

Interim Report

January - September 2012

Tele2 Russia Holding AB

corporate reg. no. 556469-7836

INTERIM REPORT JANUARY - SEPTEMBER 2012

The Board of Directors herewith presents the interim report for Tele2 Russia Holding AB, corporate reg. no. 556469-7836, and its subsidiaries for January 1 – September 30, 2012.

The figures presented in this report refer to Q3 2012. The figures shown in parentheses refer to the comparable periods in 2011.

Tele2 Russia Holding AB is the parent company of a number of wholly owned companies incorporated in the Russian federation. Tele2 Russia Holding AB and its subsidiaries are referred to as “Tele2 Russia” in this interim report.

Tele2 Russia Holding AB is owned by Tele2 Russia Telecom BV, Netherlands (99.9 percent) and Tele2 Russia Two AB, Sweden (0.1 percent). The ultimate parent company is Tele2 AB (“Tele2”), which indirectly owns 100 percent of the company.

TELE2 RUSSIA

The operations of Tele2 Russia include all operations of Tele2 in Russia. Tele2 Russia offers mobile telephony services, mainly prepaid services to the residential market and also services to the corporate market.

Tele2 Russia has GSM licences in 43 regions covering approximately 62 million inhabitants. Tele2 Russia’s strategy is to have a balanced approach to rolling out new regions, while maintaining a stable profitability in the more mature regions.

The overall operational development in the quarter was characterized by a more balanced competitive environment in combination with a solid customer intake. Tele2 Russia continued to pursue market share during the quarter, especially in regions that have not yet reached critical mass. By maintaining its focus on expanding market share in the third quarter, Tele2 Russia will benefit from additional operational leverage throughout the rest of the year. EBITDA amounted to SEK 1,231 (1,206) million, equivalent to a margin of 38 (40) percent.

The total customer base grew by 710,000 (681,000) in Q3 2012 divided into 281,000, 227,000 and 202,000 customers for the months of July, August and September respectively. During the last 12 months, Tele2 Russia’s customer base has grown by 2.0 million new users, proving that there is a continued solid demand for Tele2 Russia’s services despite competitors’ introduction of 3G services. The total customer base amounted to 22.3 (20.4) million at the end of Q3 2012. The churn level of the total customer base was steady during the quarter, helped by a more stable market environment. Tele2 Russia will maintain its effort to be best in class in customer retention and continue to work with a commission structure to the retail channels in order to further enhance the quality of customer intake.

Despite an impact from customer base growth in new regions with lower initial service usage, and generally high competitive pressure throughout Tele2 Russia’s footprint, MoU for the total operations increased by 7 percent compared to the year-earlier period, amounting to 257 (240). ARPU was SEK 49 (50) or RUB 234 (225).

On the regulatory side, Tele2 was disappointed by the decision to postpone the introduction of technology neutrality in the Russian market. However, Tele2 Russia will continue to give its full support to the State Commission for Radio Frequency (GKRCh) as it will extend the evaluation period for technology neutrality. Tele2 expects that the regulatory authorities will maintain their established support to the regional operators and enable them to provide essential future-proof data services.

Tele2 Russia will keep looking for possibilities to carefully expand its operations through new licences as well as by complementary acquisitions.

FINANCIAL GUIDANCE

The following assumptions should be taken into account when estimating the operational performance of the total operations in Russia in 2012:

- Tele2 Russia expects the subscriber base to reach approximately 22.5 (earlier 22) million.
- Tele2 Russia expects ARPU to grow by 3-5 percent in local currency.
- Tele2 Russia expects an EBITDA margin of between 37-39 percent.
- Tele2 Russia expects CAPEX of between SEK 1,300-1,500 million.

OTHER ITEMS

Risks and uncertainty factors

Tele2 Russia's operations are affected by a number of external factors. The risk factors considered to be most significant to Tele2 Russia's future development are operating risks such as the availability of frequencies and telecom licences, the political and economic environment in Russia, integration of new business models, destructive price competition, changes in regulatory legislation and financial risks such as currency risk, interest risk, liquidity risk and credit risk. In addition to the risks described in Tele2 Russia's annual report for 2011 (see Directors' report and Note 2 of the report for a detailed description of Tele2 Russia's risk exposure and risk management), no additional significant risks are estimated to have developed.

