# T2 RTK Holding LLC

Interim condensed consolidated financial statements
(unaudited)

*For the three months ended 31 March 2015*

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## Interim condensed consolidated financial statements (unaudited)

## For the three months ended 31 March 2015

### Contents

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улучшаем мир

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# Report on review of interim condensed consolidated financial statements

The Board of Directors and Shareholders
T2 RTK Holding LLC

***Introduction***

We have reviewed the accompanying interim condensed consolidated statement of financial position of T2 RTK Holding LLC and its subsidiaries as of 31 March 2015 and the related interim condensed consolidated statements of comprehensive income, changes in equity and cash flows for the three-month period then ended and explanatory notes. Management is responsible for the preparation and presentation of these interim condensed consolidated financial statements in accordance with IAS 34, *Interim Financial Reporting*. Our responsibility is to express a conclusion on these interim condensed consolidated financial statements based on our review.

***Scope of review***

We conducted our review in accordance with International Standard on Review Engagements 2410, *Review of Interim Financial Information Performed by the Independent Auditor of the Entity*. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

***Conclusion***

Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim condensed consolidated financial statements are not prepared, in all material respects, in accordance with IAS 34.

Ernst & Young LLC

8 June 2015

Moscow, Russia

# T2 RTK Holding LLC

## Interim condensed consolidated statement of comprehensive income

*(In millions of Russian rubles)*

| | Note | Three months ended 31 March 2015 (Unaudited) | Three months ended 31 March 2014 (Unaudited) |
|---|---|---|---|
| **Revenue** | | | |
| Wireless services | | 23,099 | 15,532 |
| | | | |
| **Operating income and expenses** | | | |
| Cost of services | | (12,619) | (6,950) |
| Sales and marketing expenses | 4 | (3,191) | (1,602) |
| General and administrative expenses | 5 | (1,953) | (924) |
| Gain/(loss) on disposal of non-current assets | | (24) | 3 |
| Depreciation | | (3,076) | (1,121) |
| Amortization | | (1,882) | (397) |
| Other operating expenses | | (150) | – |
| Other operating income | | 252 | 70 |
| **Total operating expenses, net** | | **(22,643)** | **(10,921)** |
| | | | |
| **Operating profit** | | **456** | **4,611** |
| Finance income | | 44 | 39 |
| Finance expense | | (2,684) | (727) |
| Foreign exchange loss, net | | (169) | (854) |
| **Profit/(loss) before income tax expense** | | **(2,353)** | **3,069** |
| Income tax (expense)/benefit | 6 | 84 | (635) |
| **Net profit/(loss) for the period being total comprehensive income/(loss) for the period** | | **(2,269)** | **2,434** |

*The accompanying notes are an integral part of these interim condensed consolidated financial statements.*

# T2 RTK Holding LLC

## Interim condensed consolidated statement of financial position

*(In millions of Russian rubles)*

| | Note | 31 March 2015 (Unaudited) | 31 December 2014* |
|---|---|---|---|
| **Assets** | | | |
| **Non-current assets** | | | |
| Property and equipment | 7 | 108,892 | 106,692 |
| Intangible assets, other than goodwill | | 62,898 | 62,478 |
| Goodwill | 3 | 30,106 | 30,106 |
| Loans issued | 8 | 90 | 90 |
| Deferred tax assets | | 5,062 | 5,802 |
| **Total non-current assets** | | **207,048** | **205,168** |
| | | | |
| **Current assets** | | | |
| Inventories | | 478 | 619 |
| Trade and other receivables | 8 | 5,992 | 6,435 |
| VAT receivable | | 2,449 | 1,960 |
| Prepaid expenses | | 1,785 | 1,637 |
| Income tax receivable | | 1,779 | 1,655 |
| Cash and cash equivalents | 9 | 2,922 | 3,637 |
| **Total current assets** | | **15,405** | **15,943** |
| **Assets classified as held for sale** | | **16** | **16** |
| **Total assets** | | **222,469** | **221,127** |
| | | | |
| **Equity and liabilities** | | | |
| **Equity** | | | |
| Equity attributable to participants | | 95,389 | 97,654 |
| Non-controlling interest | | (17) | (13) |
| **Total equity** | | **95,372** | **97,641** |
| | | | |
| **Non-current liabilities** | | | |
| Interest-bearing loans and borrowings | 8 | 51,196 | 53,140 |
| Other non-current financial liabilities | 8 | 8,070 | 7,785 |
| Provisions | | 1,509 | 1,478 |
| Deferred tax liabilities | | 11,369 | 13,196 |
| **Total non-current liabilities** | | **72,144** | **75,599** |
| | | | |
| **Current liabilities** | | | |
| Interest-bearing loans and borrowings | 8 | 30,507 | 18,700 |
| Trade and other payables | 8 | 18,030 | 21,723 |
| Advances from customers | | 3,140 | 4,262 |
| VAT payable | | 1,783 | 1,665 |
| Income tax payable | | 394 | 397 |
| Other current non-financial liabilities | | 91 | 112 |
| Other current financial liabilities | 8 | 1,008 | 1,028 |
| **Total current liabilities** | | **54,953** | **47,887** |
| **Total liabilities** | | **127,097** | **123,486** |
| **Total equity and liabilities** | | **222,469** | **221,127** |

* Certain amounts do not correspond to the consolidated financial statements as at 31 December 2014 and reflect measurement period adjustments made as detailed in Note 3.

