

## **The Board of Directors' proposal for (a) the implementation of a long-term incentive programme 2012-2015 and (b) hedging arrangements for the programme**

### **Background**

The remuneration framework within the TeliaSonera group (the "Group") currently consists of fixed salary, annual variable salary, pension and other benefits. A number of key employees also participate in a long-term incentive programme, which was approved by the Annual General Meeting 2010 and 2011 respectively. All in all, these parts constitute an integrated remuneration package. In accordance with the decision of the Annual General Meeting 2010 and 2011, neither annual nor long term variable remuneration is paid to members of the TeliaSonera Group management team.

The Board of Directors has carried out a review of the remuneration framework with the ambition to strengthen the Group's ability to recruit and retain talented key employees, create a long-term confidence in and commitment to the Group's long-term development, strengthen the Group's efforts to be more of a united company – "One Group", align key employees' interests with those of the shareholders, increase the part of the remuneration that is linked to the Company's performance and encourage shareholding of key employees.

As a result of the review, the Board of Directors considers that yearly long-term incentive programmes should be implemented for key employees of the Group. The long-term incentive programme proposed by the Board of Directors to be implemented during 2012, relating to the financial years 2012-2014 and that may result in allotments of so-called performance shares during the spring of 2015 ("Performance Share Programme 2012/2015"), is further described below.

The Board of Directors intends to propose forthcoming Annual General Meetings to implement long-term incentive programmes on similar conditions that apply to the now proposed Performance Share Programme 2012/2015.

### **Description of Performance Share Programme 2012/2015**

#### **General**

Performance Share Programme 2012/2015 shall comprise approximately 100 key employees within the Group. Provided that certain performance conditions, consisting of financial targets linked to EPS (Earnings Per Share) and TSR (Total Shareholder Return), are met during the financial years 2012-2014 (the "Performance Period"), participants in Performance Share Programme 2012/2015 shall be given the opportunity to receive final allotments of TeliaSonera shares without consideration ("Performance Shares").

Performance Share Programme 2012/2015 shall in total comprise of no more than 1,400,000 TeliaSonera shares, which corresponds to approximately 0.03 percent of the total number of outstanding shares in the Company.

#### **Own initial investment**

Participation in the programme requires that the participant has invested in TeliaSonera shares or allocated already held TeliaSonera shares to the programme ("Saving Shares") corresponding to a value of two (2) percent of the participant's annual gross base salary (i.e. before taxes) per year-end 2011 or, if a participant has become employed thereafter, the calculated annual gross base salary for 2012 (the "Base Salary"). Saving Shares shall normally be acquired or allocated to the programme during a period of approximately five weeks following the publication of the Company's Interim Report for the first quarter 2012. In the event of recruitment of key employees thereafter, participation in the programme may be offered and acquisition or allocation of Saving Shares may take place until the end of August 2012.

#### **Performance Conditions**

The final allotments of Performance Shares will be based 50 percent on the Company's development in EPS<sup>1</sup> ("EPS-based allotment of Performance Shares") and 50 percent on the Company's TSR during the Performance Period in relation to TSR in a peer group of approximately ten comparable Nordic and western European telecom companies defined by the Board of Directors ("TSR-based allotment of Performance Shares").<sup>2</sup> As is further described below, the financial targets include a

<sup>1</sup> EPS is defined as earnings per share, with a possibility for the Board of Directors to make adjustments for extraordinary events and/or exchange rate fluctuations.

<sup>2</sup> TSR is equal to the overall return a shareholder would receive on his or her shareholding taking into account both share price appreciation and dividends (if any). When calculating TSR, an average TSR-index number for December 2011 shall be compared with December 2014 for the Company and for the companies included in the peer group defined by the Board of Directors. The peer group does presently consist of Telenor ASA, Elisa Oyj, Tele2 AB, KPN NV, Telekom Austria AG, France Telecom SA, Deutsche Telekom AG, Vodafone Group Plc. and Telefonica SA.

minimum level which must be achieved in order for any allotments to occur at all, as well as a maximum level in excess of which no additional allotments will occur. Should lower financial targets than the maximum level be achieved, a lower number of Performance Shares may thus be allotted.

