

Interim Report

January - March 2012

Tele2 Russia Holding AB

corporate reg. no. 556469-7836

INTERIM REPORT JANUARY - MARCH 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 – March 31, 2012.

The figures presented in this report refer to Q1 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.

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 was affected by seasonally higher marketing spend in the beginning of the year, resulting in a strong customer intake but also in a lower EBITDA contribution. The higher marketing spend was due to a higher level of active initiatives in tariff promotion and SIM-card sales meant to strengthen the company’s price leadership position, especially in more strategic regions. By accelerating the customer growth in the first quarter, Tele2 Russia will benefit from additional operational leverage throughout the rest of the year. EBITDA amounted to SEK 1,065 (941) million, equivalent to a margin of 35 (36) percent.

The total customer base grew by 304,000 (547,000) in Q1 2012. During the last 12 months, Tele2 Russia’s customer base has grown by 1,955,000 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 20,940,000 (18,985,000) at the end of Q1 2012. 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 7 percent compared to the year-earlier period, amounting to 246 (229). ARPU was SEK 49 (46) or RUB 218 (209).

On the regulatory side, Tele2 has gained a better understanding of the Russian market and set clear operational priorities in a complex environment. During the quarter, Tele2 Russia completed successful tests of LTE technology over 1800 MHz frequencies on its own network in Omsk. The tests were performed according to a methodology developed by the Radio Research and Development Institute (NIIR) and with the assistance of its experts. The conclusions of the technology neutrality study of the Russian 900/1800 spectrum are expected during 2012. Tele2 believes 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 21.5-22 million.
- Tele2 Russia expects a percentage growth of ARPU in low single digits (earlier to remain stable) in local currency.
- Tele2 Russia expects an EBITDA margin of between 37-39 (earlier 39-40) percent.
- Tele2 Russia expects CAPEX of between SEK 1,300-1,500 million.

SUBSEQUENT EVENTS

Tele2 announced on April 16, 2012 that Tele2 Russia issued a 6 billion rouble bond (Note 4).

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	Note	2012	2011	2011
		Jan 1-Mar 31	Jan 1-Mar 31	Full year
Net sales		3 048	2 598	11 463
Operating expenses		-2 214	-1 871	-7 916
Other operating income		5	3	26
Other operating expenses		-2	-4	-20
Operating profit, EBIT		837	726	3 553
Interest income/costs		-162	-192	-562
Exchange rate differences, external		4	7	-3
Exchange rate differences, Tele2 group	2	-92	4	106
Exchange rate differences, Tele2 Russia group	2	97	-5	-93
Group Contribution, Tele2 group	2	-	-	-104
Other financial items	2	-1	3	3
Profit after financial items, EBT		683	543	2 900
Tax on profit		-138	-103	-568
NET PROFIT		545	440	2 332

Comprehensive income

SEK million	2012	2011	2011
	Jan 1-Mar 31	Jan 1-Mar 31	Full year
Net profit	545	440	2 332
OTHER COMPREHENSIVE INCOME			
Components not to be reclassified to net profit:			
Withholding taxes on dividends	-	-	-153
Total components not to be reclassified to net profit	-	-	-153
Components to be reclassified to net profit:			
Exchange rate differences	100	-27	-80
Exchange rate differences, tax effect	34	-	1
Total components to be reclassified to net profit	134	-27	-79
Other comprehensive income for the period, net of tax	134	-27	-232
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	679	413	2 100

Change in shareholders' equity

SEK million	Note	Mar 31, 2012	Mar 31, 2011	Dec 31, 2011
		Total share- holders' equity	Total share- holders' equity	Total share- holders' equity
Shareholders' equity, January 1		2 369	-5 739	-5 739
Costs for stock options	3	2	2	8
Shareholders' contribution	2	-	6 000	6 000
Dividends	2	-2 300	-	-
Comprehensive income for the period		679	413	2 100
SHAREHOLDERS' EQUITY, END OF PERIOD		750	676	2 369

