revenues has almost doubled and represents around 6 percent of sales in the region.

Our achievements for the first six months are well in line with our outlook for 2011 and we reiterate our guidance for net sales, profitability and investments.”

## Group outlook for 2011 (unchanged)

The growth in net sales in local currencies and excluding acquisitions and disposals is expected to be around 3 percent. Currency fluctuations may have a material impact on reported figures in Swedish krona.

We expect the growth in the addressable cost base in 2011 to be below the growth in net sales, in local currencies and excluding acquisitions. The EBITDA margin, excluding non-recurring items, in 2011 is expected to improve compared with 2010.

Capital expenditures will be driven by investments in broadband and mobile capacity as well as in network expansion in Eurasia. The CAPEX-to-sales ratio is expected to be approximately 13-14 percent in 2011, excluding license and spectrum fees.

## Review of the Group, second quarter 2011

**Net sales** in local currencies and excluding acquisitions increased 3.0 percent. In reported currency, net sales decreased 4.3 percent to SEK 25,894 million (27,065). The negative effect of disposals was 1.3 percent and the negative effect of exchange rate fluctuations was 6.0 percent.

In Mobility Services, net sales in local currencies and excluding acquisitions increased 5.7 percent. In reported currency, net sales increased 0.9 percent to SEK 12,751 million (12,638).

In Broadband Services, net sales in local currencies and excluding acquisitions decreased 6.7 percent. In reported currency, net sales decreased 9.4 percent to SEK 9,155 million (10,100).

In Eurasia, net sales in local currencies and excluding acquisitions increased 18.4 percent. In reported currency, net sales decreased 1.1 percent to SEK 4,145 million (4,191).

**The number of subscriptions** rose by 7.8 million from the end of the second quarter 2010 to 159.4 million. In the consolidated operations the number of subscriptions increased by 8.7 million to 59.1 million. In the associated companies, the number of subscriptions decreased by 0.9 million to 100.3 million. During the second quarter, the total number of subscriptions increased by 1.7 million in the consolidated operations and decreased by 0.3 million in the associated companies.

**The addressable cost base** in local currencies and excluding acquisitions increased 3.5 percent. In reported currency, the addressable cost base decreased 3.5 percent to SEK 7,900 million (8,185).

**EBITDA**, excluding non-recurring items, increased 6.5 percent in local currencies and excluding acquisitions. In reported currency, EBITDA, excluding non-recurring items, decreased 0.9 percent to SEK 9,109 million (9,194). The EBITDA margin, excluding non-recurring items increased to 35.2 percent (34.0).

**Operating income**, excluding non-recurring items, decreased 12.0 percent to SEK 6,974 million (7,923). Income from associated companies decreased 48.3 percent to SEK 1,030 million (1,994), of which almost half is explained by a loss in Turkcell's Belarusian subsidiary as a result of the devaluation of the country's currency and an inventory write-down in MegaFon in Russia.

**Non-recurring items** affecting operating income totaled SEK -537 million (-19), mainly related to efficiency measures.

**Financial items** totaled SEK -575 million (-563) of which SEK -440 million (-435) related to net interest expenses.

**Income taxes** decreased to SEK 1,322 million (1,455). The effective tax rate increased to 22.6 percent (19.8) mainly due to lower earnings from associated companies. In the second quarter of 2010, the effective tax rate was lowered by a one-off adjustment of withholding taxes related to associated companies.

**Non-controlling interests** in subsidiaries increased to SEK 680 million (648), of which SEK 607 million (574) was related to the operations in Eurasia and SEK 63 million (83) to LMT and TEO.

**Net income attributable to owners of the parent company** decreased 26.3 percent to SEK 3,860 million (5,238) and earnings per share decreased to SEK 0.89 (1.17).

**CAPEX** decreased to SEK 3,848 million (4,086) and the CAPEX-to-sales ratio decreased to 14.9 percent (15.1). In the second quarter of 2011, CAPEX included SEK 384 million for the acquisition of a license in the 1,800 MHz frequency band in Spain. The CAPEX-to-sales ratio, excluding license and spectrum fees, was 13.4 percent in the second quarter of 2011.

**Free cash flow** decreased to SEK 1,413 million (3,930) due to SEK 1.7 billion higher cash CAPEX and lower dividends from associated companies. TeliaSonera did not receive any dividends from Turkcell during the quarter compared with the SEK 609 million received in the second quarter of 2010.

**Net debt** increased to SEK 68,409 million at the end of the second quarter (45,000 at the end of the first quarter of 2011), following the SEK 22,292 million payments of ordinary dividend and consideration for repurchased shares made to the shareholders in April 2011. The Net debt/EBITDA ratio was 1.87 (1.22 at the end of the first quarter of 2011).

**The equity/assets ratio** was 46.1 percent (42.2 percent at the end of the first quarter of 2011).

## Review of the Group, first half 2011

**Net sales** in local currencies and excluding acquisitions increased 2.8 percent. In reported currency, net sales decreased 5.0 percent to SEK 50,619 million (53,255). The negative effect of disposals was 1.4 percent and the negative effect of exchange rate fluctuations was 6.4 percent.

**The addressable cost base** in local currencies and excluding acquisitions increased 3.8 percent. In reported currency, the addressable cost base decreased 3.7 percent to SEK 15,616 million (16,216).

**EBITDA**, excluding non-recurring items, increased 5.9 percent in local currencies and excluding acquisitions. In reported currency, EBITDA, excluding non-recurring items, decreased 1.2 percent to SEK 17,921 million (18,139). The EBITDA margin, excluding non-recurring items, increased to 35.4 percent (34.1).

**Operating income**, excluding non-recurring items, decreased 7.5 percent to SEK 14,221 million (15,367). Income from associated companies decreased 26.1 percent to SEK 2,658 million (3,595).

**Non-recurring items** affecting operating income totaled SEK -522 million (-259), mainly related to efficiency measures.

**Financial items** totaled SEK -1,168 million (-1,042) of which SEK -962 million (-871) related to net interest expenses.

**Income taxes** decreased to SEK 2,751 million (2,944). The effective tax rate increased to 22.0 percent (20.9).

**Non-controlling interests** in subsidiaries increased to SEK 1,274 million (1,162), of which SEK 1,129 million (1,011) was related to the operations in Eurasia and SEK 125 million (168) to LMT and TEO.

**Net income attributable to owners of the parent company** decreased 14.6 percent to SEK 8,506 million (9,960) and earnings per share decreased to SEK 1.93 (2.22).

**CAPEX** increased to SEK 7,558 million (6,133) and the CAPEX-to-sales ratio increased to 14.9 percent (11.5). The CAPEX-to-sales ratio, excluding license and spectrum fees, amounted to 12.3 percent in the first half of 2011.

**Free cash flow** decreased to SEK 4,000 million (7,302) due to SEK 2.1 billion higher cash CAPEX, higher paid taxes and lower dividends from associated companies.

### Significant events in the second quarter

- On April 5, 2011, TeliaSonera announced that it had repurchased 160,372,432 of the company's shares, representing almost 100 percent of the 160,373,471 shares included in the repurchase offer presented on February 18. SEK 9,943 million was distributed to the shareholders of TeliaSonera as consideration for the repurchased shares. In addition, the ordinary dividend for 2010 of SEK 12,349 million was paid to the shareholders in April 2011.

- On April 28, 2011, TeliaSonera launched the first commercial 4G / LTE service in Lithuania. The 4G network is one of the first networks in the world to use the 1,800 MHz frequency. TeliaSonera continues the 4G network roll-out in Lithuania during 2011.

- On May 12, 2011, TeliaSonera launched a new brand identity. TeliaSonera's 18 main brands were united under a common brand identity, while retaining their brand names.

- On May 12, 2011, TeliaSonera lowered Nordic and Baltic roaming prices by approximately 90 percent. The new lower prices and the cost control function automatically apply to all customers during travel in the Nordic and Baltic countries, without customers needing to make any specific action. All customers have total control over costs since the daily rate is known and a text message is sent by TeliaSonera to the customer if the customer should need to buy more data to stay online.

- On June 13, 2011, TeliaSonera's subsidiary LMT launched the first commercial 4G / LTE service in Latvia. This means that TeliaSonera has launched 4G services in seven countries; Sweden, Norway, Finland, Denmark, Estonia, Latvia and Lithuania pioneering the Nordic and Baltic markets with superfast mobile services.

