# T2 RTK Holding LLC

Interim condensed consolidated financial statements
(unaudited)

*For the three months ended 31 March 2014*

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## Contents

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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 (hereinafter collectively referred to as the "Company") as of 31 March 2014 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.

***Other matter***

The comparative financial information of T2 RTK Holding LLC for the three months ended 31 March 2013 is not reviewed.

Ernst & Young LLC

18 June 2014

# T2 RTK Holding LLC

## Interim condensed consolidated statement of comprehensive income

*(In millions of Russian rubles)*

| | Note | Three months ended 31 March 2014 (Unaudited) | Three months ended 31 March 2013 (Unaudited) |
|---|---|---|---|
| **Revenue** | | | |
| Wireless services | | 15,532 | 15,410 |
| | | | |
| **Operating income and expenses** | | | |
| Cost of services | | (6,950) | (6,969) |
| Sales and marketing expenses | 4 | (1,602) | (1,863) |
| General and administrative expenses | 5 | (924) | (903) |
| Gain on disposal of non-current assets | | 3 | 15 |
| Depreciation | | (1,121) | (990) |
| Amortisation | | (397) | (321) |
| Other operating income (expenses) | | 70 | (69) |
| **Total operating expenses, net** | | **(10,921)** | **(11,100)** |
| | | | |
| **Operating profit** | | **4,611** | **4,310** |
| Finance income | | 39 | 38 |
| Finance costs | | (727) | (595) |
| Foreign exchange loss, net | | (854) | – |
| **Profit before income tax expense** | | **3,069** | **3,753** |
| Income tax expense | 6 | (635) | (738) |
| **Net profit for the period being total comprehensive income for the period** | | **2,434** | **3,015** |

*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 2014 (Unaudited) | 31 December 2013 |
|---|---|---|---|
| **Assets** | | | |
| Property and equipment | | 71,594 | 29,535 |
| Intangible assets, other than goodwill | | 32,945 | 7,509 |
| Goodwill | 3 | 19,313 | – |
| Investments in associates | 3 | 4 | – |
| Financial assets | 7 | 90 | – |
| Deferred tax assets | | 5,622 | 1,604 |
| **Total non-current assets** | | **129,568** | **38,648** |
| | | | |
| **Current assets** | | | |
| Inventories | | 660 | 154 |
| Trade and other receivables | | 1,558 | 1,509 |
| Current non-financial assets | | 2,902 | 702 |
| Income tax receivable | | 430 | 183 |
| Cash and cash equivalents | | 1,881 | 9,097 |
| **Total current assets** | | **7,431** | **11,645** |
| **Total assets** | | **136,999** | **50,293** |
| | | | |
| **Equity and liabilities** | | | |
| **Equity** | | | |
| Charter capital | | 103,363 | 76,489 |
| Other reserves | | (82,734) | (97,321) |
| Retained earnings | | 23,027 | 20,593 |
| **Equity attributable to partisipants** | | **43,656** | **(239)** |
| Non-controlling interest | | 1 | – |
| **Total equity** | | **43,657** | **(239)** |
| | | | |
| **Non-current liabilities** | | | |
| Interest-bearing loans and borrowings | 7 | 39,653 | 18,911 |
| Non-current financial liabilities | | 845 | 788 |
| Provisions | | 155 | 127 |
| Deferred tax liabilities | | 7,342 | 1,601 |
| **Total non-current liabilities** | | **47,995** | **21,427** |
| | | | |
| **Current liabilities** | | | |
| Trade and other payables | | 9,026 | 5,525 |
| Dividends payable of acquired businesses | | 7,000 | |
| Interest-bearing loans and borrowings | 7 | 23,541 | 19,210 |
| Other current financial liabilities | | 33 | 24 |
| Current non-financial liabilities | | 5,436 | 4,089 |
| Income tax payable | | 311 | 257 |
| **Total current liabilities** | | **45,347** | **29,105** |
| **Total liabilities** | | **93,342** | **50,532** |
| **Total equity and liabilities** | | **136,999** | **50,293** |

