

# Interim Report

## January – September 2013

Tele2 Russia Holding AB

corporate reg. no. 556469-7836

# **INTERIM REPORT JANUARY-SEPTEMBER 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 – September 30, 2013.

The figures presented in this report refer to Q3 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., Netherlands (99.9 percent) and Limited Liability Company “VTB Infrastructure Investments”, Russia (0.1 percent). The ultimate parent company is VTB Bank (Open Joint-Stock Company) (“VTB”), which indirectly owns 100 percent of the company. Previously during the year, Tele2 Russia Holding AB was owned by Tele2 Russia Telecom B.V, Netherlands (99.9 percent) and Tele2 Russia Two AB, Sweden (0.1 percent). The ultimate parent company was 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 grow market share and profitability in regions, which were launched after 2009, and to protect market share and sustain profitability in more mature regions. Market share of all Tele2 regions is 33,86% as per 3Q2013.

The overall operational development in Q3 2013 was characterized by a balanced competitive environment in combination with a robust customer intake. Tele2 Russia continued to pursue market share during Q3 2013, 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 Q3 2014, EBITDA YTD amounted to RUR 17 971 (15 948) million, equivalent to a margin of 37 (37) per cent.

The total customer base grew by 871,000 (1,706,000) customers in Q3 YTD 2013 . During Q3 2013 Tele2 Russia continued the constant customer growth despite competitors’ advantage in providing 3G services. The total customer base amounted to 23.7 (22.3) million at the end of Q3 2013. The churn level of the total customer base was steady during Q3 2013, helped by a fairly stable market environment. Tele2 Russia will maintain its effort to be best in class in customer retention and deliver customer expectations.

Tele2 Russia has acquired 100% of CJSC Kodotel shares - local mobile operator in Voronezh. Kodotel owns the telecommunication licence in GSM 1800 in the range of 15 MHz. The subscriber base of the company is more than 100,000 subscribers. Full integration of Kodotel is planned for Q4 2013.

## **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 RUR 65,100– 65,500 million.
- Tele2 Russia expects EBITDA of between RUR 22,900 – 23,300 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.

# Balance sheet

RUB million	Note	Sep 30, 2013	Sep 30, 2012	Dec 31, 2012
<b>ASSETS</b>				
<b>NON-CURRENT ASSETS</b>				
Goodwill		3 773	3 773	3 773
Other intangible assets		7 360	5 639	6 492
<b>Intangible assets</b>		<b>11 133</b>	<b>9 412</b>	<b>10 265</b>
Tangible assets		29 240	30 052	29 622
Other financial assets	6	22	22	21
Deferred tax assets		1 283	3 435	3 315
<b>NON-CURRENT ASSETS</b>		<b>41 679</b>	<b>42 921</b>	<b>43 223</b>
<b>CURRENT ASSETS</b>				
Inventories		134	211	89
Current receivables	6	2 448	3 249	3 327
Cash and cash equivalents	6	9 302	872	2 099
<b>CURRENT ASSETS</b>		<b>11 884</b>	<b>4 332</b>	<b>5 515</b>
<b>ASSETS</b>		<b>53 563</b>	<b>47 253</b>	<b>48 738</b>
<b>EQUITY AND LIABILITIES</b>				
<b>EQUITY</b>				
Attributable to equity holders of the parent company	4	4 200	8 826	10 008
<b>EQUITY</b>		<b>4 200</b>	<b>8 826</b>	<b>10 008</b>
<b>LONG-TERM LIABILITIES</b>				
Interest-bearing liabilities, Tele2 Group	6		1 982	532
Other interest-bearing liabilities	3, 6	31 111	26 556	26 632
Deferred tax liability		1 673	1 447	1 365
<b>LONG-TERM LIABILITIES</b>		<b>32 784</b>	<b>29 985</b>	<b>28 529</b>
<b>SHORT-TERM LIABILITIES</b>				
Other interest-bearing liabilities	3, 6	7 038	457	464
Non-interest-bearing liabilities, Tele2 Group	6	-	-	643
Other non-interest-bearing liabilities	6	9 542	7 985	9 094
<b>SHORT-TERM LIABILITIES</b>		<b>16 580</b>	<b>8 442</b>	<b>10 201</b>
<b>EQUITY AND LIABILITIES</b>		<b>53 563</b>	<b>47 253</b>	<b>48 738</b>