*The accompanying notes are an integral part of these interim condensed consolidated financial statements.*

# Interim condensed consolidated statement of changes in equity

*(In millions of Russian rubles)*

| | Note | Charter capital | Other reserves | Retained earnings | Total equity attributable to participants | Non-controlling interest | Total equity |
|---|---|---|---|---|---|---|---|
| **As of 1 January 2015** | | **139,071** | **(63,297)** | **21,880** | **97,654** | **(13)** | **97,641** |
| **Comprehensive income** | | | | | | | |
| Profit for the period | | – | – | (2,265) | (2,265) | (4) | (2,269) |
| **Total comprehensive income** | | **–** | **–** | **(2,265)** | **(2,265)** | **(4)** | **(2,269)** |
| **As of 31 March 2015 (unaudited)** | | **139,071** | **(63,297)** | **19,615** | **95,389** | **(17)** | **95,372** |
| **As of 1 January 2014** | | **76,489** | **(97,321)** | **20,593** | **(239)** | **–** | **(239)** |
| Effect of business combination | 3 | 26,874 | 14,587 | – | 41,461 | 1 | 41,462 |
| **Comprehensive income** | | | | | | | |
| Profit for the period | | – | – | 2,434 | 2,434 | – | 2,434 |
| **Total comprehensive income** | | **–** | **–** | **2,434** | **2,434** | **–** | **2,434** |
| **As of 31 March 2014 (unaudited)** | | **103,363** | **(82,734)** | **23,027** | **43,656** | **1** | **43,657** |

*The accompanying notes are an integral part of these interim condensed consolidated financial statements.*

# T2 RTK Holding LLC

## Interim condensed consolidated statement of cash flows

*(In millions of Russian rubles)*

| | Note | Three months ended 31 March 2015 (Unaudited) | Three months ended 31 March 2014 (Unaudited) |
|---|---|---|---|
| **Operating activities** | | | |
| **Profit/(loss) before income tax expense** | | **(2,353)** | **3,069** |
| *Adjusted:* | | | |
| Depreciation | | 3,076 | 1,121 |
| Amortization | | 1,882 | 397 |
| Finance expense | | 2,684 | 727 |
| Finance income | | (44) | (39) |
| Foreign exchange loss, net | | 169 | 854 |
| (Gain)/loss on disposal of non-current assets | | 24 | (3) |
| **Cash flows from operations before changes in working capital** | | **5,438** | **6,126** |
| (Increase)/decrease in inventory | | 141 | (26) |
| Decrease in trade and other receivables | | 443 | 177 |
| Increase in current non-financial assets | | (638) | (42) |
| Decrease in trade and other payables | | (1,886) | (681) |
| Decrease in current non-financial liabilities | | (1,026) | (538) |
| Income tax paid | | (935) | (1,086) |
| Interest paid, net of interest capitalized in amount of 200 | | (1,873) | (700) |
| **Net cash flows from operating activities** | | **(336)** | **3,230** |
| **Investing activities** | | | |
| Purchase of property,equipment and intangible assests | | (9,912) | (1,529) |
| Proceeds from sale of property,equipment and intangible assets | | 84 | 2 |
| Interest income received | | 44 | 39 |
| Cash acquired as a result of acquisition of subsidiaries | 3 | – | 568 |
| **Net cash flows used in investing activities** | | **(9,784)** | **(920)** |
| **Financing activities** | | | |
| Proceeds from loans and borrowings | 8 | 14,877 | 10,002 |
| Repayment of loans and borrowings | 8 | (5,402) | (19,753) |
| Other financial charges | | (103) | (27) |
| **Net cash flows received from/(used in) financing activities** | | **9,372** | **(9,778)** |
| **Net decrease in cash and cash equivalents** | | **(748)** | **(7,468)** |
| **Cash and cash equivalents at beginning of the period** | | **3,637** | **9,097** |
| Net foreign exchange difference | | 33 | 252 |
| **Cash and cash equivalents at end of the period** | | **2,922** | **1,881** |

*The accompanying notes are an integral part of these interim condensed consolidated financial statements.*

## 1. Corporate information

On 18 July 2013 Tele2 Russia Holding AB (Sweden) established a limited liability company "T2 Rus Holding" ("Tele2", the "Company", together with its subsidiaries referred to as the "Group"), a company incorporated under the laws of the Russian Federation ("Russia") and registered in the Unified State Register of Legal Entities under number 1137746610430, as a holding entity for the Group's businesses. The registered office of the Company is at building 1, 39A, Leningradskoe shosse, Moscow, 119017, Russian Federation.

On 28 March 2014 the Company was renamed to limited liability company "T2 RTK Holding".

The Group operating under Tele2 brand is a wireless telecommunication provider in Russia and renders a broad range of voice, data and other telecommunication services to retail customers, businesses, government clients and other telecommunications services providers.

As of 31 March 2015 the Group is controlled by T2 Netherlands B.V., an ultimate parent of the Group, whose capital is held by OJSC VTB Bank (50%), INVINTEL B.V. (40%) and ABR Investments B.V. (10%).

## 2. Basis of preparation and significant accoutning policies

### Basis of preparation

The interim condensed consolidated financial statements for the three months ended 31 March 2015 have been prepared in accordance with IAS 34 *Interim Financial Reporting*.

The interim condensed consolidated financial statements do not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's annual IFRS consolidated financial statements as at 31 December 2014.

