



**T2 RTK Holding LLC**

Consolidated financial statements

*For the year ended 31 December 2014*

# T2 RTK Holding LLC

## Consolidated financial statements

For the year ended 31 December 2014

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## Independent auditors' report

The Board of Directors and Shareholders of T2 RTK Holding LLC

We have audited the accompanying consolidated financial statements of T2 RTK Holding LLC and its subsidiaries, which comprise the consolidated statement of financial position as of 31 December 2014, and the consolidated statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

### ***Management's responsibility for the consolidated financial statements***

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

### ***Auditors' responsibility***

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.



Совершенствуя бизнес,  
улучшаем мир

### **Opinion**

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of T2 RTK Holding LLC and its subsidiaries as at 31 December 2014, and its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards.

*Ernst & Young LLC*

6 April 2015

T2 RTK Holding LLC  
Consolidated statement of comprehensive income  
(In millions of Russian rubles)

	Note	2014	2013
<b>Revenue</b>			
Wireless services		87,359	65,317
<b>Operating income and expenses</b>			
Cost of services		(43,384)	(29,149)
Sales and marketing expenses	18	(11,180)	(7,789)
General and administrative expenses	19	(6,807)	(4,279)
Depreciation	10	(10,055)	(4,007)
Amortization	11	(4,894)	(1,355)
Gain/(loss) on disposal of non-current assets		(459)	26
Other operating income		1,030	97
Other operating expenses		(80)	(67)
<b>Total operating expenses, net</b>		<b>(75,829)</b>	<b>(46,523)</b>
<b>Operating profit</b>		<b>11,530</b>	<b>18,794</b>
Finance income		227	2,629
Finance expense		(6,912)	(4,645)
Foreign exchange loss, net		(2,291)	(340)
<b>Profit before income tax expense</b>		<b>2,554</b>	<b>16,438</b>
Income tax expense	9	(1,281)	(3,294)
<b>Net profit for the year being total comprehensive income for the year</b>		<b>1,273</b>	<b>13,144</b>

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

T2 RTK Holding LLC  
Consolidated statement of financial position  
(In millions of Russian rubles)

	Note	As of 31 December	
		2014	2013*
<b>Assets</b>			
<b>Non-current assets</b>			
Property and equipment	10	106,812	29,535
Intangible assets, other than goodwill	11	62,478	7,509
Goodwill	8	31,010	–
Loans issued	12	90	–
Deferred tax assets	9	5,802	1,604
<b>Total non-current assets</b>		<b>206,192</b>	<b>38,648</b>
<b>Current assets</b>			
Inventories		619	154
Trade and other receivables	14	6,435	2,351
VAT receivable		1,960	35
Prepaid expenses	13	1,637	667
Income tax receivable		1,655	183
Cash and cash equivalents	15	3,637	9,097
<b>Total current assets</b>		<b>15,943</b>	<b>12,487</b>
Assets classified as held for sale		16	–
<b>Total assets</b>		<b>222,151</b>	<b>51,135</b>
<b>Equity and liabilities</b>			
<b>Equity</b>			
Equity attributable to participants	7	97,654	(239)
Non-controlling interest		(13)	–
<b>Total equity</b>		<b>97,641</b>	<b>(239)</b>
<b>Non-current liabilities</b>			
Interest-bearing loans and borrowings	12	53,140	18,911
Other non-current financial liabilities	12	7,785	788
Provisions	16	1,478	127
Deferred tax liabilities	9	14,220	1,601
<b>Total non-current liabilities</b>		<b>76,623</b>	<b>21,427</b>
<b>Current liabilities</b>			
Interest-bearing loans and borrowings	12	18,700	19,210
Trade and other payables	17	21,723	6,367
Advances from customers		4,262	2,583
VAT payable		1,665	1,506
Income tax payable		397	257
Other current non-financial liabilities		112	–
Other current financial liabilities		1,028	24
<b>Total current liabilities</b>		<b>47,887</b>	<b>29,947</b>
<b>Total liabilities</b>		<b>124,510</b>	<b>51,374</b>
<b>Total equity and liabilities</b>		<b>222,151</b>	<b>51,135</b>

\* Certain amounts do not correspond to the consolidated financial statements as at 31 December 2013 and reflect reclassifications made as detailed in Note 6.

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

## T2 RTK Holding LLC

### Consolidated statement of changes in equity

*(In millions of Russian rubles)*

	Note	Charter capital	Other reserves	Retained earnings	Total equity attributable to partici- pants	Non- control- ling interest	Total equity
<b>As of 1 January 2013</b>		–	–	<b>10,470</b>	<b>10,470</b>	–	<b>10,470</b>
Dividends		–	–	(3,021)	(3,021)	–	(3,021)
Non-cash contribution to charter capital as part of reorganisation under common control	1	76,489	(76,489)	–	–	–	–
Other distributions to participants as part of reorganisation under common control	1	–	(20,832)	–	(20,832)	–	(20,832)
<b>Comprehensive income</b>							
Profit for the period		–	–	13,144	13,144	–	13,144
<b>Total comprehensive income</b>		–	–	<b>13,144</b>	<b>13,144</b>	–	<b>13,144</b>
<b>As of 31 December 2013</b>		<b>76,489</b>	<b>(97,321)</b>	<b>20,593</b>	<b>(239)</b>	–	<b>(239)</b>
Effect of business combinations	8	62,582	34,024	–	96,606	1	96,607
<b>Comprehensive income</b>							
Profit for the period		–	–	1,287	1,287	(14)	1,273
<b>Total comprehensive income</b>		–	–	<b>1,287</b>	<b>1,287</b>	<b>(14)</b>	<b>1,273</b>
<b>As of 31 December 2014</b>		<b>139,071</b>	<b>(63,297)</b>	<b>21,880</b>	<b>97,654</b>	<b>(13)</b>	<b>97,641</b>

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

T2 RTK Holding LLC  
Consolidated statement of cash flows  
(In millions of Russian rubles)

	Note	2014	2013
<b>Operating activities</b>			
<b>Profit before income tax</b>		<b>2,554</b>	<b>16,438</b>
<i>Adjusted:</i>			
Depreciation	10	10,055	4,007
Amortization	11	4,894	1,355
Finance expense		6,912	4,645
Finance income		(227)	(2,629)
Foreign exchange loss, net		2,291	340
(Gain)/loss on disposal of non-current assets		459	(26)
<b>Cash flow from operations before changes in working capital</b>		<b>26,938</b>	<b>24,130</b>
(Increase)/decrease in inventory		286	(65)
Decrease/(increase) in trade and other receivables		(498)	617
Decrease/(increase) in current non-financial assets		(2,429)	359
Increase/(decrease) in trade and other payables		(564)	450
Decrease in current non-financial liabilities		(824)	(17)
Income tax paid		(5,161)	(3,386)
Interest paid, net of interest paid and capitalized in amount of 411		(9,946)	(4,729)
<b>Net cash flow from operating activities</b>		<b>7,802</b>	<b>17,359</b>
<b>Investing activities</b>			
Purchase of property, equipment and intangible assets		(13,379)	(6,228)
Proceeds from sale of property, equipment and intangible assets		572	377
Proceeds from loans issued		–	23,615
Interest income received		227	2,629
Cash acquired with subsidiaries		1,628	–
<b>Net cash flow from (used in) investing activities</b>		<b>(10,952)</b>	<b>20,393</b>
<b>Financing activities</b>			
Proceeds from loans and borrowings		50,384	11,425
Repayment of loans and borrowings		(46,114)	(18,410)
Dividends paid		–	(3,021)
Dividends of acquired subsidiaries declared before the acquisition date	7	(7,000)	–
Other distributions to shareholder as part of reorganisation under common control	7	–	(20,835)
Other financial charges		–	(185)
<b>Net cash flows used in financing activities</b>		<b>(2,730)</b>	<b>(31,026)</b>
<b>Net increase/(decrease) in cash and cash equivalents</b>		<b>(5,880)</b>	<b>6,726</b>
<b>Cash and cash equivalents at beginning of year</b>		<b>9,097</b>	<b>2,099</b>
Net foreign exchange difference		420	272
<b>Cash and cash equivalents at end of year</b>		<b>3,637</b>	<b>9,097</b>

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

# T2 RTK Holding LLC

## Notes to the consolidated financial statements

For the year ended 31 December 2014

### 1. General 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.

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, directly wholly 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 T2 Rus Holding LLC to establish the new intermediate holding company for the Group. For accounting purposes, the transaction represented a reorganization of the Group under common control:

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

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

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

As a result of the transactions with Rostelecom in March 2014 and August 2014 (Note 8), the interest of Tele2 Russia Holding AB in the Company decreased to 55%.

As of 31 December 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%).

### 2. Basis of preparation

#### Statement of compliance

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (hereinafter "IFRS") as issued by the International Accounting Standards Board (hereinafter "IASB"), effective at the date these consolidated financial statements were prepared.

#### Basis of accounting

The consolidated financial statements have been prepared on a historical cost basis, unless disclosed otherwise.

## T2 RTK Holding LLC

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

#### 2. Basis of preparation (continued)

##### Basis of accounting (continued)

All companies within the Group maintain their accounting records in accordance with Russian Accounting Standards (hereinafter "RAS"). RAS differ substantially from IFRS. Accordingly, the consolidated financial statements, which have been derived from RAS accounting records, reflect those adjustments necessary for such consolidated financial statements to be presented in accordance with IFRS.

##### Functional and presentation currency

The 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.

##### Going concern

These consolidated financial statements are prepared on the going concern basis.

##### Working capital deficit

As of 31 December 2014, the Group had negative working capital of approximately RUB 31.6 billion (31 December 2013: RUB 17.5 billion). Subsequent to yearend, the Group has attracted long-term bank loans totalling RUB 40 billion (Note 23), which together with the planned operating cash inflow will allow the Group to repay its short-term liabilities as they become due. The Group believes it will continue to be able to generate sufficient operating cash flows and that 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.

