

Unaudited interim condensed
consolidated financial statements

Public Joint Stock Company
“Vimpel-Communications”

(a wholly-owned subsidiary of VEON Ltd.)

*as of 30 June 2017 and
for the three and six months ended 30 June 2017*

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Report on Review of Interim Financial Information

To the Board of Directors and Shareholders of Public Joint Stock Company "Vimpel-Communications":

Introduction

We have reviewed the accompanying interim consolidated statement of financial position of Public Joint Stock Company "Vimpel-Communications" (a wholly-owned subsidiary of VEON Ltd.) and its subsidiaries (hereinafter collectively referred to as "VimpelCom") as of 30 June 2017, and the related interim consolidated income statements, statements of comprehensive income, statements of changes in equity for the three-month and six-month periods then ended and interim consolidated statement of cash flows for the six-month period then ended. Management is responsible for the preparation and presentation of these interim condensed consolidated financial statements in accordance with International Accounting Standard 34, "Interim Financial Reporting". Our responsibility is to express a conclusion on these interim condensed consolidated financial statements based on our review.

Scope of Review

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

Conclusion

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

AO PricewaterhouseCoopers Audit

23 August 2017

Moscow, Russian Federation

E.V. Klimenko

E.V. Klimenko, Director (licence no.01-000057), AO PricewaterhouseCoopers Audit

Audited entity: Public Joint Stock Company Vimpel-Communications

State registration certificate No. 015.624, issued by the Moscow Registration Bureau on 28 July 1993

Certificate of inclusion in the Unified State Register of Legal Entities No. 1027700166636 issued on 28 August 2002

Address: 10 bld 14 8th Marta, Moscow, Russian Federation, 127083

Independent auditor: AO PricewaterhouseCoopers Audit

State registration certificate No. 008.890, issued by the Moscow Registration Chamber on 28 February 1992

Certificate of inclusion in the Unified State Register of Legal Entities issued on 22 August 2002 under registration No. 1027700148431

Member of Self-regulated organization of auditors «Russian Union of auditors» (Association)

ORNZ 11603050547 in the register of auditors and audit organizations

Public Joint Stock Company “Vimpel-Communications”
(a wholly-owned subsidiary of VEON Ltd.)

Interim consolidated income statement
for the three and six months ended 30 June 2017
(All amounts in millions of Rubles)

	Note	Three months ended 30 June		Six months ended 30 June	
		2017 (unaudited)	2016* (unaudited)	2017 (unaudited)	2016* (unaudited)
Service revenue*		82,779	84,536	161,788	169,302
Sale of equipment and accessories		2,889	1,975	5,472	4,944
Other revenue		277	109	662	269
Total operating revenue	4	85,945	86,620	167,922	174,515
Operating expenses					
Service costs*		(21,041)	(22,727)	(40,912)	(45,284)
Cost of equipment and accessories		(2,945)	(2,033)	(5,719)	(5,422)
Selling, general and administrative expenses	5	(29,221)	(29,656)	(60,290)	(59,400)
Depreciation	8	(13,891)	(14,102)	(28,176)	(28,654)
Amortization	9	(2,856)	(2,371)	(5,739)	(5,019)
Impairment loss	8	(469)	(26)	(489)	(182)
Loss on disposal of non-current assets		(210)	(491)	(385)	(581)
Total operating expenses		(70,633)	(71,406)	(141,710)	(144,542)
Operating profit		15,312	15,214	26,212	29,973
Finance costs		(5,890)	(6,255)	(11,311)	(12,842)
Finance income		1,323	1,712	2,678	3,547
Net foreign exchange (loss) / gain		(2,545)	2,152	4,831	6,399
Other non-operating loss, net	6	(4,362)	(1,524)	(6,417)	(4,184)
Share of loss of joint ventures accounted for using the equity method		(523)	(757)	(1,230)	(1,102)
Impairment of joint ventures accounted for using the equity method	3	(6,410)	–	(6,410)	–
(Loss) / profit before tax		(3,095)	10,542	8,353	21,791
Income tax expense	7	(842)	(5,085)	(2,555)	(9,637)
(Loss) / profit for the period		(3,937)	5,457	5,798	12,154
Attributable to:					
The owners of the Company		(4,364)	6,522	4,387	13,480
Non-controlling interests		427	(1,065)	1,411	(1,326)
		(3,937)	5,457	5,798	12,154

* In 2016, the Group has aligned its practices for content and other service revenue across the Group, and represented the comparative period 2016 reducing service revenue and operating costs for the period. The impact of this refinement in policy was not material for any periods presented, and reduced the service revenue and service costs by RUR 278 and RUR 691 for the three-month and six-month periods ended 30 June 2016, respectively. The net results, financial position and operating cash flows for these periods remained unaffected. The Company concluded that net presentation of the content revenue better reflected the actual nature and substance of the arrangements with content providers.

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

Public Joint Stock Company “Vimpel-Communications”
(a wholly-owned subsidiary of VEON Ltd.)

Interim consolidated statement of comprehensive income
for the three months ended 30 June 2017

(All amounts in millions of Rubles)

	Three months ended 30 June		Six months ended 30 June	
	2017 (unaudited)	2016 (unaudited)	2017 (unaudited)	2016 (unaudited)
(Loss) / profit for the period	(3,937)	5,457	5,798	12,154
Other comprehensive income to be reclassified to profit or loss in subsequent periods:				
Cash flow hedge reserve	185	35	86	(75)
Income tax effect	–	–	–	–
Exchange differences arising on net investment in foreign operations	1,155	(8,634)	(15,538)	(23,050)
Income tax effect	(387)	468	217	1,201
Other comprehensive income / (loss) for the period, net of tax	953	(8,131)	(15,235)	(21,924)
Total comprehensive loss for the period, net of tax	(2,984)	(2,674)	(9,437)	(9,770)
Attributable to:				
The owners of the Company	(3,328)	(1,794)	(10,128)	(8,592)
Non-controlling interests	344	(880)	691	(1,178)
	(2,984)	(2,674)	(9,437)	(9,770)

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

Public Joint Stock Company “Vimpel-Communications”
(a wholly-owned subsidiary of VEON Ltd.)

Interim consolidated statement of financial position
as of 30 June 2017
(All amounts in millions of Rubles)

	Note	30 June 2017 (unaudited)	31 December 2016 (audited)
Assets			
Non-current assets			
Property and equipment	8	218,901	237,011
Intangible assets	9	33,000	35,565
Goodwill	9	105,714	106,617
Investments in joint ventures	3	–	7,641
Deferred income tax assets		2,481	2,299
Other financial assets	10	45,576	58,027
Other non-current non-financial assets	11	704	919
Total non-current assets		406,376	448,079
Current assets			
Inventories		5,345	6,170
Trade and other receivables		25,917	27,868
Other current non-financial assets	11	11,119	12,714
Current income tax assets		3,494	2,589
Other current financial assets	10	15,774	10,303
Cash and cash equivalents	12	76,853	47,510
Total current assets		138,502	107,154
Assets classified as held for sale	3	1,416	–
Total assets		546,294	555,233
Equity and liabilities			
Equity			
Equity attributable to equity owners of the parent		182,247	225,845
Non-controlling interests		6,705	9,301
Total equity		188,952	235,146
Non-current liabilities			
Financial liabilities	10	143,603	146,848
Provisions		2,720	2,655
Other non-current non-financial liabilities	11	561	791
Deferred income tax liabilities		11,735	13,775
Total non-current liabilities		158,619	164,069
Current liabilities			
Trade and other payables		46,268	56,720
Dividends payable	3	33,500	–
Other current non-financial liabilities	11	22,683	22,422
Other financial liabilities	10	90,910	71,796
Current income tax payables		130	1,931
Provisions		2,780	3,149
Total current liabilities		196,271	156,018
Liabilities directly associated with the assets classified as held for sale	3	2,452	–
Total equity and liabilities		546,294	555,233

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

Public Joint Stock Company “Vimpel-Communications”
(a wholly-owned subsidiary of VEON Ltd.)

