Consolidated financial statements

Public Joint Stock Company "Vimpel-Communications"

(a wholly-owned subsidiary of VEON Ltd.)

as of 31 December 2017 and
for the year ended 31 December 2017

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Contents

Independent Auditor's Report

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

Our opinion

In our opinion, the consolidated financial statements present fairly, in all material respects the consolidated financial position of Public Joint Stock Company "Vimpel-Communications" (a wholly-owned subsidiary of VEON Ltd. hereinafter referred to as "the Company" or "PJSC VimpelCom") and its subsidiaries (hereinafter collectively referred to as "VimpelCom") as at 31 December 2017, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards.

What we have audited

VimpelCom's consolidated financial statements comprise:

- the consolidated income statement for the year ended 31 December 2017;
- the consolidated statement of comprehensive income for the year ended 31 December 2017;
- the consolidated statement of financial position as at 31 December 2017;
- the consolidated statement of changes in equity for the year ended 31 December 2017;
- the consolidated statement of cash flows for the year ended 31 December 2017; and
- the notes to the consolidated financial statements, which include significant accounting policies and other explanatory information.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the '*Auditor's Responsibilities for the Audit of the Consolidated Financial Statements*' section of our report.

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

Independence

We are independent of VimpelCom in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) together with the ethical requirements of the Auditor's Professional Ethics Code and Auditor's Independence Rules that are relevant to our audit of the consolidated financial statements in the Russian Federation. We have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code.

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Our audit approach

Overview and context

PJSC VimpelCom is a telecommunications company providing voice and data services through a range of mobile and fixed-line technologies as well as selling subscriber equipment and accessories. The group comprises of seven components and therefore we considered our group audit scope and approach as set out in the scope of our group audit section. We paid specific attention to the areas of focus driven by the operations of the company, as set out below.

Materiality

- Overall materiality: RUB 3,000 million, which represents 2.5% of Earnings Before Interest, Taxes, Depreciation and Amortisation ("EBITDA")

Audit scope

- We conducted our work at the corporate headquarters in Russia and at the most significant subsidiaries, located in Russia, Uzbekistan, Kazakhstan and Kyrgyzstan. The work consisted of full scope audits for those significant subsidiaries and risk assessment procedures for less significant subsidiaries in Georgia and Armenia. Subsidiary in Laos, which was presented as an asset held for sale as of 31 December 2017, was out of scope.
- Since some of the functions of VimpelCom, like accounting policies and methodology, valuation, treasury and tax are centralised at the level of VEON Ltd. in the Netherlands our work also included those functions to the extent they are managing, approving and monitoring the related balances and transactions of VimpelCom.
- The group engagement team visited Kazakhstan to review the work of the component team covering subsidiaries in Kazakhstan and Kyrgyzstan while the component team covering subsidiaries in Uzbekistan visited Moscow to enable us to review their work.
- Audit coverage of 99% of consolidated EBITDA, 98% of consolidated revenue and 99% of consolidated total assets was obtained.

Key audit matters

- Revenue recognition - accuracy of revenue recorded given the complexity of systems as well as presentation of revenue gross or net
- Carrying value of goodwill and investments in joint ventures
- Compliance with anti-bribery laws and regulations

We designed our audit by determining materiality and assessing the risks of material misstatement in the consolidated financial statements. In particular, we considered where management made subjective judgements; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits, we also addressed the risk of management override of internal controls, including among other matters consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

Our engagement as a whole consisted of review procedures on the quarterly interim financial information, interim tests of controls and year-end audit procedures. Given the size of VimpelCom and its operations, we are involved on a continuous basis and have ongoing discussions with the finance functions, Company and subsidiaries' management and Board of Directors.

We ensured that the audit teams both at group and at component levels included the appropriate skills and competences, which are needed for the audit of a telecommunications company.

Materiality

The scope of our audit was influenced by our application of materiality. An audit is designed to obtain reasonable assurance whether the financial statements are free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the consolidated financial statements.

Based on our professional judgement, we determined certain quantitative thresholds for materiality, including the overall group materiality for the consolidated financial statements as a whole as set out in the table below. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, if any, both individually and in aggregate on the financial statements as a whole.

Overall group materiality	RUB 3,000 million (2016: RUB 3,000 million)
How we determined it	We determined the materiality as 2.5% (2016: 2.3%) of EBITDA as disclosed in Note 6 of the consolidated financial statements. The materiality is consistent with 2016 audit.
Rationale for the materiality benchmark applied	Our rationale for determining the most appropriate materiality benchmark was based on our analysis of the common information needs of users of the financial statements. We first considered 'profit before taxes'. However, as profits tend to fluctuate significantly, we concluded this was not a representative benchmark. We have therefore then considered EBITDA. We noted that this benchmark is being used by VimpelCom equity and debt investors to assess its financial performance. Additionally, a number of debt agreements, where VimpelCom is a guarantor, contain covenants that are linked to EBITDA of VimpelCom. On this basis, we concluded EBITDA to be an appropriate materiality benchmark.
Component materiality	To each component in our audit scope, we, based on our judgement, allocated materiality that is less than or equal to our overall materiality. The range of materiality allocated across components was between RUB 600 million and RUB 3,000 million.

How we tailored our group audit scope

We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the consolidated financial statements as a whole, taking into account the geographic and management structure of VimpelCom, the accounting processes and controls, and the industry in which VimpelCom operates.

PJSC VimpelCom is the parent company of a group of entities. The financial information of this group is included in the consolidated financial statements of PJSC VimpelCom, the holder of shares in subsidiaries. Some of the functions of VimpelCom, including accounting policies and methodology, valuation, treasury and tax are centralised at the level of VEON Ltd. headquartered in Amsterdam.

Components in Russia, Uzbekistan and Kazakhstan were subjected to audits of their complete financial information as those components are individually significant to the group. The component in Kyrgyzstan was subjected to full scope audit procedures as it included significant or higher risk areas. For Uzbekistan, Kazakhstan and Kyrgyzstan components we used component auditors from other PwC network firms who are familiar with the local laws and regulations to perform the audit work. For the Russian component, the group engagement team performed the work. For the processes centralised at the level of VEON Ltd. listed above we used PwC network firm in the Netherlands to perform the related audit work.

In total, in performing these procedures, we achieved the following coverage on the financial line items:

Revenue	98%
EBITDA	99%
Profit before tax	92%
Total assets	99%

None of the remaining components represented individually more than 2% of total group revenue or total group assets. For those remaining components we performed, among others, analytical procedures to corroborate our assessment that there were no significant risks of material misstatements within those components.

We issued instructions to the audit teams of the components in our audit scope. These instructions included our risk analysis, materiality, and scope of the work to be performed. We determined the level of our involvement in the audit work of these entities in order to be able to conclude whether sufficient appropriate audit evidence had been obtained as a basis for our opinion on the group financial statements as a whole. We have had individual conference calls with each of the in-scope component auditors multiple times during the year including upon the conclusion of their work. During these calls, we have discussed the significant accounting and audit issues identified by the component auditors, the reports of the component auditor, the findings of their procedures and other matters, which could be of relevance for the consolidated financial statements.

As mentioned above certain reporting matters are predominantly centrally determined by VEON Ltd. group management and are audited by us with the involvement of the PwC network firm in the Netherlands. This includes amongst others non-current assets impairment testing, the appropriateness of application of hedge accounting, the appropriateness of roaming rebates and the follow-up on whistle-blower allegations and other ethics cases monitored at the group level. We have agreed the scope, evaluated competence, capabilities, expertise and objectivity of the PwC Netherlands specialists involved, obtained, reviewed and evaluated the results of PwC Netherlands audit and specialist teams' work in these complex audit areas and incorporated those into our audit file.

By performing the procedures above at components, combined with additional procedures at VimpelCom level and VEON Ltd. level, we have obtained sufficient and appropriate audit evidence regarding the financial information of the group as a whole to provide a basis for our opinion on the consolidated financial statements.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. We have communicated the key audit matters to the Board of Directors, but they are not a comprehensive reflection of all matters that were identified by our audit and that we communicated. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter	How our audit addressed the Key audit matter
Revenue recognition - accuracy of revenue recorded given the complexity of systems as well as presentation as gross or net *Note 7* The total revenues of the Group amount to RUB 341,422 million and are made up of billions of relatively small transactions in combination with multiple pricing plans. Throughout VimpelCom, there is a large number and wide variety of legacy billing and other operating support systems, including multiple manual interfaces, which results in an increased risk around the accuracy of the revenue recorded. The magnitude as well as the increased risk, combined with control deficiencies identified, requires substantial audit attention and effort with respect to the controls and substantive test procedures to be performed and assessment of management's remediation of identified deficiencies. Furthermore, the increased offering of services in collaboration with third parties requires the	Our audit approach included controls testing and substantive procedures, including data analytics, covering, in particular: • Understanding and testing the IT environment in which billing, rating and other relevant support systems reside, including the change control procedures in place around systems involved in material revenue streams. • Testing the design and operational effectiveness of the order-to-cash related controls, including the effective remediation or mitigation of identified control deficiencies. • Testing the end-to-end reconciliation from business support systems to billing and rating systems to the general ledger. The testing included validating material journals between the billing system or intelligent networks and the general ledger.

Key audit matter	How our audit addressed the Key audit matter
application of significant judgement to determine the appropriateness of recognition of revenue on a gross or net basis. Therefore we consider this a key audit matter.	• Assessing the remediation or mitigation of identified control deficiencies and where needed amending our substantive audit procedures accordingly. • Reconciling the amounts of vouchers and other top-ups with respect to prepaid services to the transactional cash receipts data per the cash system. • Performing tests on the accuracy of customer bill generation on a sample basis and testing of a sample of the credits and discounts applied to customer bills. • Testing cash receipts for a sample of customers back to the customer invoice; and • Review of service arrangements with respect to content provision and other services involving third parties and assessment of the (consistency of) application of the accounting principles for principal versus agent transactions. Based on our work, we noted no significant issues on the accuracy of revenue recorded in the year.
Carrying value of goodwill and investments in joint ventures *Note 9 and Note 12* VimpelCom has a goodwill balance of RUB 100,814 million and a balance of investments in joint ventures of nil as at 31 December 2017. Impairment charges to goodwill were recognised in the past. We considered this area to be a key audit matter due to the size of the goodwill balance as well as the fact that the determination of the fair value less costs of disposal as used by VimpelCom in its annual goodwill impairment tests as disclosed in Note 9 to the consolidated financial statements is complex and requires substantial judgment from management. The determination of the recoverable value, in particular the fair value less costs of disposal, is based on assumptions, such as the growth rate, the weighted average cost of capital and the success of strategic initiatives, that are affected by expected future	In the context of the annual goodwill impairment test, we have performed various procedures which varied in depth per CGU based on our risk assessment with respect to the volatility of the economic circumstances, the extent of the related goodwill balance as compared to our materiality used and the headroom available between the carrying value and the fair value less costs of disposal. Particular focus was on the CGU’s that were impaired. Specific attention was also given to the carrying value of the investment in joint venture Euroset. Our audit procedures were performed by the audit team in conjunction with the valuations experts and included, amongst others: • Assessing the appropriateness of management’s identification of the Company’s

Key audit matter	How our audit addressed the Key audit matter
market conditions and the continuing challenging economic and political environments in the territories where the Company and its subsidiaries operate in. VimpelCom performed its annual goodwill impairment test in accordance with IAS36 - Impairment of Assets as of 1 October 2017. Management concluded that RUB 2,984 million of impairment charges were to be recorded for the Cash Generating Units ('CGUs') in Kyrgyzstan and Armenia against the respective goodwill balances. Furthermore, as disclosed in Note 12 to the consolidated financial statements during the year the Company fully impaired the carrying value of its 50% interest in Euroset joint venture amounting to RUB 6,410 million, following continued operational underperformance of Euroset and a decision to unwind the joint venture as agreed with the other joint venture partner PJSC MegaFon. The subsequent triggering events analysis as of 31 December 2017 did not reveal further impairments or reversals thereof to be recorded.	CGUs based on management's reporting and organizational structure. • Assessment of management's determination of the fair value to support the valuation of the investments in subsidiaries and Euroset. Our valuation specialists assisted us in evaluating and challenging the composition of management's future cash flow forecasts and the process by which they were drawn up as well as the key assumptions underlying the valuation models used by VimpelCom to carrying value of CGUs and Euroset, which includes amongst others the weighted average cost of capital, discount rate, terminal growth rate and VimpelCom and industry metrics ('average revenue per user', subscriber base, EBITDA margins). Where possible we have validated the assumptions against available external benchmarks. • We also assessed the objectivity and competence of the external experts' engaged by management to determine the valuation of Euroset investment. • A retrospective review of the prior year estimates by comparing the current year actual results of CGUs (where applicable) and Euroset to those projected in the prior year. • Tested mathematical accuracy of the prospective financial information used in the impairment test. • Assessed the adequacy of the VimpelCom's disclosures regarding assumptions and sensitivities as included in Note 9 and Note 12 to the consolidated financial statements. Based on our procedures, we concur with the management's estimates of the impairment charges recognised in the consolidated financial statements and believe the related disclosures in Note 9 and Note 12 are adequate.

Key audit matter	How our audit addressed the Key audit matter
Compliance with anti-bribery laws and regulations *Note 24* As disclosed in Note 24 to the consolidated financial statements in 2016 VEON Ltd., the parent of the Company, settled an investigation into the operations in Uzbekistan with the U.S. Department of Justice, the U.S. Securities and Exchange Commission and the Dutch Public Prosecution Service (Openbaar Ministerie). Under the related Deferred Prosecution Agreement the Company had to implement an Independent Monitor that oversees the Company's compliance improvement programme for a period of three years. If the recommendations provided by the Independent Monitor are deemed to be inadequately implemented, further fines could amongst others be imposed. As such we believe that the Company's progress with respect to implementation of the Monitor recommendations warrants attention from an audit perspective.	In response to the increased risk of bribery and corruption, we have performed among others audit procedures including: • Understanding of the local laws and regulations and various levels of interaction with government officials. • Assessing and testing the internal controls structure, including amongst others the control environment (whistleblower and internal fraud management cases). • Identifying and testing potentially unusual payments or expenses, relationships with related parties, agents, charities and social organisations, and review of complex contracts. • Attending discussions in the Risk, Ethics and Assurance Committee (REAC) established by management of the Company, among other things, to follow up on the results of internal and external investigations and on the design and effectiveness of the Company's compliance programs and internal controls relating to the prevention and detection of fraud. • Evaluating the implications of the findings of the Independent Monitor and discussing these with management of the Company. • Reading the minutes of the Board meetings. • Obtaining external legal confirmations. • Assessing the adequacy of the Company's disclosures. Based on our procedures performed we have not identified any material omissions in the related disclosures in the consolidated financial statements.

