

Full Year and Fourth Quarter Report 2011

Tele2 Russia Holding AB
corporate reg. no. 556469-7836

FULL YEAR AND FOURTH QUARTER 2011 REPORT

The Board of Directors herewith presents the full year report for Tele2 Russia Holding AB, corporate reg. no. 556469-7836, and its subsidiaries for January 1 – December 31, 2011.

The figures presented in this report refer to Q4 2011. The figures shown in parentheses refer to the comparable periods in 2010.

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 full year 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 shares of Tele2 Russia Telecom BV were previously owned by Tele2 Sverige AB. 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.

The company 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 has been in-line with Tele2’s expectations, and Tele2 Russia continued to deliver solid financial performance. The EBITDA margin development was robust, driven by steady operational trends in the more mature regions and improved scale benefits in the new regions. EBITDA amounted to SEK 1,189 (896) million, equivalent to a margin of 40 (34) percent.

The total customer base grew by 250,000 (755,000) in Q4 2011. In the quarter, adjustments were made to the customer management system, leading to 96,000 business customers defined as inactive. Still, during the last 12 months, Tele2 Russia’s customer base has grown by 2.2 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 20,636,000 (18,438,000) at the end of Q4 2011. The churn level of the total customer base was stable during the quarter in spite of severe and sustained competitive pressure. 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 the 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 4 percent compared to the year-earlier period, amounting to 247 (238). ARPU was SEK 49 (49) or RUB 224 (219).

On the regulatory side, Tele2 has gained a better understanding of the Russian market and set clear operational priorities in a complex environment. The conclusions of the authorities' technology neutrality study of the Russian 900/1800 spectrum are expected during 2012. Tele2 believe 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.

DIVIDEND

The Board of Tele2 Russia Holding AB has decided to recommend the AGM a total dividend of SEK 2,300,000,000.

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 21.5-22 million.
- Tele2 Russia expects ARPU to remain stable in local currency.
- Tele2 Russia expects total EBITDA margin of between 39-40 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 2010 (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	Note	2011	2010	2011	2010
		Jan 1-Dec 31	Jan 1-Dec 31	Q4	Q4
Net sales		11 463	10 142	2 988	2 646
Operating expenses		-7 916	-7 383	-2 043	-1 954
Other operating income		26	24	-2	-3
Other operating expenses		-20	-18	5	-2
Operating profit, EBIT		3 553	2 765	948	687
Interest income/costs		-562	-597	-132	-179
Exchange rate differences, external		-3	17	-2	19
Exchange rate differences, Tele2 group	2	106	20	-77	19
Exchange rate differences, Tele2 Russia group	2	-93	-	80	-
Group contribution, Tele2 group	2	-104	-	-104	-
Other financial items	2	3	115	-	-1
Profit after financial items, EBT		2 900	2 320	713	545
Tax on profit		-568	-424	-134	-104
NET PROFIT		2 332	1 896	579	441
ATTRIBUTABLE TO					
Equity holders of the parent company		2 332	1 893	579	441
Minority interest		-	3	-	-
NET PROFIT		2 332	1 896	579	441

Comprehensive income

SEK million	2011	2010	2011	2010
	Jan 1-Dec 31	Jan 1-Dec 31	Q4	Q4
Net profit	2 332	1 896	579	441
OTHER COMPREHENSIVE INCOME				
Components not to be reclassified to net profit:				
Withholding tax	-153	-12	-1	-
Total components not to be reclassified to net profit	-153	-12	-1	-
Components to be reclassified to net profit:				
Exchange rate differences	-80	-356	13	49
Exchange rate differences, tax effect	1	-	4	-
Total components not to be reclassified to net profit	-79	-356	17	49
Other comprehensive income for the period, net of tax	-232	-368	16	49
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	2 100	1 528	595	490
ATTRIBUTABLE TO				
Equity holders of the parent company	2 100	1 521	595	490
Minority interest	-	7	-	-
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	2 100	1 528	595	490

Change in shareholders' equity

SEK million	Note	Dec 31, 2011			Dec 31, 2010		
		Attributable to		Total share- holders' equity	Attributable to		Total share- holders' equity
		equity holders of the parent company	minority interests		holders of the parent company	minority interests	
Shareholders' equity, January 1		-5 739	-	-5 739	-6 960	59	-6 901
Costs for stock options		8	-	8	6	-	6
Shareholders' contribution	2	6 000	-	6 000	-	-	-
Purchase of minority		-	-	-	-306	-66	-372
Comprehensive income for the period		2 100	-	2 100	1 521	7	1 528
SHAREHOLDERS' EQUITY, END OF PERIOD		2 369	-	2 369	-5 739	-	-5 739