Interim consolidated statement of changes in equity
for the three months ended 30 June 2017
(All amounts in millions of Rubles)

Attributable to the owners of the Company									
Note	Issued capital	Capital surplus	Other capital reserves	Retained earnings	Foreign currency translation reserve	Cash flow hedge reserve	Total	Non-controlling interests	Total equity
As of 31 March 2017	3	40,234	20,837	169,701	(11,484)	(216)	219,075	6,462	225,537
(Loss) / profit for the period	–	–	–	(4,364)	–	–	(4,364)	427	(3,937)
Other comprehensive income / (loss)	–	–	–	–	851	185	1,036	(83)	953
Total comprehensive income / (loss)	–	–	–	(4,364)	851	185	(3,328)	344	(2,984)
Dividends declared	3	–	–	(33,500)	–	–	(33,500)	(101)	(33,601)
As of 30 June 2017	3	40,234	20,837	131,837	(10,633)	(31)	182,247	6,705	188,952

Interim consolidated statement of changes in equity
for the six months ended 30 June 2017
(All amounts in millions of Rubles)

Attributable to the owners of the Company									
Note	Issued capital	Capital surplus	Other capital reserves	Retained earnings	Foreign currency translation reserve	Cash flow hedge reserve	Total	Non-controlling interests	Total equity
As of 31 December 2016	3	40,234	20,807	160,950	3,968	(117)	225,845	9,301	235,146
Profit for the period	–	–	–	4,387	–	–	4,387	1,411	5,798
Other comprehensive income / (loss)	–	–	–	–	(14,601)	86	(14,515)	(720)	(15,235)
Total comprehensive income / (loss)	–	–	–	4,387	(14,601)	86	(10,128)	691	(9,437)
Dividends declared	3	–	–	(33,500)	–	–	(33,500)	(3,316)	(36,816)
Changes in an ownership interest in a subsidiary that do not result in a loss of control	–	–	30	–	–	–	30	29	59
As of 30 June 2017	3	40,234	20,837	131,837	(10,633)	(31)	182,247	6,705	188,952

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

Public Joint Stock Company “Vimpel-Communications”
(a wholly-owned subsidiary of VEON Ltd.)

Interim consolidated statement of changes in equity
for the three months ended 30 June 2016

(All amounts in millions of Rubles)

	Attributable to the owners of the Company							Total	Non-controlling interests	Total equity
	Issued capital	Capital surplus	Other capital reserves	Retained earnings	Foreign currency translation reserve	Cash flow hedge reserve	Available-for-sale reserve			
As of 31 March 2016	3	40,234	31,069	168,963	26,154	(90)	–	266,333	13,761	280,094
Profit for the period	–	–	–	6,522	–	–	–	6,522	(1,065)	5,457
Other comprehensive income / (loss)	–	–	–	–	(8,351)	35	–	(8,316)	185	(8,131)
Total comprehensive income / (loss)	–	–	–	6,522	(8,351)	35	–	(1,794)	(880)	(2,674)
Dividends declared	–	–	–	(17,500)	–	–	–	(17,500)	–	(17,500)
Acquisition of subsidiary	–	–	32	–	–	–	–	32	81	113
Transactions under common control	–	–	(624)	–	–	–	–	(624)	–	(624)
As of 30 June 2016	3	40,234	30,477	157,985	17,803	(55)	–	246,447	12,962	259,409

Interim consolidated statement of changes in equity
for the six months ended 30 June 2016

(All amounts in millions of Rubles)

	Attributable to the owners of the Company							Total	Non-controlling interests	Total equity
	Issued capital	Capital surplus	Other capital reserves	Retained earnings	Foreign currency translation reserve	Cash flow hedge reserve	Available-for-sale reserve			
As of 31 December 2015	3	40,234	24,408	162,005	40,150	20	(491)	266,329	14,059	280,388
Profit for the period	–	–	–	13,480	–	–	–	13,480	(1,326)	12,154
Other comprehensive income / (loss)	–	–	–	–	(21,997)	(75)	–	(22,072)	148	(21,924)
Total comprehensive income / (loss)	–	–	–	13,480	(21,997)	(75)	–	(8,592)	(1,178)	(9,770)
Dividends declared	–	–	–	(17,500)	–	–	–	(17,500)	–	(17,500)
Acquisition of subsidiary	–	–	32	–	–	–	–	32	81	113
Transactions under common control	–	–	6,037	–	(350)	–	491	6,178	–	6,178
As of 30 June 2016	3	40,234	30,477	157,985	17,803	(55)	–	246,447	12,962	259,409

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

Public Joint Stock Company “Vimpel-Communications”
(a wholly-owned subsidiary of VEON Ltd.)

Interim consolidated statement of cash flows
for the six months ended 30 June 2017
(All amounts in millions of Rubles)

	Note	Six months ended 30 June	
		2017	2016
Operating activities			
Profit for the period		5,798	12,154
Income tax expense	7	2,555	9,637
Profit before tax		8,353	21,791
Non-cash adjustments to reconcile profit before tax to net cash flows from operating activities:			
Depreciation	8	28,176	28,654
Impairment loss	8	489	182
Amortization	9	5,739	5,019
Loss on disposal of non-current assets		385	581
Finance income		(2,678)	(3,547)
Finance costs		11,311	12,842
Other non-operating loss, net	6	6,417	4,184
Net foreign exchange gain		(4,831)	(6,399)
Share of loss of joint ventures accounted for using the equity method		1,230	1,102
Impairment of joint ventures accounted for using the equity method	3	6,410	–
Movements in provisions		543	1,269
Operating cash flows before working capital adjustments, interest and income taxes		61,544	65,678
Working capital adjustments			
Change in trade and other receivables		976	(6,350)
Change in inventories		638	1,867
Change in trade and other payables		2,918	(4,419)
Interest and income taxes			
Interest paid		(10,418)	(12,633)
Interest received		3,866	2,545
Income tax paid		(5,406)	(10,349)
Net cash flows from operating activities		54,118	36,339
Investing activities			
Proceeds from sale of property, equipment and intangible assets		430	121
Purchase of property, equipment and intangible assets		(29,886)	(30,450)
Issue of loans		(6,618)	(20,778)
Repayment of loans issued		5,483	67,403
Inflows from deposits, net		947	5,655
Outflows from investments in other financial assets		(2,820)	(2,791)
Disposal of subsidiaries, net of cash disposed		(1)	1,592
Acquisition of subsidiaries, net of cash acquired		–	15
Net cash flows (used in) / from investing activities		(32,465)	20,767
Financing activities			
Proceeds from changes in ownership interests in a consolidated subsidiaries		59	(635)
Proceeds from borrowings, net of fees paid		112,174	31,748
Repayment of borrowings		(96,050)	(58,287)
Dividends paid to non-controlling interests	3	(3,291)	–
Proceeds from sale of non-controlling interests		–	59
Net cash flows from / (used in) financing activities		12,892	(27,115)
Net increase in cash and cash equivalents		34,545	29,991
Effect of exchange rate changes on cash and cash equivalents, net		(5,076)	(7,818)
Cash and cash equivalent reclassified as assets held for sale		(126)	–
Cash and cash equivalents at the beginning of the period		47,510	63,385
Cash and cash equivalents at the end of the period		76,853	85,558

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

Public Joint Stock Company “Vimpel-Communications”
(a wholly-owned subsidiary of VEON Ltd.)

