



T2 Rus Holding LLC

Consolidated financial statements

For the year ended 31 December 2013

T2 Rus Holding LLC

Consolidated financial statements

For the year ended 31 December 2013

Contents

Independent auditors' report	1
Consolidated statement of comprehensive income	3
Consolidated statement of financial position	4
Consolidated statement of changes in equity	5
Consolidated statement of cash flows	6
Notes to the consolidated financial statements.....	7
1. General information	7
2. Basis of preparation	7
3. Basis of consolidation	8
4. Significant accounting policies	9
5. Significant accounting judgments, estimates and assumptions.....	16
6. New and amended standards and interpretations	17
7. Equity	19
8. Segment information.....	20
9. Income tax.....	20
10. Property and equipment	22
11. Intangible assets	23
12. Financial assets and liabilities.....	23
13. Non-financial assets and liabilities.....	26
14. Trade and other receivables	26
15. Cash and cash equivalents.....	27
16. Provisions.....	27
17. Trade and other payables	28
18. Sales and marketing expenses	28
19. General and administrative expenses	28
20. Related parties.....	28
21. Financial risk management	30
22. Commitments, contingencies and uncertainties	32
23. Events after the reporting date	34

Independent auditors' report

The Board of Directors and Shareholders of T2 Rus Holding LLC

We have audited the accompanying consolidated financial statements of T2 Rus Holding LLC and its subsidiaries, which comprise the consolidated statement of financial position as of 31 December 2013, 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.

Auditor's 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 Rus Holding LLC and its subsidiaries as at 31 December 2013, and its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards.

Other matter

The comparative financial information of T2 Rus Holding LLC as of and for the year ended 31 December 2012 is unaudited.

Ernst & Young LLC

28 March 2014

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

	Note	2013	2012
Revenue			
Wireless services		65,317	59,523
Operating income and expenses			
Cost of services		(29,149)	(26,948)
Sales and marketing expenses	18	(7,789)	(7,402)
General and administrative expenses	19	(4,279)	(3,482)
Depreciation	10	(4,007)	(3,644)
Amortization	11	(1,355)	(1,065)
Gain/(loss) on disposal of non-current assets		26	(18)
Operating income		97	65
Other operating expenses		(67)	(13)
Total operating expenses, net		(46,523)	(42,507)
Operating profit		18,794	17,016
Finance costs		(4,645)	(3,593)
Finance income		2,629	2,331
Foreign exchange loss, net		(340)	–
Profit before income tax expense		16,438	15,754
Income tax expense	9	(3,294)	(3,186)
Net profit for the year being total comprehensive income for the year		13,144	12,568

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

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

	Note	As of 31 December	
		2013	2012
Assets			
Non-current assets			
Property and equipment	10	29,535	29,622
Intangible assets	11	7,509	6,150
Non-current financial assets	12	–	23,615
Deferred tax assets	9	1,604	1,206
Total non-current assets		38,648	60,593
Current assets			
Cash and cash equivalents	15	9,097	2,099
Trade and other receivables	14	1,509	2,051
Current non-financial assets	13	702	1,137
Income tax receivable		183	127
Inventories		154	89
Total current assets		11,645	5,503
Total assets		50,293	66,096
Equity and liabilities			
Equity attributable to participants	7	(239)	10,470
Non-current liabilities			
Interest-bearing loans and borrowings	12	18,911	44,280
Non-current financial liabilities	12	788	622
Provisions	16	127	142
Deferred tax liabilities	9	1,601	1,296
Total non-current liabilities		21,427	46,340
Current liabilities			
Interest-bearing loans and borrowings	12	19,210	382
Current non-financial liabilities	13	4,089	4,106
Trade and other payables	17	5,525	4,723
Income tax payable	9	257	55
Other current financial liabilities	12	24	20
Total current liabilities		29,105	9,286
Total liabilities		50,532	55,626
Total equity and liabilities		50,293	66,096

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

T2 Rus Holding LLC
Consolidated statement of changes in equity
(In millions of Russian rubles)

	Note	Charter capital	Other reserves	Retained earnings	Total Equity attributable to participants
As of 1 January 2013		–	–	10,470	10,470
Dividends	7	–		(3,021)	(3,021)
Non-cash contribution to charter capital as part of reorganisation under common control	7	76,489	(76,489)	–	–
Other distributions to participants as part of reorganisation under common control	7	–	(20,832)	–	(20,832)
Profit for the period		–	–	13,144	13,144
Other comprehensive income		–	–	–	–
Total comprehensive income		–	–	13,144	13,144
As of 31 December 2013		76,489	(97,321)	20,593	(239)
As of 1 January 2012		–	–	18,312	18,312
Dividends		–	–	(20,410)	(20,410)
Profit for the period		–	–	12,568	12,568
As of 31 December 2012		–	–	10,470	10,470

