T2 RTK Holding LLC

Interim condensed consolidated financial statements
(unaudited)

For the six months ended 30 June 2014

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Contents

Совершенствуя бизнес, улучшаем мир

Ernst & Young LLC
Sadovnicheskaya Nab., 77, bld. 1
Moscow, 115035, Russia
Tel: +7 (495) 705 9700
+7 (495) 755 9700
Fax: +7 (495) 755 9701
www.ey.com/ru

ООО «Эрнст энд Янг»
Россия, 115035, Москва
Садовническая наб., 77, стр. 1
Тел.: +7 (495) 705 9700
+7 (495) 755 9700
Факс: +7 (495) 755 9701
ОКПО: 59002827

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 June 2014 and the related interim condensed consolidated statements of comprehensive income for the three and six-month periods then ended, the related interim condensed consolidated statements of changes in equity and cash flows for the six-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 six-month periods ended 30 June 2013 was not reviewed.

Ernst & Young LLC

19 September 2014

T2 RTK Holding LLC

Interim condensed consolidated statement of comprehensive income

(In millions of Russian rubles)

	Note	Six months ended 30 June 2014 (Unaudited)	Six months ended 30 June 2013 (Unaudited)	Three months ended 30 June 2014 (Unaudited)	Three months ended 30 June 2013 (Unaudited)
Revenue					
Wireless services		**37,532**	**31,787**	**22,000**	**16,377**
Operating income and expenses					
Cost of services		(17,849)	(14,193)	(10,899)	(7,224)
Sales and marketing expenses	4	(4,529)	(3,833)	(2,927)	(1,970)
General and administrative expenses	5	(2,660)	(2,002)	(1,736)	(1,099)
Loss on disposal of non-current assets		(32)	21	(35)	6
Depreciation		(3,680)	(2,043)	(2,559)	(1,053)
Amortization		(2,399)	(648)	(2,002)	(327)
Other operating expenses		(15)	(222)	(15)	(145)
Other operating income		335	51	265	43
Total operating expenses, net		**(30,829)**	**(22,869)**	**(19,908)**	**(11,769)**
Operating profit		**6,703**	**8,918**	**2,092**	**4,608**
Finance income		97	1,115	57	1,077
Finance expense		(2,657)	(2,167)	(1,929)	(1,572)
Foreign exchange loss, net		(810)	–	44	–
Profit before income tax expense		**3,333**	**7,866**	**264**	**4,113**
Income tax expense	6	(985)	(1,533)	(350)	(795)
Net profit for the period being total comprehensive income for the period		**2,348**	**6,333**	**(86)**	**3,318**

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

T2 RTK Holding LLC

Interim condensed consolidated statement of financial position

(In millions of Russian rubles)

	Note	30 June 2014 (Unaudited)	31 December 2013*
Assets			
Property and equipment		70,945	29,535
Intangible assets, other than goodwill		32,057	7,509
Goodwill	3	19,520	–
Investments in associates		4	–
Financial assets	8	90	–
Deferred tax assets		3,732	1,604
Total non-current assets		**126,348**	**38,648**
Current assets			
Inventories		519	154
Trade and other receivables	8	2,742	2,351
Current non-financial assets		2,915	702
Income tax receivable		886	183
Cash and cash equivalents	8	3,162	9,097
Total current assets		**10,224**	**12,487**
Assets classified as held for sale		17	–
Total assets		**136,589**	**51,135**
Equity and liabilities			
Equity			
Charter capital		103,363	76,489
Other reserves		(82,734)	(97,321)
Retained earnings		22,941	20,593
Equity attributable to participants		**43,570**	**(239)**
Non-controlling interest		1	–
Total equity		**43,571**	**(239)**
Non-current liabilities			
Interest-bearing loans and borrowings	8	54,345	18,911
Other non-current financial liabilities	8	866	788
Provisions		1,468	127
Deferred tax liabilities		5,675	1,601
Total non-current liabilities		**62,354**	**21,427**
Current liabilities			
Interest-bearing loans and borrowings	8	18,344	19,210
Trade and other payables	8	7,311	6,367
Current non-financial liabilities		4,688	4,089
Other current financial liabilities	8	60	24
Income tax payable		261	257
Total current liabilities		**30,664**	**29,947**
Total liabilities		**93,018**	**51,374**
Total equity and liabilities		**136,589**	**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.

