



**T2 RTK Holding LLC**

Interim condensed consolidated financial statements  
(unaudited)

*For the six months ended 30 June 2015*

# T2 RTK Holding LLC

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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 financial statements of T2 RTK Holding LLC and its subsidiaries (the "Group"), comprising the interim consolidated statement of financial position as at 30 June 2015 and the related interim condensed consolidated statements of comprehensive income for the three and six-month periods then ended, the related interim condensed consolidated statements of changes in equity and cash flows for the six-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 International Financial Reporting Standard IAS 34, *Interim Financial Reporting* ("IAS 34"). 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.



14 September 2015

Moscow, Russia

## T2 RTK Holding LLC

### Interim condensed consolidated statement of comprehensive income

*(In millions of Russian rubles)*

	Six months ended 30 June 2015	Six months ended 30 June 2014	Three months ended 30 June 2015	Three months ended 30 June 2014
Note	(Unaudited)	(Unaudited)*	(Unaudited)	(Unaudited)*
<b>Revenue</b>				
Wireless services	46,661	37,532	23,562	22,000
<b>Operating income and expenses</b>				
Cost of services	(24,414)	(17,849)	(11,794)	(10,899)
Sales and marketing expenses	4 (6,621)	(4,529)	(3,431)	(2,927)
General and administrative expenses	5 (3,643)	(2,660)	(1,690)	(1,736)
Loss on disposal of non-current assets	(28)	(32)	(4)	(35)
Depreciation	(6,493)	(3,680)	(3,417)	(2,559)
Amortization	(3,473)	(2,399)	(1,591)	(2,002)
Other operating expenses	(635)	(15)	–	(15)
Other operating income	1,218	379	650	309
<b>Total operating expenses, net</b>	<b>(44,089)</b>	<b>(30,785)</b>	<b>(21,277)</b>	<b>(19,864)</b>
<b>Operating profit</b>	<b>2,572</b>	<b>6,747</b>	<b>2,285</b>	<b>2,136</b>
Finance income	38	97	–	57
Finance expense	(5,481)	(2,657)	(2,802)	(1,929)
Net gain on financial instruments at fair value through profit or loss	311	–	311	–
Foreign exchange loss on loans in foreign currency, net	–	(854)	–	–
<b>Profit before income tax expense</b>	<b>(2,560)</b>	<b>3,333</b>	<b>(206)</b>	<b>264</b>
Income tax (expense)/benefit	6 385	(985)	301	(350)
<b>Net profit/(loss) for the period being total comprehensive income/(loss) for the period</b>	<b>(2,175)</b>	<b>2,348</b>	<b>95</b>	<b>(86)</b>

\* Certain amounts do not correspond to the consolidated statement of comprehensive income for the three and six months ended 30 June 2014 and reflect reclassifications as detailed in Note 2.

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	30 June 2015 (Unaudited)	31 December 2014*
<b>Assets</b>			
<b>Non-current assets</b>			
Property and equipment	7	110,991	106,483
Intangible assets other than goodwill		63,788	62,478
Goodwill	3	30,020	30,020
Loans issued	8	90	90
Deferred tax assets		1,354	5,802
<b>Total non-current assets</b>		<b>206,243</b>	<b>204,873</b>
<b>Current assets</b>			
Inventories		478	619
Financial assets at fair value through profit and loss	8	489	–
Trade and other receivables	8	6,282	6,435
VAT receivable		2,691	1,960
Prepaid expenses		1,790	1,637
Income tax receivable		2,266	1,655
Cash and cash equivalents	9	2,400	3,637
<b>Total current assets</b>		<b>16,396</b>	<b>15,943</b>
<b>Assets classified as held for sale</b>		<b>16</b>	<b>16</b>
<b>Total assets</b>		<b>222,655</b>	<b>220,832</b>
<b>Equity and liabilities</b>			
<b>Equity</b>			
Equity attributable to participants		95,394	97,654
Non-controlling interest		(3)	(13)
<b>Total equity</b>		<b>95,391</b>	<b>97,641</b>
<b>Non-current liabilities</b>			
Interest-bearing loans and borrowings	8	39,738	53,140
Other non-current financial liabilities	8	7,413	7,785
Provisions		1,378	1,478
Deferred tax liabilities		6,947	12,894
<b>Total non-current liabilities</b>		<b>55,476</b>	<b>75,297</b>
<b>Current liabilities</b>			
Interest-bearing loans and borrowings	8	48,766	18,700
Trade and other payables	8	15,525	21,730
Advances from customers		2,923	4,262
VAT payable		2,319	1,665
Income tax payable		258	397
Other current non-financial liabilities		85	112
Other current financial liabilities	8	1,912	1,028
<b>Total current liabilities</b>		<b>71,788</b>	<b>47,894</b>
<b>Total liabilities</b>		<b>127,264</b>	<b>123,191</b>
<b>Total equity and liabilities</b>		<b>222,655</b>	<b>220,832</b>

\* 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.