Responsibilities of management and those charged with governance for the consolidated financial statements

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

In preparing the consolidated financial statements, management is responsible for assessing VimpelCom's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate VimpelCom or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing VimpelCom's financial reporting process.

Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of VimpelCom's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on VimpelCom's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause VimpelCom to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within VimpelCom to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The certified auditor responsible for the audit resulting in this independent auditor's report is Evgeny Klimenko.

AO PricewaterhouseCoopers Audit

2 April 2018
Moscow, Russian Federation

E. V. Klimenko, certified auditor (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 Chamber on 28 July 1993

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

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

Independent auditor: AO PricewaterhouseCoopers Audit

State registration certificate № 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 № 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.)

Consolidated income statement
for the year ended 31 December 2017

(All amounts in millions of Rubles)

		Years ended 31 December	
	Note	2017	2016
Service revenues		**327,517**	344,233
Sale of equipment and accessories		**12,411**	11,016
Other revenues		**1,494**	601
Total operating revenues	6,7	**341,422**	355,850
Operating expenses			
Service costs		**(83,713)**	(93,292)
Cost of equipment and accessories		**(13,113)**	(12,413)
Selling, general and administrative expenses	8	**(126,928)**	(119,901)
Depreciation	13	**(55,397)**	(56,754)
Amortization	14	**(11,369)**	(11,057)
Impairment loss	9, 13, 14	**(3,898)**	(6,140)
Loss on disposals of non-current assets		**(1,258)**	(1,497)
Total operating expenses		**(295,676)**	(301,054)
Operating profit		**45,746**	54,796
Finance costs		**(23,764)**	(24,815)
Finance income		**2,708**	6,356
Net foreign exchange (loss) / gain*****		**(879)**	8,088
Other non-operating loss, net	10	**(6,674)**	(6,356)
Share of loss of joint ventures accounted for using the equity method	12	**(1,231)**	(885)
Impairment of joint ventures accounted for using the equity method	12	**(6,410)**	(5,993)
Profit before tax		**9,496**	31,191
Income tax expense	11	**(1,293)**	(18,459)
Profit for the year		**8,203**	12,732
Profit attributable to:			
The owners of the Company		**7,646**	16,445
Non-controlling interests	12	**557**	(3,713)
		8,203	12,732

***** *Currency liberalization in Uzbekistan had a significant impact on foreign currency translation of Uzbekistan operations, refer to Note 2 for further information.*

Public Joint Stock Company “Vimpel-Communications”
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Consolidated statement of comprehensive income for the year ended 31 December 2017

(All amounts in millions of Rubles)

	Years ended 31 December	
	2017	**2016**
Profit for the year	**8,203**	12,732
Other comprehensive loss		
Items that may be reclassified subsequently to profit or loss:		
Cash flow hedge reserve	**117**	(137)
Income tax effect	**–**	–
Exchange differences arising on net investment in foreign operations*	**(55,563)**	(37,332)
Income tax effect	**6,733**	1,516
Other comprehensive loss for the year, net of tax	**(48,713)**	(35,953)
Total comprehensive loss for the year, net of tax	**(40,510)**	(23,221)
Attributable to:		
Owners of the Company	**(40,669)**	(19,524)
Non-controlling interests	**159**	(3,697)
	(40,510)	(23,221)

* *Currency liberalization in Uzbekistan had a significant impact on foreign currency translation of Uzbekistan operations, refer to Note 2 for further information.*

Public Joint Stock Company “Vimpel-Communications”
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Consolidated statement of financial position as of 31 December 2017

(All amounts in millions of Rubles)

	Note	31 December 2017	31 December 2016
Assets			
Non-current assets			
Property and equipment	13	**204,661**	237,011
Intangible assets	14	**31,249**	35,565
Goodwill	9	**100,814**	106,617
Investments in joint ventures	12	–	7,641
Deferred income tax assets	11	**5,304**	2,299
Other financial assets	15	**2,255**	58,027
Other non-current assets	16	**555**	919
Total non-current assets		**344,838**	448,079
Current assets			
Inventories	17	**3,301**	6,170
Trade and other receivables	18	**23,641**	27,868
Other current assets	16	**11,695**	12,714
Current income tax assets	11	**5,669**	2,589
Other current financial assets	15	**72,379**	10,303
Cash and cash equivalents	19	**24,963**	47,510
Total current assets		**141,648**	107,154
Assets classified as held for sale	5	**1,296**	–
Total assets		**487,782**	555,233
Equity and liabilities			
Equity			
Equity attributable to equity owners of the Company	20	**151,706**	225,845
Non-controlling interests	12	**5,550**	9,301
Total equity		**157,256**	235,146
Non-current liabilities			
Financial liabilities	15	**208,427**	146,848
Provisions	22	**2,771**	2,655
Other non-current liabilities	16	**1,304**	791
Deferred income tax liabilities	11	**10,877**	13,775
Total non-current liabilities		**223,379**	164,069
Current liabilities			
Trade and other payables		**51,712**	56,720
Dividends payable	21	**25**	–
Other financial liabilities	15	**24,161**	71,796
Other current liabilities	16	**24,701**	22,422
Current income tax payables	11	**196**	1,931
Provisions	22	**3,988**	3,149
Total current liabilities		**104,783**	156,018
Liabilities directly associated with the assets classified as held for sale	5	**2,364**	–
Total equity and liabilities		**487,782**	555,233

Public Joint Stock Company “Vimpel-Communications”
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Consolidated statement of changes in equity for the year ended 31 December 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**	**Available-for-sale 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 year		–	–	–	7,646	–	–	–	**7,646**	557	**8,203**
Other comprehensive income		–	–	–	–	(48,432)	117	–	**(48,315)**	(398)	**(48,713)**
Total comprehensive income / (loss)		**–**	**–**	**–**	**7,646**	**(48,432)**	**117**	**–**	**(40,669)**	**159**	**(40,510)**
Dividends declared	21	–	–	–	(33,500)	–	–	–	**(33,500)**	(3,939)	**(37,439)**
Changes in an ownership interest in a subsidiary that do not result in a loss of control		–	–	30	–	–	–	–	**30**	29	**59**
Transactions under common control	5	–	–	16,480	–	(16,480)	–	–	–	–	–
As of 31 December 2017		**3**	**40,234**	**37,317**	**135,096**	**(60,944)**	**–**	**–**	**151,706**	**5,550**	**157,256**

* *Please refer to Note 20 for further description of the nature of the account*

Consolidated statement of changes in equity for the year ended 31 December 2016

(All amounts in millions of Rubles)

	Attributable to the owners of the Company									
	Issued capital	**Capital surplus**	**Other capital reserves***	**Retained earnings**	**Foreign currency translation reserve***	**Cash flow hedge reserve**	**Available-for-sale reserve**	**Total**	**Non-controlling interests**	**Total equity**
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 year	–	–	–	16,445	–	–	–	**16,445**	(3,713)	**12,732**
Other comprehensive income	–	–	–	–	(35,832)	(137)	–	**(35,969)**	16	**(35,953)**
Total comprehensive income / (loss)	**–**	**–**	**–**	**16,445**	**(35,832)**	**(137)**	**–**	**(19,524)**	**(3,697)**	**(23,221)**
Dividends declared	–	–	–	(17,500)	–	–	–	**(17,500)**	(1,273)	**(18,773)**
Acquisition of non-controlling interests	–	–	(597)	–	–	–	–	**(597)**	131	**(466)**
Acquisition of subsidiaries	–	–	32	–	–	–	–	**32**	81	**113**
Transactions under common control	–	–	(3,036)	–	(350)	–	491	**(2,895)**	–	**(2,895)**
As of 31 December 2016	**3**	**40,234**	**20,807**	**160,950**	**3,968**	**(117)**	**–**	**225,845**	**9,301**	**235,146**

* *Please refer to Note 20 for further description of the nature of the account*

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

Consolidated statement of cash flows
for the year ended 31 December 2017
(All amounts in millions of Rubles)

	Note	Years ended 31 December 2017	2016
Operating activities			
Profit for the year		**8,203**	12,732
Income tax expense	11	**1,293**	18,459
Profit before tax		**9,496**	31,191
Non-cash adjustments to reconcile profit before tax to net cash flows from operating activities:			
Depreciation	13	**55,397**	56,754
Impairment loss	9	**3,898**	6,140
Amortization	14	**11,369**	11,057
Loss on disposal of non-current assets		**1,258**	1,497
Finance income		**(2,708)**	(6,356)
Finance costs		**23,764**	24,815
Other non-operating loss, net	10	**6,674**	6,356
Net foreign exchange loss / (gain)		**879**	(8,088)
Share of loss of joint ventures accounted for using the equity method	12	**1,231**	885
Impairment of joint ventures accounted for using the equity method	12	**6,410**	5,993
Movements in provisions		**(194)**	3,977
Operating cash flows before working capital adjustments, interest and income taxes		**117,474**	134,221
Working capital adjustments			
Change in trade and other receivables		**2,332**	(10,604)
Change in inventories		**2,687**	39
Change in trade and other payables		**9,526**	(2,613)
Interest and income taxes			
Interest paid		**(22,641)**	(23,576)
Interest received		**5,001**	3,732
Income tax paid		**(7,203)**	(16,117)
Net cash flows from operating activities		**107,176**	85,082
Investing activities			
Proceeds from sale of property, equipment and intangible assets, net of purchase of property, equipment and intangible assets		**(58,205)**	(64,717)
Issue of loans	23	**(71,491)**	(44,704)
Repayment of loans issued	23	**37,900**	86,776
Inflows / (outflows) from deposits, net		**8,495**	(1,109)
Outflows from investments in other financial assets		**(3,882)**	(4,330)
Disposal of subsidiaries, net of cash disposed		**726**	1,569
Acquisition of subsidiaries, net of cash acquired		**(23)**	16
Receipt of dividends		**1**	2
Net cash flows (used in) / from investing activities		**(86,479)**	(26,497)
Financing activities			
Inflows / (outflows) from changes in ownership interests in a consolidated subsidiaries		**59**	(1,098)
Proceeds from borrowings, net of fees paid	15, 23	**136,799**	33,463
Repayment of borrowings	15, 23	**(120,819)**	(74,582)
Dividends paid to equity holders	21	**(33,498)**	(17,500)
Dividends paid to non-controlling interests	21	**(3,922)**	(1,266)
Proceeds from sale of non-controlling interests		**–**	59
Net cash flows used in financing activities		**(21,381)**	(60,924)
Net decrease in cash and cash equivalents		**(684)**	(2,339)
Effect of exchange rate changes on cash and cash equivalents, net		**(21,798)**	(13,536)
Cash and cash equivalents at the beginning of the year		**47,510**	63,385
Cash and cash equivalent classified as assets held for sale at the end of the year		**(65)**	–
Cash and cash equivalents at the end of the year		**24,963**	47,510

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

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 consolidated financial statements are presented in Russian Rubles (“RUB”). 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 31 December 2017, the Company operated telecommunications services in Russia, Kazakhstan, Armenia, Uzbekistan, Georgia, Kyrgyzstan and Laos primarily under the “Beeline” brand name.

The consolidated financial statements of the Company as of 31 December 2017 and for the year ended 31 December 2017 were authorized for issue by the General Director on 30 March 2018. Based on the decision of the Board of Directors of PJSC “VimpelCom”, taken on 28 November 2017 Vasyl Latsanych was elected to the position of the General Director of PJSC “VimpelCom” effective from 10 January 2018.

2. Basis of preparation of the consolidated financial statements

Basis of preparation

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"), effective at the time of preparing the consolidated financial statements and applied by VimpelCom.

The consolidated income statement has been presented based on the nature of the expense, other than “Selling, general and administrative expenses”, which has been presented based on the function of the expense.

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

PJSC ”VimpelCom” maintains its accounting records and prepares its consolidated financial statements in accordance with the Regulations on Accounting, Reporting and tax legislation in the Russian Federation. PJSC ”VimpelCom”’s subsidiaries outside the Russian Federation maintain their accounting records in accordance with local regulations and tax legislation. The accompanying consolidated financial statements have been prepared from these accounting records and adjusted as necessary in order to comply with IFRS.

Basis of consolidation

The consolidated financial statements comprise the financial statements of PJSC “VimpelCom” and its subsidiaries. Subsidiaries are all entities (including structured entities) over which PJSC “VimpelCom” has control.

Intercompany transactions, balances and unrealized gains or losses on transactions between Group companies are eliminated. When necessary, amounts reported by subsidiaries have been adjusted to conform with the Group’s accounting policies.

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

Basis of consolidation (continued)

When the Group ceases to consolidate a subsidiary due to loss of control, the related subsidiary’s assets (including goodwill), liabilities, non-controlling interest and other components of equity are de-recognized. This may mean that amounts previously recognized in other comprehensive income are reclassified to profit or loss. Any consideration received is recognized at fair value, and any investment retained is re-measured to its fair value with the change in carrying amount, and this fair value becomes the initial carrying amount for the purposes of subsequently accounting for the retained interest. Any resultant gain or loss is recognized in the income statement.

Foreign currency translation

The consolidated financial statements of the Group are presented in Russian Rubles. Each entity in the Group determines its own functional currency and amounts included in the financial statements of each entity are measured using that functional currency.