#### 3. Basis of consolidation

The consolidated financial statements comprise the financial statements of the Company and its subsidiaries as at 31 December 2014. Control is achieved when the Company is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

Subsidiaries are consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date when such control ceases. The financial statements of the subsidiaries are prepared for the same reporting period as the parent company, using consistent accounting policies.

Profit or loss and each component of other comprehensive income ("OCI") are attributed to the equity holders of the Company and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies in line with the Group's accounting policies. All intercompany transactions, balances, income and expenses and profits and losses are eliminated upon consolidation.

## T2 RTK Holding LLC

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

#### 3. Basis of consolidation (continued)

The accompanying consolidated financial statements include assets, liabilities and results of operations of the Company and its subsidiaries as at 31 December 2014 and 2013 (all of the mentioned below subsidiaries carry out substantially all operations in Russia):

Name of subsidiary	Nature of business	Proportion of ownership interest and voting power held, %	
		2014	2013
"Finansovaya kompaniya T2 RUS" LLC*	Holding and financial company	–	100
"Upravlyayushchaya kompaniya T2 RUS" LLC	Holding and financial company	100	100
Tele2 Russia International Cellular BV	Holding and financial company	100	100
"Arkhangelskiye Mobilnye Seti" CJSC	Telecommunication services	100	100
"Belgorodskaya Sotovaya Svyaz" CJSC	Telecommunication services	100	100
"Teleset Ltd" CJSC	Telecommunication services	100	100
"Telekom Yevraziya" CJSC	Telecommunication services	100	100
"Parma Mobayl" CJSC	Telecommunication services	100	100
"Murmanskaya Mobilnaya Set" CJSC	Telecommunication services	100	100
"Novgorodskie telekommunikacii" CJSC	Telecommunication services	100	100
"Lipetsk Mobayl" CJSC	Telecommunication services	100	100
"Votek Mobayl" CJSC	Telecommunication services	100	100
"Rostovskaya Sotovaya Svyaz" CJSC	Telecommunication services	100	100
"Chelyabinskaya Sotovaya Svyaz" CJSC	Telecommunication services	100	100
"Personalnye Sistemy Svyazi v Regione" CJSC	Telecommunication services	100	100
"Sankt-Peterburg Telekom" JSC	Telecommunication services	100	100
"Sotovaya Cvyaz Udmurtii" CJSC	Telecommunication services	100	100
"Smolenskaya Sotovaya Svyaz" CJSC	Telecommunication services	100	100
"Sibirskaya Sotovaya Svyaz" CJSC	Telecommunication services	100	100
"Kurskaya Sotovaya Svyaz" CJSC	Telecommunication services	100	100
"Kemerovskaya Mobilnaya Svyaz" CJSC	Telecommunication services	100	100
"Millicom New Technologies in Communications" CJSC	Telecommunication services	100	100
"Akos" CJSC	Telecommunication services	94.44	–
"Apeks" OJSC	Telecommunication services	96.71	–
"Astarta" CJSC	Telecommunication services	100	–
"Baikalwestcom" CJSC	Telecommunication services	100	–
"BIT" CJSC	Telecommunication services	100	–
"Delta telecom" CJSC	Telecommunication services	100	–
"Kaliningradskie Mobilnie Seti" OJSC	Telecommunication services	100	–
"Moskovskaya sotovaya svyaz" OJSC	Telecommunication services	100	–
"MS-Direct" CJSC	Holding and financial company	100	–
"Nijegorodskiye Sotovie Seti" CJSC	Telecommunication services	100	–
"Pilar" LLC	Holding and financial company	100	–
"Saratovskaya sistema sotovoy svyazy" CJSC	Telecommunication services	100	–
"Skay-1800" CJSC	Telecommunication services	100	–
"Sky Link" CJSC	Telecommunication services	100	–
"Uralwestcom" CJSC	Telecommunication services	100	–
"Volgograd-GSM" CJSC	Telecommunication services	100	–
"Yenisey telecom" CJSC	Telecommunication services	100	–
"RT-Mobile" CJSC	Telecommunication services	100	–
"Tulskaya Sotovaya Svyaz" CJSC	Telecommunication services	100	–

\* The subsidiary "Finansovaya kompaniya T2 RUS" LLC was merged with "T2 RTK Holding" LLC in December 2014.

## T2 RTK Holding LLC

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

#### 4. Significant accounting policies

##### Business combinations and goodwill

The Group applies the acquisition method of accounting and recognises the assets acquired, the liabilities assumed and any non-controlling interest in the acquired company at the acquisition date, measured at their fair values as of that date.

Determining the fair value of assets acquired and liabilities assumed requires the use of management judgment and often involves the use of significant estimates and assumptions, including assumptions with respect to future cash inflows and outflows, discount rates, licence and other asset useful lives and market multiples, among other items. Results of subsidiaries acquired and accounted for by the acquisition method are included in operations from the relevant date of acquisition.

Any contingent consideration to be transferred by the acquirer will be recognised at fair value at the acquisition date. Contingent consideration classified as an asset or liability that is a financial instrument and within the scope of IAS 39 *Financial Instruments: Recognition and Measurement*, is measured at fair value with changes in fair value recognised in profit or loss. If the contingent consideration is not within the scope of IAS 39 *Financial Instruments: Recognition and Measurement*, it is measured in accordance with the appropriate IFRS. Contingent consideration that is classified as equity is not re-measured and subsequent settlement is accounted for within equity.

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred and the amount recognised for non-controlling interests, and fair value of any previous interest held, over the net identifiable assets acquired and liabilities assumed. If the fair value of the net assets acquired is in excess of the aggregate consideration transferred, the Group re-assesses whether it has correctly identified all of the assets acquired and all of the liabilities assumed and reviews the procedures used to measure the amounts to be recognised at the acquisition date. If the re-assessment still results in an excess of the fair value of net assets acquired over the aggregate consideration transferred, then the gain is recognised in profit or loss.

Goodwill is allocated to the cash generating units that are expected to obtain benefits as a result of the acquisition and is, along with the intangible assets with indefinite lives and intangible assets that are not yet ready to use, subject to annual impairment testing even if there is no indication of a decline in value. Impairment testing of goodwill is at the lowest level at which goodwill is monitored for internal management purposes and for which there are separately identifiable cash flows (cash generating units). The recoverable amount of the respective cash generating unit is based on the higher of estimated value in use and fair value less costs to sell.

In the case of reorganization or divestment involving a change in the composition of cash generating units to which goodwill has been allocated, the goodwill is allocated to the relevant parts. The allocation is based on the relative value of the part of the cash generating unit to which the reorganization or divestment relates, and the part that remains after the reorganization or the divestment.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is allocated from the acquisition date to each of the cash-generating units ("CGUs"), or groups of CGUs, that is expected to benefit from the synergies of the combination. Each CGU or any group of CGUs to which the goodwill is allocated represents the lowest level within the entity at which the goodwill is monitored for internal management purposes.

## T2 RTK Holding LLC

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

#### 4. Significant accounting policies (continued)

##### Reorganization under the common control

The Group uses the pooling of interests method, under which the consolidated financial statements reflect the carrying values of each of the regional subsidiaries as follows:

- ▶ The assets and liabilities of the combining entities are reflected at their carrying amounts. No adjustments are made to reflect fair values, or recognize any new assets or liabilities at the date of the combination that would otherwise be done under the acquisition method. The only adjustments that are made are to harmonize accounting policies.
- ▶ No “new” goodwill is recognised as a result of the combination. The only goodwill that is recognised is any existing goodwill relating to either of the combining entities. Any difference between the consideration paid/transferred and the equity 'acquired' is reflected within equity.
- ▶ The statement of comprehensive income reflects the results of the combining entities for the full year irrespective of when the combination took place.

##### Foreign currency transactions and translation

Transactions in foreign currencies are initially recorded at the functional currency rate at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange at the balance sheet date. All differences are taken to profit or loss. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions.

##### Revenue recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured, regardless of when the payment is being made. Revenue is measured at the fair value of the consideration received or receivable, taking into account contractually defined terms of payment and excluding discounts and VAT.

Wireless revenue includes revenue from services such as airtime charges from contract and prepaid subscribers, monthly contract fees, interconnect revenues, roaming charges and charges for value added services (hereinafter “VAS”). Wireless revenues are generally recognised when the services are rendered. Subscription charges for mobile services are recognised ratably in the period covered by subscription. Sales of prepaid cards, used as a method of cash collection, is accounted for as customer advances for future services and the respective revenue is deferred until the customer uses the airtime or the expiry date.

The revenue from provision of content is presented net of related costs when the Group acts as an agent of the content providers while gross revenues and related costs are recorded when the Group is a principal in the arrangement.

##### Dealer commissions

Dealer commissions are expensed as incurred. Dealer commissions in accordance with agreements which include provision of post-sales services and revenue sharing are recognised as the services are performed, generally during an eight-month period from the date a new subscriber is activated (Note 18).

##### Advertising costs

Advertising costs are expensed as incurred (Note 18).

## T2 RTK Holding LLC

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

#### 4. Significant accounting policies (continued)

##### **Government pension funds**

The Group contributes to the local state pension funds and social funds on behalf of its employees. The contributions are expensed as incurred. Contributions for the year ended 31 December 2014 were 872 (31 December 2013: 767).

##### **Income tax**

The tax expense for the year comprises current and deferred tax.

##### *Current income tax*

Tax is recognised in profit or loss, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity, respectively.

