



T2 RTK Holding LLC

Interim condensed consolidated financial statements
(unaudited)

For the nine months ended 30 September 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 September 2015 and the related interim condensed consolidated statements of comprehensive income for the three and nine-month periods then ended, the related interim condensed consolidated statements of changes in equity and cash flows for the nine-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.



3 December 2015

Moscow, Russia

T2 RTK Holding LLC

Interim condensed consolidated statement of comprehensive income

(In millions of Russian rubles)

		Nine months ended 30 September 2015	Nine months ended 30 September 2014	Three months ended 30 September 2015	Three months ended 30 September 2014
	Note	(Unaudited)	(Unaudited)*	(Unaudited)	(Unaudited)*
Revenue					
Wireless services		70,551	62,471	23,890	24,939
Operating income and expenses					
Cost of services		(37,108)	(30,585)	(12,694)	(12,736)
Sales and marketing expenses	4	(10,841)	(7,808)	(4,220)	(3,279)
General and administrative expenses	5	(5,261)	(4,998)	(1,618)	(2,338)
Income/(loss) on disposal of non-current assets		(17)	(51)	11	(19)
Depreciation		(10,220)	(6,898)	(3,727)	(3,218)
Amortization		(5,004)	(2,442)	(1,531)	(959)
Other operating expenses		(1,713)	(345)	(1,078)	(272)
Other operating income		2,769	589	1,240	222
Total operating expenses, net		(67,395)	(52,538)	(23,617)	(22,599)
Operating profit		3,156	9,933	273	2,340
Finance income		130	141	92	44
Finance expense		(8,783)	(4,440)	(3,302)	(1,783)
Foreign exchange loss on loans in foreign currency, net		–	(783)	–	–
Profit/(loss) before income tax expense		(5,497)	4,851	(2,937)	601
Income tax benefit/(expense)	6	875	(1,565)	490	(397)
Net profit/(loss) for the period being total comprehensive income/(loss) for the period		(4,622)	3,286	(2,447)	204

* Amounts of other operating expenses and other operating income do not correspond to the consolidated statement of comprehensive income for the three and nine months ended 30 September 2014 and reflect reclassifications as detailed in Note 2. Amount of amortization does not correspond to the consolidated statement of comprehensive income for the three and nine months ended 30 September 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 financial position

(In millions of Russian rubles)

		30 September 2015 (Unaudited)	31 December 2014*
	Note		
Assets			
Non-current assets			
Property and equipment	7	116,542	106,483
Intangible assets, other than goodwill		62,988	62,478
Goodwill	3	30,020	30,020
Loans issued	8	90	90
Deferred tax assets		1,547	5,802
Total non-current assets		211,187	204,873
Current assets			
Inventories		667	619
Financial assets at fair value through profit and loss	8	872	–
Trade and other receivables	8	7,704	6,435
VAT receivable		1,706	1,960
Prepaid expenses		2,323	1,637
Income tax receivable		1,103	1,655
Cash and cash equivalents	9	681	3,637
Total current assets		15,056	15,943
Assets classified as held for sale		–	16
Total assets		226,243	220,832
Equity and liabilities			
Equity			
Equity attributable to participants		92,947	97,654
Non-controlling interest		(3)	(13)
Total equity		92,944	97,641
Non-current liabilities			
Interest-bearing loans and borrowings	8	43,948	53,140
Other non-current financial liabilities	8	8,355	7,785
Provisions		1,404	1,478
Deferred tax liabilities		6,654	12,894
Total non-current liabilities		60,361	75,297
Current liabilities			
Interest-bearing loans and borrowings	8	48,717	18,700
Trade and other payables	8	17,530	21,730
Advances from customers		2,738	4,262
VAT payable		324	896
Income tax payable		290	397
Other current non-financial liabilities		1,508	881
Other current financial liabilities	8	1,831	1,028
Total current liabilities		72,938	47,894
Total liabilities		133,299	123,191
Total equity and liabilities		226,243	220,832

* 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	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
Acquisition of non-controlling interests	3	–	–	(97)	(97)	22	(75)
Comprehensive income							
Profit for the period		–	–	(4,610)	(4,610)	(12)	(4,622)
Total comprehensive income		–	–	(4,610)	(4,610)	(12)	(4,622)
As of 30 September 2015 (unaudited)		139,071	(63,297)	17,173	92,947	(3)	92,944
As of 1 January 2014		76,489	(97,321)	20,593	(239)	–	(239)
Effect of business combination	3	62,582	34,024	–	96,606	1	96,607
Comprehensive income							
Profit for the period		–	–	3,286	3,286	–	3,286
Total comprehensive income		–	–	3,286	3,286	–	3,286
As of 30 September 2014 (unaudited)		139,071	(63,297)	23,879	99,653	1	99,654