As part of consolidation, the assets and liabilities of foreign operations are first translated into the functional currency of any intermediate parent entity (USD) and then translated from USD into Russian Rubles at the rate of exchange prevailing at the reporting date and their income statements are translated at the weighted average exchange rate for the period. The resulting exchange rate differences arising on translation of foreign operations are recognized in other comprehensive income (currency translation reserve). On disposal or loss of control of a foreign operation, the component of other comprehensive income relating to that particular foreign operation is recognized in profit or loss as part of the gain or loss on disposal; or as a reclassification within the equity in other reserves if it is a result of a transaction under common control.

Transactions denominated in foreign currencies are initially recognized at the exchange rate prevailing on the date of the transaction. At period end, monetary assets and liabilities denominated in foreign currencies are translated into the functional currency using the closing exchange rate with differences taken to profit and loss. Non-monetary items carried at historical cost that are denominated in foreign currencies are translated into the functional currency at the exchange rate prevailing on the initial transaction dates. Non-monetary items carried at fair value are translated into the functional currency at the exchange rate at the date when the fair value was determined.

As of 31 December 2017, the principal rate of exchange used for translating foreign currency balances was USD 1 = RUB 57.6002 (31 December 2016: USD 1 = RUB 60.6569).

On 2 September 2017, the Government of Uzbekistan announced the liberalization of currency exchange rules, effective from 5 September 2017. The Central Bank of Uzbekistan set the official exchange rate at 8,100 Uzbek som (“UZS”) per U.S. dollar and 140 UZS per RUB, a depreciation of 92% and 97%, respectively, resulting in a decrease in the value of net assets of the Uzbekistan operations in U.S. dollar and RUB terms. The effect of the foreign currency exchange movements in Uzbekistan has resulted in a loss of RUB 952 recognized in the consolidated income statement for the year ended 31 December 2017 within “Net foreign exchange (loss) / gain” and a negative movement of RUB 23,545 recognized in the consolidated statement of comprehensive income for the year ended 31 December 2017 within “Exchange differences arising on net investment in foreign operations”.

3. Significant accounting policies that relate to the consolidated financial statements as a whole

Accounting policies are included in the relevant notes to these financial statements.

A number of new or 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.

As a result of amendments to IAS 7 “Statement of Cash Flows: Disclosure Initiative”, the Group has provided disclosure regarding changes in liabilities arising from financing activities for the current period in Note 15.

(All amounts in millions of Rubles unless otherwise stated)

3. Significant accounting policies that relate to the consolidated financial statements as a whole (continued)

New standards, interpretations and amendments not yet adopted by the Group

The following are significant and relevant new standards that are issued, but not yet effective, up to the date of the issuance of the Group’s consolidated financial statements, and which have not been early adopted by the Company.

New accounting standards in 2018

The following table presents the transitional impact that adoption of IFRS 9 “Financial Instruments” and IFRS 15 “Revenue from contracts with customers” is expected to have on the opening balance sheet of the Group, as of 1 January 2018. Further details regarding the impact of IFRS 9 and IFRS 15 can be found below.

	Impact of IFRS 9	Impact of IFRS 15	Total impact
	Impairment	Revenue and contract costs	of IFRS 9 and IFRS 15
Assets			
Non-current assets			
Deferred tax assets	23	(180)	**(157)**
Other assets	–	668	**668**
Current assets			
Trade and other receivables	(185)	–	**(185)**
Other assets	–	(152)	**(152)**
Equity and liabilities			
Equity attributable to equity owners of the parent	(135)	362	**227**
Non-controlling interests	(14)	102	**88**
Deferred tax liabilities	(13)	–	**(13)**
Other liabilities	–	(128)	**(128)**

IFRS 15 “Revenue from contracts with customers”

IFRS 15 “Revenue from contracts with customers” (“IFRS 15”) replaces IAS 18 “Revenue” and IAS 11 “Construction contracts” and related interpretations. IFRS 15 addresses revenue recognition for contracts with customers as well as treatment of incremental costs incurred to obtain a contract with a customer, described in more detail below.

Revenue recognition

Due to the nature of the Group’s existing product offerings (i.e. prevailing pre-paid service offerings), as well as the Group’s existing accounting policies (described in Note 7), the impact of IFRS 15 on revenue recognition by the Group will be immaterial as shown in the table presented earlier in this Note.

Costs of obtaining a contract with customer

Under IFRS 15, certain incremental costs incurred in acquiring a contract with a customer (“contract costs”), which previously did not qualify for recognition as an asset under any of the other accounting standards, will be deferred in the consolidated statement of financial position. Such costs relate primarily to commissions paid to third-party dealers and will be amortized as revenue is recognized under the related contract, within the “Selling, general and administrative expenses” line item within the consolidated income statement.

3. Significant accounting policies that relate to the consolidated financial statements as a whole (continued)

New standards, interpretations and amendments not yet adopted by the Group (continued)

IFRS 15 “Revenue from contracts with customers” (continued)

Costs of obtaining a contract with customer (continued)

The Group will apply the practical expedient available in IFRS 15 for contract costs for which the amortization would have been shorter than 12 months. Such costs relate primarily to commissions paid to third-party dealers upon top-up of prepaid credit by customers and sale of scratch cards.

The expected impact of capitalizing contract costs upon implementation of IFRS 15 is illustrated in the table presented earlier in this Note.

Transition

The standard is effective for annual periods beginning on or after 1 January 2018. The Group will adopt the standard using the modified retrospective approach, which means that the cumulative impact of the adoption will be recognized in retained earnings as of 1 January 2018 and that comparatives will not be restated.

The impact that adoption of IFRS 15 is expected to have on the opening balance sheet of the Group, as of 1 January 2018, is illustrated in the table presented earlier in this Note.

IFRS 9 “Financial instruments”

IFRS 9 “Financial Instruments” (“IFRS 9”) replaces IAS 39 “Financial instruments: Recognition and Measurement” (“IAS 39”). IFRS 9 impacts the Group’s classification and measurement of financial instruments, impairment of financial assets and hedge accounting, described in more detail below.

Classification and measurement

The new standard requires the Company to assess the classification of financial assets on its balance sheets in accordance with the cash flow characteristics of the financial assets and the relevant business model that the Company has for a specific class of financial assets.

IFRS 9 no longer has an “Available-for-sale” classification for financial assets. The new standard has different requirements for debt or equity financial assets.

Debt instruments should be classified and measured either at:

- Amortized cost, where the effective interest rate method will apply;
- Fair value through other comprehensive income, with subsequent recycling to the income statement upon disposal of the financial asset; or
- Fair value through profit or loss.

Investments in equity instruments, other than those to which consolidation or equity accounting apply, should be classified and measured either at:

- Fair value through other comprehensive income, with subsequent recycling to the income statement upon disposal of the financial asset; or
- Fair value through profit or loss.

3. Significant accounting policies that relate to the consolidated financial statements as a whole (continued)

New standards, interpretations and amendments not yet adopted by the Group (continued)

IFRS 9 "Financial instruments" (continued)

Classification and measurement (continued)

The company will continue to initially measure financial assets at its fair value plus transaction cost upon initial recognition, except for financial assets measured at fair value through profit and loss, consistent with current practices. The majority of the financial assets classification will not be impacted by the transition to IFRS 9 on 1 January 2018. The reclassifications upon transition to IFRS 9 are shown in the table presented earlier in this Note.

Impairment (allowance for doubtful debt)

IFRS 9 introduces the Expected Credit Loss model, which replaces the incurred loss model of IAS 39 whereby an allowance for doubtful debt was required only in circumstances where a loss event has occurred. By contrast, the Expected Credit Loss model requires the Company to recognize an allowance for doubtful debt on all financial assets carried at amortized cost (including, for example, "Trade receivables"), as well as debt instruments classified as financial assets carried at fair value through other comprehensive income (for example government bonds held for liquidity purposes), since initial recognition, irrespective whether a loss event has occurred.

As a result, the allowance for doubtful debt of the Company will increase upon implementation of IFRS 9 on 1 January 2018. The expected impact of applying the Expected Credit Loss model is illustrated in the table presented earlier in this Note.

Hedge Accounting

IFRS 9 allows for more possibilities for the company to apply hedge accounting (for example, risk components of non-financial assets or liabilities may be designated as part of a hedging relationship). In addition, the requirements of the standard have been more closely aligned with the Company's risk management policies and hedge effectiveness will be measured prospectively.

Transition

The Group will adopt the standard using the modified retrospective approach for classification and measurement and impairment. This means that the cumulative impact of the adoption will be recognized in retained earnings as of 1 January 2018 and that comparatives will not be restated.

All hedge accounting relationships existing as of 1 January 2018 will be continued under IFRS 9.

IFRS 16 "Leases"

IFRS 16 replaces the IAS 17 Leases, the current lease accounting standard and will become effective on 1 January 2019. The new lease standard will require assets leased by the Company to be recognized on the statement of financial position of the Company with a corresponding liability. The Company is in the process of assessing the impact of IFRS 16 which is expected to have a material impact on the consolidated income statement and consolidated financial position upon adoption in 2019.

IFRIC 23 "Uncertainty over income tax treatments"

The Interpretation clarifies the application of recognition and measurement requirements in IAS 12 "Income Taxes" when there is uncertainty over income tax treatments. The Group has yet to assess the impact of IFRIC 23, which may be material to the consolidated income statement and consolidated financial position upon adoption in 2019.

3. Significant accounting policies that relate to the consolidated financial statements as a whole (continued)

New standards, interpretations and amendments not yet adopted by the Group (continued)

Significant accounting judgments, estimates and assumptions

The preparation of these 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 consolidated income statement, consolidated statements of comprehensive income, consolidated statement of financial position, consolidated statement of changes in equity, consolidated statement of cash flows as well as the notes. The final amounts for items for which estimates and assumptions were made in the 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.

The sources of uncertainty identified by the Group are described together with the applicable note, as follows:

Significant accounting judgement / source of estimation uncertainty	Described in:
Revenue recognition	Note 7
Impairment of non-current assets	Note 9,12.3
Depreciation and amortization of non-current assets	Note 13 and Note 14
Provisions	Note 22

4. Financial risk management

The Group’s principal financial liabilities, other than derivatives, consist of loans and borrowings and trade and other payables. The main purpose of these financial liabilities is to finance the Group’s operations. The Group has loans given, trade and other receivables, and cash and short-term deposits that are derived directly from its operations. The Company views derivative instruments as risk management tools and does not use them for trading or speculative purposes.

The Group is exposed to market risk, credit risk and liquidity risk.

The Company’s senior management together with the senior management of its ultimate parent company VEON Ltd. oversee the management of these risks. The Company’s senior management is supported by the treasury department who advises on financial risks and the appropriate financial risk governance framework for the Company. Also, the Finance and Strategy Committee at VEON Ltd. provides assurance to the Company’s senior management that the Group’s financial risk management activities are governed by appropriate policies and procedures and that financial risks are identified, measured and managed in accordance with Group policies and the Group’s risk appetite. All derivative activities for risk management purposes are carried out by specialist teams with appropriate skills, experience and supervision.

Management of the Company as well as the senior management of VEON Ltd. review and agree on policies for managing each of these risks, which are summarized below.

Market risk

Market risk is the risk that the fair value of future cash flows or a financial instrument will fluctuate because of changes in market prices. Market risk comprises interest rate risk and foreign currency risk.

(All amounts in millions of Rubles unless otherwise stated)

4. Financial risk management (continued)

Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Company's exposure to the risk of changes in market interest rates relates primarily to the Company's financial assets and long-term debt with floating interest rates. The Company manages its interest rate risk exposure through a portfolio of primarily fixed rate loans and borrowings.

As of 31 December 2017 approximately 89% of the Company's borrowings are at a fixed rate of interest (31 December 2016: 99%).

Interest rate sensitivity

The following table demonstrates the sensitivity to possible changes in interest rates on loans and borrowings, loans granted to the related parties taking into account the related derivative financial instruments, cash and cash equivalents and current deposits. With all other variables held constant, the Company's profit before tax is affected through the impact on floating rate borrowings, cash and issued loans as follows:

Interest rate sensitivity	+ Increase / - decrease in basis points	Effect on profit before tax / equity 2017	2016
US Dollar	+100	**288**	513
Euro	+100	**4**	4
Kazakh Tenge	+100	**8**	4
Uzbek Som	+100	**82**	442
Russian Ruble	+100	**(225)**	48
Other currencies	+100	**3**	5
US Dollar	-100	**(288)**	(513)
Euro	-100	**(4)**	(4)
Kazakh Tenge	-100	**(8)**	(4)
Uzbek Som	-100	**(82)**	(442)
Russian Ruble	-100	**225**	(48)
Other currencies	-100	**(3)**	(5)

Foreign currency risk

Foreign currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Company's exposure to the risk of changes in foreign exchange rates relates primarily to the debt denominated in currencies other than their functional currency, the Company's operating activities (predominantly capital expenditures denominated in a different currency from the functional currency) and the Company's net investments in foreign subsidiaries.

The Company manages its foreign currency risk by selectively hedging committed exposures.

Foreign currency sensitivity

The following table demonstrates the sensitivity to a possible change in exchange rates against the USD with all other variables held constant. Additional sensitivity changes to the indicated currencies are expected to be approximately proportionate. The table shows the effect on the Company's profit before tax (due to changes in the value of monetary assets and liabilities, including non-designated foreign currency derivatives) and equity (due to the effect on the cash flow hedge reserve and/or effect on currency translation reserve for quasi-equity loans). The Company's exposure to foreign currency changes for all other currencies is not material.