**Notes to the unaudited interim condensed consolidated financial statements
as of 30 June 2017 and for the three and six months ended 30 June 2017**

(All amounts in millions of Rubles unless otherwise stated)

1. General information

Public Joint Stock Company “Vimpel-Communications” (PJSC “VimpelCom”, together with its consolidated subsidiaries referred to as the “Group”, “VimpelCom”, the “Company” or “we”) was registered in the Russian Federation (“Russia”) on 15 September 1992 as a joint stock company of the closed type, re-registered as a joint stock company of the open type on 28 July 1993 and began full-scale commercial operations in June 1994. The Company was re-registered as an Open Joint Stock Company on 28 March 1995. The Company was re-registered as a Public Joint Stock Company on 19 June 2015.

The registered office of PJSC “VimpelCom” is located at Russian Federation, 127083, Moscow, Ulitsa 8-Marta, Dom 10, Building 14.

The interim condensed consolidated financial statements are presented in Russian Rubles (“RUR”). In these notes, Russian Ruble amounts are presented in millions unless otherwise indicated.

VimpelCom earns revenues by providing telecommunication services through a range of traditional and broadband mobile and fixed-line technologies.

As of 30 June 2017, the Company operated telecommunications services in Russia, Kazakhstan, Armenia, Uzbekistan, Georgia, Kyrgyzstan and Laos primarily under the “Beeline” brand name.

The foreign exchange rate used to translate the local currency in Uzbekistan into Russian Rubles for consolidation purposes is an official rate published by the Central Bank of the Republic of Uzbekistan. However, this exchange rate is not achievable in expatriating funds out of the country due to restrictions imposed by the local government. The net assets of our business in Uzbekistan represented RUR 38,952 of the total net assets in the Company’s consolidated statement of financial position as of 30 June 2017. However, if the Company applied the exchange rate implied by market transactions, the net assets of Uzbekistan would decrease significantly in RUR terms.

The interim condensed consolidated financial statements of the Company as of 30 June 2017 and for the three and six months ended 30 June 2017 were authorized for issue by the General Director on 23 August 2017.

2. Basis of preparation of the interim condensed consolidated financial statements

Basis of preparation

The interim condensed consolidated financial statements have been prepared in accordance with International Accounting Standard (“IAS”) 34 *Interim Financial Reporting*.

The interim condensed consolidated financial statements do not include all the information and disclosures required in the annual consolidated financial statements and should be read in conjunction with the Group’s audited annual consolidated financial statements as of 31 December 2016 and for the year ended 31 December 2016 prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”).

The preparation of these interim condensed consolidated financial statements has required management to apply accounting policies and methodologies based on complex and subjective judgments, estimates based on past experience and assumptions determined to be reasonable and realistic based on the related circumstances. The use of these judgements, estimates and assumptions affects the amounts reported in the interim consolidated statement of financial position, interim consolidated income statement, interim consolidated statements of comprehensive income, interim consolidated statement of changes in equity, interim consolidated statement of cash flows as well as the notes. The final amounts for items for which estimates and assumptions were made in the interim condensed consolidated financial statements may differ from those reported in these statements due to the uncertainties that characterize the assumptions and conditions on which the estimates are based.

Public Joint Stock Company “Vimpel-Communications”
(a wholly-owned subsidiary of VEON Ltd.)

Notes to the unaudited interim condensed consolidated financial statements
as of 30 June 2017 and for the three and six months ended 30 June 2017 (continued)

(All amounts in millions of Rubles unless otherwise stated)

2. Basis of preparation of the interim condensed consolidated financial statements (continued)

New standards, interpretations and amendments adopted by the Group

The accounting policies adopted in the preparation of the interim condensed consolidated financial statements are consistent with those followed in the preparation of the Group’s annual consolidated financial statements as of and for the year ended 31 December 2016.

A number of new and amended standards became effective as of 1 January 2017, however, the Company did not have to change its accounting policies or make retrospective adjustments as a result of adopting these standards. The Group has not early adopted any other standards, interpretations or amendments that have been issued but have not yet become effective.

3. Significant transactions

Dividends

On 13 February 2017, VimpelCom Kyrgyzstan Holding AG, a subsidiary of the Company, declared dividends to its shareholders which were paid on 16 February 2017. The portion of dividends paid to the minority shareholder amounted to USD 54.6 million (the equivalent of RUR 3,215 as of 13 February 2017 at the exchange rate provided by the Central Bank of Russia).

On 30 June 2017, in the annual general meeting of shareholders of PJSC “VimpelCom” the decision was adopted to pay annual dividends in the monetary form based on 2016 financial year results: (1) to holders of common registered shares in the amount of six hundred fifty-three rubles 26 kopecks per one common share for the total amount of RUR 33,499.8 for all common registered shares in the aggregate; and (2) to holders of preferred type “A” registered shares in the amount of 0.1 kopecks per one preferred type “A” registered share for a total amount of RUR 0.006 for all preferred type “A” registered shares in the aggregate. On 13 July 2017, PJSC “VimpelCom” paid all dividends to the shareholders based on 2016 financial year results in the amount of RUR 31,824.8, net of tax withheld. In accordance with Russian tax legislation, PJSC “VimpelCom” withheld a tax on dividend payments in the amount of RUR 1,675.

Impairment of Euroset

During the second quarter of 2017, due to the continued operational underperformance of joint venture Euroset Holding N.V. (“Euroset”), the Company has revised its previous estimates and assumptions regarding Euroset’s future cash flows. As a result, the Company has recorded an impairment of RUR 6,410 against the carrying value of the investment in Euroset, resulting in a post-impairment carrying value of nil.

The recoverable amount of Euroset has been determined using fair value less costs of disposal, based on a Level 3 fair value derived from a discounted cash flow model.

Key assumptions

	<u>30 June 2017</u>
Discount rate	13.4%
Average annual revenue growth rate during forecast period	1.7%
Terminal growth rate	0.0%
Average operating (EBITDA) margin during forecast period	0.0%
Average capital expenditure as a percentage of revenue	0.9%

Public Joint Stock Company “Vimpel-Communications”
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Notes to the unaudited interim condensed consolidated financial statements
as of 30 June 2017 and for the three and six months ended 30 June 2017 (continued)

(All amounts in millions of Rubles unless otherwise stated)

3. Significant transactions (continued)

Exit from Euroset Joint Venture

On 7 July 2017, PJSC “VimpelCom entered into a Framework Agreement with PJSC “MegaFon” (“MegaFon”) to unwind their retail joint venture, Euroset Holding N.V. (“Euroset”). Under the agreement, MegaFon will acquire PJSC “VimpelCom”’s 50% interest in Euroset and PJSC “VimpelCom” in exchange will pay RUR 1,250 (subject to possible completion adjustments) and will acquire rights to 50% of Euroset’s approximately 4,000 retail stores in Russia. The transaction is subject to relevant regulatory approvals and other conditions precedent, and is expected to be completed in the fourth quarter of 2017.

As a result of this anticipated transaction, the investment in the Euroset joint venture was classified as an asset held-for-sale as of 30 June 2017. However, as a result of the impairment described above, the investment in Euroset had a carrying value of nil prior to reclassification as an asset held-for-sale.