The preliminary EPS-based allotment of Performance Shares shall be made based on the Company's development in EPS for each of the financial years 2012, 2013 and 2014, in relation to EPS for the preceding financial year, and amount to a total value of no more than 15 percent of the Base Salary for the key employee.

In order for the participants to be entitled to receive any preliminary EPS-based allotment of Performance Shares, EPS for the relevant financial year must exceed EPS for the preceding financial year adjusted for inflation to be established further by the Board of Directors ("Minimum Level"). In order for the participants to be entitled to receive maximum preliminary EPS-based allotment of Performance Shares, EPS for the relevant financial year must exceed the Minimum Level with a certain percent established by the Board of Directors, amounting to no less than five and no more than 15 percent ("Maximum Level"). If the Company's EPS exceeds the Minimum Level, but is less than the Maximum Level, a proportionate reduction of the right to receive preliminary EPS-based allotment of Performance Shares shall be made.

The Board of Directors will establish the Company's EPS for each of the financial years 2011, 2012, 2013 and 2014. Further, the Board of Directors will establish the Maximum Level for each of the financial years 2012, 2013 and 2014. EPS and the Maximum Level, respectively, as established by the Board of Directors, are intended to appear in the Annual Report for each of the financial years 2012, 2013 and 2014.

TSR-based allotment of Performance Shares shall be made based on a 3-year TSR measured over the Performance Period and amount to an aggregate value of no more than 15 percent of the Base Salary for the key employee.

If the Company's TSR during the Performance Period places the Company at first or second place in the peer group, the participants have a right to receive the maximum TSR-based allotment of Performance Shares. If the Company's TSR during the Performance Period places the Company at or below the median in the peer group, the participants have no right to receive any of the TSR-based allotment of Performance Shares. If the Company's TSR during the Performance Period places the Company above the median in the peer group, but not at first or second place in the peer group, a proportionate reduction of the right to receive preliminary TSR-based allotment of Performance Shares shall be made.

#### **Allotment**

Maximum preliminary EPS-based allotment of Performance Shares for each of the financial years 2012, 2013 and 2014, shall amount to the number of Performance Shares corresponding to 5.00 percent of the Base Salary for the key employee, divided by a volume-weighted average price, calculated as the average of the daily noted volume-weighted purchase price of the Company's share on NASDAQ OMX Stockholm's official list during December for each of the years 2011, 2012 and 2013, however not lower than SEK 23. The maximum final EPS-based allotment of Performance Shares may not exceed annual preliminary allotted Performance Shares, but may be below the annual preliminary allotted Performance Shares as a result of the limitation on the maximum financial outcome that applies for each participant as set out below or other reduced final allotments as decided by the Board of Directors. Preliminary allotments of Performance Shares shall normally take place in conjunction with the Board of Directors' submission of the Annual Report for each of the financial years 2012, 2013 and 2014.

Maximum TSR-based allotment of Performance Shares, shall amount to the number of Performance Shares corresponding to 15 percent of the Base Salary for the key employee, in both cases, divided by a volume-weighted average price, calculated as the average of the daily noted volume-weighted purchase price of the Company's share on NASDAQ OMX Stockholm's official list during December 2011.

Final allotments of Performance Shares will take place following the publication of the Company's Interim Report for the first quarter 2015. Rounding off shall be made to the closest whole number of Performance Shares.

The maximum financial outcome for a participant, and the maximum number of Performance Shares that may finally be allotted, shall be capped at such number of Performance Shares which aggregate market value, based on a volume-weighted average price, calculated as the average of the daily noted volume-weighted purchase price of the Company's share on NASDAQ OMX Stockholm's official list during 20 trading days prior to the day of publication of the Interim Report for the first quarter 2015, corresponds to 37.5 percent of the Base Salary of the key employee. Rounding off shall be made to the closest whole number of Performance Shares.