(All amounts in millions of Rubles unless otherwise stated)

4. Financial risk management (continued)

Foreign currency sensitivity (continued)

	Change in foreign exchange rate against USD	Effect on profit / (loss) before tax		Effect on other comprehensive income	
		2017	**2016**	**2017**	**2016**
Russian Ruble	10% depreciation	**314**	(4,806)	**–**	1,808
Kazakh Tenge	10% depreciation	**80**	66	**–**	–
Uzbek Sum	10% depreciation	**(691)**	(218)	**–**	(1,640)
Georgian Lari	10% depreciation	**(1,847)**	(1,794)	**–**	–
Armenian Dram	10% depreciation	**(27)**	1,091	**–**	–
Kyrgyzstani Som	10% depreciation	**131**	119	**–**	–
Other currencies	10% depreciation	**4**	(36)	**–**	–
Russian Ruble	10% appreciation	**(346)**	5,048	**–**	(2,006)
Kazakh Tenge	10% appreciation	**(88)**	(73)	**–**	–
Uzbek Sum	10% appreciation	**760**	240	**–**	1,804
Georgian Lari	10% appreciation	**2,032**	1,974	**–**	–
Armenian Dram	10% appreciation	**30**	(1,200)	**–**	–
Kyrgyzstani Som	10% appreciation	**(144)**	(131)	**–**	–
Other currencies	10% appreciation	**(4)**	26	**–**	–

Credit risk

Credit risk is the risk that a counterparty will not meet its obligations under a financial instrument or customer contract, leading to a financial loss. The Company is exposed to credit risk from its operating activities (primarily from trade receivables) and from its treasury activities, including deposits with banks and financial institutions, derivative financial instruments and other financial instruments. See Note 19 for further information on restrictions on cash balances.

Trade accounts receivable consist of amounts due from customers for airtime usage and amounts due from dealers and customers for equipment sales. In certain circumstances, VimpelCom requires deposits as collateral for airtime usage. In addition, VimpelCom has introduced a prepaid service and equipment sales are typically paid in advance of delivery, except for of equipment sold to dealers on credit terms. VimpelCom’s credit risk arising from the services the Company provides to customers is mitigated to a large extent due to the majority of its active customers being subscribed to a prepaid service as of 31 December 2017 and 31 December 2016 and, accordingly, not giving rise to credit risk.

VimpelCom’s credit risk arising from its trade accounts receivable from dealers is mitigated due to the risk being spread across a large number of dealers. Management periodically reviews the history of payments and credit worthiness of the dealers. The Company also has receivables from other local and international operators from interconnect and roaming services provided to their customers, as well as receivables from customers using fixed-line services, such as business services, wholesale services and services to residents. Receivables from other operators for roaming services are settled through clearing houses, which helps to mitigate credit risk in this regard.

VimpelCom holds available cash in bank accounts as well as other financial assets with financial institutions in countries where it operates. To manage credit risk associated with such asset holdings, VimpelCom allocates its available cash to a variety of local banks and local affiliates of international banks within the limits set forth by its treasury policy. Management periodically reviews the credit worthiness of the banks with which it holds assets.

VimpelCom issues advances to a variety of its vendors of property and equipment for its network development. The contractual arrangements with the most significant vendors provide for equipment financing in respect of certain deliveries of equipment. VimpelCom periodically reviews the financial position of vendors and their compliance with the contract terms.

(All amounts in millions of Rubles unless otherwise stated)

4. Financial risk management (continued)

Credit risk (continued)

The Company’s maximum exposure to credit risk for the components of the consolidated statement of financial position as of 31 December 2017 and 2016 are the carrying amounts of financial instruments as illustrated in Note 15, the carrying amounts of trade and other receivables and cash and cash equivalents as presented in the consolidated statement of financial position and the amounts of the related party loans guaranteed by the Company as disclosed in Note 24.

Liquidity risk

The Company monitors its risk to a shortage of funds using a recurring liquidity planning tool. The Company’s objective is to maintain a balance between continuity of funding and flexibility through the use of bank overdrafts, bank loans, debentures, preference shares, financial and operating leases. The Company’s policy is to create a balanced debt maturity profile. As of 31 December 2017, 10% (31 December 2016: 32%) of the Company’s debt will mature in less than one year based on the carrying value of bank loans, equipment financing and loans from related parties reflected in the consolidated financial statements. The Company assessed the concentration of risk with respect to refinancing its debt and concluded it to be low based on liquidity in the markets the Company has access to, and recent history of refinancing. The Company believes that access to sources of funding is sufficiently available and the Company’s policy is to diversify the funding sources where possible. Furthermore VEON Ltd. or its subsidiaries can act as a lender of funds (Note 23).

The table below summarizes the maturity profile of the Company’s financial liabilities based on contractual undiscounted payments. The total amounts in the table differ from the carrying amounts as stated in Note 15 as the below table includes both notional amounts and interest while the carrying amounts are based on amongst others notional amounts, fair value adjustments and unamortized fees. Related information on guarantees issued is disclosed in Note 24.

As of 31 December 2017	On demand / less than 1 year 2018	1-3 years 2019-2020	3-5 years 2021-2022	More than 5 years > 2022	Total
Bank loans and bonds	12,725	5,461	24,229	2,458	**44,873**
Loans from related parties	30,767	60,362	157,130	32,252	**280,511**
Equipment financing	319	–	–	–	**319**
Trade and other payables	51,712	–	–	–	**51,712**
Customer advances*	8,258	–	–	–	**8,258**
Total financial liabilities	**103,781**	**65,823**	**181,359**	**34,710**	**385,673**

* *The amounts relate to mobile customer advances in Russia and Kazakhstan, which are financial liability as of 31 December 2017.*

As of 31 December 2016	Less than 1 year 2017	1-3 years 2018-2019	3-5 years 2020-2021	More than 5 years > 2021	Total
Bank loans and bonds	79,660	80,259	45,056	2,705	**207,680**
Loans from related parties	927	14,605	988	32,196	**48,716**
Equipment financing	3,393	1,923	–	–	**5,316**
Derivative financial instruments – liabilities					
- Gross cash inflows	(27,369)	–	–	–	**(27,369)**
- Gross cash outflows	29,828	–	–	–	**29,828**
Trade and other payables	56,720	–	–	–	**56,720**
Total financial liabilities	**143,159**	**96,787**	**46,044**	**34,901**	**320,891**
Related derivatives financial instruments - assets					
- Gross cash inflows	(1,296)	–	–	–	(1,296)
- Gross cash outflows	1,189	–	–	–	1,189
Total related derivative financial instruments - assets, net	**(107)**	–	–	–	**(107)**

4. Financial risk management (continued)

Capital management

The primary objective of the Company’s capital management is maintaining healthy capital ratios in order to meet current debt covenants requirements and secure access to debt and capital markets at all times and maximize shareholder value. The Company manages its capital structure and makes adjustments to it in light of changes in economic conditions. To maintain or adjust the capital structure, the Company may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares.

No changes were made in the objectives, policies or processes for managing capital during the years ended 31 December 2017 and 31 December 2016.

The Net debt to EBITDA ratio is an important measure used by the Company to assess its capital structure in light of maintaining a strong credit rating. Net Debt represents the amount of interest-bearing debt at amortized costs and guarantees given less cash and cash equivalents and current and non-current bank deposits. EBITDA is defined as earnings before interest, tax, depreciation, amortization and impairment loss, loss on disposals of non-current assets, other non-operating losses and shares of profit / (loss) of joint ventures.

Certain of the credit facilities of VEON Amsterdam B.V. contain financial covenants with respect to the Net Debt to EBITDA ratio relevant to PJSC “VimpelCom”, which guarantees (Note 24) part of the debt of VEON Amsterdam B.V. The required ratio for PJSC “VimpelCom” is < 4.5x (2016: < 4.5x). As of 31 December 2017 and 31 December 2016 the Net Debt to EBITDA ratio for PJSC VimpelCom was 2.3x and 3.2x, respectively. The ratio is calculated based on the consolidated financial statements of PJSC “VimpelCom” prepared under IFRS in Russian rubles as translated into U.S. Dollars.

5. Significant transactions

Accounting policies

Non-current assets (or disposal groups) held for sale and discontinued operations

Non-current assets (or disposal groups) are classified as held for sale if their carrying amount will be recovered principally through a sale transaction or loss of control rather than through continuing use, and a sale is considered highly probable. They are measured at the lower of their carrying amount and fair value less costs to sell.

Non-current assets (including those that are part of a disposal group) are not depreciated or amortized while they are classified as held for sale. Assets and liabilities of a disposal group classified as held for sale are presented separately from the other assets and liabilities in the statement of financial position.

A discontinued operation is a component that is classified as held for sale and that represents a separate major line of business or geographical area of operations. Discontinued operations are excluded from the results of continuing operations and are presented as a single amount in the income statement. All other notes to the financial statements include amounts for continuing operations, unless otherwise mentioned.

Transactions under common control

For business combinations exercised under common control, VimpelCom measures the net assets of the transaction at the carrying amounts, the difference between the amount received for the transaction and the corresponding carrying amount of the net assets is accounted for as equity transaction.

Transactions with non-controlling interests that do not result in loss of control

Transactions with non-controlling interests that do not result in loss of control are accounted for as equity transactions – that is, as transactions with the owners in their capacity as owners. The difference between fair value of any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

(All amounts in millions of Rubles unless otherwise stated)

5. Significant transactions (continued)

Laos operations classified as held for sale

On 27 October 2017, VimpelCom Holding Laos B.V. (“VimpelCom Laos”), a subsidiary of the Company, entered into a Sale and Purchase Agreement for the sale of its operations in Laos to the Lao People’s Democratic Republic (“Government of Laos”). Under the agreement, VimpelCom Laos will transfer its 78% interest in VimpelCom Lao Co. Limited (“VIP Lao”) to the Government of Laos, the minority shareholder, in exchange for purchase consideration of USD 22 million. Although purchase consideration has been received (in two separate payments, on 8 December 2017 and 22 February 2018), the transaction remains subject to satisfaction of other closing conditions.

As a result of this anticipated transaction, we classified our Laos business as an asset held for sale on 30 June 2017. In connection with this classification, the Company no longer accounts for depreciation and amortization expenses of VIP Lao assets.

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

	31 December 2017
Property and equipment	886
Intangible assets	133
Current assets	277
Total assets held for sale	**1,296**
Non-current liabilities	1,704
Current liabilities	660
Total liabilities held for sale	**2,364**

Included in the equity of the Group is cumulative other comprehensive income of RUB 344 and non-controlling interests of RUB (113) related to Laos, which is classified as held for sale.

Transactions under common control

On 26 October 2017, VimpelCom signed Deed of sale and transfer of shares to sell its indirect 100% stake in VimpelCom B.V. to one of the subsidiaries of VEON Ltd. and related party of the Group for total consideration of EUR 18,100.48 (the equivalent of RUB 1.2 as of 26 October 2017 at the exchange rate provided by the Central Bank of Russia). The ownership of the 100% shares in VimpelCom B.V. was transferred from the Group on 26 October 2017. As of 26 October 2017, the net assets of VimpelCom B.V. were amounted to RUB 1.3. The reclassification of accumulated foreign currency translation reserve to other capital reserves on disposal of VimpelCom B.V. was amounted to RUB 16,480.

Refer to Note 12.3 for further details regarding transactions related to investments in joint ventures.

6. 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 / (loss) and share of profit / (loss) of joint ventures (“EBITDA”).

The Company’s reportable segments include “Russia”, “Uzbekistan”, “Kazakhstan” and “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.

(All amounts in millions of Rubles unless otherwise stated)

6. Segment information (continued)

Financial information by reportable segment for the years ended 31 December 2017 and 31 December 2016 is presented in the following tables. Inter-segment revenues 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 year ended 31 December 2017

	Russia	Uzbekistan	Kazakhstan	HQ and others	Group
Revenue					
External customers	275,987	29,895	22,248	13,292	**341,422**
Inter-segment	674	67	61	(802)	**–**
Total operating revenue	**276,661**	**29,962**	**22,309**	**12,490**	**341,422**
EBITDA	**102,710**	**15,241**	**8,165**	**(8,448)**	**117,668**
Other disclosures					
Capital expenditures	40,017	3,666	3,823	3,132	**50,638**
Non-current assets*	282,469	22,740	10,953	28,676	**344,838**

***** *Other than financial instruments, investments in subsidiaries and deferred tax assets, which are included in "HQ and others" along with consolidation eliminations.*

Information by reportable segments for the year ended 31 December 2016

	Russia	Uzbekistan	Kazakhstan	HQ and others	Group
Revenue					
External customers	272,044	44,414	22,535	16,857	**355,850**
Inter-segment	996	52	75	(1,123)	**–**
Total operating revenue	**273,040**	**44,466**	**22,610**	**15,734**	**355,850**
EBITDA	**103,866**	**26,485**	**8,520**	**(8,627)**	**130,244**
Other disclosures					
Capital expenditures	42,697	11,269	10,056	4,114	**68,136**
Non-current assets*	308,557	27,396	24,795	87,331	**448,079**

***** *Other than financial instruments, investments in subsidiaries and deferred tax assets, which are included in "HQ and others" along with consolidation eliminations. Amounts have been re-presented to conform to current year presentation.*

The following table provides the reconciliation of consolidated EBITDA to consolidated profit for the years ended 31 December:

	2017	2016
EBITDA	**117,668**	130,244
Depreciation	**(55,397)**	(56,754)
Amortization	**(11,369)**	(11,057)
Impairment loss	**(3,898)**	(6,140)
Loss on disposal of non-current assets	**(1,258)**	(1,497)
Finance costs	**(23,764)**	(24,815)
Finance income	**2,708**	6,356
Other non-operating loss, net	**(6,674)**	(6,356)
Share of loss of joint ventures accounted for using the equity method	**(1,231)**	(885)
Impairment of joint ventures accounted for using the equity method	**(6,410)**	(5,993)
Net foreign exchange (loss) / gain	**(879)**	8,088
Income tax expense	**(1,293)**	(18,459)
Profit for the year	**8,203**	12,732

7. Revenue

Accounting policies

Revenue recognition

VimpelCom generates revenue from providing voice, data and other telecommunication services through a range of wireless, fixed and broadband Internet services, as well as selling equipment and accessories. Products and services may be sold separately or in bundled packages.