The interim condensed consolidated financial statements are presented in millions of Russian rubles.

The interim condensed consolidated financial statements were authorised for issue by the Company's Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO") on 8 June 2015.

### Seasonality

The Company's services are impacted by seasonal trends throughout the year. Higher revenues and operating profits are usually expected in the second half of the year rather than in the first six months. This information is provided to allow for a better understanding of the results, however management has concluded that this seasonal pattern does not constitute 'highly seasonal' as defined by IAS 34.

### Functional and presentation currency

The interim condensed consolidated financial statements are presented in Russian rubles (hereinafter "RUB"), which is the functional currency of all Group entities and the presentation currency of the Group.

## 2. Basis of preparation and significant accoutning policies (continued)

### Income tax expense

Income tax in the interim periods is accrued using the effective tax rate that would be applicable to expected total annual earnings.

### Significant accouting policies

The accounting policies and methods of computation applied in the preparation of these interim condensed consolidated financial statements are consistent with those disclosed in the annual consolidated financial statements of the Group for the year ended 31 December 2014.

The Group adopted new standards and interpretations listed below which are applicable to annual periods beginning on or after 1 January 2015. The adoption did not have any impact on these financial statements.

***Defined Benefit Plans: Employee Contributions (Amendments to IAS 19)***

IAS 19 requires an entity to consider contributions from employees or third parties when accounting for defined benefit plans. Where the contributions are linked to service, they should be attributed to periods of service as a negative benefit. These amendments clarify that, if the amount of the contributions is independent of the number of years of service, an entity is permitted to recognise such contributions as a reduction in the service cost in the period in which the service is rendered, instead of allocating the contributions to the periods of service. This amendment is effective for annual periods beginning on or after 1 July 2014.

***IFRS 2 Share-based Payment***

This improvement is applied prospectively and clarifies various issues relating to the definitions of performance and service conditions which are vesting conditions, including:

- A performance condition must contain a service condition.
- A performance target must be met while the counterparty is rendering service.
- A performance target may relate to the operations or activities of an entity, or to those of another entity in the same group.
- A performance condition may be a market or non-market condition.
- If the counterparty, regardless of the reason, ceases to provide service during the vesting period, the service condition is not satisfied.

***IFRS 3 Business Combinations***

The amendment is applied prospectively and clarifies that all contingent consideration arrangements classified as liabilities (or assets) arising from a business combination should be subsequently measured at fair value through profit or loss whether or not they fall within the scope of IFRS 9 (or IAS 39, as applicable).

The amendment is applied prospectively and clarifies for the scope exceptions within IFRS 3 that:

- Joint arrangements, not just joint ventures, are outside the scope of IFRS 3.
- This scope exception applies only to the accounting in the financial statements of the joint arrangement itself.

## 2. Basis of preparation and significant accoutning policies (continued)

**Significant accouting policies (continued)**

***IFRS 8 Operating Segments***

The amendments are applied retrospectively and clarify that:

- An entity must disclose the judgements made by management in applying the aggregation criteria in paragraph 12 of IFRS 8, including a brief description of operating segments that have been aggregated and the economic characteristics (e.g., sales and gross margins) used to assess whether the segments are 'similar'.
- The reconciliation of segment assets to total assets is only required to be disclosed if the reconciliation is reported to the chief operating decision maker, similar to the required disclosure for segment liabilities.

***IAS 16 Property, Plant and Equipment and IAS 38 Intangible Assets***

The amendment is applied retrospectively and clarifies in IAS 16 and IAS 38 that the asset may be revalued by reference to observable data by either adjusting the gross carrying amount of the asset to market value or by determining the market value of the carrying value and adjusting the gross carrying amount proportionately so that the resulting carrying amount equals the market value. In addition, the accumulated depreciation or amortisation is the difference between the gross and carrying amounts of the asset.

***IAS 24 Related Party Disclosures***

The amendment is applied retrospectively and clarifies that a management entity (an entity that provides key management personnel services) is a related party subject to the related party disclosures. In addition, an entity that uses a management entity is required to disclose the expenses incurred for management services.

***IFRS 13 Fair Value Measurement***

The amendment is applied prospectively and clarifies that the portfolio exception in IFRS 13 can be applied not only to financial assets and financial liabilities, but also to other contracts within the scope of IFRS 9 (or IAS 39, as applicable).

***IAS 40 Investment Property***

The description of ancillary services in IAS 40 differentiates between investment property and owner-occupied property (i.e., property, plant and equipment). The amendment is applied prospectively and clarifies that IFRS 3, and not the description of ancillary services in IAS 40, is used to determine if the transaction is the purchase of an asset or a business combination.

## 2. Basis of preparation and significant accoutning policies (continued)

### Working capital deficit

As at 31 March 2015 the Group has negative working capital of approximately RUB 40 billion (31 December 2014: RUB 31.6 billion). In February and March 2015, the Group has entered into new long-term loans agreements with VTB Bank, a related party, totalling approximately RUB 35.9 billion, out of which the Group has borrowed RUR 10 billion as of the date these financial statements were available to be issued. In addition, the Group is negotiating loan agreements with VTB Bank for the total amount of approximately RUR 12.6 billion. The RUB 25.9 billion of undrawn credit facilities together with the new loans, expected to be obtained from VTB Bank, and planned operating cash inflow will allow the Group to repay its current obligations as they become due. Further, the Group believes it can defer planned capital expenditures, if necessary, in order to meet short-term liquidity requirements.