Laos operations classified as held for sale

During the second quarter of 2017, the Company has committed to a plan to sell its 78% interest in VimpelCom Lao Co. Limited (“VIP Lao”). As a result, we classified our Laos business as a disposal group held for sale in these interim condensed consolidated financial statements.

Following the classification as a disposal group held-for sale, the Company will no longer account for depreciation and amortization expenses of VIP Lao assets.

The assets and liabilities of VIP Lao classified as held for sale are presented below:

	30 June 2017
Property and equipment	895
Intangible assets	138
Current assets	383
Total assets held for sale	1,416
Non-current liabilities	1,730
Current liabilities	722
Total liabilities held for sale	2,452

Included in the equity of the Group is cumulative other comprehensive income of RUR 173 and non-controlling interests of RUR (300) related to Laos, which is classified as held for sale.

4. Segment information

Management analyzes the Company’s operating segments separately because of different economic environments and stages of development in different geographical areas, requiring different investment and marketing strategies. Management does not analyze assets or liabilities by operating segments.

Management evaluates the performance of the Company’s segments on a regular basis, primarily based on earnings before interest (both finance income and finance costs), income tax, depreciation, amortization, impairment loss, gain / (loss) on disposals of non-current assets, net foreign exchange gain / (loss), other non-operating gain / (losses) and share of profit / (loss) of joint ventures (“EBITDA”).

The Company’s reportable segments include Russia, Kazakhstan and Uzbekistan, HQ and Others. The segment HQ and Others includes our operations in Kyrgyzstan, Armenia, Georgia, and Laos as well as headquarter expenses, other unallocated adjustments and inter-company eliminations.

Public Joint Stock Company “Vimpel-Communications”
(a wholly-owned subsidiary of VEON Ltd.)

Notes to the unaudited interim condensed consolidated financial statements
as of 30 June 2017 and for the three and six months ended 30 June 2017 (continued)

(All amounts in millions of Rubles unless otherwise stated)

4. Segment information (continued)

Financial information by reportable segment for the three and six months ended 30 June 2017 and 30 June 2016 is presented in the following tables. Inter-segment revenues between operating segments are on an arm's length basis in a manner similar to transactions with third parties. The segment data for acquired operations are reflected herein from the date of their respective acquisition.

Information by reportable segments for the three months ended 30 June 2017

	Russia	Uzbekistan	Kazakhstan	HQ and others	Group
Revenue					
External customers	68,363	8,676	5,587	3,319	85,945
Inter-segment	180	36	14	(230)	–
Total operating revenue	68,543	8,712	5,601	3,089	85,945
EBITDA	26,347	4,726	2,172	(507)	32,738
Other disclosures					
Capital expenditures	8,137	918	814	857	10,726
Impairment loss	(469)	–	–	–	(469)

Information by reportable segments for the three months ended 30 June 2016

	Russia	Uzbekistan	Kazakhstan	HQ and others	Group
Revenue					
External customers	66,174	10,822	5,545	4,079	86,620
Inter-segment	285	11	26	(322)	–
Total operating revenue	66,459	10,833	5,571	3,757	86,620
EBITDA	27,520	6,182	1,891	(3,389)	32,204
Other disclosures					
Capital expenditures	7,556	1,066	957	563	10,142
Impairment loss	–	–	–	(26)	(26)

Information by reportable segments for the six months ended 30 June 2017

	Russia	Uzbekistan	Kazakhstan	HQ and others	Group
Revenue					
External customers	132,971	17,678	10,766	6,507	167,922
Inter-segment	342	42	21	(405)	–
Total operating revenue	133,313	17,720	10,787	6,102	167,922
EBITDA	50,152	9,365	4,049	(2,565)	61,001
Other disclosures					
Capital expenditures	14,973	2,228	1,403	1,452	20,056
Impairment loss	(489)	–	–	–	(489)

Information by reportable segments for the six months ended 30 June 2016

	Russia	Uzbekistan	Kazakhstan	HQ and others	Group
Revenue					
External customers	131,828	23,088	11,137	8,462	174,515
Inter-segment	515	42	45	(602)	–
Total operating revenue	132,343	23,130	11,182	7,860	174,515
EBITDA	51,679	13,669	3,717	(4,656)	64,409
Other disclosures					
Capital expenditures	11,108	3,150	7,124	881	22,263
Impairment loss	(141)	–	(15)	(26)	(182)

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4. Segment information (continued)

The following table provides the reconciliation of consolidated EBITDA to consolidated (loss) / profit for the three and six months ended 30 June:

	Three months ended 30 June		Six months ended 30 June	
	2017	2016	2017	2016
EBITDA	32,738	32,204	61,001	64,409
Depreciation	(13,891)	(14,102)	(28,176)	(28,654)
Amortization	(2,856)	(2,371)	(5,739)	(5,019)
Impairment loss	(469)	(26)	(489)	(182)
Loss on disposal of non-current assets	(210)	(491)	(385)	(581)
Finance costs	(5,890)	(6,255)	(11,311)	(12,842)
Finance income	1,323	1,712	2,678	3,547
Other non-operating loss, net	(4,362)	(1,524)	(6,417)	(4,184)
Share of loss of joint ventures accounted for using the equity method	(523)	(757)	(1,230)	(1,102)
Impairment of joint ventures accounted for using the equity method	(6,410)	–	(6,410)	–
Net foreign exchange (loss) / gain	(2,545)	2,152	4,831	6,399
Income tax expense	(842)	(5,085)	(2,555)	(9,637)
(Loss) / profit for the period	(3,937)	5,457	5,798	12,154

5. Selling, general and administrative expenses

Selling, general and administrative expenses for the three and six months ended 30 June consist of the following:

	Three months ended 30 June		Six months ended 30 June	
	2017	2016*	2017	2016*
Customer associated costs	7,420	6,306	14,128	12,554
Personnel costs	6,581	6,519	13,827	13,797
Network and IT costs	5,179	4,528	9,991	9,700
Operating lease and other rent expenses	4,603	4,126	9,403	8,478
Taxes other than income tax	2,801	5,058	5,810	8,623
Consulting and professional service costs	1,123	1,404	3,760	2,600
Losses on receivables	587	584	1,369	1,590
Other G&A expenses	927	1,131	2,002	2,058
Total	29,221	29,656	60,290	59,400

*In 2017, the Group has aligned its practices for cost classification across the group and re-presented the comparative periods of 2016 by making reclassifications within selling, general and administrative for certain cost categories for the periods. Major changes relate to partial reclassification of consulting and professional service costs and other general and administrative expenses to customer associated costs and taxes other than income tax. The impact of this refinement in policy was not material for any periods presented. The net results, financial position and operating cash flows for these periods remained unaffected. The Company concluded that the updated classification within selling, general and administrative better reflected the actual nature of such costs.

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6. Other non-operating loss, net

Other non-operating loss, net consisted of the following for the three and six months ended 30 June:

	Note	Three months ended 30 June		Six months ended 30 June	
		2017	2016	2017	2016
Loss from early debt redemption	10	(4,430)	–	(4,430)	–
Changes in the fair value of non-hedge derivatives		286	(1,526)	(1,793)	(4,642)
Income / (loss) on sale of foreign currency, net		(11)	208	(29)	543
Changes in the fair value of hedge derivatives		(23)	(4)	(23)	2
Other loss, net		(184)	(202)	(142)	(87)
Total other non-operating loss, net		(4,362)	(1,524)	(6,417)	(4,184)

Loss from early debt redemption relates to the settlement of the cash tendered offer for certain outstanding debt securities, see Note 10 for further details.