Generally, revenue for products is recorded when the equipment is sold or upon transfer of the associated risks and rewards, and revenue for services is recorded when the services are rendered. Revenue for bundled packages is recorded based on the relative fair value allocation of each component in the bundle.

Refer to Note 3 for details regarding upcoming changes to revenue recognition and impact for the Group in future years.

Mobile services

Service revenue includes revenue from airtime charges from contract and prepaid customers, monthly contract fees, interconnect revenue, roaming charges and charges for value added services (“VAS”). VAS includes short messages (“SMS”), multimedia messages (“MMS”), caller number identification, call waiting, data transmission, mobile internet, downloadable content, mobile finance services, machine-to-machine and other services. The content revenue relating to VAS is presented net of related costs when the Company acts as an agent of the content providers and gross when the Company acts as the primary obligor of the transaction.

More specifically, the accounting for revenue sharing agreements and delivery of content depends on the analysis of the facts and circumstances surrounding these transactions, which will determine if the revenue is recognized gross or net.

Service revenue is generally recognized when the services (including VAS and roaming revenue) are rendered. Sales of prepaid cards, used as a method of cash collection, is accounted for as customer advances for future services and the respective revenue is deferred until the customer uses the airtime. Prepaid cards might not have expiration dates but are subject to statutory expiration periods, and unused prepaid balances are added to service revenue based on an estimate of the expected balance that will expire unused. VimpelCom charges customers a fixed monthly fee for the use of certain services. Such fees are recognized as revenue in the respective month when earned.

Some tariffs include bundle rollovers which effectively allow customers to rollover unused minutes from one month to the following month. For these tariffs, the portion of the access fee representing the fair value of the rolled over minutes is deferred until the service is delivered.

Fixed-line services

Revenue from traditional voice services and other service contracts is accounted for when the services are provided. Revenue from Internet services is measured primarily by monthly fees and internet-traffic volume which has not been included in monthly fees. Payments from customers for fixed-line equipment are not recognized as revenue until installation and testing of such equipment are completed and the equipment is accepted by the customer. Domestic Long Distance/International Long Distance ("DLD/ILD") and zonal revenue are recorded gross or net depending on the contractual arrangements with the end-users.

Connection fees

VimpelCom defers upfront telecommunications connection fees. The deferral of revenue is recognized over the estimated average customer life or the minimum contractual term, whichever is shorter. The Company also defers direct incremental costs related to connection fees for fixed line customers, in an amount not exceeding the revenue deferred.

(All amounts in millions of Rubles unless otherwise stated)

7. Revenue (continued)

Accounting policies (continued)

Sales of equipment

Revenue from mobile equipment sales, such as handsets, are recognized in the period in which the equipment is sold to either a network customer or, if sold via an intermediary, when the significant risks and rewards associated with the device have passed to the intermediary and the intermediary has no general right of return or if a right of return exists, when such right has expired.

Multiple elements agreements (“MEA”)

MEA are agreements under which VimpelCom provides more than one service. Services/products may be provided or "bundled" under different agreements or in groups of agreements which are interrelated to such an extent that, in substance, they are elements of one agreement. In the event of an MEA, each element is accounted for separately if it can be distinguished from the other elements and has a fair value on a standalone basis. The customer’s perspective is important in determining whether the transaction contains multiple elements or is just a single element arrangement. The relative fair value method is applied in determining the value to be allocated to each element of an MEA. Fair value is determined as the selling price of the individual item. If an item has not been sold separately by the Group yet, but is sold by other suppliers, the fair value is the price at which the items are sold by the other suppliers.

Accounting judgments

The Group’s revenue consists primarily of revenue from sale of telecommunications services and periodic subscriptions. The Group offers customers, via multiple element agreements (‘bundles’) or otherwise, a number of different services with different price plans, and provides discounts in various types and forms, often in connection with different campaigns, over the contractual or average customer relationship period. Determining the fair value of each deliverable can require complex estimates due to the nature of the goods and services provided. The Group also sells wholesale products to other operators and vendors in different countries and across borders. Management has to make estimates related to revenue recognition, relying to some extent on information from other third party operators regarding values of services delivered. Management also makes estimates for the final outcome in instances where the other parties dispute the amounts charged. Furthermore, management has to estimate the average customer relationship for revenue that is initially recognized as deferred revenue in the consolidated statement of financial position and thereafter recognized in the consolidated income statement over a future period, for example, revenue from connection fees. Management also applies judgment in evaluating gross or net presentation of revenue and associated fees. In this case, among others, the main factor is whether the Company is considered as the primary obligor in the transactions, and the extent of latitude in establishing prices.

Mobile and fixed line services

The following table provides a breakdown of operating revenue from external customers by mobile and fixed line services for the years ended 31 December:

	2017	**2016**
Mobile line	**298,300**	306,084
Fixed line	**43,122**	49,766
Total	**341,422**	355,850

These business activities include the following operations: mobile primarily includes providing wireless telecommunication services to the Company's customers and other operators, fixed line primarily includes all activities for providing wireline telecommunication services, broadband and consumer internet. VimpelCom provides both mobile and fixed line services in Russia, Kazakhstan and Uzbekistan.

(All amounts in millions of Rubles unless otherwise stated)

8. Selling, general and administrative expenses

Dealer commissions

Dealer commissions are expensed in the consolidated income statement when the services are provided unless they meet the definition of an asset. Dealer commissions are part of customer associated costs.

Operating leases

The rental payable under operating leases is recognized as an operating lease expenses in the consolidated income statement on a straight-line basis over the lease term unless another systematic basis is more representative of the time pattern of VimpelCom's benefit. No asset is capitalized. If the periodic payments or part of the periodic payments has been prepaid, the Company recognizes these prepayments in the consolidated statement of financial position as other assets.

Selling, general and administrative expenses for the years ended 31 December consist of the following:

	2017	**2016***
Customer associated costs	**29,900**	28,602
Personnel costs	**28,018**	26,453
Network and IT costs	**20,504**	19,755
Operating lease and other rent expenses	**18,606**	17,817
Taxes other than income tax	**11,774**	15,067
Consulting and professional service costs	**11,115**	5,008
Losses on receivables	**2,602**	2,330
Other expenses	**4,409**	4,869
Total	**126,928**	119,901

*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 expenses 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 expenses better reflected the actual nature of such costs.

9. Impairment

Accounting policies

Goodwill

Goodwill is recognized for the future economic benefits arising from net assets acquired that are not individually identified and separately recognized.

Goodwill is not amortized but is tested for impairment annually and as necessary when circumstances indicate that the carrying value may be impaired.

The Company bases its impairment calculation on detailed budgets and forecast calculations which are prepared separately for each of the Company's cash generating units ("CGUs"). These budgets and forecast calculations are prepared for a period of five years. For longer periods, a long-term growth rate is applied in order to project future cash flows after the fifth year.

(All amounts in millions of Rubles unless otherwise stated)

9. Impairment (continued)

Accounting estimates and assumptions

The Group has significant investments in property and equipment, intangible assets, goodwill and other investments.

Estimating recoverable amounts of assets and cash generating units (“CGUs”) must, in part, be based on management’s evaluations, including the determination of the appropriate CGUs, the relevant discount rate, estimation of future performance, the revenue-generating capacity of assets, timing and amount of future purchases of property and equipment, assumptions of future market conditions and the long-term growth rate into perpetuity (terminal value). In doing this, management needs to assume a market participant perspective. Changing the assumptions selected by management, in particular, the discount rate and growth rate assumptions used to estimate the recoverable amounts of assets, could significantly impact the Group’s impairment evaluation and hence results.

A significant part of the Group’s operations is in countries with emerging markets. The political and economic situation in these countries may change rapidly and recession may potentially have a significant impact on these countries. On-going recessionary effects in the world economy and increased macroeconomic risks impact our assessment of cash flow forecasts and the discount rates applied.

There are significant variations between different markets with respect to growth, mobile penetration, average revenue per user (“ARPU”), market share and similar parameters, resulting in differences in operating margins. The future development of operating margins is important in the Group’s impairment assessments, and the long-term estimates of these margins are highly uncertain. In particular this is the case for emerging markets that are still not in a mature phase.

Impairment of assets

Property and equipment and intangible assets are tested for impairment. The Company assesses, at the end of each reporting period, whether there are any indicators that an asset may be impaired (i.e. asset becoming idle, damaged or no longer in use). If there are such indicators, the Company estimates the recoverable amount of the asset. Impairment losses of continuing operations are recognized in the consolidated income statement in a separate line item.

Carrying amount of goodwill and cash-generating units

Goodwill has been allocated to cash-generating units (“CGUs”) as disclosed in the table below, for the years ended 31 December.

CGU's	31 December 2017	Impairment	Translation adjustment	31 December 2016	Impairment	Acquisition of subsidiary	Translation adjustment	31 December 2015
Russia	**87,984**	–	–	**87,984**	–	5	–	**87,979**
Kyrgyzstan	**5,774**	(1,007)	(313)	**7,094**	(3,017)	–	(891)	**11,002**
Kazakhstan	**4,305**	–	(216)	**4,521**	–	–	(812)	**5,333**
Armenia	**1,446**	(1,977)	(144)	**3,567**	–	–	(720)	**4,287**
Uzbekistan	**1,305**	–	(2,146)	**3,451**	–	–	(1,317)	**4,768**
Total	**100,814**	(2,984)	(2,819)	**106,617**	(3,017)	5	(3,740)	**113,369**

There were no changes to the methodology of goodwill allocation to CGUs in 2017.

The Company performed its annual goodwill impairment test as of 1 October 2017. The Company considers the relationship between market capitalization and its book value, changes in country risk premiums and significant decreases in the operating results of its CGUs versus budgeted amounts among other factors, when reviewing for indicators of impairment on a quarterly basis. As of the impairment test date the market capitalization of the Group was not below the book value of its equity. The Company further performed an assessment for the period between 1 October and 31 December 2017 for any adverse developments that could have negatively impacted the valuations.

(All amounts in millions of Rubles unless otherwise stated)

9. Impairment (continued)

Carrying amount of goodwill and cash-generating units (continued)

The recoverable amounts of CGUs have been determined based on fair value less costs of disposal calculations using cash flow projections from business plans approved in the first quarter of 2017 by the Group's senior management. These plans were updated for subsequent changes in the actual performances as well as any changes in the existing networks, renewal of the telecom licenses, any restructurings and other business initiatives. To the extent the business initiatives would not be valued by the market due to their early stages, they were not included in the cash flow projections. The business plans cover a period of five years. The key assumptions and outcomes of the impairment test are discussed separately below.

Impairment losses

During the 2017 and 2016 annual impairment test the following CGUs were impaired and the impairment losses were recorded as follows:

	2017			2016			
CGU	**Goodwill**	**Property and equipment**	**Total impairment for 2017**	**Goodwill**	**Property and equipment**	**Intangible assets**	**Total impairment for 2016**
Armenia	1,977	–	**1,977**	–	–	–	–
Russia	–	1,075	**1,075**	–	1,234	–	1,234
Kyrgyzstan	1,007	30	**1,037**	3,017	–	–	3,017
Kazakhstan	–	(124)	**(124)**	–	13	–	13
Georgia	–	(67)	**(67)**	–	1,057	815	1,872
Laos	–	–	**–**	–	4	–	4
Total	2,984	914	**3,898**	3,017	2,308	815	6,140

During the 2017 annual impairment test the Company recognized impairments loss in respect of the Armenia and Kyrgyzstan CGUs in the amount of RUB 1,977 and RUB 1,007, respectively, allocated to the existing carrying value of goodwill. The impairments were concluded largely due to lower cash flow outlook in those countries. The recoverable amounts of the Armenia and Kyrgyzstan CGUs were determined based on a fair value less costs of disposal calculation using the latest cash flow projections (Level 3 fair value). Details regarding key assumptions and inputs used by the Company are included later in this Note.

Additionally, in connection with the rollout of the Company's transformation strategy and commitment to network modernization, the Company has re-evaluated the plans for its existing network, including equipment purchased but not installed, and consequently recorded an impairment loss for the CGUs Russia and Kyrgyzstan.

There were no impairments concluded for other CGUs during the 2017 annual impairment test.

(All amounts in millions of Rubles unless otherwise stated)

9. Impairment (continued)

Key assumptions

The key assumptions and inputs used by the Company in determining the recoverable amount are as follows:

Assumption	Description
Discount rate	The discount rates used in the impairment test were initially determined in USD based on the risk free rate for 20-year maturity bonds of the United States Treasury, adjusted for a risk premium to reflect both the increased risk of investing in equities and the systematic risk of the specific CGU relative to the market as a whole. The equity market risk premium used was 6.0% (2016: 5.5%). The systematic risk, beta, represents the median of the raw betas of the entities comparable in size and geographic footprint with the ones of VEON Ltd. ("Peer Group") since the Company is part of VEON Ltd. group. The debt risk premium is based on the median of Standard & Poors long-term credit rating of the Peer Group. The weighted average cost of capital is determined based on target debt-to-equity ratios representing the median historical five-year capital structure for each entity from the Peer Group. The discount rate in functional currency of a CGU is adjusted for the long-term inflation forecast of the respective country in which the business operates, as well as the applicable country risk premium.
Projected revenue growth rates	The revenue growth rates vary based on numerous factors, including size of market, GDP (Gross Domestic Product), foreign currency projections, traffic growth, market share and others.
Projected average operating margin	The Company estimates operating margin calculated based on EBITDA divided by Total Operating Revenue for each CGU and each future year. The forecasted operating margin is based on the budget of the following year and assumes cost optimization initiatives which are part of on-going operations, as well as regulatory and technological changes known to date, such as telecommunication license issues and price regulation among others.
Average capital expenditure as a percentage of revenue	Capital expenditure is defined as purchases of property and equipment and intangible assets other than goodwill. The cash flow forecasts for capital expenditure are based on past experience and amounts budgeted for the following year(s) and include the network roll-outs plans and license requirements.
Long-term growth rate	A long-term growth rate into perpetuity is estimated based on a percentage that is lower than or equal to the country long-term inflation forecast, depending on the CGU.

