



T2 RTK Holding LLC

Interim condensed consolidated financial statements
(unaudited)

For the nine months ended 30 September 2014

T2 RTK Holding LLC

Interim condensed consolidated financial statements (unaudited)

For the nine months ended 30 September 2014

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Report on review of interim condensed consolidated financial statements

The Board of Directors and Shareholders
T2 RTK Holding LLC

Introduction

We have reviewed the accompanying interim condensed consolidated financial statements of T2 RTK Holding LLC and its subsidiaries (the "Group"), comprising the interim consolidated statement of financial position as at 30 September 2014 and the related interim condensed consolidated statements of comprehensive income for the three and nine-month periods then ended, the related interim condensed consolidated statements of changes in equity and cash flows for the nine-month period then ended and explanatory notes. Management is responsible for the preparation and presentation of these interim condensed consolidated financial statements in accordance with International Financial Reporting Standard IAS 34 *Interim Financial Reporting* ("IAS 34"). Our responsibility is to express a conclusion on these interim condensed consolidated financial statements based on our review.

Scope of review

We conducted our review in accordance with International Standard on Review Engagements 2410 *Review of Interim Financial Information Performed by the Independent Auditor of the Entity*. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim condensed consolidated financial statements are not prepared, in all material respects, in accordance with IAS 34.

Other matter

The comparative financial information of the Group for the three and nine-month periods ended 30 September 2013 was not reviewed.



22 December 2014

T2 RTK Holding LLC

Interim condensed consolidated statement of comprehensive income

(In millions of Russian rubles)

	Note	Three months ended 30 September		Nine months ended 30 September	
		2014	2013	2014	2013
		(Unaudited)		(Unaudited)	
Revenue		24,939	16,998	62,471	48,785
Wireless services		24,939	16,998	62,471	48,785
Operating income and expenses					
Cost of services		(12,736)	(7,684)	(30,585)	(21,877)
Sales and marketing expenses	4	(3,280)	(1,900)	(7,808)	(5,733)
General and administrative expenses	5	(2,338)	(1,086)	(4,998)	(3,088)
Gain/(loss) on disposal of non-current assets		(19)	4	(51)	25
Depreciation		(3,218)	(943)	(6,898)	(2,986)
Amortization		(2,145)	(319)	(4,542)	(968)
Other operating expenses		(20)	–	(35)	(213)
Other operating income		205	42	538	85
Total operating expenses, net		(23,551)	(11,886)	(54,379)	(34,755)
Operating profit		1,388	5,111	8,092	14,030
Finance income		44	171	141	1,285
Finance expense		(1,782)	(599)	(4,440)	(2,766)
Foreign exchange loss, net		(232)	–	(1,042)	–
Profit/(loss) before income tax expense		(582)	4,683	2,751	12,549
Income tax expense	6	(160)	(1,264)	(1,145)	(2,797)
Net profit/(loss) for the period being total comprehensive income/(loss) for the period		(742)	3,419	1,606	9,752

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

T2 RTK Holding LLC

Interim condensed consolidated statement of financial position

(In millions of Russian rubles)

		30 September 2014 (Unaudited)	31 December 2013*
	Note		
Assets			
Non-current assets			
Property and equipment		96,787	29,535
Intangible assets, other than goodwill		61,313	7,509
Goodwill	3	30,957	–
Investments in associates		4	–
Loans issued	8	90	–
Deferred tax assets		3,623	1,604
Total non-current assets		192,774	38,648
Current assets			
Inventories		622	154
Trade and other receivables	8	5,788	2,351
VAT receivable		1,757	35
Prepaid expenses		1,135	667
Income tax receivable		489	183
Cash and cash equivalents	8	5,943	9,097
Total current assets		15,734	12,487
Assets classified as held for sale		16	–
Total assets		208,524	51,135
Equity and liabilities			
Equity			
Equity attributable to participants		97,973	(239)
Non-controlling interest		1	–
Total equity		97,974	(239)
Non-current liabilities			
Interest-bearing loans and borrowings	8	54,014	18,911
Other non-current financial liabilities	8	877	788
Provisions		1,449	127
Deferred tax liabilities		10,747	1,601
Total non-current liabilities		67,087	21,427
Current liabilities			
Interest-bearing loans and borrowings	8	18,121	19,210
Trade and other payables	8	18,934	6,367
Advances from customers		3,245	2,583
VAT payable		2,435	1,506
Other current non-financial liabilities		228	–
Other current financial liabilities	8	34	24
Income tax payable		466	257
Total current liabilities		43,463	29,947
Total liabilities		110,550	51,374
Total equity and liabilities		208,524	51,135

* Certain amounts do not correspond to the consolidated financial statements as at 31 December 2013 and reflect reclassifications made as detailed in Note 2.