## 3. Business combinations and goodwill

On 6 February 2014, the Group entered into a framework agreement with Open Joint-Stock Company Long-Distance and International Telecommunications “Rostelecom” (hereinafter “Rostelecom”) to purchase certain mobile business subsidiaries and assets (“Agreement”).

The Agreement provides for two-stage transaction. At the first stage, Rostelecom contrbutes standalone mobile subsidiaries and telecommunication equipment in exchange for 26% economic interest in T2 RTK Holding LLC and a cash consideration of 314. At the second stage, Rostelecom contributes 100% of shares of CJSC RT-Mobile in exchange for additional 19% economic interest in T2 RTK Holding LLC. The main reasons for the acquisitions of standalone mobile subsidiaries of Rostelecom and CJSC RT-Mobile were to expand the operations of the Group by obtaining access to the new regions, including Moscow region, and obtaining operating licenses.

On 28 March 2014 Rostelecom and the Group completed the first stage. Rostelecom contributed the following standalone mobile subsidiaries to the Group in exchange of 26% economic interests in T2 RTK Holding LLC and a cash consideration of 314:

- Akos CJSC;
- Apeks OJSC;
- Astarta CJSC;
- Baikalwestcom CJSC;
- BIT CJSC;
- Delta telecom CJSC;
- Kaliningradskie Mobilnie Seti OJSC;
- Moskovskaya sotovaya svyaz OJSC;
- MS-Direct CJSC;
- NSS CJSC;
- Pilar LLC;
- Saratovskaya sistema sotovoy svyazy CJSC;
- Skay-1800 CJSC;
- Sky Link CJSC;
- Uralwestcom CJSC;
- Volgograd-GSM CJSC;
- Yenisey telecom CJSC.

## 3. Business combinations and goodwill (continued)

As part of this business combination, Rostelecom has contributed to T2 RTK Holding LLC certain telecommunication equipment in total amount of 8,804.

T2 RTK Holding LLC charter capital was increased by 26,874 to reflect 26% economic interest given up to Rostelecom.

The first stage was accounted for as a business combination.

The acquired net assets of the businesses acquired recognised in the Group's consolidated financial statements were based on an assessment of their fair value. The amounts of fair value of the net assets as of the acquisition date are presented below:

| | **Amounts as at 28 March 2014** |
|---|---|
| **Assets** | |
| Property and equipment | 43,622 |
| Intangible assets | 25,366 |
| Investments in associates | 4 |
| Loans issued | 90 |
| Deferred tax assets | 3,654 |
| Trade and other receivables | 271 |
| Current non-financial assets | 2,072 |
| Cash and cash equivalents | 567 |
| Prepaid expenses | 640 |
| | **76,286** |
| **Liabilites** | |
| Interest-bearing loans and borrowings | 33,652 |
| Deferred tax liability | 6,220 |
| Other non-current liabilities | 46 |
| Dividends payable | 7,000 |
| Trade and other payables | 4,967 |
| Current non-financial liabilities | 1,635 |
| Other liabilities | 1,271 |
| | **54,791** |
| **Total identifiable net assets at fair value** | **21,495** |
| Non-controlling interest at acquisition date measured at the proportionate share of the net assets | 1 |
| Goodwill arising on acquisition | 20,280 |
| Purchase consideration (26% economic interest in the Group and cash consideration of 314) | 41,776 |

Gross amount of trade and other receivables as of the date of acquisition amounted to 700.

The Group has elected to measure the non-controlling interest as a proportionate share of the net assets of Akos CJSC and Apeks OJSC (the only subsidiaries with non-controlling interest).

The goodwill recognised is attributable primarily to expected synergies from the acquisition.

On 5 August 2014, the Group completed the second stage of the transaction. Rostelecom contributed 100% of shares of CJSC RT-Mobile to the Group in exchange for 19% of charter capital of T2 RTK Holding LLC. The charter capital of T2 RTK Holding LLC was increased by 35,708 to reflect increase of economic interest of Rostelecom by 19% to 45%.

### 3. Business combinations and goodwill (continued)

The acquired net assets of CJSC RT-Mobile recognised in the Group's consolidated financial statements were based on a provisional assessment of their fair value. The provisional amounts of fair value of the net assets as of the acquisition date are presented below:

| | Provisional amounts (updated) as at 5 August 2014 |
|---|---|
| **Assets** | |
| Property and equipment | 31,339 |
| Intangible assets | 32,952 |
| Deferred tax assets | 581 |
| Trade and other receivables | 3,067 |
| Inventories | 211 |
| Income tax receivable | 233 |
| Cash and cash equivalents | 1,061 |
| | **69,444** |
| **Liabilities** | |
| Deferred tax liability | 6,662 |
| Trade and other payables | 8,943 |
| Income tax payable | 72 |
| Current non-financial liabilities | 3,242 |
| Other liabilities | 5,206 |
| | **24,125** |
| **Total identifiable net assets at fair value** | **45,319** |
| Goodwill arising on acquisition | 9,826 |
| Purchase consideration (19% economic interest in the Group) | 55,145 |

Gross amount of trade and other receivables as of the date of acquisition amounted to 3,067.