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		–	–	6,333	**6,333**	–	**6,333**
Total comprehensive income		**–**	**–**	**6,333**	**6,333**	**–**	**6,333**
As of 30 June 2013 (unaudited)		**–**	**–**	**16,803**	**16,803**	**–**	**16,803**
As of 1 January 2014		**76,489**	**(97,321)**	**20,593**	**(239)**	**–**	**(239)**
Effect of business combination	3	26,874	14,587	–	41,461	1	**41,462**
Comprehensive income							
Profit for the period		–	–	2,348	2,348	–	**2,348**
Total comprehensive income		**–**	**–**	**2,348**	**2,348**	**–**	**2,348**
As of 30 June 2014 (unaudited)		**103,363**	**(82,734)**	**22,941**	**43,570**	**1**	**43,571**

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	Six months ended 30 June 2014 (Unaudited)	Six months ended 30 June 2013 (Unaudited)
Operating activities			
Profit before income tax expense		**3,333**	**7,866**
Adjusted:			
Depreciation		3,680	2,043
Amortization		2,399	648
Finance income		(97)	(1,115)
Finance costs		2,657	2,167
Foreign exchange loss, net		810	–
Gain on disposal of non-current assets		32	(21)
Cash flows from operations before changes in working capital		**12,814**	**11,588**
Decrease/(increase) in inventory		115	(34)
Decrease/(increase) in trade and other receivables		(934)	178
(Increase) in current non-financial assets		(154)	(42)
(Decrease)/increase in trade and other payables		(404)	105
(Decrease) in current non-financial liabilities		(1,264)	(1,049)
Income tax paid		(2,777)	(1,454)
Interest paid, net of interest capitalised		(6,669)	(1,141)
Net cash flows from operating activities		**727**	**8,151**
Investing activities			
Purchase of property,equipment and intangible assests		(5,835)	(3,249)
Proceeds from sale of property,equipment and intangible assets		172	369
Interest income received		97	27
Cash receipts as a result of a business combination		567	**–**
Net cash flows used in investing activities		**(4,999)**	**(2,853)**
Financing activities			
Proceeds from borrowings and bonds, net of fees paid		50,303	–
Repayment of borrowings and bonds		(45,053)	(3,554)
Dividends of acquired subsidiaries paid after the aqcuisition date		(7,000)	–
Other financial activities		(242)	(46)
Net cash flows used in financing activities		**(1,992)**	**(3,600)**
Net (decrease)/increase in cash and cash equivalents		**(6,264)**	**1,698**
Cash and cash equivalents at beginning of the period		**9,097**	**2,099**
Net foreign exchange difference		329	–
Cash and cash equivalents at the end of the period		**3,162**	**3,797**

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

1. Corporate information

On 18 July 2013 t2 Russia Holding AB (Sweden) established a limited liability company "T2 Rus Holding" ("t2", the "Company" and subsidiaries – the "Group"), a company incorporated under the laws of the Russian Federation ("Russia") and registered in the Unified State Register of Legal Entities under number 1137746610430, as a holding entity for the Group's businesses. The registered office of the Company is at building 1, 39A, Leningradskoe shosse, Moscow, 119017, Russian Federation.

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

t2 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, t2 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 t2 Russia Holding AB (Sweden) were transferred to the Company to establish the new intermediate holding company for the Group. The transaction represents a reorganization of the Group under common control.

- 6 regional subsidiaries and t2 Russia International Cellular B.V. were acquired by T2 Rus Holding LLC from t2 Russia Holding AB for a cash consideration of 20,832;
- 14 regional subsidiaries were transferred from t2 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 interim condensed consolidated financial statements are presented as if the Group's entities have always been combined.

As a result of the transaction with Rostelecom in March 2014 (Note 3), the interest of t2 Russia Holding AB in the Company decreased to 74% of economic and 55% of voting interest.

As of 30 June 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 accoutning policies

Basis of preparation

The interim condensed consolidated financial statements for the six months ended 30 June 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.

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

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

Basis of preparation (continued)

The interim condensed consolidated financial statements were authorised for issue by the Company's Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO") on 19 September 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 company operates.

Income tax expense

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

Significant accouting policies

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

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

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

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

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

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 790 as of 30 June 2014 and 842 as of 31 December 2013.

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

Significant accouting policies (continued)

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 to introduce an explicit requirement to disclose the discount rate used in determining impairment (or reversals) where recoverable amount (based on fair value less costs of disposal) is determined using a present value technique.