Current income tax is calculated on the basis of the tax laws enacted or substantively enacted at the reporting date in the country in which the Company and its subsidiaries operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. If the applicable tax regulation is subject to interpretation, it establishes a provision where appropriate on the basis of amounts expected to be paid to the tax authorities.

##### *Deferred income tax*

Deferred income tax is recognised using the liability method on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. However, deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting, nor taxable profit or loss. Deferred income tax is determined using tax rates and laws that have been enacted or substantively enacted by the reporting date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred income tax liability is provided on temporary differences arising on investments in subsidiaries and associates, except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

##### **Value added tax**

Value added tax (hereinafter "VAT") related to revenues is generally payable to the tax authorities on an accrual basis when invoices are issued to customers. VAT incurred on purchases may be offset, subject to certain restrictions, against VAT related to revenues, or can be reclaimed in cash from the tax authorities under certain circumstances.

Management periodically reviews the recoverability of VAT receivables and believes the amount reflected in the consolidated financial statements is fully recoverable within one year.

## T2 RTK Holding LLC

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

#### 4. Significant accounting policies (continued)

##### Property and equipment

Property and equipment is stated at cost, less accumulated depreciation and accumulated impairment losses, if any. Cost includes all costs directly attributable to bringing the asset to the location and condition for its intended use.

Depreciation is based on the acquisition value of the assets less estimated residual value at the end of the useful life and recognised on a straight-line basis throughout the asset's estimated useful life on the following basis:

Buildings	1-40 years
Telecommunication assets and related constructions	5-30 years
Other	5 years

Leasehold improvements are depreciated over the shorter of the lease term or the estimated useful lives of the assets. The lease term includes renewals when such renewals are reasonably assured.

The assets' residual values, useful lives and depreciation methods are reviewed and adjusted, if appropriate, at each reporting date.

Subsequent expenses for extension and value-increasing improvements are recognised as separate assets with specific useful lives, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably.

The assets' residual values, useful lives and depreciation methods are reviewed, and adjusted if appropriate, at each reporting date.

Repair and maintenance costs are expensed as incurred. The cost of major renovations and other subsequent expenditure is included in the carrying amount of the asset or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably.

At the time of retirement or other disposition of property or equipment, the cost and accumulated depreciation are removed from the accounts and any resulting gain or loss is recorded in profit or loss.

The present value of the expected cost for the decommissioning of an asset after its use is included in the cost of the respective asset (refer to Provisions below and Note 8 for further information about the recorded decommissioning provision).

##### Borrowing costs

Borrowing costs which are directly attributable to the acquisition, construction or production of an asset which requires considerable time to complete for its intended use are included in the acquisition value of the asset. Other borrowing costs are expensed in the period in which they arise. Borrowing costs consist of interest and other costs that the Group incurs in connection with the borrowing of funds.

## T2 RTK Holding LLC

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

#### 4. Significant accounting policies (continued)

##### Leases

A lease is classified as a finance lease if it transfers substantially all the economic risks and rewards of ownership of an asset to the lessee. When reporting a financial lease in the financial statements, the leased object is recognised as a tangible asset at the lower of its fair value and the present value of the minimum lease payments, and a corresponding amount is recognised as a lease obligation under financial liabilities. The asset is depreciated on a straight-line basis over the shorter of the lease term and its useful life, with the estimated residual value deducted at the end of the utilization period. Lease payments are apportioned between interest and repayment of the outstanding liability.

A lease is classified as an operating lease if substantially all the economic risks and rewards of ownership of an asset remain with the lessor. Payments made under operating leases (net of any incentives received from the lessor) are charged to profit or loss on a straight-line basis over the period of the lease.

##### Intangible assets

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is their fair value as of the date of acquisition. Following initial recognition, intangible assets are carried at cost, less accumulated amortization and impairment, if any. Intangible assets of the Group consist principally of operating licences and software.

The Group holds a number of licences entitling it to conduct telephony operations. The expenses related to the acquisition of these licences are recognised as an asset and amortized on a straight-line basis through the duration of the licence agreements.

The useful lives of intangible assets are assessed as either finite or indefinite. The Group continues to evaluate the amortization periods to determine whether events or circumstances warrant revised amortization periods. Additionally, the Group considers whether the carrying value of such assets should be impaired based on the expected future economic benefits.

The estimated useful lives per class of intangible assets are as follows:

Patents and software	3-15 years
Licences (frequency)	5-25 years
Trademarks	10 years
Client base	5-10 years
Other	2-15 years

##### Impairment of non-financial assets

Assets, including goodwill, that have indefinite useful lives are not subject to amortisation and are tested annually for impairment. Assets that are subject to depreciation or amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's or CGU's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's or CGU's fair value less costs to sell and value in use. The recoverable amount is determined for each individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets.

## T2 RTK Holding LLC

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

#### 4. Significant accounting policies (continued)

##### Impairment of non-financial assets (continued)

Impairment losses relating to continuing operations, including impairment on inventories, are recognised in profit or loss in the expense categories which are consistent with the function of the impaired asset.

For assets, other than goodwill, an assessment is made at each reporting date to determine whether there is an indication that previously recognised impairment losses no longer exist or have decreased. If such indication exists, the Group estimates the asset's or CGU's recoverable amount. A previously recognised impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognised. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in profit or loss unless the asset is carried at a revalued amount, in which case the reversal is treated as a revaluation increase.

Goodwill impairment reviews are undertaken annually as of 31 December or more frequently if events or changes in circumstances indicate potential impairment. Impairment is determined for goodwill by assessing the recoverable amount of each CGU (or group of CGUs) to which the goodwill relates. When the recoverable amount of the CGU is less than its carrying amount, impairment is recognised immediately as an expense and is not subsequently reversed.

For associates and joint ventures accounted for using the equity method, at each reporting date the Group determines whether there is objective evidence that the investment in the associate or joint venture is impaired. If there is such evidence, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate or joint venture and its carrying value, then recognises the loss as 'Share of profit of an associate and a joint venture' in the statement of profit or loss.

##### Non-current assets held for sale

Non-current assets are classified as assets held for sale and stated at the lower of carrying amount and fair value less costs to sell if their carrying amount is recovered principally through a sale transaction rather than through continuing use and the sale is considered highly probable.

##### Inventory

Inventory which primarily consists of SIM cards and pre-paid cards is stated at the lower of cost (under FIFO method) or net realisable value. Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs necessary to make the sale.

##### Cash and cash equivalents

Cash and cash equivalents comprise cash on bank accounts and deposits in banks with original maturities of three months or less.

## T2 RTK Holding LLC

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

#### 4. Significant accounting policies (continued)

##### **Provisions**

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and the amount can be reliably estimated. Provisions are not recognised for future operating losses.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. Any increase in the provision due to passage of time is recognised as finance costs.

##### *Decommissioning costs*

The Group has certain legal obligations related to rented sites for base stations, masts and towers, which include requirements to restore the real estate upon which the base stations, masts and towers are located.

Decommissioning costs are determined by calculating the present value of the expected costs to settle the obligation using estimated cash flows, and are recognised as part of the cost of the particular asset.

The cash flows are discounted at the current pre-tax rate that reflects the risks specific to the dismantling liability. The unwinding of the discount is expensed in profit or loss as finance costs. The estimated future costs of decommissioning are reviewed annually and adjusted as appropriate. Changes in the estimated future costs or in the discount rate applied are added to or deducted from the cost of the asset.

##### **Financial instruments**

##### ***Initial recognition***

Financial assets and financial liabilities within the scope of IAS 39 are recognised initially at fair value plus transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability, except for a financial asset or financial liability accounted for at fair value through profit or loss, in which case transaction costs are expensed.

##### ***Subsequent measurement of financial assets and liabilities***

The subsequent measurement of financial assets and liabilities depends on their classification as described below:

##### *Fair value through profit or loss*

Financial assets and liabilities accounted for at fair value through profit or loss are carried in the consolidated statement of financial position at fair value with changes in fair value being recognised in profit or loss.

## T2 RTK Holding LLC

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

#### 4. Significant accounting policies (continued)

##### Financial instruments (continued)

###### *Loans and receivables (assets) and borrowings and payables (liabilities)*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, loans and receivables and borrowings and payables are subsequently measured at amortised cost using the effective interest rate ("EIR") method. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The Amortization based on EIR is included in profit or loss.

###### ***De-recognition of financial assets***

A financial asset is de-recognised when the rights to receive cash flows from the asset have expired; or the Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a "pass-through" arrangement; and either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

###### ***Impairment of financial assets***

A financial asset or a group of financial assets is impaired and impairment losses are incurred if there is objective evidence of impairment as a result of an event that occurred subsequent to the initial recognition of the asset. The Group assesses at each reporting date whether there is objective evidence that a financial asset or group of assets may be impaired. For assets carried at amortised cost, the impairment loss is the difference between the asset's carrying amount and the present value of estimated future cash flows at the original effective interest rate.

The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in profit or loss. Financial assets together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Group. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a write-off is later recovered, the recovery is credited to the relevant costs in profit or loss.

###### ***De-recognition of financial liabilities***

A financial liability is de-recognised when the obligation under the liability is discharged, cancelled or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as the de-recognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognised in profit or loss.

###### ***Fair value of financial instruments***

Financial assets and financial liabilities within the scope of IAS 39 are recognised initially at fair value plus transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability, except for a financial asset or financial liability accounted for at fair value through profit or loss, in which case transaction costs are expensed. Fair value of financial instruments is measured in accordance with IFRS 13. Fair value of loan liabilities is measured using generally accepted methods, such as discounting expected future cash flows at prevailing interest rates.