The net assets recognised in the financial statements as at 31 December 2014 were based on a provisional assessment of their fair value. In March 2015, the assessment was updated. As a result, the amount of property and equipment as at the acquisition date was decreased by 120, deferred tax liability was decreased by 2,300, the amount of trade and other payables was increased by 1,276 with a corresponding decrease of goodwill by 904. The 2014 comparative information was restated to reflect the adjustment to the provisional amounts.

The management estimated the fair value of consideration transferred at the first and second stages of the transaction using cash flow projections (DCF) from financial budgets approved by senior management. The cash flows employed in the DCF analysis are based on the Group's most recent budget and, for the years beyond the budget, on the Group's estimates which are based on the assumed growth rates.

*Impairment testing of goodwill*

The Group performed its annual impairment test in December 2014. As a result of the annual test, no impairment of goodwill was identified in 2014. The Group's impairment test for goodwill is based on fair value less costs to sell (Level 3). The key assumptions used to determine the recoverable amount for the cash generating unit were disclosed in the annual consolidated financial statements for the year ended 31 December 2014. As at 31 March 2015, the Group has not identified any impairment indications.

## 4. Sales and marketing expenses

Sales and marketing expenses for the three months ended 31 March are as follows:

| | 2015 | 2014 |
|---|---|---|
| Dealer commissions for connection of new subscribers | 2,320 | 1,018 |
| Advertising | 650 | 455 |
| Cash collection commissions | 221 | 129 |
| **Total sales and marketing expenses** | **3,191** | **1,602** |

## 5. General and administrative expenses

General and administrative expenses the three months ended 31 March are as follows:

| | 2015 | 2014 |
|---|---|---|
| Employee benefits and related social charges | 1,044 | 454 |
| Rent | 267 | 110 |
| Operating taxes | 199 | 127 |
| Professional services | 196 | 110 |
| Office maintenance | 46 | 23 |
| Other expenses | 201 | 100 |
| **Total general and administrative expenses** | **1,953** | **924** |

## 6. Income tax expense

The following presents the significant components of income tax expense of the Group for the three months ended 31 March:

| | 2015 | 2014 |
|---|---|---|
| Current income tax expense | 738 | 1,042 |
| Deferred income tax benefit | (822) | (407) |
| **Income tax expense/(benefit) reported in the interim condensed consolidated statement of comprehensive income** | **(84)** | **635** |

## 7. Property and equipment

During the three months ended 31 March 2015, the Group acquired assets with a cost of 5,331 (31 March 2014: 43,338). Assets with a net book value of 108 were disposed of by the Group during the three months ended 31 March 2015 (31 March 2014: 179), resulting in a net loss on disposal of 24 (31 March 2014: 3). Interest capitalized for the three months ended 31 March 2015 was 250 (31 March 2014: nil).

## 8. Financial instruments

### Financial assets

Current and non-current financial assets are as follows:

| | 31 March 2015 | 31 December 2014 |
|---|---|---|
| Loans issued | 90 | 90 |
| **Total non-current financial assets** | **90** | **90** |
| Trade and other receivables | 5,992 | 6,435 |
| Cash and cash equivalents | 2,922 | 3,637 |
| **Total current financial assets** | **8,914** | **10,072** |
| **Total non-current and current financial assets** | **9,004** | **10,162** |

### Financial liabilities

Current and non-current financial liabilities are as follows:

| | 31 March 2015 | 31 December 2014 |
|---|---|---|
| Trade and other payables | 18,030 | 21,723 |
| Interest-bearing loans and borrowings | 81,703 | 71,841 |
| Other non-current financial liabilities (finance lease) | 8,070 | 7,785 |
| Other current financial liabilities | 1,008 | 1,028 |
| **Total financial liabilities** | **108,811** | **102,377** |

No collateral is provided for interest-bearing financial liabilities.

### Loans and borrowings

Principal amounts outstanding under loans and borrowings are as follows:

| | | | | 31 March 2015 | | | 31 December 2014 | | |
|---|---|---|---|---|---|---|---|---|---|
| | Currency | Nominal interest rate | Maturity | Interest | Short-term | Long-term | Interest | Short-term | Long-term |
| Ruble Bonds | RUB | 8.4%-9.1% | 2015-2016 | 556 | 6,000 | 12,973 | 153 | 6,000 | 12,963 |
| Bank Rossiya | RUB | 20% | November 2015 – June 2017 | – | 6,875 | 3,125 | – | 5,000 | 5,000 |
| VTB Bank OJSC | RUB | 22.25% | January 2016 | 41 | 4,467 | – | – | – | – |
| | RUB | MOSPRIME + 1.6% | March 2015 | – | – | – | 35 | 5,000 | – |
| | RUB | MOSPRIME + 2.5% | April 2019 | 190 | – | 22,860 | 147 | – | 22,851 |
| | RUB | 3m USD LIBOR + 9.55% | April 2019 | – | – | 9,939 | – | – | 9,935 |
| | RUB | Key rate of Central Bank of Russia + 2.5% | March 2016 | 66 | 9,978 | – | – | – | – |
| Gazprombank OJSC | RUB | 18%-20% | November 2016 | 1 | – | 464 | 1 | – | 464 |
| Sberbank OJSC | RUB | 8.5%-11.9% | July 2015 – January 2017 | 8 | 2,094 | 1,576 | 8 | 2,350 | 1,817 |
| Other loans | | | | 3 | 227 | 260 | – | 6 | 110 |
| **Total principal amount** | | | | **–** | **29,641** | **51,197** | **–** | **18,356** | **53,140** |
| **Accrued interest payable** | | | | **865** | **–** | **–** | **344** | **–** | **–** |
| **Total loans and borrowings** | | | | **865** | **29,641** | **51,197** | **344** | **18,356** | **53,140** |

## 8. Financial instruments (continued)

### Loans and borrowings (continued)

In February 2014, the Group entered into a ruble denominated credit line facility agreement with Bank Rossiya, a related party, in amount of RUB 5 billion and bearing 9.25% interest maturing in March 2015. In February 2015, the maturity period was extended to November 2015.