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	Nine months ended 30 September 2015 (Unaudited)	Nine months ended 30 September 2014 (Unaudited)
Operating activities			
Profit/(loss) before income tax expense		(5,497)	4,851
<i>Adjusted:</i>			
Depreciation		10,220	6,898
Amortization		5,004	2,442
Finance expense		8,783	4,440
Finance income		(130)	(141)
Impairment loss recognised on trade receivables		467	386
Loss on disposal of non-current assets		17	51
Foreign exchange loss, net		1,111	1,042
Net gain on financial instruments at fair value through profit or loss		(1,382)	–
Cash flows from operations before changes in working capital		18,593	19,969
(Increase)/decrease in inventory		(48)	283
(Increase) in trade and other receivables		(1,737)	(234)
(Increase) in current non-financial assets		(432)	(1,308)
(Decrease) in trade and other payables		(1,724)	(406)
(Decrease) in current financial liabilities		(96)	–
(Decrease) in current non-financial liabilities		(1,667)	(1,115)
Income tax paid		(630)	(3,434)
Interest paid, net of interest capitalized in amount of 949 (nine months ended 30 September 2014: 249)		(6,946)	(7,733)
Net cash flows from operating activities		5,313	6,022
Investing activities			
Purchase of property, equipment and intangible assets		(27,040)	(8,383)
Proceeds from sale of property, equipment and intangible assets		84	359
Interest income received		130	141
Payment of remaining part of consideration on business combination	3	(314)	–
Cash acquired as a result of acquisition of subsidiaries		–	1,628
Net cash flows used in investing activities		(27,140)	(6,255)
Financing activities			
Proceeds from loans and borrowings	8	30,955	50,343
Repayment of loans and borrowings	8	(10,095)	(46,080)
Dividends of acquired subsidiaries paid after the acquisition date		–	(7,000)
Repayment of finance lease liability		(1,311)	–
Other financial charges		(722)	(205)
Net cash flows received from/(used in) financing activities		18,827	(2,942)
Net (decrease) in cash and cash equivalents		(3,000)	(3,175)
Cash and cash equivalents at beginning of the period		3,637	9,097
Net foreign exchange difference		44	21
Cash and cash equivalents at end of the period		681	5,943

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 nine months ended 30 September 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, "T2 Mobile" LLC. As a result "T2 Mobile" LLC has legally succeeded all rights and obligations from the merged 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 the financial position.

As of 30 September 2015, the immediate shareholders of the Group are Tele2 Russia Holding AB (Sweden) and Rostelecom PJSC. An ultimate parent of the Group is T2 Netherlands B.V., whose capital is held by VTB Bank PJSC (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 nine months ended 30 September 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 were authorised for issue by the Company's Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO") on 3 December 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 from 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. The comparative amounts for nine and three months ended 30 September 2014 were reclassified accordingly.

Working capital deficit

As at 30 September 2015, the Group has negative working capital of approximately RUB 58 billion (31 December 2014: RUB 31.6 billion), including RUB 2.7 billion of advances received from customers (31 December 2014: RUB 4 billion). As at 30 September 2015, the Group has unused credit facilities in accordance with loan agreements which are signed as of 30 September 2015 in total amount of RUB 26 billion.

As of the date these financial statements were available to be issued, the Group has entered into new long-term credit line facility agreement with Bank Rossiya, a related party, for a maximum amount of RUB 12 billion (Note 12).

In addition, the Group is negotiating new loan agreements for a total amount of RUB 15 billion.

The management of the Group believes that the undrawn credit facilities together with the new loan agreements signed and expected to be signed 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 RT-Mobile CJSC 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 RT-Mobile CJSC 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.

On 5 August 2014, the Group completed the second stage of the transaction. Rostelecom contributed 100% of shares of RT-Mobile CJSC 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%.

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 finalized. 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.

In December 2014 the Group has finalized assessment of useful lives of intangible assets acquired as part of the business combinations. As a result, the amount of amortization expense and total operating expenses was decreased by, operating profit and profit before income tax expense for nine months ended 30 September 2014 was increased by 2,100, for three months ended 30 September 2014 – by 1,186, the amount of income tax expense for nine months ended 30 September 2014 was increased by 420, for three months ended 30 September 2014 – by 237, and net profit for the period for nine months ended 30 September 2014 was increased by 1,680, for three months ended 30 September 2014 – by 949.