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

T2 RTK Holding LLC

Interim condensed consolidated statement of changes in equity

(In millions of Russian rubles)

	Note	Charter capital	Other reserves	Retained earnings	Total equity attributable to participants	Non- controlling interest	Total equity
As of 1 January 2013		–	–	10,470	10,470	–	10,470
Comprehensive income							
Profit for the period		–	–	9,752	9,752	–	9,752
Total comprehensive income		–	–	9,752	9,752	–	9,752
As of 30 September 2013 (unaudited)		–	–	20,222	20,222	–	20,222
As of 1 January 2014	1	76,489	(97,321)	20,593	(239)	–	(239)
Effect of business combinations	3	62,582	34,024	–	96,606	1	96,607
Comprehensive income							
Profit for the period		–	–	1,606	1,606	–	1,606
Total comprehensive income		–	–	1,606	1,606	–	1,606
As of 30 September 2014 (unaudited)		139,071	(63,297)	22,199	97,973	1	97,974

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

T2 RTK Holding LLC

Interim condensed consolidated statement of cash flows

(In millions of Russian rubles)

	Note	Nine months ended 30 September 2014 (Unaudited)	Nine months ended 30 September 2013 (Unaudited)
Operating activities			
Profit before income tax expense		2,751	12,549
Adjusted:			
Depreciation		6,898	2,986
Amortization		4,542	968
Finance income		(141)	(1,285)
Finance expense		4,440	2,766
Gain/(loss) on disposal of non-current assets		51	(25)
Foreign exchange loss, net		1,042	–
Cash flows from operations before changes in working capital		19,583	17,959
Decrease/(increase) in inventory		283	(44)
Decrease in trade and other receivables		152	540
(Increase)/decrease in current non-financial assets		(1,308)	278
Decrease in trade and other payables		(406)	(414)
Decrease in current non-financial liabilities		(1,115)	(156)
Income tax paid		(3,434)	(2,292)
Interest paid, net of interest capitalised		(7,733)	(1,671)
Net cash flows from operating activities		6,022	14,200
Investing activities			
Purchase of property, equipment and intangible assests		(8,383)	(4,583)
Proceeds from sale of property, equipment and intangible assets		359	374
Interest income received		141	94
Cash acquired with subsidiaries	3	1,628	–
Net cash flows used in investing activities		(6,255)	(4,115)
Financing activities			
Proceeds from borrowings and bonds, net of fees paid		50,343	2,132
Repayment of borrowings and bonds		(46,080)	(10,096)
Dividends of acquired subsidiaries paid after the acquisition date	3	(7,000)	–
Other financing activities		(205)	(145)
Net cash flows used in financing activities		(2,942)	(8,109)
Net (decrease)/increase in cash and cash equivalents		(3,175)	1,978
Cash and cash equivalents at beginning of the period		9,097	2,099
Net foreign exchange difference		21	–
Cash and cash equivalents at the end of the period		5,943	4,077

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

T2 RTK Holding LLC

Notes to the interim condensed consolidated financial statements

For the nine months ended 30 September 2014

(In millions of Russian rubles)

1. Corporate information

On 18 July 2013 Tele2 Russia Holding AB (Sweden) established a limited liability company "T2 Rus Holding" ("Tele2", the "Company" and subsidiaries – the "Group"), a company incorporated under the laws of the Russian Federation ("Russia") and registered in the Unified State Register of Legal Entities under number 1137746610430, as a holding entity for the Group's businesses. The registered office of the Company is at building 1, 39A, Leningradskoe shosse, Moscow, 119017, Russian Federation.

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

Before October 2013, Tele2 Russia Holding AB (Sweden), the immediate parent of the Company, directly wholly owned all the subsidiaries of the Group. In October 2013, as part of the internal reorganization the operating subsidiaries of Tele2 Russia Holding AB (Sweden) were transferred to T2 Rus Holding LLC to establish the new intermediate holding company for the Group. For accounting purposes, the transaction represented a reorganization of the Group under common control:

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

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

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

As a result of the transactions with Rostelecom in March 2014 and August 2014 (Note 3), the interest of Tele2 Russia Holding AB in the Company decreased to 55%.