7. Income taxes

Current income tax is the expected tax expense, payable or receivable on the taxable income or loss for the year or period, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Income tax expense consisted of the following for the three and six months ended 30 June:

	Three months ended 30 June		Six months ended 30 June	
	2017	2016	2017	2016
(Loss) / profit before tax	(3,095)	10,542	8,353	21,791
Current income tax	(1,083)	(5,522)	(4,769)	(12,159)
Deferred income tax	241	437	2,214	2,522
Income tax expense reported in the interim consolidated income statement	(842)	(5,085)	(2,555)	(9,637)
Effective tax rates	(27%)	48%	31%	44%

The effective income tax rate for the three and six months ended 30 June 2017 amounts to (27%) (2016: 48%) and 31% (2016: 44%), respectively. In the three-month and six-month period ended 30 June 2017 the effective income tax rate was mainly driven by impairment of investments in joint ventures (Note 3). In the three and six months ended 30 June 2016 the effective income tax rate was mainly driven by non-deductible expenses and higher tax rate in Uzbekistan.

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8. Property and equipment

During the six months ended 30 June 2017 and 2016, the Company had the following changes in property and equipment:

	Note	Six months ended 30 June	
		2017	2016
Net book value as of 1 January		237,011	265,899
Additions		16,754	14,002
Acquisition of a subsidiary		–	10
Net book value of assets disposed		(752)	(738)
Translation adjustment		(4,552)	(6,727)
Depreciation charge		(28,176)	(28,654)
Impairment		(489)	(182)
Assets classified as assets held for sale	3	(895)	–
Assets reclassified from assets held for sale		–	178
Net book value as of 30 June		218,901	243,788

During the six months ended 30 June 2017, assets with net book value of RUR 895 were classified as assets held for sale (refer to Note 3).

9. Intangible assets and goodwill

During the six months ended 30 June 2017 and 2016, the Company had the following changes in intangible assets and goodwill:

	Six months ended 30 June			
	2017		2016	
	Other intangible assets	Goodwill	Other intangible assets	Goodwill
Opening net book value as of 1 January	35,565	106,617	35,976	113,369
Additions	3,302	–	8,261	–
Acquisition of a subsidiary	23	–	34	5
Net book value of assets disposed	(12)	–	(10)	–
Translation adjustment	(139)	(903)	(1,273)	(1,921)
Amortization charge	(5,739)	–	(5,019)	–
Closing net book value as of 30 June	33,000	105,714	37,969	111,453

Goodwill is tested for impairment annually (at 1 October) or when circumstances indicate the carrying value may be impaired. The Company’s impairment test for goodwill is primarily based on fair value less cost of disposal calculations that use a discounted cash flow model. The key assumptions used to determine the recoverable amount for the different cash generating units were disclosed in the annual consolidated financial statements as of and for the year ended 31 December 2016.

The Company considers the relationship between market capitalization of VEON Ltd. and its book value, as well as weighted average cost of capital and the quarterly financial performances of each CGU when reviewing for indicators of impairment in interim periods.

There was no goodwill impairment recorded during the six months period ended 30 June 2017.

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10. Financial assets and liabilities

Carrying values and fair values

Set out below is a comparison by class of the carrying amounts and fair value of the Company’s financial instruments that are carried in the interim condensed consolidated financial statements as of 30 June 2017 and 31 December 2016 except for cash and cash equivalents, trade and other receivables and trade and other payables where the carrying amount is a reasonable approximation of fair value (based on future cash flows discounted at current market rates):

	Carrying value		Fair value	
	30 June 2017	31 December 2016	30 June 2017	31 December 2016
Financial assets at fair value through profit or loss				
Derivatives not designated as hedges				
Foreign exchange contracts	–	101	–	101
Total financial assets at fair value	–	101	–	101
Loans granted, deposits and other financial assets at amortised cost				
Loans granted to related parties, principal (Note 13)	41,379	41,323	50,372	47,208
Bank deposits	16,984	22,544	16,984	22,544
Interest receivable	1,681	3,024	2,100	3,549
Other financial assets	1,306	1,338	1,306	1,338
Total loans granted, deposits and other financial assets at amortised cost	61,350	68,229	70,762	74,639
Total other financial assets	61,350	68,330	70,762	74,740
Financial liabilities at fair value through profit or loss				
Derivatives not designated as hedges				
Foreign exchange contracts	529	1,623	529	1,623
Financial liabilities at fair value through other comprehensive income				
Derivatives designated as cash flow hedges				
Foreign exchange contracts	147	247	147	247
Total financial liabilities at fair value	676	1,870	676	1,870
Other financial liabilities at amortised cost				
Loans, bonds and finance lease liabilities, principal	61,837	180,426	65,716	189,615
Loans payables to related parties, principal (Note 13)	164,078	27,346	158,395	18,887
Unamortised fees	(1,040)	(761)	–	–
Interest payable	8,962	9,763	5,313	5,950
Total other financial liabilities at amortised cost	233,837	216,774	229,424	214,452
Total other financial liabilities	234,513	218,644	230,100	216,322

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10. Financial assets and liabilities (continued)

Carrying values and fair values (continued)

The following table provides the breakdown of the carrying value other financial assets and other financial liabilities by non-current and current portions as of 30 June 2017 and 31 December 2016:

	30 June 2017	31 December 2016
Other financial assets		
Non-current portion	45,576	58,027
Current portion	15,774	10,303
Total other financial assets	61,350	68,330
Other financial liabilities		
Non-current portion	143,603	146,848
Current portion	90,910	71,796
Total other financial liabilities	234,513	218,644

Fair value hierarchy

The fair value hierarchy ranks fair value measurements based on the type of inputs used in the valuation; it does not depend on the type of valuation techniques used:

- Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities;
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly;
- Level 3: inputs are unobservable inputs for the asset or liability.

The following table provides the disclosure of fair value measurements separately for each major class of assets and liabilities.

	As of 30 June 2017		
	(Level 1)	(Level 2)	(Level 3)
Financial liabilities at fair value through profit or loss			
Derivatives not designated as hedges			
Foreign exchange contracts	–	529	–
Financial liabilities at fair value through other comprehensive income			
Derivatives designated as cash flow hedges			
Foreign exchange contracts	–	147	–
Total financial liabilities at fair value	–	676	–

	As of 31 December 2016		
	(Level 1)	(Level 2)	(Level 3)
Financial assets at fair value through profit or loss			
Derivatives not designated as hedges			
Foreign exchange contracts	–	101	–
Total financial assets at fair value	–	101	–

Financial liabilities at fair value through profit or loss			
Derivatives not designated as hedges			
Foreign exchange contracts	–	1,623	–
Financial liabilities at fair value through other comprehensive income			
Derivatives designated as cash flow hedges			
Foreign exchange contracts	–	247	–
Total financial liabilities at fair value	–	1,870	–

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10. Financial assets and liabilities (continued)

Fair value hierarchy (continued)

During the six-months period ended 30 June 2017, there were no transfers between Level 1 and Level 2 fair value measurements, and no transfers into or out of Level 3 fair value measurements.