*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 |
|---|---|---|---|---|---|---|---|
| **As of 1 January 2013** | | **–** | **–** | **10,470** | **10,470** | **–** | **10,470** |
| Profit for the period | | – | – | 3,015 | 3,015 | – | 3,015 |
| **Total comprehensive income** | | **–** | **–** | **3,015** | **3,015** | **–** | **3,015** |
| **As of 31 March 2013 (unaudited)** | | **–** | **–** | **13,485** | **13,485** | **–** | **13,485** |
| **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 2014 (Unaudited) | Three months ended 31 March 2013 (Unaudited) |
|---|---|---|---|
| **Operating Activities** | | | |
| **Profit before income tax expense** | | **3,069** | **3,753** |
| *Adjusted:* | | | |
| Depreciation | | 1,121 | 990 |
| Amortisation | | 397 | 321 |
| Finance income | | (39) | (38) |
| Finance costs | | 727 | 595 |
| Foreign exchange loss, net | | 854 | – |
| Gain on disposal of non-current assets | | (3) | (15) |
| **Cash flows from operations before changes in working capital** | | **6,126** | **5,606** |
| (Increase) in inventory | | (26) | (20) |
| Decrease in trade and other receivables | | 177 | 480 |
| (Increase) in current non-financial assets | | (42) | (82) |
| Increase (decrease) in trade and other payables | | (681) | 360 |
| (Decrease) in current non-financial liabilities | | (538) | (1,616) |
| Income tax paid | | (1,086) | (838) |
| Interest paid | | (700) | (575) |
| **Net cash flows from operating activities** | | **3,230** | **3,315** |
| **Investing activities** | | | |
| Purchase of property,equipment and intangible assests | | (1,529) | (2,180) |
| Proceeds from sale of property,equipment and intangible assets | | 2 | 655 |
| Interest income received | | 39 | – |
| Cash acquired as a result of acquisition of subsidiaries | 3 | 568 | – |
| **Net cash flows used in investing activities** | | **(920)** | **(1,525)** |
| **Financing activities** | | | |
| Proceeds from loans and borrowings | 7 | 10,002 | – |
| Repayment of loans and borrowings | 7 | (19,753) | (3,457) |
| Other financial charges | | (27) | (5) |
| **Net cash flows used in financing activities** | | **(9,778)** | **(3,462)** |
| **Net decrease in cash and cash equivalents** | | **(7,468)** | **(1,672)** |
| **Cash and cash equivalents at beginning of the period** | | **9,097** | **2,099** |
| **Net foreign exchange difference** | | **252** | **62** |
| **Cash and cash equivalents at end of the period** | | **1,881** | **489** |

*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" and subsidiaries 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".

Tele2 is a wireless telecommunication operator in Russia and provides a broad range of voice, data and other telecommunication services to retail customers, businesses, government clients and other telecommunications services providers.

Before October 2013, Tele2 Russia Holding AB (Sweden), the immediate parent of the Company which as of 31 March 2014 holds 74% of economic and 55% of voting interest of the Company, directly owned all the subsidiaries of the Group. In October 2013 as part of the internal reorganization the operating subsidiaries of Tele2 Russia Holding AB (Sweden) were transferred to the Company to establish the new intermediate holding company for the Group. The transaction represents a reorganization of the Group under common control.

- 6 regional subsidiaries and Tele2 Russia International Cellular B.V. were acquired by T2 Rus Holding LLC from Tele2 Russia Holding AB for a cash consideration of 20,832;
- 14 regional subsidiaries were transferred from Tele2 Russia Holding AB to T2 Rus Holding LLC as a contribution to charter capital in the amount equal to the fair value of these subsidiaries, which was determined by an independent appraisal firm in the amount of 76,489.

The reorganisation was accounted for using the pooling of interests method. Consequently, these interim condensed consolidated financial statements are presented as if the Group's entities have always been combined.