As of 30 September 2014, the Group is controlled by T2 (Netherlands) B.V., an ultimate parent of the Group, whose capital is held by OJSC VTB Bank (50%), INVINTEL B.V. (40%) and ABR Investments B.V. (10%).

2. Basis of preparation and significant accounting policies

Basis of preparation

The interim condensed consolidated financial statements for the nine months ended 30 September 2014 have been prepared in accordance with IAS 34, *Interim Financial Reporting*.

The interim condensed consolidated financial statements do not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's annual financial statements as at 31 December 2013.

T2 RTK Holding LLC

Notes to the interim condensed consolidated financial statements (continued)

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

Basis of preparation (continued)

The interim condensed consolidated financial statements are presented in millions of Russian rubles.

The interim condensed consolidated financial statements were authorised for issue by the Company's Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO") on 22 December 2014.

Seasonality

The Company's services are impacted by seasonal trends throughout the year. Higher revenues and operating profits are usually expected in the second half of the year rather than in the first six months. This information is provided to allow for a better understanding of the results, however management has concluded that this seasonal pattern does not constitute 'highly seasonal' as defined by IAS 34.

Functional and presentation currency

The interim condensed consolidated financial statements are presented in Russian rubles (hereinafter "RUB"), which is the functional and presentation currency of each of the Group's companies. The functional currency of each of the Group companies has been determined as the currency of the primary economic environment in which the companies operate.

Income tax expense

Income tax in the interim periods is accrued using the effective tax rate that would be applicable to expected total annual earnings.

Significant accounting policies

The accounting policies and methods of computation applied in the preparation of these interim condensed consolidated financial statements are consistent with those disclosed in the annual consolidated financial statements of the Group for the year ended 31 December 2013, except for the adoption of new standards and interpretations effective from 1 January 2014.

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

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

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

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

T2 RTK Holding LLC

Notes to the interim condensed consolidated financial statements (continued)

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

Significant accounting policies (continued)

The Group analyzed the clarified meaning of 'currently has a legally enforceable right of set-off' of the amended IAS 32 and changed the presentation of accounts receivable and accounts payable in its interim condensed consolidated financial statements. The effect of adoption of the amendments is an increase of accounts receivable and accounts payable in the amount of 889 as of 30 September 2014 and 842 as of 31 December 2013.

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

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

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

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

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

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

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

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

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

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

T2 RTK Holding LLC

Notes to the interim condensed consolidated financial statements (continued)

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

Significant accounting policies (continued)

IFRIC 21 Levies

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

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

The liability is recognised progressively if the obligating event occurs over a period of time.

If an obligation is triggered on reaching a minimum threshold, the liability is recognised when that minimum threshold is reached.

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

Working capital deficit

As of 30 September 2014, the Group had negative working capital of approximately RUB 27 billion. The Group is currently negotiating the refinancing of short-term loans payable to the shareholders and additional credit facilities from VTB Bank to cover the working capital deficit. 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.

Segment information

The Group manages its business primarily based on 83 geographical regions within Russia, combined into nine macro regions representing operating segments.

The Group's chief operating decision maker ("CODM") comprised of CFO, CEO and Deputy CEO evaluates the performance of the Group based on revenue and earnings before interest, taxes, depreciation and 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 income tax expense for the nine and three months ended 30 September.

T2 RTK Holding LLC

Notes to the interim condensed consolidated financial statements (continued)

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

Segment information (continued)

	Three months ended 30 September		Nine months ended 30 September	
	2014	2013	2014	2013
EBITDA	6,750	6,373	19,532	17,983
Depreciation	(3,218)	(943)	(6,898)	(2,986)
Amortization	(2,144)	(319)	(4,542)	(968)
Finance expense	(1,782)	(599)	(4,440)	(2,765)
Finance income	44	171	141	1,285
Foreign exchange gain/(loss), net	(232)	–	(1,042)	–
Profit before income tax expense	(582)	4,683	2,751	12,549

3. Business combinations and goodwill

On 6 February 2014, the Group entered into a framework agreement with Open Joint-Stock Company Long-Distance and International Telecommunications “Rostelecom” (hereinafter “Rostelecom”) to purchase certain mobile business subsidiaries and assets (“Agreement”).