Major treasury events during 2017

On 2 March 2017, PJSC “VimpelCom” announced the reset of the coupon rate on its 10% puttable Ruble bonds for outstanding principal amount of RUR 15,057 maturing in March 2022. The new coupon rate of 7.00% per annum is applicable for the next six coupon periods (next three years) to be reset again in March 2020. Following the reset of the coupon rate, bondholders exercised their put options in aggregate principal amounts of RUR 14,461 which was repaid in March 2017. Subsequent to the settlement, the total outstanding principal amount of 7% Ruble bonds was RUR 597.

On 16 March 2017 and on 10 April 2017, PJSC “VimpelCom” drew down RUR 4,000 and RUR 11,000, respectively, under its revolving credit facility with Sberbank of Russia. The facility matured on 29 May 2017 and was fully repaid.

On 24 May 2017, PJSC “VimpelCom” fully prepaid outstanding credit facilities with Sberbank of Russia in the total amount of RUR 66,292, including RUR 65,349 of principal and RUR 943 of interest.

On 15 June 2017, PJSC “VimpelCom” fully prepaid outstanding credit facility signed with HSBC Bank plc on 26 April 2011 in the total amount of RUR 414 including RUR 412 of principal and RUR 2 of interest.

On 15 June 2017, PJSC “VimpelCom” fully prepaid outstanding credit facilities signed with Cisco Systems Finance International on 24 October 2014, 30 April 2014 and 24 September 2015 in the total amount of RUR 670, including RUR 657 of principal and RUR 13 of interest.

On 20 June 2017, PJSC “VimpelCom” fully prepaid outstanding credit facility signed with HSBC Bank plc and Nordea Bank AB (publ) 9 October 2012 in the total amount of RUR 1,851 including RUR 1,823 of principal and RUR 28 of interest.

On 30 May 2017, VimpelCom Holdings B.V. (immediate parent of PJSC “VimpelCom” and indirect subsidiary of VEON Ltd.) announced that it commenced a cash tender offer for any and all of the outstanding 7.5043% Notes due 2022 issued by VimpelCom Holdings B.V. guaranteed by PJSC “VimpelCom” (Note 14) and 9.125% and 7.748% Loan Participation Notes due 2018 and 2021, respectively, issued by, but with limited recourse to, VIP Finance Ireland Limited (SPE). The total principal outstanding amount of these bonds was USD 2,430 million of which USD 1,149.7 million was held by PJSC “VimpelCom” Group. The aggregate principal amount accepted for repurchase by VimpelCom Holdings B.V. was USD 1,258.7 million (of which USD 607.1 million was held by PJSC “VimpelCom” Group), which was settled on or before 29 June 2017.

On 19 June 2017 and 29 June 2017, PJSC “VimpelCom” bought the notes issued by VIP Finance Ireland Limited from VimpelCom Holdings B.V. for further cancellation for a total purchase price of USD 694.8 million which comprise the principal amount of USD 607.1 million, USD 64.7 million of premium to bondholders, USD 12.2 million of accrued interest and USD 10.8 of cost related to this transaction.

As a result of the tender offer as of 29 June 2017 the outstanding principal amount of debt under the 9.125% and 7.748% Loan Participation Notes due in 2018 and 2021, respectively, issued by, but with limited recourse to, VIP Finance Ireland Limited was USD 542.6 million (the equivalent of RUR 32,307 as of 29 June 2017 at the exchange rate provided by the Central Bank of Russia) and the outstanding principal amount of debt under the 7.5043% Notes due in 2022 issued by VimpelCom Holdings B.V. and guaranteed by PJSC “VimpelCom” (Note 14) was USD 628.5 million (the equivalent of RUR 37,422 as of 29 June 2017 at the exchange rate provided by the Central Bank of Russia).

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10. Financial assets and liabilities (continued)

Major treasury events during 2017 (continued)

The carrying value of the bonds subject to the purchase was adjusted on 29 June 2017 upon closing of the tender to reflect on the expected additional cash flows of the bonds stemming from the agreed premiums amounting to USD 64.7 million (the equivalent of RUR 3,737 at the exchange rates as of the dates of the transactions, provided by the Central Bank of Russia) and the costs associated with the execution of the transaction amounting to USD 10.8 million (the equivalent of RUR 624 at the exchange rates as of the dates of the transactions, provided by the Central Bank of Russia). This adjustment to the carrying value of the bonds was recorded in the line “Other non-operating loss, net” (Note 6) of the consolidated income statement as part of the “Loss from early debt redemption” account to reflect on the nature of the adjustment. The unamortized debt issuance costs amounted to USD 1.2 million (the equivalent of RUR 69 at the exchange rates as of the dates of the transactions, provided by the Central Bank of Russia) were released to the consolidated income statement and was also recorded in the line “Other non-operating loss, net” (Note 6) of the consolidated income statement as part of the “Loss from early debt redemption” account at the date of the closing due to significantly reduced expected remaining time of the amortization period.

Significant changes in financial assets and liabilities also relate to the loans received from related parties and the amount of interest due on them, and loans granted to related parties and the amount of interest due on them as further described in Note 13.

11. Other non-financial assets and liabilities

Other non-current non-financial assets consisted of the following:

	30 June 2017	31 December 2016
Advances to suppliers and prepayments	554	709
Deferred costs related to connection fees	64	101
Other non-current assets	86	109
Other non-current non-financial assets	704	919

Other current non-financial assets consisted of the following:

	30 June 2017	31 December 2016
Advances to suppliers	5,804	6,681
Input value added tax	4,658	5,374
Prepaid taxes	192	314
Deferred costs related to connection fees	183	126
Others	282	219
Other current non-financial assets	11,119	12,714

Other non-current non-financial liabilities consisted of the following:

	30 June 2017	31 December 2016
Long-term deferred revenue	280	472
Other non-current liabilities	281	319
Other non-current non-financial liabilities	561	791

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11. Other non-financial assets and liabilities (continued)

Other current non-financial liabilities consisted of the following:

	30 June 2017	31 December 2016
Customer advances, net of VAT	10,036	11,833
Other taxes payable	8,074	5,321
Amounts due to employees	3,000	2,447
Customer deposits	822	1,438
Short-term deferred revenue	751	914
Other liabilities	–	469
Other current non-financial liabilities	22,683	22,422

12. Cash and cash equivalents

Cash and cash equivalents consisted of the following items:

	30 June 2017	31 December 2016
Cash and cash equivalents at banks and on hand	58,381	43,796
Short-term deposits with an original maturity of less than 92 days	18,472	3,714
Total cash and cash equivalents	76,853	47,510

Cash at banks earns interest at floating rates based on bank deposit rates. Short-term deposits are made for varying periods of between one day and three months, depending on the immediate cash requirements of the Company, and earn interest at the respective short-term deposit rates.

The cash balances as of 30 June 2017 in Uzbekistan of RUR 23,926 (31 December 2016: RUR 21,038) are restricted due to local government or central bank regulations and therefore cannot currently be repatriated.

In addition, short and long term deposits at financial institutions in Uzbekistan of RUR 16,866 as of 30 June 2017 (31 December 2016: RUR 22,544) are also subject to the same restrictions.

13. Related parties

As of 30 June 2017, PJSC “VimpelCom” is a wholly-owned indirect subsidiary of VEON Ltd. As of 30 June 2017, VEON Ltd. is primarily owned by two largest shareholders: L1T VIP Holdings S.à.r.l., a member of the Letter One group of companies (hereinafter: “LetterOne”), and Telenor East Holding II AS, a member of the Telenor group of companies (hereinafter: “Telenor”). VEON Ltd. has no ultimate controlling shareholder.

