

Does the global LTI program always applicable for Russia?

Tatyana Ryabova
Human resources Director

TELE2

About the Company

- 2001-2002
Tele2 came from Sweden to Russia buying 12 regional companies – telecom operators.



- 2010

Subscriber base Tele2 Russia is more than 18 billion people and confidently keeps 4th place by market share. Also in Y2010 Tele2 Russia was obtained as the best telecommunication company of the year

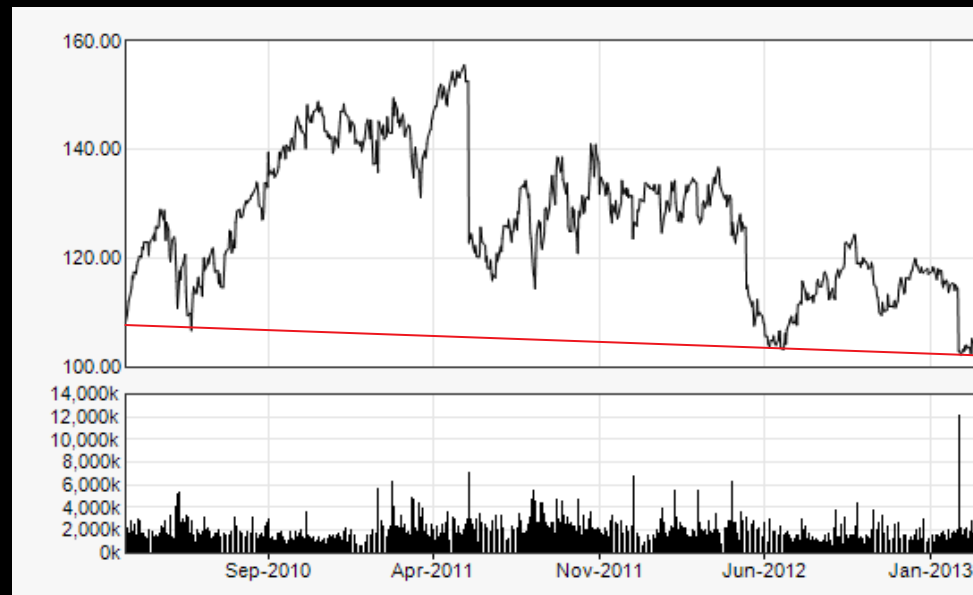
- 2012

Tele2 includes 43 regions by now. Subscriber base Tele2 Russia exceeds 22,7 billion people.

The Share

Shareholder Information

- Tele2 AB's shares are listed on the NASDAQ OMX Stockholm Large Cap list under the ticker symbols TEL2 A and TEL2 B.
- The share capital in Tele2 AB is divided into three classes of shares: Class A, B and C shares. Shares of Class A, however, entitle the holder to 10 voting rights per share and Class B and C (shares are not entitled to dividend) shares to one voting right per share.



From March 2010 to March 2013 share price decreased by 5%

The share's performance in 2011

- The OMX Stockholm Benchmark Index (OMXSBPI) decreased by 18% during the year.
- In 2011, average daily trading in the Tele2 B share increased by 41% to SEK 296 million. The share price ended the year on SEK 133.90 (139.60), a decrease of 4 percent.

Dividend

- As a result of the financial year 2011, the Board of Tele2 AB has decided to recommend to the Annual General Meeting (AGM) in May 2012, a total dividend payment of SEK 13 (27.00) per ordinary A or B share, to be comprised of an ordinary dividend of SEK 6.50 (6.00) and an extraordinary dividend of SEK 6.50 (21.00).

LTIP conditions

Participants

Key employees: tier 1&2 and key employees tier 3 (Commercial , technical and general management functions) within a quote distributed by HQ Sweden.

Vesting period

3 years

Type of LTIP

There are 4 categories:

- Cat 1 = 2,000 saving shares
- Cat 2 = 1,500 saving shares
- Cat 3 = 1,000 saving shares
- Cat 4 = 500 saving shares

Employee should make a choice weather he ready to invest or not:

- ✓ Invest: Employee should buy shares.(or reinvest already vested shares)
- ✓ W/o invest: Employee is just informed of participation. Number of rights will be multiply on coefficient 0,33.