# Income statement

RUB million	Note	2013 Jan 1-Sep 30	2012 Jan 1-Sep 30	2012 Full year
<b>CONTINUING OPERATIONS</b>				
Net sales		48 785	43 652	59 523
Cost of services sold		-25 396	-22 981	-31 252
<b>Gross profit</b>		<b>23 389</b>	<b>20 671</b>	<b>28 271</b>
Selling expenses		-5 862	-5 399	-7 531
Administrative expenses		-3 552	-2 803	-3 795
Other operating income		88	53	58
Other operating expenses		-60	-53	-51
<b>Operating profit, EBIT</b>		<b>14 002</b>	<b>12 469</b>	<b>16 953</b>
Interest income/costs		-1 943	-2 320	-3 160
Other financial items	1	-654		
<b>Profit after financial items, EBT</b>		<b>11 405</b>	<b>10 149</b>	<b>13 794</b>
Group Contribution, Tele2 Group			26	-456
Income tax	2	-5 087	-2 496	-3 900
<b>NET PROFIT FROM CONTINUING OPERATIONS</b>		<b>6 318</b>	<b>7 679</b>	<b>9 437</b>
<b>NEW/DISCONTINUED OPERATIONS</b>				
Acquisition/establishment of subsidiaries	xx	22	-	-
<b>NET PROFIT</b>		<b>6 339</b>	<b>7 679</b>	<b>9 437</b>
<b>ATTRIBUTABLE TO</b>				
Equity holders of the parent company		6 339	7 679	9 437
Non-controlling interests			-	-
<b>NET PROFIT</b>		<b>6 339</b>	<b>7 679</b>	<b>9 437</b>

# Comprehensive income

RUB million	Note	2013	2012	2012
		Jan 1-Sep 30	Jan 1-Sep 30	Full year
<b>Net profit</b>		<b>6 339</b>	<b>7 679</b>	<b>9 437</b>
<b>Components that may be reclassified to net profit</b>				
Exchange rate differences		-378	835	317
Exchange rate differences, tax effect		0	191	-77
<b>Total components that may be reclassified to net profit</b>		<b>-378</b>	<b>1 026</b>	<b>240</b>
<b>TOTAL COMPREHENSIVE INCOME FOR THE PERIOD</b>		<b>5 961</b>	<b>8 705</b>	<b>9 677</b>

# Change in equity

SEK million	Note	Sep 30, 2013			Sep 30, 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>10 008</b>	-	<b>10 008</b>	<b>11 001</b>	-	<b>11 001</b>	<b>11 001</b>	-	<b>11 001</b>
Net profit for the period		6 339	-	6 339	8 705	-	8 705	9 437	-	9 437
Other comprehensive income for the period, net of tax		-378	-	-378	1 026	-	1 026	240	-	240
<b>Total comprehensive income for the period</b>		<b>5 961</b>	-	<b>5 961</b>	<b>8 705</b>	-	<b>8 705</b>	<b>9 677</b>	-	<b>9 677</b>
<b>Other changes in equity</b>										
Share-based payments	5	6	-	6	28	-	28	23	-	23
Shareholders' contribution	4	-	-	-	-	-	-	-	-	-
Dividends	4	-11 776	-	-11 776	-10 908	-	-10 908	-10 693	-	-10 693
<b>EQUITY, END OF PERIOD</b>		<b>4 200</b>	-	<b>4 200</b>	<b>8 826</b>	-	<b>8 826</b>	<b>10 008</b>	-	<b>10 008</b>