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

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

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

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

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

IFRIC 21 Levies

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

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

Significant accouting policies (continued)

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

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

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

The adoption of these new and revised standards and interpretations did not have any significant effect on this interim condensed consolidated finanicial statements of the Group, except for the amendments to IAS 31, as described above.

Standards issued not yet effective

Revenue from Contracts with Customers (IFRS 15)

IFRS 15 *Revenue from Contracts with Customers* was issued in May 2014 and applies to an annual reporting period beginning on or after 1 January 2017. IFRS 15 replaces the following standards and interpretations: IAS 11 *Construction Contracts*, IAS 18 *Revenue*, IFRIC 13 *Customer Loyalty Programmes*, IFRIC 15 *Agreements for the Construction of Real Estate*, IFRIC 18 *Transfers of Assets from Customers*, SIC-31 *Revenue – Barter Transactions Involving Advertising Services*.

The objective of IFRS 15 is to establish the principles that an entity shall apply to report useful information to users of financial statements about the nature, amount, timing, and uncertainty of revenue and cash flows arising from a contract with a customer.

IFRS 15 applies to all contracts with customers except for: leases within the scope of IAS 17 *Leases*; financial instruments and other contractual rights or obligations within the scope of IFRS 9 *Financial Instruments*, IFRS 10 *Consolidated Financial Statements*, IFRS 11 *Joint Arrangements*, IAS 27 *Separate Financial Statements* and IAS 28 *Investments in Associates and Joint Ventures*; insurance contracts within the scope of IFRS 4 *Insurance Contracts*; and non-monetary exchanges between entities in the same line of business to facilitate sales to customers or potential customers.

The Group intends to adopt IFRS 15 when it becomes effective. The Group is in process of assessing the impact of the new standard on the financial statements of the Group.

Working capital deficit

As of 30 June 2014 the Group had negative working capital of approximately RUB 20 billion, which represents mainly RUB 9,7 billion of loans payable to Bank Rossiya and VTB Bank, both shareholders of the Group, and RUB 6 billion of short-term bonds payable. The Group is currently negotiating the refinancing of the loans payable to the shareholders. 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.

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

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 six and three months ended 30 June.

	Six months ended 30 June 2014	Six months ended 30 June 2013	Three months ended 30 June 2014	Three months ended 30 June 2013
EBITDA	**12,782**	**11,610**	**6,653**	**5,988**
Depreciation	(3,680)	(2,043)	(2,559)	(1,053)
Amortization	(2,399)	(648)	(2,002)	(327)
Finance costs	(2,657)	(2,167)	(1,929)	(1,572)
Finance income	97	1,114	57	1077
Foreign exchange gain/(loss), net	(810)	0	44	0
Profit before income tax expense	**3,333**	**7,866**	**264**	**4,113**

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").

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

- Akos CJSC;
- Apeks OJSC;
- Astarta CJSC;
- Baikalwestcom CJSC;
- BIT CJSC;
- Delta telecom CJSC;
- Kaliningradskie Mobilnie Seti OJSC;
- Moskovskaya sotovaya svyaz OJSC;

3. Business combinations and goodwill (continued)

- MS-Direct CJSC;
- NSS CJSC;
- Pilar LLC;
- Saratovskaya sistema sotovoy svyazy CJSC;
- Skay-1800 CJSC;
- Sky Link CJSC;
- Uralwestcom CJSC;
- Volgograd-GSM CJSC;
- Yenisey telecom CJSC.

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

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

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

The Group has consolidated the financial position and the results of operations of RTK standalone operators from 28 March 2014. If the acquisition had taken place at the beginning of the year, revenue for the Group would have been 43,600, profit for the period for the Group would have been 2,182.

The main reasons for the acquisition were to expand the operations of the Group by obtaining access to the new regions, including Moscow region, and obtaining operating licences.

During the second stage which was completed on 5 August 2014 Rostelecom contributed certain assets and liabilities of Rostelecom's integrated mobile businesses including licences in exchange for an additional interest in the Group increasing its economic interest up to 45% (Note 11).