Conditions

- To be employed by Tele2 during the vesting period
- In case of leaving till the end of the vesting period employee is excluded from LTIP (His saving shares are employee belonging)

LTIP conditions

Rights

Tele2 will grant a maximum of:

- 1 A Right (1 Bonus share for 1 Saving share),
- 1,5 B Rights (1,5 Bonus shares for 1 Saving share)
- 1,5 C Rights (1,5 Bonus shares for 1 Saving share)

Final number of Right depending on financial results.

Rights	Minimum Performance Hurdle	Stretch Target	Payout if reaching minimum hurdle	Payout if reaching Stretch Target
A Rights-Retention Shares	TSR>0%	not applicable	100%	100%
B Rights- Performance Shares	Average normilised ROCE >= 19%	Average normilised ROCE >= 23%	20%	100%
C Rights- Performance Shares	Tele2s TSR compared to defined Peer Group's TSR>=0 percentage points	Tele2s TSR compared to defined Peer Group's TSR>=10 percentage points	20%	100%
Total Rights in case of investment			1,6 Rights per Share	4 Rights per Share
Total Rights in case of <u>non</u> investment			0,53 Rights per Share ³	1,32 Rights per Share

LTIP conditions

Maximum payout

	Invest (# of Rights)	Non invest (# of Rights)
Cat 1 = 2,000 saving shares	8 000	2 640
Cat 2 = 1,500 saving shares	6 000	1 980
Cat 3 = 1,000 saving shares	4 000	1 320
Cat 4 = 500 saving shares	2 000	660