The first and second stages were accounted for as a business combination.

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 of RUB 75 million was paid to the non-controlling shareholder. 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 22 million.

4. Sales and marketing expenses

Sales and marketing expenses for the nine months and three months ended 30 September are as follows:

	Nine months ended 30 September 2015	Nine months ended 30 September 2014	Three months ended 30 September 2015	Three months ended 30 September 2014
Advertising	2,530	1,858	1,202	697
Dealer commissions for connection of new subscribers	1,952	1,645	739	726
Employee benefits and related social charges	2,846	2,050	972	806
Other subscriber acquisition costs	2,453	1,361	907	621
Cash collection commissions	593	508	177	184
Impairment loss recognised on trade receivables	467	386	223	245
Total sales and marketing expenses	10,841	7,808	4,220	3,279

5. General and administrative expenses

General and administrative expenses for the nine and three months ended 30 September are as follows:

	Nine months ended 30 September 2015	Nine months ended 30 September 2014	Three months ended 30 September 2015	Three months ended 30 September 2014
Employee benefits and related social charges	2,718	2,701	844	1,331
Rent	626	415	194	173
Operating taxes	609	529	203	216
Professional services	132	251	58	138
Office maintenance	293	227	86	97
Billing and IT costs	593	546	157	219
Other expenses	290	329	76	164
Total general and administrative expenses	5,261	4,998	1,618	2,338

T2 RTK Holding LLC

Notes to the interim condensed consolidated financial statements (continued)

6. Income tax expense

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

	Nine months ended 30 September 2015	Nine months ended 30 September 2014	Three months ended 30 September 2015	Three months ended 30 September 2014
Current income tax expense/(benefit)	820	3,533	(24)	1,242
Deferred income tax benefit	(1,695)	(1,968)	(466)	(845)
Income tax (benefit)/expense reported in the interim condensed consolidated statement of comprehensive income	(875)	1,565	(490)	397

7. Property and equipment

During the nine months ended 30 September 2015, the Group acquired assets with a cost of 21,378 (30 September 2014: 2,357). Interest capitalised for the nine months ended 30 September 2015 was 949 (30 September 2014: 249).

8. Financial instruments

Financial assets

Current and non-current financial assets are as follows:

	30 September 2015	31 December 2014
Loans issued	90	90
Total non-current financial assets	90	90
Financial assets at fair value through profit and loss	872	–
Trade and other receivables	7,704	6,435
Cash and cash equivalents	681	3,637
Total current financial assets	9,257	10,072
Total financial assets	9,347	10,162

Financial liabilities

Current and non-current financial liabilities are as follows:

	30 September 2015	31 December 2014
Interest-bearing loans and borrowings	43,948	53,140
Non-current finance lease	8,297	7,726
Other non-current financial liabilities	58	59
Total non-current financial liabilities	52,303	60,925
Interest-bearing loans and borrowings	48,717	18,700
Current finance lease	1,831	1,028
Trade and other payables	17,530	21,730
Total current financial liabilities	68,078	41,458
Total financial liabilities	120,381	102,383

T2 RTK Holding LLC

Notes to the interim condensed consolidated financial statements (continued)

8. Financial instruments (continued)

Financial liabilities (continued)

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 September 2015			31 December 2014		
				Interest	Short-term	Long-term	Interest	Short-term	Long-term
Ruble Bonds	RUB	8.4-15.75%	October 2015 – June 2016	737	18,851	–	153	6,000	12,963
Bank Rossiya OJSC	(a) RUB	Key rate of the Central Bank of Russia + 2%	November 2015	–	3,000	–	–	5,000	5,000
	(b) RUB	Key rate of the Central Bank of Russia + 2.5%	October 2015 – June 2017	–	2,500	1,875	–	–	–
VTB Bank PJSC	(c) RUB	Key rate of the Central Bank of Russia + 2.19%	January 2016	24	4,487	–	–	–	–
	(d) RUB	MOSPRIME + 1.6%	March 2015	–	–	–	35	5,000	–
	RUB	3m Mosprime + 2.5%	April 2019	128	–	22,877	147	–	22,851
	RUB	3m USD LIBOR + 9.55%	April 2019	–	–	9,913	–	–	9,935
	(e) RUB	Key rate of the Central Bank of Russia + 2%	March 2016	53	10,000	–	–	–	–
	(e) RUB	Key rate of the Central Bank of Russia + 1.75%	October 2015	29	5,600	–	–	–	–
	(f) RUB	11.5% (Specialized instrument of refinancing of the Central Bank of Russia+ 2.5%)	February 2025	10	–	2,487	–	–	–
	(g) RUB	Key rate of the Central Bank of Russia + 3%	January 2020	16	–	4,479	–	–	–
	(h) RUB	Key rate of the Central Bank of Russia + 3.21%	March 2020	9	–	2,317	–	–	–
Gazprombank PJSC	RUB	16.5%	December 2015 – December 2016	1	464	–	2	–	464
	RUB	MOSPRIME + 3.5%	January 2015	–	–	–	–	5	–
Sberbank PJSC	(i) RUB	8.8-11.87%	January 2017	2	1,576	–	8	1,351	1,817
	RUB	8.75%	December 2015	1	999	–	–	999	–
Svyaz-Bank PJSC	RUB	15%	May 2017	–	230	–	–	–	110
Total principal amount				–	47,707	43,948	–	18,355	53,140
Accrued interest payable				1,010	–	–	345	–	–
Total loans and borrowings as presented in the consolidated statement of financial position				–	48,717	43,948	–	18,700	53,140