The tables below shows key assumptions used in fair value less costs of disposal calculations.

	Discount rate (functional currency)		**Average annual revenue growth rate during forecast period (functional currency)**		**Terminal growth rate**		**Average operating margin**		**Average capital expenditure as a percentage of revenue**	
CGU	**2017**	**2016**	**2017**	**2016**	**2017**	**2016**	**2017**	**2016**	**2017**	**2016**
Russia	**10.6%**	9.7%	**1.9%**	2.4%	**1.0%**	1.0%	**36.4%**	38.6%	**15.7%**	15.9%
Kazakhstan	**10.8%**	12.4%	**3.2%**	4.4%	**2.4%**	2.0%	**44.5%**	43.6%	**17.9%**	18.8%
Kyrgyzstan	**15.5%**	14.5%	**(1.5)%**	(1.8%)	**3.5%**	2.5%	**42.0%**	43.9%	**16.4%**	17.0%
Uzbekistan	**15.3%**	15.4%	**6.9%**	1.7%	**6.5%**	1.0%	**42.9%**	58.2%	**14.1%**	18.2%
Armenia	**13.0%**	12.0%	**(1.0)%**	(2.8%)	**3.0%**	1.0%	**29.7%**	37.8%	**19.6%**	14.1%
Georgia	**11.0%**	10.3%	**5.6%**	6.4%	**1.0%**	1.0%	**25.2%**	25.7%	**23.3%**	17.3%

Sensitivity to changes in assumptions

There is no reasonably possible change in any of the above key assumptions which would cause the carrying value of any CGU to significantly exceed its recoverable amount and would result in additional material impairment loss to be recognized.

(All amounts in millions of Rubles unless otherwise stated)

10. Other non-operating loss, net

Other non-operating loss, net consisted of the following for the years ended 31 December:

	Note	2017	2016
Loss from early debt redemption*	15	**(4,430)**	–
Changes in the fair value of non-hedge derivatives	15	**(2,227)**	(6,911)
Changes in the fair value of hedge derivatives	15	**(67)**	2
(Loss) / income on sale of foreign currency, net		**(30)**	404
Other gain, net		**80**	149
Total other non-operating loss, net		**(6,674)**	(6,356)

* *Loss from early debt redemption relates to the settlement of the cash tender offer for certain outstanding debt securities, see Note 15 for further details.*

11. Income taxes

Accounting policies

Income taxes

Income tax expense represents the aggregate amount determined on the profit for the period based on current tax and deferred tax.

In cases where the tax relates to items that are charged to other comprehensive income or directly to equity, the tax is also charged respectively to other comprehensive income or directly to equity.

Uncertain tax positions

VimpelCom’s policy is to comply with the applicable tax regulations in the jurisdictions in which its operations are subject to income taxes. VimpelCom’s estimates of current income tax expense and liabilities are calculated assuming that all tax computations filed by VimpelCom’s subsidiaries will be subject to a review or audit by the relevant tax authorities. VimpelCom and the relevant tax authorities may have different interpretations of how regulations should be applied to actual transactions. Such uncertain tax positions are accounted for in accordance with IAS 12 ”Income Taxes” or IAS 37 ”Provisions, Contingent Liabilities and Contingent Assets” depending on the type of tax in question.

Deferred taxation

Deferred income taxes are recognized using the liability method and thus are computed as the taxes recoverable or payable in future periods in respect of deductible or taxable temporary differences.

(All amounts in millions of Rubles unless otherwise stated)

11. Income taxes (continued)

Deferred taxation (continued)

Income tax expense consisted of the following for the years ended 31 December:

	2017	2016
Current income tax		
Current income tax charge	**4,317**	21,644
Withholding tax expenses	**134**	962
Total current income tax	**4,451**	22,606
Deferred income tax		
Reversal of temporary difference	**(3,522)**	(5,989)
Changes in tax rates	**(1,410)**	–
Current year tax losses unrecognized	**139**	519
Recognition and utilization of previously unrecognized tax loss/ tax credit	**(39)**	1,119
Expiration of tax losses	**1**	156
Adjustments of previous years	**1,966**	(36)
Other deferred tax effects	**(293)**	84
Total deferred income tax	**(3,158)**	(4,147)
Income tax expense reported in the consolidated income statement	**1,293**	18,459
Consolidated statement of comprehensive income:		
Income tax effect of foreign currency gains related to intercompany loans that form part of VimpelCom's net investment in foreign operations	**6,733**	1,516
Income tax charged to other comprehensive income	**6,733**	1,516

The table below outlines the reconciliation between the statutory tax rate in the Russian Federation and effective corporate income tax rates for the Group, together with the corresponding amounts:

	2017		2016	
Profit before tax	**9,496**	**%**	31,191	%
Income tax expense computed on profit before tax at statutory tax rate	**1,899**	**20.0%**	6,238	20.0%
Difference due to the effects of:				
Non-deductible impairment of non-current assets including goodwill	**679**	**7.2%**	833	2.7%
Changes in recognition of deferred tax assets on losses and other carry forwards	**139**	**1.5%**	675	2.2%
Other non-deductible expenses	**2,018**	**21.3%**	489	1.6%
Current and deferred tax effect of intragroup dividends	**(861)**	**(9.1%)**	1,081	3.5%
Refiling of tax returns	**(1,970)**	**(20.7%)**	(68)	(0.2%)
Tax claims and provisions	**1,431**	**15.1%**	(97)	(0.3%)
Change in tax rates	**(1,410)**	**(14.8%)**	–	–
Different tax rates in different jurisdictions	**(339)**	**(3.6%)**	7,954	25.5%
Effect of deductible temporary differences not recognized	**–**	**–**	1,101	3.5%
Other	**(293)**	**(3.1%)**	253	0.6%
Income tax expense reported in the consolidated income statement	**1,293**	**13.6%**	18,459	59.2%

Explanatory notes to the effective tax rate

Non-deductible impairment of non-current assets including goodwill

The effect of impairment mostly relates to impairment of goodwill in Kyrgyzstan of RUB 1,037 with income tax effect is RUB 104, impairment of property and equipment in Russia with income tax effect of RUB 215 and impairment of property and equipment and intangible assets in Armenia with income tax effect of RUB 395 (Note 9).

11. Income taxes (continued)

Deferred taxation (continued)

Explanatory notes to the effective tax rate

Change in recognition of deferred tax assets

In 2017, the effective tax rate was impacted by a RUB 139 change in recognition of deferred tax assets resulting mainly from tax losses for which no deferred tax asset was recognized. Most part of this relates to Laos in the amount of RUB (73) and VEON Eurasia S.à r.l. in the amount of RUB (48).

Other non-deductible expenses (permanent differences)

The non-deductible expenses (net of non-taxable income) have an increasing effect on the effective tax rate of RUB 2,018. The most significant items are RUB 1,282 relating to impairment of investment in joint venture and share in net loss of joint ventures of RUB 246.

Current and deferred tax effect of intragroup dividends

The amount of RUB (861) in 2017 relates to change of effect of accrued taxes on undistributed earnings, including RUB (670) relating to Uzbekistan, RUB (220) relating to Kyrgyzstan and RUB (138) relates to Kazakhstan. The amount of RUB 1,081 in 2016 relates to withholding tax on dividends from Kyrgyzstan that was accrued due to expected future dividend distributions.

Refiling of tax returns

The effect of refiling of tax returns of RUB (1,970) decreased the effective tax rate and resulted from revised tax declaration for 2014 in Russia.

Tax claims and provisions

The tax claims and provisions relate to provisions for uncertain income tax positions and relate mostly to Russia.

Change in tax rates

The amount RUB (1,410) relates to change in tax rates applied to deferred taxes in Uzbekistan.

Different tax rates

Adjustment of RUB (339) is due to different tax rates of countries that are higher or lower compared to the Russian statutory tax rate of 20%.

Other

Other effect of RUB (293) includes prior year adjustments, effect of minimum taxes and utilization of previously unrecognized tax losses.

(All amounts in millions of Rubles unless otherwise stated)

11. Income taxes (continued)

Deferred income tax

As of 31 December 2017 and 2016, the Group reported the following deferred income tax assets and liabilities on the consolidated statements of financial position:

	2017	2016
Deferred income tax assets	**5,304**	2,299
Deferred income tax liabilities	**(10,877)**	(13,775)
Net deferred income tax position	**(5,573)**	(11,476)

The following table shows the movements of the deferred income tax assets and liabilities in 2017:

	31 December 2017	Charge to profit and loss	Tax rate changes	Other	Currency translation adjustment	31 December 2016
Property and equipment	**(15,767)**	965	876	59	1,044	**(18,711)**
Intangible assets	**(652)**	509	(79)	–	136	**(1,218)**
Other non-current assets	**(310)**	20	(2)	–	–	**(328)**
Trade accounts receivable	**(587)**	(160)	175	–	(381)	**(221)**
Other current assets	**526**	44	208	–	149	**125**
Undistributed retained earnings of subsidiaries	**(235)**	1,879	–	(333)	(420)	**(1,361)**
Provisions	**614**	(11)	72	–	(179)	**732**
Financial liabilities (non-current)	**696**	(40)	1	–	5	**730**
Other liabilities (non-current)	**156**	(1)	11	–	(4)	**150**
Trade and other payables	**7,533**	1,366	1,143	–	(400)	**5,424**
Other current liabilities	**(847)**	(1,770)	(259)	–	85	**1,097**
Other current financial liabilities	**59**	(316)	92	–	2	**281**
Other movements and temporary differences	**31**	(4,547)	–	3,457	(133)	**1,254**
Tax losses and other carry forwards	**13,067**	6,065	3,838	1,677	(2,749)	**4,236**
Non recognized deferred tax assets on losses and other carry forwards	**(9,857)**	(6,921)	–	–	730	**(3,666)**
Net deferred tax position	**(5,573)**	(2,918)	6,076	4,860	(2,115)	**(11,476)**

The following table shows the movements of the deferred income tax assets and liabilities in 2016:

	31 December 2016	Charge to profit and loss	Changes in composition of the group	Other	Currency translation adjustment	31 December 2015
Property and equipment	**(18,711)**	2,189	(264)	–	519	**(21,155)**
Intangible assets	**(1,218)**	311	181	–	12	**(1,722)**
Other non-current assets	**(328)**	73	–	–	4	**(405)**
Trade accounts receivable	**(221)**	74	1	–	(185)	**(111)**
Other current assets	**125**	445	–	–	(140)	**(180)**
Undistributed retained earnings of subsidiaries	**(1,361)**	(436)	–	–	639	**(1,564)**
Provisions	**732**	102	178	–	(21)	**473**
Financial liabilities (non-current)	**730**	321	–	–	2	**407**
Other liabilities (non-current)	**150**	(24)	–	–	(1)	**175**
Trade and other payables	**5,424**	511	(4)	–	(10)	**4,927**
Other current liabilities	**1,097**	660	(61)	–	(20)	**518**
Other current financial liabilities	**281**	121	–	–	216	**(56)**
Other movements and temporary differences	**1,254**	(246)	36	120	(15)	**1,359**
Tax losses and other carry forwards	**4,236**	536	43	(1,188)	(351)	**5,196**
Non recognized deferred tax assets on losses and other carry forwards	**(3,666)**	(490)	(43)	1,188	412	**(4,733)**
Net deferred tax position	**(11,476)**	4,147	67	120	1,061	**(16,871)**

VimpelCom has the following amounts of unused tax losses and other carry forwards as of 31 December 2017:

Tax losses year of expiration	**Recognized losses**	**Recognized DTA**	**Non recognized losses**	**Non recognized DTA**
0-5 years	–	–	12,994	2,599
6-10 years	6,023	3,210	29,034	7,259
Total	**6,023**	**3,210**	**42,028**	**9,858**

(All amounts in millions of Rubles unless otherwise stated)

11. Income taxes (continued)

Deferred income tax (continued)

As of 31 December 2017, there were no deductible temporary differences for which no deferred tax asset recognized (31 December 2016: RUB 1,638).

VimpelCom reports the tax effect of the existence of undistributed profits of subsidiaries that will be distributed in the foreseeable future. As of 31 December 2017, the Company recorded a deferred income tax liability of RUB 235 (31 December 2016: RUB 1,361) relating to the tax effect of the undistributed profits that will be distributed in the foreseeable future, primarily in relation to its Kazakhstan and Kyrgyzstan operations. As of 31 December 2017, undistributed earnings of VimpelCom’s foreign subsidiaries (outside the Russian Federation) which are indefinitely invested and that will not be distributed in the foreseeable future, amounted to approximately RUB 128,904 (31 December 2016: RUB 116,532). Accordingly, no deferred income tax liability is recognized for this amount of undistributed profits.

Income tax assets

The Company reported current income tax assets totaling RUB 5,669. This relates to advanced tax payments in Russia and Uzbekistan which can only be offset against income tax liabilities in fiscal periods subsequent to 2017.