- On June 14, 2011, Telia, TeliaSonera's subsidiary in Denmark, entered into a network sharing agreement with Telenor to create Denmark's best mobile network. The companies will also establish a common infrastructure company to operate the joint network.

### Significant event after the end of the second quarter

- On July 13, 2011, Tele2 in Norway extended its national roaming agreement with TeliaSonera. The new agreement is valid until March 2014.

# Improving revenue trend in Mobility Services

**Business area Mobility Services** *provides mobility services to the consumer and enterprise mass markets. Services include mobile voice and data, mobile content, WLAN Hotspots, mobile broadband and Wireless Office. The business area comprises mobile operations in Sweden, Finland, Norway, Denmark, Lithuania, Latvia, Estonia and Spain.*

- The revenue trend within Mobility Services improved compared to the previous quarter. Spain and Sweden continue to be the growth engines. Estonia and Latvia reported positive growth for the first time since early 2008. In Latvia and Lithuania, LMT and Omnitel were the first operators to launch 4G services and TeliaSonera now offers commercial 4G services in all Nordic and Baltic countries.

- In Spain, Yoigo successfully acquired a license in the 1,800 MHz frequency band. The license will enable Yoigo to offer 4G services and reduce costs for national roaming. In Denmark, TeliaSonera has entered into a network sharing agreement with Telenor to create Denmark's best mobile network. The agreement involves the 2G, 3G and 4G networks.

| SEK in millions, except margins, operational data and changes | Apr-Jun 2011 | Apr-Jun 2010 | *Chg (%)* | Jan-Jun 2011 | Jan-Jun 2010 | *Chg (%)* |
|---|---|---|---|---|---|---|
| Net sales | 12,751 | 12,638 | *1* | 24,774 | 25,019 | *-1* |
| EBITDA excl. non-recurring items | 3,993 | 3,797 | *5* | 7,673 | 7,358 | *4* |
| Margin (%) | 31.3 | 30.0 | | 31.0 | 29.4 | |
| Operating income | 2,854 | 2,739 | *4* | 5,463 | 5,219 | *5* |
| Operating income excl. non-recurring items | 2,894 | 2,743 | *6* | 5,506 | 5,235 | *5* |
| CAPEX | 1,439 | 1,244 | *16* | 3,226 | 1,858 | *74* |
| Subscriptions, period-end (thousands) | 19,013 | 17,560 | *8* | 19,013 | 17,560 | *8* |
| Employees, period-end | 7,902 | 7,543 | *5* | 7,902 | 7,543 | *5* |

Additional segment information available at www.teliasonera.com.

- **Net sales** in local currencies and excluding acquisitions increased 5.7 percent. Net sales in reported currency increased 0.9 percent to SEK 12,751 million (12,638). The negative effect of exchange rate fluctuations was 4.8 percent.

  In Sweden, net sales rose by 6.0 percent to SEK 4,042 million (3,813), mainly as a result of continued strong growth in mobile data. Voice revenues increased 2 percent compared to the same quarter last year. Growth in equipment sales was somewhat higher compared to the previous quarter. Sweden passed 6 million subscriptions during the second quarter.

  In Finland, net sales in local currency declined 1.7 percent to the equivalent of SEK 2,220 million (2,418). Mobile data revenues grew approximately 30 percent compared to the same quarter last year but could not fully compensate for the decline in voice revenues. Revenues from equipment sales were unchanged compared to the second quarter of 2010.

  In Spain, net sales in local currency, increased 43.2 percent to the equivalent of SEK 1,882 million (1,411), despite the weak macroeconomic situation in the country. The increase in net sales was driven by higher voice revenues as a result of the strong subscription intake as well as higher equipment sales.

The Norwegian and Danish markets have been characterized by aggressive price offers from smaller operators. However, there are early signs of stabilization with less fierce price pressure. In Norway, net sales in local currency grew by 0.5 percent to the equivalent of SEK 2,074 million (2,184) due to higher equipment sales, mobile data revenues and an increase in wholesale revenues. The mobile termination rates were lowered by 40 percent as of January 1, 2011, which negatively impacted revenues by approximately NOK 90 million in the second quarter. In Denmark, net sales in local currency fell by 4.3 percent to the equivalent of SEK 1,392 million (1,558), due to lower postpaid revenues and regulatory effects.

In Estonia and Latvia, net sales in local currencies increased 2.1 percent and 0.3 percent, respectively. Equipment sales were higher in both countries. Estonia saw an increase in roaming revenues, while sales in Latvia were impacted by strong growth in mobile data. Net sales in local currency in Lithuania fell by 9.0 percent as a result of lower interconnect rates and price pressure.

- **The number of subscriptions** rose by 1.5 million from the end of the second quarter 2010 to 19.0 million. Growth was strongest in Spain with an increase of 0.9 million to 2.7 million subscriptions. During the quarter the total number of subscriptions rose by 0.3 million.

- **Interconnect fees** that TeliaSonera receives from other mobile operators were lowered in Norway to NOK 0.30 from NOK 0.50 on January 1, 2011. In Lithuania fees were lowered on January 1, 2011 to LTL 0.0626 from LTL 0.0902. In Spain, fees were lowered on April 1, 2011, to EUR 0.045 from EUR 0.055 and will be reduced further to EUR 0.04 on October 1, 2011. In Denmark, fees were lowered to DKK 0.33 from DKK 0.44 on May 1, 2011. In Latvia, fees were lowered to LVL 0.03 from LVL 0.035 on July 1, 2011. On the same day, fees in Sweden were lowered to SEK 0.21 from SEK 0.26.

- **EBITDA**, excluding non-recurring items, increased 9.1 percent in local currencies and excluding acquisitions. In reported currency, EBITDA, excluding non-recurring items, increased 5.2 percent to SEK 3,993 million (3,797). The EBITDA margin increased to 31.3 percent (30.0).

  In Sweden, EBITDA, excluding non-recurring items, increased 15.5 percent to SEK 1,833 million (1,587) as a result of higher revenues and a reduction in the addressable cost base. The EBITDA, excluding non-recurring items, also includes a reversal of a provision of approximately SEK 100 million. The EBITDA margin improved to 45.3 percent (41.6).

  In Finland, the EBITDA margin increased to 32.0 percent (31.3) as a result of higher gross margin and lower personnel costs. In Norway, the EBITDA margin fell to 35.5 percent (36.4) due to an increase in equipment sales. In Denmark, the EBITDA margin fell to 15.7 percent (18.2), mainly due to lower gross margin. Starting in May, efforts have been made to reduce subsidies in own channels.

  In Latvia, higher sales and marketing costs, partly related to LMT's 20th anniversary and campaigns for mobile data services, and higher personnel costs lowered the EBITDA margin to 35.3 percent (41.9). In Estonia and Lithuania, the EBITDA margins fell to 36.4 percent (41.2) and 28.1 percent (31.5) respectively, as a result of lower gross margin and dilution from low-margin equipment sales.

Yoigo in Spain continued to improve results delivering a positive EBITDA of SEK 103 million compared to a loss of SEK 121 million in the corresponding quarter last year. The improvement can be explained by higher revenues and an increased share of traffic in its own network.