Income statement

SEK million	2012	2011	2011	2012	2011
	Jan 1-Sep 30	Jan 1-Sep 30	Full year	Q3	Q3
Net sales	9 582	8 475	11 463	3 257	3 015
Operating expenses	-6 852	-5 873	-7 916	-2 286	-2 034
Other operating income	11	28	26	7	23
Other operating expenses	-11	-25	-20	-2	-18
Operating profit, EBIT	2 730	2 605	3 553	976	986
Interest income/costs	-503	-430	-562	-167	-118
Exchange rate differences, external	6	-1	-3	6	-8
Exchange rate differences, Tele2 group	-48	183	106	6	285
Exchange rate differences, Tele2 Russia group	50	-173	-93	-5	-287
Group Contribution, Tele2 group	-	-	-104	-	-
Other financial items	-7	3	3	-2	-1
Profit after financial items, EBT	2 228	2 187	2 900	814	857
Tax on profit	-431	-434	-568	-156	-173
NET PROFIT	1 797	1 753	2 332	658	684

Comprehensive income

SEK million	2012	2011	2011	2012	2011
	Jan 1-Sep 30	Jan 1-Sep 30	Full year	Q3	Q3
Net profit	1 797	1 753	2 332	658	684
OTHER COMPREHENSIVE INCOME					
Components not to be reclassified to net profit:					
Withholding taxes on dividends	-	-152	-153	-	9
Total components not to be reclassified to net profit	-	-152	-153	-	9
Components to be reclassified to net profit:					
Exchange rate differences	49	-93	-80	-10	-91
Exchange rate differences, tax effect	-60	-3	1	-8	-37
Total components to be reclassified to net profit	-11	-96	-79	-18	-128
Other comprehensive income for the period, net of tax	-11	-248	-232	-18	-119
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	1 786	1 505	2 100	640	565

Change in shareholders' equity

SEK million	Sep 30, 2012			Sep 30, 2011			Dec 31, 2011			
	Attributable to		Total share- holders' equity	Attributable to		Total share- holders' equity	Attributable to		Total share- holders' equity	
	Note	equity holders of the parent company		Non- controlling interests	holders of the parent company		Non- controlling interests	holders of the parent company		Non- controlling interests
Shareholders' equity, January 1		2 369	-	2 369	-5 739	-	-5 739	-5 739	-	-5 739
Costs for share rights	3	6	-	6	6	-	6	8	-	8
Shareholders' contribution	2	-	-	-	6 000	-	6 000	6 000	-	6 000
Dividends	2	-2 300	-	-2 300	-	-	-	-	-	-
Comprehensive income for the period		1 786	-	1 786	1 505	-	1 505	2 100	-	2 100
SHAREHOLDERS' EQUITY, END OF PERIOD		1 861	-	1 861	1 772	-	1 772	2 369	-	2 369

Balance sheet

SEK million	Note	Sep 30, 2012	Sep 30, 2011	Dec 31, 2011
ASSETS				
NON-CURRENT ASSETS				
Goodwill		795	805	813
Other intangible assets		1 190	1 047	1 013
Intangible assets		1 985	1 852	1 826
Tangible assets		6 337	5 945	6 371
Other financial assets		5	5	5
Deferred tax assets		724	698	727
NON-CURRENT ASSETS		9 051	8 500	8 929
CURRENT ASSETS				
Materials and supplies		44	50	49
Current receivables		686	889	662
Cash and cash equivalents		184	192	271
CURRENT ASSETS		914	1 131	982
ASSETS		9 965	9 631	9 911
EQUITY AND LIABILITIES				
SHAREHOLDERS' EQUITY				
Attributable to equity holders of the parent company	2	1 861	1 772	2 369
SHAREHOLDERS' EQUITY		1 861	1 772	2 369
LONG-TERM LIABILITIES				
Interest-bearing liabilities, Tele2 group		418	2 775	2 478
Other interest-bearing liabilities	1, 4	5 600	2 891	2 944
Deferred tax liability		305	269	268
LONG-TERM LIABILITIES		6 323	5 935	5 690
SHORT-TERM LIABILITIES				
Interest-bearing liabilities, Tele2 group		-	109	95
Other interest-bearing liabilities		95	10	12
Non-interest-bearing liabilities		1 686	1 805	1 745
SHORT-TERM LIABILITIES		1 781	1 924	1 852
EQUITY AND LIABILITIES		9 965	9 631	9 911