## T2 RTK Holding LLC

### 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
<b>As of 1 January 2015</b>		139,071	(63,297)	21,880	97,654	(13)	97,641
Acquisition of non-controlling interests	3	–	–	(95)	(95)	20	(75)
<b>Comprehensive income</b>							
Profit for the period		–	–	(2,165)	(2,165)	(10)	(2,175)
<b>Total comprehensive income</b>		–	–	(2,165)	(2,165)	(10)	(2,175)
<b>As of 30 June 2015 (unaudited)</b>		<b>139,071</b>	<b>(63,297)</b>	<b>19,620</b>	<b>95,394</b>	<b>(3)</b>	<b>95,391</b>
<b>As of 1 January 2014</b>		76,489	(97,321)	20,593	(239)	–	(239)
Effect of business combination	3	26,874	14,587	–	41,461	1	41,462
<b>Comprehensive income</b>							
Profit for the period		–	–	2,268	2,268	–	2,434
<b>Total comprehensive income</b>		–	–	2,268	2,268	–	2,434
<b>As of 30 June 2014 (unaudited)</b>		<b>103,363</b>	<b>(82,734)</b>	<b>23,027</b>	<b>43,656</b>	<b>1</b>	<b>43,657</b>

*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	Six months ended 30 June 2015 (Unaudited)	Six months ended 30 June 2014 (Unaudited)
<b>Operating activities</b>			
<b>Profit/(loss) before income tax expense</b>		<b>(2,560)</b>	<b>3,333</b>
<i>Adjusted:</i>			
Depreciation		6,493	3,680
Amortization		3,473	2,399
Finance expense		5,481	2,657
Finance income		(44)	(97)
Foreign exchange loss/(gain), net		(237)	810
Loss on disposal of non-current assets		24	32
Net gain on financial instruments at fair value through profit or loss		(311)	–
<b>Cash flows from operations before changes in working capital</b>		<b>12,319</b>	<b>12,814</b>
Decrease in inventory		141	115
Decrease/(increase) in trade and other receivables		153	(934)
Increase in current non-financial assets		(883)	(154)
Decrease in trade and other payables		(3,285)	(404)
Decrease in current non-financial liabilities		(841)	(1,264)
Income tax paid		(1,634)	(2,777)
Interest paid, net of interest capitalized in amount of 664 (six months ended 30 June 2014: 136)		(4,740)	(6,669)
<b>Net cash flows from operating activities</b>		<b>1,230</b>	<b>727</b>
<b>Investing activities</b>			
Purchase of property, equipment and intangible assets		(18,101)	(5,835)
Proceeds from sale of property, equipment and intangible assets		84	172
Interest income received		44	97
Cash acquired as a result of acquisition of subsidiaries	3	–	567
<b>Net cash flows used in investing activities</b>		<b>(17,973)</b>	<b>(4,999)</b>
<b>Financing activities</b>			
Proceeds from loans and borrowings	8	25,639	50,303
Repayment of loans and borrowings	8	(8,405)	(45,053)
Dividends of acquired subsidiaries paid after the acquisition date		–	(7,000)
Payment of finance lease liability		(1,053)	–
Other financial charges		(718)	(242)
<b>Net cash flows received from/(used in) financing activities</b>		<b>15,463</b>	<b>(1,992)</b>
<b>Net (decrease)/increase in cash and cash equivalents</b>		<b>(1,280)</b>	<b>(6,264)</b>
<b>Cash and cash equivalents at beginning of the period</b>		<b>3,637</b>	<b>9,097</b>
Net foreign exchange difference		43	329
<b>Cash and cash equivalents at end of the period</b>		<b>2,400</b>	<b>3,162</b>

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

# T2 RTK Holding LLC

## Notes to the interim condensed consolidated financial statements

For the six months ended 30 June 2015

(In millions of Russian rubles)

### 1. Corporate information

The Company was established on 18 July 2013 as T2 Rus Holding LLC. On 28 March 2014 the Company was renamed to limited liability company "T2 RTK Holding". T2 RTK Holding LLC ("Tele2", the "Company", together with its subsidiaries referred to as the "Group") is 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.