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

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

	Note	2013	2012
Operating Activities			
Profit before income tax		16,438	15,754
<i>Adjusted:</i>			
Depreciation	10	4,007	3,644
Amortization	11	1,355	1,065
Finance cost		4,645	3,593
Finance income		(2,629)	(2,331)
Foreign exchange loss, net		340	–
(Gain)/loss on disposal of non-current assets		(26)	18
Cashflow from operations before changes in working capital		24,130	21,743
(Increase)/decrease in inventory		(65)	140
Decrease/(increase) in trade and other receivables		617	(801)
Decrease in current non-financial assets		359	11
Increase/(decrease) in trade and other payables		450	(75)
Increase in current non-financial liabilities		(17)	2,190
Income tax paid		(3,386)	(3,008)
Interest paid		(4,729)	(757)
Net cash flow from operating activities		17,359	19,443
Investing activities			
Purchase of property, equipment and intangible assests		(6,228)	(7,062)
Proceeds from sale of of property, equipment and intangible assests		377	817
Proceeds from loans issued		23,615	–
Interest income received		2,629	–
Net cash flow from (used in) investing activities		20,393	(6,245)
Financing activities			
Proceeds from loans and borrowings		11,425	26,328
Repayment of loans and borrowings		(18,410)	(18,173)
Dividends paid	7	(3,021)	(20,410)
Other distributions to shareholder as part of reorganisation under common control	7	(20,835)	–
Other financial charges		(185)	(105)
Net cash flows used in financing activities		(31,026)	(12,360)
Net increase in cash and cash equivalents		6,726	838
Cash and cash equivalents at beginning of year		2,099	1,261
Net foreign exchange difference		272	–
Cash and cash equivalents at end of year		9,097	2,099

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

T2 Rus Holding LLC

Notes to the consolidated financial statements

For the year ended 31 December 2013

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 which as of 31 December 2013 owns 99.99% of the shares of the Company, directly owned all the subsidiaries of the Group. In October 2013 as part of the internal reorganization the operating subsidiaries of Tele2 Russia Holding AB (Sweden) were transferred to the Company to establish the new intermediate holding company for the Group. The transaction represents a reorganization of the Group under common control (Note 7).

As of 31 December 2013 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%). As of 31 December 2012 the ultimate controlling party was Tele2 AB (Sweden). The consolidated financial statements were authorised for issue by the Company's Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO") on 28 March 2014.

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.

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.

T2 Rus Holding LLC

Notes to the consolidated financial statements (continued)

2. Basis of preparation (continued)

Working capital deficit

As of 31 December 2013 the Group had negative working capital of approximately RUB 17.5 billion (inclusive short-term debt of RUB 10 billion subsequently refinanced with long-term debt), which is primarily attributable to the payment of dividends in 2012 and 2013 as well as the increase in short-term interest-bearing loans and borrowings in the aggregate amount of RUB 18.8 billion. Subsequent to yearend, the Group has secured long-term bank loans totalling RUB 10 billion, which together with accumulated cash balances has allowed it to fully repay its short-term loans and borrowings outstanding as of 31 December 2013 by the date of this report. The Group believes it will continue to be able to generate sufficient operating cash flows and that adequate access to sources of funding is sufficient to meet the Group's current obligations as they become due. Further, the Group believes it can defer planned capital expenditures, if necessary, in order to meet short-term liquidity requirements.

3. Basis of consolidation

The consolidated financial statements comprise the financial statements of the Company and its subsidiaries as at 31 December 2013. 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.

All intercompany transactions, balances, income and expenses and profits and losses are eliminated upon consolidation.

The accompanying consolidated financial statements include assets, liabilities and results of operations of the Company and its subsidiaries as at 31 December 2013 and 2012 (all of the mentioned below subsidiaries perform substantially all operations in Russia):

Name of subsidiary	Nature of business	Proportion of ownership interest and voting power held, %	
		2013	2012
"Finansovaya kompaniya T2 RUS" LLC	Holding and financial company	100	—*
"Upravlyayushchaya kompaniya T2 RUS" LLC	Holding and financial company	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

*-The subsidiaries "Finansovaya kompaniya T2 RUS" LLC and "Upravlyayushchaya kompaniya T2 RUS" LLC were established on 8 July 2013 by the Company.

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 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.

Reorganization under the common control

The Group uses the pooling of interests method is used, the consolidated financial statements reflect the carrying values of each of the regional subsidiaries in the financial statements of the Company 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 income statement reflects the results of the combining entities for the full year irrespective of when the combination took place.

T2 Rus Holding LLC

Notes to the consolidated financial statements (continued)

4. Significant accounting policies (continued)

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 rate 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 a six-month period from the date a new subscriber is activated (Note 18).

Advertising costs

Advertising costs are expensed as incurred (Note 18).

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 2013 were 767 (31 December 2012: 702).

Income tax

The tax expense for the year comprises current and deferred 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.

T2 Rus Holding LLC

Notes to the consolidated financial statements (continued)

4. Significant accounting policies (continued)

Income tax (continued)

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 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.

Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker (“CODM”). The CODM, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Company’s CEO. The Group had only one operating segment and all segment data has been presented on that basis.

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 are 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. Repair and maintenance costs are expensed as incurred.

T2 Rus Holding LLC

Notes to the consolidated financial statements (continued)

4. Significant accounting policies (continued)

Property and equipment (continued)

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 “significant accounting policies” Provisions and Note 16 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.

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 leasing company. Payments are expensed in the income statement on a straight-line basis over the leasing period.

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 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)	5-15 years
Trademarks	10 years
Other	2-15 years

Impairment of non-financial assets

At the end of each reporting period an assessment is made of whether there is any indication of impairment of any of the Group's assets. If there is any indication that a non-current asset has declined in value, a calculation of its recoverable amount is made.