## T2 RTK Holding LLC

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

#### 4. Significant accounting policies (continued)

##### Financial instruments (continued)

The fair value of financial instruments that are traded in active markets at each reporting date is determined by reference to quoted market prices or dealer price quotations, without any deduction for transaction costs. For financial instruments not traded in an active market, the fair value is determined using appropriate valuation techniques (a discounted cash flow analysis or other valuation models), that use observable and unobservable inputs which include prices paid in arm length market transactions, current fair value of another instrument that is substantially the same and etc.

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.

#### 5. Significant accounting judgments, estimates and assumptions

The preparation of these consolidated financial statements required management to make judgements, estimates and assumptions that affect the amounts reported in the consolidated statement of financial position and consolidated statement of comprehensive income. Actual results, however, could differ from estimates.

In the process of applying the Group's accounting policies, management has made the following judgments which have the most significant effect on the amounts recognised in the consolidated financial statements:

##### *Revenue recognition*

Management applies judgment in evaluating gross or net presentation of revenue and associated fees. In this case, among others, the main factor is whether the Company is considered as a principal in the transactions.

##### *Business combinations*

The Group has made acquisitions of subsidiaries from Rostelecom in 2014. The identification of assets acquired and liabilities assumed as a result of those acquisitions and quantification of resulting goodwill required significant judgment and estimates. Those estimates were based on comparative market information, entity-specific future cash flow projections, discount rates, terminal growth rates and other assumptions.

##### *Impairment of non-financial assets*

The Group tests goodwill for impairment annually and more often if impairment indicators exist, and tests other long-lived assets for impairment when circumstances indicate there may be a potential impairment (Note 11). Estimating recoverable amounts of assets and cash generating units is based on management's evaluations, including determining appropriate CGUs, estimates of future cash flows, discount rates, terminal growth rates, and assumptions about future market conditions.

## T2 RTK Holding LLC

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

#### 5. Significant accounting judgments, estimates and assumptions (continued)

##### *Depreciation and amortization*

Depreciation and amortization expenses are based on management's estimates of residual value, depreciation method and useful lives of property and equipment, and intangible assets. Estimates may change due to technological developments, competition, changes in market conditions and other factors, and may result in changes in estimated useful lives and depreciation and amortization charges. Critical estimates of useful lives of intangible assets are impacted by estimates of average customer relationship based on churn, remaining licence period and expected developments in technology and markets. The actual economic lives of long-lived assets may be different from the estimated useful lives. A change in estimated useful lives is accounted for prospectively as a change in accounting estimate.

To determine the accounting model for the 3G and 4G operating licences acquired in the business combinations (Note 8) the Group has evaluated additional factors, such as the ability to extend the Group's licences or obtain new licences and frequencies for a new standard, and international telecommunications carriers' practices of estimating the value of similar licences. The Group determined the useful life of 3G and 4G operating licences to be 25 years and applied a straight-line method of amortisation. The Group's assessment of useful life and amounts allocated to acquired 3G and 4G operating licences which relate to the acquisition of CJSC RT-Mobile are provisional and may be changed due to open measurement period.

##### *Deferred tax assets and uncertain tax positions*

The Group assesses the recoverability of deferred tax assets based on estimates of future earnings (Note 9). The ability to recover these taxes depends ultimately on the Group's ability to generate taxable earnings over the period for which the deferred tax assets remain deductible. The recognition of tax assets and liabilities depends on a series of factors, including estimates as to the timing and realisation of deferred tax assets and the projected tax payment schedule.

Actual Group income tax receipts and payments could differ from the estimates made by the Group as a result of changes in tax legislation or unforeseen transactions that could affect tax balances. The expected resolution of uncertain tax positions is based upon management's judgment of the likelihood of sustaining a position taken through tax audits, tax courts and/or arbitration, if necessary. Circumstances and interpretations of the amount or likelihood may change through the settlement process.

##### *Decommissioning provision*

The Group records a provision for decommissioning obligations associated with restoration of rented sites where base stations, masts and towers are installed (Note 16). In determining the carrying amount of the provision, assumptions and estimates are made in relation to discount rates, the expected cost to dismantle and remove the asset from the site, and the expected timing of those costs. The carrying amount of the provision as at 31 December 2014 was 1,477 (31 December 2013: 127).

## T2 RTK Holding LLC

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

#### 6. New and amended standards and interpretations

The Group has adopted the following new and amended IFRS and IFRIC interpretations as of 1 January 2014.

Standard	Content of change
<p><b>Amendments to IAS 32</b> <i>Offsetting Financial Assets and Financial Liabilities</i></p>	<p>Amends IAS 32, <i>Financial Instruments: Presentation</i> to clarify certain aspects because of diversity in application of the requirements on offsetting, focused on four main areas:</p> <ul style="list-style-type: none"> <li>▶ the meaning of 'currently has a legally enforceable right of set-off'</li> <li>▶ the application of simultaneous realisation and settlement'</li> <li>▶ the offsetting of collateral amounts'</li> <li>▶ the unit of account for applying the offsetting requirements.</li> </ul> <p>The Group analyzed the clarified meaning of 'currently has a legally enforceable right of set-off' of the amended IAS 32 and changed the presentation of accounts receivable and accounts payable in its consolidated financial statements. The effect of adoption of the amendments is an increase of accounts receivable and accounts payable in the amount of 900 as of 31 December 2014 and 842 as of 31 December 2013.</p>
<p>Amendments to IAS 36 <i>Recoverable Amount Disclosures for Non-Financial Assets</i></p>	<p>Amends IAS 36, <i>Impairment of Assets</i> 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 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.</p> <p>These amendments have no impact on the Group, as no impairment loss was recognized in the consolidated financial statements of the Group as of 31 December 2014.</p>
<p>IFRIC 21 <i>Levies</i></p>	<p>IFRIC 21 clarifies that an entity recognises a liability for a levy when the activity that triggers payment, as identified by the relevant legislation, occurs. For a levy that is triggered upon reaching a minimum threshold, the interpretation clarifies that no liability should be anticipated before the specified minimum threshold is reached. Retrospective application is required for IFRIC 21.</p> <p>This interpretation has no impact on the Group as it has applied the recognition principles under IAS 37 <i>Provisions, Contingent Liabilities and Contingent Assets</i> consistent with the requirements of IFRIC 21 in prior years.</p>
<p><i>Annual Improvements 2010-2012 Cycle</i></p>	<p>In the 2010-2012 annual improvements cycle, the IASB issued seven amendments to six standards, which included an amendment to IFRS 13 <i>Fair Value Measurement</i>. The amendment to IFRS 13 is effective immediately and, thus, for periods beginning at 1 January 2014, and it clarifies in the Basis for Conclusions that short-term receivables and payables with no stated interest rates can be measured at invoice amounts when the effect of discounting is immaterial. This amendment to IFRS 13 has no impact on the Group.</p>

The adoption of these new and revised standards and interpretations did not have significant effect on this consolidated financial statements of the Group, except for the amendments to IAS 32, as described above.

## T2 RTK Holding LLC

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

#### 6. New and amended standards and interpretations (continued)

##### *Standards issued but not yet effective*

Standards issued but not yet effective up to the date of issuance of the Group's financial statements are listed below. This listing of standards and interpretations issued are those that the Group reasonably expects to have an impact on disclosures, financial position or performance when applied at a future date. The Group intends to adopt these standards when they become effective.

<b>Standard</b>	<b>Content of change</b>
IFRS 15 <i>Revenue from Contracts with Customers</i>	<p>In May 2014 the IASB issued IFRS 15, <i>Revenue from Contracts with Customers</i>, a common revenue recognition guidance that replaces the following previous revenue recognition standards: IAS 18, <i>Revenue</i>, IAS 11, <i>Construction Contracts</i>, IFRIC 13, <i>Customer Loyalty Programmes</i>, IFRIC 15, <i>Agreements for the Construction of Real Estate</i>, IFRIC 18, <i>Transfers of Assets from Customers</i>, SIC-31, <i>Revenue – Barter Transactions Involving Advertising Services</i>.</p> <p>The core principle of the guidance is that an entity should recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. To achieve that core principle, an entity should apply the following steps:</p> <ul style="list-style-type: none"><li>▶ Step 1: Identify the contract(s) with a customer,</li><li>▶ Step 2: Identify the performance obligations in the contract,</li><li>▶ Step 3: Determine the transaction price,</li><li>▶ Step 4: Allocate the transaction price to the performance obligations in the contract,</li><li>▶ Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation.</li></ul> <p>For a public entity, the Standard is effective for annual reporting periods beginning on or after 1 January 2017. Early application is permitted.</p> <p>An entity should apply the amendments in this Standard using one of the following two methods:</p> <ol style="list-style-type: none"><li>1. Retrospectively to each prior reporting period presented and the entity may elect any of the following practical expedients:<ul style="list-style-type: none"><li>▶ For completed contracts, an entity need not restate contracts that begin and end within the same annual reporting period.</li><li>▶ For completed contracts that have variable consideration, an entity may use the transaction price at the date the contract was completed rather than estimating variable consideration amounts in the comparative reporting periods.</li><li>▶ For all reporting periods presented before the date of initial application, an entity need not disclose the amount of the transaction price allocated to remaining performance obligations and an explanation of when the entity expects to recognise that amount as revenue.</li></ul></li><li>2. Retrospectively with the cumulative effect of initially applying this standard recognised at the date of initial application. If an entity elects this transition method it also should provide the additional disclosures in reporting periods that include the date of initial application of:<ul style="list-style-type: none"><li>▶ The amount by which each financial statement line item is affected in the current reporting period by the application of IFRS 15 as compared to the guidance that was in effect before the change.</li><li>▶ An explanation of the reasons for significant changes.</li></ul></li></ol> <p>The Group is currently evaluating the possible effect of the Standard on its financial statements and the best date for its adoption, as well as the transition method to be used.</p>