T2 RTK Holding LLC

Notes to the interim condensed consolidated financial statements (continued)

8. Financial instruments (continued)

Loans and borrowings (continued)

- (a) 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, bearing interest of key rate of the Central Bank of Russia plus 2%, interest maturing in March 2015. In February 2015, the maturity period was extended to November 2015. Loan was partially repaid in amount of RUB 2 billion in April 2015.
- (b) 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 interest of key rate of the Central Bank of Russia plus 2.5%, maturing in October 2015 – June 2017. Loan was partially repaid in amount of RUB 625 million in September 2015.
- (c) 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 interest of key rate of the Central Bank of Russia plus 2.19%, maturing in January 2016. The Group has borrowed the full amount under this agreement as of 30 September 2015.
- (d) 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.
- (e) In March 2015, the Group entered into a ruble denominated credit line facility agreement with VTB Bank, a related party with a credit limit 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 the Central Bank of Russia plus maximum 5%, or fixed – up to 22%, maturing not later than in March 2020. As at 30 September 2015, the Group has borrowed RUB 10 billion under this agreement at interest rate of key rate of the Central Bank of Russia plus 2% maturing in March 2016 and RUB 5.6 billion at interest rate of key rate of the Central Bank of Russia plus 1.75% maturing in October 2015.
- (f) 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 rate of specialized instrument of refinancing of the Central Bank of Russia plus 2.5%, maturing in February 2025. The purpose of the loan is to finance construction of telecommunication network in Moscow region and to cover working capital deficit of the Group. As of 30 September 2015, the Group has borrowed RUB 2,625 million as part of this credit line facility agreement.
- (g) In June 2015, the Group has entered into a ruble denominated credit line facility agreement with VTB Bank, a related party, with a maximum limit up to 97,500,000 euro (RUB 5.714 billion), bearing interest of key rate of the Central Bank of Russia plus 3%, maturing in January 2020. The financing under this credit line is provided in rubles. 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. In June 2015, the Group has borrowed RUB 3,838 million in accordance with the credit line facility. In July 2015, the Group received RUB 1,355 million and repaid RUB 519 million.

T2 RTK Holding LLC

Notes to the interim condensed consolidated financial statements (continued)

8. Financial instruments (continued)

- (h) In June 2015, the Group has entered into a ruble denominated credit line facility agreement with VTB Bank, a related party, with a maximum limit up to 131,501,374 euro (RUB 7.706 billion), bearing interest of key rate of the Central Bank of Russia plus 3.21%, maturing in March 2020. The financing under this credit line is provided in rubles. The purpose of the loan is to finance purchase of equipment and software produced by Ericsson, as well as construction and installation works with respect to this equipment. As of 30 September 2015, the Group has borrowed RUB 2,588 billion, bearing interest of key rate of the Central Bank of Russia plus 3.21%, maturing in March 2020, under this credit line facility agreement.
- (i) As at 30 September 2015, the Group repaid its liabilities in accordance with loan agreements with Sberbank in total amount of RUB 1.5 billion in accordance with maturity dates per agreements.

As at 30 September 2015, the Group did not meet certain financial covenants requirements under the loan agreements with Sberbank, Gazprombank and Svyaz-Bank and the respective liabilities in total amount of RUB 2,270 million (31 December 2014: RUB 971 million) were classified as short-term in these financial statements.