As of 31 March 2014 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%).

The interim condensed consolidated financial statements were authorised for issue by the Company's Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO") on 6 June 2014.

## 2. Basis of preparation and significant accounting policies

### Basis of preparation

The interim condensed consolidated financial statements for the three months ended 31 March 2014 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 financial statements as at 31 December 2013.

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

### 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 and presentation currency of each of the Group's companies. The functional currency of each of the Group companies has been determined as the currency of the primary economic environment in which the company operates.

### 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 2013, except for the adoption of new standards and interpretations effective from 1 January 2014.

Adoption of new standards and interpretations which are applicable to annual periods beginning on or after 1 January 2014:

***Offsetting Financial Assets and Financial Liabilities (Amendments to IAS 32)***

Amends IAS 32 *Financial Instruments: Presentation* to clarify certain aspects because of diversity in application of the requirements on offsetting, focused on four main areas:

- the meaning of 'currently has a legally enforceable right of set-off';
- the application of simultaneous realisation and settlement;
- the offsetting of collateral amounts and
- the unit of account for applying the offsetting requirements.

***Investment Entities (Amendments to IFRS 10, IFRS 12 and IAS 27)***

Amends IFRS 10 *Consolidated Financial Statements*, IFRS 12 *Disclosure of Interests in Other Entities* and IAS 27 *Separate Financial Statements* to:

- provide 'investment entities' (as defined) an exemption from the consolidation of particular subsidiaries and instead require that an investment entity measure the investment in each eligible subsidiary at fair value through profit or loss in accordance with IFRS 9 *Financial Instruments* or IAS 39 *Financial Instruments: Recognition and Measurement*
- require additional disclosure about why the entity is considered an investment entity, details of the entity's unconsolidated subsidiaries, and the nature of relationship and certain transactions between the investment entity and its subsidiaries
- require an investment entity to account for its investment in a relevant subsidiary in the same way in its consolidated and separate financial statements (or to only provide separate financial statements if all subsidiaries are unconsolidated).

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

**Significant accouting policies (continued)**

***Recoverable Amount Disclosures for Non-Financial Assets (Amendments to IAS 36)***

Amends IAS 36 *Impairment of Assets* to reduce the circumstances in which the recoverable amount of assets or cash-generating units is required to be disclosed, clarify the disclosures required, and to introduce an explicit requirement to disclose the discount rate used in determining impairment (or reversals) where recoverable amount (based on fair value less costs of disposal) is determined using a present value technique.

***Novation of Derivatives and Continuation of Hedge Accounting (Amendments to IAS 39)***

Amends IAS 39 *Financial Instruments: Recognition and Measurement* to make it clear that there is no need to discontinue hedge accounting if a hedging derivative is novated, provided certain criteria are met.

A novation indicates an event where the original parties to a derivative agree that one or more clearing counterparties replace their original counterparty to become the new counterparty to each of the parties. In order to apply the amendments and continue hedge accounting, novation to a central counterparty (CCP) must happen as a consequence of laws or regulations or the introduction of laws or regulations.

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

Amends IAS 19 *Employee Benefits* to clarify the requirements that relate to how contributions from employees or third parties that are linked to service should be attributed to periods of service. In addition, it permits a practical expedient if the amount of the contributions is independent of the number of years of service, in that contributions, can, but are not required, to be recognised as a reduction in the service cost in the period in which the related service is rendered.

***IFRIC 21 Levies***

Provides guidance on when to recognise a liability for a levy imposed by a government, both for levies that are accounted for in accordance with IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* and those where the timing and amount of the levy is certain.

The Interpretation identifies the obligating event for the recognition of a liability as the activity that triggers the payment of the levy in accordance with the relevant legislation. It provides the following guidance on recognition of a liability to pay levies:

- The liability is recognised progressively if the obligating event occurs over a period of time.
- If an obligation is triggered on reaching a minimum threshold, the liability is recognised when that minimum threshold is reached.