T2 Rus Holding LLC

Notes to the consolidated financial statements (continued)

4. Significant accounting policies (continued)

Impairment of non-financial assets (continued)

The recoverable amount is the higher of the asset's or cash-generating unit's (hereinafter "CGU") value in use and its fair value less costs to sell. The value in use consists of the present value of all cash flows from the asset during the utilization period as well as the addition of the present value of the fair value less costs to sell at the end of the utilization period. Recoverable amount is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. If the estimated recoverable amount is less than the carrying amount, the asset is written down to its recoverable amount.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs of disposal, recent market transactions are taken into account. If no such transactions can be identified, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share prices for publicly traded companies or other available fair value indicators.

The Group bases its impairment calculation on detailed budgets and forecast calculations, which are prepared for the Group's CGUs to which the individual assets are allocated. These budgets and forecast calculations generally cover a period of three years. For longer periods, a long-term growth rate is calculated and applied to project future cash flows after the third year.

Impairments are recognised in the statement of comprehensive income within profit or loss. Impairments that have been recorded are reversed if changes are made in the assumptions that led to the original impairment. The impairment reversal is limited to the carrying amount, net of depreciation, had the original impairment not occurred. A reversal of impairment is reported in the statement of comprehensive income within profit or loss.

Inventory

Inventory consists of SIM cards and paid-cards and is stated in accordance with the FIFO principle at the lower of cost or net realisable value.

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.

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.

T2 Rus Holding LLC

Notes to the consolidated financial statements (continued)

4. Significant accounting policies (continued)

Provisions (continued)

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.

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.

Notes to the consolidated financial statements (continued)

4. Significant accounting policies (continued)**Financial instruments (continued)***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.

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.

T2 Rus Holding LLC

Notes to the consolidated financial statements (continued)

4. Significant accounting policies (continued)

Financial instruments (continued)

Offsetting financial assets and liabilities

Financial assets and liabilities are offset and the net amount is presented in the balance sheet when a legal right of set-off exists and the Group intends to settle on a net basis or to realize the asset and settle the liability simultaneously.

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.

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.

Deferred tax asset

Deferred tax assets are recognised for deductible temporary differences as management believes there will be sufficient future taxable profits to utilize those temporary differences.

Decommissioning provision

The Group records a provision for decommissioning obligations associated with restoration of rented sites where base stations 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 2013 was 127 (31 December 2012: 142).

T2 Rus 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 2013. The adoption of these new standards did not have any significant effect on the Group's financial position, financial performance or cash flows.

Standard	Content of change
IFRS 10 <i>Consolidated Financial Statements</i>	Single control model that applies to all entities including special purpose entities. Changed definition of control.
IFRS 11 <i>Joint Arrangements</i>	Option to account for jointly controlled entities (JCEs) using proportionate consolidation has been removed. Instead, JCEs that meet the definition of a joint venture under IFRS 11 must be accounted for using the equity method.
IFRS 12 <i>Disclosure of Interests in Other Entities</i>	Requirements for disclosures relating to an entity's interests in subsidiaries, joint arrangements, associates and structured entities in accordance with the amended requirements of IAS 27, IAS 28, IFRS 10, and IFRS 11.
IFRS 13 <i>Fair value management</i>	Single source of guidance under IFRS for all fair value measurements.
IAS 1 <i>Presentation of Financial Statements</i>	Presentation of items of Other Comprehensive Income: requirement to disclose separately the items that could be reclassified to profit or loss at a future point of time and the items that will never be reclassified.
IAS 1 <i>Clarification of the requirements for comparative information</i>	Clarification of the requirement for comparative information: clarifying difference between voluntarily additional comparative information and minimum required comparative information.
IAS 19 <i>Employee Benefits</i>	Option to defer the recognition of changes in net defined benefit liability has been eliminated. Amendments to disclosure requirements.

T2 Rus 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.