In March 2014, the Group entered into a loan agreement with VTB Bank, a related party, for the amount of RUB 5 billion and bearing 3 months MOSPRIME + 1.6% interest maturing in April 2015. The loan was fully repaid by the Group in March 2015.

In April 2014, the Group entered into a ruble denominated credit line facility agreement with VTB Bank, a related party, in amount of RUB 23 billion and bearing 3 months MOSPRIME + 2.5% interest maturing in April 2017.

In April 2014, the Group entered into a ruble denominated credit line facility agreement with VTB Bank, a related party, in amount of RUB 10 billion and bearing 3 month LIBOR + 9.55% interest maturing in April 2017.

In June 2014, the Group entered into a ruble denominated credit line facility agreement with Bank Rossiya, a related party, in amount of RUB 5 billion and bearing 10.5% interest maturing in June 2017.

In January 2015, the Group entered into a loan agreement with VTB Bank, a related party, for the amount of RUB 4.5 billion and bearing 22.25% interest, maturing in January 2016. Subsequent to 31 March 2015, the Group has borrowed the full amount under this agreement.

In February 2015, the Group entered into a loan agreement with VTB Bank, a related party, for the amount of RUB 15.9 billion and bearing interest of Central Bank of Russia rate of refinancing + 2.5%, maturing in February 2020. The purpose of the loan to financeconstruction of telecommunication network in Moscow region and to cover working capital deficit of the Group. As at the date of these financial statements were abailable to be issued, the Group has not drawn down any amounts under this agreement.

In March 2015, the Group entered into a ruble denominated credit line facility agreement with VTB Bank, a related party, for the amount of RUB 20 billion. Intrerest rate will be defined for each tranche separately and can be variable − based on 3 months MOSPRIME plus maximum 4% or key rate of Central Bank of Russia plus maximum 5%, or fixed − up to 22%, maturing not later than in March 2020. As at 31 March 2015, the Group has borrowed RUB 10 billion under this agreement at interest rate of key rate of Central Bank of Russia plus 2%. Subsequent to 31 March 2015, the Group has borrowed RUB 5.6 billion under this agreement at 15.75% interest, maturing in October 2015.

As at 31 March 2015 the Group did not meet certain financial covenants requirements under the loan agreements with Sberbank and the respective liability in the amount of 1,090 (31 December 2014: 971) was classified as short-term in these financial statements.

## 8. Financial instruments (continued)

### Fair values and fair value hierarchy

Set out below is a comparison by class of the carrying amounts and fair values of the Group's financial instruments that are carried in the financial statements.

| | Carrying amount | | Fair value | |
|---|---|---|---|---|
| | 31 March 2015 | 31 December 2014 | 31 March 2015 | 31 December 2014 |
| *Level 1* | | | | |
| **Financial liabilities** | | | | |
| Non-current interest-bearing loans and borrowings (ruble bonds) | 12,973 | 12,963 | 12,124 | 11,744 |
| Current interest-bearing loans and borrowings (ruble bonds) | 6,000 | 6,000 | 5,983 | 5,912 |
| **Total** | **18,973** | **18,963** | **18,107** | **17,656** |
| *Level 3* | | | | |
| **Financial assets** | | | | |
| Loans issued | 90 | 90 | 90 | 90 |
| **Total financial assets** | **90** | **90** | **90** | **90** |
| *Level 3* | | | | |
| **Financial liabilities** | | | | |
| Non-current interest-bearing loans and borrowings | 38,224 | 40,177 | 34,567 | 40,177 |
| Current interest-bearing loans and borrowings | 24,506 | 12,700 | 30,133 | 12,700 |
| Finance lease − non-current portion | 8,011 | 7,726 | 6,195 | 7,726 |
| Other non-current financial liabilities | 59 | 59 | 59 | 59 |
| **Total financial liabilities** | **70,800** | **60,662** | **70,954** | **60,662** |

All financial instruments for which fair value is recognised or disclosed are categorised within the fair value hierarchy, based on the lowest level input that is significant to the fair value measurement as a whole, as follows:

- Level 1 − Quoted (unadjusted) market prices in active markets for identical assets or liabilities.
- Level 2 − Valuation techniques for which the lowest level input that is significant to the fair value measurementis directly or indirectly observable.
- Level 3 − Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

Management has determined that cash and cash equivalents, trade and other receivables, trade and other payables and other financial liabilities approximate their carrying amounts largely due to the short-term maturities of certain instruments.

The fair value of the financial assets and liabilities is included at the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. The following methods and assumptions were used to estimate the fair values:

- Fair value of bonds is based on price quotations at the reporting date. The fair value of unquoted instruments, loans from banks and other financial liabilities, obligations under finance leases, as well as other non-current financial liabilities is estimated by discounting future cash flows using rates currently available for debt on similar terms, credit risk and remaining maturities.