The adoption of these new and revised standards and interpretations did not have any significant effect on this interim condensed consolidated finanicial statements of the Group.

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

### Working capital deficit

As of 31 March 2014 the Group had negative working capital of approximately RUB 37 billion, which represents mainly RUB 22 billion of loans payable to Rostelecom and RUB 7 billion of dividends payable to Rostelecom. Subsequent to 31 March 2014, the Group has secured long-term bank loans totalling RUB 33 billion, which together with accumulated cash balances has allowed it to fully repay its short-term liability to Rostelecom outstanting as of 31 March 2014 by the date of this report. The Group believes it will continue to be able to generate sufficient operating cash flows and that adequate access to sources of funding is sufficient to meet the Group's 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.

### Non-IFRS measures

The Group's chief operating decision maker ("CODM") comprised of CFO, CEO and Deputy CEO evaluates the performance of the Group based on revenue and earnings before interest, taxes, depreciation and amortisation (hereinafter "EBITDA"). Since the EBITDA is not a standard measure under IFRS, the Group's definition of the EBITDA may differ from that of other companies.

Therefore, EBITDA should not be used to compare the Group against other companies or as a substitute for analysis of the Group's operating results as reported under IFRS. EBITDA is not a direct measure of the Group's liquidity, nor is it an alternative to cash flows from operating activities as a measure of liquidity, and it needs to be considered in the context of the Group's financial commitments. EBITDA may not be indicative of the Group's historical results, nor it is meant to be predictive of the Group's potential future results. The Group uses EBITDA as an indicator of the strength and performance of the Group's ongoing business operations, including the Group's ability to fund discretionary spending such as capital expenditure, acquisitions and other investments and the Group's ability to incur and service debt.

The following represents reconciliation of the EBITDA analyzed by the Group's CODM to profit before income tax expense for the three months ended 31 March.

| | **2014** | **2013** |
|---|---|---|
| **EBITDA** | **6,129** | **5,621** |
| Depreciation | (1,121) | (990) |
| Amortisation | (397) | (321) |
| Finance costs | (727) | (595) |
| Finance income | 39 | 38 |
| Foreign exchange loss, net | (854) | – |
| **Profit before income tax expense** | **3,069** | **3,753** |

## 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" ("Rostelecom") to purchase certain mobile business subsidiaries and assets ("Agreement").

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

In accordance with the Agreement, on 28 March 2014 Rostelecom contributed the following standalone mobile subsidiaries to the Group in exchange for 45% voting and 26% economic interests in the T2 RTK Holding LLC:

- 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.

In addition, Rostelecom has contributed to T2 RTK Holding LLC certain telecommunication equipment in total amount of 8,804 (hereinafter “RTK standalone operators”, together with the shares of standalone mobile subsidiaries transferered).

T2 RTK Holding LLC charter capital was increased by 26,874 to reflect 45% voting and 26% economic interest given up to Rostelecom.

The acquisitions of RTK standalone operators were accounted for as a business combination. The valuation of acquired assets, liabilities assumed and consideration transferred has not been finalised as of the date these interim condensed consolidated financial statements were authorised for issue; thus, the provisional measurements of the consideration transferred, certain intangible assets, deferred taxes and goodwill are subject to change.

The Group has consolidated the financial position and the results of operations of RTK standalone operators from 28 March 2014. If the acquisition had taken place at the beginning of the year, revenue for the period of the Group would have been 15,733 and profit for the period for the Group would have been 1,586.