Recalculation of final allotments of Performance Shares shall take place in the event of an intervening bonus issue, share repurchase offer, split, rights issue and/or other similar events.

A condition for final allotments of Performance Shares shall normally be that the participant has been employed within the Group during the whole period as from entering into the programme up to and including the day of publication of the Interim Report for the first quarter 2015 (the "Vesting Period") and that all Saving Shares held by a participant have been kept during such period. Therefore, upon termination of the employment within the Group during the Vesting Period, the right to receive final allotments of Performance Shares normally lapses. The same normally applies also in relation to the right to receive preliminary EPS-based allotment of Performance Shares.

In addition to what is set out above, the Board of Directors shall under certain circumstances be entitled to reduce final allotments of Performance Shares or, wholly or partially, terminate the Performance Share Programme 2012/2015 in advance and to make such local adjustments of the programme that may be necessary to implement the programme with reasonable administrative costs and efforts in the concerned jurisdictions, including, among other things, to offer cash settlement as well as to waive the requirement for investing in or allocating Saving Shares to the programme for participants in such jurisdictions.

#### **The value of and the estimated costs for Performance Share Programme 2012/2015**

The participants' rights to receive final allotments of Performance Shares on the final day of the programme are not securities and cannot be pledged or transferred to others. Neither are any shareholders' rights transferred to participants in the programme prior to the day when they receive final allotments of Performance Shares. An estimated market value relating to the right to receive final allotments of Performance Shares can however be calculated. The Board of Directors has calculated the total value for the right to receive allotments of Performance Shares under Performance Share Programme 2012/2015 to approximately SEK 14 million, under the following essential assumptions: (i) a share price of SEK 45.14 per TeliaSonera share as per 20 January 2012, (ii) an annual employee turnover of five percent and (iii) a 50 percent achievement of the EPS-based performance condition and, for the TSR-based performance condition, an assessment of the probability of outcome of the TSR-based performance condition in the peer group defined by the Board of Directors.

If the EPS-based performance conditions are achieved to 100 percent, the annual employee turnover is 0 percent and the assumption of a share price of SEK 45.14 and the assessment with respect to TSR are unchanged, the value of Performance Share Programme 2012/2015 is estimated to approximately SEK 25 million.

The costs are accounted for as staff costs (share-based benefits) over the three years Vesting Period. The social security costs are estimated to amount to approximately SEK 4 million, based on the assumptions described in items (i) – (iii) above, and, further, under the assumptions of a final allotment of TSR-based Performance Shares of 25 percent of maximum allotment, a tax rate for social security contributions of 20 percent and an annual increase in the market value of the TeliaSonera share of 5 percent. The costs for Performance Share Programme 2012/2015, excluding of the costs for the programme's hedging measures, and assuming maximum allotments, unchanged share price until preliminary allotments, full target achievement and that the limitation with respect to the maximum market value of allotted Performance Shares is applicable, amount to approximately SEK 37 million, including approximately SEK 12 million in social security costs.

#### **Dilution and effects on key ratios**

Performance Share Programme 2012/2015 will not entail any dilution effect, as the programme is proposed to be hedged by either treasury shares or a hedging arrangement with a bank or another financial institution relating to already issued shares.

The costs for Performance Share Programme 2012/2015 are expected to have a marginal effect on the Group's key ratios.

#### **Preparation of the proposal**

The proposal regarding Performance Share Programme 2012/2015 to the Annual General Meeting 2012 has been prepared by the Company's remuneration committee, where after the Board of Directors has resolved to present the proposal regarding Performance Share Programme 2012/2015 to the Annual General Meeting 2012.