The Agreement provides for two-stage transaction. At the first stage, Rostelecom contributes standalone mobile subsidiaries and telecommunication equipment in exchange for 26% economic interest in T2 RTK Holding LLC. At the second stage, Rostelecom contributes 100% of shares of CJSC RT-Mobile in exchange for additional 19% economic interest in T2 RTK Holding LLC. The main reasons for the acquisitions of standalone mobile subsidiaries of Rostelecom and CJSC RT-Mobile were to expand the operations of the Group by obtaining access to the new regions, including Moscow region, and obtaining operating licences.

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

- ▶ Akos CJSC;
- ▶ Apeks OJSC;
- ▶ Astarta CJSC;
- ▶ Baikalwestcom CJSC;
- ▶ BIT CJSC;
- ▶ Delta telecom CJSC;
- ▶ Kaliningradskie Mobilnie Seti OJSC;
- ▶ Moskovskaya sotovaya svyaz OJSC;
- ▶ MS-Direct CJSC;
- ▶ NSS CJSC;
- ▶ Pilar LLC;
- ▶ Saratovskaya sistema sotovoy svyazy CJSC;
- ▶ Skay-1800 CJSC;
- ▶ Sky Link CJSC;
- ▶ Uralwestcom CJSC;
- ▶ Volgograd-GSM CJSC;
- ▶ Yenisey telecom CJSC.

T2 RTK Holding LLC

Notes to the interim condensed consolidated financial statements (continued)

3. Business combinations and goodwill (continued)

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

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

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

The Group has consolidated the financial position and financial performance of RTK standalone operators from 28 March 2014. If the acquisition had taken place at the beginning of the year, revenue for the Group would have been 43,600, profit for the period for the Group would have been 1,586.

The acquired net assets of RTK standalone operators recognised in the Group’s consolidated financial statements were based on a provisional assessment of their fair value. In September 2014, the valuation of certain assets was updated. Updated provisional amounts of fair value of the net assets as of the acquisition date are presented below:

	Provisional amounts (updated) 28 March 2014
Property and equipment	43,682
Intangible assets	25,366
Investments in associates	4
Loans issued	90
Deferred tax assets	3,654
Trade and other receivables	271
Current non-financial assets	2,072
Cash and cash equivalents	567
Prepaid expenses	640
	76,346
Liabilities	
Interest-bearing loans and borrowings	33,652
Deferred tax liability	6,891
Other non-current liabilities	46
Dividends payable	7,000
Trade and other payables	4,943
Current non-financial liabilities	1,635
Other liabilities	468
	54,635
Total identifiable net assets at fair value	21,711
Non-controlling interest at acquisition date measured at the proportionate share of the net assets	1
Goodwill arising on acquisition	19,750
Purchase consideration (26% economic interest in the Group)	41,462

T2 RTK Holding LLC

Notes to the interim condensed consolidated financial statements (continued)

3. Business combinations and goodwill (continued)

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

The goodwill recognised is attributable primarily to expected synergies from the acquisition and the value to be attributed to the workforce of RTK standalone operators.

The Group has not yet finalized allocation of the goodwill to cash generating units.

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

The acquisition of CJSC RT-Mobile was accounted for as a separate business combination wherein the Group applied the acquisition method of accounting and recognised the assets acquired and liabilities assumed at the acquisition date, measured at their fair values as of that date. Provisional amounts of fair value of the net assets as of the acquisition date are presented below:

	Provisional amounts 5 August 2014
Property and equipment	27,036
Intangible assets	30,949
Deferred tax assets	174
Trade and other receivables	2,479
Inventories	211
Income tax receivable	233
Cash and cash equivalents	1,061
	62,143
Liabilities	
Deferred tax liability	7,023
Trade and other payables	7,868
Income tax payable	72
Current non-financial liabilities	3,242
	18,205
Total identifiable net assets at fair value	43,938
Goodwill arising on acquisition	11,207
Purchase consideration (19% economic interest in the Group)	55,145

The Group has not yet finalized allocation of the goodwill to cash generating units.

The Group has consolidated the financial position and financial performance of CJSC RT-Mobile from 5 August 2014. If the acquisition had taken place at the beginning of the year, revenue for the Group would have been 67,178 profit for the period for the Group would have been 1,503.