Standard	Content of change	Impact and effective date
IFRS 9 <i>Financial Instruments: Classification and Measurement</i>	IFRS 9 as issued reflects the first phase of the IASB's work on the replacement of IAS 39 and applies to classification and measurement of financial assets and financial liabilities as defined in IAS 39. In subsequent phases, the IASB will address hedge accounting and impairment of financial assets.	The standard is effective for annual periods beginning on or after 1 January 2015. The adoption of the first phase of IFRS 9 will have an effect on the classification and measurement of the Company's financial assets, but will likely have no impact on classification and measurements of financial liabilities. The Company will quantify the effect in conjunction with the other phases, when issued.
<i>Hedge accounting</i>	The amendments introduced a new hedge accounting model, together with corresponding disclosures about risk management activity for those applying hedge accounting. The new model represents a substantial overhaul of hedge accounting that will enable entities to better reflect their risk management activities in their financial statements. The most significant improvements apply to those that hedge non-financial risk, and so these improvements are expected to be of particular interest to non-financial institutions.	
<i>Own credit</i>	As part of the amendments, the changes introduced also enable entities to change the accounting for liabilities that they have elected to measure at fair value, before applying any of the other requirements in IFRS 9. This change in accounting would mean that gains caused by a worsening in an entity's own credit risk on such liabilities are no longer recognised in profit or loss.	
IAS 36 <i>Impairment of Assets: Recoverable Amount Disclosures for Non-Financial Assets</i>	These amendments remove the unintended consequences of IFRS 13 on the disclosures required under IAS 36. In addition, these amendments require disclosure of the recoverable amounts for the assets or cash-generating units (CGUs) for which impairment loss has been recognised or reversed during the period.	These amendments are effective retrospectively for annual periods beginning on or after 1 January 2014 with earlier application permitted, provided IFRS 13 is also applied. The Group does not expect the amendments to have a material impact on its future financial statements.
Investment Entities (<i>Amendments to IFRS 10, IFRS 12 and IAS 27</i>)	These amendments provide an exception to the consolidation requirement for entities that meet the definition of an investment entity under IFRS 10. The exception to consolidation requires investment entities to account for subsidiaries at fair value through profit or loss.	These amendments are effective for annual periods beginning on or after 1 January 2014. The Group does not expect the amendments to have a material impact on its future financial statements.
IAS 32 <i>Offsetting Financial Assets and Financial Liabilities</i>	These amendments clarify the meaning of "currently has a legally enforceable right to set-off" and the criteria for non-simultaneous settlement mechanisms of clearing houses to qualify for offsetting.	These amendments are effective for annual periods beginning on or after 1 January 2014. The Group does not expect the amendments to have a material impact on its future financial statements.

T2 Rus Holding LLC

Notes to the consolidated financial statements (continued)

6. New and amended standards and interpretations (continued)

Standards issued but not yet effective (continued)

Standard	Content of change	Impact and effective date
IAS 19 <i>Employee Benefits entitled Defined Benefit Plans: Employee Contributions</i>	These narrow scope amendments apply to contributions from employees or third parties to defined benefit plans. The objective of the amendments is to simplify the accounting for contributions that are independent of the number of years of employee service.	These amendments are effective for annual periods beginning on or after 1 July 1 2014. The Group does not expect the amendments to have a material impact on its future financial statements.
IAS 39 <i>Novation of Derivatives and Continuation of Hedge Accounting</i>	These amendments provide relief from discontinuing hedge accounting when novation of a derivative designated as a hedging instrument meets certain criteria.	These amendments are effective for annual periods beginning on or after 1 January 2014. The Group does not expect the amendments to have a material impact on its future financial statements.
IFRS 14 <i>Regulatory Deferral Accounts</i>	IFRS 14 allows rate-regulated entities to continue recognising regulatory deferral accounts in connection with their first-time adoption of IFRS. Existing IFRS preparers are prohibited from adopting this standard. Entities that adopt IFRS 14 must present the regulatory deferral accounts as separate line items on the statement of financial position and present movements in these account balances as separate line items in the statement of profit or loss and other comprehensive income. The standard requires disclosures on the nature of, and risks associated with, the entity's rate regulation and the effects of that rate regulation on its financial statements.	These amendments are effective for annual periods beginning on or after 1 January 2016 with earlier application permitted. The Group does not expect the amendments to have a material impact on its future financial statements.

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.

Reorganisation under common control

The Company was established in July 2013. The Group was formed through a reorganization under the common control, in which the Company's parent (Tele2 Russia Holding AB) transferred to the Company its subsidiaries:

- ▶ 6 regional subsidiaries and Tele2 Russia International Cellular B.V. were acquired by T2 Rus Holding LLC from Tele2 Russia Holding AB for a cash consideration of 20,832;
- ▶ 14 regional subsidiaries were transferred from Tele2 Russia Holding AB to T2 Rus Holding LLC as a contribution to charter capital in the amount equal to the fair value of these subsidiaries, which was determined by 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. The carrying value of net assets pooled recorded at 1 January 2012 was 18,652.

Dividend payment

On 30 September 2013, the Annual General Meeting (AGM) decided to pay a distribution of 3,021 to the shareholder – Tele2 Russia Holding AB.

T2 Rus Holding LLC

Notes to the consolidated financial statements (continued)

8. Segment information

The Group manages its business primarily based on 43 geographical operating segments within Russia, combined into seven Macro regions.

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

Total assets are not allocated to operating segments and not analysed by the CODM. Operating segments with similar economic characteristics are combined as one reportable segment. No single customer represents 10% or more of the consolidated revenues.

The following represents reconciliation of the EBITDA analyzed by the Group's CODM to profit before tax.

	2013	2012
EBITDA	24,156	21,725
Depreciation	(4,007)	(3,644)
Amortization	(1,355)	(1,065)
Finance costs	(4,645)	(3,593)
Finance income	2,629	2,331
Foreign exchange loss, net	(340)	0
Profit before tax	16,438	15,754

9. Income tax

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

	2013	2012
Current income tax expense	3,387	2,919
Deferred income tax (income)/expense	(93)	267
Income tax expense reported in the consolidated statement of comprehensive income	3,294	3,186

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% effective for 2013 and 2012 to the actual expenses recorded in the Group's consolidated financial statements.