## 9. Cash and cash equivalents

Cash and cash equivalents are as follows:

| | 31 March 2015 | 31 December 2014 |
|---|---|---|
| **Cash and bank balances** | | |
| Rubles | 1,090 | 2,639 |
| US dollars | 20 | 23 |
| Euros | 50 | 464 |
| **Short-term bank deposits** | | |
| Rubles | 1,762 | 511 |
| **Total cash and cash equivalents** | **2,922** | **3,637** |

As at 31 March 2015, the Group had RUB 2.7 billion (31 December 2015: 3.3 billion) of cash and cash equivalents with VTB Bank, a related party (Note 11).

## 10. Commitments, contingencies and uncertainties

### Russian operating environment

Russia continues economic reforms and development of its legal, tax and regulatory frameworks as required by a market economy. The future stability of the Russian economy is largely dependent upon these reforms and developments and the effectiveness of economic, financial and monetary measures undertaken by the government.

In 2015, the Russian economy continued to be negatively impacted by a significant drop in crude oil prices and a significant devaluation of the Russian ruble, as well as sanctions imposed on Russia by several countries in 2014. The ruble interest rates remained high after the Central Bank of Russia raised its key rate in December 2014, with subsequent gradual decrease in 2015. The combination of the above resulted in reduced access to capital, a higher cost of capital, increased inflation and uncertainty regarding economic growth, which could negatively affect the Group's future financial position, results of operations and business prospects. Management believes it is taking appropriate measures to support the sustainability of the Group's business in the current circumstances.

On 20 March 2014, US has imposed certain sanctions on Russian persons and entities. In particular, sanctions have been placed upon Bank Rossiya, a shareholder of the Group.

On 29 July 2014, the Office of Foreign Assets Control (OFAC) of the US Department of the Treasury included OJSC VTB Bank, a shareholder of the Group, into Sectoral Sanctions Identifications List hereby prohibiting transacting in, providing financing for, or otherwise dealing in new debt of longer than 90 days maturity or new equity, their property, or their interests in property for U.S. persons or within the United States.

On 12 September 2014, the EU included OJSC VTB Bank, a shareholder of the Group, into the list of sanctioned entities prohibiting EU registered entities and individuals to purchase and sell any financial instruments with a maturity exceeding 30 days issued by the entities included in the list after 12 September 2014.

These and any further restrictive measures by the EU and the US and other countries may adversely impact results and the financial position of the Group in a manner not currently quantifiable. Management believes it is taking appropriate measures to support the sustainability of the Group's business in the current circumstances.

## 10. Commitments, contingencies and uncertainties (continued)

### Taxation

Russian tax, currency and customs legislation is subject to varying interpretations, and changes, which can occur frequently. Management's interpretation of such legislation as applied to the transactions and activity of the Group may be challenged by the relevant regional and federal authorities. Recent events within the Russian Federation suggest that the tax authorities are taking more assertive positions in their interpretations of the legislation and assessments and as a result, it is possible that transactions and activities that have not been challenged in the past may be challenged. As such, significant additional taxes, penalties and interest may be assessed. Fiscal periods remain open to review by the authorities in respect of taxes for three calendar years preceding the year of review. Under certain circumstances reviews may cover longer periods.

The Group's management believes that its interpretation of the relevant legislation is appropriate and is in accordance with the current industry practice and that the Group's tax, currency and customs positions will be sustained. However, the interpretations of the relevant authorities could differ. As of 31 March 2015, the Group's management estimated the possible effect of operating taxes, including fines and interest, on these interim condensed consolidated financial statements, if the authorities were successful in enforcing different interpretations, in the amount of up to approximately RUB 3.4 billion.

*Transfer pricing legislation*

The new Russian transfer pricing legislation, which came into force on 1 January 2012, allows the Russian tax authorities to apply transfer pricing adjustments and impose additional profits tax liabilities in respect of all "controlled" transactions if the transaction price differs from the market level of prices. The list of "controlled" transactions includes transactions performed with related parties and certain types of cross-border transactions. For domestic transactions the transfer pricing rules apply only if the amount of all the transactions with each related party exceeds 1,000 in 2015-2014 (2,000 in 2013). In cases where a domestic transaction resulted in an accrual of additional tax liabilities for one party, another party could correspondingly adjust its profit tax liabilities based on a special notification issued by an authorised body in due course.

The current Russian transfer pricing rules have considerably increased the compliance burden for taxpayers compared to the transfer pricing rules which were in effect before 2012 due to, inter alia, shifting the burden of proof from the Russian tax authorities to the taxpayers. These rules are applicable not only to the transactions which took place in 2015-2014, 2013 and 2012 but also to the prior transactions with related parties if related income and expenses were recognised in 2015, 2014 and 2013. Special transfer pricing rules apply to transactions with securities and derivatives.

Because of the lack of clarity in current Russian transfer pricing legislation and the absence of court precedent, the Russian tax authorities may challenge the level of prices applied by the Group under "controlled" transactions and accrue additional tax liabilities unless the Group is able to demonstrate the use of market prices with respect to the "controlled" transactions, and that there has been proper reporting to the Russian tax authorities, supported by appropriate available transfer pricing documentation.

### Litigation

The Group is not a party to any material litigation, although in the ordinary course of business, some of the Group's subsidiaries may be party to various legal and tax proceedings, and subject to claims, certain of which relate to the developing markets and evolving fiscal and regulatory environment in Russia. In the opinion of management, the Group's and its subsidiaries' liability, if any, in all pending litigation, other legal proceedings or other matters, will not have a material effect on the financial condition, results of operations or liquidity of the Group.