Balance sheet

SEK million	Note	Mar 31, 2012	Mar 31, 2011	Dec 31, 2011
ASSETS				
NON-CURRENT ASSETS				
Goodwill		851	836	813
Other intangible assets		1 079	790	1 013
Intangible assets		1 930	1 626	1 826
Tangible assets		6 708	5 973	6 371
Receivables, Tele2 group	2	-	1 618	-
Other financial assets		5	6	5
Deferred tax assets		782	681	727
NON-CURRENT ASSETS		9 425	9 904	8 929
CURRENT ASSETS				
Materials and supplies		44	42	49
Current receivables		731	747	662
Cash and cash equivalents		129	82	271
CURRENT ASSETS		904	871	982
ASSETS		10 329	10 775	9 911
EQUITY AND LIABILITIES				
SHAREHOLDERS' EQUITY				
Attributable to equity holders of the parent company	2	750	676	2 369
SHAREHOLDERS' EQUITY		750	676	2 369
LONG-TERM LIABILITIES				
Interest-bearing liabilities, Tele2 group	2	2 715	7 461	2 478
Other interest-bearing liabilities	4	4 651	86	2 944
Deferred tax liability		291	263	268
LONG-TERM LIABILITIES		7 657	7 810	5 690
SHORT-TERM LIABILITIES				
Interest-bearing liabilities, Tele2 group	2	-	687	95
Other interest-bearing liabilities		4	7	12
Non-interest-bearing liabilities		1 918	1 595	1 745
SHORT-TERM LIABILITIES		1 922	2 289	1 852
EQUITY AND LIABILITIES		10 329	10 775	9 911

Cash flow statement

SEK million	Note	2012 Jan 1-Mar 31	2011 Jan 1-Mar 31	2011 Full year	2012 Q1	2011 Q4	2011 Q3	2011 Q2	2011 Q1	2010 Q4
OPERATING ACTIVITIES										
Cash flow from operations, less paid taxes		984	754	3 904	984	1 001	1 150	999	754	725
Taxes paid		-168	-136	-807	-168	-148	-230	-293	-136	-112
Changes in working capital		-30	66	132	-30	97	18	-49	66	-15
CASH FLOW FROM OPERATING ACTIVITIES		786	684	3 229	786	950	938	657	684	598
INVESTING ACTIVITIES										
Capital expenditure in intangible and tangible assets, CAPEX		-243	-318	-1 672	-243	-519	-465	-370	-318	-621
Cash flow after CAPEX		543	366	1 557	543	431	473	287	366	-23
Acquisition of shares and participations		-	-	-	-	-	-	-	-	5
Sale of shares and participations		-	-	1	-	-	-	1	-	-
Other financial assets		-	-	-	-	-	-	-	-	1
Cash flow from investing activities		-243	-318	-1 671	-243	-519	-465	-369	-318	-615
CASH FLOW AFTER INVESTING ACTIVITIES		543	366	1 558	543	431	473	288	366	-17
FINANCING ACTIVITIES										
Change in net borrowings from Tele2 group	2	28	-125	-5 768	28	-300	-467	-4 876	-125	344
Change in net lending to Tele2 group	2	-	-298	1 490	-	-22	1	1 809	-298	-340
Other change of loans	4	1 563	-11	2 841	1 563	-40	-4	2 896	-11	6
Dividends	2	-2 300	-	-	-2 300	-	-	-	-	-
Cash flow from financing activities		-709	-434	-1 437	-709	-362	-470	-171	-434	10
NET CHANGE IN CASH AND CASH EQUIVALENTS		-166	-68	121	-166	69	3	117	-68	-7
Cash and cash equivalents at beginning of period		271	153	153	271	192	196	82	153	103
Exchange rate differences in cash and cash equivalents		24	-3	-3	24	10	-7	-3	-3	57
CASH AND CASH EQUIVALENTS AT END OF THE PERIOD		129	82	271	129	271	192	196	82	153

Number of customers

by thousands	Note	Number of customers			Net intake							
		2012	2011	2011 Full year	2012	2011	2011	2011	2011	2010		
		Mar 31	Mar 31		Jan 1- Mar 31	Jan 1- Mar 31	Q1	Q4	Q3	Q2	Q1	Q4
Mobile	5	20 940	18 985	304	547	2 198	304	250	681	720	547	755
TOTAL		20 940	18 985	304	547	2 198	304	250	681	720	547	755

Net sales

SEK million	Note	2012	2011	2011	2012	2011	2011	2011	2011	2010
		Jan 1- Mar 31	Jan 1- Mar 31	Full year	Q1	Q4	Q3	Q2	Q1	Q4
Net sales	6	3 048	2 598	11 463	3 048	2 988	3 015	2 862	2 598	2 646
External net sales		3 048	2 598	11 463	3 048	2 988	3 015	2 862	2 598	2 646