Cash flow statement

SEK million	Note	2012 Jan 1-Sep 30	2011 Jan 1-Sep 30	2011 Full year	2012 Q3	2012 Q2	2012 Q1	2011 Q4	2011 Q3	2011 Q2
OPERATING ACTIVITIES										
Cash flow from operations, excluding paid taxes		3 130	2 903	3 904	1 118	1 028	984	1 001	1 150	999
Taxes paid		-425	-659	-807	-163	-94	-168	-148	-230	-293
Changes in working capital		47	35	132	17	60	-30	97	18	-49
CASH FLOW FROM OPERATING ACTIVITIES		2 752	2 279	3 229	972	994	786	950	938	657
INVESTING ACTIVITIES										
Capital expenditure in intangible and tangible assets, CAPEX		-1 151	-1 153	-1 672	-407	-501	-243	-519	-465	-370
Cash flow after CAPEX		1 601	1 126	1 557	565	493	543	431	473	287
Sale of shares and participations		-	1	1	-	-	-	-	-	1
Cash flow from investing activities		-1 151	-1 152	-1 671	-407	-501	-243	-519	-465	-369
CASH FLOW AFTER INVESTING ACTIVITIES		1 601	1 127	1 558	565	493	543	431	473	288
FINANCING ACTIVITIES										
Change in net borrowings from Tele2 group		-2 257	-5 468	-5 768	-430	-1 855	28	-300	-467	-4 876
Change in net lending to Tele2 group		-	1 512	1 490	-	-	-	-22	1	1 809
Other change of loans	4	2 831	2 881	2 841	-63	1 331	1 563	-40	-4	2 896
Dividends	2	-2 300	-	-	-	-	-2 300	-	-	-
Cash flow from financing activities		-1 726	-1 075	-1 437	-493	-524	-709	-362	-470	-171
NET CHANGE IN CASH AND CASH EQUIVALENTS		-125	52	121	72	-31	-166	69	3	117
Cash and cash equivalents at beginning of period		271	153	153	121	129	271	192	196	82
Exchange rate differences in cash and cash equivalents		38	-13	-3	-9	23	24	10	-7	-3
CASH AND CASH EQUIVALENTS AT END OF THE PERIOD		184	192	271	184	121	129	271	192	196

Number of customers

by thousands	Note	Number of customers			Net intake							
		2012 Sep 30	2011 Sep 30	2012 Jan 1- Sep 30	2011 Jan 1- Sep 30	2011 Full year	2012 Q3	2012 Q2	2012 Q1	2011 Q4	2011 Q3	2011 Q2
Mobile	5	22 343	20 386	1 707	1 948	2 198	710	693	304	250	681	720
TOTAL		22 343	20 386	1 707	1 948	2 198	710	693	304	250	681	720

Net sales

SEK million	Note	2012 Jan 1- Sep 30	2011 Jan 1- Sep 30	2011 Full year	2012 Q3	2012 Q2	2012 Q1	2011 Q4	2011 Q3	2011 Q2
Net sales	6	9 582	8 475	11 463	3 257	3 277	3 048	2 988	3 015	2 862
External net sales		9 582	8 475	11 463	3 257	3 277	3 048	2 988	3 015	2 862

EBITDA and EBIT

SEK million	2012 Jan 1- Sep 30	2011 Jan 1- Sep 30	2011 Full year	2012 Q3	2012 Q2	2012 Q1	2011 Q4	2011 Q3	2011 Q2
EBITDA	3 492	3 263	4 452	1 231	1 196	1 065	1 189	1 206	1 116
Depreciation/amortization and other impairment	-762	-658	-899	-255	-279	-228	-241	-220	-223
EBIT	2 730	2 605	3 553	976	917	837	948	986	893

