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Tele2 reports 2Q and 1H 2009 results: strong net intake and EBITDA margin

Moscow –Today Tele2 Russia, Russian subdivision of one of the Europe's leading alternative telecom operator, announced its consolidated results for the second quarter and first half 2009 and plans for further development of its operation. Tele2 Russia has demonstrated strong net intake and EBITDA margin growth and is preparing for new regions launches.

During Q2 2009, Tele2 Russia continued with its strategy of improving the operational contribution from its more mature regions to support the roll-out of commercial networks in its new regions. In the quarter, the region of Tomsk was launched with good market traction. Tele2 is operating now in 19 Russian regions with actual customers' base of almost 12.4 million people and will launch at least 18 new operations during 2009-2010.

Financial and operating results

In Q2 2009 by developing existing regional and federal retail channels and also introducing new means of distribution (food retail chains and National postal offices), Tele2 Russia had a robust customer intake and added 478 000 (606 000 in Q2 2008) new users during the period. The customer intake was also supported by lower churn in the total base. The positive trend of minutes of use continued in Q2 2009, increasing by 7 percent to 213 (199 – in Q2 2008). Due to tough price competition on the market, the growth in ARPU was flat and amounted to RUR 203 (RUR 199 – in Q2 2008).

For the whole Tele2 Russia Company operating revenue reached RUR 7 432 million (RUR 6 337 million - in Q2 2008) and EBITDA reached RUR 2 614 million (RUR 2 192 million in Q2 2008). EBIT in Q2 2009 was RUR 1 952 million (RUR 1 784 million – in Q2 2008). In Q2 2009 CAPEX reached RUR 2 147 million (RUR 1 335 million – in Q2 2008). EBITDA in the 17 old regions amounted to RUR 2 923 million (RUR 2 338 million – in Q2 2008), equivalent to a margin of 40 (37) percent. EBITDA in the new regions amounted to RUR -308 million (RUR -86 million in Q2 2008). EBITDA margin for the whole Tele2 Russia Company is 35 percent (36 percent in Q2 2008), which is higher than In Q1 2009 (32 percent).

In the first half of 2009 customer net intake amounted to 698 000 (925 000 – in 1H 2008). Net sales in 1H 2009 reached RUR 14 264 million (RUR 12 146 million - in 1H 2008). The EBITDA reached RUR 4 797 million (RUR 4 274 million in 1H 2008). EBIT in 1H 2009 reached RUR 3546 millions (RUR 3 282 millions in 1H 2008). CAPEX amounted to RUR 4 399 million (RUR 2 295 million in 1H 2008)

Tele2 Russia increased prices in regions where market conditions permitted, but the general pricing environment remains highly competitive. In any regions Tele2 always strives to be the leader of best price and best value for money.

As of 30st of June 2009 Tele2 Russia customer base exceeded 12 381 000 customers, and it's almost 60 percent of Tele2 Group mobile subscribers. Operating revenue in Russia are about 28 percent of Tele2 Group mobile operations (as of 1H 2009).

New definition of active prepaid customer

As a way of standardizing reporting in all its European operations, Tele2 has decided to change its principles for calculating the number of active customers in its mobile pre-paid base. As of June 30, 2009, Tele2 considers a customer inactive if the customer has not used its mobile service in 3 months. Previous periods have not been adjusted retroactively.

An active pre-paid customer is a customer that has a refillable active account and has been either refilling or doing an active outgoing transaction during the latest 90 days (if the transaction doesn't



generate revenues the customer must have refilled the account at least once before). Outgoing transactions which are free, count only if the customer refilled the card at least once. However, the customer will still, as before, be able to use their SIM card within the period that is valid for each country. The large positive effect that the changed principle has had on the Russian customer base is mainly related to the fact that the 3 months period was previously calculated from the time of the payment and not as the new definition from the last outgoing call.

As for Russian operations, the customer base amounted 11 120 000 clients with old calculating principles and 12 381 000 clients with new calculating principles.

Further development plans

The most important direction now is launches in new regions. Tele2 Russia expects to launch up to 6 regions in the third quarter, including Bryansk (on 24th of July 2009), Novosibirsk, Tula, Tambov, Tver and Orel. Tele2 Russia pushed new region activities during the quarter by means of network deployment and commercial activities so the company expects to be able to launch in total up to 12 new regions.

The market strategy in new regions will not differ from the strategy in existing regions: low prices, full set of mobile services, including EDGE, good quality of connection and excellent customers care, aggressive marketing communication. All regions will be launched with big enough coverage area.

The base plan is that an infrastructure-based operation should be able to reach EBITDA breakeven three years after commercial launch date. However, there might be regional differences, moving the breakeven date either forward or backwards. The longer-term market share in the 17 new regions should not deviate significantly from the historic market share of Tele2 Russia.

Dmitry Strashnov, Tele2 Russia CEO, comments: «The Russian operation is Tele2's most important growth engine. The Russian market has recently seen a consolidation among federal retail chains. Nevertheless, Tele2 has adhered to its winning strategy of reaching end users through its own shops, strong relationships with local and federal dealers and alternative channels such as food retail chains and National Post offices. Net customer intake in Q2 2009 proves that our strategy is working. We delivered solid profitability in our mature regions. The roll-out of new regions has been progressing steadily. We are confident that we can launch up to 12 new regions in 2009 cost effectively. It is of course a challenging task, but we have the skills and tools necessary to reach our set targets.

Despite the crisis, during the first half 2009 we have launched mobile internet via EDGE technology, Ring-Back Tone and other services for all Tele2 Russia customers. Tele2 will continue its investments into Russian operations both in new networks and new products development»