- **CAPEX** increased to SEK 1,439 million (1,244) and the CAPEX-to-sales ratio to 11.3 percent (9.8). CAPEX included SEK 384 million for the acquisition of a Spanish license in the 1,800 MHz frequency band. Cash flow, measured as EBITDA, excluding non-recurring items, minus CAPEX, was unchanged at SEK 2,554 million (2,553).

| **SEK in millions, except margins and changes** | **Apr-Jun 2011** | **Apr-Jun 2010** | ***Chg (%)*** | **Jan-Jun 2011** | **Jan-Jun 2010** | ***Chg (%)*** |
|---|---|---|---|---|---|---|
| Net sales | 12,751 | 12,638 | *1* | 24,774 | 25,019 | *-1* |
| of which Sweden | 4,042 | 3,813 | *6* | 7,881 | 7,460 | *6* |
| of which Finland | 2,220 | 2,418 | *-8* | 4,406 | 4,866 | *-9* |
| of which Norway | 2,074 | 2,184 | *-5* | 4,089 | 4,304 | *-5* |
| of which Denmark | 1,392 | 1,558 | *-11* | 2,784 | 3,241 | *-14* |
| of which Lithuania | 356 | 419 | *-15* | 691 | 816 | *-15* |
| of which Latvia | 417 | 446 | *-7* | 797 | 905 | *-12* |
| of which Estonia | 404 | 425 | *-5* | 757 | 824 | *-8* |
| of which Spain | 1,882 | 1,411 | *33* | 3,443 | 2,672 | *29* |
| EBITDA excl. non-recurring items | 3,993 | 3,797 | *5* | 7,673 | 7,358 | *4* |
| of which Sweden | 1,833 | 1,587 | *16* | 3,520 | 3,063 | *15* |
| of which Finland | 711 | 758 | *-6* | 1,413 | 1,561 | *-9* |
| of which Norway | 736 | 796 | *-8* | 1,419 | 1,558 | *-9* |
| of which Denmark | 218 | 283 | *-23* | 419 | 567 | *-26* |
| of which Lithuania | 100 | 132 | *-24* | 193 | 276 | *-30* |
| of which Latvia | 147 | 187 | *-21* | 295 | 383 | *-23* |
| of which Estonia | 147 | 175 | *-16* | 275 | 338 | *-19* |
| of which Spain | 103 | -121 | | 140 | -388 | |
| Margin (%), total | 31.3 | 30.0 | | 31.0 | 29.4 | |
| Margin (%), Sweden | 45.3 | 41.6 | | 44.7 | 41.1 | |
| Margin (%), Finland | 32.0 | 31.3 | | 32.1 | 32.1 | |
| Margin (%), Norway | 35.5 | 36.4 | | 34.7 | 36.2 | |
| Margin (%), Denmark | 15.7 | 18.2 | | 15.1 | 17.5 | |
| Margin (%), Lithuania | 28.1 | 31.5 | | 27.9 | 33.8 | |
| Margin (%), Latvia | 35.3 | 41.9 | | 37.0 | 42.3 | |
| Margin (%), Estonia | 36.4 | 41.2 | | 36.3 | 41.0 | |
| Margin (%), Spain | 5.5 | neg | | 4.1 | neg | |

| **Net sales in local currencies and excluding acquisitions** | **Apr-Jun** | **Jan-Jun** |
|---|---|---|
| Change (%), total | *5.7* | *5.2* |
| Change (%), Sweden | *6.0* | *5.6* |
| Change (%), Finland | *-1.7* | *-0.7* |
| Change (%), Norway | *0.5* | *1.7* |
| Change (%), Denmark | *-4.3* | *-5.7* |
| Change (%), Lithuania | *-9.0* | *-7.1* |
| Change (%), Latvia | *0.3* | *-3.6* |
| Change (%), Estonia | *2.1* | *0.7* |
| Change (%), Spain | *43.2* | *41.3* |

# Significant investments in fiber in Broadband Services

**Business area Broadband Services** *provides mass-market services for connecting homes and offices. Services include broadband over copper, fiber and cable, TV, voice over internet, home communications services, IP-VPN/Business internet, leased lines and traditional telephony. The business area operates the group common core network, including the data network of the international carrier business. The business area comprises operations in Sweden, Finland, Norway, Denmark, Lithuania, Latvia (49 percent), Estonia and international carrier operations.*

- The number of TV customers reached one million in our Nordic and Baltic markets combined. To meet customers' demand for triple play services, an ambitious plan for fiber and VDSL2 roll-out was announced in June and more than SEK 8 billion will be invested in fiber until 2014, of which SEK 5 billion in Sweden.

- The target is to expand the coverage to 2.3 million connected homes by fiber in the Nordic and Baltic countries by the end of 2014. Almost 1 million of these will be in Sweden. In addition, around 1 million broadband connections, of which 0.8 million in Sweden, over the copper network will be upgraded with VDSL2. This upgrade will enable speeds up to between 30-60 Mbit/s and in a better way support HD-TV, online gaming and on-demand services.

| SEK in millions, except margins, operational data and changes | Apr-Jun 2011 | Apr-Jun 2010 | Chg (%) | Jan-Jun 2011 | Jan-Jun 2010 | Chg (%) |
|---|---|---|---|---|---|---|
| Net sales | 9,155 | 10,100 | -9 | 18,181 | 20,223 | -10 |
| EBITDA excl. non-recurring items | 2,906 | 3,196 | -9 | 6,000 | 6,718 | -11 |
| Margin (%) | 31.7 | 31.6 | | 33.0 | 33.2 | |
| Operating income | 1,280 | 1,956 | -35 | 3,141 | 4,124 | -24 |
| Operating income excl. non-recurring items | 1,675 | 1,971 | -15 | 3,561 | 4,220 | -16 |
| CAPEX | 1,395 | 1,252 | 11 | 2,335 | 2,052 | 14 |
| Subscriptions, period-end (thousands) | | | | | | |
| Broadband | 2,423 | 2,363 | 3 | 2,423 | 2,363 | 3 |
| Fixed voice and VoIP | 4,956 | 5,231 | -5 | 4,956 | 5,231 | -5 |
| TV | 1,105 | 842 | 31 | 1,105 | 842 | 31 |
| Employees, period-end | 13,736 | 13,820 | -1 | 13,736 | 13,820 | -1 |

Additional segment information available at www.teliasonera.com.

- **Net sales** in local currencies and excluding acquisitions decreased 6.7 percent. Net sales in reported currency decreased 9.4 percent to SEK 9,155 million (10,100). The negative effect of exchange rate fluctuations was 2.7 percent.

  In Sweden, net sales fell 4.8 percent to SEK 4,386 million (4,607). Revenues from fixed-voice services fell around 9 percent while the growth within IP based services was approximately 3 percent, a slight improvement compared to the previous quarter. An increased number of TV- and VoIP subscriptions led to a revenue increase of more than 35 percent for these services.

  In Finland, net sales in local currency decreased 3.2 percent to the equivalent of SEK 1,301 million (1,439). Traditional fixed-voice services declined by around 13 percent while IP-based revenues were largely unchanged compared to the second quarter last year. In Norway, net sales in local currency decreased 7.9 percent to the equivalent of SEK 262 million (300) due to a continued high churn in the consumer segment.

  In Denmark, net sales in local currency increased 3.1 percent to the equivalent of SEK 232 million (240) due to a 30 percent growth in IP based services, mainly broadband and TV services.

Net sales in local currency in Estonia increased by 3.0 percent to the equivalent of SEK 460 million (479), due to higher transit traffic and equipment sales. In Lithuania, net sales in local currency fell by 5.6 percent to the equivalent of SEK 481 million (545).

In Wholesale, net sales fell by 16.3 percent to the equivalent of SEK 2,340 million (2,875). Within International Carrier, net sales in local currencies fell 20.1 percent in the second quarter as a result of lower international voice revenues and price erosion in IP-traffic.

- **The number of subscriptions** for broadband access rose to 2.4 million, an increase of 60,000 from the second quarter of 2010 and by 8,000 during the quarter.

  The total number of TV subscriptions rose by 263,000 from the second quarter of 2010 and by 111,000 during the quarter to 1.1 million.

  The number of fixed-voice subscriptions decreased by 450,000 from the end of the second quarter 2010 to 4.5 million, and was down 100,000 during the quarter. The intake of VoIP subscriptions was 38,000 in the quarter, bringing the total number of VoIP subscriptions to 0.5 million.

- **EBITDA**, excluding non-recurring items, decreased 6.8 percent in local currencies and excluding acquisitions. In reported currency, EBITDA, excluding non-recurring items, decreased 9.1 percent to SEK 2,906 million (3,196). The EBITDA margin increased to 31.7 percent (31.6).

  In Sweden, the EBITDA margin increased to 38.5 percent (37.3) as a result of a decline in personnel costs. In Finland, a reduction in the addressable cost base of 8.9 percent could not fully compensate for the decline in net sales and a lower gross margin and the EBITDA margin fell to 24.1 percent (30.8). The same explanations can be applied in Norway where the EBITDA margin decreased to 16.0 percent (17.0). In Denmark, the EBITDA margin decreased to 7.8 percent (11.7).

  In Estonia and Lithuania, the EBITDA margins increased to 31.5 percent (29.9) and 41.8 percent (40.2), respectively. In Wholesale, the EBITDA margin improved to 21.4 percent (20.7), partly due to an improvement within International Carrier where the margin improved from 1.5 percent to 5.5 percent.