## Number of customers

by thousands	Note	Number of customers		Net intake									
		2013 Sep 30	2012 Sep 30	2013 Jan 1 - Sep 30	2012 Jan 1 - Sep 30	2012 Full year	2013 Q3	2013 Q2	2013 Q1	2012 Q4	2012 Q3	2012 Q2	2012 Q1
Mobile	7	23 563	22 343	847	1 707	2 080	332	348	166	373	710	692	304
<b>TOTAL</b>		<b>23 563</b>	<b>22 343</b>	<b>847</b>	<b>1 707</b>	<b>2 080</b>	<b>332</b>	<b>348</b>	<b>166</b>	<b>373</b>	<b>710</b>	<b>692</b>	<b>304</b>

## Net sales

RUB million	2013 Jan 1 - Sep 30	2012 Jan 1 - Sep 30	2012 Full year	2013 Q3	2013 Q2	2013 Q1	2012 Q4	2012 Q3	2012 Q2	2012 Q1
Net sales	48 785	43 652	59 523	16 998	16 377	15 410	15 871	15 416	14 438	13 798
External net sales	<b>48 785</b>	<b>43 652</b>	<b>59 523</b>	<b>16 998</b>	<b>16 377</b>	<b>15 410</b>	<b>15 871</b>	<b>15 416</b>	<b>14 438</b>	<b>13 798</b>

## EBITDA and EBIT

RUB million	2013 Jan 1 - Sep 30	2012 Jan 1 - Sep 30	2012 Full year	2013 Q3	2013 Q2	2013 Q1	2012 Q4	2012 Q3	2012 Q2	2012 Q1
<b>EBITDA</b>	17 971	15 948	21 749	6 417	5 937	5 616	5 801	5 852	5 353	4 742
Depreciation/amortization and other impairment	-3 969	-3 478	-4 795	-1 339	-1 318	-1 311	-1 317	-1 238	-1 235	-1 006
<b>EBIT</b>	<b>14 002</b>	<b>12 469</b>	<b>16 953</b>	<b>5 078</b>	<b>4 619</b>	<b>4 305</b>	<b>4 484</b>	<b>4 614</b>	<b>4 119</b>	<b>3 737</b>

## Key ratios

RUB million	2013 Jan 1 - Sep 30	2012 Jan 1 - Sep 30	2012	2011	2010	2009
Net sales	48 785	43 652	59 523	51 858	42 746	31 581
Number of customers (by thousands)	23 563	22 343	22 716	20 636	18 438	14 451
EBITDA	17 971	15 948	21 749	20 263	14 942	10 287
EBIT	14 002	12 469	16 953	16 207	11 666	7 670
EBT	11 405	10 149	13 794	13 628	10 558	5 503
Net profit	6 318	7 679	9 437	10 578	8 416	4 497
EBITDA margin, %	36,8	36,5	36,5	39,1	35,0	32,6
EBIT margin, %	28,7	28,6	28,5	31,3	27,3	24,3
Cash flow from operating activities	15 031	11 715	15 539	13 799	13 918	5 542
Paid CAPEX	4 209	5 202	6 081	7 564	6 677	8 776
Cash flow after CAPEX	10 822	6 512	9 458	6 236	7 241	-3 234
Equity	4 200	8 826	10 008	8 563	-24 682	-32 094
Total assets	53 563	47 253	48 738	41 341	55 468	43 628
Net debt	29 584	28 934	26 358	23 214	58 391	61 730