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

T2 RTK Holding LLC

Notes to the interim condensed consolidated financial statements (continued)

3. Business combinations and goodwill (continued)

The management estimated the fair value of consideration transferred using cash flow projections (DCF) from financial budgets approved by senior management. The cash flows employed in the DCF analysis are based on the Group's most recent budget and, for the years beyond the budget, on the Group's estimates which are based on the assumed growth rates. The discount rates used in the DCF analysis are intended to reflect the risks inherent in the future cash flows of the Group. The major assumptions used in the DCF models are presented below:

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

4. Sales and marketing expenses

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

	Three months ended 30 September		Nine months ended 30 September	
	2014	2013	2014	2013
Dealer commissions for connection of new subscribers	2,285	1,095	5,154	3,513
Advertising	811	651	2,146	1,766
Cash collection commissions	184	154	508	454
Total sales and marketing expenses	3,280	1,900	7,808	5,733

5. General and administrative expenses

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

	Three months ended 30 September		Nine months ended 30 September	
	2014	2013	2014	2013
Employee benefits and related social charges	1,389	465	2,786	1,396
Rent	211	85	515	257
Operating taxes	216	140	529	412
Professional services	260	284	583	728
Office maintenance	45	77	102	238
Other expenses	217	35	483	57
Total general and administrative expenses	2,338	1,086	4,998	3,088

T2 RTK Holding LLC

Notes to the interim condensed consolidated financial statements (continued)

6. Income tax expense

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

	Three months ended 30 September		Nine months ended 30 September	
	2014	2014	2014	2013
Current income tax expense	1,242	1,214	3,533	2,655
Deferred income tax (benefit)/expense	(1,082)	50	(2,388)	142
Income tax expense/(benefit) reported in the interim condensed consolidated statement of comprehensive income	160	1,264	1,145	2,797

7. Property and equipment

During the nine months ended 30 September 2014, the Group acquired assets with a cost of 2,357 (30 September 2013: 2,740). Assets with a net book value of 188 were disposed of by the Group during the nine months ended 30 September 2014 (30 September 2013: 311), resulting in a net loss on disposal of 57 (30 September 2013: 6). Interest capitalised for the nine months ended 30 September 2014 was 249 (30 September 2013: nil).

8. Financial instruments

Financial assets

Current and non-current financial assets are as follows:

	30 September 2014	31 December 2013
Loans issued	90	–
Total non-current financial assets	90	–
Trade and other receivables	5,788	2,351
Cash and cash equivalents	5,943	9,097
Total current financial assets	11,731	11,448
Total non-current and current financial assets	11,821	11,448

Financial liabilities

Current and non-current financial liabilities are as follows:

	30 September 2014	31 December 2013
Trade and other payables	18,934	6,367
Non-current financial liabilities	877	788
Other current financial liabilities	34	24
Interest-bearing loans and borrowings	72,135	38,121
Total financial liabilities	91,980	45,300

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

T2 RTK Holding LLC

Notes to the interim condensed consolidated financial statements (continued)

8. Financial instruments (continued)

Loans and borrowings

Amounts outstanding under loans and borrowings are as follows:

	Curren- cy	Nominal interest rate	Maturity	30 September 2014		31 December 2013	
				Short- term	Long- term	Short- term	Long- term
Ruble Bonds	RUB	8.4%-9.1%	2015-2016	6,000	12,962	7,000	18,911
Bank Rossiya	RUB	9.25%-10.5%	February 2015 – June 2017	5,000	5,000	–	–
VTB Bank OJSC	RUB	MOSPRIME + 1.6%	March 2015	5,000	–	–	–
	RUB	MOSPRIME + 2.5%	April 2019	–	22,843	–	–
	RUB	3m USD LIBOR + 9.55%	April 2019	–	9,932	–	–
Gazprombank OJSC	RUB	8.25%-9.2%	September 2014 – November 2016	–	463	–	–
Sberbank OJSC	RUB	8.1%-9.5%	July 2014 – January 2017	1,376	2,704	–	–
Svyaz-Bank OJSC	RUB	9.5%-10.5%	May 2017	–	110	–	–
Nordea Bank OJSC	RUB	MOSPRIME + 3.5%	January 2015	19	–	–	–
Magalyascom	RUB	7%-9%	December 2015	2	–	–	–
VTB Capital	EUR	3-month Euribor + 4.15%	March 2014	–	–	11,692	–
Total principal amount				17,397	54,014	18,692	18,911
Accrued interest payable				724	–	518	–
Total loans and borrowings				18,121	54,014	19,210	18,911

Fair values

Set out below is a comparison by class of the carrying amounts and fair values of the Group's financial instruments that are carried in the financial statements.