	2013	2012
Profit before income tax expense	16,438	15,754
Theoretical income tax expense at the statutory rate of 20%	(3,286)	(3,151)
Adjustments due to:		
Non-deductible (expenses)	(34)	(25)
Other	26	(10)
Income tax expense	(3,294)	(3,186)

T2 Rus 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 2013 and 2012 is presented below:

	2013	2012
Deferred income tax assets		
Unutilized loss carry-forwards	1,153	1,122
Intangible assets	148	–
Property and equipment	33	154
Trade and other receivables	70	–
Accrued expenses	745	562
Total deferred income tax assets	2,149	1,838
Netted against deferred liabilities	(545)	(632)
Total deferred income tax assets presented in the statement of financial position	1,604	1,206
Deferred income tax liabilities		
Intangible assets	(89)	(60)
Property and equipment	(2,053)	(1,836)
Other	(4)	(32)
Total deferred income tax liabilities	(2,146)	(1,928)
Netted against deferred assets	545	632
Total deferred income tax liabilities presented in the statement of financial position	(1,601)	(1,296)
Net deferred income tax assets or (liabilities)	3	(90)

Deferred tax assets related to tax losses of the Group's subsidiaries are recognised based on the tax planning opportunities that would be implemented, including internal legal merger of the Group's subsidiaries, if necessary, to prevent unused tax losses.

At 31 December 2013, 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 945, as the Group has determined that undistributed profits of its subsidiaries will not be distributed in the foreseeable future.

T2 Rus Holding LLC

Notes to the consolidated financial statements (continued)

10. Property and equipment

Property and equipment are as follows:

	Buildings	Telecommunication assets and related constructions		Other	Construction in progress tangible	Total
		Own assets	Finance lease			
Cost						
1 January 2012	172	35,519	321	1,659	3,332	41,003
Additions	–	–	337	–	4,453	4,790
Disposals	(4)	(1,688)	–	(317)	(503)	(2,512)
Transfer	125	4,905	–	516	(5,546)	–
31 December 2012	293	38,736	658	1,858	1,736	43,281
Additions	–	–	197	–	3,861	4,058
Disposals	(9)	(959)	–	(102)	(10)	(1,080)
Transfer	326	3,019	–	778	(4,123)	–
31 December 2013	610	40,796	855	2,534	1,464	46,259
Depreciation						
1 January 2012	(55)	(10,181)	(10)	(1,171)	–	(11,417)
Charge for the year	(53)	(3,373)	(32)	(186)	–	(3,644)
Disposals	4	1,085	–	313	–	1,402
31 December 2012	(104)	(12,469)	(42)	(1,044)	–	(13,659)
Charge for the year	(109)	(3,489)	(50)	(359)	–	(4,007)
Disposals	6	855	–	81	–	942
31 December 2013	(207)	(15,103)	(92)	(1,322)	–	(16,724)
Net book value						
1 January 2012	117	25,338	311	488	3,332	29,586
31 December 2012	189	26,267	616	814	1,736	29,622
31 December 2013	403	25,693	763	1,212	1,464	29,535

T2 Rus Holding LLC

Notes to the consolidated financial statements (continued)

11. Intangible assets

Intangible assets are as follows:

	Patents and software	Licences (frequency)	Trademarks	Other	Total
Cost					
1 January 2012	4,256	1,531	1	439	6,227
Additions	1,804	1,109	–	86	2,999
Disposals	(126)	(67)	–	–	(193)
31 December 2012	5,934	2,573	1	525	9,033
Additions	2,122	630	–	–	2,752
Disposals	(97)	–	–	(4)	(101)
31 December 2013	7,959	3,203	1	521	11,684
Amortization					
1 January 2012	(1,063)	(518)	–	(354)	(1,935)
Charge for the year	(773)	(224)	–	(68)	(1,065)
Disposals	53	64	–	–	117
31 December 2012	(1,783)	(678)	–	(422)	(2,883)
Charge for the year	(1,044)	(286)	–	(25)	(1,355)
Disposals	60	1	–	2	63
31 December 2013	(2,767)	(963)	–	(445)	(4,175)
Net book value					
1 January 2012	3,193	1,013	1	85	4,292
31 December 2012	4,151	1,895	1	103	6,150
31 December 2013	5,192	2,240	1	76	7,509

Operating licences and frequencies

Operating licences and frequencies provide the Group with the exclusive right to utilise certain radio frequency spectrum to provide wireless communication services.

These licences are integral to the wireless operations of the Group and any inability to extend existing licences on the same or comparable terms could materially affect the Group's business. While operating licences are issued for a fixed period, renewals of these licences previously had occurred routinely and at nominal cost. The Group determines that there are currently no legal, regulatory, contractual, competitive, economic or other factors that could result in delays in licence renewal, or even an outright refusal to renew.