# Cash flow statement

RUB million	Note	2013	2012	2012	2013	2013	2013	2012	2012	2012	2012
		Jan 1-Sep 30	Jan 1-Sep 30	Full year	Q3	Q2	Q1	Q4	Q3	Q2	Q1
<b>OPERATING ACTIVITIES</b>											
Operating profit		14 002	12 469	16 953	5 078	4 619	4 305	4 484	4 614	4 119	3 737
Adjustments for non-cash items in operating profit		3 954	3 408	4 708	1 339	1 318	1 296	1 300	1 200	1 237	970
Financial items paid		-457	-1 964	-3 252	-236	138	-360	-1 289	-731	-904	-329
Taxes paid	2	-2 292	-1 936	-4 028	-836	-617	-838	-2 092	-767	-419	-750
<b>Cash flow from operations before changes in working capital</b>		<b>15 207</b>	<b>11 978</b>	<b>14 380</b>	<b>5 345</b>	<b>5 458</b>	<b>4 404</b>	<b>2 402</b>	<b>4 316</b>	<b>4 033</b>	<b>3 628</b>
Changes in working capital		-176	-263	1 159	1 189	224	-1 589	1 422	20	-199	-84
<b>CASH FLOW FROM OPERATING ACTIVITIES</b>		<b>15 031</b>	<b>11 715</b>	<b>15 539</b>	<b>6 534</b>	<b>5 682</b>	<b>2 815</b>	<b>3 824</b>	<b>4 336</b>	<b>3 835</b>	<b>3 544</b>
<b>INVESTING ACTIVITIES</b>											
Capital expenditure in intangible and tangible assets, CAPEX		-4 209	-5 202	-6 081	-1 344	-1 339	-1 525	-879	-1 917	-2 164	-1 122
<b>Cash flow after CAPEX</b>		<b>10 822</b>	<b>6 512</b>	<b>9 458</b>	<b>5 190</b>	<b>4 342</b>	<b>1 290</b>	<b>2 945</b>	<b>2 419</b>	<b>1 671</b>	<b>2 422</b>
Acquisition of shares and participations		0			22	-22		0			
Sale of shares and participations		-20			-22	2	0				
Other financial assets			0	0				0	0	0	0
Cash flow from investing activities		-4 228	-5 202	-6 081	-1 344	-1 359	-1 525	-879	-1 917	-2 164	-1 122
<b>CASH FLOW AFTER INVESTING ACTIVITIES</b>		<b>10 803</b>	<b>6 512</b>	<b>9 458</b>	<b>5 190</b>	<b>4 323</b>	<b>1 290</b>	<b>2 945</b>	<b>2 419</b>	<b>1 671</b>	<b>2 422</b>
<b>FINANCING ACTIVITIES</b>											
Change in net borrowings from Tele2 Group		-1 175	-9 780	-11 481	0	-8 845	7 671	-1 702	-2 441	-8 209	871
Change in net lending to Tele2 Group		0		0		0	0				
Other change of loans		10 029	12 895	12 883	-184	10 662	-449	-12	-27	5 965	6 957
Dividends	4	-11 776	-10 908	-10 693	0	-1 771	-10 005	215	-62	-650	-10 197
Other financing activities	8										
<b>Cash flow from financing activities</b>		<b>-2 922</b>	<b>-7 793</b>	<b>-9 291</b>	<b>-184</b>	<b>46</b>	<b>-2 783</b>	<b>-1 498</b>	<b>-2 530</b>	<b>-2 894</b>	<b>-2 369</b>
<b>NET CHANGE IN CASH AND CASH EQUIVALENTS</b>		<b>7 881</b>	<b>-1 280</b>	<b>167</b>	<b>5 006</b>	<b>4 368</b>	<b>-1 493</b>	<b>1 447</b>	<b>-111</b>	<b>-1 223</b>	<b>54</b>
Cash and cash equivalents at beginning of period		2 099	1 260	1 260	4 292	489	2 099	872	572	579	1 260
Exchange rate differences in cash and cash equivalents		-678	893	672	3	-565	-117	-220	412	1 215	-734
<b>CASH AND CASH EQUIVALENTS AT END OF THE PERIOD</b>		<b>9 302</b>	<b>872</b>	<b>2 099</b>	<b>9 302</b>	<b>4 292</b>	<b>489</b>	<b>2 099</b>	<b>872</b>	<b>572</b>	<b>579</b>



# NOTES

## ACCOUNTING PRINCIPLES AND DEFINITIONS

The interim year report for the Group was prepared in accordance with IAS 34.

