

# Interim Report

## January – March 2013

Tele2 Russia Holding AB

corporate reg. no. 556469-7836

# **INTERIM REPORT JANUARY-MARCH 2013**

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 – March 31, 2013.

The figures presented in this report refer to Q1 2013. The figures shown in parentheses refer to the comparable periods in 2012.

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 year report.

Tele2 Russia Holding AB is owned by Airport Alliance (Netherlands) B.V., (99.9 percent) and LLC «VTB Infrastructure Investments» (0.1percent). The ultimate parent company is JSC VTB Bank, which indirectly owns 100 percent of the company. Previously during the year, Tele2 Russia Holding AB was 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 owned 100 percent of the company.

## **TELE2 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 balanced competitive environment in combination with a robust customer intake. Tele2 Russia continued to pursue market share during the quarter, especially in regions that have not yet reached critical mass. Going forward the company will maintain its ambition to stay competitive in the market and grow its customer base, leading to maintained level of marketing expenses, In the quarter, EBITDA amounted to SEK 1,186 (1,065) million, equivalent to a margin of 36 (35) percent.

The total customer base grew by 166,000 (304,000) customers in Q1 2013 divided into 9,000, 88,000 and 69,000 customers for the months of January, February and March 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 22.9 (20.9) million at the end of Q1 2013. The churn level of the total customer base was steady during the quarter, helped by a fairly 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 newcomer and challenger regions with lower initial service usage, and generally high competitive pressure throughout Tele2 Russia’s footprint, MoU for the total operations increased by 6 percent compared to the year-earlier period, amounting to 260 (246). ARPU was SEK 48 (49) or RUB 225 (218).

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

## **DIVIDEND**

On March 7, 2013 the Annual General Meeting (AGM) decided to pay a dividend of SEK 2,100,000,000 to the shareholders. On April 3, 2013 the extra ordinary general meeting decided to pay an extra dividend of SEK 365,116,680 to the shareholders.

## **FINANCIAL GUIDANCE**

The following assumptions should be taken into account when estimating the operational performance of the Russian mobile operations in 2013:

- Tele2 Russia expects total revenue of between SEK 13,700 – 13,800 million.
- Tele2 Russia expects EBITDA of between SEK 4,800 – 4,900 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 2012 (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	2013 Jan 1-Mar 31	2012 Jan 1-Mar 31	2012 Full year
Net sales		3 261	3 048	12 984
Cost of services sold		-1 723	-1 585	-6 825
<b>Gross profit</b>		<b>1 538</b>	<b>1 463</b>	<b>6 159</b>
Selling expenses		-402	-401	-1 643
Administrative expenses		-232	-228	-840
Other operating income		6	5	14
Other operating expenses		-1	-2	-12
<b>Operating profit, EBIT</b>		<b>909</b>	<b>837</b>	<b>3 678</b>
Interest income/costs		-128	-162	-688
Other financial items	1	-6	8	-
<b>Profit after financial items, EBT</b>		<b>775</b>	<b>683</b>	<b>2 990</b>
Group Contribution, Tele2 Group		-	-	-98
Income tax	2	-152	-138	-865
<b>NET PROFIT</b>		<b>623</b>	<b>545</b>	<b>2 027</b>

## Comprehensive income

SEK million	Note	2013	2012	2012
		Jan 1-Mar 31	Jan 1-Mar 31	Full year
<b>Net profit</b>		<b>623</b>	<b>545</b>	<b>2 027</b>
<b>Components that may be reclassified to net profit</b>				
Exchange rate differences		-45	100	83
Exchange rate differences, tax effect		-7	34	-35
<b>Total components that may be reclassified to net profit</b>		<b>-52</b>	<b>134</b>	<b>48</b>
<b>TOTAL COMPREHENSIVE INCOME FOR THE PERIOD</b>		<b>571</b>	<b>679</b>	<b>2 075</b>