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13 Related parties (continued)

The following tables provide the total amount of transactions that have been entered into with related parties and balances of accounts with them for the relevant financial periods:

	For the three months ended		For the six months ended	
	30 June 2017	30 June 2016	30 June 2017	30 June 2016
Revenue from Telenor	20	20	30	11
Revenue from Kyivstar	292	530	578	1,045
Revenue from joint ventures	109	74	279	140
Revenue from Teta Telecom or its subsidiaries	327	379	562	798
Revenue from VEON Ltd. or its subsidiaries	184	237	522	515
	932	1,240	1,971	2,509
Services from Telenor	16	9	27	29
Services from Kyivstar	579	852	1,134	1,809
Services from joint ventures	565	265	923	504
Services from Teta Telecom or its subsidiaries	937	1,184	1,786	2,328
Services from VEON Ltd. or its subsidiaries	2,146	1,911	5,692	4,110
Services from other related parties	6	7	11	14
	4,249	4,228	9,573	8,794
Finance income from VEON Ltd. or its subsidiaries	788	1,187	1,650	2,538
Finance costs from VEON Ltd. or its subsidiaries	1,806	530	2,341	1,077
Other loss from VEON Ltd. or its subsidiaries (Note 10)	(638)	–	(638)	–
Other gain from other related parties, net	1	43	4	2
			As of 30 June 2017	As of 31 December 2016
Accounts receivable from Telenor			36	13
Accounts receivable from Kyivstar			355	374
Accounts receivable from joint ventures			938	803
Accounts receivable from Teta Telecom or its subsidiaries			671	138
Accounts receivable from VEON Ltd. or its subsidiaries			3,150	2,693
Accounts receivable from other related parties			90	92
			5,240	4,113
Accounts payable to Telenor			54	23
Accounts payable to Kyivstar			232	266
Accounts payable to joint ventures			246	199
Accounts payable to Teta Telecom or its subsidiaries			1,094	1,038
Accounts payable to VEON Ltd. or its subsidiaries			9,384	8,200
Dividends payable to VEON Ltd. or its subsidiaries (Note 3)			33,500	–
			44,510	9,726
Loans granted to VEON Ltd. or its subsidiaries			41,379	41,323
Interest receivable from VEON Ltd. or its subsidiaries			1,564	3,024
Loans received from VEON Ltd. or its subsidiaries			164,078	27,346
Interest payable to VEON Ltd. or its subsidiaries			7,413	6,730
Unamortised fees related to loans received from VEON Ltd. or its subsidiaries			954	–
Loans received from VEON Ltd. or its subsidiaries classified as liabilities directly associated with the assets classified as held for sale			1,270	–
Interest payable to VEON Ltd. or its subsidiaries related to loans received classified as liabilities directly associated with the assets classified as held for sale			32	–

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13. Related parties (continued)

Loans granted to VEON Ltd. or its subsidiaries

As of 30 June 2017 and 31 December 2016, the principal amounts of loans granted to VEON Ltd. or its subsidiaries were as follows:

Borrower	Date of agreement	Maturity	Interest rate	Currency	30 June 2017	31 December 2016
VEON Ltd.	7 Oct. 2010	Dec., 2070	LIBOR+7.5%	USD	33,175	34,057
VimpelCom Holdings B.V. ¹	31 Mar 2017	–	LIBOR+0.6%	USD	5,905	–
Teta Telecom	2007-2011	2017-2021	10.60%	KZT	1,176	1,168
VimpelCom Micro Holdings B.V.	26 Feb. 2016	Feb., 2018	5.00%	USD	1,123	1,152
VimpelCom Holdings B.V. ²	5 Jul. 2016	Jul, 2019	LIBOR+4.0%	USD	–	4,246
NTC ³	1 Sep. 2016	Sep., 2018	10.00%	RUR	–	700
Total					41,379	41,323

¹ On 31 March 2017, B.V. VimpelCom Finance S.à r.l. (on 28 July 2017, B.V. VimpelCom Finance S.à r.l. changed its name to VEON Eurasia S.à r.l.) provided an uncommitted current account facility with unlimited maturity to VimpelCom Holdings B.V. for a maximum amount of USD 100 million. During the six months ended 30 June 2017 B.V. Vimpelcom Finance S.à r.l. deposited USD 100 million with VimpelCom Holdings B.V. and VimpelCom Holdings B.V. repaid USD 50 thousands under this agreement (the equivalent of RUR 5,643 and RUR 3, respectively, as of the dates of transactions at the exchange rate provided by the Central Bank of Russia);

² On 9 March 2017, VimpelCom Holdings B.V. repaid USD 70 million (the equivalent of RUR 4,078 as of 9 March 2017 at the exchange rate provided by the Central Bank of Russia);

³ During the first quarter of 2017, JSC National Tower Company (“NTC”) drew down RUR 700 and repaid RUR 300. In April 2017, NTC fully repaid RUR 1,100.

Loans received from VEON Ltd. or its subsidiaries

As of 30 June 2017 and 31 December 2016, the principal amounts of loans received from VEON Ltd. or its subsidiaries were as follows:

Lender	Date of agreement	Maturity	Interest rate	Currency	30 June 2017	31 December 2016
VEON Luxembourg Finance S.A. ¹	19 May, 2017	May, 2022	11.40%	RUR	95,000	–
VimpelCom Holdings B.V. ²	19 Jun., 2017	Dec., 2017	11.00%	RUR	40,100	–
VEON Luxembourg Finance S.A. ³	26 Mar., 2015	Mar., 2032	6.50%	USD	13,282	12,756
VimpelCom Holdings B.V.	14 Feb., 2013	Feb., 2018	9.60%	RUR	12,000	12,000
VimpelCom Holdings B.V. ⁴	24 Jun 2016	Sep., 2021	5.91%	RMB	3,696	1,289
VimpelCom Micro Holdings B.V. ⁵	27 Jan., 2016	Jan., 2018	5.00%	USD	–	1,152
VimpelCom Micro Holdings B.V. ⁵	17 May, 2016	Dec., 2017	LIBOR (6M) + 2.3%	USD	–	149
Total					164,078	27,346

¹ On 19 May 2017, PJSC “VimpelCom” signed a Credit Facility Agreement with VEON Luxembourg Finance S.A. (former Weather Capital Special Purpose 1 S.A.) for the amount of RUR 99,000 with the maturity date 19 May 2022. The lender charged facility fee in the amount of RUR 990, which were accounted for as unamortised debt issuance costs. The interest rate under the agreement is 11.4%. In the second quarter of 2017, PJSC “VimpelCom” drew down RUR 95,000;

² On 19 June 2017, PJSC “VimpelCom” signed a Credit Facility Agreement with VimpelCom Holdings B.V. for the amount of USD 694.5 million with the maturity date on 19 December 2017. As per agreement, cash is drawn down in ruble equivalent as of the date of transaction at the exchange rate provided by the Central Bank of Russia. The interest rate under the agreement is 11%. In the second quarter 2017, PJSC “VimpelCom” drew down RUB 40,100. On 18 August 2017, PJSC “VimpelCom” signed a Novation Agreement changing the lender to VEON Luxembourg Finance S.A.;

³ During the six months ended 30 June 2017, LLC Mobitel (subsidiary of the PJSC “VimpelCom”) drew down USD 15 million (the equivalent of RUR 853 as of the dates of transactions at the exchange rate provided by the Central Bank of Russia);

⁴ During the six months ended 30 June 2017 PJSC “VimpelCom” drew down RMB 276.29 million (the equivalent of RUR 2,312 as of the dates of transactions at the exchange rate provided by the Central Bank of Russia);

⁵ The loans related to VimpelCom Holding Laos B.V. (subsidiary of the PJSC “VimpelCom”) were reclassified to liabilities directly associated with the assets classified as held for sale on 30 June 2017 (Note 3). The total outstanding amount as of 30 June 2017 was USD 21.497 million (the equivalent of RUR 1,270 as of 30 June 2017 at the exchange rate provided by the Central Bank of Russia).