Key ratios

SEK million	2012 Jan 1- Sep 30	2011 Jan 1- Sep 30	2011	2010	2009	2008
Net sales	9 582	8 475	11 463	10 142	7 540	6 809
Number of customers (by thousands)	22 343	20 386	20 636	18 438	14 451	10 422
EBITDA	3 492	3 263	4 452	3 560	2 463	2 364
EBIT	2 730	2 605	3 553	2 765	1 827	1 834
EBT	2 228	2 187	2 900	2 320	751	526
Net profit	1 797	1 753	2 332	1 896	531	328
EBITDA margin, %	36,4	38,5	38,8	35,1	32,7	34,7
EBIT margin, %	28,5	30,7	31,0	27,3	24,2	26,9
Cash flow from operating activities	2 752	2 279	3 229	2 927	1 499	1 378
Paid CAPEX	1 151	1 153	1 672	1 556	2 109	1 619
Cash flow after CAPEX	1 601	1 126	1 557	1 371	-610	-241
Shareholders' equity	1 861	1 772	2 369	-5 739	-6 901	-7 195
Total assets	9 965	9 631	9 911	10 445	9 369	7 906
Net debt	5 929	5 593	5 258	12 934	13 809	13 127

Parent company

INCOME STATEMENT

SEK million	2012	2011
	Jan 1-Sep 30	Jan 1-Sep 30
Administrative expenses	-	-2
Operating loss, EBIT	-	-2
Dividend from group companies	-	3 082
Result from shares in group companies, other	-	-269
Net interest expenses and other financial items	-139	-291
Profit/loss after financial items, EBT	-139	2 520
Tax on profit/loss	37	77
NET PROFIT/LOSS	-102	2 597

BALANCE SHEET

SEK million	Note	Sep 30, 2012	Dec 31, 2011
ASSETS			
FIXED ASSETS			
Shares in group companies		13 465	13 445
Deferred tax assets		474	438
Other financial assets		5	5
FIXED ASSETS		13 944	13 888
CURRENT ASSETS			
Current receivables		10	10
Current receivables Tele2 Russia group		15	22
CURRENT ASSETS		25	32
ASSETS		13 969	13 920
EQUITY AND LIABILITIES			
SHAREHOLDERS' EQUITY			
Unrestricted equity	2	8 693	11 095
SHAREHOLDERS' EQUITY		8 693	11 095
LONG-TERM LIABILITIES			
Interest-bearing liabilities, Tele2 Russia group		5 074	2 606
Other interest-bearing liabilities		4	97
LONG-TERM LIABILITIES		5 078	2 703
SHORT-TERM LIABILITIES			
Interest-bearing liabilities, Tele2 group		108	117
Interest-bearing liabilities, Tele2 Russia group		-	5
Other interest-bearing liabilities		90	-
SHORT-TERM LIABILITIES		198	122
EQUITY AND LIABILITIES		13 969	13 920

NOTES

ACCOUNTING PRINCIPLES AND DEFINITIONS

The interim report for the group was prepared in accordance with IAS 34 and the Swedish Annual Accounts Act, and the interim report for the parent company was prepared in accordance with the Swedish Annual Accounts Act and the Swedish Financial Reporting Board recommendation RFR 2 Reporting for legal entities and its statements.

New and amended IFRS standards and IFRIC interpretations

The amended IFRS standards and IFRIC interpretations, which became effective on January 1, 2012, have had no material effect on the consolidated financial statements.

From January 1, 2012 internal sales within Russia are not reported in net sales and internal sales. The comparable periods are restated. The effects on the financial statements are stated in Note 6.

In all other respects, Tele2 Russia has presented its interim report in accordance with the accounting principles and calculation methods used in the 2011 Annual Report. The description of these principles and definitions is to be found in the Annual Report 2011.

NOTE 1 CONTINGENT LIABILITIES

The parent company Tele2 Russia Holding AB and the group company Tele2 Financial Services AB have provided irrevocable undertakings for the group company OJSC Saint-Petersburg Telecom's obligations related to the bonds issued during 2011 and 2012 (for additional information please refer to Note 4).

NOTE 2 TRANSACTIONS WITH RELATED PARTIES

In Q1 2012, the Tele2 group received a dividend of SEK 2 300 million from the parent company Tele2 Russia Holding AB.

Tele2 Sweden provides management and technical services to the Tele2 Russia group. Tele2 AB has issued long-term incentive programmes to a number of employees in the Tele2 Russia group, for additional information please refer to Note 3. For additional information regarding transactions with related parties please refer to Note 31 of the Annual Report 2011.