## 11. Related parties

Related parties include the immediate parent and the ultimate parent of the Group, parties with significant influence over the Group, key management, entities under common ownership and control.

As of 31 March 2015 the Group is controlled by T2 Netherlands B.V., an ultimate parent of the Group, whose capital is held by OJSC VTB Bank (50%), INVINTEL B.V. (40%) and ABR Investments B.V. (10%), however there is no ultimate controlling party (Note 1).

The government of the Russian Federation has a significant influence on the Group as it is the ultimate controlling party of the VTB Group and Rostelecom. The other entities which are controlled or are under significant influence executed by the Government of the Russian Federation ("the Government"), including Rostelecom, are also considered related parties to the Group.

The nature of the related party relationships for those related parties with whom the Group entered into significant transactions in three months ended 31 March 2015 and 2014 or had significant balances outstanding at 31 March 2015 and 31 December 2014 are detailed below.

The amounts of receivables and payables due from and to the related parties were as follows:

| | | 31 March 2015 | 31 December 2014 |
|---|---|---|---|
| **Significant influence** | | | |
| VTB Group | Loans | 47,541 | 37,786 |
| | Cash and cash equivalents | 2,677 | 3,392 |
| Bank Rossiya OJSC | Loans | 10,000 | 10,000 |
| | Cash and cash equivalents | – | 60 |
| Rostelecom* | Receivables | 1,581 | 233 |
| | Payables | 1,799 | 2,759 |
| | Other non-current financial liabilities | 6,871 | 6,687 |
| Westelcom | Loans issued | 90 | 90 |
| **Relationship through the Government** | | | |
| Gazprombank | Loans | 464 | 464 |
| | Cash and cash equivalents | 22 | 16 |
| Sberbank OJSC | Receivables | 81 | 56 |
| | Loans | 3,670 | 4,167 |
| | Payables | 40 | 42 |
| | Cash and cash equivalents | – | 1 |
| Svyaz-Bank OJSC | Loans | 260 | 110 |
| | Cash and cash equivalents | 6 | 46 |
| Russian Post | Receivables | 30 | 50 |
| | Payables | 9 | 13 |

## 11. Related parties (continued)

The amounts of revenues and expenses from the related parties for the three months ended 31 March were as follows:

| | | Three months ended 31 March 2015 | Three months ended 31 March 2014 |
|---|---|---|---|
| **Significant influence** | | | |
| VTB Group | Financial expenses | 1,621 | 162 |
| Bank Rossiya OJSC | Financial expenses | 443 | – |
| Rostelecom* | Revenue | 434 | 634 |
| | Expenses | (1,111) | (673) |
| **Relationship through the Government** | | | |
| Gazprom Group | Financial expenses | (1) | – |
| Sberbank OJSC | Financial expenses | (59) | – |

* Since April 2013, when the controlling interest in the Group was acquired by VTB (decreased then to interest providing significant influence), Rostelecom became a related party of the Group (relationship through the Government, as the Government is the ultimate controlling party of Rostelecom). Since March 2014, Rostelecom became a shareholder of the Company (Note 3) and exercises a significant influence over the Group.

*Terms and conditions of transactions with related parties*

Outstanding balances as at 31 March 2015 and 31 December 2014 are unsecured. There have been no guarantees provided or received for any related party receivables or payables. As of 31 March 2015 and 31 December 2014, the Group had not recorded any impairment of receivables relating to amounts owed by related parties. This assessment is undertaken each reporting period by examining the financial position of the related party and the market in which the related party operates.

*Compensation to key management personnel*

The amounts recognised as employee benefits expense to key management personnel of the Group for the three months ended 31 March 2015 amounted to 102 (31 March 2014: 138).

## 12. Events after the reporting date

In April 2015, the Group has borrowed RUB 5.6 billion as part of credit line facility agreement with VTB Bank, a related party, bearing 15.75% interest, maturing in October 2015.

In April 2015, the Group has borrowed RUB 510 million as part of credit line facility agreement with VTB Bank, a related party, bearing 11.5% interest, maturing in February 2025.

In April 2015, the Group has made a buy-back of part of short-term portion of ruble bonds in the amount of RUB 134 million (Note 8).

In May 2015, the Group has entered into a euro denominated credit line facility agreement with VTB Bank, a related party, for the amount of approximately RUB 5.4 billion (97,500,000 euro), bearing interest of key rate of Central Bank of Russia plus 3%, maturing in November 2021. The purpose of the loan is to finance purchase of equipment and software produced by Nokia Siemens Networks OY, as well as construction and installation works with respect to this equipment. As at the date of these financial statements were abailable to be issued, the Group has not drawn down any amounts under this agreement.

## 12. Events after the reporting date (continued)

In May 2015, the Group has entered into a euro denominated credit line facility agreement with VTB Bank, a related party, for the amount of approximately RUB 7.2 billion (131,501,374 euro), bearing interest of key rate of Central Bank of Russia plus 3.21%, maturing in November 2021. The purpose of the loan is to finance purchase of equipment and software produced by Ericsson AB, as well as construction and installation works with respect to this equipment. As at the date of these financial statements were abailable to be issued, the Group has not drawn down any amounts under this agreement.