Balance sheet

SEK million	Note	Dec 31, 2011	Dec 31, 2010
ASSETS			
FIXED ASSETS			
Goodwill		813	842
Other intangible assets		1 013	782
Intangible assets		1 826	1 624
Tangible assets		6 371	5 986
Receivables, Tele2 group	2	-	1 330
Other financial assets		5	6
Deferred tax assets		727	650
FIXED ASSETS		8 929	9 596
CURRENT ASSETS			
Materials and supplies		49	44
Current receivables		662	652
Cash and cash equivalents		271	153
CURRENT ASSETS		982	849
ASSETS		9 911	10 445
EQUITY AND LIABILITIES			
SHAREHOLDERS' EQUITY			
Attributable to equity holders of the parent company	2	2 369	-5 739
SHAREHOLDERS' EQUITY		2 369	-5 739
LONG-TERM LIABILITIES			
Interest-bearing liabilities, Tele2 group	2	2 478	13 627
Other interest-bearing liabilities	5	2 944	104
Deferred tax liability		268	248
LONG-TERM LIABILITIES		5 690	13 979
SHORT-TERM LIABILITIES			
Interest-bearing liabilities, Tele2 group		95	679
Other interest-bearing liabilities		12	8
Non-interest-bearing liabilities		1 745	1 518
SHORT-TERM LIABILITIES		1 852	2 205
EQUITY AND LIABILITIES		9 911	10 445

Cash flow statement

SEK million	Note	2011 Jan 1-Dec 31	2010 Jan 1-Dec 31	2011 Q4	2011 Q3	2011 Q2	2011 Q1	2010 Q4	2010 Q3
OPERATING ACTIVITIES									
Cash flow from operations, less paid taxes		3 904	2 977	1 001	1 150	999	754	725	833
Taxes paid		-807	-420	-148	-230	-293	-136	-112	-122
Changes in working capital		132	370	97	18	-49	66	-15	107
CASH FLOW FROM OPERATING ACTIVITIES		3 229	2 927	950	938	657	684	598	818
INVESTING ACTIVITIES									
Capital expenditure in intangible and tangible assets, CAPEX		-1 672	-1 556	-519	-465	-370	-318	-621	-351
Cash flow after CAPEX		1 557	1 371	431	473	287	366	-23	467
Acquisition of shares and participations		-	-307	-	-	-	-	5	-23
Sale of shares and participations	4	1	-	-	-	1	-	-	-
Other financial assets		-	1	-	-	-	-	1	-
Cash flow from investing activities		-1 671	-1 862	-519	-465	-369	-318	-615	-374
CASH FLOW AFTER INVESTING ACTIVITIES		1 558	1 065	431	473	288	366	-17	444
FINANCING ACTIVITIES									
Change in net borrowings from Tele2 group		-5 768	-152	-300	-467	-4 876	-125	344	-226
Change in net lending to Tele2 group		1 490	-944	-22	1	1 809	-298	-340	-233
Other change of loans	5	2 841	-17	-40	-4	2 896	-11	6	-7
Cash flow from financing activities		-1 437	-1 113	-362	-470	-171	-434	10	-466
NET CHANGE IN CASH AND CASH EQUIVALENTS		121	-48	69	3	117	-68	-7	-22
Cash and cash equivalents at beginning of period		153	163	192	196	82	153	103	115
Exchange rate differences in cash		-3	38	10	-7	-3	-3	57	10
CASH AND CASH EQUIVALENTS AT END OF THE PERIOD		271	153	271	192	196	82	153	103

Number of customers

by thousands	Note	Number of customers		Net intake							
		2011	2010	2011	2010	2011	2011	2011	2010	2010	
		Dec 31	Dec 31	Jan 1- Dec 31	Jan 1- Dec 31	Q4	Q3	Q2	Q1	Q4	Q3
Mobile	6	20 636	18 438	2 198	3 987	250	681	720	547	755	1 170
TOTAL		20 636	18 438	2 198	3 987	250	681	720	547	755	1 170

Net sales

SEK million	2011	2010	2011	2011	2011	2011	2010	2010
	Jan 1- Dec 31	Jan 1- Dec 31	Q4	Q3	Q2	Q1	Q4	Q3
Net sales	11 669	10 296	3 037	3 081	2 922	2 629	2 685	2 720
Internal sales, elimination	-206	-154	-49	-66	-60	-31	-39	-42
External net sales	11 463	10 142	2 988	3 015	2 862	2 598	2 646	2 678