Apart from above stated transactions with other companies within the Tele2 group, no other significant related party transactions have been carried out during 2012.

NOTE 3 INCENTIVE PROGRAMS (LTI)

The parent company of the Tele2 group, Tele2 AB (publ), has issued long-term incentive programmes (LTI) to a number of employees in the Tele2 Russia group. Additional information related to LTI programs are presented in Note 29 of the Annual Report 2011.

LTI 2012

	2012
	Jun 15– Sep 30
Number of share rights	
Allocated June 15, 2012	206,800
Forfeited	-5,000
Total outstanding share rights	201,800

At the Annual General Meeting held on May 7, 2012, the shareholders of Tele2 AB (publ) (“the company”) approved a performance-based incentive programme for senior executives and other key employees in the Tele2 group. The Plan has the same structure as last year’s incentive program. Detailed information of the Plan has been disclosed in the interim report January – June 2012.

LTI 2011

Number of share rights	2012 Jan 1– Sep 30	Cumulative from start
Allocated June 17, 2011		198,820
Outstanding as of January 1, 2012	182,070	
Allocated, compensation for dividend	14,214	14,214
Forfeited	-9,960	-26,710
Total outstanding share rights	186,324	186,324

LTI 2010

Number of share rights	2012 Jan 1– Sep 30	Cumulative from start
Allocated June 9, 2010		106,400
Outstanding as of January 1, 2012	106,116	
Allocated, compensation for dividend	8,250	23,126
Forfeited	-9,084	-24,244
Total outstanding share rights	105,282	105,282

LTI 2009

Number of share rights	2012 Jan 1– Sep 30	Cumulative from start
Allocated June 1, 2009		184,160
Outstanding as of January 1, 2012	139,912	
Allocated, compensation for dividend	-	26,752
Forfeited	-8,380	-79,380
Exercised	-131,532	-131,532
Total outstanding share rights	-	-

The exercise of the share rights in LTI 2009 was conditional upon the fulfilment of certain retention and performance based conditions for the Tele2 group, measured from April 1, 2009 until March 31, 2012. The outcome of these decided performance conditions was in accordance with below:

	Retention and performance based conditions	Minimum hurdle (20%)	Stretch target (100%)	Performance outcome	Allotment
Series A	Total Shareholder Return Tele2 (TSR)		≥ 0%	156.2%	100%
Series B	Average normalised Return on Capital Employed (ROCE)	14%	17%	22.0%	100%
Series C	Total Shareholder Return Tele2	> 0%	≥ 10%	65.2%	100%

(TSR) compared to a peer group

Weighted average share price for share rights at date of exercise amounted to SEK 124.00 during 2012.

NOTE 4 FINANCING

In Q2 2012, Tele2 Russia issued a 6 billion Rouble bond. The bond has a final maturity of 10 years and a put option providing for an effective tenor of 3 years. The coupon rate is 9.10 percent per annum with semi-annual coupon payments.

In Q1 2012 Tele2 Russia issued a 7 billion rouble bond with 2 tranches. The bond has a final maturity of 10 years and a put option providing for an effective tenor of 2 years. The coupon rate for the period is 8.90 percent per annum with semi-annual coupon payments.

NOTE 5 NUMBER OF CUSTOMERS

In Q4 2011, number of customers in Russia decreased by 96 000 customers, as a one-time adjustment, due to changes in IT systems.

NOTE 6 CHANGED ACCOUNTING PRINCIPLE FOR INTERNAL SALE

From January 1, 2012 internal sales within Russia are not reported in net sales and internal sales. The comparable periods are restated. The effects on the financial statements are stated below.

SEK million	2011 Full year	2011 Q4	2011 Q3	2011 Q2	2011 Q1	2010 Full year	2010 Q4
Internal net sales							
Russia	-206	-49	-66	-60	-31	-154	-39
Internal sales, elimination	206	49	66	60	31	154	39
Net sales	-	-	-	-	-	-	-

Stockholm, October 18, 2012

Mats Granryd
Chairman

Lars Nilsson

Jonas Bengtsson

REVIEW REPORT

This interim report has not been subject to specific review by the company's auditors.