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.

On 16 June 2015, the Group has completed an internal reorganization – the legal merger of its 33 subsidiaries in one legal entity with LLC "T2 Mobile". As a result LLC "T2 Mobile" has legally succeeded to all rights and obligations from integrated entities. The internal reorganization did not result in any effect on the consolidated financial statements of the Group, except for the balances of deferred tax assets and deferred tax liabilities – RUB 5.2 billion of deferred tax assets were offset with deferred tax liabilities in the statement of financial position.

As of 30 June 2015 the immediate shareholders of the Group are Tele2 Russia Holding AB (Sweden) and Rostelecom OJSC. An ultimate parent of the Group is T2 Netherlands B.V., 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 accounting policies

#### Basis of preparation

The interim condensed consolidated financial statements for the six months ended 30 June 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 14 September 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.



## T2 RTK Holding LLC

### Notes to the interim condensed consolidated financial statements (continued)

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

##### 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.

##### 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 accounting 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 which are applicable to annual periods beginning on or after 1 January 2015. The adoption did not have any impact on these financial statements. The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

##### Reclassifications

Starting June 2015 The Group has decided to present foreign exchange gain and losses which arise from operating activity as part of other operating income and other operating expenses in the consolidated statement of comprehensive income. Accordingly, reclassifications were made to the comparative amounts for six and three months ended 30 June 2014. The amounts of reclassifications are not material to the financial statements of the Group.

##### Working capital deficit

As at 30 June 2015 the Group has negative working capital of approximately RUB 55 billion (31 December 2014: RUB 31.6 billion), including RUB 3 billion of advances received from customers (31 December 2014: RUB 4 billion). As at 30 June 2015 the Group has unused credit facilities in accordance with loan agreements which are signed as of 30 June 2015 in total amount of RUB 29 billion. In addition, as of the date of issuance of these interim condensed consolidated financial statements, the Group is negotiating new loan agreements for a total amount of RUB 17 billion. The management of the Group believes that the undrawn credit facilities together with the new loan agreements which are expected to be signed in a subsequent period, 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.

## T2 RTK Holding LLC

### Notes to the interim condensed consolidated financial statements (continued)

#### **3. Business combinations, goodwill and acquisitions of non-controlling interests**

##### *Business combinations*

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 contributes 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 a number of standalone mobile subsidiaries to the Group in exchange of 26% economic interests in T2 RTK Holding LLC and a cash consideration of 314. In addition, 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.

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%.

## T2 RTK Holding LLC

### Notes to the interim condensed consolidated financial statements (continued)

#### 3. Business combinations, goodwill and acquisitions of non-controlling interests (continued)

##### *Business combinations (continued)*

The acquired net assets of CJSC RT-Mobile 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:

	<b>Amounts (updated) as at 5 August 2014</b>
<b>Assets</b>	
Property and equipment	31,310
Intangible assets	31,609
Deferred tax assets	–
Trade and other receivables	3,179
Inventories	9
Income tax receivable	233
Cash and cash equivalents	1,061
	<b>67,401</b>
<b>Liabilities</b>	
Deferred tax liability	7,390
Trade and other payables	5,948
Income tax payable	72
Current non-financial liabilities	3,380
Other liabilities	5,206
	<b>21,996</b>
<b>Total identifiable net assets at fair value</b>	<b>45,405</b>
Goodwill arising on acquisition	9,740
Purchase consideration (19% economic interest in the Group and cash consideration of 10)	55,145

Gross amount of trade and other receivables as of the date of acquisition amounted to 3,179.

The net assets recognised in the financial statements as at 31 December 2014 were based on a provisional assessment of their fair value. In June 2015, the assessment was updated. As a result, the amount of property and equipment as at the acquisition date was decreased by 329, deferred tax liability was decreased by 1,326, the amount of trade and other payables was increased by 7 with a corresponding decrease of goodwill by 990. 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 30 June 2015, the Group has not identified any impairment indications.

## T2 RTK Holding LLC

### Notes to the interim condensed consolidated financial statements (continued)

#### 3. Business combinations, goodwill and acquisitions of non-controlling interests (continued)

##### *Acquisitions of non-controlling interests*

In June 2015, the Group acquired an additional 5.25% interest in the capital of Akos CJSC, increasing its ownership interest to 99.7%. Cash consideration to the non-controlling shareholder amounted to RUB 75 million. The carrying value of the acquired share of net assets of Akos CJSC (excluding goodwill on the original acquisition) as of the date of acquisition of non-controlling interest was negative and amounted to RUB 20 million.