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 September 2015	31 December 2014	30 September 2015	31 December 2014
<i>Level 1</i>				
Financial liabilities				
Non-current interest-bearing loans and borrowings (ruble bonds)	–	12,963	–	11,744
Current interest-bearing loans and borrowings (ruble bonds)	18,851	6,000	18,507	5,912
Total	18,851	18,963	18,507	17,656
<i>Level 2</i>				
Financial assets				
Financial assets at fair value through profit and loss	872	–	872	–
<i>Level 3</i>				
Loans issued	90	90	90	90
Total financial assets	962	90	962	90
<i>Level 3</i>				
Financial liabilities				
Non-current interest-bearing loans and borrowings	43,948	40,177	38,072	40,177
Current interest-bearing loans and borrowings	29,866	12,700	34,985	12,700
Finance lease – non-current portion	8,297	7,726	7,801	7,726
Other non-current financial liabilities	58	59	58	59
Finance lease – current portion	1,831	1,028	2,019	1,028
Total financial liabilities	84,000	61,690	82,935	61,690

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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:

	30 September 2015	31 December 2014
Cash and bank balances		
Rubles	333	2,639
US dollars	213	23
Euros	96	464
Short-term bank deposits		
Rubles	39	511
Total cash and cash equivalents	681	3,637

As at 30 September 2015, the Group had RUB 0.5 billion of cash and cash equivalents with VTB Bank, a related party (31 December 2014: 3.3 billion) (Note 11).

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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 VTB Bank PJSC, 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 VTB Bank PJSC, 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.

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 September 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 (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.

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Notes to the interim condensed consolidated financial statements (continued)

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 30 September 2015, the Group is controlled by T2 Netherlands B.V., an ultimate parent of the Group, whose capital is held by VTB Bank PJSC (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 nine months ended 30 September 2015 and 2014 or had significant balances outstanding at 30 September 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 September 2015	31 December 2014
Significant influence			
VTB Group	Loans	62,431	37,786
	Cash and cash equivalents	517	3,392
Bank Rossiya OJSC	Loans	7,375	10,000
	Cash and cash equivalents	150	60
Rostelecom*	Receivables	1,263	233
	Payables	1,320	2,759
	Other financial liabilities	5,985	6,687
Westelcom (a subsidiary of Rostelecom)	Loans issued	90	90
Relationship through the Government			
Gazprombank	Loans	465	464
	Cash and cash equivalents	3	16
Sberbank PJSC	Receivables	72	56
	Loans	2,579	4,167
	Payables	10	42
	Cash and cash equivalents	1	1
Svyaz-Bank PJSC	Loans	230	110
	Cash and cash equivalents	–	46
Russian Post	Receivables	21	50
	Payables	9	13

* 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.

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Notes to the interim condensed consolidated financial statements (continued)

11. Related parties (continued)

The amounts of revenues and expenses from the related parties were as follows:

		Nine months ended 30 September 2015	Nine months ended 30 September 2014	Three months ended 30 September 2015	Three months ended 30 September 2014
Significant influence					
VTB	Financial expenses	5,812	1,959	2,099	930
Bank Rossiya OJSC	Financial expenses	1,115	445	272	264
Rostelecom*	Income	(1,385)	(1,481)	(453)	(966)
	Expenses	4,112	2,534	1,624	1,247
Relationship through the Government					
Gazprombank	Financial expenses	61	27	19	14
Sberbank PJSC	Income	–	(27)	–	–
	Expenses	69	215	10	136
	Financial expenses	263	176	73	56

Terms and conditions of transactions with related parties

Outstanding balances as at 30 September 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 September 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 nine months ended 30 September 2015 amounted to 384 (30 September 2014: 460).

12. Events after the reporting date

In October 2015, the Group has signed a credit line facility agreement with Bank Rossiya OJSC, a related party, for a maximum amount of RUB 12 billion, bearing interest of key rate of the Central Bank of Russia plus 2% for short term tranches and key rate of the Central Bank of Russia plus 2.5% for long term tranches, maturing in October 2018.

In October and November 2015, the Group has repaid its liabilities in accordance with the following loan agreements in accordance with maturity dates per agreements:

- ▶ loan agreement with VTB Bank in amount of RUB 5,600 million;
- ▶ loan agreements with Bank Rossiya in total amount of RUB 5,500 million.

In addition, the Group has performed an early repayment of its liabilities in accordance with loan agreements with Gazprombank in amount of RUB 464 million and with Svyaz-Bank in amount of RUB 230 million.

In October 2015, the Group has made a partial redemption of short-term portion of ruble bonds in the amount of RUB 316 million.

On 22 October 2015, the Group launched its cellular network in Moscow region.