	Carrying amount		Fair value	
	30 September 2014	31 December 2013	30 September 2014	31 December 2013
Financial assets				
Trade and other receivables	5,788	2,351	5,788	2,351
Cash and cash equivalents	5,943	9,097	5,943	9,097
Loans issued	90	–	90	–
Total financial assets	11,821	11,448	11,821	11,448
Financial liabilities				
Non-current interest-bearing loans and borrowings	54,014	18,911	53,753	19,085
Current interest-bearing loans and borrowings	18,121	19,210	18,121	19,210
Finance lease	817	788	817	788
Trade and other payables	18,934	6,367	18,934	6,367
Other non-current financial liabilities	60	–	60	–
Other current financial liabilities	34	24	34	24
Total financial liabilities	91,980	45,300	91,719	45,474

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Notes to the interim condensed consolidated financial statements (continued)

8. Financial instruments (continued)

Fair values (continued)

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

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

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

The fair value of the financial assets and liabilities is included at the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. The following methods and assumptions were used to estimate the fair values:

- ▶ Long-term fixed-rate and variable-rate receivables/borrowings are evaluated by the Group based on parameters such as interest rates, specific country risk factors, individual creditworthiness of the customer and the risk characteristics of the financed project. Based on this evaluation, allowances are taken into account for the expected losses of these receivables. As at 30 September 2014 and 31 December 2013, the carrying amounts of such receivables and borrowings, net of allowances, were not materially different from their calculated fair values.
- ▶ Fair value of bonds is based on price quotations at the reporting date (Level 1). The fair value of remaining financial liabilities, including unquoted loans and borrowings, obligations under finance leases, trade accounts payable and other financial liabilities were not materially different from their calculated fair values.

9. 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, financial performance and business prospects. Management believes it is taking appropriate measures to support the sustainability of the Group's business in the current circumstances.

T2 RTK Holding LLC

Notes to the interim condensed consolidated financial statements (continued)

9. Commitments, contingencies and uncertainties (continued)

Russian operating environment (continued)

During the nine months ended 30 September 2014 economic and political instability in Ukraine increased. Management of the Group is monitoring current developments in the political situation in Ukraine and its impact on economic environment in Russia and the Group's business including changes in Russia's sovereign credit rating in local and foreign currency by international rating agencies, the sanctions imposed by the US, EU and other countries in response to situation in Ukraine which restrict access to capital markets for the sanctioned entities and financial institutions in Russia. The Group does not conduct any activity and does not have economic interest in Ukraine. T2 RTK holding LLC and its management is not included into any sanctions list imposed by the US and EU.

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

On 12 September 2014, the EU included OJSC VTB Bank into the list of sanctioned entities prohibiting EU registered entities and individuals to purchase and sell any financial instruments with a maturity exceeding 30 days issued by the entities included in the list after 12 September 2014. These and any further restrictive measures by the EU and other countries could adversely impact results and the financial position of the Group in a manner not currently quantifiable.

Taxation

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

The Group's management believes that its interpretation of the relevant legislation is appropriate and is in accordance with the current industry practice and that the Group's tax, currency and customs positions will be sustained. However, the interpretations of the relevant authorities could differ. As of 30 September 2014, the Group's management estimated the possible effect of operating taxes, including fines and interest, on these interim condensed consolidated financial statements, if the authorities were successful in enforcing different interpretations, in the amount of up to approximately RUB 1.9 billion.

Transfer pricing legislation

The new Russian transfer pricing legislation, which came into force on 1 January 2012, allows the Russian tax authorities to apply transfer pricing adjustments and impose additional profits tax liabilities in respect of all "controlled" transactions if the transaction price differs from the market level of prices. The list of "controlled" transactions includes transactions performed with related parties and certain types of cross-border transactions. For domestic transactions the transfer pricing rules apply only if the amount of all the transactions with each related party exceeds 1,000 in 2014 (2,000 in 2013). In cases where a domestic transaction resulted in an accrual of additional tax liabilities for one party, another party could correspondingly adjust its profit tax liabilities based on a special notification issued by an authorised body in due course.