#### 4. Sales and marketing expenses

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

	Six months ended 30 June 2015	Six months ended 30 June 2014	Three months ended 30 June 2015	Three months ended 30 June 2014
Advertising	1,510	1,336	860	880
Dealer commissions for connection of new subscribers	4,668	2,869	2,349	1,852
Cash collection commissions	443	324	222	195
<b>Total sales and marketing expenses</b>	<b>6,621</b>	<b>4,529</b>	<b>3,431</b>	<b>2,927</b>

#### 5. General and administrative expenses

General and administrative expenses for the six and three months ended 30 June are as follows:

	Six months ended 30 June 2015	Six months ended 30 June 2014	Three months ended 30 June 2015	Three months ended 30 June 2014
Employee benefits and related social charges	1,943	1,397	899	943
Rent	518	304	251	194
Operating taxes	406	313	207	186
Professional services	312	323	116	213
Office maintenance	87	57	41	34
Other expenses	377	266	176	166
<b>Total general and administrative expenses</b>	<b>3,643</b>	<b>2,660</b>	<b>1,690</b>	<b>1,736</b>

#### 6. Income tax expense

The following presents the significant components of income tax expense of the Group for the six and three months ended 30 June:

	Six months ended 30 June 2015	Six months ended 30 June 2014	Three months ended 30 June 2015	Three months ended 30 June 2014
Current income tax expense	844	2,291	106	1,249
Deferred income tax benefit	(1,229)	(1,306)	(407)	(899)
<b>Income tax (benefit)/expense reported in the interim condensed consolidated statement of comprehensive income</b>	<b>(385)</b>	<b>985</b>	<b>(301)</b>	<b>350</b>

## T2 RTK Holding LLC

### Notes to the interim condensed consolidated financial statements (continued)

#### 7. Property and equipment

During the six months ended 30 June 2015, the Group acquired assets with a cost of 11,963 (30 June 2014: 3,159). Interest capitalised for the six months ended 30 June 2015 was 664 (30 June 2014: 136).

#### 8. Financial instruments

##### Financial assets

Current and non-current financial assets are as follows:

	30 June 2015	31 December 2014
Loans issued	90	90
<b>Total non-current financial assets</b>	<b>90</b>	<b>90</b>
Financial assets at fair value through profit and loss	489	–
Trade and other receivables	6,282	6,435
Cash and cash equivalents	2,400	3,637
<b>Total current financial assets</b>	<b>9,171</b>	<b>10,072</b>
<b>Total financial assets</b>	<b>9,261</b>	<b>10,162</b>

##### Financial liabilities

Current and non-current financial liabilities are as follows:

	31 June 2015	31 December 2014
Trade and other payables	15,525	21,730
Interest-bearing loans and borrowings	88,504	71,841
Other non-current financial liabilities (finance lease)	7,413	7,785
Other current financial liabilities	1,912	1,028
<b>Total financial liabilities</b>	<b>113,354</b>	<b>102,384</b>

No collateral is provided for interest-bearing financial liabilities.

In April 2015, the Group has signed foreign currency forward agreements with VTB Bank, a related party. The agreements were signed by the Group in order to reduce its foreign currency risk. The Group accounted for these financial instruments as financial assets at fair value through profit and loss.

## T2 RTK Holding LLC

### Notes to the interim condensed consolidated financial statements (continued)

#### 8. Financial instruments (continued)

##### Loans and borrowings

Amounts outstanding under loans and borrowings are as follows:

	Currency	Nominal interest rate	Maturity	30 June 2015			31 December 2014		
				Interest	Short-term	Long-term	Interest	Short-term	Long-term
Ruble Bonds	RUB	8.4%-9.1%	2015-2016	228	18,846	–	153	6,000	12,963
Bank Rossiya	RUB	9.25%-10.5%	February 2015 – June 2017	0	5,500	2,500	–	5,000	5,000
VTB Bank OJSC	RUB	22.5%	January 2016	41	4,494	–	–	–	–
	RUB	MOSPRIME + 1.6%	March 2015	0	–	–	35	5,000	–
	RUB	MOSPRIME + 2.5%	April 2019	153	–	22,870	147	–	22,851
	RUB	3m USD LIBOR + 9.55%	April 2019	–	–	9,912	–	–	9,935
	RUB		March 2016	86	15,582	–	–	–	–
	RUB	11.5% (Key rate of Central Bank of Russia + 2.5%)	February 2025	5	–	979	–	–	–
	RUB	Key rate of Central Bank of Russia + 3%	January 2020	6	–	3,462	–	–	–
		Key rate of Central Bank of Russia + 3,21%	March 2020	0	–	15	–	–	–
		9.7%-9.9%	April 2015	–	–	–	–	–	–
Gazprombank OJSC	RUB	8.25%-9.2%	September 2014- November 2016	1	464	–	1	–	464
Sberbank OJSC	RUB	8.1%-9.5%	July 2014 – January 2017	5	3,079	–	8	2,350	1,817
Svyaz-Bank OJSC	RUB	9.5%-10.5%	May 2017	–	230	–	0	0	110
Raiffeisenbank	RUB	17,48%	April 2015	–	45	–	–	–	–
Other loans				1	–	–	–	6	–
<b>Total principal amount</b>				<b>–</b>	<b>48,240</b>	<b>39,737</b>	<b>–</b>	<b>18,356</b>	<b>53,140</b>
<b>Accrued interest payable</b>				<b>526</b>	<b>–</b>	<b>–</b>	<b>344</b>	<b>–</b>	<b>–</b>
<b>Total loans and borrowings as presented in the consolidated statement of financial position</b>				<b>–</b>	<b>48,766</b>	<b>39,737</b>	<b>–</b>	<b>18,700</b>	<b>53,140</b>

## T2 RTK Holding LLC

### Notes to the interim condensed consolidated financial statements (continued)

#### 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 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 finance construction of telecommunication network in Moscow region and to cover working capital deficit of the Group. In April 2015, the Group has borrowed RUB 1,125 million as part of credit line facility agreement, bearing 11.5% interest, maturing in February 2020.

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. The Group has borrowed the full amount under this agreement as of 30 June 2015.

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. Interest 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. In 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%. In April 2015, the Group has borrowed RUB 5.6 billion as part of this credit line facility agreement at interest rate of key rate of Central Bank of Russia plus 1.75%, maturing in October 2015.

In June 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 7,706 million (131,501,374 euro), bearing interest of key rate of Central Bank of Russia plus 3.21%, maturing in March 2020. As of 30 June 2015, the Group has borrowed RUB 128 million in accordance with the credit line facility.

In June 2015, the Group has entered into a euro denominated credit line facility agreement with VTB Bank, a related party, for the amount of RUB 5,714 million (97 500 000 euro), bearing interest of key rate of Central Bank of Russia plus 3%, maturing in January 2020. 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 of 30 June 2015, the Group has borrowed RUB 3,838 million in accordance with the credit line facility.

## T2 RTK Holding LLC

### Notes to the interim condensed consolidated financial statements (continued)

#### 8. Financial instruments (continued)

##### Loans and borrowings (continued)

As at 30 June 2015, the Group has classified all liabilities related to the loan agreements entered by the subsidiaries which were merged with T2 Mobile LLC (Note 1) before the reorganization date as current liabilities, as in accordance with the Civil code of Russian Federation, the lender has a right to request an early repayment of loan in case of reorganization of the borrower during 30 days after receiving the notification from the borrower about the reorganization. The notifications were sent on 23 June 2015. As of the date of issuance of these interim condensed consolidated financial statements, no requests for early repayment were received by the Group.

##### 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	
	30 June 2015	31 December 2014	30 June 2015	31 December 2014
<i>Level 1</i>				
<b>Financial liabilities</b>				
Non-current interest-bearing loans and borrowings (ruble bonds)	–	12,963	–	11,744
Current interest-bearing loans and borrowings (ruble bonds)	18,846	6,000	18,600	5,912
<b>Total</b>	<b>18,846</b>	<b>18,963</b>	<b>18,600</b>	<b>17,656</b>
<i>Level 2</i>				
<b>Financial assets</b>				
Financial assets at fair value through profit and loss	489	–	489	–
<i>Level 3</i>				
Loans issued	90	90	90	90
<b>Total financial assets</b>	<b>579</b>	<b>90</b>	<b>579</b>	<b>90</b>
<i>Level 3</i>				
<b>Financial liabilities</b>				
Non-current interest-bearing loans and borrowings	39,738	40,177	38,713	40,177
Current interest-bearing loans and borrowings	29,920	12,700	31,882	12,700
Finance lease – non-current portion	7,355	7,726	6,106	7,726
Other non-current financial liabilities	58	59	58	59
Finance lease – current portion	1,912	1,028	1,912	1,028
<b>Total financial liabilities</b>	<b>78,983</b>	<b>61,690</b>	<b>78,671</b>	<b>61,690</b>



## T2 RTK Holding LLC

### Notes to the interim condensed consolidated financial statements (continued)

#### 8. Financial instruments (continued)

##### Fair values and fair value hierarchy (continued)

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 measurement is 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.
- ▶ Fair value of financial assets at fair value through profit and loss (foreign currency forward contracts) is estimated by discounting future cash flows using market forward rates.