## T2 RTK Holding LLC

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

#### 6. New and amended standards and interpretations (continued)

##### *Standards issued but not yet effective (continued)*

<b>Standard</b>	<b>Content of change</b>
IFRS 9 <i>Financial Instruments</i>	<p>In July 2014 the IASB completed its process to replace IAS 39, <i>Financial Instruments: Recognition and Measurement</i>, with the issuance of the final amendments to IFRS 9.</p> <p>The IASB divided its project to replace IAS 39 into three main phases.</p> <ul style="list-style-type: none"><li>▶ Phase 1: classification and measurement of financial assets and financial liabilities. In November 2009 the IASB issued the chapters of IFRS 9 relating to the classification and measurement of financial assets. Those chapters require financial assets to be classified on the basis of the business model within which they are held and their contractual cash flow characteristics. In October 2010 the IASB added to IFRS 9 requirements related to the classification and measurement of financial liabilities. In July 2014 the IASB made limited amendments to the classification and measurement requirements in IFRS 9 for financial assets.</li><li>▶ Phase 2: impairment methodology. In July 2014 the IASB added to IFRS 9 the impairment requirements related to the accounting for expected credit losses on an entity's financial assets and commitments to extend credit.</li><li>▶ Phase 3: hedge accounting. In November 2013 the IASB added to IFRS 9 the requirements related to hedge accounting.</li></ul> <p>IFRS 9 (July 2014) is effective for annual periods beginning on or after 1 January 2018. Earlier application is permitted. IFRS 9 (July 2014) should be applied retrospectively in accordance with IAS 8, <i>Accounting Policies, Changes in Accounting Estimates and Errors</i>. IFRS 9 (July 2014) should not be applied to items that have been derecognised at the date of initial application.</p> <p>The Group will adopt IFRS 9 (July 2014) from 1 January 2018. The Group is evaluating the effect of the standard on its financial statements.</p>
IAS 1 <i>Disclosure Initiative</i>	<p>In December 2014 the IASB issued, <i>Disclosure Initiative – Amendments to IAS 1</i>, which gave more guidance on disclosing information in the financial statements, presenting the line items and aggregating information in the financial statements, including the notes, ordering and grouping of the notes.</p> <p>The amendments are effective for annual periods beginning on or after 1 January 2016. The Group will adopt them from that date. The amendments affect presentation and disclosure only and have no impact on the Group's financial position or performance.</p>

#### 7. Equity

As a Russian limited liability company, the Company has no share capital; rather, it has registered capital contributed by the participants in the amounts specified in the charter that represent each participant's ownership interest. As such, no earnings per share are presented in these consolidated financial statements.

At the moment of state registration, the Company's authorized charter capital amounted to RUB 10,000. In October 2013, the charter capital was increased to 76,489.

As a result of business combinations in 2014, share capital of the Group was increased to 139,071 (Note 8).

## T2 RTK Holding LLC

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

#### 8. Business combinations and goodwill

##### Acquisition of subsidiaries from Rostelecom

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 RUR 314 million payable in cash. 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 licences.

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

- ▶ 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.

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.

## T2 RTK Holding LLC

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

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

##### Acquisition of subsidiaries from Rostelecom (continued)

The Group has consolidated these businesses acquired from 28 March 2014. From the date of acquisition, these businesses contributed 17,280 of revenue and loss before tax of 6,605 to profit before tax of the Group. If the acquisition had taken place at the beginning of the year, revenue for the Group would have been 93,230; profit before tax of the Group for the period would have been 60.

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

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

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

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

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

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

## T2 RTK Holding LLC

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

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

##### Acquisition of subsidiaries from Rostelecom (continued)

The acquisition of CJSC RT-Mobile was accounted for as a separate business combination wherein the Group applied the acquisition method of accounting and recognised the assets acquired and liabilities assumed at the acquisition date, measured at their fair values as of that date. The acquired net assets of CJSC RT-Mobile recognised in the Group's consolidated financial statements were based on a provisional assessment of their fair value. The provisional amounts of fair value of the net assets as of the acquisition date are presented below:

	<b>Provisional amounts as of 5 August 2014</b>
<b>Assets</b>	
Property and equipment	31,459
Intangible assets	32,952
Deferred tax assets	581
Trade and other receivables	3,067
Inventories	211
Income tax receivable	233
Cash and cash equivalents	1,061
	<b>69,564</b>
<b>Liabilities</b>	
Deferred tax liability	8,962
Trade and other payables	7,667
Income tax payable	72
Current non-financial liabilities	3,242
Other liabilities	5,206
	<b>25,149</b>
<b>Total identifiable net assets at fair value</b>	<b>44,415</b>
Goodwill arising on acquisition	10,730
Purchase consideration (19% economic interest in the Group)	55,145

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

The Group has consolidated CJSC RT-Mobile from 5 August 2014. From the date of acquisition, CJSC RT-Mobile contributed 6,080 of revenue and loss of 2,413 to profit before tax of the Group. If the acquisition had taken place at the beginning of the year, revenue for the Group would have been 92,225; profit for the period for the Group would have been 625.

The goodwill recognised is attributable primarily to expected synergies from the acquisition. The Group has not yet finalized allocation of the goodwill to cash generating units.

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, on the Group's estimates which are based on the assumed growth rates.

## T2 RTK Holding LLC

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

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

##### Acquisition of subsidiaries from Rostelecom (continued)

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%
Compound annual growth rate (CAGR) in 2G subscribers	-4.65% – -0.65%
Long-term CAPEX/Sales ratio after 2020	5.77%-11.77%

#### 9. Income taxes

The following presents the significant components of income tax expense of the Group for the years ended 31 December:

	2014	2013
Current income tax expense	3,807	3,387
Deferred income tax benefit	(2,526)	(93)
<b>Income tax expense reported in the consolidated statement of comprehensive income</b>	<b>1,281</b>	<b>3,294</b>

The taxation charge for the year is different from that which would be obtained by applying the statutory income tax rate to the profit before income tax expense. Below is the reconciliation of theoretical income tax expense at the statutory rate of 20% to the actual expenses recorded in the Group's consolidated financial statements.

	2014	2013
<b>Profit before income tax expense</b>	2,554	16,438
Theoretical income tax expense at the statutory rate of 20%	(511)	(3,286)
<i>Adjustments due to:</i>		
Non-deductible expenses	(712)	(34)
Other	(58)	26
<b>Income tax expense</b>	<b>(1,281)</b>	<b>(3,294)</b>

The increase of non-deductible expenses in 2014 is generally attributed to certain expenses, the deductibility of which is uncertain and appropriate tax provision for which was recognized by the Group.

## T2 RTK Holding LLC

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

#### 9. Income tax (continued)

The tax effect on the major temporary differences that give rise to the deferred tax assets and liabilities as at 31 December 2014 and 2013 is presented below:

			Consolidated statement of comprehensive income	
	2014	2013	2014	2013
<b>Deferred income tax assets</b>				
Unutilized loss carry-forwards	6,099	1,153	1,361	31
Intangible assets	554	148	406	148
Property and equipment	3,187	33	3,154	(121)
Trade and other receivables	438	70	274	70
Other non-current financial liabilities	1,550	–	(68)	–
Provisions, non-current	333	–	(294)	–
Trade and other payables	1,449	745	535	183
<b>Total deferred income tax assets</b>	<b>13,610</b>	<b>2,149</b>	<b>5,368</b>	<b>311</b>
Netted against deferred liabilities	(7,808)	(545)	–	–
<b>Total deferred income tax assets presented in the statement of financial position</b>	<b>5,802</b>	<b>1,604</b>	<b>5,368</b>	<b>311</b>
<b>Deferred income tax liabilities</b>				
Intangible assets	(10,921)	(89)	1,028	(29)
Property and equipment	(10,787)	(2,053)	(3,554)	(217)
Trade and other receivables	(158)	–	(158)	–
Other	(162)	(4)	(158)	28
<b>Total deferred income tax liabilities</b>	<b>(22,028)</b>	<b>(2,146)</b>	<b>(2,842)</b>	<b>(218)</b>
Netted against deferred assets	7,808	545	–	–
<b>Total deferred income tax liabilities presented in the statement of financial position</b>	<b>(14,220)</b>	<b>(1,601)</b>	<b>(2,842)</b>	<b>(218)</b>
<b>Net deferred income tax assets or (liabilities)</b>	<b>(8,418)</b>	<b>3</b>	<b>2,526</b>	<b>93</b>

At 31 December 2014, there was no recognised deferred tax liability for taxes that would be payable on the unremitted earnings of the Group's subsidiaries in the amount of approximately 4,810 (31 December 2013: 945), as the Group has determined that undistributed profits of its subsidiaries will not be distributed in the foreseeable future.

The Group recognises deferred tax assets in respect of tax losses carried forward to the extent that realisation of tax losses against future taxable profit is probable. In order to utilise tax losses the Group is able to implement appropriate tax planning strategies which include merging of the loss making subsidiaries with other operating subsidiaries of the Group, which are expected to have sufficient pretax income to utilise the accumulated tax losses of the loss making subsidiaries. At 31 December 2014 the amount of unrecognized deferred tax asset was 613.