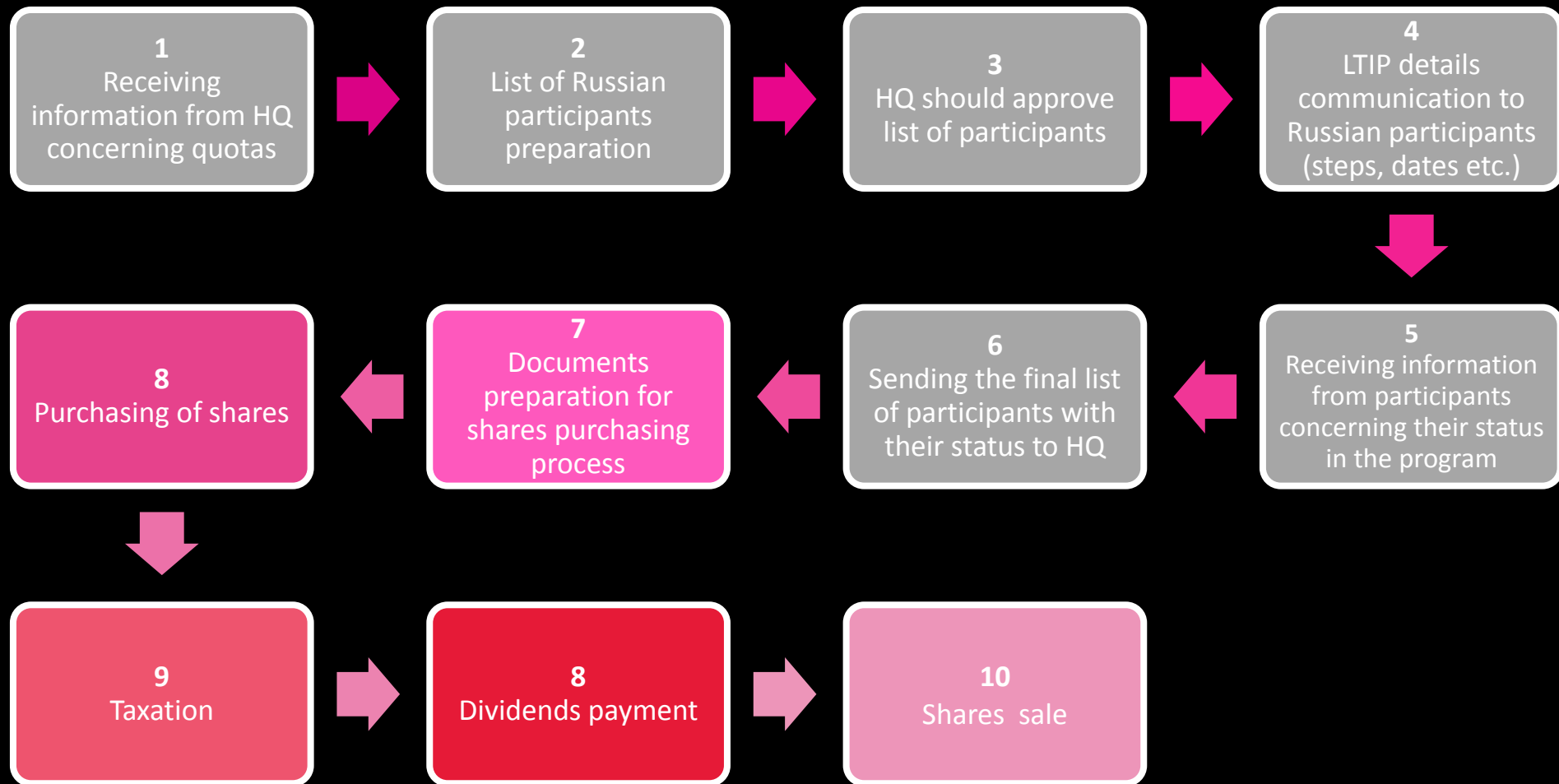
1 Right = 1 Share ~514 RUR

Financial dynamic

SEK million	2011	2010	2009	2008	2007
Key ratios					
Equity/assets ratio, %	46	72	71	60	55
Debt/equity ratio, multiple	0,53	0,06	0,08	0,17	0,19
Return on shareholders' equity, %	19,5%	24,0%	16,4%	8,9%	-5,6%
Return on shareholders' equity after dilution, %	19,5%	24,0%	16,4%	8,9%	-5,6%
Return on capital employed, %	20,8%	23,6%	17,6%	12,9%	2,0%



LTIP Process



Employee's risks and inconveniences

- Documents preparation for shares purchasing process
 - To open bank account in SEK. Only in one Russian bank money can be received from Sweden without any problems .
 - Original docs should be send to Sweden.
- Purchasing of shares
 - Transfer money to Sweden. Employee needs to provide the bank with lots of papers to facilitate a transfer process
 - Shares purchase happens as soon as broker gets money. Employee's no influence on share purchase price. In most cases the price is not favorable.
- Taxation
 - According to Russian legislation Rights should be transfer to VP account pre-tax (to avoid double income tax payment)
 - Rights are subject for income tax payment. Employee should have all statements to calculate income tax and provide (in case of necessity) them to Tax Department.
- Dividends payment
 - Dividends are paid in Sweden. So they are subject for income tax payment in Sweden. For Russian Tax Department employee should provide documents that prove tax payment abroad (official document with stamps and signatures). Otherwise employee used to pay double tax.
- Shares sale
 - Employee can set two weeks when he/she wants to sell shares or the minimum selling price. Usually selling price is unprofitable.

LTIP advantages and disadvantages

Advantages:

- ✓ Significant part of total remuneration
- ✓ Share Tele2 Group's financial responsibility

Disadvantages:

- ✓ **Lack of employees ready to invest their own money**
- ✓ Low level of participants impact on payment results
- ✓ **Complexity of Russian legislation (taxation, dividend payout, workflow)**
- ✓ Cash plan is preferable
- ✓ Lack of time to buy shares (Russian bureaucratic system of workflow can't allow to keep the same deadline as for European countries)
- ✓ The majority of employees have loan obligations with high % return rate in Russia. More investment – high risk.
- ✓ **Employee could lose money if the share price after 3 years is decreased and financial targets are not met.**

LTIP facts

- ❖ 100 participants:
 - 17% invest
 - 83% non investment

“It’s better to have anything than nothing”
- ❖ Simplicity and transparency is under question
- ❖ Employees don’t look for nomination

Thank you

TELE2