## 3. Business combinations and goodwill (continued)

The table below includes the provisional allocation of the purchase price to the acquired net assets of RTK standalone operators based on their estimated fair values.

| | |
|---|---|
| Fixed assets | 42,622 |
| Intangible assets | 25,366 |
| Investments in associates | 4 |
| Loans issued | 90 |
| Deferred tax assets | 3,636 |
| Trade and other receivables | 225 |
| Current non-financial assets | 2,158 |
| Cash and cash equivalents | 567 |
| Other current assets | 640 |
| | **75,308** |
| **Liabilites** | |
| Interest-bearing loans and borrowings | 33,652 |
| Deferred tax liability | 5,769 |
| Dividends payable of acquired businesses | 7,000 |
| Trade and other payables | 4,942 |
| Current non-financial liabilities | 1,635 |
| Other liabilities | 161 |
| | **53,159** |
| **Total identifiable net assets at fair value** | **22,149** |
| Non-controlling interest at acquisition date measured at the proportionate share of the net assets | 1 |
| Goodwill arising on acquisition | 19,313 |
| Purchase consideration | 41,462 |

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 management estimated the fair value of consideration transferred 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, the Group's estimates which are based on the assumed growth rates. The discount rates used in the DCF analysis are intended to reflect the risks inherent in the future cash flows of the Group. The major assumptions used in the DCF models are presented below:

| | |
|---|---|
| Weighted average cost of capital (WACC) | 13.1% – 15.1% |
| Terminal growth | 1% – 5% |
| Minutes of use (MOU) growth | -1.5% – +1.5% |
| CAGR in 2G subscribers | -4.65% – -0.65% |
| Long-term CAPEX/Sales ratio after 2020 | 5.77% – 11.77% |

The goodwill recognised is attributable primarily to expected synergies from the acquisition and the value to be attributed to the workforce of RTK standalone operators. The Group has not yet finalized allocation of the goodwill to cash generating units.

## 4. Sales and marketing expenses

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

| | **2014** | **2013** |
|---|---|---|
| Advertising | 455 | 512 |
| Dealer commissions for connection of new subscribers | 1,018 | 1,203 |
| Cash collection commissions | 129 | 148 |
| **Total sales and marketing expenses** | **1,602** | **1,863** |

## 5. General and administrative expenses

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

| | 2014 | 2013 |
|---|---|---|
| Employee benefits and related social charges | 454 | 440 |
| Rent | 110 | 90 |
| Operating taxes | 127 | 133 |
| Professional services | 110 | 153 |
| Office maintenance | 23 | 74 |
| Other expenses | 100 | 13 |
| **Total general and administrative expenses** | **924** | **903** |

## 6. Income tax expense

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

| | 2014 | 2013 |
|---|---|---|
| Current income tax expense | 1,042 | 533 |
| Deferred income tax (income)/expense | (407) | 205 |
| **Income tax expense reported in the interim condensed consolidated statement of comprehensive income** | **635** | **738** |

## 7. Financial instruments

### Financial assets

Current and non-current financial assets are as follows:

| | 31 March 2014 | 31 December 2013 |
|---|---|---|
| Loans to Rostelecom, a related party | 90 | – |
| **Total non-current financial assets** | **90** | **–** |
| Trade and other receivables | 1,558 | 1,509 |
| Cash and cash equivalents | 1,881 | 9,097 |
| **Total current financial assets** | **3,439** | **10,606** |
| **Total non-current and current financial assets** | **3,529** | **10,606** |

### Financial liabilities

Current and non-current financial liabilities are as follows:

| | 31 March 2014 | 31 December 2013 |
|---|---|---|
| Trade and other payables | 9,026 | 5,525 |
| Dividends payable of acquired businesses | 7,000 | – |
| Non-current financial liabilities | 845 | 788 |
| Other current financial liabilities | 33 | 24 |
| Loans and borrowings | 63,194 | 38,121 |
| **Total financial liabilities** | **80,098** | **44,458** |

No specific collateral is provided for interest-bearing financial liabilities.