3. Business combinations and goodwill (continued)

The acquired net assets of RTK standalone operators recognised in the interim condensed consolidated financial statements for the three months ended 31 March 2014 were based on a provisional assessment of their fair value. In June 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
Fixed assets	43,812
Intangible assets	25,366
Investments in associates	4
Loans issued	90
Deferred tax assets	3,716
Trade and other receivables	254
Current non-financial assets	2,072
Cash and cash equivalents	567
Other current assets	640
	76,521
Liabilites	
Interest-bearing loans and borrowings	33,652
Deferred tax liability	6,782
Dividends payable	7,000
Trade and other payables	4,943
Current non-financial liabilities	1,635
Other liabilities	567
	54,579
Total identifiable net assets at fair value	**21,942**
Non-controlling interest at acquisition date measured at the proportionate share of the net assets	1
Goodwill arising on acquisition	19,520
Purchase consideration	41,462

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

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

Weighted average cost of capital (WACC)	13.1%-15.1%
Terminal growth	1%-5%
Minutes of use (MOU) growth	1.5%+1.5%
CAGR in 2G subscribers	-4,65% – -0.65%
Long-term CAPEX/Sales ratio after 2020	5.77%-11.77%

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

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

4. Sales and marketing expenses

Sales and marketing expenses for the six and three months ended 30 June are as follows:

	Six months ended 30 June 2014	Six months ended 30 June 2013	Three months ended 30 June 2014	Three months ended 30 June 2013
Advertising	1,336	1,115	880	590
Dealer commissions for connection of new subscribers	2,869	2,418	1,852	1,230
Cash collection commissions	324	300	195	150
Total sales and marketing expenses	**4,529**	**3,833**	**2,927**	**1,970**

5. General and administrative expenses

General and administrative expenses for the six and three months ended 30 June are as follows:

	Six months ended 30 June 2014	Six months ended 30 June 2013	Three months ended 30 June 2014	Three months ended 30 June 2013
Employee benefits and related social charges	1,397	931	943	490
Rent	304	172	194	82
Operating taxes	313	272	186	139
Professional services	323	444	213	291
Office maintenance	57	161	34	88
Other expenses	266	22	166	9
Total general and administrative expenses	**2,660**	**2,002**	**1,736**	**1,099**

6. Income tax expense

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

	Six months ended 30 June 2014	Six months ended 30 June 2013	Three months ended 30 June 2014	Three months ended 30 June 2014
Current income tax expense	2,291	1,441	1,249	908
Deferred income tax (income)/expense	(1,306)	92	(899)	(113)
Income tax expense reported in the interim condensed consolidated statement of comprehensive income	**985**	**1,533**	**350**	**795**

7. Property and equipment

During the six months ended 30 June 2014, the Group acquired assets with a cost of 3,159 (30 June 2013: 3,042). Assets with a net book value of 624 were disposed of by the Group during the six months ended 30 June 2014 (30 June 2013: 310), resulting in a net loss on disposal of 104 (30 June 2013: 21). Interest capitalised for the six months ended 30 June 2014 was 136 (30 June 2013: zero).

8. Financial instruments

Financial assets

Current and non-current financial assets are as follows:

	30 June 2014	31 December 2013
Non-current financial assets	90	–
Total non-current financial assets	**90**	**–**
Trade and other receivables	2,742	2,351
Cash and cash equivalents	3,162	9,097
Total current financial assets	**5,904**	**11,448**
Total non-current and current financial assets	**5,994**	**11,448**

Financial liabilities

Current and non-current financial liabilities are as follows:

	30 June 2014	31 December 2013
Trade and other payables	7,311	6,367
Non-current financial liabilities	866	788
Other current financial liabilities	60	24
Loans and borrowings	72,689	38,121
Total financial liabilities	**80,926**	**45,300**

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

Loans and borrowings

Amounts outstanding under loans and borrowings are as follows:

				30 June 2014		31 December 2013	
	Currency	Effective interest rate	Maturity	Short-term	Long-term	Short-term	Long-term
Ruble Bonds	RUB	8.4%-9.1%	2015-2016	6,000	12,948	7,000	18,911
Bank Rossiya OJSC	RUB	9.25%-10.5%	February 2015 – June 2017	5,000	5,000	–	–
VTB Bank OJSC	RUB	MOSPRIME + 1.6%	March 2015	5,000	–	–	–
VTB Bank OJSC	RUB	MOSPRIME + 2.5%	April 2019	–	22,828	–	–
VTB Bank OJSC	RUB	3m USD LIBOR +9.55%	April 2019	–	9,925	–	–
VTB Bank OJSC	RUB	9.7% -9.9%	April 2015	789	–	–	–
Gazprombank OJSC	RUB	8.25%-9.2%	September 2014 – November 2016	143	464	–	–
Nordea Bank OJSC	RUB	MOSPRIME + 3.5%	January 2015	34	–	–	–
Sberbank OJSC	RUB	8.1%-9.5%	July 2014 – January 2017	1,049	3,110		
Svyaz-Bank OJSC	RUB	9.5%-10.5%	May 2017	–	70	–	–
Magalyascom	RUB	7%-9%	December 2015	2	–	–	–
VTB Capital	EUR	3-month Euribor + 4.15%	March 2014	–	–	11,692	–
Other				19	–	–	–
Total principal amount				**18,036**	**54,345**	**18,692**	**18,911**
Accrued interest payable				**308**	**–**	**518**	**–**
Total loans and borrowings				**18,344**	**54,345**	**19,210**	**18,911**