12. Financial assets and liabilities

Financial assets

Current and non-current financial assets are as follows:

	31 December	
	2013	2012
Non-current financial assets (Note 12)	–	23,615
Total non-current financial assets	–	23,615
Trade and other receivables	1,509	2,051
Cash and cash equivalents	9,097	2,099
Total current financial assets	10,606	4,150
Total non-current and current financial assets	10,606	27,765

T2 Rus Holding LLC

Notes to the consolidated financial statements (continued)

12. Financial assets and liabilities (continued)

Financial liabilities

Current and non-current financial liabilities are as follows:

	As of 31 December	
	2013	2012
Trade and other payables	5,525	4,723
Financial liabilities at amortized cost		
Non-current financial liabilities	788	622
Other current financial liabilities	24	20
Loans and borrowings	38,121	44,662
Total financial liabilities at amortized cost	38,933	45,304

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

Loans and borrowings

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

	Currency	Effective Interest Rate	Maturity	2013		2012	
				Short-term	Long-term	Short-term	Long-term
Ruble Bonds	RUB	8.77%-9.58%	2014-2016	7,000	18,911	–	25,870
VTB Capital (Note 20)	EUR	3-month Euribor + 4.15%	2014	11,692	–	–	–
Tele2 Financial Services (Note 20)	RUB	9.05%-11.72%	2014	–	–	–	18,410
Total				18,692	18,911	–	44,280

Bonds

In 2011 Tele2 issued three series of ruble denominated bonds, in an aggregate principal amount of 13 billion RUB. The bonds are due for repayment by three tranches up to 2016, 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.

VTB Capital

In March 2013 the Group entered into a loan agreement with VTB Capital for up to EUR 350 million. As of 31 December 2013, the credit facility was drawn in the amount of EUR 260 million. The loan is subject to an interest rate of 3-month Euribor + 4.15% which is payable every three months.

Covenant requirements

The loan agreement from VTB Capital contains restrictive covenants, which, among other things, limit the Group's ability to incur debt, encumber assets, undertake mergers and acquisitions and make material changes in the nature of the business without prior consent from the required majority of lenders. In addition, these financing facilities require the Group to meet various financial covenants.

The Group believes it has complied with all covenant requirements under the loan from VTB Capital.

T2 Rus Holding LLC

Notes to the consolidated financial statements (continued)

12. Financial assets and liabilities (continued)

VTB Capital (continued)

Currencies of loans and borrowings

The Group's loans and borrowings are denominated in the following currencies at 31 December:

	2013	2012
Original currency		
Rubles	25,911	44,280
Euros (in millions)	11,692	–
Total loans and borrowings	37,603	44,280

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	
	2013	2012	2013	2012
Financial assets				
Trade and other receivables (Note 14)	1,509	2,051	1,509	2,051
Cash and cash equivalents (Note 15)	9,097	2,099	9,097	2,099
Loans (Note 12)	–	23,615	–	23,615
Total financial assets	10,606	27,765	10,606	27,765
Financial liabilities				
Non-current interest-bearing loans and borrowings	18,911	44,280	19,085	44,117
Current interest-bearing loans and borrowings	19,210	382	19,210	382
Finance lease – non-current portion	788	622	788	622
Trade and other payables	5,525	4,723	5,525	4,723
Other current financial liabilities	24	20	24	20
Total financial liabilities	44,458	50,027	44,632	49,864

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:

- ▶ Long-term fixed-rate and variable-rate receivables/borrowings are evaluated by the Group based on parameters such as interest rates, specific country risk factors, individual creditworthiness of the customer and the risk characteristics of the financed project. Based on this evaluation, allowances are taken into account for the expected losses of these receivables. As at 31 December 2013, the carrying amounts of such receivables, net of allowances, were not materially different from their calculated fair values.
- ▶ Fair value of bonds is based on price quotations at the reporting date. The fair value of unquoted instruments, loans from banks and other financial liabilities, obligations under finance leases, as well as other non-current financial liabilities is estimated by discounting future cash flows using rates currently available for debt on similar terms, credit risk and remaining maturities.
- ▶ Fair values of the Group's interest-bearing borrowings and loans are determined by using DCF method using discount rate that reflects the issuer's borrowing rate as at the end of the reporting period. The own non-performance risk as at 31 December 2013 was assessed to be insignificant.

T2 Rus Holding LLC

Notes to the consolidated financial statements (continued)

12. Financial assets and liabilities (continued)

Finance lease

The Group leases towers used for the base stations and transmission equipment from Russian Towers, an unrelated owner of antenna and masts constructions. Future minimum lease payments under finance leases together with the present value of the net minimum lease payments are, as follows:

	2013		2012	
	Present value	Nominal value	Present value	Nominal value
Within 1 year	27	124	20	94
From 1 to 5 years	144	492	105	376
More than 5 years	644	1,026	517	834
Total liability	815	1,642	642	1,304
Less interest portion	–	(827)	–	(662)
Total finance leases	815	815	642	642

Terms of lease agreement

The agreement with Russian Towers shall be effective for fifteen years. The term of the agreement shall be automatically extended for another fifteen years, unless either party gives notice to the other party of its unwillingness to extend the agreement, provided that such notice is given at least two calendar years prior to the proposed termination date.