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Notes to the interim condensed consolidated financial statements (continued)

9. Commitments, contingencies and uncertainties (continued)

Taxation (continued)

The current Russian transfer pricing rules have considerably increased the compliance burden for taxpayers compared to the transfer pricing rules which were in effect before 2012 due to, inter alia, shifting the burden of proof from the Russian tax authorities to the taxpayers. These rules are applicable not only to the transactions which took place in 2014, 2013 and 2012 but also to the prior transactions with related parties if related income and expenses were recognised in 2014, 2013 and 2012. Special transfer pricing rules apply to transactions with securities and derivatives.

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

Litigation

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

10. Related parties

Related parties include the immediate parent and the ultimate parent of the Group, parties with significant influence over the Group, key management, entities under common ownership and control.

As of 30 September 2014, the Group is controlled by T2 (Netherlands) B.V., an ultimate parent of the Group, whose capital is held by OJSC VTB Bank (50%), INVINTEL B.V. (40%) and ABR Investments B.V. (10%), however there is no ultimate controlling party (Note 1).

The government of the Russian Federation (“the Government”) has a significant influence on the Group as it is the ultimate controlling party of the VTB Group and Rostelecom. The other entities which are controlled or are under significant influence executed by the Government 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 30 September 2014 and 2013 are detailed below.

T2 RTK Holding LLC

Notes to the interim condensed consolidated financial statements (continued)

10. Related parties (continued)

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

		30 September 2014	31 December 2013
Significant influence			
VTB Group	Receivables	–	–
	Loans	37,917	11,672
	Cash and cash equivalents	1,001	2,704
Bank Rossiya OJSC	Loans	10,000	–
	Cash and cash equivalents	3,702	–
Rostelecom*	Receivables	345	200
	Payables	1,719	106
Relationship through the Government			
Gazprombank	Loans	463	–
	Cash and cash equivalents	16	–
Sberbank OJSC	Receivables	16	137
	Loans	4,080	–
	Payables	991	40
	Cash and cash equivalents	10	–
Svyaz-Bank OJSC	Loans	110	–
	Cash and cash equivalents	93	–
Russian Post	Receivables	32	10
	Payables	239	4

The amounts of revenues and expenses from the related parties for the three and nine months periods ended 30 September were as follows:

		Nine months ended 30 September 2014	Nine months ended 30 September 2013	Three months ended 30 September 2014	Three months ended 30 September 2013
Significant influence					
VTB	Financial expenses	1,959	–	930	–
Bank Rossiya OJSC	Financial expenses	445	–	264	–
Rostelecom*	Income	1,481	2,023	966	1,334
	Expenses	2,534	1,548	1,247	1,034
Relationship through the Government					
Gazprombank	Financial expenses	27	–	14	–
Sberbank OJSC	Income	27	3	–	3
	Expenses	215	40	136	3
	Financial expenses	176	–	56	–
Entities under common ownership					
CJSC “RT-Mobile**”	Income	643	–	294	–
	Expenses	482	–	245	–
Tele2 Financial Services A.B.	Financial income	–	1,190	–	370
	Financial expenses	–	1,659	–	572

* Since April 2013, when the Group was acquired by VTB, Rostelecom became a related party of the Group (relationship through the Government, as the Government is the ultimate controlling party of Rostelecom). Since March 2014, Rostelecom became a shareholder of the Company (Note 3) and exerts a significant influence over the Group.

** CJSC “RT-Mobile” was established on 1 April 2014 as 100% subsidiary of Rostelecom. On 5 August 2014, the entity was acquired by the Group as part of second stage of transaction on acquisition of mobile assets from Rostelecom (Note 3). Since 5 August the results of CJSC “RT-Mobile” are consolidated in the financial statements of the Group.

T2 RTK Holding LLC

Notes to the interim condensed consolidated financial statements (continued)

10. Related parties (continued)

Terms and conditions of transactions with related parties

Outstanding balances at 30 September 2014 and 31 December 2013 are unsecured. There have been no guarantees provided or received for any related party receivables or payables. As of 30 September 2014 and 31 December 2013, the Group had not recorded any impairment of receivables relating to amounts owed by related parties. This assessment is undertaken each reporting period by examining the financial position of the related party and the market in which the related party operates.

Compensation to key management personnel

The amounts recognised as employee benefits expense to key management personnel of the Group for the nine months ended 30 September 2014 amounted to 460 (30 September 2013: 420).

11. Events after the reporting date

Significant operations

In July 2014 the Group has signed the long-term agreement with Ericsson and Nokia Siemens Networks for purchase of new telecommunication equipment and related software for 2G, 3G and 4G networks.