T2 RTK Holding LLC

Notes to the consolidated financial statements (continued)

**10. Property and equipment**

Property and equipment are as follows:

	Machinery & Technical assets			Equipment, tools & installations	Construction in progress	Total
	Buildings	Own assets	Finance lease			
<b>Cost</b>						
<b>1 January 2013</b>	<b>293</b>	<b>38,736</b>	<b>658</b>	<b>1,858</b>	<b>1,736</b>	<b>43,281</b>
Additions	–	–	197	–	3,861	<b>4,058</b>
Disposals	(9)	(959)	–	(102)	(10)	<b>(1,080)</b>
Transfer	326	3,019	–	778	(4,123)	–
<b>31 December 2013</b>	<b>610</b>	<b>40,796</b>	<b>855</b>	<b>2,534</b>	<b>1,464</b>	<b>46,259</b>
Additions	121	716	1,088	40	11,077	<b>13,042</b>
Acquired through business combination	3,265	44,577	6,010	921	20,308	<b>75,081</b>
Disposals	(6)	(2,907)	–	(368)	(393)	<b>(3,674)</b>
Transfer	61	9,414	–	477	(9,952)	–
<b>31 December 2014</b>	<b>4,051</b>	<b>92,596</b>	<b>7,953</b>	<b>3,604</b>	<b>22,504</b>	<b>130,708</b>
<b>Depreciation</b>						
<b>1 January 2013</b>	<b>(104)</b>	<b>(12,469)</b>	<b>(42)</b>	<b>(1,044)</b>	–	<b>(13,659)</b>
Charge for the year	(109)	(3,489)	(50)	(359)	–	<b>(4,007)</b>
Disposals	6	855	–	81	–	<b>942</b>
<b>31 December 2013</b>	<b>(207)</b>	<b>(15,103)</b>	<b>(92)</b>	<b>(1,322)</b>	–	<b>(16,724)</b>
Charge for the year	(313)	(8,633)	(414)	(695)	–	<b>(10,055)</b>
Disposals	3	2,481	–	399	–	<b>2,883</b>
<b>31 December 2014</b>	<b>(517)</b>	<b>(21,255)</b>	<b>(506)</b>	<b>(1,618)</b>	–	<b>(23,896)</b>
<b>Net book value</b>						
<b>1 January 2013</b>	<b>189</b>	<b>26,267</b>	<b>616</b>	<b>814</b>	<b>1,736</b>	<b>29,622</b>
<b>31 December 2013</b>	<b>403</b>	<b>25,693</b>	<b>763</b>	<b>1,212</b>	<b>1,464</b>	<b>29,535</b>
<b>31 December 2014</b>	<b>3,534</b>	<b>71,341</b>	<b>7,447</b>	<b>1,986</b>	<b>22,504</b>	<b>106,812</b>

Interest capitalised for the year ended 31 December 2014 was 411 (31 December 2013: nil). The capitalization rate for the year ended 31 December 2014 was 7% (31 December 2013: nil).

## T2 RTK Holding LLC

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

#### 11. Intangible assets

Intangible assets other than Goodwill are as follows:

	Patents and software	Licences (frequency)	Trademarks	Client base	Other	Total
<b>Cost</b>						
<b>1 January 2013</b>	<b>5,934</b>	<b>2,573</b>	<b>1</b>	<b>–</b>	<b>525</b>	<b>9,033</b>
Additions	2,122	630	–	–	–	2,752
Disposals	(97)	–	–	–	(4)	(101)
<b>31 December 2013</b>	<b>7,959</b>	<b>3,203</b>	<b>1</b>	<b>–</b>	<b>521</b>	<b>11,684</b>
Additions	433	114	5	–	1,005	1,557
Acquired through business combination	2,494	37,911	305	11,908	5,700	58,318
Disposals	(266)	(80)	0	–	(70)	(416)
<b>31 December 2014</b>	<b>10,620</b>	<b>41,148</b>	<b>311</b>	<b>11,908</b>	<b>7,156</b>	<b>71,143</b>
<b>Amortization</b>						
<b>1 January 2013</b>	<b>(1,783)</b>	<b>(678)</b>	<b>–</b>	<b>–</b>	<b>(422)</b>	<b>(2,883)</b>
Charge for the year	(1,044)	(286)	–	–	(25)	(1,355)
Disposals	60	1	–	–	2	63
<b>31 December 2013</b>	<b>(2,767)</b>	<b>(963)</b>	<b>–</b>	<b>–</b>	<b>(445)</b>	<b>(4,175)</b>
Charge for the year	(2,568)	(1,074)	(231)	(979)	(42)	(4,894)
Disposals	258	80	–	–	66	404
<b>31 December 2014</b>	<b>(5,077)</b>	<b>(1,957)</b>	<b>(231)</b>	<b>(979)</b>	<b>(421)</b>	<b>(8,665)</b>
<b>Net book value</b>						
<b>1 January 2013</b>	<b>4,151</b>	<b>1,895</b>	<b>1</b>	<b>–</b>	<b>103</b>	<b>6,150</b>
<b>31 December 2013</b>	<b>5,192</b>	<b>2,240</b>	<b>1</b>	<b>–</b>	<b>76</b>	<b>7,509</b>
<b>31 December 2014</b>	<b>5,543</b>	<b>39,191</b>	<b>80</b>	<b>10,929</b>	<b>6,735</b>	<b>62,478</b>

#### *Goodwill*

Goodwill was recognized in the consolidated financial statements of the Group as part of business combinations which took place in 2014 (Note 8). The Group performed its annual goodwill impairment test as of 31 December 2014 using data that was appropriate at that time. As a result of the annual test, no impairment of goodwill was identified in 2014. Goodwill acquired through the business combinations was tested at the level of the Group as a whole, that represent single CGU. In assessing whether goodwill has been impaired, the carrying values of the CGU (including goodwill) were compared with its estimated recoverable amounts.

The recoverable amount of the CGU has been determined based on fair value less costs to sell (Level 3). The recoverable amount was estimated using cash flow projections covering the period up to 2019.

The calculation of recoverable amount for the CGU is most sensitive to the following assumptions: average monthly revenue per user (“ARPU”), discount rates, market share, and capital expenditures (“CAPEX”) to revenues ratio.

## T2 RTK Holding LLC

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

#### 11. Intangible assets (continued)

##### *Goodwill (continued)*

The key assumptions used in the forecast are as follows:

- ▶ WACC – 16.1%;
- ▶ revenue growth rates vary based on numerous factors, including size of market, GDP (Gross Domestic Product), foreign currency projections, traffic growth, market share and others from 0% to 30%;
- ▶ long-term EBITDA margin growth rate varies from one region to another resulting in increase by more than 50%;
- ▶ forecasted ARPU growth rate varies from one region to another, resulting in increase by up to 20%;
- ▶ terminal growth rate is estimated based on long-term inflation forecast (not exceeding 2%);
- ▶ CAPEX/Revenue ratio is estimated up to 40% in the period from 2015-2019, starting 2020 – 10%.

Based on the sensitivity analysis performed by management, there are no reasonably possible changes in the key assumptions that could result in impairment for the CGU.

#### 12. Financial assets and liabilities

##### Financial assets

Current and non-current financial assets are as follows:

	31 December	
	2014	2013
Loans issued	90	–
<b>Total non-current financial assets</b>	<b>90</b>	<b>–</b>
Trade and other receivables	6,435	2,351
Cash and cash equivalents	3,637	9,097
<b>Total current financial assets</b>	<b>10,072</b>	<b>11,448</b>
<b>Total non-current and current financial assets</b>	<b>10,162</b>	<b>11,448</b>

##### Financial liabilities

Current and non-current financial liabilities are as follows:

	31 December	
	2014	2013
Trade and other payables	21,723	6,367
Other non-current financial liabilities (finance lease)	7,785	788
Other current financial liabilities	1,028	24
Interest-bearing loans and borrowings	71,841	38,121
<b>Total financial liabilities</b>	<b>102,377</b>	<b>45,300</b>

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

## T2 RTK Holding LLC

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

#### 12. Financial assets and liabilities (continued)

##### Loans and borrowings

Principal amounts outstanding under loans and borrowings are as follows as of 31 December:

	Cur- rency	Nominal interest rate	Maturity	2014		2013	
				Short- term	Long- term	Short- term	Long- term
Ruble Bonds	RUB	8.4%-9.1%	2015-2016 February 2015 –	6,000	12,963	7,000	18,911
Bank Rossiya	RUB	9.25%-10.5%	June 2017	5,000	5,000	–	–
VTB Bank OJSC	RUB	MOSPRIME + 1.6%	March 2015	5,000	–	–	–
	RUB	MOSPRIME + 2.5%	April 2019	–	22,851	–	–
	RUB	3m USD LIBOR + 9.55%	April 2019	–	9,935	–	–
Gazprombank OJSC	RUB	8.25%-9.2%	September 2014 – November 2016	–	464	–	–
	RUB		July 2014 –				
Sberbank OJSC	RUB	8.1%-9.5%	January 2017	2,350	1,817	–	–
Svyaz-Bank OJSC	RUB	9.5%-10.5%	May 2017	–	110	–	–
Nordea Bank OJSC	RUB	MOSPRIME + 3.5%	January 2015	5	–	–	–
Magalyascom	RUB	7%-9%	December 2015	1	–	–	–
	RUB	3-month Euribor + 4.15%	March 2014	–	–	11,692	–
<b>VTB Capital</b>	EUR						
<b>Total principal amount</b>				<b>18,356</b>	<b>53,140</b>	<b>18,692</b>	<b>18,911</b>
<b>Accrued interest payable</b>				<b>344</b>	<b>–</b>	<b>518</b>	<b>–</b>
<b>Total loans and borrowings</b>				<b>18,700</b>	<b>53,140</b>	<b>19,210</b>	<b>18,911</b>

In 2011 Tele2 issued three series of ruble denominated bonds, in an aggregate principal amount of RUB 13 billion. The bonds are due for repayment by three tranches up to 2022, subject to a five-year put option. The coupon rate is 8.4% per annum, paid semi-annually.

In 2012 Tele2 issued two series of ruble denominated bonds, in an aggregate principal amount of 13 billion RUB. The bonds are due for repayment by two tranches up to 2022, subject to a three- and two-years put options, respectively. The coupon rate for both series was set at 9.1% and 8.9% per annum, respectively, and paid semi-annually.

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. Subsequently to the year-end, the maturity period was extended to November 2015.

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

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.