8. Financial instruments (continued)

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 June 2014	**31 December 2013**	**30 June 2014**	**31 December 2013**
Financial assets				
Trade and other receivables	2,742	2,351	2,742	2,351
Cash and cash equivalents	3,162	9,097	3,162	9,097
Non-current financial assets	90	–	90	–
Total financial assets	**5,994**	**11,448**	**5,994**	**11,448**
Financial liabilities				
Non-current interest-bearing loans and borrowings	54,345	18,911	54,202	19,085
Current interest-bearing loans and borrowings	18,344	19,210	18,344	19,210
Finance lease – non-current portion	866	788	866	788
Trade and other payables	7,311	6,367	7,311	6,367
Other current financial liabilities	60	24	60	24
Total financial liabilities	**80,926**	**45,300**	**80,783**	**45,474**

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

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

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

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

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

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, 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.

During the six months ended 30 June 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 is not in included into any sanctions list imposed by the US and EU.

On 12 September 2014 the EU included OJSC VTB Bank, a shareholder of the Group, into the list of sanctioned entities prohibiting EU registered entities and individuals to purchase and sell any financial instruments with a maturity exceeding 30 days issued by the entities included in the list of sanctioned entities 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 June 2014, the Group's management estimated the possible effect of operating taxes, including fines and interest, on these interim condensed consolidated financial statements, if the authorities were successful in enforcing different interpretations, in the amount of up to approximately RUB 1.5 billion.

9. Commitments, contingencies and uncertainties (continued)

Taxation (continued)

Transfer pricing legislation

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

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

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

Litigation

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

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 June 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.

10. Related parties (continued)

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 June 2014 and 2013 are detailed below.

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

		30 June 2014	31 December 2013
Significant influence			
VTB Group	Receivables	53	–
	Loans	38,925	11,672
	Cash and cash equivalents	821	2,704
Bank Rossiya OJSC	Loans	10,000	–
	Cash and cash equivalents	1,022	–
Rostelecom*	Receivables	247	200
	Payables	861	106
Relationship through the Government			
Gazprombank	Loans	608	–
	Cash and cash equivalents	28	–
Sberbank OJSC	Receivables	165	137
	Loans	4,167	–
	Payables	9	40
	Cash and cash equivalents	5	–
Svyaz-Bank OJSC	Loans	70	–
	Cash and cash equivalents	88	–
Russian Post	Receivables	13	10
	Payables	8	4
Entities under common ownership			
CJSC “RT-Mobile”	Receivables	450	–
	Payables	284	–

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

		Six months ended 30 June2014	Six months ended 30 June 2013	Three months ended 30 June 2014	Three months ended 30 June 2013
Significant influence					
VTB	Financial expenses	1,029	–	831	–
Bank Rossiya OJSC	Financial expenses	181	–	121	–
Rostelecom*	Income	515	689	35	689
	Expenses	1,287	514	700	514
Relationship through the Government					
Gazprombank	Finacial expenses	27	–	27	–
Sberbank OJSC	Income	99	–	99	–
	Expenses	79	37	79	37
	Financial expenses	120	–	120	–
Entities under common ownership					
CJSC “RT-Mobile”	Income	428	–	428	–
	Expenses	324	–	324	–

* 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 executes a significant influence over the Group.

10. Related parties (continued)

Terms and conditions of transactions with related parties

Outstanding balances at the six months ended 30 June 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 June 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 six months ended 30 June 2014 amounted to 193 (30 June 2013: 194).

11. Events after the reporting date

On 5 August 2014 the Group completed the second stage of the transaction for purchase of certain mobile business subsidiaries and assets in accordance with the Agreement with Rostelecom (Note 3). 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 to 45%.

The acquisition of CJSC RT-Mobile is expected to be accounted for as a separate business combination 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 these financial statements, the Group has not determined these values nor the amount of any goodwill that may be recorded.