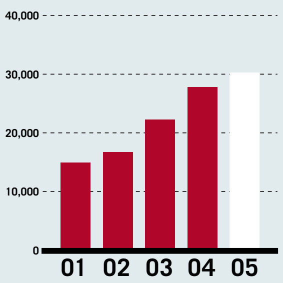
ANNUAL REPORT 2005

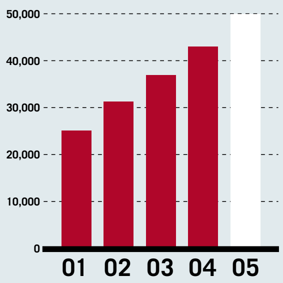
Tele2 is Europe's leading alternative telecom operator. In 2005 Tele2 grew more than ever. Tele2 simultaneously focused on mobile telephony and broadband. The number of mobile customers increased by 40% and the number of broadband customers by 109%. The tracks are laid for continued growth. Jump aboard!

NUMBER OF CUSTOMERS
Thousands



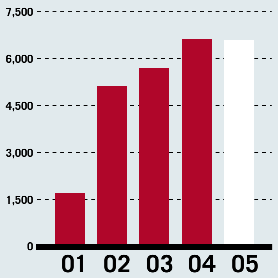
- Tele2 added 3.4 (5.0) million new customers during 2005.
- The number of mobile customers rose by 40%, with Russia in particular showing strong customer growth.
- The number of broadband customers rose by over 600,000.

OPERATING REVENUE
SEK million



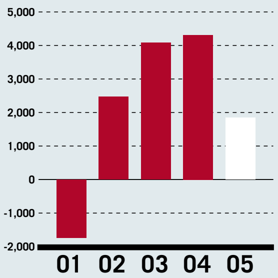
- Operating revenue increased by 16% to SEK 49.9 (43.0) billion.
- Strongest growth, both as a percentage and in absolute figures, was reported in Central Europe, where operating revenue rose by 66%.
- The Baltic & Russia and Nordic market areas also experienced strong growth, particularly in mobile telephony.

EBITDA
SEK million



- Even with Tele2's determined efforts and investments in the areas of broadband and mobile telephony this year, EBITDA remained steady.
- EBITDA in Central Europe more than doubled as a result of strong developments, particularly in Germany.
- EBITDA in the Nordic and Baltic & Russia market areas remained stable, while EBITDA in Southern Europe declined as a result of investments in broadband and mobile telephony.

CASH FLOW AFTER CAPEX
SEK million



- Tele2 has expanded significantly this past year and has invested considerably in infrastructure and acquisitions to secure future growth and profitability. This has meant a higher level of investment (CAPEX).

FINANCIAL DEVELOPMENT

SEK million	2005	2004	Change
Operating revenue	49,943	43,033	16%
No. of customers, thousands	30,252	27,794	9%
EBITDA	6,578	6,629	–1%
EBIT	3,510	4,318	–19%
EBT	3,127	4,207	–26%
Profit for the year	2,341	3,428	–32%
Earnings per share, after dilution, SEK	5.29	7.73	–32%
Cash flow from operating activities	5,487	5,876	–7%
Cash flow after CAPEX	1,847	4,314	–57%
Average number of employees	3,909	2,928	34%

IMPORTANT EVENTS IN 2005

- Tele2 becomes Russia's fastest growing mobile operator. Operating revenue increases by 97% and the number of customers by 144%.
- Tele2 achieves impressive customer intake in the Nordic mobile market from an already strong position.
- Tele2 acquires Versatel Telecom International NV in the Netherlands and Belgium. The acquisition strengthens Tele2's market position and provides access to an extensive broadband and telephony infrastructure.
- Tele2 acquires Comunitel in Spain – a successful operator with an extensive ADSL network and a strong position in the corporate market.
- Development of revenue and EBITDA for Tele2 in Central Europe was very positive, driven mainly by Germany.
- Tele2 decides to withdraw from the Finnish market, due to the prevailing regulatory climate, and sells its fixed line operations in the UK and Ireland seeing no satisfactory broadband alternative. Tele2 perceives opportunities for earning money to be greater in other markets.

CONTENTS

Our mission: cheap and simple telecoms

THE TELE2 WAY. To us at Tele2, our values are no simple desktop product. We always act with *flexibility, openness and cost-consiousness.*

In this way we can fulfil our mission – cheap and simple telecoms.

TELE2 IN BRIEF. Tele2 is Europe's leading alternative telecom operator. Our mission is to offer cheap and simple telecoms. Tele2 always strives to offer the market's best prices. We have over 30 million customers in 23 countries. Tele2 offers products and services in fixed and mobile telephony, broadband and cable TV. Ever since Jan Stenbeck founded Tele2 in 1993, the company has been a tough challenger to the former government monopolies. Tele2 has been listed on the Stockholm Stock Exchange since 1996. In 2005, we reported an operating revenue of SEK 50 billion and EBITDA of SEK 6.6 billion.

PRODUCTS AND SERVICES

FIXED TELEPHONY
Tele2's product portfolio includes fixed pre-selection (dialing the number without a prefix), fixed subscriptions, IP telephony (VoIP) and telephone cards. These services are offered in 17 countries.

MOBILE TELEPHONY
Tele2 offers mobile telephony in 14 countries via various types of subscriptions for residential and corporate customers as well as prepaid calling cards. Tele2 has its own networks in 9 countries. In other countries we operate as an MVNO, renting networks from other operators.

INTERNET
Tele2 sells Internet connections in 19 countries. ADSL (broadband over copper wire) is strategically the most important service. We also offer other solutions at different prices and speeds – dial-up Internet, wireless broadband, metropolitan networks and broadband via cable TV.

CABLE TV & IP TV
Tele2 offers cable TV via our subsidiaries in Lithuania and Sweden, where we are the third largest operator. IP TV and TV on demand are currently sold and progressing in several markets.

PRESIDENT'S MESSAGE. It's possible that I'm biased. But we have managed to do what few believed to be possible – create a profitable European alternative to the former monopolies. What's more, I'm counting on Tele2 continuing to astound the world, over the next few years, with its customer-oriented offers – slightly faster and slightly simpler than our competitors. But, above all, cheaper.

The tracks are laid. Off we go!

TELE2'S SUCCESS IS LARGELY DUE TO THE FACT that we do not act like all the others. I like to say that Tele2 is the telecom sector's answer to Madonna. A fast mover, always full of surprises and constantly challenging old ingrained ideas. And, of course, her income statement and balance sheet are equally impressive.

One thing I can promise is that Tele2 will continue to be different. History shows that this is the main reason behind our success. In 2005 we made substantial investments, primarily in mobile telephony and broadband. You could say that in 2005 we laid the tracks and now we will strive to fill the trains with even more people.

This annual report includes our published accounts and notes, and this year for the first time a full-scale corporate governance report.

In March, Tele2 published an annual review for 2005 showing the profit, our products and services, our organisation and our strategies. Please refer to this publication for further information.

Lars-Johan Jarnheimer
President and CEO Tele2 AB

Tele2 is governed by strong values

TELE2 IN THE COMMUNITY. Tele2 does not lay claim to broad social responsibility. However, we do our share by doing what we do best – providing cheap and simple telecom. The overall goal for Tele2 is to generate a return for our shareholders. Long-term shareholder confidence in the company is the most crucial factor in allowing us to pursue our business. Good relationships with the wider world also play a key part in our success.

With operations in 23 countries and over 30 million customers, Tele2 is an important part of many people's lives. Having a good relationship with the community at large is essential to our ability to achieve Tele2's goals and mission.

Our values, which we call The Tele2 Way, permeate the entire company, and also affect our relationships with the outside world.

Sustainable growth in society and good business go hand in hand. The company has an important prosperity-creating role, whether as employer, supplier, customer or taxpayer. The company and its employees must work on the basis of what the company's owners decide and within the framework of the requirements of legislation, regulations and good practice. In addition to our core mission, we can sometimes help someone realize a dream or at least make people's everyday life a little simpler.

Our position as a telecom price leader means that millions of Europeans now have cheaper and simpler telecoms. In the information society in which we live, access to communication resources is virtually a prerequisite for development.

Tele2's position as a leading alternative telecommunications operator has helped stimulate fairer legislation and correct application of adopted regulations. Tele2's efforts have contributed towards a better competitive environment and lower prices, which has benefited society as a whole.

Just as good relationships with the wider world are a crucial determinant of success, poor relationships may represent potential business risk. With this in mind, we work hard to ensure that Tele2 has the right structures, working practices and defined procedures. This assumes increasing importance as the company grows – both organically and via acquisitions.

INITIATIVES 2005

Code of Ethics
During 2005 we formulated a Code of Business Ethics which contains regulations defining the framework for Tele2's activities and operations. The Code deals with Tele2's conduct towards customers, suppliers, employees, public authorities and – particularly important – shareholders. The Code was integrated into our Russian operations during the year, and the program will continue at Group level in 2006.

Whistle blower policy
The Board has decided to introduce a whistle blower policy, whereby any member of the public or employee may openly or anonymously report suspected irregularities at Tele2. All reported concerns go directly to an independent member of Tele2's Board.

Sarbanes-Oxley and Corporate Governance
In addition to following Swedish requirements which apply to listed companies, Tele2 also reports to the US Securities and Exchange Commission. This will involve applying the principles for internal control structure defined in the Sarbanes-Oxley Act with effect from December 31, 2006, and will require Tele2's management to guarantee and take responsibility for the establishment, maintenance and regular evaluation of internal controls. The Swedish Code of Corporate Governance has also increased requirements with regard to dissemination of information and control units in the company. More information can be found in the sections entitled Internal Control Report and Corporate Governance Report.

THE TELE2 WAY

Our values

- **Flexibility** – We respond to customers' needs and are fast-acting.
- **Openness** – Tele2 stands for unity, straight answers and simple organization.
- **Cost-consciousness** – We are careful with money, invest as late as possible and question all costs. Always.

Shareholders
All decisions made in Tele2 are aimed at increasing the value to our shareholders. During 2005, Tele2 paid a dividend of SEK 5 per share and implemented a share redemption program. Tele2 communicates with its shareholders and the financial markets by means of financial reports, press releases and other communication methods. Various types of investors' meetings help increase knowledge and understanding of Tele2. In 2005, Tele2 decided to increase the company's transparency, in order to facilitate evaluation of the company from an investor's perspective.

Authorities
Tele2 conducts active dialog with public authorities, both at a national and European level. The aim is to accelerate efforts to achieve fairer competition in telecoms. With operations in 23 countries, Tele2 is in a position to offer unique experience and knowledge about competition in the telecommunications sector. One way in which we do so is by publishing "The Monopoly Challenger," which is a regular report presented to Swedish and European regulatory authorities. Tele2 always acts in compliance with the legislation and regulations of the countries in which we operate.

The Community
Our most important contribution to the community is to offer cheap and simple telecoms. Tele2's work on environmental issues permeates the entire organization. Tele2 follows Swedish and international research in this area and is an active participant in the HSE debate. Our local companies are also involved in various types of support projects. These include sports projects for the young, projects using telecoms to ease the situation of young people with disabilities, support projects in emerging countries, environmental projects, anti-drugs projects and a host of other activities.

Customers
At Tele2 we like to say the customer is king. This means that we always listen to our customers and their needs. It might sound like a jaded cliché, but it means that we avoid releasing unnecessarily complicated and expensive services for which customers are not prepared to pay. All our employees do a stint of work in customer service at least once a year and managers are required to do so twice a year. The aim is to maintain Tele2's customer focus. Honesty and integrity are found in every part of our customer contacts – from sales to processing invoices, dealing with claims and complaints and customer service work.

Suppliers
Tele2's suppliers are important to our success. By using their products and services, we can successfully offer cheap and simple telecoms. Cost-consciousness runs through the veins of our organization, and we demand the same attitude from our partners. Sound business awareness and ethics are the building blocks of our supplier relationships.

Employees
Tele2's employees are our most important success factor. The right attitude and the ability to work according to Tele2's values are often more important than an impressive resume. Tele2 must be an attractive employer offering a stimulating workplace and secure environment. In view of the fact that a homogeneous business concept such as ours requires a heterogeneous culture in order to succeed, Tele2 works hard to improve its diversity management. This may include diversity of countries, gender or even changing backgrounds and skills.

Share and owner structure

THE TELE2 SHARE. Average daily trading on the Stockholm Stock Exchange increased to SEK 266 million (B share) and the share price ended the year on SEK 85.25 (87.00). During the year, shareholders received a dividend of SEK 1.67 per share and SEK 3.33 per share under the share redemption program. The board recommends to the annual general meeting that the dividend be increased by 5% to SEK 1.75 per share. Tele2's market value at year-end was SEK 37.9 billion, with the number of shareholders 55,801.

THE TELE2 SHARE

Listing: O-list on the Stockholm Stock Exchange since May 14, 1996

Share lot: 100 shares

Tele2's A share: Nominal value SEK 1.25, 10 votes per share, Stockholmsbörsen TEL2 A, ISIN code SE0000314304, 46,549,989 shares

Tele2's B share: Nominal value SEK 1.25, 1 vote per share, Stockholmsbörsen TEL2 B, ISIN code SE0000314312, 397,102,843 shares

Share capital: SEK 555 million, divided into a total of 443,652,832 shares

Stock exchange listing

Tele2's A and B shares were listed on the O-List of Stockholmsbörsen in May 1996.

Debentures and share issues 2000–2004

At the Annual General Meeting in May 2000, the Board of Directors was authorized to settle an option commitment by means of a new share issue. In October 2000, 200,000 new B series shares were issued, along with three convertible debentures with detachable warrants with rights to a new subscription totaling 300,000 B shares. 100,000 B shares were subscribed for each year in the period 2001–2003.

At an Extraordinary General Meeting of Tele2 AB in August 2000, a proposal was approved to issue a maximum of 40,901,585 Class A and Class B shares in Tele2 to shareholders and holders of depository receipts in Société Européenne de Communication S.A. (SEC), in exchange for shares and depository receipts in SEC. By the end of the issue period, a total of 40,784,480 shares had been issued.

At the end of 2001, all shares in FORA Telecom B.V. (the Russian operation) were acquired, in exchange for 2,461,449 newly issued B shares in Tele2 AB.

In 2002, 8,317,143 and in 2004, 6,173,141 A shares were converted to B shares.

Share issue 2005

In 2005, warrants under the staff incentive programme equivalent to 972,307 shares were subscribed for.

Split and redemption procedure 2005

In 2005, a share split and a share redemption procedure was implemented, whereby every share was split into 3 ordinary shares and 1 redemption share. The redemption share was automatically redeemed at SEK 10 per share. This corresponds to a total of MSEK 1,476. Combined with the ordinary dividend of SEK 5 per share, shareholders have received MSEK 2,213.

Dividend

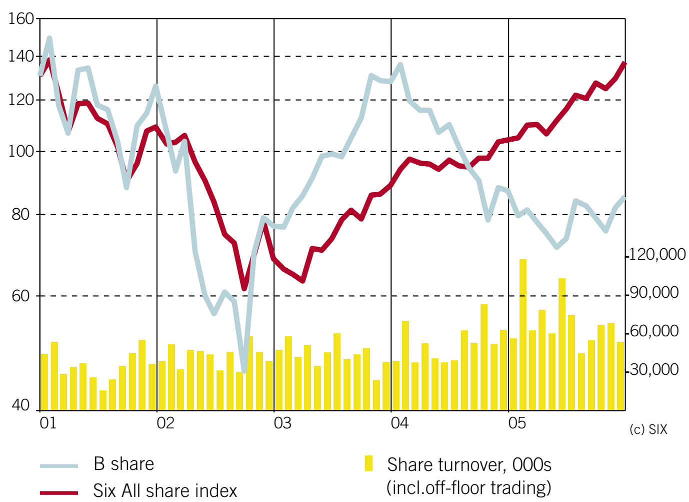
It is the Board's aim to pay a dividend to shareholders after taking into consideration consolidation needs, liquidity and financial position.

For the financial year 2005, the Board proposes a dividend of SEK 1.75 per share.

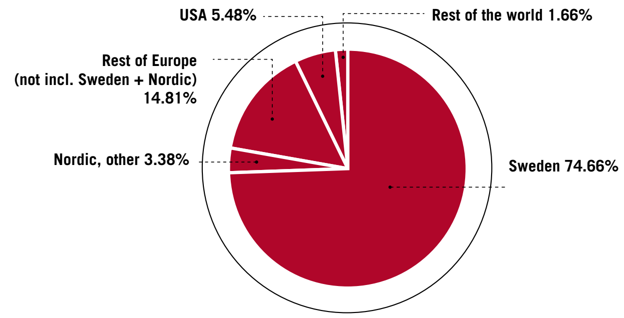
Shareholders

As of December 31, 2005, Tele2 had a total of 56,000 (61,000) shareholders. Tele2's largest shareholder is Investment AB Kinnevik with 28.3 percent of share capital. The proportion of institutional owners was 88 (89) percent, which corresponds to 91 (92) percent of the voting rights on December 31, 2005.

THE STOCKHOLM STOCK EXCHANGE



SHAREHOLDER STRUCTURE BY COUNTRY



SHARE DISTRIBUTION

Number of shares	Number of shareholders	Holding (%)
1–500	33,363	1.32
501–1,000	9,599	1.59
1,001–5,000	10,021	5.02
5,001–10,000	1,373	2.19
10,001–15,000	449	1.29
15,001–20,000	195	0.78
20,001–	801	87.8
TOTAL NUMBER OF SHAREHOLDERS	**55,801**	**100.0**

ANALYSTS FOLLOWING TELE2

ABG Sundal Collier	Henrik Vikström/Jesper Wilgodt
ABN AMRO	Lars Horslund
Arete	Steve Malcolm
Bear Sterns	Jonathan Dann
CAI Cheuvreux	Peter-Kurt Nielsen
Carnegie	Johan Klevby/Erik Pers Berglund
Exane BNP Paribas	Pierre-Antoine Machelon
Citigroup Smith Barney	James Rivett/Jean-Christophe Labbe
Credit Suisse (CSFB)	Ben Spincer
Danske Equities	Poul Ernst Jessen
Deutsche Bank	Vivek Khanna
Dresdner Kleinwort Wasserstein	Sam Morton
Erik Penser Fondkommission	Marcus Lundqvist
EVLI	Anders Berg
Goldman Sachs	Olga Nouriaeva
Handelsbanken	Andreas Ekström
HSBC	Jakob Bluestone
ING	Nicolas Saillez
Kaupthing Bank	Stefan Pettersson
Lehman Brothers	James Britton
Merrill Lynch	Graham Ruck
Morgan Stanley	Saroop Purewal
New Street Research	Soomit Datta
Nordea	Bengt Mölleryd
SEB Enskilda	Lena Österberg
Société Générale	Francois Pierre Arth
Swedbank	Sven Sköld
Sydbank	Holger Smitt
UBS	Ulrich Rathe

OWNERSHIP STRUCTURE, DECEMBER 31, 2005

	A-shares	B-shares	Total number of shares	Number of votes	Share of capital, %	Share of votes, %
Investment AB Kinnevik	33,830,229	91,651,296	125,481,525	429,953,586	28.3%	49.8%
AMF Pension	0	21,232,650	21,232,650	21,232,650	4.8%	2.5%
4th AP Fund	0	15,484,550	15,484,550	15,484,550	3.5%	1.8%
SEB Group	0	14,557,906	14,557,906	14,557,906	3.3%	1.7%
Robur	0	9,772,483	9,772,483	9,772,483	2.2%	1.1%
Emesco	7,365,000	2,251,137	9,616,137	75,901,137	2.2%	8.8%
Handelsbanken Group	0	9,462,394	9,462,394	9,462,394	2.1%	1.1%
Deutsche Bank	4,500	9,064,317	9,068,817	9,109,317	2.0%	1.1%
Fidelity	0	8,728,560	8,728,560	8,728,560	2.0%	1.0%
State Street Bank and Trust	46	8,637,092	8,637,138	8,637,552	1.9%	1.0%
Skandia och Skandia Insurance	0	7,455,587	7,455,587	7,455,587	1.7%	0.9%
Nordea Group	600	6,818,021	6,818,621	6,824,021	1.5%	0.8%
Sydbank A/S	0	6,436,844	6,436,844	6,436,844	1.5%	0.7%
Didner & Gerge aktiefond	0	6,250,000	6,250,000	6,250,000	1.4%	0.7%
2nd AP Fund	0	6,117,102	6,117,102	6,117,102	1.4%	0.7%
Total, fifteen largest shareholders	**41,200,375**	**223,919,939**	**265,120,314**	**635,923,689**	**59.8%**	**73.7%**
Other shareholders	5,349,614	173,182,904	178,532,518	226,679,044	40.2%	26.3%
TOTAL	**46,549,989**	**397,102,843**	**443,652,832**	**862,602,733**	**100.0%**	**100.0%**

Openness and flexibility permeate our corporate governance

CORPORATE GOVERNANCE REPORT. As of July 1, 2005, Tele2 applies the Swedish Code of Corporate Governance ("the Code"), which is based on a comply-or-explain principle, deviations from the Code are permitted but must be explained. This Corporate governance report is published in accordance with the provisions of the Code. The report is not a part of the formal Annual Report and has not been reviewed by the company's auditors.

Application of the Swedish Code of Corporate Governance

Openness and flexibility are two of Tele2's most important values, which permeate the entire company, including the way the company has adopted the Code. Most of the Code's provisions were already a part of the company's procedures before the Code came into effect, e.g., the company had previously established a Remuneration Committee and an Audit Committee. The major change in adapting to the Code has been observed in the agenda of the board meetings during the latter half of 2005, which have included more administrative issues and informative items. The adjustments the company have made during the year include the establishment of a Nomination Committee; updating of the company web site, work procedures and governance documents; the drawing-up of a corporate governance report and an internal control report, and the appointment of a company secretary.

Guided by its values of openness and flexibility, Tele2 has chosen to explain why the Code's provisions have not been complied with regarding Vigo Carlund's membership of the Remuneration Committee (rule 4.2.1). Further, the company has presented an explanation as to why the Nomination Committee has appointed a Director of the Board as Chairman of the Nomination Committee (rule 2.1.2). These explanations are presented below, under the section Nomination Committee and Remuneration Committee.

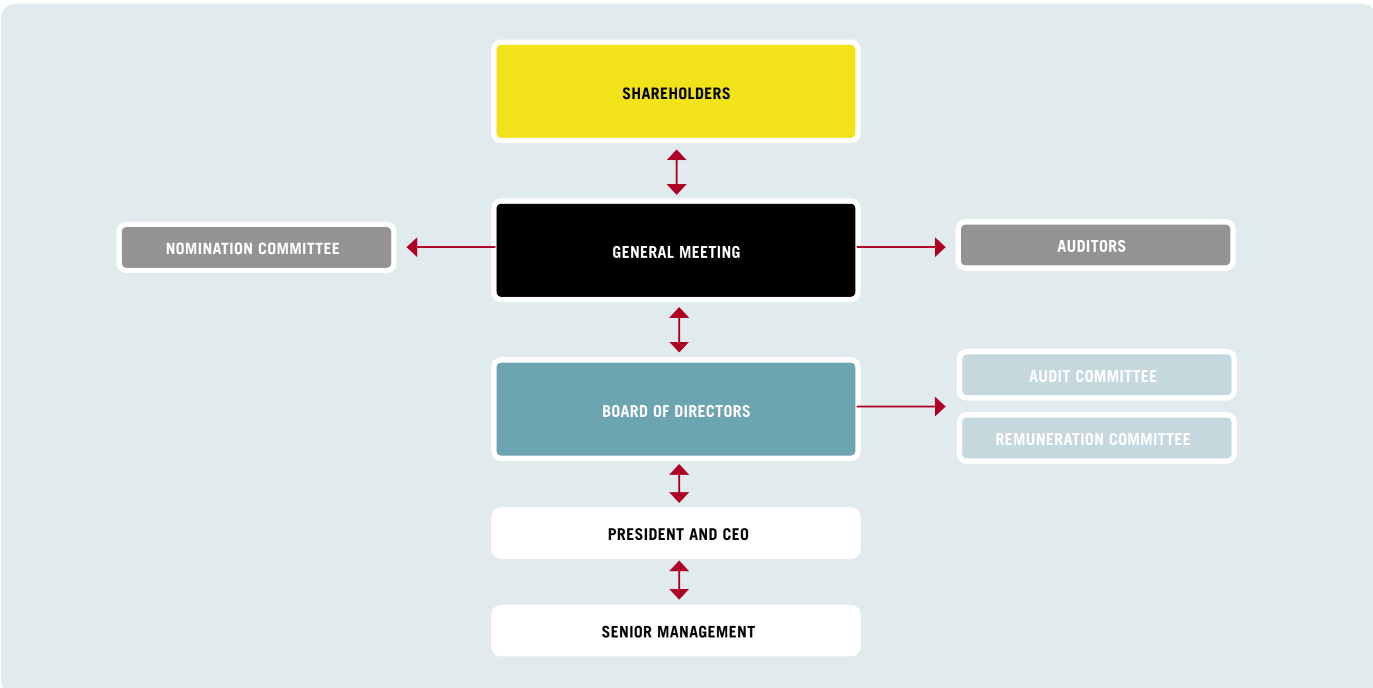
Shareholders

At the end of 2005, Tele2 AB had 55,801 shareholders according to the share register maintained by VPC AB.

Shareholder Information

Tele2 fulfils the requirements of the Code as well as other acts and regulations applying to the company with regard to providing information to shareholders. This is mainly achieved by means of financial

GOVERNANCE STRUCTURE



reports such as interim reports, full year report and annual report and by press releases. The company also carries out investor and analyst meetings. On November 8, 2005, the company arranged a capital market day to communicate its strategy and vision to the shareholders. Tele2 regularly updates and improves its web site and financial reports in order to increase the understanding of the company's strategy and results.

For more shareholder information including information on share capital, voting rights, trade and market value, we refer to page 4–5.

General Meeting

The General Meeting is the company's highest decision-making body according to the Swedish Companies Act. The Annual General Meeting ("the AGM") elects the Board and the company's auditors, and moreover, decides on changes in the Articles of Association.

At the General Meeting shareholders are given the opportunity to speak, put forward proposals and pose questions to the Board and CEO. At the Meeting, the Chairman of the Board and the CEO submit reports on the company's development.

The Nomination Process

The Nomination Committee

The Nomination Committee is a body of the AGM that prepares the Meeting's recommendations on appointments with the aim of creating a good basis for the Meeting's consideration of these issues. The Nomination Committee's tasks include making an evaluation of the Board's composition and work; submitting proposals to the AGM regarding the election of Directors of the Board and Chairman of the Board; preparing proposals regarding election of auditors in cooperation with the Audit Committee, when necessary; preparing proposals regarding fees to the Directors of the Board and to auditors, as well as preparing proposals of Chairman for the AGM.