#### **Hedging**

The Board of Directors has considered two alternative hedging methods for Performance Programme 2012/2015; either (i) a hedging arrangement with a bank or other financial institution securing delivery of shares under the programme or (ii) transfers of shares held by the Company itself to participants in Performance Share Programme 2012/2015. The Board of Directors considers the latter alternative as its main alternative. However, should the Annual General Meeting not approve the proposed transfer of own shares to participants in the programme, the Board of Directors may enter into a hedging arrangement set out above with a third party to hedge the obligations of the Company to allot under the programme.

Since the social security costs are not expected to be significant in comparison with the Company's operating cash flow; such costs are intended to be financed by cash and bank holdings.

### **The Board of Directors' proposal for resolutions**

The Board of Directors proposes that the Annual General Meeting 2012 resolves to (i) implement Performance Share Programme 2012/2015, based on no more than 1,400,000 Performance Shares, and on the further main terms and conditions set out in item (a) below, and (ii) transfers own shares to participants in the programme, and to subsidiaries within the Group in order to secure their obligations to deliver Performance Shares under the programme, in accordance with item (b) below.

#### **(a) Main terms and conditions for Performance Share Programme 2012/2015**

1. Performance Share Programme 2012/2015 shall comprise approximately 100 key employees within the Group.
2. Provided that the performance conditions described above, consisting of financial targets linked to EPS (Earnings Per Share) and TSR (Total Shareholder Return), are met during the Performance Period, participants in Performance Share Programme 2012/2015 shall be given the opportunity to receive final allotments of Performance Shares without consideration.
3. Performance Share Programme 2012/2015 shall in total comprise no more than 1,400,000 TeliaSonera shares, which corresponds to approximately 0.03 percent of the total number of outstanding shares in the Company.
4. Participation in the programme requires that the participant has invested in or allocated to the programme already held Saving Shares corresponding to a value of two (2) percent of the participant's Base Salary. Saving Shares shall normally be acquired or allocated to the programme during a period of approximately five weeks following the publication of the Company's Interim Report for the first quarter 2012. In the event of recruitment of key employees thereafter, participation in the programme may be offered and acquisition or allocation of Saving Shares may take place until the end of August 2012.
5. The final allotments of Performance Shares will be based 50 percent on the Company's development in EPS for each of the financial years 2012, 2013 and 2014, in relation to EPS for the preceding financial year, and 50 percent on the Company's TSR during the Performance Period in relation to TSR in a peer group of approximately ten comparable Nordic and western European telecom companies defined by the Board of Directors.
6. The financial targets include a minimum level which must be achieved in order for any allotments to occur at all, as well as a maximum level in excess of which no additional allotments will occur. Should lower financial targets than the maximum level be achieved, a lower number of Performance Shares may thus be allotted.
7. Maximum preliminary EPS-based allotment of Performance Shares for each of the financial years 2012, 2013 and 2014, shall amount to the number of Performance Shares corresponding to approximately 5.00 percent of the Base Salary for the key employee divided by a volume-weighted average price, calculated as the average of the daily noted volume-weighted purchase price of the Company's share on NASDAQ OMX Stockholm's official list during December for each of the years 2011, 2012 and 2013, however not lower than SEK 23. The maximum final EPS-based allotment of Performance Shares may not exceed annual preliminary allotted Performance Shares, but may be below the annual preliminary allotted Performance Shares as a result of the limitation on the maximum financial outcome that applies for each participant as set out in item 10 below or other reduced final allotments as decided by the Board of Directors in accordance with item 13 below. Preliminary allotments of Performance Shares shall normally take place in conjunction with the Board of Directors' submission of the Annual Report for each of the financial years 2012, 2013 and 2014.
8. Maximum TSR-based allotment of Performance Shares, shall amount to the number of Performance Shares corresponding to 15 percent of the Base Salary for the key employee divided by a volume-weighted average price, calculated as the average of the daily noted volume-weighted purchase price of the Company's share on NASDAQ OMX Stockholm's official list during December 2011.
9. Final allotments of Performance Shares will take place following the publication of the Company's Interim Report for the first quarter 2015. Rounding off shall be made to the closest whole number of Performance Shares.
10. The maximum financial outcome for a participant, and the maximum number of Performance Shares that may finally be allotted, shall be capped at such number of Performance Shares which aggregate market value, based on a volume-weighted average price, calculated as the average of the daily noted volume-weighted purchase price of the Company's share on NASDAQ OMX Stockholm's official list during 20 trading days prior to the day of publication of the Interim Report for the first quarter 2015, corresponds to 37.5 percent of the Base Salary of the key employee. Rounding off shall be made to the closest whole number of Performance Shares.