EBITDA and EBIT

SEK million	2011	2010	2011	2011	2011	2011	2010	2010
	Jan 1- Dec 31	Jan 1- Dec 31	Q4	Q3	Q2	Q1	Q4	Q3
EBITDA	4 452	3 560	1 189	1 206	1 116	941	896	1 009
Depreciation/amortization and other impairment	-899	-795	-241	-220	-223	-215	-209	-186
EBIT	3 553	2 765	948	986	893	726	687	823

Key ratios

SEK million	2011	2010	2009	2008
Number of customers (by thousands)	20 636	18 438	14 451	10 422
Net sales	11 463	10 142	7 540	6 809
EBITDA	4 452	3 560	2 463	2 364
EBIT	3 553	2 765	1 827	1 834
EBT	2 900	2 320	751	526
Net profit	2 332	1 896	531	328
Key ratios				
EBITDA margin, %	38,8	35,1	32,7	34,7
EBIT margin, %	31,0	27,3	24,2	26,9
Shareholders' equity	2 369	-5 739	-6 960	-7 234
Total assets	9 911	10 445	9 369	7 906
Cash flow from operating activities	3 229	2 927	1 499	1 378
Paid CAPEX	1 672	1 556	2 109	1 619
Cash flow after CAPEX	1 557	1 371	-610	-241
Net debt	5 258	12 934	13 809	13 127

Parent company

INCOME STATEMENT

SEK million	2011		2010	
	Jan 1-Dec 31		Jan 1-Dec 31	
Administrative expenses		-4		-
Operating profit/loss, EBIT		-4		-
Dividend from group companies		3 082		297
Result from shares in group companies, other		-269		1 939
Net interest expenses and other financial items		-402		-279
Profit after financial items, EBT		2 407		1 957
Tax on profit		107		73
NET PROFIT		2 514		2 030

BALANCE SHEET

SEK million	Note	Dec 31, 2011	Dec 31, 2010
ASSETS			
FIXED ASSETS			
Shares in group companies		13 440	13 451
Receivables, Tele2 Russia group		-	69
Deferred tax assets		438	331
Other financial assets		5	5
FIXED ASSETS		13 883	13 856
CURRENT ASSETS			
Current receivables		10	-
Current receivables Tele2 Russia group		22	-
CURRENT ASSETS		32	-
ASSETS		13 915	13 856
EQUITY AND LIABILITIES			
SHAREHOLDERS' EQUITY			
Unrestricted equity		11 095	2 581
SHAREHOLDERS' EQUITY		11 095	2 581
LONG-TERM LIABILITIES			
Interest-bearing liabilities, Tele2 group		-	10 504
Interest-bearing liabilities, Tele2 Russia group	2	2 606	-
Other interest-bearing liabilities	2	97	92
LONG-TERM LIABILITIES		2 703	10 596
SHORT-TERM LIABILITIES			
Interest-bearing liabilities, Tele2 group		117	679
SHORT-TERM LIABILITIES		117	679
EQUITY AND LIABILITIES		13 915	13 856

NOTES

ACCOUNTING PRINCIPLES AND DEFINITIONS

The full year report for the group was prepared in accordance with IAS 34 and the Swedish Annual Accounts Act, and the full year 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 (September 2011).

New and amended IFRS standards and IFRIC interpretations

The new or amended IFRS standards and IFRIC interpretations, which became effective on January 1, 2011, have had no material effect on the consolidated financial statements.

In all other respects, Tele2 Russia has presented its full year report in accordance with the accounting principles and calculation methods used in the 2010 Annual Report. Definitions are found in the 2010 Annual Report.

NOTE 1 CONTINGENT LIABILITIES

SEK million	Dec 31, 2011	Dec 31, 2010
Disputes	-	258
Total contingent liabilities	-	258

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 bond issued in Q2 2011 (for additional information please refer to Note 5).

NOTE 2 TRANSACTIONS WITH RELATED PARTIES

In Q4 2011, the Tele2 group received a group contribution of SEK 104 million from Tele2 Financial Services AB.

In preparation for and following the bond issue in Russia the legal company structure was changed in Q2 2011, and a new treasury company within the Russia group was formed, affecting the internal financing structure. In addition, the issued bond in Russia was used for repaying loans to the Tele2 group.