## Change in equity

SEK million	Note	Mar 31, 2013			Mar 31, 2012			Dec 31, 2012		
		Attributable to		Total equity	Attributable to		Total equity	Attributable to		Total equity
		equity holders of the parent company	Non-controlling interests		equity holders of the parent company	Non-controlling interests		equity holders of the parent company	Non-controlling interests	
<b>Equity, January 1</b>		<b>2 149</b>	-	<b>2 149</b>	<b>2 369</b>	-	<b>2 369</b>	<b>2 369</b>	-	<b>2 369</b>
Net profit for the period		623	-	623	545	-	545	2 027	-	2 027
Other comprehensive income for the period, net of tax		-52	-	-52	134	-	134	48	-	48
<b>Total comprehensive income for the period</b>		<b>571</b>	-	<b>571</b>	<b>679</b>	-	<b>679</b>	<b>2 075</b>	-	<b>2 075</b>
<b>Other changes in equity</b>										
Share-based payments	5	-10	-	-10	2	-	2	5	-	5
Shareholders' contribution	4	12	-	12	-	-	-	-	-	-
Dividends	4	-2 100	-	-2 100	-2 300	-	-2 300	-2 300	-	-2 300
<b>EQUITY, END OF PERIOD</b>		<b>622</b>	-	<b>622</b>	<b>750</b>	-	<b>750</b>	<b>2 149</b>	-	<b>2 149</b>

# Balance sheet

SEK million	Note	Mar 31, 2013	Mar 31, 2012	Dec 31, 2012
<b>ASSETS</b>				
<b>NON-CURRENT ASSETS</b>				
Goodwill		792	851	810
Other intangible assets		1 439	1 195	1 414
<b>Intangible assets</b>		<b>2 231</b>	<b>2 046</b>	<b>2 224</b>
Tangible assets		6 183	6 592	6 340
Other financial assets	6	5	5	5
Deferred tax assets		720	782	712
<b>NON-CURRENT ASSETS</b>		<b>9 139</b>	<b>9 425</b>	<b>9 281</b>
<b>CURRENT ASSETS</b>				
Inventories		23	44	19
Current receivables	6	688	731	714
Cash and cash equivalents	6	103	129	451
<b>CURRENT ASSETS</b>		<b>814</b>	<b>904</b>	<b>1 184</b>
<b>ASSETS</b>		<b>9 953</b>	<b>10 329</b>	<b>10 465</b>
<b>EQUITY AND LIABILITIES</b>				
<b>EQUITY</b>				
Attributable to equity holders of the parent company	4	622	750	2 149
<b>EQUITY</b>		<b>622</b>	<b>750</b>	<b>2 149</b>
<b>LONG-TERM LIABILITIES</b>				
Interest-bearing liabilities, Tele2 Group	6	1 692	2 715	114
Other interest-bearing liabilities	3, 6	4 136	4 651	5 718
Deferred tax liability		346	291	293
<b>LONG-TERM LIABILITIES</b>		<b>6 174</b>	<b>7 657</b>	<b>6 125</b>
<b>SHORT-TERM LIABILITIES</b>				
Other interest-bearing liabilities	3, 6	1 474	4	100
Non-interest-bearing liabilities, Tele2 Group	6	15	134	138
Other non-interest-bearing liabilities	6	1 668	1 784	1 953
<b>SHORT-TERM LIABILITIES</b>		<b>3 157</b>	<b>1 922</b>	<b>2 191</b>
<b>EQUITY AND LIABILITIES</b>		<b>9 953</b>	<b>10 329</b>	<b>10 465</b>