12. Investments

12.1. Information about subsidiaries

The consolidated financial statements of the Group include the following key subsidiaries as of 31 December 2017 and 31 December 2016:

Name of key subsidiaries	Note	Country of operation	Nature of subsidiary	Ownership interest held by the Group 2017	Ownership interest held by the Group 2016
KaR-Tel, LLP		Kazakhstan	Operating	**75.00%**	75.00%
2Day Telecom, LLP		Kazakhstan	Operating	**75.00%**	75.00%
KazEuroMobile, LLP		Kazakhstan	Operating	**75.00%**	75.00%
Unitel, LLC		Uzbekistan	Operating	**100.00%**	100.00%
Buzton, LLC		Uzbekistan	Operating	**54.00%**	54.00%
Sky Mobile, LLC		Kyrgyzstan	Operating	**50.12%**	50.12%
VEON Georgia, LLC (former Mobitel, LLC)		Georgia	Operating	**51.00%**	51.00%
VEON Armenia, CJSC (former ArmenTel, CJSC)		Armenia	Operating	**100.00%**	100.00%
VimpelCom Lao Co. Ltd.	5	Lao PDR	Operating	**78.00%**	78.00%
Rascom, CJSC		Russia	Operating	**54.00%**	54.00%
Ararima Enterprises Limited		Cyprus	Holding	**100.00%**	100.00%
Limnotex Developments Ltd.		Cyprus	Holding	**71.50%**	71.50%
Menacrest AG		Switzerland	Holding	**50.12%**	50.12%
VEON Eurasia S.à.r.l. (former B.V. VimpelCom Finance S.à.r.l.)		Luxemburg	Holding	**100.00%**	100.00%
Silkway Holding B.V.		The Netherlands	Holding	**100.00%**	100.00%
VimpelCom Holding Laos B.V.	5	The Netherlands	Holding	**100.00%**	100.00%
Golden Telecom, Inc.		USA (Delaware)	Holding	**100.00%**	100.00%
Freevale Enterprises		BVI	Holding	**100.00%**	100.00%
VIP Kazakhstan Holding AG		Switzerland	Holding	**75.00%**	75.00%
VIP Kyrgyzstan Holding AG		Switzerland	Holding	**50.10%**	50.10%
Vimpelcom-Invest, LLC		Russia	Holding	–	100.00%
VimpelCom B.V.	5	The Netherlands	Holding	–	100.00%

(All amounts in millions of Rubles unless otherwise stated)

12. Investments (continued)

12.2. Material partly-owned subsidiaries

Financial information before inter-company eliminations of subsidiaries that have material non-controlling interests are provided below:

Name of significant subsidiaries	Country of operation	Equity interest held by non-controlling interest in %		Book values of non-controlling interests		Profit / (loss) allocated to non-controlling interests	
		2017	**2016**	**2017**	**2016**	**2017**	**2016**
KaR-Tel, LLP	Kazakhstan	25.00%	25.00%	5,421	5,873	474	679
Sky Mobile, LLC	Kyrgyzstan	49.88%	49.88%	6,254	6,383	162	(1,313)
VEON Georgia, LLC	Georgia	49.00%	49.00%	(8,008)	(7,790)	(476)	(2,709)

Summarised income statements for the years ended 31 December 2017 and 2016:

	KaR-Tel, LLP		Sky Mobile, LLC		VEON Georgia, LLC	
	2017	**2016**	**2017**	**2016**	**2017**	**2016**
Operating revenue	**20,323**	20,537	**6,284**	9,062	**2,770**	3,148
Operating expenses	**(17,252)**	(17,063)	**(5,681)**	(10,566)	**(3,036)**	(5,499)
Other income / (costs)	**(437)**	181	**(65)**	(829)	**(685)**	(3,178)
Profit / (loss) before tax	**2,634**	3,655	**538**	(2,333)	**(951)**	(5,529)
Income tax expense	**(740)**	(940)	**(213)**	(300)	**(20)**	–
Profit / (loss) for the year	**1,894**	2,715	**325**	(2,633)	**(971)**	(5,529)
Attributed to:						
Owners of the Company	**1,420**	2,036	**163**	(1,320)	**(495)**	(2,820)
Non-controlling interest	**474**	679	**162**	(1,313)	**(476)**	(2,709)
	1,894	2,715	**325**	(2,633)	**(971)**	(5,529)

Summarised statements of financial position as of 31 December 2017 and 2016:

	KaR-Tel, LLP		Sky Mobile, LLC		VEON Georgia, LLC	
	2017	**2016**	**2017**	**2016**	**2017**	**2016**
Property and equipment	**10,576**	12,338	**4,546**	4,883	**2,674**	2,327
Intangible assets	**8,836**	9,285	**6,469**	7,943	**1,607**	1,777
Other non-current assets	**1,028**	1,404	**125**	103	**82**	–
Trade and other receivables	**1,263**	949	**363**	373	**357**	342
Cash and cash equivalents	**829**	1,756	**1,848**	2,002	**36**	106
Other current assets	**4,264**	3,888	**672**	147	**101**	259
Financial liabilities	**–**	–	**–**	–	**(19,915)**	(19,006)
Provisions	**(284)**	(425)	**(224)**	(935)	**(97)**	(90)
Other liabilities	**(4,827)**	(5,703)	**(1,260)**	(1,719)	**(1,188)**	(1,613)
Total equity	**21,685**	23,492	**12,539**	12,797	**(16,343)**	(15,898)
Attributed to:						
Owners of the Company	**16,264**	17,619	**6,285**	6,414	**(8,335)**	(8,108)
Non-controlling interests	**5,421**	5,873	**6,254**	6,383	**(8,008)**	(7,790)
	21,685	23,492	**12,539**	12,797	**(16,343)**	(15,898)

(All amounts in millions of Rubles unless otherwise stated)

12. Investments (continued)

12.2. Material partly-owned subsidiaries (continued)

Summarised cash flow statements for the years ended 31 December 2017 and 2016:

	KaR-Tel, LLP		Sky Mobile, LLC		VEON Georgia, LLC	
	2017	**2016**	**2017**	**2016**	**2017**	**2016**
Net cash flows from operating activities	**6,153**	6,415	**1,354**	3,878	**303**	390
Net cash flows (used in) / from investing activities	**(4,259)**	(8,549)	**(1,402)**	3,735	**(1,370)**	(1,524)
Net cash flows (used in) / from financing activities	**(2,855)**	(5,491)	**–**	(7,137)	**1,039**	963
Effect of exchange rate changes on cash and cash equivalents	**(56)**	(563)	**(107)**	(1,780)	**(21)**	(51)
Net decrease in cash and cash equivalents	**(1,017)**	(8,188)	**(155)**	(1,304)	**(49)**	(222)

12.3. Investments in joint ventures

Accounting policies

The Company's investments in its associates and joint ventures are accounted for using the equity method. Under the equity method, the investment in an associate or a joint venture is initially recognized at cost. The carrying amount of the investment is adjusted to recognize changes in the Company's share of net profit after tax, other comprehensive income and equity of the associate or joint venture since the acquisition date.

The Company assesses, at the end of each reporting period, whether there are any indicators that an investments in a Joint Venture may be impaired. If there are such indicators (i.e. Joint Venture making losses), the Company estimates the recoverable amount of the Joint Venture after applying the equity method.

Joint ventures	Country of incorporation	Nature of entity	Ownership held by the Group (%)		Book values of investments in joint ventures as of 31 December	
			2017	**2016**	**2017**	**2016**
Euroset Holding N.V. ("Euroset")	Russia	Operating	50%	50%	–	7,641

The following table is the aggregate financial information of the investments in joint ventures which are held by the Company as of and for the years ended 31 December 2017 and 2016:

	2017	**2016**
Book values of investments in joint ventures as of 31 December	**7,641**	14,519
Share of loss of joint ventures	**(1,231)**	(885)
Impairment of Euroset	**(6,410)**	(5,993)
Book values of investments in joint ventures as of 31 December	**–**	7,641

Accounting estimates and assumptions

Impairment of Euroset

Refer also to Note 9 for further details regarding source of estimation uncertainty.

In the fourth quarter of 2016, due to operational underperformance of joint venture Euroset Holding N.V. ("Euroset"), the Company recorded an impairment of RUB 5,993. During the second quarter of 2017, due to the continued operational underperformance of Euroset, the Company has revised its previous estimates and assumptions regarding Euroset's future cash flows. As a result, the Company impaired the remaining carrying value of the investment in Euroset.

(All amounts in millions of Rubles unless otherwise stated)

12. Investments (continued)

12.3. Investments in joint ventures (continued)

Impairment of Euroset (continued)

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	**30 June 2017**
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%

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”). As a result of this anticipated transaction, the investment in the Euroset joint venture was classified as an asset held-for-sale on 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.

On 22 February 2018, the completion occurred in relation to the transaction to end their Euroset joint venture. Pursuant to terms of the transaction, PJSC “VimpelCom” acquired approximately half of Euroset’s retail stores in Russia and paid to MegaFon RUB 1,250, subject to certain adjustments, while MegaFon acquired PJSC “VimpelCom”’s 50% interest in Euroset, resulting in MegaFon now owning 100% of Euroset with all of its debt and liabilities. As a result of the transaction, PJSC “VimpelCom” has fully disposed of its interest in Euroset with all of its rights and obligations. Prior to the transaction, Euroset, Russia’s mobile and electronics retail network, was co-owned by PJSC “VimpelCom” and MegaFon.

13. Property and equipment

Accounting policies

Property and equipment are stated at cost, net of accumulated depreciation and accumulated impairment losses, if any.

Depreciation is calculated on a straight-line basis over the estimated useful lives of the assets as follows:

Telecommunication equipment	3-20 years;
Buildings and constructions	10-20 years;
Office and other equipment	3-10 years;

Equipment acquired under a finance lease arrangement is depreciated on a straight-line basis over its estimated useful life or the lease term, whichever is shorter.

Each asset’s residual value, useful life and method of depreciation is reviewed at the end of each financial year and adjusted prospectively if necessary.

Finance leases

At the commencement of a finance lease term, VimpelCom recognizes the assets and liabilities in its consolidated statement of financial position at amounts equal to the fair value of the leased property or, if lower, the present value of the minimum lease payments as determined at the inception of the lease. The corresponding liability to the lessor is included in the consolidated statement of financial position as a finance lease obligation.

The discount rate used in calculating the present value of the minimum lease payments is the interest rate implicit in the lease. If there is no interest rate in the lease, the Company’s incremental borrowing rate is used. Any initial direct costs of VimpelCom related to the lease are added to the amount recognized as an asset.

Capitalized borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset, that necessarily takes a substantial period of time (longer than six months) to get ready for its intended use, are capitalized as part of the cost of the respective qualifying assets. All other borrowing costs are expensed in the period incurred.

Accounting Estimates and Assumptions

Depreciation and amortization of non-current assets

Depreciation and amortization expenses are based on management estimates of useful life, residual value and amortization method of property and equipment and intangible assets. Estimates may change due to technological developments, competition, changes in market conditions and other factors and may result in changes in the estimated useful life and in the amortization or depreciation charges. Technological developments are difficult to predict and our views on the trends and pace of development may change over time. Some of the assets and technologies, in which the Group invested several years ago, are still in use and provide the basis for new technologies.

The useful lives of property and equipment and intangible assets are reviewed at least annually, taking into consideration the factors mentioned above and all other relevant factors. Estimated useful lives for similar types of assets may vary between different entities in the Group due to local factors such as growth rate, maturity of the market, historical and expected replacements or transfer of assets and quality of components used.

(All amounts in millions of Rubles unless otherwise stated)

13. Property and equipment (continued)

The following table summarizes the movement in property and equipment for the years ended 31 December:

	Telecom-munication equipment	Land, buildings and constructions	Office and other equipment	Equipment not installed and assets under construction	Total
Cost					
As of 31 December 2015	**470,573**	**19,517**	**65,586**	**30,915**	**586,591**
Additions	3,209	61	181	50,917	**54,368**
Acquisition of a subsidiary	10	–	–	–	**10**
Disposals	(36,657)	(504)	(3,323)	(1,106)	**(41,590)**
Reclassification to assets held for sale	–	(131)	–	178	**47**
Transfer	36,141	681	6,200	(43,022)	**–**
Translation adjustment	(21,493)	(1,134)	(3,736)	(2,523)	**(28,886)**
As of 31 December 2016	**451,783**	**18,490**	**64,908**	**35,359**	**570,540**
Additions	1,333	96	196	40,926	**42,551**
Disposals	(22,157)	(228)	(950)	(1,013)	**(24,348)**
Reclassification to assets held for sale	(5,359)	(47)	(239)	(35)	**(5,680)**
Transfer	42,447	662	7,378	(50,487)	**–**
Translation adjustment	(23,857)	(680)	(2,815)	(3,240)	**(30,592)**
As of 31 December 2017	**444,190**	**18,293**	**68,478**	**21,510**	**552,471**
Depreciation and impairment					
As of 31 December 2015	**(268,106)**	**(8,377)**	**(40,430)**	**(3,779)**	**(320,692)**
Depreciation	(48,697)	(1,311)	(6,746)	–	**(56,754)**
Disposals	25,905	276	2,741	641	**29,563**
Impairment (Note 9)	(706)	(91)	(202)	(1,309)	**(2,308)**
Transfer	44	(15)	269	(298)	**–**
Translation adjustment	13,033	636	2,623	370	**16,662**
As of 31 December 2016	**(278,527)**	**(8,882)**	**(41,745)**	**(4,375)**	**(333,529)**
Depreciation	(47,557)	(1,138)	(6,702)	–	**(55,397)**
Disposals	21,005	212	651	671	**22,539**
Reclassification to assets held for sale	4,633	23	136	–	**4,792**
Impairment (Note 9)	(10)	–	(2)	(902)	**(914)**
Transfer	61	(1)	(21)	(39)	**–**
Translation adjustment	12,252	320	1,787	340	**14,699**
As of 31 December 2017	**(288,143)**	**(9,466)**	**(45,896)**	**(4,305)**	**(347,810)**
Net book value					
As of 31 December 2016	**173,256**	**9,608**	**23,163**	**30,984**	**237,011**
As of 31 December 2017	**156,047**	**8,827**	**22,582**	**17,205**	**204,661**

Finance leases

The carrying value of property and equipment held under finance leases as of 31 December 2017 and 2016 was RUB 5,144 and RUB 5,383, respectively. Additions during the year include RUB 390 in 2017 and RUB 1,794 in 2016 of property and equipment under finance lease.

Capitalized borrowing costs

During 2017 and 2016 VimpelCom capitalized interest in the cost of property and equipment in the amount of RUB 195 and RUB 290, respectively. The rate used to determine the amount of interest eligible for capitalization was 11.1% and 10.4% for the years ended 31 December 2017 and 2016, respectively.

Non-cash investing activities

In 2017, VimpelCom acquired property and equipment in the amount of RUB 10,908 (2016: RUB 20,020), which was not paid for as at respective year end.

14. Intangible assets

Accounting policies

Intangible assets acquired separately are measured initially at cost and are subsequently measured at cost less accumulated amortization and impairment losses.