#### 9. Cash and cash equivalents

Cash and cash equivalents are as follows:

	<b>30 June 2015</b>	<b>31 December 2014</b>
<b>Cash and bank balances</b>		
Rubles	549	2,639
US dollars	314	23
Euros	63	464
<b>Short-term bank deposits</b>		
Rubles	1,474	511
<b>Total cash and cash equivalents</b>	<b>2,400</b>	<b>3,637</b>

As at 30 June 2015, the Group had RUB 2.4 billion (31 December 2015: 3.637 billion) of cash and cash equivalents with VTB Bank, a related party (Note 11).

## T2 RTK Holding LLC

### Notes to the interim condensed consolidated financial statements (continued)

#### 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 Rouble, as well as sanctions imposed on Russia by several countries in 2014. The Rouble 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 (Bank Rossiya controls ABR Investments B.V.).

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.

##### 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.

## T2 RTK Holding LLC

### Notes to the interim condensed consolidated financial statements (continued)

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

##### Taxation (continued)

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 30 June 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 3.3 billion (as of 31 December 2014: RUB 2.9 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.

## T2 RTK Holding LLC

### Notes to the interim condensed consolidated financial statements (continued)

#### 11. Related parties (continued)

As of 30 June 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 six months ended 30 June 2015 and 2014 or had significant balances outstanding at 30 June 2015 and 31 December 2014 are detailed below.

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

		30 June 2015	31 December 2014
<b>Significant influence</b>			
VTB Group	Loans	57,606	37,786
	Cash and cash equivalents	2,493	3,392
Bank Rossiya OJSC	Loans	8,000	10,000
	Cash and cash equivalents	3	60
Rostelecom*	Receivables	1,186	233
	Payables	1,334	2,759
	Other financial liabilities	5,809	6,687
Westelcom (a subsidiary of Rostelecom)	Loans issued	90	90
<b>Relationship through the Government</b>			
Gazprombank	Loans	465	464
	Cash and cash equivalents	19	16
Sberbank OJSC	Receivables	165	56
	Loans	3,083	4,167
	Payables	67	42
	Cash and cash equivalents	5	1
Svyaz-Bank OJSC	Loans	230	110
	Cash and cash equivalents	7	46
Russian Post	Receivables	21	50
	Payables	9	13

The amounts of revenues and expenses from the related parties for the six months ended 30 June were as follows:

		Six months ended 30 June 2015	Six months ended 30 June 2014	Three months ended 30 June 2015	Three months ended 30 June 2014
<b>Significant influence</b>					
VTB	Financial expenses	3,713	1,029	2,092	831
Bank Rossiya OJSC	Financial expenses	843	181	400	121
Rostelecom*	Income	932	515	459	35
	Expenses	(2,489)	1,287	(1,378)	700
<b>Relationship through the Government</b>					
Gazprombank	Financial expenses	1	27	–	27
Sberbank OJSC	Income	–	99	–	99
	Expenses	59	79	–	79
	Financial expenses	–	120	–	120

\* 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.

## T2 RTK Holding LLC

### Notes to the interim condensed consolidated financial statements (continued)

#### **11. Related parties (continued)**

##### *Terms and conditions of transactions with related parties*

Outstanding balances as at 30 June 2015 and 31 December 2014 are unsecured. There have been no guarantees provided or received for any related party receivables or payables. As of 30 June 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 six months ended 30 June 2015 amounted to 293 (30 June 2014: 193).

#### **12. Events after the reporting date**

In July and August 2015, the Group received RUB 4.5 billion and repaid RUB 519 million in accordance with credit line facility agreements with VTB, a related party.

In July and August 2015, the Group has repaid its liabilities in accordance with loan agreements with Sberbank in amount of RUB 500 million in accordance with maturity dates per agreements.

In August 2015, the Group has signed an agreement with the government of Chuvash Republic to invest over RUB 1.1 billion into development of the region's mobile infrastructure in 2015-2019 thus expanding the Group's mobile network coverage in the region.