The principles for appointing members for the company's Nomination Committee were determined at the AGM 2005. In accordance with these principles, the convenor Cristina Stenbeck as representative of Tele2's largest shareholders Investment AB Kinnevik and Emesco AB, contacted, during the third quarter 2005, the major shareholders, Björn Lind as representative for SEB Fonder and SEB Trygg Liv, Peter Rudman as representative for Nordeas fonder and Mats Guldbrand as representative for AMF Pension; all of whom came to constitute the members of the Nomination Committee. The Nomination Committee represents more than 50 per cent of the voting capital of Tele2. The names of the Nomination Committee's members were published in connection with the report for the third quarter October 25, 2005. At the same time, the shareholders were given the opportunity to submit proposals of new directors of the Board to the Nomination Committee on the company's web site.

On January 26, 2006, the Nomination Committee informed the company that Cristina Stenbeck, Director of the Board of Tele2, had been appointed as Chairman of the Nomination Committee. The other members of the Nomination Committee explained their decision as a natural course of action in the interest of all shareholders, as Cristina Stenbeck represents the largest shareholders in the company.

Nomination of Board of Directors

The work of the Nomination Committee is aimed at ensuring that Tele2 has the best Board possible for securing the company's long-term development.

In November 2005, the Chairman of the Board, Sven Hagströmer, informed the Nomination Committee that he would not be eligible for election to the Board at the AGM 2006. Ahead of the AGM 2006, the Nomination Committee announced that it proposes Vigo Carlund as new Chairman of the Board. In the autumn of 2005, Vigo Carlund had been elected Vice Chairman of the Board.

The Nomination Committee's complete proposal of the Board is presented in the notice to the AGM 2006 and posted on the company's web site, where the proposed Directors of the Board are presented as well as a report on how the Nomination Committee has conducted its work.

As a basis for the Nomination Committee's proposal, the Chairman of the Board, Sven Hagströmer, has presented the evaluation of the Board and its directors' performance in 2005. The Nomination Committee has worked on defining demand profiles for the individuals they consider need to be recruited to the Board. The Nomination Committee's work has been carried out through a number of meetings and discussions.

No specific compensation has been made by Tele2 to any members in the Nomination Group for their work.

Election of the company's auditors

At the AGM 2004, Deloitte AB, Sweden, was appointed as the company's audit firm until the AGM 2008. In the notice to the AGM 2008, the Nomination Committee will present its proposal for election of auditors. The Nomination Committee will at that time be assisted by the Audit Committee in its work.

Election of the Nomination Committee at the AGM 2006

The Nomination Committee will present a proposal to the AGM 2006 of order for appointing a Nomination Committee ahead of the AGM 2007.

The Board

According to Tele2's Articles of Association, the Board shall consist of at least five and maximum nine members. At the AGM 2005, Tele2's present Board was appointed, consisting of seven members without deputies. Six Board members were re-elected and John Hepburn was elected as new Board member. At the constituent board meeting following the AGM 2005, the Board appointed Sven Hagströmer as Chairman of the Board and appointed members to the Remuneration and Audit Committee. These committees are preparatory bodies for the Board and do not reduce the Board's overall and joint responsibility for the handling of the company and the decisions made. All Board members have access to the same information to enable them to assume joint responsibility.

The Chairman of the Board and the Board members are compensated for their board work in accordance with the resolution passed at the AGM 2005, which means that the Board is compensated with a total of SEK 3,350,000 for the period until the end of the AGM 2006, of which SEK 800,000 are allotted to the Chairman of the Board, SEK 400,000 to each of the other Board members, and a total of SEK 150,000 for work in the Board's committees, besides travelling expenses according to submitted invoices.

There are no outstanding share- or share-price-related incentive programmes for the Board.

SVEN HAGSTRÖMER

Chairman of the Board

Studies in Economics at Stockholm University, Sweden.

Has been President and Chairman of the Board in Hagströmer & Qviberg from 1980 until 1995 as well as President of Investment AB Öresund, 1992–1993.

Presently Chairman of the Board for Investment AB Öresund and Avanza AB as well as Board member of Bilia HB, HQ Fonder and Skanditek Industriförvaltning AB.

VIGO CARLUND

Vice Chairman of the Board

Has worked for Kinnevik companies since 1968. Has been President of Svenska Traktor AB 1980–1982, President of Svenska Motor AB SMA ,1983–1989 and President of SMA Group USA, 1986–1997.

Presently President and CEO of Investment AB Kinnevik until August 1, 2006 and Chairman of the Board of Metro International S.A. and Korsnäs AB as well as board member of Millicom International Cellular S.A., Modern Times Group MTG AB, Transcom Worldwide S.A. and Invik & Co. AB.

CRISTINA STENBECK

B.Sc. in Economics.

Has been associated with various Kinnevik companies since 2003.

Presently Vice Chairman of the Board of Investment AB Kinnevik and Board member of Metro International S.A., Millicom International Cellular S.A., Modern Times Group MTG AB, Transcom Worldwide S.A. and Invik & Co. AB.

JOHN SHAKESHAFT

M.A., Cambridge University, UK.

Has worked as Executive Director at Morgan Stanley, 1990–1994, Managing Director and partner at Barings Bank, 1995–2000, Managing Director and partner at Lazard, 2000–2002, as well as Managing Director and partner at Cardona Lloyd, 2002–2004.

Presently Managing Director of Financial Institutions, ABN Amro Bank, Chairman of the Board for The Alternative Theatre Company Ltd., Board member in The Economy Bank N.V. and Questair Inc. as well as member in the Audit Committee of Cambridge University.

MARC BEULS

Graduate in economics, LUC University, Belgium.

Has worked for Generale Bank Belgium, 1982–1992, the last year as senior executive for financial transactions. Has worked for Millicom International Cellular S.A., 1992–1998, and from 1997 until 2003 he was the President of Banque Invik S.A.

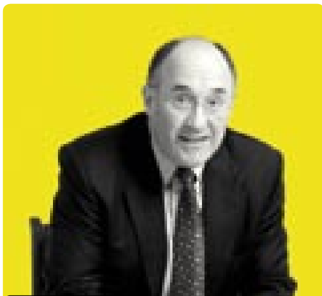
Presently the President of Millicom International Cellular S.A. as well as Board member in Banque Invik S.A.

JAN LOEBER

MBA, George Washington University, USA, and B.Sc. in Physics, Michigan Tech University, USA.

Has worked as District Manager for Nokia North America, 1987–1990. Has founded and been President of Unitel UK (TMobile UK), 1990–1993, and Managing Director of Bankers Trust Company, London and New York, 1993–1994. Has founded and been President of GTS Carrier Services/EBONE, 1995–2000.

Presently advisor to and Chairman of the Board of Interxion – SAMI, as well as Director of the Board in Newfound Communications, Inc., VinoVia B.V. and Interxion Holding B.V.



JOHN HEPBURN

MBA, Harvard Business School, BSE, Princeton University, USA.

Has had a number of positions at Morgan Stanley since 1976, amongst other positions, Managing Director, Morgan Stanley & Company and Vice Chairman, Morgan Stanley Europe Limited.

Presently advisor to Morgan Stanley as well as Chairman of the Board of Sportfact Ltd and Vice Chairman of the Board of UKRD Ltd and board member in Grand Hotel Holdings AB.

THE BOARD'S COMPOSITION AND SHAREHOLDINGS* IN TELE2 AB

Name	Function	Born	Nationality	Elected	Audit Committee	Remuneration Committee	Independent	Shareholding
Sven Hagströmer	Chairman	1943	Swedish	1997	–	Chairman	Yes	1,215,000
Vigo Carlund	Vice Chairman	1946	Swedish	1995	–	Member	No	24,191
Cristina Stenbeck	Member	1977	American	2003	–	–	No	–
Marc Beuls	Member	1956	Belgian	1998	–	–	No	2,820
John Hepburn	Member	1949	Canadian	2005	Member	–	Yes	95,015
John Shakeshaft	Member	1954	British	2003	Chairman	Member	Yes	–
Jan Loeber	Member	1943	American	2004	Member	–	Yes	22,500

*) holding of B-shares, March 2006, including related natural and legal persons.

The composition of the Board

The Board consists of seven members. None of the Directors of the Board is part of senior management in the company nor a union representative. Three of the seven Board members are considered dependent of the company and its senior management. Of these three, Cristina Stenbeck and Vigo Carlund are also considered dependent of the company's major shareholders. The four Board members that are considered independent of the company and its senior management are also considered independent of the company's major shareholders.

The Board's responsibility and work procedures

In addition to the division of responsibility that generally applies according to the Swedish Companies Act, the annually determined work procedures and written instructions mainly regulate the Board's work and the division of work between the Board on the one hand and the CEO and established committees on the other.

The Board is among other things responsible for Tele2's overall, long-term strategies and goals and it determines budgets and business plans, reviews and approves the financial reports, adopts important guidelines, makes decisions in questions regarding investments and disposals and monitors the CEO's work.

The Board ensures the quality of the internal control functions, the financial reports and communicates with the company's auditors mainly through regular reports from the Audit Committee and the company's CFO. For more information about how the Board ensures the quality of the internal control, we refer to the Internal control report, page 12. Tele2 applies a structured and consistent process when preparing the financial reports, which are regularly inspected by senior management and the Audit Committee to improve the quality of the reports, making sure that the reports are adapted to new accounting standards. The Audit Committee meets with the CFO and the company's auditors a few days before the publication of each financial report (including quarterly and full year reports, annual report and press releases related to these reports, containing information that may influence the share price in Tele2). The Board has instructed that each publication of financial reports shall be preceded by the approval of the Audit Committee. The minutes of Audit Committee meetings is communicated to the Board at the following board meeting.

The Board's work in 2005

In the financial year 2005 the Board convened seven times, once in Twickenham, England, once in Amsterdam, Holland, and the remaining times in Stockholm, Sweden. In addition, one per capsulam meeting and four telephone conference meetings were held. All Board members were present at the board meetings, with the exception of Marc Beuls and John Hepburn who were absent from one meeting each. Each meeting followed an approved agenda and agenda proposal, and underlying documentation for each agenda item was sent to all Board members well in advance of each board meeting. The Board has appointed Susanne Lindeberg, LL.M, as company secretary. The company secretary is responsible for making sure the rules of procedure are followed, and all Board members may contact the secretary for advice and assistance in their board work.

The Board makes its decision following an open discussion led by the Chairman. The Board deals continuously with Tele2's strategic direction and financial goals.

Some of the major decisions the Board has made during the year are: the acquisition of Tiscali's Danish business; the acquisition of one of Spain's largest alternative telecom operators, Comunitel; the acquisition of Versatel's Belgian and Dutch business; the acquisition of fixed telephony operator Econophone in Switzerland; the signing of an MVNO-agreement with Orange in France and the launch of Tele2's first mobile service in France; the signing of an ADSL-agreement with Neuf Telecom in France for long-term use of Neuf Telecom's ULL network; the decision to discontinue operations in Finland due to the regulatory environment, and the decision to dispose of the Irish and British operations.

Members of senior management have made presentations at board meetings and the CEO has presented an update of relevant company information at each ordinary board meeting. Also, in monthly letters from August 2005, the CEO has made sure that the Board has received the follow-up they need with regard to important events in the company.

The Board members are familiar with the Stockholm Stock Exchange's rules and during the course of the year they have been trained with regard to the Code, the new Swedish Insider regulations as well as the new Swedish Companies Act.

Evaluation of the Board

The Chairman of the Board makes sure that an annual evaluation of the Board's work is performed where the Board members are given the opportunity to share their views on working methods, board material, their own and other Board members' work as well as the extent of their assignment. The evaluation of the present Board was carried out in February 2006 by using a written questionnaire that was presented to all Board members.

The Audit Committee

The Board appoints members and the Chairman of the Audit Committee. At the constituent board meeting in May 2005 following the AGM, the new Director of the Board, John Hepburn, was appointed member of the Audit Committee in addition to the former members of the committee, John Shakeshaft (Chairman) and Jan Loeber.

The Audit Committee's work complies with the written instructions and charter, which the Board has developed and determined. The committee's main tasks is to relieve and assist the Board in its supervision and review of the internal and external audit process as well as to review and ensure the quality of the company's financial reporting. Besides the supervision of the financial reporting and audit, the committee has been monitoring the company's internal control functions. The committee's work in 2005 has especially been focused on monitoring the work involved in preparing the company for financial reporting in accordance with the Sarbanes-Oxley Act as per December 31, 2006, a regulation which is considerably more demanding with regard to internal control functions than the Code. The Board has delegated the following decision-making powers to the committee: the right to establish procedures for accounting, internal control and auditing issues; the right to determine the procedure for receiving and dealing with complaints received by the company with regard to accounting, internal audit controls or audit issues; and the right to manage the procurement of audit services and approve the audit costs within the framework for the decision made by the General Meeting.

In the financial year 2005 the committee has had six meetings, whereof one was held in Stockholm and five were telephone conference meetings. Four of the meetings have dealt with the quarterly and full year reports. Jan Loeber has been absent from three meetings and John Hepburn has been absent from two meetings. At all meetings involving the quarterly and full year reports, Tele2's CFO and the company's auditors have been present. The minutes of each respective meeting have been communicated to the Board.

The Remuneration Committee

The Board appoints members and Chairman of the Remuneration Committee. At the constituent Board meeting in May 2005, following the AGM, the Board appointed Sven Hagströmer as Chairman of the Remuneration Committee and Cristina Stenbeck and Vigo Carlund were appointed members of the committee. Later, Cristina Stenbeck chose to relinquish her seat on the committee and the Board appointed John Shakeshaft as committee member in her place. According to the Code, Vigo Carlund is not to be considered independent of the company and its management. However, the Board has asked Vigo Carlund to remain a member of the Remuneration Committee and he has accepted. The Board considers that Vigo Carlund's long-standing and extensive experience and knowledge in remuneration matters qualify him to be a most suitable member of the committee. Furthermore, the Board believes that the company will benefit from his continuing membership. The Code provisions notwithstanding, the Board also believes that Vigo Carlund will be as free from conflict in the exercise of his responsibilities on the Remuneration Committee as if he was independent.

The Remuneration Committee's work follows the written instructions and the charter determined by the Board. The Board has not delegated any decision-making powers to the committee. The committee's main work entails all aspects of remuneration and terms of employment for the senior management as well as to present recommendations to the Board regarding remuneration policy, strategy and regulations for this group of employees. The committee has prepared and submitted to the Board a proposal for remuneration principles and other terms of employment for the CEO and other executives, which the Board has approved to be presented at the AGM 2006. The committee has also worked with a new incentive programme for other executives and key employees in the Tele2 group, which was adopted at the Extraordinary General Meeting February 21, 2006.

The Remuneration Committee met once in the financial year 2005 and all members were present at the meeting.

The company's management

President and CEO

Lars-Johan Jarnheimer is President and CEO of Tele2 AB. He was born 1960 in Kalmar, Sweden. Lars-Johan Jarnheimer has an M.Sc. in Ba and Econ. from Växjö College.

Lars-Johan Jarnheimer has previously held positions at IKEA, H&M and has been the CEO of ZTV. He started at Comviq as deputy CEO in 1992 and was CEO of the company from 1993 to 1997. He thereafter became Market Area Director for SAAB Automobiles in Nordic, Baltic & Russia from 1997 to 1998. He started his present position as President and CEO at Tele2 AB in March 1999.

Lars-Johan Jarnheimer is a board member of the following external companies: Millicom International Cellular S.A., Modern Times Group MTG AB, Arvid Nordquist Handels AB and INGKA Holding B.V., which is the parent company of IKEA.

At the turn of the year 2005/2006, Lars-Johan Jarnheimer owned 6,000 B-shares in Tele2, 150,000 B-shares through companies and 47,100 warrants. Lars-Johan Jarnheimer has no significant shareholding or partnership in companies with which Tele2 has significant business relations.

Further information on other senior management, see our Annual Review or on Tele2's web site, www.tele2.com.

Remuneration and other terms of employment for senior management

Proposals on remuneration of senior management are prepared by the Board via the Remuneration Committee, which submits proposals of remuneration to the CEO and also defines guidelines for senior management's remuneration, which the CEO applies when making decisions regarding remuneration to senior management.

Incentive programmes are prepared by the Remuneration Committee, which submits proposals to the Board which in turn decides whether to bring the programme to the General Meeting for resolution.

At the AGM 2006, the Board will submit a proposal for remuneration principles and other terms of employment for senior management for approval by the Meeting. The proposal is published on Tele2's web site, www.tele2.com.

Outstanding share- and share-price-related incentive programmes

Tele2 has two outstanding incentive programmes. For information on the incentive programme 2002–2007, see note 34 on page 40 in the annual report and for information on the incentive programme 2006–2011, see the section, "Events after the End of the Financial Year", page 16 in the annual report as well as on Tele2's web site, www.tele2.com.

Auditors

At the AGM 2004, the registered audit firm Deloitte AB was appointed the company's auditors for a period of four years.

Tommy Mårtensson, head of audit for Tele2, is also auditor for Saab AB, Fortum Sweden and Industrifonden. He also has experience as auditor for Telia, Telenor and Com Hem. He has no assignments in businesses that are related to Tele2's major owners or CEO.

During the last three years, Deloitte has performed services for Tele2 other than the ordinary audit assignment with regard to audit related advice primarily in accounting matters, see note 35.

Internal control report

The Board's Report on internal controls over financial reporting for the financial year 2005

Introduction

This report has been prepared in accordance with the Swedish Code of Corporate Governance and the guidelines produced by FAR (the Swedish Institute of Authorised Public Accountants) and Svenskt Näringsliv (the Confederation of Swedish Enterprises) as well as by applying the transitional rules for 2005 issued by the Swedish Corporate Governance Board. This means that the report is limited to a description of the organisation of internal control relating to financial reporting. The report is not part of the formal annual report and has not been reviewed by the company's auditors.

Tele2 applies COSO's framework for internal controls and financial reporting. Internal control of financial reporting is a process that involves the Board, the company's senior management and other employees and has been designed to secure the accuracy of the external financial reporting.

Control environment

The basis of the internal control environment is the values that are the cornerstones of "The Tele2 Way". The Tele2 Way is the collective name of our mission, our values and our work procedures. For a fast-growing company, attitudes and values are just as important as competence and experiences and we are strongly committed to having operations which are marked by openness. This is reflected in our efforts of a strong unity and encouraging straight answers. All our employees are part of a programme to regularly measure and evaluate how well we are measuring up our values.

The internal control environment regarding the financial reporting is also based on organisation, decision paths, and assignment of authority and responsibility, which are documented and communicated in steering documents such as internal policies, guidelines, manuals and codes. These documents cover for example the division of work between on the one hand the Board and on the other hand the CEO and the other bodies that the Board establishes, and moreover, instructions of right of attestation and accounting and reporting instructions.

Risk assessment and control activities

The company's management together with the external auditors annually conduct an overall risk assessment with regard to the financial reporting. The result of the risk assessment is reviewed by the Audit Committee and the Board. In addition, internal audit conducts a comprehensive risk assessment that constitutes the basis of its annual audit plan. The internal audit is mainly focused on operational auditing but it also includes processes that affect financial reporting and risks of irregularities. The audit plan is reviewed by the Audit Committee and the Board.

On account of the significant acquisitions that Tele2 has made in 2005 and at the end of 2004 the integration of the acquired companies' financial reporting has been identified as a critical area of attention.

Tele2 is registered with the Securities and Exchange Commission, and shall therefore apply the principles of the internal controls according to the Sarbanes-Oxley Act. Hence, since the beginning of 2005 an extensive workload has been underway to document the internal controls related to financial reporting and to introduce processes to regularly examine the efficiency of such controls. This work will be reported on for the first time in relation to the 2006 annual report.

Information and communication

The company has clear information and reporting channels, which are the basis of the internal review and of the external financial reporting. Manuals and guidelines of significance to the financial reporting are regularly updated and communicated to the employees concerned. The company's management and the Audit Committee report regularly to the Board according to determined instructions. There are also guidelines which ensure that the company's external communication measures up to the high requirements for correct information.

Follow-up

The Board continuously examines the information from the company's management and the Audit Committee. The company's financial situation is addressed at each ordinary board meeting. The Audit Committee reviews every interim and annual report prior to publication. More information about the Board and its committees can be found in the Corporate governance report on pages 6–11.

The company's financial reporting procedures are evaluated annually by management to ensure that they cover all essential areas which have bearing on financial reporting. The company's annual financial reporting includes a process whereby managers and financial managers in the subsidiaries submit representation letters, which deal with information of importance to the financial reporting.

Recommendations arising from the external and internal auditors are regularly followed up by the company's management and Audit Committee.

Stockholm, March 7, 2006

The Board

Administration report

The Board of Directors and CEO herewith present the annual report and consolidated financial statements for Tele2 AB (publ), corporate reg. no. 556410-8917 for the financial year 2005.

Tele2 AB's shares are listed on the Stockholm Stock Exchange under the ticker symbols TEL2 A and TEL2 B. The fifteen largest shareholders at December 31, 2005 hold shares corresponding to 60% of the capital and 74% of the voting rights, of which Investment AB Kinnevik owns 28.3% of the capital and 49.8% of the voting rights.

Operations

Tele2 is Europe's leading alternative telecom operator. Our mission is to offer cheap and simple telecom. Tele2 always strives to offer the market's best prices. We have over 30 million customers in 23 countries. Tele2 offers products and services in fixed and mobile telephony, broadband and cable TV. Ever since Jan Stenbeck founded Tele2 in 1993, the company has been a tough challenger to the former government monopolies. Tele2 has been listed on Stockholm Stock Exchange since 1996. In 2005, the company had operating revenue of SEK 50 billion and EBITDA of SEK 6.6 billion.

Tele2's operating revenue amounted to SEK 49,943 (2004: 43,033) million, an increase of 16.1% including, and 14.1% excluding, exchange rate effects. Exchange rate effects amounted to 0.3–3.1% per market area. Organic growth was 6.9% including, and 5.1% excluding, exchange rate effects.

Tele2 had a total of 30.3 (2004: 27.8) million customers at December 31, 2005. Net customer intake, excluding acquired and divested companies was 3,413,000 compared with 5,050,000 the previous year.

The Group's ARPU (average monthly revenue per user) was SEK 143 (2004: 143). ARPU according to the previous customer definition (Note 4) was SEK 140 (2004: 143).

Operating profit before depreciation/amortization and results from shares in associated companies and joint ventures, EBITDA, was SEK 6,578 (2004: 6,629) million, with an EBITDA margin of 13.2% (2004: 15.4%). Operating profit, EBIT, was SEK 3,510 (2004: 4,318) million, with an EBIT margin of 7.0% (2004: 10.0%).

Net interest expense and other financial items totaled SEK –383 (2004: –111) million. Exchange differences of SEK –198 (2004: –9) million were reported under net financial items, of which SEK –124 million relates to exchange differences on intra-group balances, which were previously recognized directly in equity. The previous year's net financial items included a gain of SEK 171 million from sale of shares. The average interest rate on outstanding liabilities was 3.7% in 2005 (2004: 4.4%). Profit after financial items, EBT, amounted to SEK 3,127 (2004: 4,207) million.

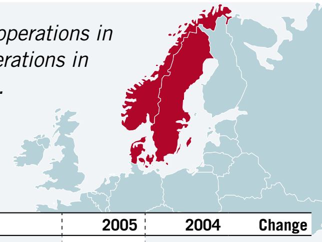
Tax on profit for the year was SEK –786 (2004: SEK –779) million, of which SEK 340 million related to the tax portion of the accumulated losses valued for the first time. The corresponding amount was SEK 729 million the previous year. Profit after tax was SEK 2,341 (2004: 3,428) million. Earnings per share amounted to SEK 5.29 (2004: 7.73) after dilution.

During 2005, Tele2 Group made net investments of SEK 3,640 (2004: 1,562) million in intangible assets and tangible assets (Note 32). Investments in shares in companies, excluding cash and cash equivalents at the time of acquisition, amounted to SEK 7,751 million (2004: 1,979 million, excluding investment in Song Networks). Sales of shares amounted to SEK 170 million (2004: SEK 38 million excluding divestment of Song Networks).

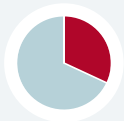
Cash flow from operating activities amounted to SEK 5,487 (2004: 5,876) million and cash flow after investments in intangible assets and tangible assets was SEK 1,847 (2004: 4,314) million. Cash flow expressed as EBITDA minus CAPEX amounted to SEK 2,938 (2004: 5,067) million. Investments (CAPEX) amounted to SEK 3,640 (2004: 1,562) million.

NORDIC

The Nordic market area comprises operations in Sweden, Norway and Denmark. Operations in Finland were discontinued in 2005.



30% of the Group's operating revenue



Norden	2005	2004	Change
Operating revenue, MSEK	15,074	13,467	12%
EBITDA, MSEK	3,866	3,871	0%
Net customer intake, 000s	33	67	

Tele2 now offers fixed subscription in all the Nordic countries, which has contributed in lower customer churn. Nordic continues to show strong growth, mainly driven by Swedish mobile operations. In Sweden, Tele2 launched the highly successful Comviq Knock-Out and abolished subsidizing of mobile phones and reduced prices. Tele2Vision (formerly Kabelvision) was established in order to develop Tele2's market potential in cable TV.

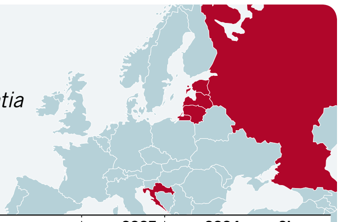
Our position was strengthened in Denmark, particularly in mobile telephony and broadband. Tele2 acquired Tiscali in Denmark (see Note 16) and was able to launch bundled ADSL and fixed telephony services, using its own infrastructure.

Norwegian operations experienced strong growth, driven by success in ADSL and mobile telephony. With online sales via internet rising sharply, customer acquisition costs were reduced considerably.

Unsatisfactory regulatory conditions and the competition situation in general prompted Tele2's decision to discontinue its operations in Finland.

BALTIC & RUSSIA

The Baltic & Russia market area comprises operations in Estonia, Latvia, Lithuania, Russia and Croatia



8% of the Group's operating revenue

Baltic & Russia	2005	2004	Change
Operating revenue, MSEK	4,234	3,297	28%
EBITDA, MSEK	925	944	–2%
Net customer intake, 000s	2,649	1,427	

The market area's rate of growth increased in 2005, largely driven by Russia, where revenues increased by 97% on the previous year, and customer intake reached a record high. GSM services were successfully launched in another region, Voronezh, during the year. Towards the end of the year, a GSM license was acquired in Lipetsk (Note 16).

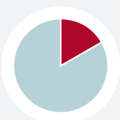
Mobile telephony operations in the Baltic states developed positively. Number portability was introduced in Estonia, enabling customers to change to Tele2 and keep their old number. In November 2005, Tele2 launched 3G services in Latvia, and is the fastest growing mobile operator in Lithuania. Due to the lack of willingness to deregulate fixed telecommunications and internet in the Baltic region, Tele2 chose to terminate its marketing and product development in fixed telephony.