11. Recalculation of final allotments of Performance Shares shall take place in the event of an intervening bonus issue, split, rights issue and/or other similar events.
12. A condition for final allotments of Performance Shares shall normally be that the participant has been employed within the Group during the whole Vesting Period and that all Saving Shares held by a participant have been kept during such period. Upon termination of the employment within the Group during the Vesting Period, the right to receive final allotments of Performance Shares normally lapses. The same normally applies also in relation to the right to receive preliminary EPS-based allotment of Performance Shares.
13. In addition to what is set out above, the Board of Directors shall under certain circumstances be entitled to reduce final allotments of Performance Shares or, wholly or partially, terminate Performance Share Programme 2012/2015 in advance and to make such local adjustments of the programme that may be necessary to implement the programme with reasonable administrative costs and efforts in the concerned jurisdictions, including, among other things, to offer cash settlement as well as to waive the requirement for investing in or allocating Saving Shares to the programme for participants in such jurisdictions.
14. The Board of Directors shall be responsible for the further designing and administration of Performance Share Programme 2012/2015 within the framework of the above stated main terms and conditions.

**(b) Transfers of own shares**

Transfers of own shares to participants in Performance Share Programme 2012/2015, and to subsidiaries within the Group in order to secure their obligations to deliver Performance Shares under the programme, may be made on the following terms and conditions.

1. No more than 1,400,000 TeliaSonera shares may be transferred to participants in Performance Share Programme 2012/2015 as Performance Shares.
2. Entitled to receive allotments of Performance Shares without consideration shall be such persons within the Group being participants in Performance Share Programme 2012/2015. Further, subsidiaries shall be entitled to acquire shares without consideration, in which case such company shall be obliged, pursuant to the terms and conditions of Performance Share Programme 2012/2015, to immediately transfer the shares to such persons within the Group that participate in Performance Share Programme 2012/2015.
3. Transfers of shares shall be made without consideration at the time and on such additional terms and conditions that participants in Performance Share Programme 2012/2015 are entitled to receive final allotments of Performance Shares, i.e. following the publication of the Company's Interim Report for the first quarter 2015.
4. The number of shares that may be transferred shall be subject to recalculation in the event of an intervening bonus issue, share repurchase offer, split, rights issue and/or other similar events.

The reasons for deviation from the shareholders' preferential rights are the following.

The transfers of own shares are integrated parts of the implementation of Performance Share Programme 2012/2015. The Board of Directors considers it to be an advantage for the Company and the shareholders that the participants in Performance Share Programme 2012/2015 are offered to become shareholders in the Company.

The Board of Directors' proposes that the resolutions pursuant to items (a) and (b) above shall be resolved by the Annual General Meeting as two separate resolutions. The proposal in item (b) regarding transfers of shares shall be conditional upon that the Annual General Meeting has approved item (a), i.e. the implementation of the proposed programme.

The resolution regarding implementation of the proposed long-term incentive programme pursuant item (a) above requires a so-called simple majority vote.

The resolution regarding the proposed hedging arrangements pursuant to item (b) above requires a so-called super-majority vote, i.e. no less than nine-tenths of both the votes cast and the shares represented at the Annual General Meeting have to approve the proposal.

Stockholm, February 1, 2012  
Teliasonera AB (publ)  
The Board of Directors