### New and amended IFRS standards and IFRIC interpretations

The amended IFRS standards and IFRIC interpretations, 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

	2013	2012	2012
	Jan 1-	Jan 1-	full
RUB million	Sep 30	Sep 30	year
Exchange rate differences, external	-877	1 026	317
Exchange rate differences, Tele2 Group	308	0	0
Other financial expenses	-85	-124	-317
<b>Total other financial items</b>	<b>-654</b>	<b>902</b>	<b>0</b>

## NOTE 2 TAXES

In Q4 2012, Tele2 Russia paid withholding tax for dividend of RUB -1 021 million RUB.

## 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 RUB 10 032 million RUB to the Tele2 Group. On April 3, 2013 the parent company Tele2 Russia Holding AB paid an extra dividend of 1 744 million RUB to the Tele2 Group.

In Q1 2013, the parent company Tele2 Russia Holding AB received a shareholders' contribution of RUB 58 million from the Tele2 Group related to the incentive program costs.

Tele2 Sweden provided management and technical services to the Tele2 Russia Group till 04 April 2013. Tele2 AB issued long-term incentive programmes to a number of employees in the Tele2 Russia Group, for additional information please refer to Note 5.

Apart from above stated transactions with companies within the Tele2 Group, no other significant related party transactions have been carried out in Q1 2013.

At 04 April 2013 VTB Group has acquired 100% of shareholders' equity Tele2 Russia Group. VTB Group plans to develop further the business of Tele2 Russia for the purpose of realization of the investment.

VTB Group provided a long term loan in amount of 260 million EUR in April 2013 for Tele2 Russia Holding AB. Tele2 Russia Investments AB was sold to VTB Group in June 2013.

In Q3 2013 VTB Group established 3 new companies within Tele2 Structure: LLC "T2 Rus Holding", LLC "Management Company T2 Rus", LLC "Financial Company T2 Rus", with the purpose of group reorganization and restructuring of financial flows.

Apart from above stated transactions with companies within the VTB Group, no other significant related party transactions have been carried out in Q3 2013.

## **NOTE 5 INCENTIVE PROGRAMS (LTI)**

The parent company of the Tele2 Group, Tele2 AB (publ), has issued long-term incentive programs (LTI) to a number of employees in the Tele2 Russia Group.

The exercise of the share rights in LTI 2010/ 2011 was conditional upon the fulfilment of certain retention and performance based conditions for the Tele2 Group. The LTI programmes 2010-2011 were executed and paid to employees by 04 April 2013.

As a result of changed ownership of the Tele2 Russia Group LTI program 2012 was replaced by the internal retention program (not based on share rights).

### **LTI 2012**

	2013 Jan 1–Sep 30	Cumulative from start
Number of share rights		
Allocated June 15, 2012		197,810
Outstanding as of January 1, 2013	167,560	
Forfeited	-3,000	-33,250
Replaced with internal retention programme	-164,560	-164,560
<b>Total outstanding share rights</b>	<b>0</b>	<b>0</b>

### **LTI 2011**

	2013 Jan 1– Sep 30	Cumulative from start
Number of share rights		
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
Exercised	-156,635	-156,635
<b>Total outstanding share rights</b>	<b>0</b>	<b>0</b>

**LTI 2010**

	2013 Jan 1– Sep 30	Cumulative from start
Number of share rights		
Allocated June 9, 2010		106,400
Outstanding as of January 1, 2013	75,381	
Allocated, compensation for dividend	-	23,126
Forfeited	-	-54,142
Exercised	-75,384	-75,384
<b>Total outstanding share rights</b>	<b>0</b>	<b>0</b>

**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 Q3 2013, compared to Q2 2013, 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.

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 Q3 2013, number of customers in Russia increased by 23 563 thousands customers.