## T2 RTK Holding LLC

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

#### 12. Financial assets and liabilities (continued)

##### Loans and borrowings (continued)

The loan agreements with Sberbank, Gazprombank, a related party, Svyaz-Bank, a related party, and Nordea Bank were entered by the subsidiaries acquired by the Group as part of business combinations transactions with Rostelecom (Note 8).

However as of 31 December 2014 the Group did not meet certain covenants requirements in accordance with loans agreement with Sberbank and this respective liability in the amount of 971 was classified as short-term in this consolidated financial statements, Group negotiates the covenant's conditions in the agreement with Sberbank, because all of them were determined before acquired by Tele2.

##### 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		Fair value	
	2014	2013	2014	2013
<i>Level 1</i>				
<b>Financial liabilities</b>				
Non-current interest-bearing loans and borrowings (ruble bonds)	12,963	18,911	11,744	19,085
<b>Total</b>	<b>12,963</b>	<b>18,911</b>	<b>11,744</b>	<b>19,085</b>
<i>Level 3</i>				
<b>Financial assets</b>				
Trade and other receivables (Note 14)	6,435	2,351	6,435	2,351
Cash and cash equivalents (Note 15)	3,637	9,097	3,637	9,097
Loans issued	90	–	90	–
<b>Total financial assets</b>	<b>10,162</b>	<b>11,448</b>	<b>10,162</b>	<b>11,448</b>
<b>Financial liabilities</b>				
Non-current interest-bearing loans and borrowings	40,177	–	40,177	–
Current interest-bearing loans and borrowings	18,700	19,210	18,700	19,210
Finance lease – non-current portion	7,726	788	7,726	788
Trade and other payables	21,723	5,525	21,723	5,525
Other non-current financial liabilities	59	–	59	–
Other current financial liabilities	1,028	24	1,028	24
<b>Total financial liabilities</b>	<b>89,413</b>	<b>25,547</b>	<b>89,413</b>	<b>25,547</b>

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.

## T2 RTK Holding LLC

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

#### 12. Financial assets and liabilities (continued)

##### Finance lease

Future minimum lease payments under finance leases together with the present value of the net minimum lease payments are, as follows:

	2014		2013	
	Present value	Nominal value	Present value	Nominal value
Within 1 year	1,028	1,850	27	124
From 1 to 5 years	2,582	4,773	144	492
More than 5 years	5,144	8,780	644	1,026
<b>Total liability</b>	<b>8,754</b>	<b>15,403</b>	<b>815</b>	<b>1,642</b>
Less interest portion	–	(6,649)	–	(827)
<b>Total finance leases</b>	<b>8,754</b>	<b>8,754</b>	<b>815</b>	<b>815</b>

The Group leases towers used for the base stations and transmission equipment from Russian Towers, an unrelated owner of antenna and masts constructions. The agreement with Russian Towers is effective for fifteen years with a renewal option.

In 2014, the Group entered into agreements with Rostelecom, a related party, which granted the Group a right to use fiber optic lines owned by Rostelecom. The lease term under the agreement equals to the whole economic life of the respective fiber optic lines (approximately 15 years). The Group classified the respective agreements as finance lease and recognized RUR 7.1 billion in property and equipment and other non-current financial liabilities as of the commencement date.

#### 13. Prepaid expenses

Prepaid expenses are presented as follows:

	2014	2013
<b>Prepaid expenses</b>		
Site leases	455	266
Administration expenses	327	156
Billing and IT costs	50	72
Sales and marketing services	13	69
Channels rent	129	26
Other prepayments	663	78
<b>Total prepaid expenses</b>	<b>1,637</b>	<b>667</b>

#### 14. Trade and other receivables

Trade and other receivables are as follows:

	2014	2013
Interconnection agreements	3,546	1,628
Dealers	1,838	538
Own subscribers	898	362
Other trade receivables	892	142
Allowance for doubtful accounts	(739)	(319)
<b>Total trade and other receivables</b>	<b>6,435</b>	<b>2,351</b>

## T2 RTK Holding LLC

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

#### 14. Trade and other receivables (continued)

The ageing analysis of trade and other receivables is as follows:

	<b>2014</b>	<b>2013</b>
Neither past due nor impaired	3,230	2,645
<b>Past due but not impaired</b>		
Less than 30 days	1,838	14
31-60 days	2,106	11
<b>Past due and impaired</b>		
More than 61 days	(739)	(319)
<b>Total trade and other receivables</b>	<b>6,435</b>	<b>2,351</b>

Trade receivables are non-interest bearing and are generally on 30 day terms.

The following table summarises the changes in the impairment allowance for trade and other receivables for the years ended 31 December:

	<b>2014</b>	<b>2013</b>
Balance at beginning of year	319	268
Charge for the year	941	240
Utilized	(521)	(189)
<b>Balance at end of year</b>	<b>739</b>	<b>319</b>

#### 15. Cash and cash equivalents

Cash and cash equivalents are as follows:

	<b>2014</b>	<b>2013</b>
<b>Cash and bank balances</b>		
Rubles	2,639	581
US dollars	23	5
Euros	464	4,521
<b>Short-term bank deposits</b>		
Rubles	511	3,990
<b>Total cash and cash equivalents</b>	<b>3,637</b>	<b>9,097</b>

As of 31 December, 2014 the Group had RUB 3.3 billion of cash and cash equivalents with VTB Bank, a related party (Note 20).

#### 16. Provisions

##### *Decommissioning provision*

The following table describes the changes to the provision for decommissioning liability for the years ended:

	<b>2014</b>	<b>2013</b>
Balance at beginning of year	127	142
Accrual	1,368	7
Reversal	(76)	(47)
Unwinding of discount	59	25
<b>Balance at end of year</b>	<b>1,478</b>	<b>127</b>

## T2 RTK Holding LLC

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

#### 17. Trade and other payables

Trade and other payables are as follows:

	<b>2014</b>	<b>2013</b>
Employee benefits	2,283	1,203
Interconnection traffic costs	3,455	1,676
Administration expenses	591	264
Equipment suppliers	6,980	677
Suppliers of intangible assets	2,040	505
Sales and marketing services	1,607	758
Network maintenance	300	309
Site leases	1,552	417
Channel rent	2,040	–
Payables to shareholders (Note 8)	314	–
Other	561	558
<b>Total trade and other payables</b>	<b>21,723</b>	<b>6,367</b>

#### 18. Sales and marketing expenses

Sales and marketing expenses for the years ended 31 December are as follows:

	<b>2014</b>	<b>2013</b>
Dealer commissions for connection of new subscribers	7,291	4,658
Advertising	3,088	2,507
Cash collection commissions	801	624
<b>Total sales and marketing expenses</b>	<b>11,180</b>	<b>7,789</b>

#### 19. General and administrative expenses

General and administrative expenses for the years ended 31 December are as follows:

	<b>2014</b>	<b>2013</b>
Employee benefits and related social charges	3,607	1,928
Rent	755	340
Operating taxes	744	562
Professional services	778	1,069
Office maintenance	155	330
Other expenses	768	50
<b>Total general and administrative expenses</b>	<b>6,807</b>	<b>4,279</b>

Total amount of employee benefits and related social charges recorded in the statement of comprehensive income for the year ended 31 December 2014 amounted to 8,770 (2013: 4,240).

#### 20. 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. Before April 2013, the ultimate controlling party of the Group was Tele2 AB (Sweden). From 4 April 2013 all companies of Tele2 AB Group (Sweden) are no longer related parties to the Group. As of 31 December 2014, the Group is controlled by T2 Netherlands B.V., 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).

## T2 RTK Holding LLC

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

#### 20. Related parties (continued)

The government of the Russian Federation has a significant influence on the Group as it is the ultimate controlling party of the VTB Group. 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 as 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 at 31 December 2014 and 2013 is detailed below.

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

		2014	2013
<b>Significant influence</b>			
VTB Group	Loans	37,786	11,692
	Cash and cash equivalents	3,392	2,700
Bank Rossiya OJSC	Loans	10,000	–
	Cash and cash equivalents	60	–
Rostelecom*	Receivables	233	200
	Payables	2,759	106
	Other non-current financial liabilities	6,687	–
Westelcom	Loans issued	90	–
<b>Relationship through the Government</b>			
	Loans	464	–
Gazprombank	Cash and cash equivalents	16	–
Sberbank OJSC	Receivables	56	137
	Loans	4,167	–
	Payables	42	40
	Cash and cash equivalents	1	–
Svyaz-Bank OJSC	Loans	110	–
	Cash and cash equivalents	46	–
Russian Post	Receivables	50	10
	Payables	13	4

The amounts of revenues and expenses from the related parties for the year ended 31 December were as follows:

		31 December 2014	31 December 2013
<b>Significant influence</b>			
VTB Group	Financial expenses	(3,265)	(275)
Bank Rossiya OJSC	Financial expenses	(754)	–
Rostelecom*	Revenue	1,856	2,904
	Expenses	(4,795)	(2,426)
<b>Relationship through the Government</b>			
Gazprom Group	Financial expenses	(97)	–
Sberbank OJSC	Financial expenses	(319)	(40)
<b>Entities under common ownership</b>			
Tele2 Financial Services A.B.	Financial income	–	1,527
	Financial expenses	–	(1,907)

\* 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 8) and exercises a significant influence over the Group.

## T2 RTK Holding LLC

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

#### 20. Related parties (continued)

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

Outstanding balances at the years ended 31 December 2014 and 2013 are unsecured. There have been no guarantees provided or received for any related party receivables or payables. As of 31 December 2014 and 2013, the Group had not recorded any impairment of receivables relating to amounts owed by related parties. This assessment is undertaken each financial year 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 years ended 31 December are as follows:

	<b>2014</b>	<b>2013</b>
Salary	189	123
Bonuses and other payments	234	465
Related social charges	98	61
<b>Total</b>	<b>521</b>	<b>649</b>

#### 21. Financial risk management

As at 31 December 2014 the financial assets of the Group consist mainly of receivables from end customers and resellers and cash and cash equivalents.