In Q2 2011, the Tele2 group made a shareholder contribution of SEK 6 billion to Tele2 Russia Holding by waiving redemption of receivables.

In Q2 2011, the parent company of the Tele2 group, Tele2 AB (publ), issued a long-term incentive programme to a number of employees in the Tele2 Russia group. For additional information see Note 3.

Tele2 Sweden provides management and technical services to the Tele2 Russia group. For additional information please refer to Note 32 of the 2010 Annual Report.

Apart from above stated transactions with other companies within the Tele2 group, no other significant related party transactions have been carried out during 2011.

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.

LTI 2011

	2011 Jun 17– Dec 31
Number of share rights	
Allocated June 17, 2011	198,820
Forfeited	-16,750
Total outstanding share rights	182,070

During the Annual General Meeting held on May 16, 2011, the shareholders of Tele2 AB (publ) 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 2011.

LTI 2010

	2011 Jan 1– Dec 31	Cumulative from start
Number of share rights		
Allocated June 9, 2010		106,400
Outstanding as of January 1, 2011	106,400	
Allocated, compensation for dividend	14,876	14,876
Forfeited	-15,160	-15,160
Total outstanding share rights	106,116	106,116

LTI 2009

	2011 Jan 1– Dec 31	Cumulative from start
Number of share rights		
Allocated June 1, 2009		184,160
Outstanding as of January 1, 2011	157,908	
Allocated, compensation for dividend	20,896	26,752
Forfeited	-38,892	-71,000
Total outstanding share rights	139,912	139,912

LTI 2008

	2011 Jan 1– Dec 31	Cumulative from start
Number of share rights		
Allocated in 2008		194,872
Allocated Q2 2009, compensation for dividend		8,964
Allocated Q2 2010, compensation for dividend		5,896
		209,732
Outstanding as of January 1, 2011	153,664	
Forfeited	-6,500	-62,568
Exercised	-147,164	-147,164
Total outstanding share rights	-	-

The exercise of the share rights in LTI 2008 was conditional upon the fulfilment of certain retention and performance based conditions for the Tele2 group, measured from April 1, 2008 until March 31, 2011. 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%	53.5%	100%
Series B	Average normalised Return on Capital Employed (ROCE)	12%	15%	19.5%	100%
Series C	Total Shareholder Return Tele2 (TSR) compared to a peer group	> 0%	≥ 10%	51.1%	100%

Weighted average share price of Tele2 AB (publ) at date of exercise for share rights amounted to SEK 152.53 during 2011.

NOTE 4 ACQUISITIONS AND DIVESTMENTS

Acquisitions and divestments of shares and participations affecting cash flow were as follows.

SEK million	2011 Full year
Divestments	
Tele2 Holding Russia VOL GmbH, Austria	1
TOTAL CASH FLOW EFFECT	1

On June 30, 2011, the Tele2 Russia group sold an Austrian dormant company to the Tele2 group.

NOTE 5 FINANCING

In Q2, 2011, Tele2 Russia issued a 13 billion rouble bond (with 3 tranches). The bond has a final maturity of 10 years and a put option providing for an effective tenor of 5 years. The coupon rate for the 5-year period is 8.40 percent per annum with semi-annual coupon payments. The reported value of the bond amounted on June 30, 2011 to SEK 2.9 billion.

NOTE 6 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.

Stockholm, February 7, 2012

Mats Granryd
Chairman

Lars Nilsson

Jonas Bengtsson

REVIEW REPORT

Introduction

We have reviewed the full year report for Tele2 Russia Holding AB for the period January 1 - December 31, 2011. The Board of Directors is responsible for the preparation and presentation of this full year report in accordance with IAS 34 and the Annual Accounts Act. Our responsibility is to express a conclusion on this full year report based on our review.

Scope of Review

We conducted our review in accordance with the Standard on Review Engagements (SÖG) 2410, Review of Interim Financial Information Performed by the Independent Auditor of the Entity. A review consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review has a different focus and is substantially less in scope than an audit conducted in accordance with ISA and other generally accepted auditing practices. The procedures performed in a review do not enable us to obtain a level of assurance that would make us aware of all significant matters that might be identified in an audit. Therefore, the conclusion expressed based on a review does not give the same level of assurance as a conclusion expressed based on an audit.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the full year report is not, in all material respects, prepared for the Group in accordance with IAS 34 and the Annual Accounts Act, and for the Parent Company in accordance with the Annual Accounts Act.

Stockholm, February 7, 2012
Deloitte AB

Jan Berntsson
Authorized Public Accountant