Croatia is a new market for Tele2. We launched mobile services in Croatia during 2005 and have high expectations of good growth in our operations in this market.

CENTRAL EUROPE

The Central Europe market area comprises operations in Germany, Austria, Poland, the Czech Republic and Hungary.

17% of the Group's operating revenue



Central Europe	2005	2004	Change
Operating revenue, MSEK	8 378	5 058	66%
EBITDA, MSEK	595	246	142%
Net customer intake, 000s	907	1 940	

The market area continued to show extremely strong EBITDA development and healthy growth figures in 2005, thanks principally to the German and Hungarian operations. Germany experienced very strong development in 2005. EBITDA showed positive momentum thanks to determined cost control along with the increasing growth. In October, Tele2 launched ADSL services in Germany.

In Austria, the integration of UTA, which had been acquired in December 2004, was successfully completed. The focus will now turn to selling broadband services using our own network, according to the 'unbundled services' principle. This involves Tele2 installing its own technical equipment to process traffic from network station to the customer.

Local calls in Poland were fully deregulated towards the end of 2005. This contributed to a positive EBITDA result, on a monthly basis, in December, three years after the launch.

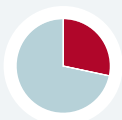
Tele2 experienced growth in the Czech Republic, despite poor regulatory conditions. Tele2 will continue its initiatives to align Czech conditions with those in the other EU countries.

Tele2 was able to report a strong customer intake in Hungary and as a result, has a market share of just over 20%, less than two years after its launch.

SOUTHERN EUROPE

The Southern Europe market area comprises operations in France, Italy, Spain, Switzerland and Portugal.

29% of the Group's operating revenue



Southern Europe	2005	2004	Change
Operating revenue, MSEK	14 258	14 152	1%
EBITDA, MSEK	896	1 639	–45%
Net customer intake, 000s	78	1 022	

2005 was an eventful year for Tele2 in Southern Europe. During the year, Tele2 became the first operator in France to offer customers one bill for fixed and mobile telephony and broadband. Tele2 intensified its ADSL market activities in France and Italy.

In Italy, Tele2 started the build out of its own unbundled local loop infrastructure (ULL), ADSL connections in the network stations.

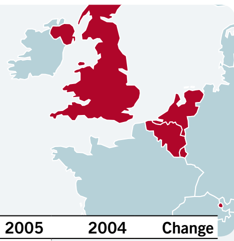
Tele2 became the third largest alternative operator in Spain following the acquisition of Comunitel (Note 16). The acquired company has a very strong position, particularly in the corporate market. This, together with Tele2's existing large customer base, sets the scene for future success. Tele2 estimates annual technology synergies of approximately EUR 14 million. A service including fixed telephony and ADSL has already been launched, using Comunitel's network.

Tele2 became Switzerland's largest alternative operator following the acquisition of fixed telephony operator Econophone (Note 16).

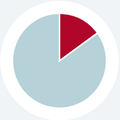
After just two years of operations, Tele2 is the largest alternative operator in Portugal. An ADSL network rollout is also underway in the country.

UK & BENELUX

The UK & Benelux market area comprises operations in the Netherlands, Luxembourg, Liechtenstein, Belgium, C³ operations and Alpha Telecom. Fixed telephony operations in the UK and Ireland were sold during 2005.



15% of the Group's operating revenue



UK & Benelux	2005	2004	Change
Operating revenue, MSEK	7,406	6,536	13%
EBITDA, MSEK	240	–146	
Net customer intake, 000s	–254	594	

The acquisition of Versatel (Note 16) elevated Tele2 to the position of largest alternative operator in the Netherlands and Belgium. Through the acquisition, Tele2 is creating new opportunities by combining the company's large customer base and market expertise with Versatel's network and strong position in the corporate market. Huge cost savings will be achieved by moving Tele2's traffic to Versatel's network, more over, Tele2 can offer several bundled services that meet the customers' demand in areas such as IP telephony, mobile telephony, ADSL and TV.

Tele2 continued its historic strong performance in Luxembourg, both in terms of customers and financially. Advanced mobile services with push technology and TV in 3G mobiles were launched during the year, which strengthened Tele2's position as a fast and flexible service provider.

We improved our position in Belgium during the year, despite an unsatisfactory regulatory climate and stiff competition. Apart from the effects of the acquisition of Versatel, good organic growth has been achieved.

In Liechtenstein, roaming traffic continued to increase during the year, while market share improved.

At the end of 2005, a SEK 263 million amortization of goodwill was reported in Alpha Telecom. The reason for this was mainly a change in the rate of VAT, which resulted in lower margins.

Fixed telephony operations in the UK and Ireland were divested at the end of the year, due to difficulties in launching broadband services and thereby being able to attain Tele2's long-term profitability targets.

SERVICES

The Services market area comprises 3C, Datametrix, ProcureITright, Radio Components and UNI2, where a number of these are operating in several countries. Proceedo Solutions was sold in 2005 (Note 16).

1% of the Group's operating revenue

Services	2005	2004	Change
Operating revenue, MSEK	593	523	13%
EBITDA, MSEK	56	75	–25%

Acquisitions and divestments

On September 30, 2005, Tele2 acquired 99.96% of the shares in Comunitel Global S.A., a telecom operator in Spain, for SEK 2.3 billion. On October 14 and November 1, 2005, Tele2 acquired a total of 80.29% of the shares in Versatel Telecom International NV, a leading alternative telecom operator in the Netherlands and Belgium for SEK 6.6 billion.

Tele2 also acquired Tiscali in Denmark (fixed telephony and internet), fixed network operator Econophone in Switzerland and Lipetsk Mobile in Russia (mobile telephony). During the year, Tele2 sold all its shares in Tele2 UK and Tele2 Ireland (fixed telephony), Proceedo Solutions (electronic solutions for purchasing processes) and Trigger Software in Estonia.

Further information on acquisitions and divestments can be found in Note 16.

Refinancing

On October 10, 2005, the existing borrowing facility was increased from SEK 7.0 billion to 19.1 billion, divided into SEK 14.1 billion expiring in November 2009 and SEK 5.0 billion expiring in November 2006, with the opportunity of extending one year at a time. The interest margin on the long-term portion is 25–50 basis points, depending on the debt/equity ratio, and on the short-term portion 20 basis points.

Disputes and damages

Tele2 is involved in a number of tax disputes, with a dispute from 2003 of SEK 3,910 million representing the largest of these. The tax authority has questioned the calculated fair market value of SEC SA in conjunction with a restructuring program in 2001. In 2004, the local tax authorities reconsidered their decision and in doing so clarified the grounds for their decision. Nothing has emerged during the year to change Tele2's opinion that the company has fulfilled all possible requirements for its entitlement to the deduction claimed and an appeal against the result of the reconsideration has therefore been lodged with the county administrative court. Further information can be found in Note 13.

In Sweden two disputes have been in progress for several years between Tele2 and TeliaSonera with regard to the pricing of interconnect fees in mobile telephony. The disputes will be settled by the county administrative court. An estimate of the most likely outcome of each dispute is made and the income statement is prepared on the basis of this. There are ongoing disputes in other countries, and Tele2 negotiates prices routinely in all markets.

Risks and uncertainty factors

Tele2's operations are affected by a number of external factors.

Operating risks

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

Changes in regulatory legislation in telecommunication services

Changes in legislation, regulations and decisions from authorities can have a considerable effect on Tele2's business operations and the competition situation in the markets in which we operate. Large-scale deregulation has historically been advantageous to Tele2's development, while a limited or slow deregulation process has restricted the company's opportunities for development. These decisions also influence the prices which apply to interconnection agreements with the local incumbents in the various markets.

Increased competition

Despite signs of consolidation in the sector in recent years, Tele2 has a large number of competitors in the markets in which we operate. Our growth, and therefore our profitability, is largely based on our ability to offer our customers a competitive price for our services. In a situation of aggressive pricing among participants in the market, this may have a negative effect on our financial position.

Introduction of new services
An important part of Tele2's business involves the ability to offer our customers added value in the form of new services. If we are unable to introduce new services commercially or suffer major delays in product launches, this may have a negative effect on our capacity to increase the revenue per user.

Ability to attract and retain customers
With saturated markets for telecommunications services and a high proportion of market penetration, Tele2 should attract new customers in direct competition with other operators. This may result in increased customer churn due to the behavior of our competitors, which in turn will mean additional costs for customer procurement.

Legal proceedings
Tele2 is a party to legal proceedings as a result of our normal business operations. As these proceedings can be complex, it may be difficult to predict their outcome. An unfavorable result can have an extremely negative effect on our business operations, operating profit or financial position.

Financial Risk Management

Through its operations, the Group is exposed to various financial risks such as currency risk, interest risk, liquidity risk and credit risk. Financial risk management is mainly centralized to group staff. The aim is to minimize the group's capital costs through appropriate financing and effective management and control of the Group's financial risks. Further information on financial risk management can be found in Note 36.

Transition to IFRS

With effect from January 1, 2005, Tele2 has prepared its consolidated financial statements in accordance with International Financial Reporting Standards (IFRS). The most important difference between Tele2's previous accounting policies and IFRS is that goodwill is no longer amortized. The 2004 figure for earnings per share after dilution (adjusted for the redemption procedure in 2005) rose from SEK 4.29 to SEK 7.73 as a result of the transition to IFRS. Further information about the transition to IFRS and its effects can be found in Note 37.

Events after the end of the financial year

The Extraordinary General Meeting held on February 21, 2006 decided to adopt an incentive program for maximum of 32 senior executives and key persons employed in the Tele2 Group, a combined offer of warrants and stock options. For each warrant the participant acquires free of charge a maximum of two stock options, each of which gives the right to subscribe to one B share in the company. For 2006, the meeting decided to issue a maximum of 1,059,000 warrants. The meeting also decided that the Board should be authorized to issue a maximum of 2,118,000 warrants closer to the time of the next General Meeting, to be used to secure the delivery of B shares according to the stock options in the incentive program described above. Supported by the subscription warrants, B shares may be subscribed for in the period February 25–May 25, 2009, and the duration for the stock options are five years and can be exercised first after approximately three years after allotment. The subscription price for the warrants and the acquisition price at time for exercise of the stock options will be 110% of the averages of last prices paid for the company's B-share during the period of February 22 to March 7, 2006. The intention of the Board is to leave consideration of the annual allocation proposal, as per the above, to the Annual General Meetings in 2007 and 2008.

Work of the Board of Directors

At the Annual General Meeting in May 2005, John Hepburn was appointed as a new Board member, while other Board members were re-elected.

The Board is responsible for the company's organization and management, and is composed in such a way as to enable it to effectively support and manage the responsibility of the company's senior executives. The Board makes decisions on overall strategies, organizational matters, acquisitions, corporate transactions, major investments, and establishes the framework of Tele2's operations by defining the company's financial goals and guidelines. The Board held 12 meetings during the year.

Within the Board, a Remuneration Committee and an Audit Committee have been appointed. These committees should be seen as preparing bodies for the Board and as such do not reduce the Board's joint and several responsibility for the company's interests and the decisions made. All Board members have access to the same information.

The Chairman of the Board closely monitors the company's development and is responsible for ensuring that other members receive the information they need to perform their Board duties efficiently and appropriately.

The Nomination committee's work is aimed at ensuring that Tele2 has the best possible Board for the company's long-term development. The work of the Remuneration Committee includes salary matters, pension conditions, bonus systems and other terms of employment for the CEO and other senior executives. The Audit Committee's role is to maintain and improve the efficiency of contact with the Group's auditors and to supervise the procedures for accounting and financial reporting and auditing within the Group.

Parent company

The parent company performs functions and conducts certain group-wide development projects.

The Annual General Meeting on May 11, 2005 decided to have a share split and a redemption procedure whereby each share was divided into 3 ordinary shares and 1 redemption share. Redemption shares have automatically been redeemed for SEK 10 per share, corresponding to a total of SEK 1,476 million. Along with the ordinary dividend of SEK 5 per share, shareholders have received SEK 2,213 (2004: 443) million. The parent company has received a group contribution totaling SEK 1,205 (2004: 2,385) million.

Proposed appropriation of profit

The Board and CEO propose that of the total amount SEK 3,845,118,449 at the disposal of the Annual General Meeting, SEK 776,392,456 (SEK 1.75 per share) be paid in dividends to the shareholders and the remainder, SEK 3,068,725,993, be carried forward.

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

FIVE-YEAR SUMMARY

	2005	2004	2003[1]	2002[1]	2001[1]
SEK million					
Operating revenue	49,943	43,033	36,911	31,282	25,085
Number of customers, thousands	30,252	27,794	22,306	16,764	14,958
EBITDA	6,578	6,629	5,710	5,127	1,698
EBITA	3,788	4,696	3,772	3,006	183
EBIT	3,510	4,318	1,866	1,494	–1,323
EBT	3,127	4,207	1,267	796	–1,944
Net profit	2,341	3,428	2,396	223	392
Shareholders' equity	35,368	32,900	30,360	28,728	29,517
Shareholders' equity, after dilution	35,401	32,965	30,422	28,743	29,547
Total assets	68,283	49,865	47,970	46,872	49,258
Cash flow from operating activities	5,487	5,876	5,974	4,365	413
Cash flow after CAPEX	1,847	4,314	4,084	2,475	–1,732
Available liquidity	8,941	5,113	3,444	2,332	1,625
Net borrowing	11,831	2,823	4,427	7,729	9,286
Investments in intangible and tangible assets, CAPEX	3,640	1,562	1,895	1,956	2,162
Investments in shares and other long-term receivables	7,567	1,756	767	626	304
Average number of employees	3,909	2,928	3,274	3,115	2,172
Key ratios					
Equity/assets ratio, %	52	66	63	61	60
Debt/equity ratio, multiple	0.33	0.09	0.15	0.27	0.31
EBITDA margin, %	13.2	15.4	15.5	16.4	6.8
EBIT margin, %	7.0	10.0	5.1	4.8	–5.3
Return on shareholders' equity, %	6.9	10.8	8.1	0.8	1.4
Return on shareholders' equity after dilution, %	6.9	10.8	8.1	0.8	1.4
Return on capital employed, %	8.2	12.1	5.0	3.9	–3.3
Average interest rate, %	3.7	4.4	5.0	6.4	6.3
Value per share, SEK					
Earnings excl. goodwill amortization	5.93	8.60	9.72	3.92	4.36
Earnings excl. goodwill amortization, after dilution	5.92	8.58	9.69	3.92	4.36
Earnings	5.3	7.74	5.42	0.50	0.90
Earnings, after dilution	5.29	7.73	5.40	0.50	0.90
Shareholders' equity	78.96	74.32	68.63	64.98	67.85
Shareholders' equity, after dilution	78.93	74.29	68.56	64.89	67.82
Cash flow from operating activities	12.39	13.27	13.50	9.87	0.95
Dividend and redemption	1.75[3]	5.00[2]	1.00	–	–
Market price at closing day	85.25	87.00	128.00	76.83	126.00

1) 2001-2003 figures have not been restated for IFRS.
2) The ordinary dividend for 2004 was SEK 5 per share as well as payment per redemption share of SEK 10, a total of SEK 15 before split and redemption procedure and corresponds to SEK 5 per share after the split.
3) Proposed dividend.

As Tele2's IFRS transition date is January 1, 2004, the income statements and balance sheets for the period 2001-2003 have not been restated under IFRS. The main difference between Tele2's previous accounting policies and IFRS is that goodwill is not amortized under IFRS. The effect of this can be seen in the EBITA figure and earnings per share excluding goodwill amortization. Other differences are described in Note 37.

Consolidated income statement

SEK million	Note	2005	2004
Operating revenue	*4*	49,943	43,033
Cost of services sold		–29,701	–24,889
Gross profit		**20,242**	**18,144**
Selling expenses		–12,569	–10,738
Administrative expenses		–4,254	–3,157
Other operating revenue	*6*	231	92
Other operating expenses	*7*	–40	–40
Result from shares in associated companies and joint ventures	*8*	–100	17
Operating profit	*5*	**3,510**	**4,318**
PROFIT/LOSS FROM FINANCIAL INVESTMENTS:			
Interest income	*9*	89	99
Interest costs	*10*	–286	–372
Other financial items	*11*	–186	162
Profit after financial items		**3,127**	**4,207**
Tax on profit for the year	*13*	–786	–779
NET PROFIT	*2, 3*	**2,341**	**3,428**
ATTRIBUTABLE TO:			
Equity holders of the parent company		2,347	3,428
Minority interest		–6	–
NET PROFIT		**2,341**	**3,428**
Earnings per share	*23*	5.30 kr	7.74 kr
Earnings per share after dilution	*23*	5.29 kr	7.73 kr
Number of shares	*23*	443,652,832	442,680,525
Number of shares, weighted average	*23*	442,842,576	442,680,525
Number of shares after dilution	*23*	443,980,845	443,714,392
Number of shares after dilution, weighted average	*23*	443,391,246	443,741,574

Consolidated balance sheet

SEK million	Note	Dec. 31, 2005	Dec. 31, 2004
ASSETS			
FIXED ASSETS			
INTANGIBLE ASSETS			
Goodwill	*14*	26,702	22,450
Other intangible assets	*14*	4,377	1,566
Total intangible assets		**31,079**	**24,016**
TANGIBLE ASSETS			
Machinery and technical plant	*15*	12,302	8,190
Other tangible assets	*15*	1,980	917
Total tangible assets		**14,282**	**9,107**
FINANCIAL ASSETS			
Shares in associated companies and joint ventures	*17*	431	531
Other financial assets	*18*	75	93
Total financial assets		**506**	**624**
DEFERRED TAX ASSETS	*13*	5,281	3,218
Total fixed assets		**51,148**	**36,965**
CURRENT ASSETS			
MATERIALS AND SUPPLIES		516	308
CURRENT RECEIVABLES			
Accounts receivable	*19*	6,726	5,945
Current tax receivables		149	6
Other receivables	*20*	1,172	562
Prepaid expenses and accrued income	*21*	4,593	3,931
Total current receivables		**12,640**	**10,444**
CASH AND CASH EQUIVALENTS	*22*	3,979	2,148
Total current assets		**17,135**	**12,900**
TOTAL ASSETS	*2, 3*	**68,283**	**49,865**

Consolidated balance sheet

SEK million	Note	Dec. 31, 2005	Dec. 31, 2004
EQUITY AND LIABILITIES			
SHAREHOLDERS' EQUITY			
Share capital	*23*	555	738
Other paid-in capital		16,819	16,577
Reserves		2,035	199
Retained earnings		15,556	15,384
Attributable to equity holders of the parent company		**34,965**	**32,898**
Minority interest		403	2
Total shareholders' equity		**35,368**	**32,900**
LONG-TERM LIABILITIES			
INTEREST-BEARING			
Liabilities to financial institutions	*24*	8,633	1,258
Provisions	*25*	97	19
Other liabilities	*26*	819	451
Total interest-bearing		**9,549**	**1,728**
NON-INTEREST-BEARING			
Deferred tax liability	*13*	1,759	475
Provisions	*25*	114	34
Total non-interest-bearing		**1,873**	**509**
Total long-term liabilities		**11,422**	**2,237**
SHORT-TERM LIABILITIES			
INTEREST-BEARING			
Liabilities to financial institutions	*24*	5,812	3,207
Provisions	*25*	17	4
Other liabilities	*26*	447	97
Total interest-bearing		**6,276**	**3,308**
NON-INTEREST-BEARING			
Accounts payable		6,581	5,060
Current tax liabilities		396	226
Provisions	*25*	234	6
Other liabilities	*27*	585	494
Accrued expenses and deferred income	*28*	7,421	5,634
Total non-interest-bearing		**15,217**	**11,420**
Total short-term liabilities		**21,493**	**14,728**
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES	*2, 3*	**68,283**	**49,865**

Consolidated cash flow statement

SEK million	Note	2005	2004
OPERATING ACTIVITIES			
Operating profit		3,510	4,318
Adjustments for non-cash items:			
Depreciation/amortization		2,968	2,328
Result from shares in associated companies and joint ventures		100	–17
Net capital gain/loss on sale of fixed assets		–130	–24
Finance leases		–3	–39
Exchange rate difference		–74	–9
Interest received		70	133
Interest paid		–225	–301
Finance costs paid		–6	–9
Dividend received		1	–
Taxes paid		–552	–152
Cash flow from operations before changes in working capital	*32*	**5,659**	**6,228**
Changes in working capital:			
Materials and supplies		–158	28
Operating assets		–918	–597
Operating liabilities		904	217
Changes in working capital	*32*	**–172**	**–352**
CASH FLOW FROM OPERATING ACTIVITIES		**5,487**	**5,876**
INVESTING ACTIVITIES			
Acquisition of intangible assets	*32*	–740	–56
Sale of intangible assets	*32*	7	–
Acquisition of tangible assets	*32*	–2,915	–1,529
Sale of tangible assets	*32*	8	23
Acquisition of shares in Group companies (excluding cash)	*16*	–7,720	–2,065
Sale of shares in Group companies		148	33
Acquisition of other securities		–	–737
Sale of other securities		22	899
Other long-term lending		–12	–17
Other payments from long-term lending		26	32
Cash flow from investing activities		**–11,176**	**–3,417**
CASH FLOW AFTER INVESTING ACTIVITIES		**–5,689**	**2,459**
FINANCING ACTIVITIES			
Proceeds from credit institutions		11,306	7,403
Repayment of loans from credit institutions		–2,049	–9,554
Proceeds from other interest-bearing liabilities		443	28
Repayment of other interest-bearing liabilities		–189	–508
Dividend/redemption		–2,213	–443
Proceeds from new shares issued		59	–
Shareholder contribution from minority owners		38	–
Cash flow from financing activities		**7,395**	**–3,074**
NET CHANGE IN CASH AND CASH EQUIVALENTS		**1,706**	**–615**
Cash and cash equivalents at beginning of the year	*22*	2,148	2,773
Exchange rate difference in cash	*22*	125	–10
CASH AND CASH EQUIVALENTS AT END OF THE YEAR*	*22*	**3,979**	**2,148**
** of which restricted funds*	*22*	*892*	*365*

For additional cash flow information, please refer to Note 32.

Change in consolidated shareholders' equity

SEK million	Share capital	Other paid-in capital	Hedge reserve	Translation reserve	Retained earnings	Total	Minority interest	Total equity
	Attributable to equity holders of the parent company							
Shareholders' equity at January 1, 2004	**738**	**16,577**	**26**	**631**	**12,399**	**30,371**	**7**	**30,378**
ITEMS RECOGNIZED DIRECTLY IN SHAREHOLDERS' EQUITY								
Exchange rate difference	–	–	55	–487	–	–432	–5	–437
Exchange rate difference, tax effect	–	–	–22	–4	–	–26		–26
Total items recognized directly in shareholders'equity	**–**	**–**	**33**	**–491**	**–**	**–458**	**–5**	**–463**
NET PROFIT FOR THE YEAR								
Net profit	–	–	–	–	3,428	3,428	–	3,428
Total for the year	**–**	**–**	**33**	**–491**	**3,428**	**2,970**	**–5**	**2,965**
OTHER CHANGES IN SHAREHOLDERS' EQUITY								
Dividend	–	–	–	–	–443	–443	–	–443
SHAREHOLDERS' EQUITY AT DECEMBER 31, 2004	**738**	**16,577**	**59**	**140**	**15,384**	**32,898**	**2**	**32,900**
Shareholders' equity at January 1, 2005	**738**	**16,577**	**59**	**140**	**15,384**	**32,898**	**2**	**32,900**
ITEMS RECOGNIZED DIRECTLY IN SHAREHOLDERS' EQUITY								
Exchange rate difference	–	–	–183	1,917	–	1,734	–1	1,733
Exchange rate difference, tax effect	–	–	60	42	–	102		102
Total items recognized directly in shareholders' equity	**–**	**–**	**–123**	**1,959**	**–**	**1,836**	**–1**	**1,835**
NET PROFIT FOR THE YEAR								
Net profit	–	–	–	–	2,347	2,347	–6	2,341
Total for the year	**–**	**–**	**–123**	**1,959**	**2,347**	**4,183**	**–7**	**4,176**
OTHER CHANGES IN SHAREHOLDERS' EQUITY								
New share issues	1	58	–	–	–	59	–	59
Dividends and redemption procedure	–184	184	–	–	–2,213	–2,213	–	–2,213
Minority's share in acquired companies	–	–	–	–	–	–	408	408
Shareholder contribution from minority	–	–	–	–	38	38	–	38
SHAREHOLDERS' EQUITY, AT DECEMBER 31 2005	**555**	**16,819**	**–64**	**2,099**	**15,556**	**34,965**	**403**	**35,368**

Notes to the consolidated financial statements

Contents

Note 1. Accounting principles and other information

The consolidated financial statements have been prepared in accordance with the International Financial Reporting Standards (IFRS) and the interpretations of the International Financial Reporting Interpretations Committee (IFRIC) of January 1, 2005, as adopted by the EU. The IFRS transition date is January 1, 2004. This means that comparative figures for 2004 have been restated according to the new standards. The Group also applies the Swedish Financial Accounting Standards Council's recommendation RR30, *Supplementary Rules for Consolidated Financial Statements*, which specifies additional information required under the Swedish Annual Accounts Act.

The financial reports have been prepared on the basis of historic aquisition value, apart from financial instruments which are normally based on the amortized cost method, with the exception of other long-term securities which are measured at fair value.

Further information on the transition to IFRS can be found in Note 37.

New regulations

IFRS 6 *Exploration for and Evaluation of Mineral Resources*, IFRIC 4 *Determining Whether an Arrangement Contains a Lease* and IFRIC 5 *Rights to Interests Arising From Decommissioning, Restoration and Environmental Rehabilitation Funds* are applied as of January 1, 2006. IFRS 7 *Financial Instruments Disclosures* will be applied as of January 1, 2007. Earlier application is encouraged.

IFRIC 4 will be applied prospectively and provides guidelines for determining whether an arrangement which does not legally constitute a lease should still be reported in accordance with IAS 17 *Leases*.

IFRS 7 will be applied prospectively and does not involve any change to reporting and measurement of financial instruments. However, there will be certain additional disclosure requirements compared with previous requirements under IAS 32.

IFRS 6 and IFRIC 5 are not applicable to Tele2's operations.

CONSOLIDATION

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

The consolidated accounts are prepared in accordance with the purchase method. This means that consolidated shareholders' equity only includes the subsidiary's equity that arose after the acquisition and the consolidated income statements only include earnings from the date of acquisition until the date of divestment, if the subsidiary is sold. The difference between the acquisition value of shares in subsidiaries and the fair value of the subsidiary's identifiable assets, liabilities and contingent liabilities at the time of acquisition is reported as goodwill.

Accounts of all foreign group companies is in the currency used in the primary economic environment of each company's main activity, which is normally the local currency.