- **CAPEX** increased to SEK 1,395 million (1,252) and the CAPEX-to-sales ratio increased to 15.2 percent (12.4). Cash flow, measured as EBITDA, excluding non-recurring items, minus CAPEX, decreased to SEK 1,511 million (1,944).

| SEK in millions, except margins and changes | Apr-Jun 2011 | Apr-Jun 2010 | Chg (%) | Jan-Jun 2011 | Jan-Jun 2010 | Chg (%) |
|---|---|---|---|---|---|---|
| Net sales | 9,155 | 10,100 | -9 | 18,181 | 20,223 | -10 |
| of which Sweden | 4,386 | 4,607 | -5 | 8,668 | 9,146 | -5 |
| of which Finland | 1,301 | 1,439 | -10 | 2,602 | 2,946 | -12 |
| of which Norway | 262 | 300 | -13 | 518 | 612 | -15 |
| of which Denmark | 232 | 240 | -3 | 457 | 509 | -10 |
| of which Lithuania | 481 | 545 | -12 | 958 | 1,099 | -13 |
| of which Estonia | 460 | 479 | -4 | 890 | 942 | -6 |
| of which Wholesale | 2,340 | 2,875 | -19 | 4,721 | 5,690 | -17 |
| EBITDA excl. non-recurring items | 2,906 | 3,196 | -9 | 6,000 | 6,718 | -11 |
| of which Sweden | 1,688 | 1,718 | -2 | 3,424 | 3,591 | -5 |
| of which Finland | 313 | 443 | -29 | 654 | 943 | -31 |
| of which Norway | 42 | 51 | -18 | 81 | 100 | -19 |
| of which Denmark | 18 | 28 | -36 | 27 | 54 | -50 |
| of which Lithuania | 201 | 219 | -8 | 391 | 446 | -12 |
| of which Estonia | 145 | 143 | 1 | 277 | 287 | -3 |
| of which Wholesale | 501 | 594 | -16 | 1,149 | 1,297 | -11 |
| Margin (%), total | 31.7 | 31.6 | | 33.0 | 33.2 | |
| Margin (%), Sweden | 38.5 | 37.3 | | 39.5 | 39.3 | |
| Margin (%), Finland | 24.1 | 30.8 | | 25.1 | 32.0 | |
| Margin (%), Norway | 16.0 | 17.0 | | 15.6 | 16.3 | |
| Margin (%), Denmark | 7.8 | 11.7 | | 5.9 | 10.6 | |
| Margin (%), Lithuania | 41.8 | 40.2 | | 40.8 | 40.6 | |
| Margin (%), Estonia | 31.5 | 29.9 | | 31.1 | 30.5 | |
| Margin (%), Wholesale | 21.4 | 20.7 | | 24.3 | 22.8 | |

| Net sales in local currencies and excluding acquisitions | Apr-Jun | Jan-Jun |
|---|---|---|
| Change (%), total | -6.7 | -6.8 |
| Change (%), Sweden | -4.8 | -5.2 |
| Change (%), Finland | -3.2 | -3.2 |
| Change (%), Norway | -7.9 | -9.4 |
| Change (%), Denmark | 3.1 | -1.5 |
| Change (%), Lithuania | -5.6 | -4.4 |
| Change (%), Estonia | 3.0 | 3.6 |
| Change (%), Wholesale | -16.3 | -14.3 |

# Strong growth and improving profitability in Eurasia

**Business area Eurasia** *comprises mobile operations in Kazakhstan, Azerbaijan, Uzbekistan, Tajikistan, Georgia, Moldova and Nepal. The business area is also responsible for developing TeliaSonera's shareholding in Russian MegaFon (44 percent) and Turkish Turkcell (38 percent). The main strategy is to create shareholder value by increasing mobile penetration and introducing value-added services in each respective country.*

- Organic growth remained healthy in the second quarter, driven by improving macroeconomic conditions, strong subscription intake as well as growing VAS and data revenues. In one year, mobile data as a percentage of total revenues has almost doubled and represents around 6 percent of sales. Azercell in Azerbaijan showed a positive subscription intake for the first time in one year and passed 4 million subscriptions. In Nepal, Ncell became the GSM market leader and revenues more than doubled compared to last year.

- Income from associated companies declined 45 percent as Turkcell's earnings were weaker and burdened by a loss in its Belarusian subsidiary. In Russia, MegaFon confirmed its position as the leader in mobile data and according to AC&M Consulting MegaFon's market share in this segment was 38 percent after the first quarter of 2011.

| **SEK in millions, except margins, operational data and changes** | **Apr-Jun 2011** | **Apr-Jun 2010** | ***Chg (%)*** | **Jan-Jun 2011** | **Jan-Jun 2010** | ***Chg (%)*** |
|---|---|---|---|---|---|---|
| Net sales | 4,145 | 4,191 | *-1* | 8,008 | 7,727 | *4* |
| EBITDA excl. non-recurring items | 2,149 | 2,062 | *4* | 4,117 | 3,797 | *8* |
| Margin (%) | 51.8 | 49.2 | | 51.4 | 49.1 | |
| Income from associated companies | | | | | | |
| Russia | 1,063 | 1,305 | *-19* | 2,157 | 2,457 | *-12* |
| Turkey | 8 | 637 | *-99* | 517 | 1,066 | *-52* |
| Operating income | 2,549 | 3,275 | *-22* | 5,447 | 6,016 | *-10* |
| Operating income excl. non-recurring items | 2,556 | 3,275 | *-22* | 5,393 | 6,016 | *-10* |
| CAPEX | 867 | 1,430 | *-39* | 1,717 | 1,943 | *-12* |
| Subscriptions, period-end (thousands) | | | | | | |
| Subsidiaries | 31,587 | 24,365 | *30* | 31,587 | 24,365 | *30* |
| Associated companies | 99,322 | 100,300 | *-1* | 99,322 | 100,300 | *-1* |
| Employees, period-end | 4,963 | 4,770 | *4* | 4,963 | 4,770 | *4* |

Additional segment information available at www.teliasonera.com.

## Consolidated operations

- **Net sales** in local currencies and excluding acquisitions increased 18.4 percent. Net sales in reported currency decreased 1.1 percent to SEK 4,145 million (4,191). The negative effect from exchange rate fluctuations was 19.5 percent.

  In Kazakhstan, net sales in local currency increased 16.7 percent to the equivalent of SEK 1,880 million (1,921), driven by an improving macroeconomic situation, strong subscription intake and strong growth in mobile data. The lower growth compared to previous quarters is explained by the price cap on retail tariffs of KZT 18 per minute which the Ministry of Communication and Information imposed in May 2011. Kcell has taken the lead in providing 3G services in terms of quality and coverage. As a result, data revenues increased more than 150 percent in the second quarter compared with the same quarter a year ago.

In Azerbaijan, net sales in local currency increased 2.6 percent to the equivalent of SEK 841 million (969). After several quarters with negative subscription growth, Azercell added 0.1 million subscriptions in the second quarter. The conversion from unit-based to local currency-based minute pricing as well as a reduction of both on-net and off-net tariffs had a significant positive impact on minutes of use.

In Uzbekistan, net sales in local currency increased 36.5 percent to the equivalent of SEK 414 million (394) due to strong subscription intake and growth in value added services. Ucell adopted the common brand identity in mid-June and new tariff plans were introduced as part of the rebranding campaign.

In Tajikistan, net sales in local currency grew by 14.6 percent to the equivalent of SEK 191 million (208). In January 2011, the Parliament in Tajikistan approved VAT on incoming international calls and imposed an excise tax of 3 percent on mobile revenues.

In Georgia, net sales in local currency decreased by 20.0 percent to the equivalent of SEK 223 million (313). The abate is explained by the 46 percent reduction in interconnect fees from August 1, 2010, the excise tax of 10 percent of revenues from September 1, 2010 as well as an introduction of maximum retail tariffs in April 2011.

In Nepal, net sales in local currency more than doubled with a growth of 108.6 percent to the equivalent of SEK 472 million (267) as a result of a continued strong subscription intake. Ncell is now the GSM market leader in Nepal and launched regional campaigns to further improve its position in rural areas.