# Cash flow statement

SEK million	Note	2013 Jan 1-Mar 31	2012 Jan 1-Mar 31	2012 Full year	2013 Q1	2012 Q4	2012 Q3	2012 Q2	2012 Q1	2011 Q4
<b>OPERATING ACTIVITIES</b>										
Operating profit		909	837	3 678	909	948	976	917	837	948
Adjustments for non-cash items in operating profit		274	230	1 046	274	279	255	282	230	244
Financial items paid		-74	-83	-601	-74	-234	-113	-171	-83	-191
Taxes paid	2	-177	-168	-879	-177	-454	-163	-94	-168	-148
<b>Cash flow from operations before changes in working capital</b>		<b>932</b>	<b>816</b>	<b>3 244</b>	<b>932</b>	<b>539</b>	<b>955</b>	<b>934</b>	<b>816</b>	<b>853</b>
Changes in working capital		-235	-30	257	-235	210	17	60	-30	97
<b>CASH FLOW FROM OPERATING ACTIVITIES</b>		<b>697</b>	<b>786</b>	<b>3 501</b>	<b>697</b>	<b>749</b>	<b>972</b>	<b>994</b>	<b>786</b>	<b>950</b>
<b>INVESTING ACTIVITIES</b>										
Capital expenditure in intangible and tangible assets, CAPEX		-316	-243	-1 326	-316	-175	-407	-501	-243	-519
<b>CASH FLOW AFTER INVESTING ACTIVITIES</b>		<b>381</b>	<b>543</b>	<b>2 175</b>	<b>381</b>	<b>574</b>	<b>565</b>	<b>493</b>	<b>543</b>	<b>431</b>
<b>FINANCING ACTIVITIES</b>										
Change in net borrowings from Tele2 Group		1 477	28	-2 561	1 477	-304	-430	-1 855	28	-300
Change in net lending to Tele2 Group		-	-	-	-	-	-	-	-	-22
Other change of loans		-1	1 563	2 810	-1	-21	-63	1 331	1 563	-40
Dividends	4	-2 100	-2 300	-2 300	-2 100	-	-	-	-2 300	-
Other financing activities	8	-93	-	-	-93	-	-	-	-	-
<b>Cash flow from financing activities</b>		<b>-717</b>	<b>-709</b>	<b>-2 051</b>	<b>-717</b>	<b>-325</b>	<b>-493</b>	<b>-524</b>	<b>-709</b>	<b>-362</b>
<b>NET CHANGE IN CASH AND CASH EQUIVALENTS</b>		<b>-336</b>	<b>-166</b>	<b>124</b>	<b>-336</b>	<b>249</b>	<b>72</b>	<b>-31</b>	<b>-166</b>	<b>69</b>
Cash and cash equivalents at beginning of period		451	271	271	451	184	121	129	271	192
Exchange rate differences in cash and cash equivalents		-12	24	56	-12	18	-9	23	24	10
<b>CASH AND CASH EQUIVALENTS AT END OF THE PERIOD</b>		<b>103</b>	<b>129</b>	<b>451</b>	<b>103</b>	<b>451</b>	<b>184</b>	<b>121</b>	<b>129</b>	<b>271</b>

## Number of customers

	Note	Number of customers			Net intake							
		2013 Mar 31	2012 Mar 31	2013 Jan 1- Mar 31	2012 Jan 1- Mar 31	2012 Full year	2013 Q1	2012 Q4	2012 Q3	2012 Q2	2012 Q1	2011 Q4
by thousands												
Mobile	7	22 882	20 940	166	304	2 080	166	373	710	693	304	250
<b>TOTAL</b>		<b>22 882</b>	<b>20 940</b>	<b>166</b>	<b>304</b>	<b>2 080</b>	<b>166</b>	<b>373</b>	<b>710</b>	<b>693</b>	<b>304</b>	<b>250</b>

## Net sales

	2013 Jan 1- Mar 31	2012 Jan 1- Mar 31	2012 Full year	2013 Q1	2012 Q4	2012 Q3	2012 Q2	2012 Q1	2011 Q4
SEK million									
Net sales	3 261	3 048	12 984	3 261	3 402	3 257	3 277	3 048	2 988
External net sales	<b>3 261</b>	<b>3 048</b>	<b>12 984</b>	<b>3 261</b>	<b>3 402</b>	<b>3 257</b>	<b>3 277</b>	<b>3 048</b>	<b>2 988</b>

## EBITDA and EBIT

	2013 Jan 1- Mar 31	2012 Jan 1- Mar 31	2012 Full year	2013 Q1	2012 Q4	2012 Q3	2012 Q2	2012 Q1	2011 Q4
SEK million									
<b>EBITDA</b>	<b>1 186</b>	<b>1 065</b>	<b>4 720</b>	<b>1 186</b>	<b>1 228</b>	<b>1 231</b>	<b>1 196</b>	<b>1 065</b>	<b>1 189</b>
Depreciation/amortization and other impairment	-277	-228	-1 042	-277	-280	-255	-279	-228	-241
<b>EBIT</b>	<b>909</b>	<b>837</b>	<b>3 678</b>	<b>909</b>	<b>948</b>	<b>976</b>	<b>917</b>	<b>837</b>	<b>948</b>