## 7. Financial instruments (continued)

### Loans and borrowings

Principal amounts outstanding under loans and borrowings are as follows:

| | Currency | Effective interest rate | Maturity | 31 March 2014 Short-term | 31 March 2014 Long-term | 31 December 2013 Short-term | 31 December 2013 Long-term |
|---|---|---|---|---|---|---|---|
| VTB Capital, a related paty | EUR | 3-month Euribor + 4.15% | March 2014 | – | – | 11,692 | – |
| Ruble Bonds | RUB | 8.77%-9.58% | 2021-2022 | – | 19,000 | 7,000 | 18,911 |
| Bank Rossiya, a related party | RUB | 9.25% | February 2015 | 5,000 | – | – | – |
| VTB Bank OJSC, a related party | RUB | MOSPRIME + 1.6% | April 2015 | 5,000 | – | – | – |
| Rostelecom OJSC, a related party | RUB | 8%-9.75% | April 2014 – October 2014 | 5,511 | 14,765 | – | – |
| Gazprombank OJSC, a related party | RUB | 8.25%-10.5% | December 2015 – December 2016 | 2,276 | 2,812 | – | – |
| VTB Bank OJSC, a related party | RUB | 9.5-9.9% | November 2015 – June 2016 | 450 | 567 | – | – |
| Sberbank OJSC, a related party | RUB | 8.1%-10.32% | Ocober 2014 – June 2016 | 579 | 2,060 | – | – |
| Svyaz-Bank OJSC, a related party | RUB | 9.5% | October 2015 | – | 449 | – | – |
| Raiffeisenbank CJSC | RUB | Mosprime – 1% | October 2014 | 100 | – | – | – |
| Other loans and borrowings | RUB | | | 116 | – | – | – |
| **Total principal amount outstanding under loans and borrowings** | | | | **19,032** | **39,653** | **18,692** | **18,911** |
| **Accrued interest payable** | | | | **4,509** | **–** | **518** | **–** |
| **Total loans and borrowings** | | | | **23,541** | **39,653** | **19,210** | **18,911** |

### Fair values

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 31 March 2014 | Carrying amount 31 December 2013 | Fair value 31 March 2014 | Fair value 31 December 2013 |
|---|---|---|---|---|
| **Financial assets** | | | | |
| Trade and other receivables | 1,558 | 1,509 | 1,558 | 1,509 |
| Cash and cash equivalents | 1,881 | 9,097 | 1,881 | 9,097 |
| Loans issued | 90 | – | 90 | – |
| **Total financial assets** | **3,529** | **10,606** | **3,529** | **10,606** |
| **Financial liabilities** | | | | |
| Non-current interest-bearing loans and borrowings | 39,653 | 18,911 | 39,455 | 19,085 |
| Current interest-bearing loans and borrowings | 23,541 | 19,210 | 23,541 | 19,210 |
| Finance lease – non-current portion | 845 | 788 | 845 | 788 |
| Trade and other payables | 9,026 | 5,525 | 9,026 | 5,525 |
| Dividends payable of acquired businesses | 7,000 | – | 7,000 | – |
| Other current financial liabilities | 33 | 24 | 33 | 24 |
| **Total financial liabilities** | **80,098** | **44,458** | **79,900** | **44,632** |

## 7. Financial instruments (continued)

### Fair values (continued)

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

The Group uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

- Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities;
- Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly;
- Level 3: techniques which use inputs that have a significant effect on the recorded fair value that are not based on observable market data.

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:

- Long-term fixed-rate and variable-rate receivables/borrowings are evaluated by the Group based on parameters such as interest rates, specific country risk factors, individual creditworthiness of the customer and the risk characteristics of the financed project. Based on this evaluation, allowances are taken into account for the expected losses of these receivables. As at 31 March 2014 and 31 December 2013, the carrying amounts of such receivables, net of allowances, were not materially different from their calculated fair values.
- Fair value of bonds is based on price quotations at the reporting date (Level 1). The fair value of remaining financial liabilities, including unquoted loans and borrowings, obligations under finance leases, trade accounts payable and other financial liabilities were not materially different from their calculated fair values.

## 8. 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.

The Russian economy is vulnerable to market downturns and economic slowdowns elsewhere in the world. The global financial crisis has resulted in uncertainty regarding further economic growth, availability of financing and cost of capital, 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.