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**Notes to the unaudited interim condensed consolidated financial statements
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(All amounts in millions of Rubles unless otherwise stated)

13. Related parties (continued)

Terms and conditions of transactions with related parties

Outstanding balances at period-end are unsecured, settlements occur in cash. During the six months ended 30 June 2017, there have been no new guarantees provided or received for any related party receivables or payables and no changes occurred to the terms and amounts of the Company's guarantees of the related party loans that existed as of 31 December 2016 and were disclosed in the notes to the respective annual consolidated financial statements other than changes disclosed in Note 14. No triggering events under the existing guarantees in favor of related parties occurred. The Company believes that the probability of these events is remote.

14. Commitments, contingencies and uncertainties

There were no material commitments, contingencies and uncertainties that occurred during the six month period ended 30 June 2017 and there were no material changes during the same period to the commitments, contingencies and uncertainties as disclosed in the Group's annual consolidated financial statements as of and for the year ended 31 December 2016 other than changes in the commitments, contingencies and uncertainties disclosed below.

Spectrum reallocation in Uzbekistan

On 31 March 2017, the Republican Radiofrequencies Council in Uzbekistan (the “Council”) published a decision (the “Decision”) ordering the redistribution of radio frequencies in Uzbekistan which, if it comes into force as planned in September 2017, could result in a reallocation of our subsidiary Unitel LLC's (“Unitel”) radio frequencies to other cellular communications providers in the market. On 21 April 2017, Unitel filed a claim with the Commercial Court of Tashkent City disputing the Decision. A preliminary hearing on Unitel's claim was held on 10 May 2017. Unitel's claim was subsequently transferred to the Administrative Court of the Uchtepa District, which dismissed the claim on 22 June 2017. A cassation appeal of the dismissal, if any, must be commenced on or before 12 January 2018.

Guarantees in favour of VimpelCom Holdings B.V.

On 29 June 2011, VimpelCom Holdings B.V., a subsidiary owned by VEON Ltd., completed an offering of an aggregate principal amount of USD 2,200 million notes (the equivalent of RUR 62,117 as of 29 June 2011 at the exchange rate provided by the Central Bank of Russia) split between three, five and ten year tranches, with an annual interest rates range of LIBOR plus 4.0% - 7.50%. The Company guaranteed these notes issues. On 2 April 2015, VimpelCom Amsterdam B.V. partially repurchased the current notes issued by VimpelCom Holdings B.V. On 19 and 29 June 2017, VimpelCom Holdings B.V. partially repurchased guaranteed notes issued by VimpelCom Holdings B.V. on 29 June 2011 (Note 10). As of 30 June 2017 and 31 December 2016, the outstanding principal amount under the notes was USD 628.5 million (the equivalent of RUR 37,135 as of 30 June 2017 at the exchange rate provided by the Central Bank of Russia) and USD 1,629 million (the equivalent of RUR 98,810 as of 31 December 2016 at the exchange rate provided by the Central Bank of Russia), respectively. No triggering events under the guarantee occurred. The Company believes that probability of these events is remote.

On 13 February 2013, VimpelCom Holdings B.V. completed an offering of an aggregate principal amount of USD 1,600 million notes (the equivalent of RUR 48,274 as of 13 February 2013 at the exchange rate provided by the Central Bank of Russia) and notes, denominated in RUR, in the amount of RUR 12,000, split between five, six and ten year tranches, with an annual interest rates range of 5.20%-9.00%. VimpelCom guaranteed these notes issues. On 2 April 2015, VimpelCom Amsterdam B.V. partially repurchased the current notes issued by VimpelCom Holdings B.V. As of 31 December 2016, the outstanding principal amount under the notes was USD 1,554 million (the equivalent of RUR 94,261 as of 31 December 2016 at the exchange rate provided by the Central Bank of Russia) and RUR 12,000. On 30 June 2017, VimpelCom Holdings B.V. terminated these respective guarantees. VimpelCom Holdings B.V. exercised its option to terminate the guarantees pursuant to the terms of the trust deeds entered into in respect of the Notes between VimpelCom Holdings B.V., PJSC “VimpelCom” and BNY Mellon Corporate Trustee Services Limited, each dated 13 February 2013. No triggering events under the guarantee occurred.

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Notes to the unaudited interim condensed consolidated financial statements
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(All amounts in millions of Rubles unless otherwise stated)

14. Commitments, contingencies and uncertainties (continued)

Guarantees in favour of VimpelCom Amsterdam B.V. (continued)

On 20 December 2012, VimpelCom Amsterdam B.V. completed a term credit facility of USD 500 million (the equivalent of RUR 15,380 as of 20 December 2012 at the exchange rate provided by the Central Bank of Russia). The 8 years credit facility for VimpelCom Amsterdam B.V. is committed by China Development Bank Corporation to finance Huawei equipment. The loan bears interest at the rate of LIBOR plus 3.30% per annum. VimpelCom guaranteed this term credit facility. As of 30 June 2017 and 31 December 2016, the outstanding principal amount was USD 290.66 million (the equivalent of RUR 17,174 as of 30 June 2017 at the exchange rate provided by the Central Bank of Russia) and USD 332.19 million (the equivalent of RUR 20,150 as of 31 December 2016 at the exchange rate provided by the Central Bank of Russia), respectively. No triggering events under the guarantee occurred. The Company believes that probability of these events is remote.

On 28 March 2013, VimpelCom Amsterdam B.V. completed a term credit facility of USD 500 million (the equivalent of RUR 15,432 as of 28 March 2013 at the exchange rate provided by the Central Bank of Russia). The 8 years credit facility for VimpelCom Amsterdam B.V. is committed by HSBC Bank plc to finance Ericsson equipment. The loan bears interest at the rate of CIRR plus 0.02% per annum. VimpelCom guaranteed this term credit facility. As of 30 June 2017 and 31 December 2016, the outstanding principal amount was USD 174.69 million (the equivalent of RUR 10,322 as of 30 June 2017 at the exchange rate provided by the Central Bank of Russia) and USD 190.57 million (the equivalent of RUR 11,559 as of 31 December 2016 at the exchange rate provided by the Central Bank of Russia), respectively. No triggering events under the guarantee occurred. The Company believes that probability of these events is remote.

15. Events after the reporting period

On 9 August 2017, PJSC “VimpelCom” signed a Credit Facility Agreement with VEON Luxembourg Finance S.A. (former Weather Capital Special Purpose 1 S.A.) for the amount of RUR equivalent of USD 157.5 million with the maturity date 9 August 2022 with auto prolongation. The interest rate under the agreement is flexible, 125% of the Key Rate of the Central bank of Russia. During the August, 2017, PJSC “VimpelCom” drew down RUR 9,454.

On 18 August 2017, PJSC “VimpelCom” signed a Revolving Credit Facility Agreement with VEON Luxembourg Finance S.A. (former Weather Capital Special Purpose 1 S.A.) for the amount of RUR 30 000 with the maturity date 18 August 2020 with auto prolongation. The interest rate under the agreement is flexible, 125% of the Key Rate of the Central bank of Russia.