13. Non-financial assets and liabilities

Current non-financial assets are as follows:

	2013	2012
Prepaid expenses		
Site leases	266	307
Administration expenses	156	234
Billing and IT costs	72	56
Sales and marketing services	69	197
Channels rent	26	29
Other prepayments	78	245
Total prepaid expenses	667	1,068
Value added tax (VAT) refundable	35	69
Total current non-financial assets	702	1,137

Current non-financial liabilities are as follows:

	2013	2012
Current non-financial liabilities		
Advances from customers	2,583	2,531
Value added tax (VAT) payable	1,506	1,575
Total current non-financial liabilities	4,089	4,106

14. Trade and other receivables

Trade and other receivables are as follows:

	2013	2012
Interconnection agreements	786	1,057
Dealers	538	876
Own subscribers	362	279
Other trade receivables	142	126
Allowance for doubtful accounts	(319)	(268)
Total trade and other receivables	1,509	2,051

T2 Rus 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:

	2013	2012
Neither past due nor impaired	1,484	2,034
Past due but not impaired		
Less than 30 days	14	10
31-60 days		
Past due and impaired	11	7
More than 61 days	319	268
Total trade and other receivables	1,828	2,319

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:

	2013	2012
Balance at beginning of year	268	264
Charge for the year	240	301
Utilized	(189)	(297)
Balance at end of year	319	268

15. Cash and cash equivalents

Cash and cash equivalents are as follows:

	2013	2012
Cash and bank balances		
Rubles	581	497
US dollars	5	1
Euros	4,521	1
Short-term bank deposits		
Rubles	3,990	1,600
Total cash and cash equivalents	9,097	2,099

As of 31 December, 2013 the Group had RUB 2.7 billion of cash and cash equivalents in VTB Bank (Deutschland) AG, a related party (see Note 20).

16. Provisions

Decommissioning provision

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

	2013	2012
Balance at beginning of year	142	–
Accrual	7	118
Reversal	(47)	–
Unwinding of discount	25	24
Balance at end of year	127	142

Reversed unused provision during the year ended 31 December 2013 in the table above mainly relate to decreases in expected dismantling costs per item, which also reduced buildings cost in property and equipment.

T2 Rus Holding LLC

Notes to the consolidated financial statements (continued)

17. Trade and other payables

Trade and other payables are as follows:

	2013	2012
Employee benefits	1,203	756
Interconnection traffic costs	834	979
Administration expenses	264	35
Equipment suppliers	677	605
Suppliers of intangible assets	505	225
Sales and marketing services	758	497
Network maintenance	309	53
Site leases	417	401
Other	558	1,172
Total trade and other payables	5,525	4,723

18. Sales and marketing expenses

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

	2013	2012
Advertising	5,103	4,693
Dealer commissions for connection of new subscribers	2,016	2,134
Cash collection commissions	670	575
Total sales and marketing expenses	7,789	7,402

19. General and administrative expenses

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

	2013	2012
Employee benefits and related social charges	1,928	1,475
Rent	340	331
Operating taxes	562	512
Professional services	1,069	804
Office maintenance	330	317
Other expenses	50	43
Total general and administrative expenses	4,279	3,482

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.

The ultimate controlling party in 2012 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 2013, 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).

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 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 2013 and 2012 are detailed below.

T2 Rus Holding LLC

Notes to the consolidated financial statements (continued)

20. Related parties (continued)

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

		2013	2012
Significant influence			
VTB Capital	Loan (Note 12)	11,692	–
Relationship through the Government			
Rostelecom	Trade accounts receivable	200	–
	Trade accounts payable	106	–
	Revenue	2,904	–
	Services from	(2,426)	–
Entities under common control			
Tele2 Financial Services A.B.	Loans receivable	–	23,615
	Loans payable	–	18,410
	Interest income	1,527	2,327
	Interest expense	(1,907)	(1,407)

Rostelecom

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

Tele2 Financial Services A.B.

As of 31 December 2012, the Group had a loan from Tele2 Financial Services A.B. in the total amount of RUB 18,410 bearing interest from 11.55%-11.97%, maturing in two years. As of 31 December 2013, the loan was totally repaid.

As of 31 December 2012, Tele2 Financial Services A.B. received a loan from the Group in the total amount of RUB 23,615 bearing interest fixed at 9.05%, maturing in two years. As of 31 December 2013, the loan was fully repaid.

Terms and conditions of transactions with related parties

Outstanding balances at the years ended 31 December 2013 and 2012 are unsecured. There have been no guarantees provided or received for any related party receivables or payables. As of 31 December 2013 and 2012, 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:

	2013	2012
Salary	123	69
Bonuses and other payments	465	22
Related social charges	61	29
Total	649	120

T2 Rus Holding LLC

Notes to the consolidated financial statements (continued)

21. Financial risk management

As at 31 December 2013 Tele2 financial assets consist mainly of receivables from end customers and resellers and cash and cash equivalents.

As at 31 December 2013 Tele2 financial liabilities consist mainly of bonds issued on the market and loans from VTB Group to finance operations and the Group's acquisition of the Russian entities, 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 of 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 2013 and 2012. 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 2013 and 2012.

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 260 million EUR short-term debt obligations with floating interest rate obtained from VTB Capital.

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 2013 is affected through the impact on floating rate borrowings, as follows:

Interest rate	Increase/ decrease in basis points	Effect on profit before tax
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 financing activities (when cash deposits and loans and borrowings are denominated in a different currency from the Group's functional currency).

As of 31 December 2013, the Group had cash in foreign currency in the amount of 4,526 (31 December 2012: 2). As of 31 December 2013, loans denominated in EUR amounted to 11,692 (31 December 2012: nil).

In accordance with the Group's policies, the Group does not enter into any treasury management transactions of a speculative nature. The Group keeps part of its cash and cash equivalents in US dollar and Euro interest bearing accounts to manage against the risk of ruble devaluation, and also to match its foreign currency liabilities (Note 15).