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

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

ASSOCIATED COMPANIES AND JOINT VENTURES

Associated companies are companies in which the holding is considered to be long-term and Tele2 has voting power of between 20% and 50% or in some other way has significant influence. Joint ventures are companies over which the owners have a joint control.

Associated companies and joint ventures are accounted for in accordance with equity method. This means that the group's carrying amount of the shares in the company correspond to the group's share of shareholders' equity as well as any residual value of consolidated surplus values after application of the group's accounting principles. The share of the company's profit or loss after net financial items is reported as a part of "Operating profit" as "Result from shares in associated companies and joint ventures", along with depreciation of the acquired surplus value. The share of the company's tax expense/income is included in the income statement on the line "Tax on profit for the year". The company's tax assets/liabilities are reported in the balance sheet as "Shares in associated companies and joint ventures".

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

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

REVENUE RECOGNITION

Operating revenue includes customer-related revenues from mobile and fixed telephony services such as connection charges, subscription charges, call charges, data and information services and other services. Operating revenue also includes interconnect revenue from other operators and income from the sale of products such as mobile phones and modems. Revenues are reported at the selling value, less discounts and VAT.

Connection charges are recognized at the time of the sale. Subscription charges for cable TV, ADSL, dial-up internet, leased capacity and internet connection for direct access customers are recognized in the period covered by the charge. Call charges and interconnect revenue are recognized in the period during which the service is provided. Revenue from the sale of products is recognized at the time the product is supplied to the customer. Revenue from the sale of cash cards is recognized based on actual use of the card or when the expiry date has passed.

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

OPERATING EXPENSES

Operating expenses are classified according to function, as described below. Depreciation and amortization and personnel costs are stated by function. Total costs for depreciation and amortization are presented in Note 5 and the total personnel costs are presented in Note 34.

Cost of services sold

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

Selling expenses

Selling expenses include costs for internal sales organisation, purchased services, personnel costs, rental costs, as well as depreciation and amortization of fixed assets attributable to sales activities. Advertising and other marketing activities are also included and are expensed continuously.

Administrative expenses

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

Other operating revenues and other operating expenses

Other operating revenues and other operating expenses apply to secondary activities, exchange rate differences in operating items and capital profit/loss on the sale of tangible assets. The group accounts also includes capital profit/loss on the sale of subsidiaries and associated companies and joint ventures.

NUMBER OF EMPLOYEES, SALARY AND REMUNERATION

The average number of employees (Note 33) as well as salaries and remunerations (Note 34) for companies acquired during each year is reported in relation to how long the company has been a part of the Tele2 Group.

The number of employees as well as salaries and remunerations are not reported per country, but categorised and presented per market area in order to promote clarity and provide a more true and fair view which complies with other parts of the annual report and therefore to facilitate a comparison with operating revenue and other income statement items.

SHARE-BASED PAYMENTS

Tele2 grants options and other share-based instruments to certain employees.

Tele2 has chosen to use IFRS 1's exemption rule with regard to share-based payments. IFRS 2 *Share-based payments* is therefore not applied to the incentive programmes that were granted before November 7, 2002 and were vested prior to January 1, 2005. For these incentive programmes, previous accounting principles are applied which means that the premium paid by the employees upon exercise is reported directly against shareholders' equity. To the extent that the instrument's actual value exceeds the premium, no cost has been charged to the income statement.

For other incentive programmes, the fair value, calculated at the date of grant, of the allotted options and other share-based instruments are charged over the vesting period. Possible influence of non market-related conditions for earnings has been excluded. Payments received, after deductions for any costs directly related to transactions, are credited shareholders' equity.

PENSIONS

The Group has a number of pension schemes, where the main part of Tele2's pension plans consist of defined-contribution plans (Note 34) for which the Group makes payments to public and private pension institutions. The regular payments represent the pension expenses for the year and are included in personnel costs. Payments made by the Group with regard to defined-contribution pension plans are reported as an expense during the period in which the employees performed the services to which the contribution relates. Only a small part of the Group's pension commitments relate to defined-benefit plans.

The defined-contribution plans ensure a certain predefined payment of premiums and changes of the value of investments is not compensated by Tele2. Therefore Tele2 does not bear the risk at the time of pension payment.

CORPORATE INCOME TAX

When accounting for income taxes, the balance sheet method is applied. The method involves deferred tax liabilities and assets for all temporary differences between the carrying amount of an asset or liability in the balance sheet and its tax base as well as other tax-related deductions or deficits. An item which alters the time when an item is taxable or deductible is considered a temporary difference. Deferred tax liabilities and assets are calculated based on the expected tax rate at the time of reversal of the temporary difference.

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

The calculation of deferred tax assets takes into account the loss carry-forwards and temporary differences where it is likely that losses will be utilized toward future gains. In cases where a company reports losses, an assessment is made of whether sufficient taxable profits will be available against which loss carry-forwards can be utilized. When Tele2 launches in new markets by making use of a common business model applicable for the group, a continuous comparison can be made between actual and expected development according to the model. When newly established companies are showing they will generate a positive result and therefore will likely utilize tax loss carry-forwards that have accrued during the establishment period, deferred tax assets are recorded to the company's loss carry-forward amount, including positive temporary differences, with the mentioned model as a basis.

Valuation and accounting of deferred taxes in connection with the acquisition of companies is done as part of the valuation of assets and liabilities to the fair value at the time of acquisition. In these circumstances, the deferred tax assets are assessed at a value corresponding to what the company expects to utilize. When an acquired company has loss carry-forwards and Tele2, at the time of acquisition, has made an assessment that the related tax assets are not realizable, but a subsequent assessment results in tax assets being recorded and reported in the income statement as a tax benefit, an amount corresponding to the reported value of the original loss carry-forward will reduce the book value of goodwill by means of an expense in the income statement.

Deferred tax assets and deferred tax liabilities are netted only among group companies within the same tax jurisdiction.

EARNINGS PER SHARE

Earnings per share after dilution (Note 23) is calculated according to a method where the redemption price of outstanding options is compared to the average market value of Tele2's shares during the financial period.

FIXED ASSETS

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

Intangible assets:	
Licenses, utilization rights and software	1–23 years
Interconnection agreements	5–10 years
Customer agreements	4 years
Tangible assets:	
Buildings	5–40 years
Modem	3 years
Machinery and technical plant	2–25 years
Equipment and installations	2–10 years

At the end of each reporting period an assessment is made of whether there is any indication of reduced value with regard to the Group's assets. If there is any indication that a fixed asset has declined in value, a calculation of its recoverable amount is made.

The recoverable amount is the higher of the assets value in use in the operations and the value that is achieved if the asset is divested to an independent party, the net sales value. The value in use consists of the present value of all cash flows from the asset during the utilization period as well as the addition of the present value of the net sales value at the end of the utilization period. If the estimated recoverable amount is less than the carrying amount, the asset is written down to its recoverable amount.

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

Intangible assets

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

Goodwill is measured as the differences between the fair value of the identifiable assets, the liabilities and contingent liabilities' and the total purchase price of the acquisition. Goodwill is reported at acquisition value with deduction for any write-downs. Where the fair value of the acquired net assets exceeds the purchase cost, the surplus is immediately reported as income in the income statement.

Goodwill has been allocated to the cash generating units that are expected to obtain benefits as a result of the acquisition and is, along with the intangible assets with indefinite lives and intangible assets that are not put to use, subject to annual impairment testing even if there is no indication of a fall in value.The impairment test of goodwill has been made at the lowest level where separable cash flows are identified. The value of the respective cash generating unit is based on the estimated value in use. The most important factors that influenced the year's impairment testing are presented in Note 14.

In the case of reorganisation or divestment, involving the change of the composition of cash generating units to which goodwill has been allocated, the goodwill shall be allocated to the relevant units. The allocation is based on the value of the part of the cash generating unit which the reorganisation or divestment relates to, and the part that remains after the reorganisation or the divestment.

Customer agreements are valued in conjunction with business acquisitions. Tele2 applies a model where the average of the cost of acquiring new customers, alternatively expected future cash flows, is applied to value customer agreements. The customer agreements are amortized during their useful life on a straight-line basis.

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

Tangible assets

Land and buildings relate to assets intended for use in operations. Buildings are depreciated on a straight-line basis during the utilization period with deductions for estimated residual value at the end of the utilization period. The acquisition value includes the direct costs attributable to the building.

Machinery and technical plant include equipment and machinery intended for use in operations, such as network installations. Depreciation of the asset is made on a straight-line basis over the utilization period. The acquisition value includes the direct expenses attributable to the construction and installation of networks.

Additional expenses for extension and value-increasing improvements to the assets original condition are capitalized, while additional expenses for repairs and maintenance are charged to income during the period in which they arise.

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

Expenses attributable to modem

Tele2 charges modem-related expenses over the period in use. Other expenses, such as installation costs, are expensed as incurred.

Loan expenses

Loan expenses which are directly attributable to acquisition, construction or production of an asset which of necessity requires considerable time to complete for the intended usage are included in the acquisition value of the asset. Other interest expenses are expensed in the period in which they arise.

Leases

Leases are classified as finance or operating leases. A lease is classified as a finance lease if it transfers substantially all the economic risks and rewards of ownership of an asset to the lessee. When reporting a financial lease in the consolidated accounts, each asset is recorded as a tangible asset, and a corresponding amount is entered as a lease obligation under liabilities (Note 15 and 26). The asset is depreciated on a straight-line basis over the utilization period, with the estimated residual value deducted at the end of the utilization period. A lease is classified as an operating lease if substantially all the economic risks and rewards of ownership of an asset remain with the leasing company. Payments are expensed in the income statement on a straight-line basis over the leasing period.

Dismantling costs

Insofar as there is a commitment to a third party, the estimated cost of dismantling and removing an asset and restoring the site/area is included in the acquisition value. Any change to the estimated cost of dismantling and removing an asset and restoring the site is added to or subtracted from the carrying amount of the particular asset. Tele2 does not consider there to be any such material commitments in respect of the company's assets at the present time.

FINANCIAL ASSETS AND LIABILITIES

Acquisitions and sales of financial assets are reported on the trading date, which is the date that the Group has an undertaking to acquire or sell the asset. Financial instruments are initially recognized at acquisition value and then updated on a continuous basis to the fair value or amortized cost based on the initial categorisation.

Other long-term securities

Tele2's other long-term securities are classified as assets at fair value through profit or loss. Assets in this category are initially reported at acquisition value, i.e. fair value at the time of acquisition, and valued thereafter on a continuous basis at fair value. The change in values is reported in the income statement. If Tele2 has not obtained a reliable valuation, the securities are valuated at its acquisition cost.

Receivables

Tele2's accounts receivable and other receivables are categorized as "Loan receivables and other receivables" and reported on a continuous basis at accrued acquisition value, which corresponds to their nominal amounts. On each closing day, a revaluation is done of these assets.

Cash and cash equivalents

Cash and cash equivalents consist of cash and bank balances as well as current investments with a maturity of less than three months. Cash and cash equivalents according to the cash flow statement and balance sheet include restricted funds (Note 22). Restricted funds can be made available within 3 months.

Financial liabilities

Financial liabilities not included by the hedge accounting are reported and valued at amortized cost. Direct costs related to the origination of loans are included in the acquisition value. Financial liabilities in foreign currency are translated at the closing exchange rate.

Hedge accounting of financial liabilities in foreign currency

Changes in fair values for loans in foreign currency fulfilling the hedge accounting requirements of net investment in foreign operations are reported on a continuous basis as hedge reserve in shareholders' equity. When divesting foreign subsidiaries, the accumulated exchange rate difference attributable to the divested subsidiary is recorded in the income statement.

Receivables and liabilities in foreign currency

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

Gains or losses on foreign exchanges relating to regular operations are included in the income statement under Other operating revenues/expenses. Differences in financial assets and liabilities are reported within profit/loss from financial items. A summary of the exchange rate differences charged directly to shareholders' equity is presented in the statement "Change in consolidated shareholders' equity" and the differences which affected profit/loss of the year are presented in Note 12.

When long-term lending to/borrowing from Tele2's foreign operations is regarded as a permanent part of the parent company's financing of/borrowing from foreign operations, and thus as an expansion/reduction of the parent company's investment in the foreign operations, the lending/borrowing is translated at the historical rate of exchange if the borrowing is denominated in the foreign company´s currency. In these cases, the consequence is that the exchange rate changes of the intra-group transactions in the group accounts are reported directly to the translation reserve in shareholders' equity.

INVENTORIES

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

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

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

Hedge reserve involves translation differences on external loans in foreign currency which are used to secure net investments in foreign subsidiaries.

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

Minority interest involves the value of minority shares in net assets for subsidiaries included in the consolidated accounts at the time of the original acquisition and the minority shareholders' share of changes in equity after the acquisition.

PROVISIONS
Provisions are reported when a company within the Group, as a result of the events that have occurred, has a legal or constructive obligation, when it is probably that payments will be required in order to fulfill the commitments and a reliable estimate can be done of the amount to be paid.

SEGMENTS
Tele2's operations are divided into market areas and business areas. Since the risks in the operations primarily are controlled by the various markets where Tele2 operates, the market areas constitute the primary segment and business areas the secondary. Market area grouping follows the method of internal reporting to the board and management and is divided into six market areas of which five are geographic.

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

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

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

For the secondary segment it is not practical to distribute accounts receivable and other current assets by business area and therefore, these assets are reported as undistributed assets.

Segment information by market area is provided in Note 2 and segment information by business area is presented in Note 3. Segment information for operating revenue, EBITDA, EBIT and investments are presented in Note 4, Note 5 and Note 32, where the intra-group sales eliminated under each market area relate to sales to companies in the Tele2 Group.

Internal pricing
The sale of services in the Tele2 Group are made on market terms. Group-wide costs are invoiced to operations that have used the service.

CHOICE OF ACCOUNTING PRINCIPLES
When choosing and applying Tele2's accounting principles, the board and CEO have made the following choices.

Reporting of joint ventures
Tele2 reports joint ventures according to the equity method of accounting. Another accepted method is the proportional method, which means that the consolidated balance sheet includes the Group's share of assets and liabilities in joint ventures as well as any residual value of consolidated surplus value when Group´s accounting principles have been applied. The consolidated income statement includes the Group's share of joint venture's revenues and expenses.

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

ASSESSMENTS AND ESTIMATES
The group financial reports are partly based on assumptions and estimates related to the preparation of the group accounts. The estimates and calculations are based on historical experience and a number of other assumptions to result in a decision regarding the value of the assets or liabilities which cannot be determined in any other way. The actual outcome may vary from these estimates and assessments.

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

Valuation of acquired intangible assets
When acquiring businesses, intangible assets are valued at fair value. If there is an active market for the acquired assets, the fair value is defined based on the prices on this market. Since there is often no active markets for these assets, valuation models have been developed to estimate the fair value. Examples of valuation models are discounting of future cash flows and estimates of Tele2's historic costs to acquire corresponding assets.

Valuation of goodwill
When estimating cash generating units' recoverable amount for the evaluation of goodwill impairment, the assumption of future values and estimates of parameters are made. These assumptions is presented in Note 14.

Valuation of property, plant and equipment with a finite useful life
If the recoverable amount falls below the book value, an impairment is recognized. The decision of whether the existing factors indicating that an asset is exposed to an impairment is based on management's evaluation of future cash flows including discounting factors.

Useful lives for fixed assets
Depreciation rates are based on the acquisition value of the fixed assets and the estimated utilization period with deduction for calculated residual value at the end of the utilization period. If technology is developed faster than expected or the competition, regulating or market conditions are developed differently than expected, the company's evaluation of utilization periods and residual values will be influenced.

Valuation of deferred income tax
Deferred income tax accounting takes into consideration temporary differences, including a valuation of unutilized loss carry-forwards. Deferred tax assets are reported for loss carry-forwards only to the extent that it is considered likely that the loss carry-forward can be utilized to offset future profits. Management updates its assessments at regular intervals. The valuation of deferred tax assets is based on expectations of future results and market conditions, which in turn are subjective.

Valuation of disputes and damages
Tele2 is party to a number of disputes. For each separate dispute an assessment is made of the most likely outcome, and the income statement is affected by the estimated expenses.

Valuation of receivables
Receivables are valued continuously and are reported at accrued acquisition value. Reserves for doubtful accounts are based on various assumptions as well as historic experience.

OTHER INFORMATION
Tele2 AB (publ) is a limited company, with its registered office in Stockholm. The company's registered office (phone +46 8 5620 0060) is at Skeppsbron 18, Box 2094, 103 13 Stockholm, Sweden.

The annual report has been approved by the Board of Directors March 7, 2006. The balance sheet and income statement shall be determined at the Annual General Meeting May 10, 2006.

Note 2. Market areas

The *Nordic* market area includes operations in Sweden, Norway and Denmark. The *Baltic & Russia* market area comprises operations in Estonia, Latvia, Lithuania, Russia and Croatia. The *Central Europe* market area comprises operations in Germany, Austria, Poland, the Czech Republic and Hungary. The *Southern Europe* market area includes operations in France, Italy, Spain, Switzerland and Portugal. The *UK & Benelux* market area includes operations in the Netherlands, Luxembourg, Liechtenstein, Belgium, Alpha Telecom and C[3] operations. The *Services* market area includes 3C, Datametrix, ProcureITright, Radio Components and UNI2, where a number of these are operating in several countries. In 2005 Tele2 has changed reporting of the market area structure where a number of companies which previously were included in the market areas Southern Europe and Services respectively are now included in UK & Benelux. The Datametrix operations have also been moved from Nordic to Services. The change is primarily a consequence of altererd areas of responsibility in connection with the replacement of the Market Area Directors as well as Services. This change has been applied retrospectively for earlier periods.

	2005							
	Nordic	Baltic & Russia	Central Europe	Southern Europe	UK & Benelux	Services	Undistributed as well as internal elimination	Total
INCOME STATEMENT								
Operating revenue								
External	15,074	4,234	8,378	14,258	7,406	593	–	49,943
Internal	331	26	441	503	188	233	–1,722	–
Operating revenue	**15,405**	**4,260**	**8,819**	**14,761**	**7,594**	**826**	**–1,722**	**49,943**
Result from associated companies and joint ventures	–100	–	–	–	–	–	–	–100
Operating profit	2,300	472	–38	429	–1,116	–50	1,513	3,510
Interest revenue							89	89
Interest costs							–286	–286
Other financial items							–186	–186
Tax on profit for the year							–786	–786
NET PROFIT	**2,300**	**472**	**–38**	**429**	**–1,116**	**–50**	**344**	**2,341**
OTHER INFORMATION								
Investments, intangible assets	45	252	72	602	1	12	–	984
Investments, tangible assets	556	1,393	207	255	307	48	–	2,766
Non-cash-generating profit/loss items:								
Depreciation/amortization	–882	–445	–515	–294	–780	–52	–	–2,968
Sales of fixed assets	–4	–	43	153	–67	5	–	130
Finance leases	–	1	–	–	2	–	–	3

	Dec. 31, 2005							
Shares in associated companies and joint ventures	408	–	–	–	23	–	–	431
Assets	13,410	8,331	9,606	15,943	15,370	512	5,111	68,283
Liabilities	4,828	1,217	2,684	4,988	3,070	290	15,838	32,915

Investments in market areas in accordance with the cash flow analysis are presented in Note 32. Operating revenue, EBITDA and EBIT per market area based on elimination of internal sales to companies in the other market areas are presented in Note 4 and Note 5.

	2004							
	Nordic	Baltic & Russia	Central Europe	Southern Europe	UK & Benelux	Services	Undistributed as well as internal elimination	Total
INCOME STATEMENT								
Operating revenue								
External	13,467	3,297	5,058	14,152	6,536	523	–	43,033
internal	169	1	420	85	176	207	–1,058	–
Operating revenue	**13,636**	**3,298**	**5,478**	**14,237**	**6,712**	**730**	**–1,058**	**43,033**
Result from associated companies and joint ventures	17	–	–	–	–	–	–	17
Operating profit	2,315	457	–397	1,023	–898	–9	1,827	4,318
Interest revenue							99	99
Interest costs							–372	–372
Other financial items							162	162
Tax on profit for the year							–779	–779
NET PROFIT	**2,315**	**457**	**–397**	**1,023**	**–898**	**–9**	**937**	**3,428**
OTHER INFORMATION								
Investments, intangible assets	13	16	17	–	1	9	–	56
Investments, tangible assets	415	683	145	123	129	53	–19	1,529
Non-cash-generating profit/loss items:								
Depreciation/amortization	–901	–483	–572	–154	–175	–43	–	–2,328
Sales of fixed assets	–4	25	–1	–	4	–	–	24
Finance leases	32	3	–	–	4	–	–	39

	Dec 31, 2004							
Shares in associated companies and joint ventures	509	–	–	–	22	–	–	531
Assets	12,172	5,999	9,402	12,340	6,338	554	3,060	49,865
Liabilities	4,237	746	2,809	3,923	2,170	248	2,832	16,965

Note 3. *Business areas*

In the business area *Mobile telephony*, there are various different types of subscriptions for individuals as well as businesses and prepaid cards. Either Tele2 owns the networks or we rent from other operators a set-up called MVNO. The business area *Fixed telephony & internet* partly includes broadband (ADSL and data network services), as well as other fixed telephony which also includes dial-up internet and carrier operations. Tele2's product portfolio for fixed telephony consists of fixed preselection (dialing the number without any prefix), subscription and IP-telephony (VoIP). The most important service for internet connection is offered via ADSL (broadband and copper wire). Also other solutions with various prices and speeds are offered, such as dial-up internet, wireless broadband, metropolitan area networks and broadband via cable TV. The *Cable TV* business area encompasses Cable TV and IP-TV. The business area *Other operations* includes IT-outsourcing via UNI2, system integration through Datametrix, internet payment, cash card transactions, as well as call phone services through 3C and cash card transactions for fixed telephony through C^3.

2005	Mobile telephony	Fixed telephony & internet	Cable TV	Other operations	Undistributed and internal elimination	Total
Operating revenue from external customers	14,676	34,473	214	580	–	49,943
Investments in intangible assets	281	691	–	12	–	984
Investments in tangible assets	1,742	959	17	48	–	2,766
Total assets at December 31	10,244	34,252	560	305	22,922	68,283

2004	Mobile telephony	Fixed telephony & internet	Cable TV	Other operations	Undistributed and internal elimination	Total
Operating revenue from external customers	11,870	30,450	211	502	–	43,033
Investments in intangible assets	17	30	–	9	–	56
Investments in tangible assets	1,048	421	7	53	–	1,529
Total assets at December 31	8,589	23,652	593	289	16,742	49,865

EBITDA and EBIT per business area are presented in Note 4 and Note 5.

Note 4. *Operating revenue and number of customers*

MARKET AREAS BY BUSINESS AREA

	Operating revenue		Number of customers (by thousands)		Net customer intake (by thousands)	
	2005	2004	Dec. 31,05	Dec. 31,04	2005	2004
Nordic						
Mobile telephony	8,561	7,480	4,092	3,810	282	210
Fixed telephony and internet	7,084	6,627	2,006	2,787	–241	–155
of which broadband	*952*	*855*	*198*	*95*	*45*	*32*
of which fixed telephony	*6,132*	*5,772*	*1,808*	*2,692*	*–286*	*–187*
Cable TV	210	201	182	190	–8	12
Non-recurring item	134	–				
Intra-Group sales	–915	–841				
	15,074	**13,467**	**6,280**	**6,787**	**33**	**67**
Baltic & Russia						
Mobile telephony	4,126	3,178	6,260	3,618	2,640	1,414
Fixed telephony and internet	130	108	73	68	6	12
of which broadband	*15*	*16*	*3*	*1*	*2*	*–1*
of which fixed telephony	*115*	*92*	*70*	*67*	*4*	*13*
Cable TV	12	16	25	22	3	1
Intra-Group sales	–34	–5				
	4,234	**3,297**	**6,358**	**3,708**	**2,649**	**1,427**
Central Europe						
Mobile telephony	184	88	166	98	68	48
Fixed telephony and internet	8,753	5,461	6,319	5,795	839	1,892
of which broadband	*535*	*40*	*87*	*57*	*30*	*9*
of which fixed telephony	*8,218*	*5,421*	*6,232*	*5,738*	*809*	*1,883*
Intra-Group sales	–559	–491				
	8,378	**5,058**	**6,485**	**5,893**	**907**	**1,940**
Southern Europe						
Mobile telephony	105	31	155	40	115	–
Fixed telephony and internet	14,818	14,668	8,224	8,469	–37	1,022
of which broadband	*1,081*	*769*	*577*	*403*	*132*	*200*
of which fixed telephony	*13,737*	*13,899*	*7,647*	*8,066*	*–169*	*822*
Other operations	11	–				
Intra-Group sales	–676	–547				
	14,258	**14,152**	**8,379**	**8,509**	**78**	**1,022**
UK & Benelux						
Mobile telephony	1,696	1,197	854	693	156	165
Fixed telephony and internet	6,460	6,079	1,896	2,204	–410	429
of which broadband	*450*	*–*	*296*	*–*	*42*	*–*
of which fixed telephony	*6,010*	*6,079*	*1,600*	*2,204*	*–452*	*429*
Cable TV	14	7				
Other operations	–	6				
Intra-Group sales	–764	–753				
	7,406	**6,536**	**2,750**	**2,897**	**–254**	**594**
Services						
Fixed telephony and internet	32	35				
of which broadband	*–*	*5*				
of which fixed telephony	*32*	*30*				
Other operations	848	736				
Intra-Group sales	–287	–248				
	593	**523**				
Net customer intake					**3,413**	**5,050**
Acquired companies					721	484
Divested companies					–274	–46
Changed method of calculation					–1,402	–
TOTAL	**49,943**	**43,033**	**30,252**	**27,794**	**2,458**	**5,488**

Note 4 continued

	Operating revenue		Number of customers (by thousands)		Net customer intake (by thousands)	
	2005	2004	Dec. 31,05	Dec. 31,04	2005	2004
Mobile telephony	14,672	11,974	11,527	8,259	3,261	1,837
of which prepaid cards			*8,738*	*6,072*	*2,666*	*1,474*
Fixed telephony and internet	37,277	32,978	18,518	19,323	157	3,200
of which broadband	*3,033*	*1,685*	*1,161*	*556*	*251*	*240*
of which fixed telephony	*34,244*	*31,293*	*17,357*	*18,767*	*–94*	*2,960*
Cable TV	236	224	207	212	–5	13
Other operations	859	742				
Non-recurring item	134	–				
Intra-Group sales	–3,235	–2,885				
Acquired companies					721	484
Divested companies					–274	–46
Changed method of calculation					–1,402	–
TOTAL	**49,943**	**43,033**	**30,252**	**27,794**	**2,458**	**5,488**

TELE2 IN SWEDEN:

	Operating revenue		Number of customers (by thousands)		Net customer intake (by thousands)	
	2005	2004	2005	2004	2005	2004
Mobile telephony	6,776	6,306	3,554	3,449	105	109
Fixed telephony and internet	4,188	3,867	1,297	1,924	–115	–56
of which broadband	*387*	*404*	*69*	*21*	*17*	*9*
of which fixed telephony	*3,801*	*3,463*	*1,228*	*1,903*	*–132*	*–65*
Cable TV	210	201	182	190	–8	12
Non-recurring item	134	–				
Net customer intake					**–18**	**65**
Changed method of calculation					–512	–
TOTAL TELE2 IN SWEDEN	**11,308**	**10,374**	**5,033**	**5,563**	**–530**	**65**

Tele2 in Sweden includes Tele2 Sverige AB, Optimal Telecom AB, cable TV operations in Sweden and the result from joint venture-company Svenska UMTS-nät AB.