- **The number of subscriptions** in the consolidated operations was 31.6 million, an increase by 7.2 million, from the end of the second quarter of 2010. Growth was strongest in Nepal and Uzbekistan with a rise of 2.7 million and 2.1 million to 5.4 million and 7.5 million, respectively. During the second quarter the total number of subscriptions in the consolidated operations increased by 1.3 million. Nepal, Kazakhstan and Uzbekistan showed the largest rises with an increase of 0.6 million, 0.4 million and 0.1 million subscriptions, respectively.

- **EBITDA**, excluding non-recurring items, increased 24.5 percent in local currencies and excluding acquisitions. In reported currency, EBITDA, excluding non-recurring items, increased 4.2 percent to SEK 2,149 million (2,062). The EBITDA margin increased to 51.8 percent (49.2).

  Despite the strong growth in subscriptions, the EBITDA margin in Uzbekistan improved to 40 percent while Nepal kept its EBITDA margin above 50 percent. Kazakhstan increased its EBITDA margin, partly due to a higher gross margin, as a result of the new long-term agreement on transmission services. In Georgia, the EBITDA margin was impacted negatively by recent regulatory changes.

- **CAPEX** decreased to SEK 867 million (1,430) and the CAPEX-to-sales ratio decreased to 20.9 percent (34.1). Cash flow, measured as EBITDA, excluding non-recurring items, minus CAPEX, increased to SEK 1,282 million (632).

| SEK in millions, except changes | Apr-Jun 2011 | Apr-Jun 2010 | *Chg (%)* | Jan-Jun 2011 | Jan-Jun 2010 | *Chg (%)* |
|---|---|---|---|---|---|---|
| Net sales | 4,145 | 4,191 | *-1* | 8,008 | 7,727 | *4* |
| of which Kazakhstan | 1,880 | 1,921 | *-2* | 3,657 | 3,451 | *6* |
| of which Azerbaijan | 841 | 969 | *-13* | 1,639 | 1,856 | *-12* |
| of which Uzbekistan | 414 | 394 | *5* | 812 | 728 | *12* |
| of which Tajikistan | 191 | 208 | *-8* | 368 | 384 | *-4* |
| of which Georgia | 223 | 313 | *-29* | 435 | 603 | *-28* |
| of which Moldova | 127 | 123 | *3* | 234 | 225 | *4* |
| of which Nepal | 472 | 267 | *77* | 870 | 486 | *79* |

| Net sales in local currencies and excluding acquisitions | Apr-Jun | Jan-Jun |
|---|---|---|
| Change (%), total | *18.4* | *19.9* |
| Change (%), Kazakhstan | *16.7* | *21.7* |
| Change (%), Azerbaijan | *2.6* | *1.0* |
| Change (%), Uzbekistan | *36.5* | *39.6* |
| Change (%), Tajikistan | *14.6* | *13.4* |
| Change (%), Georgia | *-20.0* | *-19.1* |
| Change (%), Moldova | *13.9* | *12.5* |
| Change (%), Nepal | *108.6* | *104.1* |

## Associated companies – Russia

- MegaFon (associated company, in which TeliaSonera holds 43.8 percent) in Russia reported a subscription base of 57.3 million, an increase of 3.2 million compared to the corresponding period last year and 0.2 million higher than the previous quarter.

- TeliaSonera's income from Russia decreased to SEK 1,063 million (1,305). The result was negatively impacted by a one-off item of SEK 72 million, partly related to inventory write-down. The Russian ruble depreciated 10.6 percent against the Swedish krona, which had a negative impact of SEK 125 million.

## Associated companies – Turkey

- Turkcell (associated company, in which TeliaSonera holds 38.0 percent, reported with a one-quarter lag) in Turkey reported a subscription base of 33.2 million, a decrease of 1.1 million compared to the corresponding period last year and 0.3 million lower than the previous quarter. In Ukraine, the number of subscriptions decreased by 3.1 million to 8.8 million compared to the corresponding period last year and decreased by 0.3 million during the quarter.

- TeliaSonera's income from Turkey decreased to SEK 8 million (637). More than half of the decline is explained by a loss in Turkcell's Belarusian subsidiary as a result of the devaluation of the country's currency. Further, a weaker operational performance in Turkcell had a significant negative impact. The Turkish lira depreciated 6.3 percent against the Swedish krona, which had a negative impact of SEK 119 million.

## Other operations

**Other operations** *comprise Other Business Services, TeliaSonera Holding and Corporate functions. Other Business Services is responsible for sales of managed-services solutions to business customers in the Nordic countries.*

| SEK in millions, except changes | Apr-Jun 2011 | Apr-Jun 2010 | Chg (%) | Jan-Jun 2011 | Jan-Jun 2010 | Chg (%) |
|---|---|---|---|---|---|---|
| Net sales | 1,001 | 1,370 | -27 | 1,922 | 2,720 | -29 |
| EBITDA excl. non-recurring items | 62 | 110 | -44 | 130 | 240 | -46 |
| Income from associated companies | -57 | -8 | | -64 | -10 | |
| Operating income | -243 | -97 | 151 | -352 | -279 | 26 |
| Operating income excl. non-recurring items | -148 | -97 | 53 | -240 | -132 | 82 |
| CAPEX | 147 | 161 | -9 | 279 | 280 | -0 |

Additional segment information available at www.teliasonera.com.

- **Net sales** in local currencies and excluding acquisitions increased 2.2 percent. In reported currency, net sales decreased 26.9 percent to SEK 1,001 million (1,370). In the second quarter of 2010, net sales also included Telia Stofa in Denmark, which was divested in July 2010.

- **EBITDA**, excluding non-recurring items, decreased 43.6 percent in reported currency to SEK 62 million (110).

The Board of Directors and the President and CEO certify that the Interim Report gives a true and fair overview of the Parent Company's and Group's operations, their financial position and results of operations, and describes significant risks and uncertainties facing the Parent Company and other companies in the Group.

Stockholm, July 20, 2011

Anders Narvinger
Chairman

Timo Peltola
Vice-Chairman

Agneta Ahlström

Magnus Brattström

Stefan Carlsson

Maija-Liisa Friman

Ingrid Jonasson Blank

Conny Karlsson

Lars Renström

Jon Risfelt

Per-Arne Sandström

Lars Nyberg
President and CEO

This report has not been subject to review by TeliaSonera's auditors.

TeliaSonera AB discloses the information provided herein pursuant to the Swedish Securities Markets Act and/or the Swedish Financial Instruments Trading Act. The information was submitted for publication at 07:15 CET on July 20, 2011.

*Financial Information*

| | |
|---|---|
| Interim Report January–September 2011 | October 19, 2011 |
| Year-end Report January–December 2011 | February 2, 2012 |
| Interim Report January–March 2012 | April 19, 2012 |
| Interim Report January–June 2012 | July 18, 2012 |
| Interim Report January–September 2012 | October 17, 2012 |
| Year-end Report January–December 2012 | January 31, 2013 |

*Questions regarding the reports:*

TeliaSonera AB
Investor Relations
SE–106 63 Stockholm, Sweden
Tel. +46 8 504 550 00
Fax +46 8 611 46 42
www.teliasonera.com

*Definitions*

Addressable cost base: Comprises personnel costs, marketing costs and all other operating expenses other than purchases of goods and sub-contractor services, and interconnect, roaming and other network-related costs.

EBITDA: Earnings Before Interest, Tax, Depreciation and Amortization. Equals operating income before depreciation, amortization and impairment losses and before income from associated companies.