As at 31 December 2014 the financial liabilities of the Group consist mainly of bonds issued on the market and loans from VTB Group and Bank Rossiya to finance operations and construction of the network, as well as accounts payables.

The Group is exposed to market risk, liquidity risk and credit risk. The Group's senior management oversees the management of these risks. The Group's senior management provides assurance to the Group's principal owners that the Group's financial risk taking activities are governed by appropriate policies and procedures and that the financial risks are identified, measured and managed in accordance with the Group's policies. The policies for managing each of these risks are summarized below.

##### **Market risk**

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market price risks that mostly impact the Group comprise two types of risk: interest rate risk and foreign currency risk. Financial instruments affected by market risk include loans and borrowings and deposits.

The sensitivity analyses in the following sections relate to the positions as of 31 December 2014 and 2013. The sensitivity analyses have been prepared on the basis that the amount of net debt, the ratio of fixed-to-floating interest rates debts and derivatives and the proportion of financial instruments in foreign currencies are all constant and on the basis of positions at 31 December 2014 and 2013.

## T2 RTK Holding LLC

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

#### 21. Financial risk management (continued)

##### Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Group's exposure to the risk of changes in market interest rates relates primarily to the 37,786 million RUB loans with floating interest rate obtained from VTB Bank in 2014.

The Group manages its interest rate risk by having a balanced portfolio of fixed and variable rate loans and borrowings.

The following table demonstrates the sensitivity to a reasonably possible change in interest rates on that portion of loans and borrowings affected. With all other variables held constant, the Group's profit before tax for the year ended 31 December 2014 and 2013 is affected through the impact on floating rate borrowings, as follows:

<b>Interest rate for the year ended 31 December 2014</b>	<b>Increase/ decrease in basis points</b>	<b>Effect on profit before tax</b>
3m USD LIBOR +9.55%	3	(3)
3m USD LIBOR +9.55%	-3	3
MOSPRIME + 2.5%	700	(1,104)
MOSPRIME + 2.5%	-700	1,104
<b>Interest rate for the year ended 31 December 2013</b>	<b>Increase/ decrease in basis points</b>	<b>Effect on profit before tax</b>
3-month Euribor + 4.15%	12	(10)
3-month Euribor + 4.15%	-12	10

##### Foreign currency risk

Foreign currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Group's exposure to the risk of changes in foreign exchange rates relates primarily to the Group's investing activities (when trade accounts payable for non-current assets are denominated in a currency different from the Group's functional currency).

As of 31 December 2014, the Group had cash in foreign currency in the amount of 487 (31 December 2013: 4,526). As of 31 December 2014, there are no loans denominated in USD or EUR (31 December 2013: 11,692 EUR).

In accordance with the Group's policies, the Group does not enter into any treasury management transactions of a speculative nature. The Group is currently developing its foreign currency risk management strategy.

## T2 RTK Holding LLC

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

#### 21. Financial risk management (continued)

##### Foreign currency risk (continued)

###### *Foreign currency sensitivity*

The following table demonstrates the sensitivity to a reasonably possible change in the Euro exchange rate, with all other variables held constant, of the Group's profit before income tax expense (due to changes in the fair value and future cash flows of monetary assets and liabilities).

Year ended 31 December 2014	Change in foreign exchange rates	Effect on profit before income tax expense
Euro	+20%	(1,413)
Euro	-20%	1,413

  

Year ended 31 December 2013	Change in foreign exchange rates	Effect on profit before income tax expense
Euro	+20%	(361)
Euro	-8.63%	158

##### Liquidity risk

The Group's treasury monitors the risk of shortages of funds using a recurring liquidity planning tool. This tool considers the maturity of both its financial assets (accounts receivable) and projected cash inflows from operations to meet the requirements of current financial liabilities and dividends distribution.

As part of its treasury management, the Group assesses the concentration of risk with respect to refinancing its debt. In particular, the Group considers its ability to access debt financing from its related parties as well as its ability to raise debt and equity financing from other sources in the current economic environment. These considerations have included its working capital deficit as of 31 December 2014 (Note 2) and its ability to refinance short-term borrowings subsequent to yearend (Note 22). While the Group has assessed as of the date of this report there to be a limited number of counterparties to obtain further financing, it has concluded this risk to be low based on its current sources of financing and expected future operating cash flows.

The table below summarises the maturity profile of the Group's financial liabilities based on contractual undiscounted payments as of 31 December:

	Less than 1 year	From 1 to 5 years	More than 5 years	Total
<b>2014</b>				
Trade and other payables	21,723	–	–	21,723
Interest-bearing loans and borrowings	29,030	78,108	–	107,138
Other financial liabilities	1,850	4,774	8,780	15,404
<b>Total financial liabilities</b>	<b>52,603</b>	<b>82,882</b>	<b>8,780</b>	<b>144,265</b>
<b>2013</b>				
Trade and other payables	6,367	–	–	6,367
Interest-bearing loans and borrowings	19,210	18,911	–	38,121
Other financial liabilities	24	144	644	812
<b>Total financial liabilities</b>	<b>25,601</b>	<b>19,055</b>	<b>644</b>	<b>45,300</b>

## T2 RTK Holding LLC

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

#### 21. Financial risk management (continued)

##### Credit risk

Credit risk is the risk that a counterparty will not meet its obligations under a financial instrument or customer contract, leading to a financial loss.

The Group is exposed to credit risk from its operating activities (primarily for trade receivables) and from its financing activities, including deposits with banks and financial institutions and other financial instruments.

The Group extends credit to certain counterparties, principally international and national telecommunication operators, for roaming services, and to certain dealers.

The Group minimises its exposure to the risk by ensuring that credit risk is spread across a number of counterparties, and by continuously monitoring the credit standing of counterparties based on their credit history and credit ratings reviews.

Other preventative measures to minimise credit risk may include obtaining advance payments, bank guarantees and other security.

The maximum exposure to credit risk at the reporting date is the carrying value of each class of financial assets disclosed in Note 12. Concentrations of credit risk with respect to trade receivables are limited given that the Group's customer base is large and unrelated. Due to this, management believes there is no further credit risk provision required in excess of the normal provision for bad and doubtful receivables.

The credit risks on liquid funds are managed by the Group's treasury. The management believes that credit risk on investments of surplus funds is limited as the counterparties are financial institutions with high credit ratings assigned by international credit rating agencies.

##### Capital management

The Group manages its capital to ensure that entities in the group will be able to continue as a going concern while maximising the return to the Group's participants through the optimisation of the equity and net debt. The capital structure of the Group consists of the reserves and equity attributable to equity holders of the parent in addition to net debt used to leverage its operating model.

The primary objective of the capital management program is to maximize value attributable to equity holders. In order to achieve this objective, the Group's capital management, amongst other things, strictly controls the conditions of the loans and borrowings agreements in terms of the covenants.

The Group's capital management does not establish any formal policies regarding debt to equity proportion, the Group reviews its capital and net debt periodically to determine actions to balance its overall capital structure through leverage ratio, which is calculated as the ratio of Net Debt to EBITDA at the reporting date. The Group's capital management policy is to keep the leverage ratio up to 4.5. The Group includes within net debt, interest bearing loans and borrowings, less cash and short-term deposits excluding discontinued operations. As of 31 December 2014, the Net Debt to EBITDA ratio was 3.1 (2013: 1.2).

## T2 RTK Holding LLC

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

#### 22. 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 2014, the Russian economy was 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 December 2014, the Rouble interest rates have increased significantly after the Central Bank of Russia raised its key rate to 17%. 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.

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

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

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

These and any further restrictive measures by the EU and the US and other countries could 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.

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 December 2014, the Group's management estimated the possible effect of operating taxes, including fines and interest, on these consolidated financial statements, if the authorities were successful in enforcing different interpretations, in the amount of up to approximately RUB 2.9 billion.

## T2 RTK Holding LLC

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

#### **22. Commitments, contingencies and uncertainties (continued)**

##### **Taxation (continued)**

###### *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’ 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.

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

##### *New loan agreements*

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. As of the date of this report, the Group has borrowed the full amount under this agreement.

In February 2015, the Group concluded an addendum to the loan agreement with Bank Rossiya OJSC, a related party, for the amount of RUB 5 billion and bearing 20% interest, with payment terms extended from February 2015 to November 2015.

## T2 RTK Holding LLC

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

#### **23. Events after the reporting date (continued)**

##### *New loan agreements (continued)*

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 is financing of construction of telecommunication network in Moscow region and operating expenses of the Group. As of the date of approval of these financial statements, the Group has not yet made any drawn downs under this agreement.

In March 2015, the Group entered into a ruble denominated credit line facility agreement with VTB Bank, a related party, for the amount of RUB 20 billion. 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 in March 2020. As of the date of approval of these financial statements, the Group has borrowed RUB 10 billion under this agreement at interest rate of key rate of Central Bank of Russia plus 2%.

##### *Legal merger*

In March 2015, the shareholders of the Group approved the legal merger of its 33 subsidiaries in one legal entity with LLC “T2 Rus managing company”. As a result LLC “T2 Rus managing company” will legally succeed to all rights and obligations from integrated entities and its name will be changed into LLC “T2 Mobile”. The merger is expected to be completed by the end of 2015.

##### *Long-term commitment agreement with Krasnoyarsk Territory government*

In February 2015, the Group have signed an agreement with Krasnoyarsk Territory government to invest over RUB 1.2 million into development of the region’s mobile infrastructure in 2015-2017 thus expanding the Group’s mobile network coverage in the region.