RUSSIA:

	Operating revenue		Number of customers (by thousands)		Net customer intake (by thousands)	
	2005	2004	2005	2004	2005	2004
Russia	1,058	538	3,274	1,344	1,928	856
Acquired companies					2	-
TOTAL RUSSIA	**1,058**	**538**	**3,274**	**1,344**	**1,930**	**856**

Tele2 Sweden has for a number of years had several disputes with TeliaSonera regarding interconnect rates. Tele2 has had claims against TeliaSonera and TeliaSonera has had claims against Tele2. Tele2's view on these claims has, accounting wise, been relatively prudent, and Tele2 has continuously made assessments regarding the most likely outcomes. The likelihood of an, accounting wise, positive outcome has further increased over the years. Based on this, Tele2 has booked an amount equivalent to MSEK 134 in the operating revenue in 2005, related to one of the disputes.

In the operating revenue for Tele2 in Sweden, a sum of SEK 96 (2004: 24) million is included regarding mobile telephony in accordance with the MVNO agreement with Telenor. At group-level this agreement is to be regarded as a change of capacity transaction with Telenor, after which the revenue of the swap transaction is netted against the expense.

In 2005 the number of customers increased by 76,000 in connection with the takeover of Tiscali of Denmark, 128,000 customers through the acquisition of Econophone in Switzerland, 81,000 customers through the acquisition of Comunitel in Spain, 434,000 customers through the acquisition of Versatel in the Netherlands and Belgium, as well as 2,000 customers through the acquisition of Votec in Russia. The number of customers has also reduced during the year by 274,000 customers through the sale of the operations in Tele2 UK and Tele2 Ireland.

After the acquisition of Versatel and Comunitel, the reporting of the number of customers with dial-up internet has been changed. Previously, a fixed telephony customer also using Tele2's dial-up internet service, has been reported as two customers. Given that a reported broadband customer can use up to three different services, Tele2 now reports a fixed telephony customer using dial-up internet, as one customer. The one-time effect from this change is a decrease in the reporting customer base of 1,402,000 customers, of which 616,000 are in Nordic, 315,000 in Central Europe, 417,000 in Southern Europe and 53,000 in UK & Benelux. A retroactive change has been considered not possible in practice and has not applied.

Note 4 continued

In the previous year the number of customers in the market area Central Europe increased by 484,000 fixed telephony and internet customers in connection with the acquisition of UTA, Austria. In May 2004 there was a reduction in the number of customers in the market area Baltic & Russia by 46,000 customers related to the sale of the cable TV operations in Estonia.

Sales of telephones are included in the operating revenue for the year, which amounted to SEK 406 (2004: 286) million.

Note 5. EBITDA, EBIT and depreciation/amortization

MARKET AREAS BY BUSINESS AREA

	EBITDA		EBIT	
	2005	2004	2005	2004
Nordic				
Mobile telephony	2,933	2,832	2,346	2,422
Fixed telephony and internet	774	1,007	426	633
of which broadband	*–123*	*34*	*–232*	*–90*
of which fixed telephony	*897*	*973*	*658*	*723*
Cable TV	25	32	–22	–68
Non-recurring item	134	–	134	–
	3,866	**3,871**	**2,884**	**2,987**
Baltic & Russia				
Mobile telephony	939	929	497	451
Fixed telephony and internet	–14	–12	–16	–13
of which broadband	*10*	*3*	*9*	*2*
of which fixed telephony	*–24*	*–15*	*–25*	*–15*
Cable TV	–	27	–1	23
	925	**944**	**480**	**461**
Central Europe				
Mobile telephony	–73	–57	–82	–66
Fixed telephony and internet	668	303	162	118
of which broadband	*–64*	*–6*	*–227*	*–16*
of which fixed telephony	*732*	*309*	*389*	*134*
Non-recurring item	–	–	–	–378
	595	**246**	**80**	**–326**
Southern Europe				
Mobile telephony	–351	–15	–353	–15
Fixed telephony and internet	1,246	1,654	955	1,500
of which broadband	*–596*	*–617*	*–662*	*–619*
of which fixed telephony	*1,842*	*2,271*	*1,617*	*2,119*
Other operations	1	–	–	–
	896	**1,639**	**602**	**1,485**
UK & Benelux				
Mobile telephony	182	167	47	52
Fixed telephony and internet	109	–287	–272	–339
of which broadband	*–48*	*–*	*–251*	*–*
of which fixed telephony	*157*	*–287*	*–21*	*–339*
Cable TV	–27	–19	–28	–25
Other operations	–	–7	–	–9
Non-recurring items	–24	–	–287	–
	240	**–146**	**–540**	**–321**
Services				
Fixed telephony and internet	1	–	–2	–4
of which broadband	*–*	*–1*	*–*	*–3*
of which fixed telephony	*1*	*1*	*–2*	*–1*
Other operations	55	75	6	36
	56	**75**	**4**	**32**
TOTAL	**6,578**	**6,629**	**3,510**	**4,318**
Adjustment for amortization of goodwill			278	378
EBITA			**3,788**	**4,696**

	EBITDA margin		EBIT margin	
	2005	2004	2005	2004
Nordic	26%	29%	19%	22%
Baltic & Russia	22%	29%	11%	14%
Central Europe	7%	5%	1%	–6%
Southern Europe	6%	12%	4%	10%
UK & Benelux	3%	–2%	–7%	–5%
Services	9%	14%	1%	6%
TOTAL	**13%**	**15%**	**7%**	**10%**

Note 5 continued

	EBITDA		EBITDA margin		EBIT		EBIT margin	
	2005	2004	2005	2004	2005	2004	2005	2004
Mobile telephony	3,630	3,856	25%	32%	2,455	2,844	17%	24%
Fixed telephony and internet	2,784	2,665	7%	8%	1,253	1,895	3%	6%
of which broadband	*–821*	*–587*	*–27%*	*–35%*	*–1,363*	*–726*	*–45%*	*–43%*
of which fixed telephony	*3,605*	*3,252*	*11%*	*10%*	*2,616*	*2,621*	*8%*	*8%*
Cable-TV	–2	40	–1%	18%	–51	–70	–22%	–31%
Other operations	56	68	7%	9%	6	27	1%	4%
Non-recurring items	110	–			–153	–378		
TOTAL	**6,578**	**6,629**	**13%**	**15%**	**3,510**	**4,318**	**7%**	**10%**

TELE2 IN SWEDEN

	EBITDA		EBITDA margin		EBIT		EBIT margin	
	2005	2004	2005	2004	2005	2004	2005	2004
Mobile telephony	939	929	497	451	2,497	2,444	37%	39%
Fixed telephony and internet	–14	–12	–16	–13	295	490	7%	13%
of which broadband	*10*	*3*	*9*	*2*	*–129*	*–64*	*–33%*	*–16%*
of which fixed telephony	*–24*	*–15*	*–25*	*–15*	*424*	*554*	*11%*	*16%*
Cable-TV	25	32	12%	16%	–19	–65	–9%	–32%
Non-recurring items	134	–			134	–		
TOTAL TELE2 IN SWEDEN	**3,758**	**3,673**	**33%**	**35%**	**2,907**	**2,869**	**26%**	**28%**

Tele2 in Sweden includes Tele2 Sverige AB, Optimal Telecom AB, cable TV operations in Sweden and the result from joint venture-company Svenska UMTS-nät AB.

TELE2 IN RUSSIA

	EBITDA		EBITDA margin		EBIT		EBIT margin	
	2005	2004	2005	2004	2005	2004	2005	2004
TOTAL RUSSIA	**–163**	**–211**	**–15%**	**–39%**	**–359**	**–479**	**–34%**	**–89%**

For 2005, the market area UK & Benelux reported a capital gain on sale of the operations in Tele2 UK and Tele2 Ireland of SEK 137 million and reported a reserve of SEK 161 million relating to a VAT-dispute in the prepaid card operations. The dispute is related to 2003 until the first quarter of 2005 and the reserve corresponds to the evaluated probable outcome, which is estimated at 75% of the maximum worst case outcome. During the year, UK & Benelux have recorded an impairment of goodwill related to Alpha Telecom of SEK 263 million.

The tax effects of the year's valued loss carry-forwards relate to acquired loss carry-forwards which were valued at zero at the time of acquisition. This value has reduced the previous year's book value of goodwill by SEK –378 million (Note 13).

Sales of telephones are included in the operating profit for the year which amounted to SEK –773 (2004: –492) million.

DEPRECIATION/AMORTIZATION BY FUNCTION

	2005	2004
Depreciation/amortization		
Cost of service sold	–2,222	–1,609
Selling expenses	–36	–57
Administrative expenses	–406	–284
Total depreciation	**–2,664**	**–1,950**
Impairment		
Cost of service sold	–304	–378
Total impairment	**–304**	**–378**
TOTAL DEPRECIATION/AMORTIZATION FOR THE YEAR BY FUNCTION	**–2,968**	**–2,328**

DEPRECIATION/AMORTIZATION BY TYPE OF ASSET

	2005	2004
Depreciation/amortization		
Licenses, utilization rights and software	–311	–122
Interconnection agreements	–97	–
Customer agreements	–280	–
Buildings	–23	–24
Machinery and technical plant	–1,777	–1,667
Equipment and installations	–176	–137
Total depreciation/amortization	**–2,664**	**–1,950**
Impairment		
Licenses, utilization rights and software	–8	–
Goodwill	–278	–378
Machinery and technical plant	–18	–
Total impairment	**–304**	**–378**
TOTAL DEPRECIATION/AMORTIZATION FOR THE YEAR BY TYPE OF ASSET	**–2,968**	**–2,328**

Note 6. Other operating revenue

	2005	2004
Sale of operations	147	26
Exchange rate gains from operations	57	35
Sale of fixed assets	1	5
Other revenue	26	26
TOTAL OTHER OPERATING REVENUE	**231**	**92**

In 2005 Tele2 has divested the shares in Tele2 UK, Tele2 Ireland, Proceedo Solution in Sweden as well as Trigger Software in Estonia. The cable TV operations in Estonia were divested in 2004. For additional information, please refer to Note 16.

Note 7. Other operating expenses

	2005	2004
Exchange rate loss from operations	–19	–29
Sale/scrapping of fixed assets	–17	–7
Other expenses	–4	–4
TOTAL OTHER OPERATING EXPENSES	**–40**	**–40**

Note 8. Result from shares in associated companies and joint ventures

	2005		2004	
	Svenska UMTS-nät	Other	Svenska UMTS-nät	Other
Profit/loss before taxes in associated companies and joint ventures	–205	1	26	20
Holdings	50%	9.1%–50%	50%	9.1%–50%
Share of profit/loss before tax	–102	–	13	4
Correction of share of profit/loss from preceeding year	3	–1	–	–
	–99	**–1**	**13**	**4**
TOTAL RESULT OF SHARES IN ASSOCIATED COMPANIES AND JOINT VENTURES		**–100**		**17**

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

	2005		2004	
	Svenska UMTS-nät	Other	Svenska UMTS-nät	Other
Income Statement				
Revenue	551	228	97	43
Operating profit	–89	13	35	20
Profit/loss before tax	–205	1	26	20
Net profit/loss	–205	1	24	20

	Dec. 31, 2005		Dec. 31, 2004	
	Svenska UMTS-nät	Other	Svenska UMTS-nät	Other
Balance Sheet				
Intangible assets and financial assets	–	–	–	19
Tangible assets	3,471	–	3,009	–
Current assets	374	126	398	35
TOTAL ASSETS	**3,845**	**126**	**3,407**	**54**
Shareholders' equity	796	40	1,001	49
Long-term liabilities	2,951	2	2,016	1
Short-term liabilities	98	84	390	4
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES	**3,845**	**126**	**3,407**	**54**

Note 9. Interest income

	2005	2004
Interest, bank balances	62	81
Interest, penalty interest	25	16
Interest, other securities and receivables	2	2
TOTAL INTEREST INCOME	**89**	**99**

Note10. Interest costs

	2005	2004
Interest, credit institutions	–213	–282
Interest, other liabilities	–29	–14
Interest, penalty interest	–38	–12
Other finance expenses	–6	–64
TOTAL INTEREST COSTS	**–286**	**–372**

Other financial expenses for 2004 include a non-recurring cost related to the expensing of the previous loan facility's remaining prepaid financing costs of SEK -55 million.

Note 11. Other financial items

	2005	2004
Exchange rate differences on financial assets and liabilities	–198	–9
Gains on sale of shares in Travellink AB	12	–
Gains on sale of shares in Song Networks	–	171
TOTAL OTHER FINANCIAL ITEMS	**–186**	**162**

Note 12. Exchange rate effects

Exchange rate differences which arise in operations are reported in the income statements and amount to:

	2005	2004
Other operating revenue	57	35
Other operating expenses	–19	–29
Other financial items	–198	–9
TOTAL EXCHANGE RATE DIFFERENCES IN INCOME STATEMENT	**–160**	**–3**

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

	Operating revenue				EBITDA			
	2005		2004		2005		2004	
SEK	10,527	21%	9,718	23%	3,631	55%	3,664	55%
EUR	25,874	52%	22,305	52%	1,883	29%	2,267	34%
Other	13,542	27%	11,010	25%	1,064	16%	698	11%
TOTAL	**49,943**	**100%**	**43,033**	**100%**	**6,578**	**100%**	**6,629**	**100%**

A 1% currency movement against the Swedish krona affects the Group's operating revenue and EBITDA on an annual basis by SEK 394 (2004: 333) million and SEK 29 (2004: 30) million. Tele2's results for the year were mainly affected by fluctuations in EUR, NOK, PLN and LVL. Tele2's operating revenue and EBITDA have been affected positively by SEK 843 (2004: –227) million and SEK 18 (2004: –23) million in 2005, as opposed to if the exchange rates had not been changed at all during the year.

Note 13. Taxes

TAX EXPENSE/INCOME FOR THE YEAR

	2005	2004
Current tax expense	–744	–271
Deferred tax expense	–42	–508
TOTAL TAX EXPENSE (–)/TAX INCOME (+) ON PROFIT FOR THE YEAR	**–786**	**–779**

THEORETICAL TAX EXPENSE

The difference between recorded tax expense for the Group and the tax expense based on prevailing tax rates in each country consists of the following components:

	2005		2004	
Profit before tax	3,127		4,207	
Theoretic tax according to prevailing tax rate in each country	–917	–29.3%	–1,193	–28.4%
Tax effect of:				
Impairment of goodwill, non-tax affecting	–78	–2.5%	–86	–2.0%
Sale of shares in subsidiaries, non-taxable	515	16.5%	–	–
Write-down of shares in group companies	–	–	–483	–11.5%
Tax dispute from previous years expensed	–162	–5.2%	–23	–0.5%
Other non-deductible expenses/non-taxable revenue	32	1.0%	–110	–2.6%
Valuation of tax assets relating to loss carry-forwards etc from previous years	300	9.6%	1,404	33.4%
Adjustment of tax assets from previous years	–180	–5.8%	–	–
Reserve for the year's additional loss carry-forwards	–296	–9.5%	–288	–6.8%
TAX EXPENSE/INCOME AND EFFECTIVE TAX RATE	**–786**	**–25.1%**	**–779**	**–18.5%**

The weighted average tax rate was 29.3% (2004: 28.4%). The increase compared with previous year is due to the fact that increasingly more subsidiaries in continental Europe with a higher tax rate than the more mature operations in Nordic and Baltic are starting to report positive results.

In 2005 a reserve for tax disputes of SEK –162 million has been reported.
Tax costs regarding write-down of shares in group companies of SEK –483 million in 2004 relates to companies where we have changed our previous estimate that we can utilize tax loss carry-forwards.

DEFERRED TAX ASSETS AND LIABILITIES

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

	Dec. 31,05	Dec. 31,04
Deferred tax assets		
Unutilized loss carry-forwards	4,566	3,255
Tangible assets	480	–63
Other	235	26
Total deferred tax assets	**5,281**	**3,218**
Deferred tax liabilities		
Intangible assets	–543	–
Tangible assets	–880	–458
Other	–336	–17
Total deferred tax liabilities	**–1,759**	**–475**
TOTAL DEFERRED TAX ASSETS AND TAX LIABILITIES	**3,522**	**2,743**

LOSS CARRY-FORWARDS

Deferred tax assets are reported only for loss carry-forwards to the extent that it is considered likely that the loss carry-forwards can be utilized against future profits. According to this principle, losses in newly started operations are not netted against profits in more mature operations.

As a result of the continued improved results in continental Europe, a deferred tax asset of net SEK 182 (2004: 729) million has been reported in the income statement. The net includes SEK 340 (2004: 1,212) million relating primarily to companies that have started reporting a positive result during the year and where accumulated losses are considered likely to be used against future profits, and SEK –158 (2004: –483) million relating to companies where we are changing our previous evaluation that we can utilize the accumulated losses.

The tax effect of the year's valuation of loss carry-forwards relate to acquired loss carry-forwards which were valuled at zero at the time of acquisition. This value has reduced the last year's book value of goodwill by SEK –378 million.

Note 13 continued

The Group's total loss carry-forwards as of December 31, 2005 were 17,679 (2004: 13,275) million of which SEK 15,053 (2004: 10,582) million has been recorded as a deferred tax asset and the remaining part, SEK 2,626 (2004: 2,693) million, has been valued at zero. Of the total loss carry-forwards, SEK 1,399 (2004: 917) million matures in five years and the remaining part, SEK 16,280 (2004: 12,358) million, matures after five years or may continue to apply in perpetuity.

TAX DISPUTES

In December 2003, Tele2 announced that the tax authorities' investigation of Tele2's financial year 2001 had been completed and that the authorities wished to change Tele2's tax assessment. In 2000, Tele2 acquired the outstanding majority of the listed company SEC SA. Because the operations had been restructured an external valuation was carried out, which indicated a decline in value, and the operations were transferred for this value. Tele2 has claimed a deduction for this realized loss.

The authorities' notification that they wished to change Tele2's tax assessment was expected, since it involved a significant amount. However, Tele2 considered it remarkable that the assessment was made saying that there should not have been an actual decline in the value of SEC SA, in spite of the fact that the independent valuation that was made as well as the analysts' and other sector observers' valuations at this time showed that there had actually been a decline in the value of SEC SA. Tele2 chose to request a reconsideration by the same local tax authorioties to enable them to explain the grounds for their decision, which the tax authorities made in December 2004.

In October 2005 Tele2 submitted a supplementary statement since the tax authorities did not provide their own statement. No information has been presented changing Tele2's opinion that they fulfill the requirements for submission of evidence. Tele2's opinion is still that the deduction claimed will be finally approved, and we have now lodged an appeal with the county administrative court.

Loss carry-forwards in Tele2 questioned by the tax authorities with regard to this, correspond to a tax effect of SEK 3,910 million. Other disputes in Tele2 AB amounts to SEK 21 (2004: 183) million. Tele2 is of the opinion that the disputes will be settled in Tele2's favor, which is why a contingent tax liability has not been recorded for the amount of losses utilized.

Note 14. *Intangible assets*

Dec. 31, 2005	Licenses, right of use & software	Inter-connection agreements	Customer agreements	Total other intangible assets	Goodwill	Total
Acquisition value						
Acquisition value at Jan. 1	1,367	165	666	2,198	22,828	25,026
Acquisition cost in acquired companies	283	303	1,802	2,388	3,438	5,826
Acquisition cost in divested companies	–	–	–	–	–13	–13
Investments for the year	395	589	–	984	–	984
Sales and scrapping	–39	–2	–	–41	–2	–43
Reclassification	20	–	–	20	–	20
Translation differences for the year	127	27	58	212	1,111	1,323
Total acquisition value	**2,153**	**1,082**	**2,526**	**5,761**	**27,362**	**33,123**
Accumulated amortization						
Accumulated amortization at Jan. 1	–632	–	–	–632		–632
Amortization according to plan	–311	–97	–280	–688		–688
Sales and scrapping	36	–	–	36		36
Reclassification	–6	–	–	–6		–6
Translation differences for the year	–80	–1	–4	–85		–85
Total accumulated amortization	**–993**	**–98**	**–284**	**–1,375**		**–1,375**
Accumulated write-downs						
Accumulated write-downs at Jan. 1	–	–	–	–	–378	–378
Write-downs during the year	–8	–	–	–8	–278	–286
Translation differences for the year	–1	–	–	–1	–4	–5
Total accumulated write-downs	**–9**	**–**	**–**	**–9**	**–660**	**–669**
TOTAL INTANGIBLE ASSETS	**1,151**	**984**	**2,242**	**4,377**	**26,702**	**31,079**

SEK 5,536 million of the year's total acquisition value of SEK 5,826 million in acquired companies was related to Versatel and Comunitel. SEK 806 million of the year's total investment of SEK 984 million was related to the signing of the interconnection agreement in France and the license in Croatia.

Dec. 31, 2004	Licenses, right of use & software	Inter-connection agreements	Customer agreements	Total other intangible assets	Goodwill	Total
Acquisition value						
Acquisition value at Jan. 1	838	–	–	838	23,076	23,914
Acquisition cost in acquired companies	57	–	674	731	320	1,051
Investments for the year	56	–	–	56	–	56
Sales and scrapping	–18	–	–	–18	–	–18
Reclassification	477	175	–	652	–242	410
Translation differences for the year	–43	–10	–8	–61	–326	–387
Total acquisition value	**1,367**	**165**	**666**	**2,198**	**22,828**	**25,026**
Accumulated amortization						
Accumulated amortization at Jan. 1	–358	–	–	–358		–358
Amortization according to plan	–122	–	–	–122		–122
Sales and scrapping	17	–	–	17		17
Reclassification	–195	–	–	–195		–195
Translation differences for the year	26	–	–	26		26
Total accumulated amortization	**–632**	**–**	**–**	**–632**		**–632**
Accumulated write-downs						
Write-downs during the year	–	–	–	–	–378	–378
Total accumulated write-downs	**–**	**–**	**–**	**–**	**–378**	**–378**
TOTAL INTANGIBLE ASSETS	**735**	**165**	**666**	**1,566**	**22,450**	**24,016**

An adjustment has been made of accumulated amortization in acquired companies for 2004 to be netted against the acquisition value.

Goodwill is distributed among the Group's cash generating units identified per market area.

	Dec. 31,05
Nordic	762
Baltic	2,822
Russia	421
Central Europe	4,405
Southern Europe	12,391
UK & Benelux	5,817
Services	84
TOTAL GOODWILL	**26,702**

In connection with the acquisition of operations, goodwill is allocated to the cash generating units or groups that expect to achieve future financial benefits of the acquired operations. In the event that separate cash generating units cannot be identified, goodwill is allocated to the lowest level at which it is controlled and monitored internally. Tele2 monitors and controls its operations and acquisitions primarily based on market areas and therefore allocates goodwill to each market area.

The most important assumptions for these calculations are discount rates, growth rates, profit margins and investment requirements. The discount rate is determined considering the prevailing and specific risk in the respective cash generating unit. Expected future growth rate, profit margin and investment requirement are based on data from the business, expected changes in the market, management's experience from similar markets as well as management's assessment of the respective market.

Tele2 calculates the future cash flows based on the most recently approved three year plan combined with the expected growth rate during another seven years based on Tele2's general business model. This business model, built on experience from telecom operations in various stages of maturity, has an assumption of growth which initially exceeds the average growth for the industry as a whole. Based on experiences with the business model, Tele2 regards it to be justified. Similarly, the business model contains assumptions on EBITDA-development and investment levels that reflect the stages of maturity for the operations in the various cash generating units from years four to ten. For the following period, a growth of 2–3% is expected, which does not exceed the average long-term growth for the industry as a whole. The discount rate has been set between 10–13%, depending on the specific risk in the respective cash generating unit. It is Tele2's assessment that reasonable, possible changes in the above-mentioned conditions should not have such significant effects that they individually should reduce the value in use to a value that is lower than the carrying value.

At the end of 2005, a SEK 263 million impairment of goodwill was recorded for Alpha Telecom. The reason for this impairment was primarily a change in the rate of VAT, which resulted in lower margins.

Note 15. Tangible assets

Dec. 31, 2005	Buildings & land	Equipment	Construction in progress	Other total tangible assets	Machinery and technical plant	*of which finance leases*	Total
Acquisition value							
Acquisition value at Jan. 1	194	1,161	526	1,881	17,386	*698*	19,267
Acquisition cost in acquired companies	11	144	426	581	3,422	–	4,003
Acquisition cost in divested companies	–	–24	–	–24	–	–	–24
Investments for the year	16	159	1,031	1,206	1,560	–	2,766
Sales and scrapping	–2	–45	–1	–48	–188	–	–236
Reclassification	–	–27	–607	–634	613	–	–21
Translation differences for the year	13	74	89	176	707	*10*	883
Total acquisition value	**232**	**1,442**	**1,464**	**3,138**	**23,500**	***708***	**26,638**
Accumulated depreciation							
Accumulated depreciation at Jan. 1	–95	–869		–964	–9,025	*–146*	–9,989
Accumulated depreciation in divested companies	–	23		23	–	–	23
Depreciation according to plan	–23	–176		–199	–1,777	*–59*	–1,976
Sales and scrapping	–	42		42	156	–	198
Reclassification	–	6		6	1	–	7
Translation differences for the year	–7	–59		–66	–360	*–1*	–426
Total accumulated depreciation	**–125**	**–1,033**		**–1,158**	**–11,005**	***–206***	**–12,163**
Accumulated write-downs							
Accumulated write-downs at Jan. 1	–	–		–	–171	–	–171
Write-downs during the year	–	–		–	–18	–	–18
Translation differences for the year	–	–		–	–4	–	–4
Total accumulated write-downs	**–**	**–**		**–**	**–193**	–	**–193**
TOTAL TANGIBLE ASSETS	**107**	**409**	**1,464**	**1,980**	**12,302**	***502***	**14,282**

SEK 1,093 million of the year's total investment of SEK 2,766 million relates to Russia. Construction in progress primarily involves projects in Russia and Sweden. Finance leases relate to assets reported according to Note 26.