## Condensed Consolidated Statements of Comprehensive Income

| SEK in millions, except per share data, number of shares and changes | Apr-Jun 2011 | Apr-Jun 2010[1)] | Chg (%) | Jan-Jun 2011 | Jan-Jun 2010[1)] | Chg (%) |
|---|---|---|---|---|---|---|
| Net sales | 25,894 | 27,065 | -4 | 50,619 | 53,255 | -5 |
| Cost of sales | -14,260 | -15,206 | -6 | -27,306 | -29,893 | -9 |
| **Gross profit** | **11,634** | **11,859** | **-2** | **23,313** | **23,362** | **-0** |
| Selling, admin. and R&D expenses | -5,942 | -5,931 | 0 | -12,249 | -11,769 | 4 |
| Other operating income and expenses, net | -285 | -18 | | -23 | -80 | -71 |
| Income from associated companies and joint ventures | 1,030 | 1,994 | -48 | 2,658 | 3,595 | -26 |
| **Operating income** | **6,437** | **7,904** | **-19** | **13,699** | **15,108** | **-9** |
| Finance costs and other financial items, net | -575 | -563 | 2 | -1,168 | -1,042 | 12 |
| **Income after financial items** | **5,862** | **7,341** | **-20** | **12,531** | **14,066** | **-11** |
| Income taxes | -1,322 | -1,455 | -9 | -2,751 | -2,944 | -7 |
| **Net income** | **4,540** | **5,886** | **-23** | **9,780** | **11,122** | **-12** |
| Foreign currency translation differences | 1,435 | -307 | | -2,387 | -5,663 | -58 |
| Income from associated companies | 15 | 36 | -58 | -20 | 15 | |
| Cash flow hedges | -40 | -21 | 90 | 21 | -74 | |
| Available-for-sale financial instruments | 1 | – | | 1 | – | |
| Income taxes relating to other comprehensive income | 224 | -151 | | 214 | -529 | |
| **Other comprehensive income** | **1,635** | **-443** | | **-2,171** | **-6,251** | **-65** |
| **Total comprehensive income** | **6,175** | **5,443** | **13** | **7,609** | **4,871** | **56** |
| | | | | | | |
| Net income attributable to: | | | | | | |
| Owners of the parent | 3,860 | 5,238 | -26 | 8,506 | 9,960 | -15 |
| Non-controlling interests | 680 | 648 | 5 | 1,274 | 1,162 | 10 |
| Total comprehensive income attributable to: | | | | | | |
| Owners of the parent | 5,397 | 4,576 | 18 | 6,551 | 3,471 | 89 |
| Non-controlling interests | 778 | 867 | -10 | 1,058 | 1,400 | -24 |
| | | | | | | |
| Earnings per share (SEK), basic and diluted | 0.89 | 1.17 | -24 | 1.93 | 2.22 | -13 |
| Number of shares (thousands) | | | | | | |
| Outstanding at period-end | 4,330,085 | 4,490,457 | | 4,330,085 | 4,490,457 | |
| Weighted average, basic and diluted | 4,330,085 | 4,490,457 | | 4,404,512 | 4,490,457 | |
| Number of treasury shares (thousands) | | | | | | |
| Outstanding at period-end | 160,372 | – | | 160,372 | – | |
| Weighted average | 160,372 | – | | 85,945 | – | |
| | | | | | | |
| EBITDA | 8,577 | 9,182 | -7 | 17,418 | 17,888 | -3 |
| EBITDA excl. non-recurring items | 9,109 | 9,194 | -1 | 17,921 | 18,139 | -1 |
| Depreciation, amortization and impairment losses | -3,170 | -3,272 | -3 | -6,377 | -6,375 | 0 |
| Operating income excl. non-recurring items | 6,974 | 7,923 | -12 | 14,221 | 15,367 | -7 |

1) Certain restatements have been made, see page 19.

## Condensed Consolidated Statements of Financial Position

| SEK in millions | Jun 30, 2011 | Dec 31, 2010 |
|---|---|---|
| **Assets** | | |
| Goodwill and other intangible assets | 92,201 | 90,531 |
| Property, plant and equipment | 57,568 | 58,353 |
| Investments in associates and joint ventures, deferred tax assets and other non-current assets | 62,254 | 62,458 |
| *Total non-current assets* | *212,023* | *211,342* |
| Inventories | 1,434 | 1,395 |
| Trade receivables, current tax assets and other receivables | 20,586 | 19,993 |
| Interest-bearing receivables | 1,299 | 2,477 |
| Cash and cash equivalents | 5,669 | 15,344 |
| *Total current assets* | *28,988* | *39,209* |
| *Non-current assets held-for-sale* | *0* | – |
| **Total assets** | **241,011** | **250,551** |
| | | |
| **Equity and liabilities** | | |
| Equity attributable to owners of the parent | 110,134 | 125,907 |
| Equity attributable to non-controlling interests | 6,876 | 6,758 |
| *Total equity* | *117,010* | *132,665* |
| Long-term borrowings | 65,971 | 60,563 |
| Deferred tax liabilities, other long-term provisions | 22,973 | 23,230 |
| Other long-term liabilities | 1,496 | 1,593 |
| *Total non-current liabilities* | *90,440* | *85,386* |
| Short-term borrowings | 9,331 | 4,873 |
| Trade payables, current tax liabilities, short-term provisions and other current liabilities | 24,230 | 27,627 |
| *Total current liabilities* | *33,561* | *32,500* |
| **Total equity and liabilities** | **241,011** | **250,551** |

## Condensed Consolidated Statements of Cash Flows

| SEK in millions | Apr-Jun 2011 | Apr-Jun 2010 | Jan-Jun 2011 | Jan-Jun 2010 |
|---|---|---|---|---|
| Cash flow before change in working capital | 7,420 | 8,018 | 13,116 | 14,281 |
| Change in working capital | -1,226 | -1,025 | -1,820 | -1,829 |
| **Cash flow from operating activities** | **6,194** | **6,993** | **11,296** | **12,452** |
| Cash CAPEX | -4,781 | -3,063 | -7,296 | -5,150 |
| ***Free cash flow*** | ***1,413*** | ***3,930*** | ***4,000*** | ***7,302*** |
| Cash flow from other investing activities | 3 | 12 | 519 | -2,390 |
| **Total cash flow from investing activities** | **-4,778** | **-3,051** | **-6,777** | **-7,540** |
| ***Cash flow before financing activities*** | ***1,416*** | ***3,942*** | ***4,519*** | ***4,912*** |
| **Cash flow from financing activities** | **-21,287** | **-9,541** | **-14,022** | **-15,950** |
| **Cash flow for the period** | **-19,871** | **-5,599** | **-9,503** | **-11,038** |
| | | | | |
| **Cash and cash equivalents, opening balance** | **25,660** | **16,928** | **15,344** | **22,488** |
| Cash flow for the period | -19,871 | -5,599 | -9,503 | -11,038 |
| Exchange rate differences | -120 | 44 | -172 | -77 |
| **Cash and cash equivalents, closing balance** | **5,669** | **11,373** | **5,669** | **11,373** |

## Condensed Consolidated Statements of Changes in Equity

| | Jan-Jun 2011 | | | Jan-Jun 2010 | | |
|---|---|---|---|---|---|---|
| SEK in millions | Owners of the parent | Non-controlling interests | Total equity | Owners of the parent | Non-controlling interests | Total equity |
| Opening balance | 125,907 | 6,758 | **132,665** | 135,372 | 7,127 | **142,499** |
| Dividends | -12,349 | -948 | **-13,297** | -10,104 | -1,055 | **-11,159** |
| Repurchased treasury shares | -9,981 | – | **-9,981** | – | – | **–** |
| Other transactions with owners | 2 | 8 | **10** | -189 | -70 | **-259** |
| Total comprehensive income | 6,551 | 1,058 | **7,609** | 3,471 | 1,400 | **4,871** |
| Share-based payments | 4 | – | **4** | – | – | **–** |
| **Closing balance** | **110,134** | **6,876** | **117,010** | **128,550** | **7,402** | **135,952** |

## Basis of Preparation

*General.* As in the annual accounts for 2010, TeliaSonera's consolidated financial statements as of and for the six-month period ended June 30, 2011, have been prepared in accordance with International Financial Reporting Standards (IFRSs) and, given the nature of TeliaSonera's transactions, with IFRSs as adopted by the European Union. The parent company TeliaSonera AB's financial statements have been prepared in accordance with the Swedish Annual Accounts Act as well as standard RFR 2 *Accounting for Legal Entities* and other statements issued by the Swedish Financial Reporting Board. This report has been prepared in accordance with IAS 34 *Interim Financial Reporting*.

*Correction of prior period classification errors*. For information, see corresponding section in TeliaSonera's Interim Report January-March 2011.