## Key ratios

	2013 Jan 1- Mar 31	2012 Jan 1- Mar 31	2012	2011	2010	2009
SEK million						
Net sales	3 261	3 048	12 984	11 463	10 142	7 540
Number of customers (by thousands)	22 882	20 940	22 716	20 636	18 438	14 451
EBITDA	1 186	1 065	4 720	4 452	3 560	2 463
EBIT	909	837	3 678	3 553	2 765	1 827
EBT	775	683	2 990	3 004	2 320	751
Net profit	623	545	2 027	2 179	1 884	512
EBITDA margin, %	36,4	34,9	36,4	38,8	35,1	32,7
EBIT margin, %	27,9	27,5	28,3	31,0	27,3	24,2
Cash flow from operating activities	697	786	3 501	3 229	2 927	1 499
Paid CAPEX	316	243	1 326	1 672	1 556	2 109
Cash flow after CAPEX	381	543	2 175	1 557	1 371	-610
Equity	622	750	2 149	2 369	-5 739	-6 901
Total assets	9 953	10 329	10 465	9 911	10 445	9 369
Net debt	7 199	7 241	5 481	5 258	12 934	13 809



# Parent company

## INCOME STATEMENT

SEK million	2013	2012	2012
	Jan 1-Mar 31	Jan 1-Mar 31	Full year
Administrative expenses	-	-	-2
<b>Operating loss, EBIT</b>	<b>-</b>	<b>-</b>	<b>-2</b>
Dividend from group companies	-	-	4 167
Net interest expenses and other financial items	-16	-209	-387
<b>Profit/loss after financial items, EBT</b>	<b>-16</b>	<b>-209</b>	<b>3 778</b>
Tax on profit/loss	3	55	14
<b>NET PROFIT/LOSS</b>	<b>-13</b>	<b>-154</b>	<b>3 792</b>

## BALANCE SHEET

SEK million	Note	Mar 31, 2013	Dec 31, 2012
<b>ASSETS</b>			
<b>NON-CURRENT ASSETS</b>			
Shares in group companies		13 585	13 572
Receivables, Tele2 Group		-	3 971
Deferred tax assets		455	452
Other financial assets		5	5
<b>NON-CURRENT ASSETS</b>		<b>14 045</b>	<b>18 000</b>
<b>CURRENT ASSETS</b>			
Current receivables		4	7
Current receivables Tele2 Russia Group		5	11
<b>CURRENT ASSETS</b>		<b>9</b>	<b>18</b>
<b>ASSETS</b>		<b>14 054</b>	<b>18 018</b>
<b>EQUITY AND LIABILITIES</b>			
<b>EQUITY</b>			
Unrestricted equity	4	10 486	12 587
<b>EQUITY</b>		<b>10 486</b>	<b>12 587</b>
<b>LONG-TERM LIABILITIES</b>			
Interest-bearing liabilities, Tele2 Russia Group		3 561	5 322
<b>LONG-TERM LIABILITIES</b>		<b>3 561</b>	<b>5 322</b>
<b>SHORT-TERM LIABILITIES</b>			
Interest-bearing liabilities, Tele2 Group		7	14
Other interest-bearing liabilities		-	95
<b>SHORT-TERM LIABILITIES</b>		<b>7</b>	<b>109</b>
<b>EQUITY AND LIABILITIES</b>		<b>14 054</b>	<b>18 018</b>

# NOTES

## ACCOUNTING PRINCIPLES AND DEFINITIONS

The interim year report for the Group was prepared in accordance with IAS 34 and the Swedish Annual Accounts Act, and the interim 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.

### New and amended IFRS standards and IFRIC interpretations

The new and amended IFRS standards and IFRIC interpretations (IFRS 13, IAS 19 and Annual Improvements), which became effective January 1, 2013, have had no material effect on the consolidated financial statements.

In all other respects, Tele2 Russia has presented its interim year report in accordance with the accounting principles and calculation methods used in the 2012 Annual Report. The description of these principles and definitions is found in the Annual Report 2012.

## NOTE 1 OTHER FINANCIAL ITEMS

SEK million	2013 Jan 1- Mar 31	2012 Jan 1- Mar 31	2012 full year
Exchange rate differences, external	2	4	6
Exchange rate differences, Tele2 Group	66	-92	-34
Exchange rate differences, Tele2 Russia Group	-71	97	39
Other financial expenses	-3	-1	-11
<b>Total other financial items</b>	<b>-6</b>	<b>8</b>	<b>-</b>

## NOTE 2 TAXES

In Q4 2012, Tele2 Russia paid withholding tax for dividend of SEK -223 million.