## 8. 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 2014, 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 1.5 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 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 2014, 2013 and 2012 but also to the prior transactions with related parties if related income and expenses were recognised in 2014, 2013 and 2012. 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' liabilities, 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.

## 9. 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 2014 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 or had significant balances outstanding are detailed below.

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

| | | 31 March 2014 | 31 December 2013 |
|---|---|---|---|
| **Significant influence** | | | |
| VTB | Loans payable | 6,047 | 11,692 |
| | Cash and cash equivalents | 77 | 7,509 |
| Bank Rossiya | Loan payable | 5,058 | – |
| Rostelecom | Trade accounts receivable | 506 | 200 |
| | Trade accounts payable | 2,213 | 106 |
| | Loans payable | 24,198 | – |
| | Dividends payable | 7,000 | – |
| **Relationship through the Government** | | | |
| Sberbank OJSC | Loans payable | 2,645 | – |
| | Cash and cash equivalents | 33 | – |
| Svyaz-Bank OJSC | Loans payable | 449 | – |
| | Cash and cash equivalents | 23 | – |
| Gazprombank | Loans payable | 5,098 | – |
| | Cash and cash equivalents | – | – |

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 2014 | Three months ended 31 March 2013 |
|---|---|---|---|
| **Significant influence** | | | |
| VTB | Finance costs | 162 | – |
| Rostelecom | Revenue | 634 | – |
| | Interconnect expenses | (673) | – |
| **Entities under common control** | | | |
| Tele2 Financial Services A.B. | Interest income | – | 736 |
| | Interest expense | – | (587) |

## 9. Related parties (continued)

*Rostelecom*

Revenues and expenses from operations with Rostelecom are mainly related to the interconnection agreements with Rostelecom and its subsidiaries, and to the rent of telecommunication channels.

Loans payable to Rostelecom and finance costs mainly consist of:

- Loan received by Sky Link CJSC in the amount of 1,510 and promissory notes issued in the amount of 9,680 and interest payable in the amount of 2,997;
- Loan received by Moskovskaya Sotovaya Svyaz OJSC in the amount of 3,768 and interest payable in the amount of 169;
- Loans received by MS-Direct CJSC in the amount of 2,560 and interest payable in the amount of 254;
- Loans received by Astarta CJSC in the amount of 1,242 and interest payable in the amount of 22.

*Terms and conditions of transactions with related parties*

Outstanding balances at the periods ended 31 March 2014 and 31 December 2013 are unsecured. There have been no guarantees provided or received for any related party receivables or payables. As of 31 March 2014 and 31 December 2013, 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 2014 amounted to 138 (31 March 2013: 57).

## 10. Events after the reporting date

In April 2014, the Group entered into a ruble denominated credit line facility agreement with VTB Bank, a related party, in the amount of RUB 23 billion and bearing 3 months MOSPRIME + 1.6% interest maturing in five years. As of the date of this report, the Group has borrowed the full amount under this facility.

In April 2014, the Group entered into a ruble denominated credit line facility agreement with VTB Bank, a related party, in the amount of RUB 10 billion and bearing 10.55% interest maturing in five years. As of the date of this report, the Group has borrowed the full amount under this facility.

In April 2014, the Group had fully repaid its short-term liability to Rostelecom in the total amount of RUB 31 billion (RUB 24 billion of loans and borrowings and RUB 7 billion of dividends payable).

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

Management is monitoring current developments in the current political situation in Ukraine in respect of geopolitical risks including changes in Russia's sovereign credit rating in local and foreign currency by international rating agencies, the prospect of U.S. and EU economic sanctions following Russia's incorporation of Crimea, which may reduce the flow of potential investment, trigger rising capital outflows and other negative economic effects and taking actions where appropriate. These and any further possible negative developments in Ukraine could adversely impact results and the financial position of the Group in a manner not currently determinable.