*New accounting standards (not yet adopted by the EU).* On May 12, 2011, the following five new or amended standards were issued:

- IFRS 10 *Consolidated Financial Statements*, which replaces the consolidation guidance in IAS 27 *Consolidated and Separate Financial Statements* and SIC-12 *Consolidation – Special Purpose Entities* by introducing a single consolidation model for all entities based on control, irrespective of whether an entity is controlled through voting rights of investors or through other contractual arrangements. Under IFRS 10, control is based on whether an investor has 1) power over the investee; 2) exposure, or rights, to variable returns from its involvement with the investee; and 3) the ability to use its power over the investee to affect the amount of the returns.
- IFRS 11 *Joint Arrangements*, which replaces IAS 31 *Interests in Joint Ventures* by introducing new accounting requirements for joint arrangements. The option to apply the proportional consolidation method when accounting for jointly controlled entities is removed. Additionally, IFRS 11 eliminates jointly controlled assets to only differentiate between joint operations and joint ventures. A joint operation is a joint arrangement whereby the parties have rights to the assets and obligations for the liabilities. The parties account for their respective interests of assets, liabilities, revenues and expenses. A joint venture on the other hand is a joint arrangement whereby the parties have rights to the net assets and the investment is accounted for using the equity method.
- IFRS 12 *Disclosure of Interests in Other Entities*, which requires enhanced disclosures about both consolidated entities and unconsolidated entities in which an entity has involvement. The objective is that financial statement users should be able to evaluate the basis of control, any restrictions on consolidated assets and liabilities, risk exposures arising from involvements with unconsolidated structured entities and non-controlling interest holders' involvement in the activities of consolidated entities.

- Amended and renamed IAS 27 *Separate Financial Statements* (2011). The requirements relating to separate financial statements are unchanged, while the other portions of IAS 27 are replaced by IFRS 10.
- Amended IAS 28 *Investments in Associates and Joint Ventures* (2011) for conforming changes based on the issuance of IFRS 10, IFRS 11 and IFRS 12.

Each standard is effective for annual periods beginning on or after January 1, 2013, with earlier application permitted so long as each of the other four standards are also early applied and if IFRS 9 is not early applied any reference to IFRS 9 should be read as IAS 39. However, entities are permitted to incorporate any of the disclosure requirements in IFRS 12 into their financial statements without technically early applying the provisions of IFRS 12 (and thereby each of the other four standards). TeliaSonera is currently analyzing the effects of applying the new standards. Tentatively, the current classification of subsidiaries and associated companies will not change. Classification of existing joint arrangements as either joint operations or joint ventures requires a deep analysis of each arrangement and the additional disclosure requirements will most likely affect TeliaSonera's reporting with respect to significant associated companies.

Also on May 12, 2011, IFRS 13 *Fair Value Measurement* (effective for annual periods beginning on or after January 1, 2013; earlier application permitted) was issued, replacing the guidance on fair value measurement in existing IFRSs. IFRS 13 defines fair value, provides guidance on how to determine fair value and requires disclosures about fair value measurements but does not change the requirements regarding which items should be measured or disclosed at fair value. TeliaSonera is presently analyzing the effects of applying IFRS 13. Tentatively, current measurement principles will not change. However, calculation methods will be reviewed and adjusted if needed.

On June 16, 2011, amendments on the presentation of items of other comprehensive income (OCI) to IAS 1 *Presentation of Financial Statements* (effective for annual periods beginning on after July 1, 2012; early adoption permitted) were issued, requiring such items to be grouped based on whether they might subsequently be reclassified to profit or loss or not and if tax is disclosed separately in OCI, it must be split between items that might be reclassified to profit and loss and those that will not. The amendments to IAS 1 will only have limited editorial effects on TeliaSonera's current presentation of items of OCI.

Also on June 16, 2011, amendments to IAS 19 *Employee Benefits* (effective for annual periods beginning on or after January 1, 2013; earlier application permitted; modified retrospective application) were issued. The amendments 1) require immediate recognition of actuarial gains and losses (renamed "remeasurements") in other comprehensive income; 2) change the recognition of past service costs/curtailments and the measurement of benefit expense; 3) change the presentation in the statement of comprehensive income and introduce enhanced disclosure requirements; and 4) clarify miscellaneous issues, including the classification of employee benefits, estimates of mortality rates, tax and administration costs, etc. TeliaSonera is currently analyzing the effects of applying the amended IAS 19 in depth, as it, among a number of other changes, eliminates the "corridor approach" (i.e. deferring actuarial gains and losses) presently used by TeliaSonera.

For additional information, see corresponding section in TeliaSonera's Annual Report 2010.

## Non-recurring Items

| SEK in millions | Apr-Jun 2011 | Apr-Jun 2010 | Jan-Jun 2011 | Jan-Jun 2010 |
|---|---|---|---|---|
| **Within EBITDA** | **-532** | **-12** | **-503** | **-251** |
| Restructuring charges, synergy implementation costs, etc.: | | | | |
| Mobility Services | -61 | -4 | -64 | -16 |
| Broadband Services | -457 | -12 | -468 | -92 |
| Eurasia | -6 | – | -10 | – |
| Other operations | -94 | 4 | -112 | -143 |
| *of which TeliaSonera Holding* | *8* | *2* | *8* | *-2* |
| Capital gains/losses: | | | | |
| Other entities | 86 | – | 151 | – |
| **Within Depreciation, amortization and impairment losses** | **-5** | **-3** | **-19** | **-4** |
| Impairment losses, accelerated depreciation: | | | | |
| Broadband Services | -5 | -3 | -19 | -4 |
| **Within Income from associated companies and joint ventures** | **–** | **-4** | **–** | **-4** |
| Capital gains: | | | | |
| SmartTrust | – | -4 | – | -4 |
| **Within Finance costs and other financial items, net** | **–** | **–** | **–** | **–** |
| **Total** | **-537** | **-19** | **-522** | **-259** |

## Deferred Taxes

| SEK in millions | Jun 30, 2011 | Dec 31, 2010 |
|---|---|---|
| Deferred tax assets | 8,714 | 9,048 |
| Deferred tax liabilities | -12,774 | -12,526 |
| **Net deferred tax liabilities (-)/assets (+)** | **-4,060** | **-3,478** |

## Segment and Group Operating Income

| SEK in millions | Apr-Jun 2011 | Apr-Jun 2010 | Jan-Jun 2011 | Jan-Jun 2010 |
|---|---|---|---|---|
| Mobility Services | 2,854 | 2,739 | 5,463 | 5,219 |
| Broadband Services | 1,280 | 1,956 | 3,141 | 4,124 |
| Eurasia | 2,549 | 3,275 | 5,447 | 6,016 |
| Other operations | -242 | -97 | -352 | -279 |
| **Total segments** | **6,441** | **7,873** | **13,699** | **15,080** |
| Elimination of inter-segment profits | -4 | 31 | 0 | 28 |
| **Group** | **6,437** | **7,904** | **13,699** | **15,108** |

## Related Party Transactions

*Svenska UMTS-nät.* As of June 30, 2011, TeliaSonera had interest-bearing claims of SEK 200 million on its 50 percent-owned joint venture, Svenska UMTS-nät AB. In the three-month and the six-month period ended June 30, 2011, TeliaSonera purchased services from Svenska UMTS-nät worth SEK 152 million and SEK 303 million, respectively, and sold services worth SEK 99 million and SEK 162 million, respectively.

## Investments

| SEK in millions | Apr-Jun 2011 | Apr-Jun 2010 | Jan-Jun 2011 | Jan-Jun 2010 |
|---|---|---|---|---|
| **CAPEX** | **3,848** | **4,086** | **7,558** | **6,133** |
| Intangible assets | 895 | 1,011 | 2,315 | 1,300 |
| Property, plant and equipment | 2,953 | 3,075 | 5,243 | 4,833 |
| **Acquisitions and other investments** | **481** | **159** | **585** | **922** |
| Asset retirement obligations | 147 | – | 251 | 13 |
| Goodwill and fair value adjustments | 111 | – | 111 | – |
| Equity holdings | 223 | 159 | 223 | 909 |
| **Total** | **4,329** | **4,245** | **8,143** | **7,055** |

## Net Debt

| SEK in millions | Jun 30, 2011 | Dec 31, 2010 |
|---|---|---|
| Long-term and short-term borrowings | 75,302 | 65,436 |
| Less derivatives recognized as financial assets and hedging long-term and short-term borrowings | -1,090 | -1,731 |
| Less short-term investments, cash and bank | -5,803 | -16,396 |
| **Net debt** | **68,409** | **47,309** |

## Loan Financing

In April 2011, the ordinary dividend as well as the consideration for the share repurchase was paid to the shareholders, in total an amount of SEK 22,292 million. The underlying operating cash-flow continued to be positive also in the second quarter of 2011.