Dec. 31, 2004	Buildings & land	Equipment	Construction in progress	Other total tangible assets	Machinery and technical plant	*of which finance leases*	Total
Acquisition value							
Adjusted acquisition value at Jan. 1	188	1,105	293	1,586	16,539	*454*	18,125
Acquisition cost in acquired companies	–	55	1	56	587	*261*	643
Acquisition cost in divested companies	–	–1	–	–1	–42	–	–43
Investments for the year	7	105	656	768	761	–	1,529
Sales and scrapping	–6	–36	–1	–43	–297	*–11*	–340
Reclassification	11	–46	–390	–425	15	–	–410
Translation differences for the year	–6	–21	–33	–60	–177	*–6*	–237
Total acquisition value	**194**	**1,161**	**526**	**1,881**	**17,386**	***698***	**19,267**
Accumulated depreciation							
Accumulated depreciations at Jan. 1	–80	–804		–884	–7,934	*–131*	–8,818
Accumulated depreciation in divested companies	–	1		1	31	–	32
Depreciation according to plan	–24	–137		–161	–1,667	*–27*	–1,828
Sales and scrapping	6	34		40	280	*11*	320
Reclassification	–	24		24	171	–	195
Translation differences for the year	3	13		16	94	*1*	110
Total accumulated depreciation	**–95**	**–869**		**–964**	**–9,025**	***–146***	**–9,989**
Accumulated write-downs							
Accumulated write-downs at Jan. 1	–	–		–	–172	–	–172
Translation differences for the year	–	–		–	1	–	1
Total accumulated write-downs	**–**	**–**		**–**	**–171**	–	**–171**
TOTAL TANGIBLE ASSETS	**99**	**292**	**526**	**917**	**8,190**	***552***	**9,107**

An adjustment has been made of accumulated depreciation in acquired companies for 2004 to be netted against the acquisition value.

Tele2 has not capitalized any interest expenses in fixed assets as of December 31, 2005 (2004: SEK 6 million).

Note 16. Business acquisitions and divestments

Acquisitions and sale of share and participations affecting cash flow refer to the following:

	2005
Comunitel Spain	2 258
Versatel Netherlands/Belgium	5 203
Other acquisitions	255
Divestments	–148
Other cash flow changes in shares and participations	–18
CASH FLOW EFFECT OF ACQUISITIONS AND DIVESTMENTS	**7 550**

ACQUISITIONS

Comunitel Spain (Southern Europe)

On September 30, 2005, Tele2 acquired 99.96% of the share capital in Comunitel Global S.A., a Spanish telecom operator, for SEK 2.3 billion with 81,000 fixed telephony and internet customers. Tele2's results for 2005 includes operating revenue of SEK 397 million and a net loss of SEK –65 million related to Comunitel. Goodwill in connection with the acquisition of Comunitel relates to our expectation of strengthening our position in the Spanish market via reduced costs, powerfully improved coverage of the consumer market and a breakthrough in the corporate market. The acquisition is also an important milestone for Tele2's pan-European broadband offerings.

Versatel Netherlands/Belgium (UK & Benelux)

On July 18 Tele2 announced its intention to acquire the public company Versatel Telcom International N.V., a leading alternative telecom operator in the Netherlands and Belgium with 434,000 fixed telephony and internet customers. On October 14 and November 1 collectively, Tele2 acquired a total of 80.29% of the shares in the company for SEK 6.6 billion. Tele2's result for 2005 includes operating revenue of SEK 942 million and a net loss of SEK –65 million related to Versatel. Goodwill in connection with the acquisition of Versatel relates to an expectation of obtaining economies of scale advantages in the merger of Versatel and Tele2's existing operations in the Netherlands and Belgium. There will be a migration of Tele2's traffic to Versatel's infrastructure.

Other acquisitions

On January 31, 2005 Tele2 acquired 100% of the shares in Tiscali in Denmark for SEK 165 million with 76,000 fixed telephony and internet customers. July 20, 2005 Tele2 acquired 100% of the shares in Econophone AG, the third largest alternative Swiss fixed network operator, for SEK 116 million with 128,000 fixed telephony and internet customers. November 10, 2005 Tele2 acquired 100% of the shares in Lipetsk Mobile CJSC, a mobile telephony operator in Russia, for SEK 3 million.

The above-mentioned three acquisitions are included in Tele2's operating revenue of SEK 347 million and the net profit of approximately SEK –44 million. Since Tiscali has mergered with Tele2 Denmark, only an estimate has been made of how large a share relates to the aquired Tiscali operations.

Goodwill in connection with the acquisition of Econophone relates to an expectation that we will strengthen our position through lowered costs and by increasing our market share in the Swiss market.

The assets, liabilities and contingent liabilities that were included in the acquired operations amount to the following:

	COMUNITEL SPAIN			VERSATEL NETHERLANDS/BELGIUM			OTHER ACQUISITIONS		
SEK million	**Reported value at the time of acquisition**	**Adjustment to fair value**	**Fair value**	**Reported value at the time of acquisition**	**Adjustment to fair value**	**Fair value**	**Reported value at the time of acquisition**	**Adjustment to fair value**	**Fair value**
Customer agreements	–	436	436	–	1,309	1,309	–	152	152
Interconnection agreements	303	–	303	–	–	–	–	–	–
Licenses	–	–	–	747	–539	208	1	7	8
Brands	–	–	–	–	–	–	–	5	5
Software	60	–	60	–	–	–	–	–	–
Tangible assets	337	–	337	3,591	–	3,591	28	45	73
Deferred tax assets	533	–	533	446	–	446	–	116	116
Other financial assets	66	–	66	–	–	–	10	–	10
Materials and supplies	2	–	2	–	–	–	2	–	2
Current receivables	231	–	231	7,238	–	7,238	88	–	88
Cash and cash equivalents	4	–	4	1,373	–	1,373	28	–	28
Deferred tax liabilities	–	–131	–131	–	–231	–231	–	–28	–28
Other long-term liabilities	–1,223	–	–1,223	–3,125	–	–3,125	–22	–21	–43
Short-term liabilities	–597	–	–597	–8,814	–	–8,814	–178	–5	–183
Minority interest	–	–	–	–295	–106	–401	–	–	–
Acquired net assets	**–284**	**305**	**21**	**1,161**	**433**	**1,594**	**–43**	**271**	**228**
Goodwill			1,073			2,094			3
Purchase price for shares in subsidiary			**1,094**			**3,688**			**231**
Payment of debts in acquired operations			1,168			2,888			53
Aquisition value			**2,262**			**6,576**			**284**
Liabilities to former owners			–			–			–1
Less: cash in acquired operations			–4			–1,373			–28
EFFECT ON GROUP CASH AND CASH EQUIVALENTS			**2,258**			**5,203**			**255**

As a consequence of the size and complexity of the acquisitions, and since they took place so late in the year, the reviews of the acquired operations' accounting principles and valuation of acquired assets, liabilities and contingent liabilities are not complete. The above-mentioned information and the pro forma below are therefore only preliminary.

DIVESTMENTS

On September 14, 2005 Tele2 divested all of its shares in Proceedo Solutions AB, a Swedish company with electronic solutions to gather information on different suppliers' products and prices, for SEK 19 million. The sale of Proceedo has affected Tele2's operating revenue by SEK 14 million and net profit by SEK –1 million beyond the capital gain recorded of SEK 5 million.

On October 31, 2005, Tele2 divested all of its shares in OU Trigger software, along with the operations in Estonia, for SEK 18 million. Trigger has affected Tele2's operating revenue with SEK 12 million and net profit by SEK 2 million beyond the capital gain recorded of SEK 5 million.

On December 16, 2005, Tele2 divested all of its shares in Tele2 UK Communication Ltd and Tele2 Telecommunication Service Ltd, with operations in fixed telephony in UK and Ireland with a total of 274,000 fixed telephony customers, for SEK 157 million. Tele2 UK and Tele2 Ireland have affected Tele2's operating revenue with SEK 517 million and net profit by SEK –318 million beyond the capital gain of SEK 137 million.

Note 16 continued

The assets, liabilities and contingent liabilities that were included in the divested operations amount to the following:

SEK million	Net assets at the time of divestments
Goodwill	13
Tangible assets	2
Current receivables	111
Cash and cash equivalents	46
Exchange rate difference in shareholders' equity	–6
Short-term liabilities	–119
Divested net assets	**47**
Capital gain	147
Sales price	**194**
Less: cash in divested operations	–46
EFFECT ON GROUP CASH AND CASH EQUIVALENTS	**148**

PRO FORMA

Presented below is a pro forma analysis of how the operations acquired throughout the year and the divested operations respectively would have affected Tele2's operating revenue and EBITDA if they had been acquired and divested respectively as of January 1, 2005. Since Tiscali has merged with Tele2 Denmark, only an estimate has been made of how large a share relates to the acquired Tiscali operations.

Since the year's divested operations do not constitute a significant part of the Tele2 Group's result and financial position, disclosure in the income statement has not been done according to IFRS 5 *Non-current assets held for sale and discontinued operations.*

	2005			
	Tele2 Group	Acquired operations before the time of acquisition	Less divested operations	Tele2 Group (pro forma)
Operating revenue	49,943	4,040	–543	53,440
EBITDA	6,578	464	173	7,215

Note 17. *Shares in associated companies and joint ventures*

Company, reg. no., reg'd office	Number of shares	Total par value	Holding	Dec. 31,05	Dec. 31,04
Svenska UMTS-nät AB, 556606-7996, Stockholm, Sweden	501,000	tSEK 50,100	50%	401	500
ZAO Setevaya Kompanya, 104 779 674 3312, Moscow, Russia	300	tRUR 3,000	50%	–	–
SCD Invest AB, 556353-6753, Stockholm, Sweden	1,058,425 A	tSEK 5,292	equity 9.1% votes 49.6%	–	–
Managest Media SA, RCB87091, Luxembourg	12,000 B	tEURO,120	40%	23	22
SNPAC Swedish Number Portability Administrative Centre AB, 556595-2925, Stockholm, Sweden	400	tSEK 40	20%	4	6
GH Giga Hertz HB as well as 15 other trading companies with licenses			33,3%	3	3
TOTAL SHARES IN ASSOCIATED COMPANIES AND JOINT VENTURES				**431**	**531**

None of the associated companies and joint ventures are listed on stock exchanges.

	Dec. 31,05	Dec. 31,04
Acquisition value		
Acquisition value at Jan. 1	874	851
Investments	–	3
Repayment of capital employed	–	–1
Share of profit/loss	–100	15
Reclassifications	–	6
Total acquisition value	**774**	**874**
Write-downs		
Accumulated write-downs at Jan. 1	–343	–343
Total accumulated write-downs	**–343**	**–343**
TOTAL SHARES IN ASSOCIATED COMPANIES AND JOINT VENTURES	**431**	**531**

CONTRIBUTION OF EACH ASSOCIATED COMPANY AND JOINT VENTURE TO GROUP EQUITY

	2005		2004	
	Svenska UMTS-nät	Other	Svenska UMTS-nät	Other
Share of shareholders' equity				
Equity share, Jan. 1	500	31	489	19
Acquired operations' opening balance	–	–	–	3
Repayment of capital employed	–	–	–	–1
Share of profit/loss	–99	–1	11	4
Reclassification	–	–	–	6
	401	**30**	**500**	**31**
TOTAL SHARE OF SHAREHOLDERS' EQUITY		**431**		**531**

Note 18. *Other financial assets*

	Dec. 31,05	Dec. 31,04
Receivables from SCD Invest AB, associated company	–	16
Receivables from LCC Peoples Mobile	3	–
Receivables from Modern Holdings Inc	11	10
Pension funds	9	14
Other long-term securities	39	48
Other	13	5
TOTAL OTHER FINANCIAL ASSETS	**75**	**93**

Other long-term securities consist of shares in the following companies:

Company, reg. no., reg'd office	Number of shares	Total par value	Holding	Dec. 31,05	Dec. 31,04
Modern Holdings Inc., USA	1,806,575	tUSD 18	11.88%	36	36
Travellink AB, 556596-2650, Stockholm, Sweden	18,607	tSEK 1,861	15%	–	11
LCC Peoples Mobile, 1047796469973, Moscow, Russia		tRUR 0.2	2%	1	–
Radio National Luleå AB, 556475-0411, Stockholm, Sweden	55	tSEK 5	5.5%	1	1
Other				1	–
TOTAL OTHER LONG-TERM SECURITIES				**39**	**48**

Note 19. *Accounts receivable*

	Dec. 31,05	Dec. 31,04
Accounts receivable	8,521	7,428
Reserve for doubtful accounts	–1,795	–1,483
TOTAL ACCOUNTS RECEIVABLE	**6,726**	**5,945**

	Dec. 31,05	Dec. 31,04
Reserve for doubtful accounts at Jan. 1	1,483	1,406
Reserves in companies acquired during the year	165	37
Reserves in companies divested during the year	–27	–
Provisions during the year	395	379
Recovery of previous provisions	–301	–323
Translation differences	80	–16
TOTAL RESERVE FOR DOUBTFUL ACCOUNTS	**1,795**	**1,483**

Note 20. Other current receivables

	Dec. 31,05	Dec. 31,04
VAT receivable	734	366
Receivable from APAX Partners	187	–
Receivable from suppliers	122	63
Receivable from Svenska UMTS-nät	–	59
Receivable from seller of UTA	–	30
Other	129	44
TOTAL OTHER CURRENT RECEIVABLES	**1,172**	**562**

Note 21. Prepaid expenses and accrued income

	Dec. 31,05	Dec. 31,04
Traffic revenues, from customers	2,630	2,113
Traffic revenues, from other telecom operators	534	1,024
Interest income	340	60
Accrued income, other	259	62
Rental costs	139	155
Retailers' commissions, prepaid cards	119	131
Fixed subscription charges	173	73
Prepaid expenses, other	399	313
TOTAL PREPAID EXPENSES AND ACCRUED INCOME	**4,593**	**3,931**

SEK 7 million of the balance sheet item is estimated to be paid more than 12 months after the closing date.

Note 22. Cash and cash equivalents and overdraft facilities

AVAILABLE LIQUIDITY

	Dec. 31,05	Dec. 31,04
Cash and cash equivalents	3,979	2,148
Restricted funds	–892	–365
Unutilized overdraft facilites and credit lines	5,854	3,330
TOTAL AVAILABLE LIQUIDITY	**8,941**	**5,113**

OVERDRAFT FACILITIES

	Dec. 31,05	Dec. 31,04
Overdraft facilites granted	238	229
Overdraft facilities utilized	–	–21
Total unutilized overdraft facilities	**238**	**208**
Unutilized credit lines	5,616	3,122
TOTAL UNUTILIZED OVERDRAFT FACILITES AND CREDIT LINES	**5,854**	**3,330**

No specific collateral is provided for overdraft facilities.

EXCHANGE RATE DIFFERENCE IN CASH AND CASH EQUIVALENTS

	Dec. 31,05	Dec. 31,04
Cash and cash equivalents at Jan. 1	142	–27
Cash flow for the year	–17	17
TOTAL EXCHANGE RATE DIFFERENCE IN CASH AND CASH EQUIVALENTS	**125**	**–10**

Note 23. Number of shares and earnings per share

The share capital in Tele2 AB is divided into two classes of shares: Class A and B shares. Both types of shares have a nominal value of SEK 1.25 per share and have the same claims on the company's net assets and profits. Shares of class A-shares, however, entitle the holder to 10 voting rights per share and class B-shares to one voting right per share.

The Annual General Meeting of May 11, 2005 decided on a share split and a redemption procedure where each share was divided into 3 ordinary shares and 1 redemption share. Redemption shares have been automatically redeemed for SEK 10 per share, corresponding to a total of SEK 1,476 million. Together with the ordinary dividend of SEK 5 per share, the shareholders have received SEK 2,213 million.

NUMBER OF SHARES

	A-shares		B-shares		Total
	Change	Total	Change	Total	
As of January 1, 2003		65,069,412		377,311,113	442,380,525
New share issue, convertibles	–	65,069,412	300,000	377,611,113	442,680,525
As of December 31, 2003		**65,069,412**		**377,611,113**	**442,680,525**
Restamping of A-shares to B-shares	–18,519,423	46,549,989	18,519,423	396,130,536	442,680,525
As of December 31, 2004		**46,549,989**		**396,130,536**	**442,680,525**
New share issue, convertibles	–	46,549,989	972,307	397,102,843	443,652,832
TOTAL NUMBER OF SHARES AS OF DECEMBER 31, 2005		**46,549,989**		**397,102,843**	**443,652,832**

NUMBER OF SHARES AFTER DILUTION

	Dec. 31,05	Dec. 31,04
Number of outstanding shares	443,652,832	442,680,525
Warrants, 2002-2007	328,013	1,033,867
TOTAL NUMBER OF SHARES AFTER DILUTION	**443,980,845**	**443,714,392**

As of December 31, 2005, Tele2 has outstanding warrants corresponding to 1,304,821 (2004: 2,418,428) B-shares in Tele2 AB at a subscription price of SEK 60.80 per share and a subscription period 2005–2007. Further information is provided in Note 34.

EARNINGS PER SHARE

	Earnings per share		Earnings per share, after dilution	
	2005	2004	2005	2004
Net profit	2,347	3,428	2,347	3,428
Weighted average number of shares	442,842,576	442,680,525	442,842,576	442,680,525
Effect of warrants			548,670	1,061,049
Weighted average number of outstanding shares after dilution			**443,391,246**	**443,741,574**
EARNINGS PER SHARE	**SEK 5.30**	**SEK 7.74**	**SEK 5.29**	**SEK 7.73**

DIVIDEND

The dividends that were determined at the Annual General Meeting and paid in 2005 were SEK 5 (1) per share including redemption procedures. At the Annual General Meeting in May 2006, a dividend for 2005 of SEK 1.75 per share will be proposed, a total of SEK 776 million.

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Note 24. Liabilities to financial institutions

Creditors (collateral provided)	Interest rate terms	Maturity date	Dec. 31, 2005 Short-term liabilities	Dec. 31, 2005 Long-term liabilities	Dec. 31, 2004 Short-term liabilities	Dec. 31, 2004 Long-term liabilities
5-year syndicated loan facility *(collateral: guarantee from Tele2 AB)*	EURIBOR et.al. + 0.20%-0.50%	2009	4,921	8,491	2,855	1,085
Banque Invik *(collateral: restricted bank funds in Tele2 Russia Telecom BV and Tele2 Sverige AB)*	Margin: + 0.07%–0.50%	2006	822	–	300	–
SEB *(collateral: guarantee from Tele2 Sverige AB)*	EURIBOR + 0.75-3.00%	2006–2011	69	137	52	173
Other		2007–2008	–	5	–	–
Total short-term and long-term liabilities to financial institutions			**5,812**	**8,633**	**3,207**	**1,258**
TOTAL LIABILITIES TO FINANCIAL INSTITUTIONS				**14,445**		**4,465**

On October 10, 2005, the existing loan facility was increased from SEK 7.0 billion to SEK 19.1 billion, divided into SEK 14.1 billion expiring in November 2009 and SEK 5.0 billion expiring in November 2006 with the opportunity of extending one year at a time. The interest margin of the long-term portion amounts to 25–50 basis points, depending on the debt/equity ratio and on the short-term part amounting to 20 basis points.

The loan can be used in most currencies, at present USD, SEK, EUR and GBP. The facility allows a debt/equity ratio and net liabilities to EBITDA, of up to 3.5. The five-year loan facility is based on requirements involving the fulfillment of certain financial ratios. Tele2 expects to fulfill these requirements.

The loan facility is financed by ABN Amro, Citigroup International plc, Calyon Bank SA, DnB NOR Bank ASA, Nordea Bank AB (publ), Skandinaviska Enskilda Banken AB (publ), Société Générale, the Royal Bank of Scotland plc, WestLB AG, Svenska Handelsbanken AB (publ), Cooperatieve Centrale Raiffeisen-Boerenleenbank BA, Danske Bank A/S, HSBC Bank plc and ING Bank NV.

The loan in Banque Invik relates to loans to Tele2's operations in Russia, Croatia and Turkey. Tele2 has deposited a corresponding amount in Banque Invik. The margin between interest on bank funds and interest on loan liabilities respectively is 0.07%–0.50%.

The average rate of interest on loans during the year was 3.7% (2004: 4.4%).

COLLATERAL PROVIDED

	Dec. 31,05	Dec. 31,04
Bank deposits	831	300
TOTAL COLLATERAL PROVIDED FOR OWN LIABILITIES	**831**	**300**

TOTAL PLEDGED ASSETS FOR OWN LIABILITIES

	Dec. 31,05	Dec. 31,04
Within 1 year	5,812	3,207
Within 1 – 2 years	60	59
Within 2 – 3 years	12	60
Within 3 – 4 years	8,530	1,110
Within 4 – 5 years	19	16
Within 5 – 10 years	12	13
Within 10 – 15 years	–	–
TOTAL LIABILITIES TO FINANCIAL INSTITUTIONS	**14,445**	**4,465**

INTEREST RATE RISK

Of the total loan liabilities as of December 31, 2005 partly to financial institutions (above) and partly other interest-bearing liabilities (as in Note 26) are SEK 14,096 million, corresponding to 90%, (2004: SEK 4,651 million, 94%) with variable interest rates. An increase of the interest level of 1% should involve additional interest expenses of SEK 141 million, calculated on the basis of interest-bearing liabilities as of December 31, 2005.

Interest-bearing liabilities to financial institutions and other liabilities with variable interest rates fall due for payment as follows:

	Within 1 year	Within 1-2 years	Within 2-3 years	Within 3-4 years	Within 4-5 years	Within 5-15 years	Total
Liabilities with variable interest rates	5,069	137	58	8,580	71	181	14,096
Liabilities with fixed interest rates	1,190	279	146	–	–	–	1,615
TOTAL INTEREST-BEARING LIABILITIES	**6,259**	**416**	**204**	**8,580**	**71**	**181**	**15,711**

Note 25. Provisions

2005	Rented building	Legal requirements	Pensions and similar commitments	Total
Provisions as of January 1	17	40	6	63
Provisions in acquired companies	76	54	–	130
Additional provisions	14	269	3	286
Utilized provisions	–	–14	–1	–15
Exchange rate differences	–1	–1	–	–2
TOTAL PROVISIONS AS OF DECEMBER 31	**106**	**348**	**8**	**462**

	Dec. 31,05	Dec. 31,04
Provisions, short-term portion	251	10
Provisions, long-term portion	211	53
TOTAL PROVISIONS	**462**	**63**

In 2005 Tele2 provided SEK 161 million related to a VAT-dispute in the prepaid card operations. The dispute relates to the period 2003 until the first quarter of 2005 and the provision correspond to the the evaluated probable outcome, which is estimated at 75% of the maximum worst case outcome. Furthermore acquired companies during the year also have provisions for VAT-disputes of SEK 53 million. Other disputes relate to provisions in Tele2 Italy and Tele2 Spain, mainly relating to disputes with other operators and tax disputes.

Telecom Italy has sued Tele2 for damages for MEUR 200 which the company claims it has suffered due to misleading marketing by Tele2. The claim has been made jointly against Tele2 Italy S.p.A. and Tele2 AB, since Tele2 Italy, according to Telecom Italia, has acted on instructions from Tele2 AB. Tele2 disputes the claim. Even if Telecom Italia should succeed, Tele2 believes that the damages will only result in a fraction of the amount claimed.

Provisions have been made for unutilized premises.

Note 26. Other interest-bearing liabilities

	Dec. 31, 2005 Short-term liabilities	Dec. 31, 2005 Long-term liabilities	Dec. 31, 2004 Short-term liabilities	Dec. 31, 2004 Long-term liabilities
Eredivisie CV	228	364	-	-
Samsung	124	56	-	-
Finance leasing	66	384	64	441
Other	29	15	33	10
Total other short-term and long-term interest-bearing liabilities	**447**	**819**	**97**	**451**
TOTAL OTHER INTEREST-BEARING LIABILITIES		**1,266**		**548**

COLLATERAL PROVIDED

	Dec. 31,05	Dec. 31,04
Net assets in subsidiaries	52	52
TOTAL PLEDGED COLLATERAL FOR OTHER INTEREST-BEARING LIABILITIES	**52**	**52**

OTHER INTEREST-BEARING LIABILITIES FALL DUE

	Dec. 31, 2005 Total loan liabilities	*of which finance lease, present value*	*of which finance lease, nominal value*	Dec. 31, 2004 Total loan liabilities	*of which finance lease, present value*	*of which finance lease, nominal value*
Within 1 year	447	*80*	*81*	97	*79*	*81*
Within 1 – 2 years	356	*73*	*77*	96	*95*	*100*
Within 2 – 3 years	192	*53*	*58*	53	*61*	*66*
Within 3 – 4 years	50	*52*	*59*	56	*57*	*65*
Within 4 – 5 years	52	*51*	*59*	54	*54*	*63*
Within 5 – 10 years	161	*136*	*164*	192	*156*	*189*
Within 10 – 15 years	8	*5*	*8*	–	*3*	*4*
Total loan liability and interest			***506***			***568***
Less interest portion			*–56*			*–63*
TOTAL OTHER INTEREST-BEARING LIABILITIES	**1,266**	***450***	***450***	**548**	***505***	***505***

Finance leases relate to the expansion of transmission capacity in Sweden and Austria. The portion of the liability that includes variable interests totals to SEK 264 million and has during the year resulted in interest expense of SEK 18 (2004: 0) million.

Note 27. Other short-term liabilities

	Dec. 31,05	Dec. 31,04
VAT liability	340	306
Employee withheld tax	46	37
Other taxes	40	78
Additional earn-out payment for Alpha Telecom	–	27
Customer deposits	30	25
Other	129	21
TOTAL OTHER SHORT-TERM LIABILITIES	**585**	**494**

Note 28. Accrued expenses and deferred income

	Dec. 31,05	Dec. 31,04
Traffic expenses to other telecom operators	2,476	2,064
External service expenses	1,065	782
Personnel-related costs	431	270
Expenses for dealers	133	140
Interest expenses	174	84
Leasing and rental expenses	97	227
Other accrued expenses	432	148
Deferred income, prepaid cards	821	884
Other deferred income	1,792	1,035
TOTAL ACCRUED EXPENSES AND DEFERRED INCOME	**7,421**	**5,634**

Note 29. Pledged assets

	Dec. 31,05	Dec. 31,04
Net assets in group companies	52	52
Materials and supplies	19	13
Bank deposits	892	365
TOTAL PLEDGED ASSETS	**963**	**430**

Pledged shares are reported at an amount corresponding to the carrying amount of the net assets which each subsidiary represents in the group balance sheet.

Note 30. Contingent liabilities

	Dec. 31,05	Dec. 31,04
Guarantee related to joint venture	1,475	1,007
Future commitments	163	6
TOTAL CONTINGENT LIABILITIES	**1,638**	**1,013**

Svenska UMTS-nät AB, a joint venture to Tele2, has an approved loan facility of SEK 5.3 (2004: 7) billion, where Tele2 guarantees utilized amounts up to 50 percent holding or a maximum of SEK 2.7 (2004: 3.5) billion. As of December 31, 2005, Tele2's guarantee amounted to SEK 1,475 (2004: 1,007) million .