## NOTE 3 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.

## NOTE 4 TRANSACTIONS WITH RELATED PARTIES

In Q1 2013, the parent company Tele2 Russia Holding AB paid a dividend of SEK 2,100 (2,300) million to the Tele2 Group. On April 3, 2013 the parent company Tele2 Russia Holding AB paid an extra dividend of 365 million to the Tele2 Group.

In Q1 2013, the parent company Tele2 Russia Holding AB received a shareholders' contribution of SEK 12 million from the Tele2 Group related to the incentive program costs.

In Q4 2012, Tele2 Financial Services AB made a group contribution of SEK 98 (104) million to the Tele2 Group.

Tele2 Sweden has provided 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 5. For additional information regarding transactions with related parties please refer to Note 32 of the Annual Report 2012.

Apart from above stated transactions with companies within the Tele2 Group, no other significant related party transactions have been carried out during 2013.

## NOTE 5 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 2012. As a result of changed ownership of the Tele2 Russia Group the LTI programme will be pre-settled.

### LTI 2012

Number of share rights	2013 Jan 1–Mar 31	Cumulative from start
Allocated June 15, 2012		197,810
Outstanding as of January 1, 2013	167,560	
Forfeited	-3,000	-33,250
<b>Total outstanding share rights</b>	<b>164,560</b>	<b>164,560</b>

### LTI 2011

Number of share rights	2013 Jan 1–Mar 31	Cumulative from start
Allocated June 17, 2011		201,320
Outstanding as of January 1, 2013	161,493	
Allocated, compensation for dividend	-	14,411
Forfeited	-4,858	-59,096
<b>Total outstanding share rights</b>	<b>156,635</b>	<b>156,635</b>

### LTI 2010

Number of share rights	2013 Jan 1–Mar 31	Cumulative from start
Allocated June 9, 2010		106,400
Outstanding as of January 1, 2013	75,381	
Allocated, compensation for dividend	-	23,126
Forfeited	-	-54,142
<b>Total outstanding share rights</b>	<b>75,384</b>	<b>75,384</b>

The exercise of the share rights in LTI 2010 was conditional upon the fulfilment of certain retention and performance based conditions for the Tele2 Group, measured from April 1, 2010 until March 31, 2013. The outcome of these decided performance conditions was in accordance with below and the outstanding shares will be exchanged for shares in Tele2 during Q2 2013:

	Retention and performance based conditions	Minimum hurdle (20%)	Stretch target (100%)	Performance outcome	Allotment
Series A	Total Shareholder Return Tele2 (TSR)		≥ 0%	29.4%	100%
Series B	Average normalised Return on Capital Employed (ROCE)	15%	18%	21.3%	100%
Series C	Total Shareholder Return Tele2 (TSR) compared to a peer group	> 0%	≥ 10%	19.4%	100%

## NOTE 6 FINANCIAL ASSETS AND LIABILITIES

Tele2 Russia's financial assets consist mainly of receivables from end customers and resellers and cash and cash equivalents. Tele2 Russia's financial liabilities consist mainly of bonds issued on the Russian market and loans from Tele2 Group, to finance the operations and the Tele2 Russia Group's acquisition of the Russian entities, as well as accounts payables. In Q1 2013, compared to year-end 2012, no transfers were made between the different levels in the fair value hierarchy and no significant changes were made to valuation techniques, inputs used or assumptions.

The carrying amount of financial assets measured at fair value through profit/loss amount to SEK 5 (5) million. The carrying amount of financial assets in the category loan and accounts receivables amount to SEK 469 (909) million, and financial liabilities measured at amortized cost amount to SEK 8,089 (6,802) million. Tele2 Russia does not have any financial instruments reported in other categories.

The fair value of other financial assets, not carried to fair value, do not deviate significantly from their carrying amount. The fair value of financial liabilities amount to SEK 7,867 (6,529) million.

Since accounts receivables, accounts payables and other short-term liabilities are short-term, discounting of cash flows does not cause any material differences in their carrying amount.

## NOTE 7 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 8 PURCHASE OF MINORITY**

In July 2009 and January 2010, Tele2 Russia acquired the remaining 25.5 and 12.5 percent respectively of the shares in the subsidiaries Tele2 Izhevsk and Tele2 Rostov in Russia. The final purchase price of SEK 3 and 90 million respectively were paid in Q1 2013.

Moscow, April 18, 2013

Yuri Soloviev  
Chairman

Evgenia Sudets

## **REVIEW REPORT**

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