EBITDA and EBIT

SEK million	2012	2011	2011	2012	2011	2011	2011	2011	2011	2010
	Jan 1- Mar 31	Jan 1- Mar 31	Full year	Q1	Q4	Q3	Q2	Q1	Q4	
EBITDA	1 065	941	4 452	1 065	1 189	1 206	1 116	941	896	
Depreciation/amortization and other impairment	-228	-215	-899	-228	-241	-220	-223	-215	-209	
EBIT	837	726	3 553	837	948	986	893	726	687	

Key ratios

SEK million	2012	2011	2011	2010	2009	2008
	Jan 1- Mar 31	Jan 1- Mar 31	Full year	Full year	Full year	Full year
Net sales	3 048	2 598	11 463	10 142	7 540	6 809
Number of customers (by thousands)	20 940	18 985	20 636	18 438	14 451	10 422
EBITDA	1 065	941	4 452	3 560	2 463	2 364
EBIT	837	726	3 553	2 765	1 827	1 834
EBT	683	543	2 900	2 320	751	526
Net profit	545	440	2 332	1 896	531	328
EBITDA margin, %	34,9	36,2	38,8	35,1	32,7	34,7
EBIT margin, %	27,5	27,9	31,0	27,3	24,2	26,9
Cash flow from operating activities	786	684	3 229	2 927	1 499	1 378
Paid CAPEX	243	318	1 672	1 556	2 109	1 619
Cash flow after CAPEX	543	366	1 557	1 371	-610	-241
Shareholders' equity	750	676	2 369	-5 739	-6 901	-7 195
Total assets	10 329	10 775	9 911	10 445	9 369	7 906
Net debt	7 241	6 540	5 258	12 934	13 809	13 127

Parent company

INCOME STATEMENT

SEK million	2012	2011
	Jan 1-Mar 31	Jan 1-Mar 31
Net interest expenses and other financial items	-209	-139
Loss after financial items, EBT	-209	-139
Tax on loss	55	36
NET LOSS	-154	-103

BALANCE SHEET

SEK million	Note	Mar 31, 2012	Dec 31, 2011
ASSETS			
FIXED ASSETS			
Shares in group companies		13 465	13 445
Deferred tax assets		493	438
Other financial assets		5	5
FIXED ASSETS		13 963	13 888
CURRENT ASSETS			
Current receivables		14	10
Current receivables Tele2 Russia group		4	22
CURRENT ASSETS		18	32
ASSETS		13 981	13 920
EQUITY AND LIABILITIES			
SHAREHOLDERS' EQUITY			
Unrestricted equity	2	8 641	11 095
SHAREHOLDERS' EQUITY		8 641	11 095
LONG-TERM LIABILITIES			
Interest-bearing liabilities, Tele2 Russia group	2	2 810	2 606
Other interest-bearing liabilities		94	97
LONG-TERM LIABILITIES		2 904	2 703
SHORT-TERM LIABILITIES			
Interest-bearing liabilities, Tele2 group	2	2 436	117
Interest-bearing liabilities, Tele2 Russia group		-	5
SHORT-TERM LIABILITIES		2 436	122
EQUITY AND LIABILITIES		13 981	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. Description of these principles and definitions are found in the 2011 Annual Report.

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 in Q1 2012 and Q2 2011 (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 2011 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 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 2011 Annual Report.

LTI 2011

Number of share rights	2012 Jan 1– Mar 31	Cumulative from start
Allocated June 17, 2011		198,820
Outstanding as of January 1, 2012	182,070	
Forfeited	-3,000	-19,750
Total outstanding share rights	179,070	179,070

LTI 2010

Number of share rights	2012 Jan 1– Mar 31	Cumulative from start
Allocated June 9, 2010		106,400
Outstanding as of January 1, 2012	106,116	
Allocated, compensation for dividend	-	14,876
Forfeited	-2,328	-17,488
Total outstanding share rights	103,788	103,788

LTI 2009

Number of share rights	2012 Jan 1– Mar 31	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
Total outstanding share rights	131,532	131,532

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 (TSR) compared to a peer group	> 0%	≥ 10%	65.2%	100%

NOTE 4 FINANCING

Tele2 announced on April 16, 2012 that Tele2 Russia issued a 6 billion rouble bond (1 tranche). 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 (Q2, 2011), Tele2 Russia issued a 7 (13) billion rouble bond with 2 (3) tranches. The bond has a final maturity of 10 (10) years and a put option providing for an effective tenor of 2 (5) years. The coupon rate for the period is 8.90 (8.40) percent per annum with semi-annual coupon payments. The reported value of the bonds amounted at March 31, 2012 (June 30, 2011) to SEK 4.5 (2.9) billion.

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, April 19, 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.