Note 31. Operating leases and other commitments

ANNUAL EXPENSES

	2005	2004
Annual leasing expenses for operating leases	1,999	2,057

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

CONTRACTUAL FUTURE LEASE PAYMENTS DUE FOR PAYMENT

	Dec. 31,05	Dec. 31,04
Within 1 year	1,462	847
Within 1 – 2 years	575	322
Within 2 – 3 years	468	283
Within 3 – 4 years	234	210
Within 4 – 5 years	128	155
Within 5 – 10 years	383	286
Within 10 – 15 years	239	187
More than 15 years	93	120
TOTAL FUTURE LEASE PAYMENTS FOR OPERATING LEASES	**3,582**	**2,410**

CONTRACTUAL COMMITMENTS/COMMERCIAL PLEDGES

	Dec. 31, 2005				
	Within 1 year	1-3 years	3-5 years	After 5 years	Total
Liabilities to financial institutions	5,812	72	8,549	12	14,445
Other interest-bearing liabilities	447	548	102	169	1,266
Contractual and other commitments	366	–	–	–	366
Operating leasing	1,462	1,043	362	715	3,582
TOTAL CONTRACTUAL COMMITMENTS/ COMMERCIAL PLEDGES	**8,087**	**1,663**	**9,013**	**896**	**19,659**

Note 32. Supplementary cash flow information

Of the year's investment in intangible assets and tangible assets, SEK 439 million is unpaid at December 31, 2005 and has therefore not been reported as investments in the cash flow statement. Payment of the previous year's investment of SEK 343 million has been reported as investment in the cash flow for 2005.

CASH FLOW FROM OPERATING ACTIVITIES BASED ON THE NET RESULT

	2005	2004
The operating activities:		
Net profit	2,341	3,428
Adjustment for non-cash items		
Depreciation/amortization	2,968	2,328
Result from shares in associated companies and joint ventures	100	–17
Net capital gain/loss on sale of fixed assets	17	2
Net capital gain/loss on sale of shares	–159	–197
Finance leases	–3	–39
Unpaid financial items	160	95
Unpaid tax	192	120
Dividend from associated companies	1	–
Deferred tax expense	42	508
Cash flow from operations	**5,659**	**6,228**
Changes in working capital	–172	–352
CASH FLOW FROM OPERATING ACTIVITIES	**5,487**	**5,876**

INVESTMENTS ACCORDING TO THE CASH FLOW STATEMENT BY MARKET AREA AND BUSINESS AREA

	2005	2004
Nordic	596	427
Baltic & Russia	1,539	684
Central Europe	272	156
Southern Europe	685	119
UK & Benelux	500	117
Services	48	59
TOTAL INVESTMENTS IN INTANGIBLE AND TANGIBLE ASSETS, CAPEX	**3,640**	**1,562**

	2005	2004
Mobile telephony	1,807	1,063
Fixed telephony and internet	1,768	432
Cable TV	17	7
Other operations	48	60
TOTAL INVESTMENTS IN INTANGIBLE AND TANGIBLE ASSETS, CAPEX	**3,640**	**1,562**

Further information on the segments is provided in Note 2 and Note 3.

Note 33. Number of employees

AVERAGE NUMBER OF EMPLOYEES

	2005		2004	
	Total	*of whom men*	Total	*of whom men*
Nordic	975	*68%*	973	*68%*
Baltic & Russia	1,027	*53%*	998	*52%*
Central Europe	576	*71%*	188	*66%*
Southern Europe	360	*56%*	140	*62%*
UK & Benelux	538	*75%*	251	*75%*
Services	433	*79%*	378	*81%*
TOTAL NUMBER OF EMPLOYEES	**3,909**	***65%***	**2,928**	***64%***

	2005		2004	
	Women	Men	Women	Men
Proportion of Board members in all group	4%	96%	3%	97%
Proportion of other Senior executives in all group companies	19%	81%	17%	83%
TOTAL SHARE OF BOARD MEMBERS AND OTHER SENIOR EXECUTIVES	**14%**	**86%**	**12%**	**88%**

Note 34. Personnel costs

SALARIES AND REMUNERATION

	2005			2004		
	Board of Directors and CEO	*of which bonus*	Other employees	Board of Directors and CEO	*of which bonus*	Other employees
Nordic	30	*4*	494	28	*5*	470
Baltic & Russia	18	*3*	115	15	*1*	98
Central Europe	8	*3*	282	8	*3*	96
Southern Europe	13	*2*	149	11	*3*	86
UK & Benelux	19	*3*	299	19	*3*	160
Services	5	–	159	11	*3*	160
TOTAL SALARIES AND REMUNERATION	**93**	***15***	**1,498**	**92**	***18***	**1,070**

During the year, provision has been made of SEK 14 (2004: 13) million for bonus to key personnel in the Group and costs for social security, SEK 5 (2004: 4) million. Distribution of the amount will be decided in 2006.

	2005			2004		
	Salaries and remune-ration	Social security expenses	*of which pension expenses*	Salaries and remuneration	Social security expenses	*of which pension expenses*
Board and CEO	93	23	*6*	92	26	*7*
Other employees	1,498	412	*86*	1 070	331	*67*
TOTAL SALARIES AND REMUNERATION	**1,591**	**435**	***92***	**1,162**	**357**	***74***

PENSION EXPENSES

	2005	2004
Defined-benefit plans, retirement pension	19	3
Defined-benefit plans, compliance and disability pension	5	4
Defined-contribution plans	68	67
TOTAL PENSION EXPENSES	**92**	**74**

REMUNERATION OF SENIOR EXECUTIVES

2005	Basic salary/ board fees	Variable remune-ration	Option program	Other benefits	Other remune-ration	Pension expenses	Total remune-ration
Chairman of the Board							
Sven Hagströmer	0.8				–		0.8
President and CEO							
Lars-Johan Jarnheimer	11.2	3.3	–	0.1	–	2.1	16.7
Other Senior executives	25.4	13.2	–	1.1	–	2.7	42.4
TOTAL REMUNERATION TO SENIOR EXECUTIVES	**37.4**	**16.5**	**–**	**1.2**	**–**	**4.8**	**59.9**

The group Other Senior Executives comprises 13 (2004: 12) persons. In addition to the expenses mentioned above, Tele2 has also had social security expenses.

2004	Basic salary/ board fees	Variable remune-ration	Option program	Other benefits	Other remune-ration	Pension expenses	Total remune-ration
Chairman of the Board							
Sven Hagströmer	0.8				–		0.8
President and CEO							
Lars-Johan Jarnheimer	10.5	3.3	–	0.0	–	2.7	16.5
Other Senior executives	22.1	10.5	–	0.7	–	2.4	35.7
TOTAL REMUNERATION TO SENIOR EXECUTIVES	**33.4**	**13.8**	**–**	**0.7**	**–**	**5.1**	**53.0**

	2005					
	Previous years	The year's allotment				Total
	Warrant program	Warrant program 2002/2007				
	Number of	Number of	Market value at issue	Acqui-sition price	Benefit	Number of
President and CEO	47,100	–	–	–	–	47,100
Other Senior executives	376,800	–	–	–	–	376,800
TOTAL WARRANTS TO SENIOR EXECUTIVES	**423,900**	**–**	**–**	**–**	**–**	**423,900**

Note 34 continued

Board of Directors
Total fees to the Board of Directors in 2005 were SEK 3.4 million following a decision by the Annual General Meeting in May 2005.

President/CEO
In addition to a fixed salary, the President and CEO of Tele2 AB, Lars-Johan Jarnheimer, received a bonus of SEK 3.3 (2004: SEK 3.3) million. The bonus is based on individual targets. Pension benefit, which is a defined-contribution pension, is 20% of his fixed basic salary. The retirement age is 65. The period of notice when served by the company is a minimum of 12 and a maximum of 18 months. If the President serves notice of termination of employment to the company, salary is paid during a 12 month period. No other remuneration is paid. The President's salary and remuneration are determined annually by the Board of Directors following proposals from the Remuneration Committee.

Other Senior executives
Variable salary to other Senior executives includes a bonus of 0%–50% of fixed salary and based on profit benchmarks and other individual targets. Pensions are paid in accordance with a public pension plan, of which SEK 2.4 (2004: 2.1) million relates to defined-contribution plans and SEK 0.3 (2004: 0.3) million to defined-benefit plans. The retirement age is 65. The period of notice when served by the company is a minimum of 6 and a maximum of 12 months. If the person serves notice of termination of employment to the company, salary is paid during a 6 month period. No other remuneration is made.

SHARE-BASED PAYMENTS

Change in the number of outstanding warrants and their weighted average redemption price:

	2005		2004	
	Weighted redemption price per share, SEK	Warrants (number)	Weighted redemption price per share, SEK	Warrants (number)
Outstanding as of January 1	60.80	2,418,428	60.80	2,503,208
Forfeited	60.80	–141,300	60.80	-84,780
Exercised	60.80	–972,307		–
TOTAL OUTSTANDING WARRANTS AS OF DECEMBER 31*)	**60.80**	**1,304,821**	**60.80**	**2,418,428**
**) of which may be exercised as of Dec. 31*		*1,304,821*		–
of which may not be be exercised as of Dec. 31		–		*2,418,428*

Outstanding warrants at the end of the year have the following expiration date and exercise price:

		Shares	
Expiration date	Exercise price	2005	2004
2007	60.80	1,304,821	2,418,428

Incentive program 2002–2007
The Annual General Meeting in 2002 approved an incentive program corresponding to a maximum of 3,312,700 B-shares for present and additional key personnel in the Group converted after the split and redemption procedure in 2005. These people are entitled to subscribe to Class B-shares by means of warrants over a period of three to five years corresponding to a market value +10% for B-shares at the time of allotment, provided that they remain in the Group's employment. No premium is to be paid. Warrants corresponding to 2,630,378 shares were issued in 2002, with forfeited warrants in 2002 – 2005 totaling 353,250. In 2005 warrants totaling to 972,307 shares were exercised. As of December 31, 2005, Tele2 has outstanding warrants corresponding to 1,304,821 (2004: 2,418,428) shares. All warrants have a redemption price of SEK 60.80/share. Included in the above, an allotment totaling to 482,618 shares was issued in 2002 to a wholly-owned group company to secure future cash flow for social expenses, of which 162,187 was exercised in 2005 and 320,431 is outstanding as of December 31, 2005.

Note 35. Remuneration to auditors

	2005		2004	
	Deloitte	Other auditors	Deloitte	Other auditors
Audit assignments	21	5	15	4
Other assignments:				
Audit-related	4	1	3	2
Taxes	1	18	–	14
Other	–	1	–	1
	26	**25**	**18**	**21**
TOTAL REMUNERATION TO AUDITORS		**51**		**39**

Audit assignments refer to the fees and expenses for auditing the financial statements of the parent company and the Group, and statutory auditing of subsidiaries. This also includes the fees for other auditing services related to services which only can normally be performed by the appointed auditor, and the examination of documents relating to the Nasdaq stock market.

The item Other assignments, "Audit-related", includes fees for analyses and other similar investigations which are closely related to the auditing of the company's annual accounts or which are normally performed by the appointed auditor and consultations relating to accounting principles.

The item "Taxes" includes expenses for checking tax computations, services connected with tax audits and appeals, tax advice relating to mergers, acquisitions and intra-group pricing as well as consultation concerning fiscal regulations.

The item "Other" covers all other assignments, including the costs for investigations and analyses in conjunction with corporate acquisitions (due diligence).

Note 36. Financial risk management

Through its operations, the Group is exposed to varous financial risks such as exchange risk, interest rate risk, liquidity risk and credit risk. Handling of financial risks is mainly centralised to the corporate management. The aim is to minimise the group's capital costs through appropriate financing and the effective handling and controlling of the group's financial risks.

Foreign currency exchange risk
The foreign currency exchange risk consists of exchange risk influencing the Group's profit and equity in a negative way. The exchange exposure arises in connection with the payment flow in foreign currency (transaction exposure) and when translating foreign subsidiaries' balance sheets and income statements to SEK.

In telephony operations there is currency risk in connection with international call traffic, as a liability or a receivable is created between Tele2 and foreign operators. In mobile telephony these transactions are calculated in SDR's (Special Drawing Rights, a currency substitute) but are invoiced and paid in EUR. The Group's policy is not to hedge transaction exposures.

Currency exposure arising as a result of the translation of foreign operations is limited by the Group's borrowings in currencies that reflect the net investment in these operations. Our loan facility is in USD, SEK, EUR and GBP. The currency exposure regarding net investments in foreign operations/subsidiaries is covered and insured in part through a loan facility in the same currency. In 2005 21% (2004: 23%) of the operating revenue constitues SEK and 55% (2004: 55%) EUR. During the year Tele2's result has primarily been influenced by fluctuations in EUR, PLN, NOK and LVL. For additional information, refer to Note 12.

Interest rate risk
Tele2 follows the development on the interest rate market and decisions regarding the strategy for the amount of fixed versus variable rate debt are assessed continually. The Group utilizes at present no interest rate hedging instruments. At the end of 2005 90% (2004: 94%) of the Group's interest-bearing liabilities carried a variable rate of interest. For additional information, refer to Note 24.

Liquidity risk
The Group's cash is placed in short-term investments and the goal is that the surplus cash shall be used to decrease the outstanding loan balance. According to current financial policy, the risk of refinancing is mitigated by subscribing to long-term binding credit facilities. At the end of 2005, the Group had a available liquidity of SEK 8.9 billion. For additional information, refer to Note 22.

Credit risk
Tele2's credit risk primarily relates to accounts receivable and cash. The Group assesses its credit risk on a continuous basis. Since the customer base is very differentiated and includes individuals as well as businesses, the exposure and thus the credit risk are limited as a whole. The Group makes provisions for expected customer losses.

Fair values for Tele2's liabilities with fixed interest rates do not deviate significantly from the book value. The fair values of the other financial assets and liabilities also do not deviate significantly from the book value.

Note 37. Transition to IFRS

As of January 1, 2005 Tele2 has drawn up its consolidated financial statements in accordance with International Financial Reporting Standards (IFRS). There has been a gradual transition to IFRS over a number of years in Sweden, with most of the recommendations of the Swedish Financial Accounting Standards Council having been revised to comply with IFRS. Tele2 has been applying all the recommendations issued by the Swedish Financial Accounting Standards Council for some time, which means that the majority of its accounting already complies with IFRS. In spite of this gradual transition, the requirement for full transition to IFRS will have an effect on Tele2's presentation of accounts.

The date for the changeover to IFRS has been set to January 1, 2004, as IFRS requires that one year be restated and reported in accordance with IFRS for comparison. The transition to IFRS is reported in accordance with IFRS 1 *First-time adoption of International Financial Reporting Standards*. The main rule of IFRS 1 is that all recommendations are to be implemented retrospectively. However, IFRS 1 allows optional exceptions to the principle of retrospective application, with Tele2 having elected to apply the following exceptions:

- Only company acquisitions and combinations occurring on and after the transition date, January 1, 2004, will be restated according to IFRS 3.
- Share-based payments will be accounted for according to IFRS 2 for the incentive program allotted after November 7, 2002 and not utilized as of January 1, 2005. Tele2 has elected not to retrospectively apply IFRS 2 prior to this date, and consequently no plans have been restated.
- Tele2 has chosen to apply IAS 19 from the transition date, which means that actuarial gains and losses that occurred prior to this date are reported against opening shareholders' equity. These effects are small, which is why they have not been included in the table below.

There has been no requirement to restate financial information relating to financial years prior to 2004.

INCOME STATEMENT 2004

	According to Swedish GAAP	a) Goodwill	b) Financial leasing	c) Other information	Total IFRS-adjustments	According to IFRS
Operating revenue	43,033	–	–	–	–	43,033
Operating costs	–40,261	1,525	4	–	1,529	–38,732
The result of shares in associated companies and joint ventures	17	–	–	–	–	17
EBIT	**2,789**	**1,525**	**4**	**–**	**1,529**	**4,318**
of which EBITDA	6,618	–	11	–	11	6,629
Financial items	–108	–	–3	–	–3	–111
EBT	**2,681**	**1,525**	**1**	**–**	**1,526**	**4,207**
Taxes	–779	–	–	–	–	–779
Minority interests	–	–	–	–	–	
NET PROFIT	**1,902**	**1,525**	**1**	**–**	**1,526**	**3,428**
Attributable to:						
– Equity holders of the parent company	1,902	1,525	1	–	1,526	3,428
– Minority interest	–	–	–	–	–	–
Earnings per share	4.30	3.44	–	–	3.44	7.74
Earnings per share, after dilution	4.29	3.44	–	–	3.44	7.73

BALANCE SHEET Dec. 31, 2004

	According to Swedish GAAP	a) Goodwill	b) Financial leasing	c) Other	Total IFRS-adjustments	According to IFRS
Intangible assets	22,526	1,490	–	–	1,490	24,016
Tangible assets	9,015	–	92	–	92	9,107
Financial assets	3,846	–	–4	–	–4	3,842
Current assets	12,914	–	–	–14	–14	12,900
ASSETS	**48,301**	**1,490**	**88**	**–14**	**1,564**	**49,865**
Shareholders' equity	31,396	1,490	12	2	1,504	32,900
Minority interest	2	–	–	–2	–2	
Provisions	538	–	–	–538	–538	
Long-term liabilities	1,651	–	68	518	586	2,237
Short-term liabilities	14,714	–	8	6	14	14,728
SHAREHOLDERS' EQUITY AND LIABILITIES	**48,301**	**1,490**	**88**	**–14**	**1,564**	**49,865**

CHANGE IN SHAREHOLDERS' EQUITY

	According to Swedish GAAP	a) Goodwill	b) Financial leasing	c) Other	Total IFRS-adjustments	According to IFRS
Shareholders' equity, January 1, 2004	30,360	–	11	7	18	30,378
Translation differences	–423	–35	–	–5	–40	–463
Dividend	–443	–	–	–	–	–443
Net profit	1,902	1,525	1	–	1,526	3,428
SHAREHOLDERS' EQUITY, DECEMBER 31, 2004	**31,396**	**1,490**	**12**	**2**	**1,504**	**32,900**

a) Goodwill

According to IFRS, intangible assets are divided into assets with a definite useful life and assets with an indefinite useful life. According to IFRS 3, goodwill is to be classified as an asset with an indefinite useful life and should therefore not be amortized, but undergo annual impairment tests. Since IFRS 3 applies from the date of acquisition, goodwill amortization for 2004 will be reversed in accordance with IFRS. In accordance with the transitional provisions, Tele2 performed the required impairment tests on January 1 and December 31, 2004. The tests shows that no impairment had occurred.

IFRS clarifies the criteria for identifying and reporting certain classes of assets in conjunction with business acquisitions. IFRS 3 requires disclosure of different acquired intangible assets, such as customer relationships, patents, licenses, trademarks, agreements, etc., which are to be assessed at fair value at the acquisition date and reported separately from goodwill. Tele2 has analyzed the acquisitions made in 2004 and is satisfied that the acquisition analyses meet the requirements outlined by IFRS.

b) Finance leasing

Tele2 has certain rental agreements which previously were reported as operating leasing agreements, as they were entered into before January 1, 1997, and according to a transitional rule, were not covered by the Swedish Financial Accounting Standards Council's recommendations RR6:99. In accordance with IAS 17, such agreements are however to be reported as finance leasing agreements.

c) Other

Minority interest

Minority interest shall be reported as a separate item under shareholders' equity in the balance sheet. This differs from the prior regulations applied under Swedish GAAP whereby minority interest are reported as an item between liabilities and shareholders' equity. Under these previous regulations, minority interest was included as an item in profit/loss on the income statement. Instead, profit/loss attributable to equity holders of the parent company and minority equity holders in subsidiaries is separately specified under net profit.

Provisions

Provisions are reported as a separate component among short-term and long-term liabilities respectively in the balance sheet. This differs from the previous regulations applied under Swedish GAAP whereby provisions were to be reported as a separate item between liabilities and shareholders' equity.

Loan expenses

In connection with the borrowings of the Group, the debt issuance costs shall be reported as a deduction of the loan liability in the balance sheet. This differs from the previous regulations of reporting as prepaid expenses. In the income statements, the amortization of these costs are reported as interest expense. This differs from previous regulations whereby this was reported as other financial expenses.

Distribution of group depreciation/amortization

In the segment reporting, the group depreciation/amortization has prevoiusly been reported on a separate line. According to IFRS, the group depreciation/amortization is also distributed by respective market area.

Note 38. Transactions with related parties

As a result of substantial direct and indirect shareholdings by the Jan Hugo Stenbeck estate in the Tele2, Kinnevik, Transcom Worldwide, Millicom, Modern Holdings Inc, MTG, Metro and Viking Telecom groups as well as certain other companies, said estate has the potential to exert considerable influence in terms of financial and operational decisions regarding activities by these companies. The above companies, including associated companies and joint ventures according to Note 17, are regarded as related parties to Tele2. Business relations and pricing between Tele2 and all related parties are subject to principles based on commercial terms and conditions.

OPERATING AGREEMENTS BETWEEN TELE2 AND RELATED PARTIES

Tele2 supplies telephony and data services are subject to principles based on commercial terms to closely related corporate groups.

Invik Group

Tele2 Group's telephony operations are, with the exception of certain of the companies acquired during the year, insured by Moderna Försäkringar AB. Banque Invik provides certain financial services for the Tele2 Group. Banque Invik is also the credit card supplier and conducts credit card transactions arising via the 3C-operation's equipment.

Transcom Worldwide Group

Transcom provides customer services and telemarketing for Tele2. CIS Collection AB provides debt-collection services for Tele2.

Millicom Group

Millicom Group purchases certain consulting services from the Tele2 company ProcureITright.

Modern Holdings Inc Group

The Basset Group provides an operator settlement and anti-fraud system for Tele2.

MTG, Modern Times Group

Tele2 buys advertising time on radio and TV channels owned by MTG. Tele2 purchases cable TV programs from MTG Group.

Viking Telecom Group

Viking Telecom provides Tele2 with most of the line routers that Tele2 supplies to its end customers.

Associated companies and joint ventures

Tele2 is also one of two turnkey contractors for the planning, expansion and operation of the joint venture Svenska UMTS-nät. Transactions with associated companies and joint ventures are subject to principles based on market terms.

TRANSACTIONS BETWEEN TELE2 AND RELATED PARTIES

	Operating revenue		Operating expenses	
	2005	2004	2005	2004
Kinnevik Group	6	7	3	2
Invik Group	3	3	18	25
Transcom Worldwide Group	52	49	2,896	2,314
Millicom Group	12	9	–	–
Modern Holdings Inc Group	3	3	145	253
MTG, Modern Times Group	33	30	56	50
Metro International Group	5	2	17	16
Viking Telecom Group	1	1	5	5
Associated companies and joint ventures	252	51	252	46
Other related companies	1	1	36	30
TOTAL	**368**	**156**	**3,428**	**2,741**

	Interest revenue		Interest expenses	
	2005	2004	2005	2004
Invik Group	26	27	30	38
Modern Holdings Inc-Group	1	1	–	–
Associated companies and joint ventures	–	1	–	–
TOTAL	**27**	**29**	**30**	**38**

TRANSACTIONS BETWEEN TELE2 AND RELATED PARTIES

	Restricted cash		Other receivables		Interest-bearing receivables	
	Dec. 31,05	Dec. 31,04	Dec. 31,05	Dec. 31,04	Dec. 31,05	Dec. 31,04
Kinnevik Group	–	–	1	–	–	–
Invik Group	831	300	–	–	–	–
Transcom Worldwide Group	–	–	31	7	–	–
Millicom Group	–	–	4	1	–	–
Modern Holdings Inc Group	–	–	1	1	11	10
MTG, Modern Times Group	–	–	12	11	–	–
Metro International Group	–	–	1	1	–	–
Associated companies and joint ventures	–	–	45	99	–	17
Other related companies	–	–	21	25	–	–
TOTAL	**831**	**300**	**116**	**145**	**11**	**27**

	Non-interest-bearing liabilities		Interest-bearing liabilities	
	Dec. 31,05	Dec. 31,04	Dec. 31,05	Dec. 31,04
Invik Group	92	26	822	300
Transcom Worldwide Group	557	300	–	–
Modern Holdings Inc Group	33	34	–	–
MTG, Modern Times Group	9	6	–	–
Metro International Group	4	3	–	–
Viking Telecom Group	–	1	–	–
Associated companies and joint ventures	13	9	–	–
TOTAL	**708**	**379**	**822**	**300**

Parent company's financial statements

The parent company's income statement

SEK million	Note	2005	2004
Operating revenue	2	18	18
Gross profit		**18**	**18**
Administrative expenses		–104	–82
Other operating revenue	2	26	26
Operating loss		**–60**	**–38**
PROFIT/LOSS FROM FINANCIAL INVESTMENTS:			
Result from other securities and receivables classified as fixed assets	3	308	303
Other interest revenue and similar income	4	1	140
Interest expense and similar costs	5	–24	–10
Profit after financial items		**225**	**395**
Tax on profit for the year	6	–223	–143
NET PROFIT		**2**	**252**

The parent company's cash flow statement

SEK million	Note	2005	2004
OPERATING ACTIVITIES			
Operating loss		–60	–38
Adjustments for non-cash items:			
Interest received		1	1
Interest paid		–12	–3
Cash flow from operations		**–71**	**–40**
Changes in working capital:			
Operating assets		–9	45
Operating liabilities		–27	–3
Changes in working capital		**–36**	**42**
CASH FLOW FROM OPERATING ACTIVITIES		**–107**	**2**
INVESTING ACTIVITIES			
Acquisition of intangible assets		–6	–
Sale of intangible assets		6	–
Acquisition of other securities		–	–478
Sale of other securities		–	617
Loans to group companies		–	–617
Repayments from group companies		2,317	925
Cash flow from investing activities		**2,317**	**447**
CASH FLOW AFTER INVESTING ACTIVITIES		**2,210**	**449**
FINANCING ACTIVITIES			
Other interest-bearing liabilities		–	150
Repayment of other interest-bearing liabilities		–	–150
Dividend/redemption		–2,213	–443
New share issues		59	–
Cash flow from financing activities		**–2,154**	**–443**
NET CHANGE IN CASH		**56**	**6**
Cash and cash equivalents at Jan. 1		7	1
CASH AT END OF YEAR		**63**	**7**

For additional cash flow information, refer to Note 14

The parent company's balance sheet

SEK million	Note	Dec. 31,05	Dec. 31,04
ASSETS			
FIXED ASSETS			
FINANCIAL ASSETS			
Shares in group companies	7	2,686	2,686
Receivables from group companies	8	18,956	19,761
Deferred tax asset		1	399
Other long-term receivables		–	1
Total fixed assets		**21,643**	**22,847**
CURRENT ASSETS			
CURRENT RECEIVABLES			
Accounts receivable, group		21	11
Prepaid expenses and accrued income	9	2	3
Total current receivables		**23**	**14**
CASH AND CASH EQUIVALENTS		63	7
Total current assets		**86**	**21**
TOTAL ASSETS		**21,729**	**22,868**

SEK million	Note	Dec. 31,05	Dec. 31,04
EQUITY AND LIABILITIES			
SHAREHOLDERS' EQUITY			
RESTRICTED EQUITY			
Share capital		555	738
Restricted reserve		16,819	16,577
Total restricted equity		**17,374**	**17,315**
UNRESTRICTED EQUITY			
Retained earnings		3,843	4,937
Net profit		2	252
Total unrestricted equity		**3,845**	**5,189**
Total shareholders' equity		**21,219**	**22,504**
LONG-TERM LIABILITIES			
INTEREST-BEARING			
Liabilities to group companies		327	316
Total interest-bearing		**327**	**316**
Total long-term liabilities		**327**	**316**
SHORT-TERM LIABILITIES			
NON-INTEREST-BEARING			
Accounts payable		6	6
Current tax payable		162	23
Other liabilities	10	5	4
Accrued expenses and deferred income	11	10	15
Total non-interest-bearing		**183**	**48**
Total short-term liabilities		**183**	**48**
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES		**21,729**	**22,868**
PLEDGED ASSETS AND CONTINGENT LIABILITIES			
Pledged assets	12	None	None
Contingent liabilities	13	8,173	6,147

Change in parent company's shareholders' equity

	Restricted equity		Unrestricted equity	Total shareholders' equity
SEK million	Share capital	Restricted reserve	Retained earnings	
Shareholders' equity, at January 1, 2004	738	16,577	3,663	20,978
Group contribution, received	–	–	2,385	2,385
Group contribution, tax effect	–	–	–668	–668
Dividend	–	–	–443	–443
Net profit	–	–	252	252
SHAREHOLDERS' EQUITY, AT DEC. 31, 2004	**738**	**16,577**	**5,189**	**22,504**

	Restricted equity		Unrestricted equity	Total shareholders' equity
SEK million	Share capital	Restricted reserve	Retained earnings	
Shareholders' equity, at January 1, 2005	738	16,577	5,189	22,504
Group contribution, received	–	–	1,205	1,205
Group contribution, tax effect	–	–	–338	–338
New share issue	1	58	–	59
Dividend and redemption	–184	184	–2,213	–2,213
Net profit	–	–	2	2
SHAREHOLDERS' EQUITY, AT DEC. 31, 2005	**555**	**16,819**	**3,845**	**21,219**

Notes to the parent company's financial statements

Note 1. Accounting principles and other information

The parent company's financial statements have been prepared according to the Swedish Annual Accounts Act, RR32 *Reporting for legal entities* and the recommendations of the Swedish Financial Accounting Standards Council and its Emerging Issues Task Force.