The period has had continued focus on the sovereign debt problems in southern Europe, particularly in Greece, and the activity level overall has been relatively low. The corporate credit markets continued to be open but the pricing was affected by the uncertainty and lower risk appetite amongst investors. During the quarter, TeliaSonera has not issued any major transaction but will continue to have an opportunistic approach during the second half of the year to take advantage of attractive funding opportunities when they appear.

For the remainder of 2011, the economic outlook continues to be mixed, with weaker macro fundamentals combined with worrying elements as an escalation of the sovereign debt problems. However, the corporate credit market is expected to be resilient in an environment without specific bad news and pending the underlying interest rate development. The Swedish krona ended the second quarter at a somewhat weaker levels compared to the end of March, and the case for a stronger SEK is more questioned even if the Swedish Riksbank continues its interest rate hikes as communicated.

## Financial Key Ratios

| | Jun 30, 2011 | Dec 31, 2010 |
|---|---|---|
| Return on equity (%, rolling 12 months) | 17.5 | 17.8 |
| Return on capital employed (%, rolling 12 months) | 16.6 | 16.9 |
| Equity/assets ratio (%) | 46.1 | 48.0 |
| Net debt/equity ratio (%) | 61.6 | 39.3 |
| Net debt/EBITDA rate (multiple, rolling 12 months) | 1.87 | 1.28 |
| Owners' equity per share (SEK) | 25.43 | 28.04 |

## Business Combinations

For a minor business combination in the second quarter of 2011, the cost of combination totaled SEK 82 million and the net cash outflow SEK 50 million. Goodwill was SEK 32 million, allocated to business area Broadband Services. Goodwill is explained by strengthened market positions. The total cost of combination and fair values were determined provisionally, as they are based on preliminary appraisals and subject to confirmation of certain facts. Thus, the purchase price accounting is subject to adjustment.

## Guarantees and Collateral Pledged

As of June 30, 2011, the maximum potential future payments that TeliaSonera could be required to make under issued financial guarantees totaled SEK 1,544 million, of which SEK 1,275 million referred to credit guarantees on behalf of Svenska UMTS-nät AB. Collateral pledged totaled SEK 1,064 million, mainly referring to pledged shares in and claims on Svenska UMTS-nät.

## Contractual Obligations

As of June 30, 2011, contractual obligations totaled SEK 1,148 million, of which SEK 1,041 million referred to contracted build-out of TeliaSonera's mobile and fixed networks in Sweden.

## Parent Company

| Condensed Income Statements (SEK in millions) | Apr-Jun 2011 | Apr-Jun 2010 | Jan-Jun 2011 | Jan-Jun 2010 |
|---|---|---|---|---|
| Net sales | 6 | 3,701 | 16 | 7,178 |
| Operating income | 105 | 519 | -1,283 | 905 |
| Income after financial items | 5,748 | 9,708 | 6,744 | 15,886 |
| Income before taxes | 5,665 | 8,470 | 7,640 | 13,154 |
| Net income | 5,594 | 7,413 | 7,123 | 10,854 |

As of January 1, 2011, the parent company operations within fixed network services and broadband application services were transferred to a subsidiary, strongly impacting net sales and operating income. Out of the total net sales in the six-month period, SEK 16 million (5,027) was billed to subsidiaries. Income after financial items declined, mainly as a result of lower group contributions from subsidiaries and negative effects from foreign exchange derivatives.

| Condensed Balance Sheets (SEK in millions) | Jun 30, 2011 | Dec 31, 2010 |
|---|---|---|
| Non-current assets | 177,407 | 174,292 |
| Current assets | 30,073 | 65,044 |
| **Total assets** | **207,480** | **239,336** |
| Shareholders' equity | 79,386 | 94,573 |
| Untaxed reserves | 12,313 | 13,209 |
| Provisions | 601 | 620 |
| Liabilities | 115,180 | 130,934 |
| **Total equity and liabilities** | **207,480** | **239,336** |

Total investments in the six-month period were SEK 4,020 million (6,682), of which SEK 4,013 million referred to shareholder contributions to subsidiaries. In the first half of 2010, investments amounting to SEK 6,179 million referred to acquisition of shares in subsidiaries.

## Risks and Uncertainties

TeliaSonera operates in a broad range of geographic product and service markets in the highly competitive and regulated telecommunications industry. As a result, TeliaSonera is subject to a variety of risks and uncertainties. Management has defined risk as anything that could have a material adverse effect on the achievement of TeliaSonera's goals. Risks can be threats, uncertainties or lost opportunities relating to TeliaSonera's current or future operations or activities. Additionally, these risks may affect TeliaSonera's share price from time to time.

TeliaSonera has an established risk management framework in place to regularly identify, analyze and assess, and report business and financial risks and uncertainties, and to mitigate such risks when appropriate. Risk management is an integrated part of TeliaSonera's business planning process and monitoring of business performance.

See Notes C27 and C35 to the consolidated financial statements in TeliaSonera's Annual Report 2010 for a detailed description of some of the factors that may affect TeliaSonera's business, financial position and results of operations. TeliaSonera believes that the risk environment has not materially changed from the one described in the Annual Report 2010.

Risks and uncertainties that could specifically impact the quarterly results of operations during the remainder of 2011 include, but may not be limited to:

- *World economy changes*. Changes in the global financial markets and the world economy are difficult to predict. TeliaSonera has a strong balance sheet and operates in a relatively non-cyclical or late-cyclical industry. However, a severe or long-term recession in the countries in which TeliaSonera operates would have an impact on its customers and may have a negative impact on its growth and results of operations through reduced telecom spending. The maturity schedule of TeliaSonera's loan portfolio is aimed to be evenly distributed over several years, and refinancing is expected to be made by using uncommitted open-market debt financing programs and bank loans, alongside the company's free cash flow. In addition, TeliaSonera has committed lines of credit with banks that are deemed to be sufficient and may be utilized if the open-market refinancing conditions are poor. However, TeliaSonera's cost of funding might be higher, should there be changes in the global financial markets or the world economy.

- *Investments in future growth*. TeliaSonera is currently investing in future growth through, for example, sales and marketing expenditures to retain and acquire customers in most markets, build-up of its customer base in start-up operations and investments in infrastructure in all markets to improve capacity and access. While TeliaSonera believes that these investments will improve market position and financial results in the long term, they may not have the targeted positive effects yet in the short term and related expenditures may impact the results of operations both in the long and short term.

- *Non-recurring items*. In accordance with their nature, non-recurring items such as capital gains and losses, restructuring costs, write-downs, etc., may impact the quarterly results in the short term with amounts or timing that deviate from those currently expected. Depending on external factors or internal developments, TeliaSonera might also experience non-recurring items that are not currently anticipated.

- *Associated companies*. A significant portion of TeliaSonera's results derives from MegaFon and Turkcell, which TeliaSonera does not control and which operate in growth markets but also in more volatile political, economic and legal environments. Variations in the financial performance of these associated companies have an impact on TeliaSonera's results of operations also in the short term.

- *Acquisitions*. TeliaSonera has made a number of targeted acquisitions in accordance with its strategy. The efficient integration of these acquisitions and the realization of related cost and revenue synergies, as well as the positive development of the acquired operations, are significant for the results of operations both in the long and short term.

- *Regulation*. TeliaSonera operates in a highly regulated industry. The regulations to which TeliaSonera is subject impose significant limits on its flexibility to manage its business. Changes in legislation, regulation or government policy affecting TeliaSonera's business activities, as well as decisions by regulatory authorities or courts, including granting, amending or revoking of licenses to TeliaSonera or other parties, could adversely affect TeliaSonera's business and results.

## Forward-Looking Statements

This report contains statements concerning, among other things, TeliaSonera's financial condition and results of operations that are forward-looking in nature. Such statements are not historical facts but, rather, represent TeliaSonera's future expectations. TeliaSonera believes that the expectations reflected in these forward-looking statements are based on reasonable assumptions; however, forward-looking statements involve inherent risks and uncertainties, and a number of important factors could cause actual results or outcomes to differ materially from those expressed in any forward-looking statement. Such important factors include, but may not be limited to: TeliaSonera's market position; growth in the telecommunications industry; and the effects of competition and other economic, business, competitive and/or regulatory factors affecting the business of TeliaSonera, its associated companies and joint ventures, and the telecommunications industry in general. Forward-looking statements speak only as of the date they were made, and, other than as required by applicable law, TeliaSonera undertakes no obligation to update any of them in light of new information or future events.