T2 Rus 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 2013	Change in foreign exchange rates	Effect on profit before income tax expense
Euro	+20%	(361)
Euro	-8.63%	158

In 2012, the Group did not have any significant assets and liabilities denominated in foreign currencies.

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 2013 (Note 2) and its ability to refinance short-term borrowings subsequent to yearend (Note 23). 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
2013				
Trade and other payables	5,525	–	–	5,525
Interest-bearing loans and borrowings	19,210	18,911	–	38,121
Other financial liabilities	27	144	644	815
Total financial liabilities	24,762	19,055	644	44,461
2012				
Trade and other payables	4,723	–	–	4,723
Interest-bearing loans and borrowings	–	44,280	–	44,280
Other financial liabilities	20	105	517	642
Total financial liabilities	4,743	44,385	517	49,645

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 include obtaining advance payments, bank guarantees and other security.

T2 Rus Holding LLC

Notes to the consolidated financial statements (continued)

21. Financial risk management (continued)

Credit risk (continued)

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 is 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. There are no breaches in covenants during the reporting period.

The Group's capital management does not establish any formal policies regarding debt to equity proportions, 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 1.75. The Group includes within net debt, interest bearing loans and borrowings, less cash and short-term deposits excluding discontinued operations. As of 31 December 2013, the Net Debt to EBITDA ratio was 1.20 (2012:1.96).

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.

The Russian economy is vulnerable to market downturns and economic slowdowns elsewhere in the world. The global financial crisis has resulted in uncertainty regarding further economic growth, availability of financing and cost of capital, which could negatively affect the Group's future financial position, results of operations and business prospects. Management believes it is taking appropriate measures to support the sustainability of the Group's business in the current circumstances.

Taxation

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

T2 Rus Holding LLC

Notes to the consolidated financial statements (continued)

22. Commitments, contingencies and uncertainties (continued)

Taxation (continued)

The Group's management believes that its interpretation of the relevant legislation is appropriate and is in accordance with the current industry practice and that the Group's tax, currency and customs positions will be sustained. However, the interpretations of the relevant authorities could differ. As of 31 December 2013, 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 1.4 billion.

Transfer pricing legislation

The new Russian transfer pricing legislation, which came into force on 1 January 2012, allows the Russian tax authorities to apply transfer pricing adjustments and impose additional profits tax liabilities in respect of all "controlled" transactions if the transaction price differs from the market level of prices. The list of "controlled" transactions includes transactions performed with related parties and certain types of cross-border transactions. For domestic transactions the transfer pricing rules apply only if the amount of all the transactions with each related party exceeds 2,000 in 2013 (3,000 in 2012). 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 2012 and 2013 but also to the prior transactions with related parties if related income and expenses were recognised in 2012 and 2013. Special transfer pricing rules apply to transactions with securities and derivatives.

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

Litigation

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

Notes to the consolidated financial statements (continued)

23. Events after the reporting date

Framework agreement with Rostelecom

Acquisition of Rostelecom mobile assets

On 6 February 2014, the Group entered into a framework agreement with Open Joint-Stock Company Long-Distance and International Telecommunications “Rostelecom” (“Rostelecom”) to purchase certain mobile business subsidiaries and assets (“Agreement”). In accordance with the Agreement, during the first stage Rostelecom will contribute the following standalone mobile subsidiaries to the Group in exchange for 45% voting and 26% economic interests in the Group:

- ▶ 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.

The first stage of the agreement was effected on 28 March 2014.

During the second stage Rostelecom will contribute certain assets and liabilities of Rostelecom’s integrated mobile businesses including licences in exchange for an additional interest in the Group increasing its ownership up to 45%. In addition Rostelecom and Tele2 expect to enter into mobile virtual network agreements as well as a range of other agreements for Rostelecom to provide service for the Group during the period of the integration of the acquired assets. The second stage is expected to be completed by the end of 2014.

The acquisitions of these businesses from Rostelecom are expected to be accounted for as business combinations (as described in Note 4) wherein the Group will apply the acquisition method of accounting and recognise the assets acquired and liabilities assumed at the acquisition date, measured at their fair values as of that date. As of the date of this report, the Group has not determined these values nor the amount of any goodwill that may be recorded.

T2 Rus Holding LLC

Notes to the consolidated financial statements (continued)

23. Events after the reporting date (continued)

Refinancing of short-term debt

In February 2014, the Group had fully repaid short-term portion of ruble bonds in the amount of RUB 7 billion.

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 February 2015. As of the date of this report, the Group has borrowed the full amount under this facility.

In March 2014, the Group entered into a loan agreement with VTB Bank for the amount of RUB 5 billion and bearing 3 months MOSPRIME + 1.6% interest maturing in 2015. As of the date of this report, the Group has borrowed the full amount under this agreement.

In March 2014, the Group repaid its outstanding liability to VTB Capital under the EUR 350 million credit line in the amount of EUR 260 million (RUB 11.7 billion).

On 24 March 2014, an international credit rating agency downgraded the Group's credit rating. However, as a result of the refinancings completed prior to this action, the Group does not expect a significant impact to its financial condition, financial performance or cash flows that would impact its determination regarding its ability to continue as a going concern.