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

Associates and joint ventures
Shares in associates and joint ventures are reported in the parent company using the cost method. Only received dividends are reported as income, provided that these are attributale to earnings that have been earned after the acquisition. Dividends exceeding these earned earnings are considered to be a repayment of the investment and should therefore reduce the reported value of the shares.

Financial assets and liabilities and other financial instruments
The parent company values financial fixed assets at cost less any write-down and current assets at the lower of cost and market value. If there no longer is any indication of impairment, the write-down is to be reversed.

Group contributions
Group contributions that are made for the purpose of minimizing the Group's tax expense are reported directly against retained earnings after deduction for the relevant tax effect.

OTHER INFORMATION
The annual report has been approved by the Board of Directors March 7, 2006.
The balance sheet and income statement shall be determined at the Annual General Meeting May 10, 2006.

Note 2. Operating revenue and other operating revenue

The entire operating revenue and other operating revenue of the parent company relate to sales to other companies in the Group.

Note 3. Result from other securities and receivables classified as fixed assets

Result from other securities and receivables classified as fixed assets amounts to SEK 308 (2004: 303) million and relates to interests income from lending to Group companies.

Note 4. Other interest revenue and similar income

	2005	2004
Interest, bank balances	1	1
Gain on sale of shares in Song Networks	–	139
TOTAL OTHER INTEREST REVENUE AND SIMILAR INCOME	**1**	**140**

Note 5. Interest expenses and similar costs

	2005	2004
Interest, penalty interest	–12	–3
Interest, Group	–12	–7
TOTAL INTEREST EXPENSES AND SIMILAR COSTS	**–24**	**–10**

Note 6. Taxes

	2005	2004
Current tax expense	–162	–23
Deferred tax expense	–61	–120
TOTAL TAX EXPENSE (-)/TAX INCOME (+) ON PROFIT FOR THE YEAR	**–223**	**–143**

In 2005 provision for tax disputes of SEK –162 million has been made.

The difference between recorded tax expense and the tax expense based on prevailing tax rate consist of the following components:

	2005		2004	
Profit before tax	225		395	
Tax effect according to tax rate in Sweden	–63	–28.0%	–111	–28.0%
Tax effect of:				
Other non-deductible expenses/non-taxable revenue	2	0.9%	–9	–2.3%
Tax dispute from previous years expensed	–162	–72.0%	–23	–5.8%
TAX EXPENSE/INCOME AND EFFECTIVE TAX RATE	**–223**	**–99.1%**	**–143**	**–36.2%**

For additional information, refer to Group Note 13.

Note 7. Shares in group companies

Company, reg. no., reg'd office	Number of shares	Total par value	Holding	Book value Dec. 31,05	Book value Dec. 31,04
Netcom Luxembourg SA, RC B73.796 Luxembourg	1,000	tEURO 35	100%	2,686	2,686
TOTAL SHARES IN SUBSIDIARIES				**2,686**	**2,686**

List of all subsidiaries, excluding dormant companies, is presented in Note 18.

Note 8. Receivables from group companies

	Dec. 31,05	Dec. 31,04
Acquisition value at Jan. 1	19,761	17,381
Lending	1,514	3,355
Repayments	–2,319	–975
TOTAL RECEIVABLES FROM GROUP COMPANIES	**18,956**	**19,761**

Note 9. Prepaid expenses and accrued income

	Dec. 31,05	Dec. 31,04
Rental costs	2	3
TOTAL PREPAID EXPENSES AND ACCRUED REVENUES	**2**	**3**

Note 10. Other short-term liabilities

	Dec. 31,05	Dec. 31,04
VAT liability	1	–
Empleyee withheld taxes	1	1
Other	3	3
TOTAL SHORT-TERM LIABILITIES	**5**	**4**

Note 11. Accrued expenses and deferred income

	Dec. 31,05	Dec. 31,04
External services expenses	4	7
Personnel-related expenses	6	5
Interest costs	–	3
TOTAL ACCRUED EXPENSES AND DEFERRED INCOME	**10**	**15**

Note 12. Pledged assets

The parent company has no pledged collateral.

Note 13. Contingent liabilities

	Dec. 31,05	Dec. 31,04
Guarantee related to group companies	6,698	5,140
Guarantee related to joint venture	1,475	1,007
TOTAL CONTINGENT LIABILITIES	**8,173**	**6,147**

SEK 5.6 million (SEK 3.9 billion) of the contingent liabilities in the Group relates to a guarantee for the five-year loan facility. Svenska UMTS-nät AB, a joint venture to Tele2, has an approved loan facility of SEK 5.3 (2004: 7) billion, where Tele2 guarantees utilized amounts up to 50 percent holding or a maximum of SEK 2.7 (2004: 3.5) billion. As of December 31, 2005, Tele2's guarantee amounted to SEK 1,475 (2004: 1,007) million.

Note14. Supplementary cash flow information

In 2005, the parent company received a group contribution from Tele2 Sverige AB amounting to SEK 1,205 (2004: 2,385) million. In 2005, the parent company had interest revenues from other group companies of SEK 308 (2004: 303) million and interest expenses to other group companies of SEK –12 (2004: –7) million which were capitalized on the loan amount.

Note 15. Number of employees

The average number of employees in the parent company is 3 (2004: 2), of whom 1 (2004: 0) is a woman.

Note 16. Personnel costs

	2005			2004		
	Personnel costs	Social security expenses	*of which pension expenses*	Salaries and remunerations	Social security expenses	*of which pension expenses*
Board and CEO	18	8	*2*	17	9	*3*
Other employees	4	2	-	3	1	-
TOTAL PERSONNEL EXPENSES	**22**	**10**	***2***	**20**	**10**	***3***

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

Note 17. Remuneration to Auditors

Remuneration for elected auditors for audit assignments is SEK 5 (2004: 2) million. Remuneration for other audit-related assignments amounts to SEK 3 (2004: 1) million.

Note18. Legal structure

The table below lists all the subsidiares that are not dormant companies.

Company, reg. no., reg'd office	Holding (capital/votes)
NETCOM LUXEMBOURG SA, RC B73.796 Luxembourg	100%
TELE2 HOLDING AB, 556579-7700, Stockholm, Sweden	100%
Tele2 Sverige AB, 556267-5164, Stockholm, Sweden	100%
Tele2 Sweden SA, RC B73.802, Luxembourg	100%
X-Source Holding AB, 556580-2682, Stockholm, Sweden	100%
X-Source AB u.n.t. UNI2 AB, 556290-2238, Stockholm, Sweden	100%
Uni2 A/S, 26904056 Copenhagen, Denmark	100%
UNI2 OÜ, 11010450, Tallin, Estonia	100%
UAB X-Source, 1421989, Vilnius, Lithuania	100%
SIA UNI2, 40003681691, Riga, Latvia	100%
UNI2 Ltd 4381179 London, UK	100%
UNI2 SA, 986768270, Oslo, Norway	100%
UNI2 It-Services GmbH, FN271528, Vienna, Austria	100%
X-Source SA, 20022211618, Luxembourg	100%
Optimal Telecom Holding AB, 556580-7855, Stockholm, Sweden	100%
Optimal Telecom Sverige AB, 556440-1924, Stockholm, Sweden	100%
Datametrix Sverige Holding AB, 556580-7871, Stockholm, Sweden	100%
Datametrix AB, 556539-4870, Stockholm, Sweden	100%
Tele2 Norge Holding AB, 556580-8143, Stockholm, Sweden	100%
Tele2 Norge AS, 974534703, Oslo, Norway	100%
Tele2 Danmark Holding AB, 556580-8028, Stockholm, Sweden	100%
Tele2 Denmark A/S, 221234, Copenhagen, Denmark	100%
Datametrix Norge AS, 975993108, Oslo, Norway	100%
Datametrix Danmark A/S, 39419, Copenhagen, Denmark	100%
Web Communication BV, 34112460, Amsterdam, Netherlands	100%
Tele2 Polska Sp, 57496, Warsawa, Poland	100%
In2loop Polska Sp. So.o, 54380, Warsawa, Poland	100%
Tele2 d.o.o. Za telekomunikacijske usulge, 1849018, Zagreb, Croatia	51%
Tele2 (UK) Ltd, 4940295, London, UK	100%
Bethany Group Ltd, 390385, Virgin Islands, UK	100%
Tele2 UK Services Ltd, 4028792, London, UK	100%
Alpha Int. Overseas Telecomm. Services Ltd, 359452, Virgin Islands	100%
Alpha International Overseas Telecommunication Services Ltd, B111468, Luxembourg	100%
Tele2Vision AB, 556650-2455, Stockholm, Sweden	100%
Kopparstaden Kabelvision KB, 916583-0564, Västerås, Sweden	80%
Nelab Kabelvision KB, 916597-8983, Västerås, Sweden	80%
Skaraborgs Kabelvision AB, 556483-6467, Mariestad, Sweden	60%
Everyday Webguide AB, 556182-6016, Stockholm, Sweden	99.99%
NetCom GSM Sverige AB, 556304-7025, Stockholm, Sweden	100%
ProcureITright AB, 556600-9436, Stockholm, Sweden	100%
Radio Components Sweden AB, 556573-3846, Stockholm, Sweden	69.6%
e-Village Nordic AB, 556050-1644, Stockholm, Sweden	100%
Tele2 ESP AB, 556690-7449, Stockholm, Sweden	100%
Belmus BV, 33261289, Amsterdam, Netherlands	100%
Tele2 Eesti AS, 10069046, Tallin, Estonia	48%
Tele2 Holding AS, 10262238, Tallin, Estonia	100%
Tele2 Eesti AS, 10069046, Tallin, Estonia	52%
UAB Tele2, 111471645, Vilnius, Lithuania	100%
UAB Tele2 Fiksuotas Rysys, 111793742, Vilnius, Lithuania	100%
UAB Kabeliniai Rysiu, 1223046883, Vilnius, Lithuania	100%
UAB Trigeris, 21239677, Vilnius, Lithuania	100%
Tele2 Holding SIA, 40003512063, Riga, Latvia	100%
SIA Tele2, 40003272854, Riga, Latvia	100%
SIA "Tele2 billing", 40003690571, Riga, Latvia	100%
SIA Tele2 Telecom Latvia, 40003616935, Riga, Latvia	100%
Tele2 S:t Pet Holding AB, 556636-7362, Stockholm, Sweden	100%
St Petersburg Telecom, 1027809223903, St Petersburg, Russia	25.4%
Oblcom, 1024700557408, St Petersburg, Russia	36.64%
Corporation Severnaya Korona, 1023801757451.16, Irkutsk, Russia	100%
St Petersburg Telecom, 1027809223903, St Petersburg, Russia	74.6%
Oblcom, 1024700557408, St Petersburg, Russia	60.6%
Votec Mobile ZAO, 1023601558694, Voronezh, Russia	100%
Lipetsk Mobile CJSC, 1024840840419, Lipetsk, Russia	94%
Tele2 Russia Telecom BV, 33287334, Rotterdam, Netherlands	100%
Tele2 Russia International Cellular BV, 33221654, Amsterdam, Netherlands	100%
PSNR Personal System Networks in region, 1025202610157, Niznhy Novgorod, Russia	100%
Tele2 Russia EKA Holding GmbH, FN 131600 f, Vienna, Austria	100%
Fora Telecom M, 1027739380767, Moscow, Russia	100%
Tele2 Russia VOL Holding GmbH, FN 131602 h, Vienna, Austria	100%
Kursk Cellular Communications, 1024600947403, Kursk, Russia	100%
Smolensk Cellular Communications, 1026701433494, Smolensk, Russia	60%

Note 18 continued

Company, reg. no., reg'd office	Holding (capital/votes)
Belgorod Cellular Communications, 1023101672923, Belgorod, Russia	70%
Kemerovo Mobile Communications, 1024200689941, Kemerovo, Russia	100%
Rostov Cellular Communications, 1026103168520, Rostov, Russia	87.5%
Udmurtiya Cellular Communications, 1021801156893, Izhevsk, Russia	77.5%
RP Technology, 1041800281093, Izhevsk, Russia	100%
Siberian Cellular Communications, 1025500746072, Omsk, Russia	60%
Chelyabinsk Cellular Network, 1027403876862, Chelyabinsk, Russia	100%
Tele2 Europe SA, R.C.B56944, Luxembourg	100%
Parlino SA, RCB111686, Luxembourg	100%
IntelliNet Holding BV, 34126307, Amsterdam, Netherlands	100%
01047 Telecommunication GmbH, HRB 48344, Frankfurt, Germany	100%
Tele2 Austria Holding GmbH, FN178222t, Vienna, Austria	100%
Tele2UTA Telecommunication GmbH, FN138197g, Vienna, Austria	100%
Tele2 Belgium SA, 609392, Zellik, Belgium	100%
Télé2 France SA, B409914058, Velizy, France	100%
Communication Services Tele2 GmbH, 36232, Düsseldorf, Germany	100%
Tele2 Italia Spa, MI-1998-247322, Segrate, Italy	100%
Tele2 Telecommunication Services S.L, B82051913, Madrid, Spain	100%
Comunitel Globel SA,A82025644, Vigo, Spain	99.96%
Germinus XXI SA, B82508524, Madrid, Spain	99.98%
Tele2 Telecommunication Services AG, CH-020390 55 969, Zürich, Switzerland	100%
Econophone AG, CH1703021494-5, Zürich, Switzerland	100%
ServiceStream NV, 3131, Antwerpen, Belgium	99%
Tele2 AG, H.1045/80, Liechstenstein	100%
Tele2 Luxembourg SA, R.C.B65774, Luxembourg	100%
Telemilenio, Telecomunicacoes, Sociedade Unipessoal, 10468, Lisbon, Portugal	100%
Tele2 /Slovakia/ s.r.o., 35806486, Bratislava, Slovakia	100%
Tele2 Magyarorszag Kft., 12634402-2-41, Budapest, Hungary	100%
Everyday Media SA, R.C. B 78.227, Luxembourg	100%
Everyday Prod. SA, R.C.B69802, Luxembourg	100%
Media Tele SA, RCB106239, Luxembourg	100%
SEC Finance SA, B104730, Luxembourg	100%
S.E.C. Luxembourg S.A., R.C. B-84.649, Luxembourg	100%
Tele2 Finance Luxembourg SA, RCB112873, Luxembourg	19%
Tele2 Finance Belgium SA, 0878159608, Brussels, Belgium	100%
S.E.C. Luxembourg S.A., R.C. B-84.649, Luxembourg	81%
Tele2 s.r.o., 25650009, Prague, The Czech Republic	100%
Tele2 Services Luxembourg SA, RCB70203, Luxembourg	100%

Company, reg. no., reg'd office	Holding (capital/votes)
3C Communications International SA, RC B 29697, Luxembourg	100%
3C Communications GmbH, FN695021, Vienna, Austria	100%
3C Communications BVBA, 514 274, Brussels, Belgium	100%
3C Communications SRL Italy, 28894/7359/14, Segrate, Italy	100%
3C Communications A/S,184462, Ballerup, Denmark	100%
3C Communications OY, 585632, Vantaa, Finland	100%
3C Communications GmbH, HRB 24104, Germany	100%
3C Communications Luxembourg SA, B39690, Luxembourg	100%
3C Communications BV,14630454, Amsterdam, Netherlands	100%
3C Communications A/S, 939980652, Oslo, Norway	100%
3C Communicacoes a Credito Ltda, 503390865, Domingos de Rana, Portugal	100%
3C Communications Espana SA, A.79-028007, Madrid, Spain	100%
3C Communications AB, 556332-6346, Stockholm, Sweden	100%
3C Communications Ltd, 2343138, Kingston-upon-Thames, UK	100%
3C Transac Ltd, 3257901, Kingston-upon-Thames, UK	100%
3C Communications Equipment SA, B25465, Luxembourg	100%
CCC Holding BV, 33 269 398, Amsterdam, Netherlands	100%
Calling Card Company Limited, 3794813, UK	100%
Calling Card Company Germany GmbH, HRB 40498, Germany	100%
C^3 Calling Card Company Limited, 309745, Ireland	100%
Calling Card Company SA, B424906618, Paris, France	100%
Calling Card Company Italy SpA, 233372, Milano, Italy	100%
Tele2 International Card Company S.A., RC 64 902, Luxembourg	100%
Calling Card Company Netherlands BV, BV 82334, Amsterdam, Netherlands	100%
Calling Card Company Spain, S.A. A-62426457, Spain	100%
Calling Card Company Telecommunication Services GmbH, FN 215362i, Austria	100%
Calling Card Company (UK) Ltd, 3812138, London, UK	100%
C^3 Prepaid Telecom Spain S.L., B-38778163, Teneriffa, Canary Islands, Spain	100%
C^3 Poland Sp.o.o.Z, PL5213327199, Warsawa, Poland	100%
Tele2 Netherlands Holdings BV, 342328750, Amsterdam, Netherlands	100%
Tele2 Netherlands BV, 33274127, Amsterdam, Netherlands	100%
Tango SA, RC.B59560, Luxembourg	100%
Tele2 Finance BV, 342328770, Amsterdam, Netherlands	100%
Versatel Telecom International NV, 33272606, Amsterdam, Netherlands	80.29%
Versatel Nederland BV, 33303418, Amsterdam, Netherlands	100%
Xtra Ned Nederland BV, 34181558, Amsterdam, Netherlands	100%
Versatel internetdiensten BV, 34144876, Amsterdam Netherlands	100%
Versatel Belgium NV, BE0463193905, Wemmel, Belgium	99%
Versatel Belgium NV, BE0463193905, Wemmel, Belgium	1%

The annual account and consolidated accounts have been drawn up in accordance with generally accepted accounting standards for public companies. The information provided is in accordance with the actual circumstances in the operations, and nothing significant has been omitted which may influence the view of the Group and parent company which is conveyed by the annual accounts.

Stockholm, March 7, 2006

Sven Hagströmer
Chairman

Marc Beuls

Vigo Carlund

John Hepburn

Jan Loeber

John Shakeshaft

Cristina Stenbeck

Lars-Johan Jarnheimer
President and CEO

Our auditors' report was submitted on March 10, 2006

Deloitte AB

Tommy Mårtensson
Authorized Public Accountant

Auditors' report

To the annual general meeting of the shareholders of Tele2 AB (publ) Corporate identity number 556410-8917

We have audited the annual accounts (page 13–46), the consolidated accounts, the accounting records and the administration of the board of directors and the CEO of Tele2 AB (publ) for the financial year 2005. The board of directors and the CEO are responsible for these accounts and the administration of the company as well as for the application of the Annual Accounts Act when preparing the annual accounts and the application of international financial reporting standards IFRSs as adopted by the EU and the Annual Accounts Act when preparing the consolidated accounts. Our responsibility is to express an opinion on the annual accounts, the consolidated accounts and the administration based on our audit.

We conducted our audit in accordance with generally accepted auditing standards in Sweden. Those standards require that we plan and perform the audit to obtain reasonable assurance that the annual accounts and the consolidated accounts are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the accounts. An audit also includes assessing the accounting principles used and their application by the board of directors and the CEO and significant estimates made by the board of directors and the CEO when preparing the annual accounts and consolidated accounts as well as evaluating the overall presentation of information in the annual accounts and the consolidated accounts. As a basis for our opinion concerning discharge from liability, we examined significant decisions, actions taken and circumstances of the company in order to be able to determine the liability, if any, to the company of any board member or the CEO. We also examined whether any board member or the CEO has, in any other way, acted in contravention of the Companies Act, the Annual Accounts Act or the Articles of Association. We believe that our audit provides a reasonable basis for our opinion set out below.

The annual accounts have been prepared in accordance with the Annual Accounts Act and give a true and fair view of the company's financial position and results of operations in accordance with generally accepted accounting principles in Sweden. The consolidated accounts have been prepared in accordance with international financial reporting standards (IFRSs) as adopted by the EU and the Annual Accounts Act and give a true and fair view of the group's financial position and results of operations. The statutory administration report is consistent with the other parts of the annual accounts and the consolidated accounts.

We recommend to the annual meeting of shareholders that the income statements and balance sheets of the parent company and the group be adopted, that the profit of the parent company be dealt with in accordance with the proposal in the administration report and that the members of the board of directors and the CEO be discharged from liability for the financial year.

Stockholm, March 10, 2006

Deloitte AB

Tommy Mårtensson
Authorized Public Accountant

Definitions

EBITDA Operating profit/loss before depreciation and amortization and result from shares in associated companies and joint ventures.

EBITA Operating profit/loss after depreciation but before goodwill write-down.

EBIT Operating profit/loss after depreciation and amortization.

EBT Profit/loss after financial items.

Cash flow from operating activities Operating transactions affecting cash (cash flow) and change in working capital.

Cash flow after CAPEX Cash flow after investments in intangible assets and property, plant and equipment affecting cash (CAPEX), but before investment in shares and changes in lending.

Available liquidity Cash and cash equivalents, including undrawn borrowing facilities.

Investments Acquisition and disposal of property, plant and equipment, including investments under finance leases.

Net borrowing Interest-bearing liabilities (not convertible debentures) less interest-bearing assets.

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

Equity/assets ratio Shareholders' equity (including convertible debentures) divided by total assets.

Debt/equity ratio Interest-bearing net debt divided by shareholders' equity including minority interests at the end of the period.

Return on equity Profit/loss after tax less items affecting comparability and minority interests less tax (and interest expense for convertible debentures less tax) divided by average equity (including convertible debentures and excluding minority interests).

Capital employed Total assets less provisions and non-interest bearing liabilities.

Return on capital employed Profit/loss after financial items less items affecting comparability and finance costs (less interest expense for convertible debentures) divided by average capital employed.

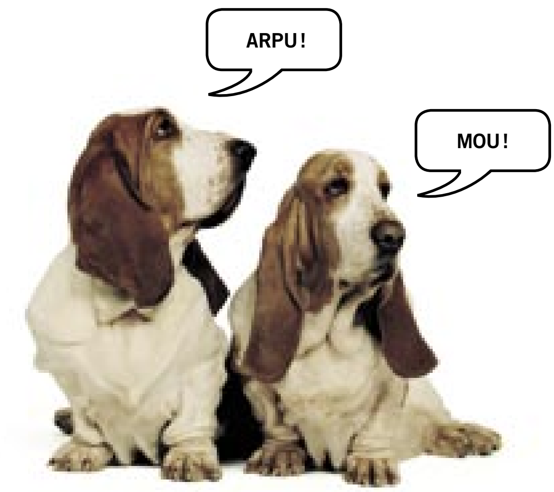
Average interest rate Interest expense (less interest expense for convertible debentures) divided by average interest-bearing liabilities (less convertible debentures).

Earnings per share Profit/loss for the period attributable to the parent company (less interest expense on convertible debentures less tax) divided by the weighted average number of shares outstanding during the fiscal year (which would result from conversion of outstanding convertible debentures and exercised options).

Equity per share Profit/loss for the year attributable to parent company shareholders (including convertible debentures) less minority interests, divided by the weighted average number of shares outstanding during the fiscal year (which would result from conversion of outstanding convertible debentures and exercised options).

ARPU – Average Revenue Per User Average monthly revenue for each customer.

MOU – Minutes of usage Monthly call minutes for each customer.



FURTHER INFORMATION. We prioritize openness and a straightforward dialog with the world around us. If you would like to know more about Tele2 you can find information at the following places:

READ OUR ANNUAL REVIEW

You are now holding in your hand our annual report, which this year includes for the first time a board of directors' report, as well as all published accounts and notes.

For further information about our operations, strategies and result please see our annual review, a copy of which can be ordered at www.tele2.com.

QUARTERLY REPORTS

Tele2 attracts a lot of attention every time we issue our quarterly reports. You can also receive our quarterly reports directly by e-mail. Apply at www.tele2.com

The quarterly reports for 2006 will be published at the following dates:

Q1 2006 Interim Report	May 3
Q2 2006 Interim Report	August 1
Q3 2006 Interim Report	November 1

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You can find the latest information by visiting our website www.tele2.com, where we publish our press releases on current events, our quarterly and full year reports and much more information. You will also find links to all our European operations.

WELCOME TO THE 2006 ANNUAL GENERAL MEETING

Tele2 AB's Annual General Meeting will be held on Wednesday, May 10, 2006, and all shareholders are welcome to notify Tele2 of their intention to participate. For further information, visit Tele2's web site www.tele2.com.

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