Intangible assets with a finite useful life are amortized over the estimated useful life of the intangible asset as follows:

- licenses and other significant contractual intangibles are amortized with the straight-line method over the contractual life of the asset as defined by the license or other agreement;
- intangible assets associated with customer relationships are generally amortized with a declining balance amortization pattern based on the value contribution brought by customers;
- other intangible assets are amortized with the straight-line method over an estimated useful life not exceeding 5 years;

The amortization period and the amortization method for an intangible asset with a finite useful life are reviewed at least annually.

Accounting Estimates and Assumptions

Depreciation and amortization of non-current assets

Refer also to Note 13 for further details regarding source of estimation uncertainty.

Significant estimates in the evaluation of useful lives for intangible assets include, but are not limited to, the estimated average customer relationship based on churn, the remaining license or concession period and the expected developments in technology and markets.

The actual economic lives of intangible assets may be different than estimated useful lives, thereby resulting in a different carrying value of intangible assets with finite lives. We continue to evaluate the amortization period for intangible assets with finite lives to determine whether events or circumstances warrant revised amortization periods. A change in estimated useful lives is a change in accounting estimate, and depreciation and amortization charges are adjusted prospectively.

(All amounts in millions of Rubles unless otherwise stated)

14. Intangible assets (continued)

The following table summarizes the movement in intangible assets for the years ended 31 December:

	Telecommu-nications licenses, frequencies and permissions	Software	Brands and trademarks	Customer relation-ships	Other intangible assets	Total
Cost						
As of 31 December 2015	**39,303**	**35,316**	**909**	**20,008**	**15,329**	**110,865**
Additions	7,668	6,100	–	–	–	**13,768**
Acquisition of a subsidiary	1	24	–	–	9	**34**
Disposals	(615)	(3,955)	(94)	(416)	(1,338)	**(6,418)**
Transfer	1,990	415	1	–	(2,406)	**–**
Translation adjustment	(5,390)	(2,351)	(114)	8	(1,482)	**(9,329)**
As of 31 December 2016	**42,957**	**35,549**	**702**	**19,600**	**10,112**	**108,920**
Additions	986	6,621	–	–	480	**8,087**
Acquisition of a subsidiary	–	–	–	–	23	**23**
Disposals	(1,246)	(4,840)	–	–	1,429	**(4,657)**
Reclassification to assets held for sale	(468)	–	–	–	–	**(468)**
Transfer	16	205	2	–	(223)	–
Translation adjustment	(3,173)	(2,149)	(58)	–	(1,221)	**(6,601)**
As of 31 December 2017	**39,072**	**35,386**	**646**	**19,600**	**10,600**	**105,304**
Amortization and impairment						
As of 31 December 2015	**(24,835)**	**(22,614)**	**(896)**	**(15,137)**	**(11,407)**	**(74,889)**
Amortization	(3,224)	(6,387)	(10)	(912)	(524)	**(11,057)**
Impairment	(746)	(66)	–	–	(3)	**(815)**
Disposals	487	3,958	94	416	1,331	**6,286**
Transfer	–	7	–	–	(7)	**–**
Translation adjustment	3,832	1,815	114	(8)	1,367	**7,120**
As of 31 December 2016	**(24,486)**	**(23,287)**	**(698)**	**(15,641)**	**(9,243)**	**(73,355)**
Amortization	(3,055)	(7,046)	(2)	(971)	(295)	**(11,369)**
Disposals	1,274	4,767	–	–	(1,499)	**4,542**
Reclassification to assets held for sale	331	–	–	–	–	**331**
Transfer	–	(1)	–	–	1	**–**
Translation adjustment	2,899	1,616	58	–	1,223	**5,796**
As of 31 December 2017	**(23,037)**	**(23,951)**	**(642)**	**(16,612)**	**(9,813)**	**(74,055)**
Net book value						
As of 31 December 2016	**18,471**	**12,262**	**4**	**3,959**	**869**	**35,565**
As of 31 December 2017	**16,035**	**11,435**	**4**	**2,988**	**787**	**31,249**

Capitalized borrowing costs

During 2017 and 2016 VimpelCom did not capitalize any interest in the cost of intangible assets.

Non-cash investing activities

During 2017, VimpelCom acquired intangible assets in the amount of RUB 1,907 (2016: RUB 2,531), which was not paid for as at respective year end.

(All amounts in millions of Rubles unless otherwise stated)

15. 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 recognized in the consolidated financial statements as of 31 December 2017 and 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	
	31 December 2017	31 December 2016	31 December 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 23)	**73,211**	41,323	**73,166**	47,208
Bank deposits	**64**	22,544	**64**	22,544
Interest receivable	**252**	3,024	**252**	3,549
Other financial assets	**1,107**	1,338	**1,107**	1,338
Total loans granted, deposits and other financial assets at amortised cost	**74,634**	68,229	**74,589**	74,639
Total other financial assets	**74,634**	68,330	**74,589**	74,740
Financial liabilities at fair value through profit or loss				
Derivatives not designated as hedges				
Foreign exchange contracts	**–**	1,623	**–**	1,623
Financial liabilities at fair value through other comprehensive income				
Derivatives designated as cash flow hedges				
Foreign exchange contracts	**–**	247	**–**	247
Total financial liabilities at fair value	**–**	1,870	**–**	1,870
Other financial liabilities at amortised cost				
Loans, bonds and finance lease liabilities, principal	**36,395**	180,426	**39,247**	189,615
Loans payables to related parties, principal (Note 23)	**188,437**	27,346	**193,470**	18,887
Unamortised fees	**(851)**	(761)	–	–
Interest payable	**8,607**	9,763	**5,105**	5,950
Total other financial liabilities at amortised cost	**232,588**	216,774	**237,822**	214,452
Total other financial liabilities	**232,588**	218,644	**237,822**	216,322

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

Other financial assets	31 December 2017	31 December 2016
Non-current portion	**2,255**	58,027
Current portion	**72,379**	10,303
Total other financial assets	**74,634**	68,330
Other financial liabilities		
Non-current portion	**208,427**	146,848
Current portion	**24,161**	71,796
Total other financial liabilities	**232,588**	218,644

(All amounts in millions of Rubles unless otherwise stated)

15. Financial assets and liabilities (continued)

Carrying values and fair values (continued)

The fair value of financial assets and liabilities is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the balance sheet date. The fair values were estimated based on quoted market prices for our bonds, derived from market prices or by using discounted cash flows under the agreement at the rate applicable for the instruments with similar maturity and risk profile. The fair value for loans to related parties is estimated by using discounted cash flows under the agreement at the applicable rate for the instruments with similar maturity and risk profile.

The fair value of derivative financial instruments is determined using present value techniques such as discounted cash flow techniques, Monte Carlo simulation and/or the Black-Scholes model. These valuation techniques are commonly used for valuation of derivative. Observable inputs (Level 2) used in the valuation techniques includes LIBOR, EURIBOR, swap curves, basis swap spreads, foreign exchange rates and credit default spreads of both counterparties and our own entities.

The fair value of Available for Sale financial instruments is determined by reference to published price quotations in an active market.

Fair value measurements for financial liabilities at amortized cost are based on quoted market prices, where available. If the quoted market price is not available, the fair value measurement is based on discounted expected future cash flows using a market interest rate curve, credit spreads and maturities.

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 at fair value:

	As of 31 December 2017	As of 31 December 2016
	(Level 2)	(Level 2)
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

On a quarterly basis, the Company reviews if there are any indicators for a possible transfer between the fair value measurements. During the year ended 31 December 2017, there were no transfers between Level 1 and Level 2 fair value measurements, and there were no transfers into or out of Level 3 fair value measurements.

(All amounts in millions of Rubles unless otherwise stated)

15. Financial assets and liabilities (continued)

Loans, bonds and finance lease liabilities

The Company has the following principal amounts outstanding for loans, bonds and finance lease liabilities as of 31 December 2017 and 2016:

Lender or bonds series	Interest rate	Maturity	Currency	2017	2016
Loans received from related parties (Note 23)	5.00-11.40%	2018-2032	RUB/USD/RMB	**188,437**	27,346
Eurobonds	7.75-9.13%	2018-2021	USD	**31,259**	69,738
Finance lease liabilities	7.70-23.90%	2018-2055	RUB/USD	**3,546**	3,808
Ruble bonds	1.00-7.00%	2022-2025	RUB	**1,098**	40,057
Sberbank of Russia	11.55-12.75%	–	RUB	–	61,913
HSBC	3 month MOSPRIME + 1.05%	–	RUB	–	3,103
CISCO Systems Finance International	8.85-12.00%	–	RUB	–	1,224
Others	–	–	–	**492**	583
Total loans, bonds and finance lease liabilities, principal				**224,832**	207,772
Non-current portion				**202,630**	141,208
Current portion				**22,202**	66,564

Reconciliation of cash flows from financing activities

	Bank loans and bonds	Equipment financing and finance lease	Loans received from related parties	Unamortised fees	Other	Total
Balance as of 31 December 2016	**179,041**	**3,834**	**34,077**	**(761)**	**583**	**216,774**
Principal amount	176,035	3,808	27,346	(761)	583	**207,011**
Interest payable	3,006	26	6,731	–	–	**9,763**
Cash flows						
Proceeds from borrowings	15,000	–	122,789	–	–	**137,789**
Repayment of borrowings	(120,216)	(432)	–	–	(171)	**(120,819)**
Interest paid	(11,264)	(371)	(10,674)	–	–	**(22,309)**
Unamortised fees paid	–	–	–	(990)	–	**(990)**
Non-cash movements						
Interest accrued	9,891	420	12,003	–	170	**22,484**
Foreign currency translation	(3,471)	(5)	(885)	7	(259)	**(4,613)**
Reclassification to liabilities held for sale	–	–	(1,270)	–	–	**(1,270)**
Other non-cash movements	(35,740)	121	40,099	893	169	**5,543**
Balance as of 31 December 2017	**33,241**	**3,567**	**196,139**	**(851)**	**492**	**232,588**
Principal amount	32,357	3,546	188,437	(851)	492	**223,981**
Interest payable	884	21	7,702	–	–	**8,607**

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 RUB 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 RUB 14,461 which was repaid in March 2017. Subsequent to the settlement, the total outstanding principal amount of 7% Ruble bonds was RUB 597.

15. Financial assets and liabilities (continued)

Major treasury events during 2017 (continued)

On 16 March 2017 and on 10 April 2017, PJSC “VimpelCom” drew down RUB 4,000 and RUB 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 repaid outstanding credit facilities with Sberbank of Russia in the total amount of RUB 66,292, including RUB 65,349 of principal and RUB 943 of interest.

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

On 15 June 2017, PJSC “VimpelCom” fully repaid 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 RUB 670, including RUB 657 of principal and RUB 13 of interest.

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

On 30 May 2017, VEON Holdings B.V. (immediate parent of PJSC “VimpelCom” and indirect subsidiary of VEON Ltd., on 29 September 2017, VimpelCom Holdings B.V. changed its name to VEON Holdings B.V.) announced that it commenced a cash tender offer for any and all of the outstanding 7.5043% Notes due 2022 issued by VEON Holdings B.V. guaranteed by PJSC “VimpelCom” (Note 24) 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 VEON 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 VEON 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 million 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 RUB 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 VEON Holdings B.V. and guaranteed by PJSC “VimpelCom” (Note 24) was USD 628.5 million (the equivalent of RUB 37,422 as of 29 June 2017 at the exchange rate provided by the Central Bank of Russia).

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 RUB 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 RUB 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 10) 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 RUB 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 10) 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.

15. Financial assets and liabilities (continued)

Major treasury events during 2017 (continued)

On 5 October 2017, PJSC “VimpelCom” announced the reset of the coupon rate on its Exchange Ruble bonds for outstanding principal amount of RUB 25,000 maturing in October 2025. The new coupon rate of 1% per annum is applicable for the next six coupon periods (next three years) to be reset again in October 2020. Following the reset of the coupon rate, bondholders exercised their put options in aggregate principal amount of RUB 24,495 which was repaid on 18 October 2017. Subsequent to the settlement, the total outstanding principal amount of 1% Ruble bonds is RUB 505.

Significant changes in financial assets and liabilities also relate to the loans received from related parties and the amount of interest due on them, loans granted to related parties and the amount of interest due on them as further described in Note 23.

Financial instruments and hedging policy

The Company applied cash flow hedge accounting using financial instruments (usually derivatives) to mitigate all or some of the risk of a hedged item. Any gains or losses on the hedging instrument (a derivative) are initially included in other comprehensive income. The amount included in other comprehensive income is the lesser of the fair value of the hedging instrument and the hedged item. Where the hedging instrument has a fair value greater than the hedged item, the excess is recorded within the profit or loss as ineffectiveness. Gains or losses deferred in other comprehensive income are reclassified to profit or loss when the hedged item affects the consolidated income statement.

Any derivative instruments for which no hedge accounting is applied are recorded at fair value with any fair value changes recognized directly in the consolidated income statement.

Derivative financial instruments

VimpelCom uses derivative instruments, including swaps, forward contracts and options to manage certain foreign currency and interest rate exposures. The Company views derivative instruments as risk management tools and does not use them for trading or speculative purposes.

All derivatives are accounted for on a fair value basis and the changes in fair value are recorded in profit or loss, except for derivative instruments which are accounted for using cash flow hedge accounting. Cash flows from derivative instruments are reported in the consolidated statement of cash flows in the same line where the underlying cash flows of the hedged item are recorded.

Derivatives under hedge accounting

The Company uses foreign exchange forwards/swaps, options and zero cost collars to manage its exposure to variability in cash flows that is attributable to foreign exchange and interest rate risk to loans and borrowings. Most of these derivative contracts are either designated as cash flow or fair value hedges and are entered into for periods up to the maturity date of the hedged loans and borrowings.

Foreign exchange contracts

VimpelCom enters into short-term forwards agreements with several banks in order to protect cash flows of its short-term financial and non-financial obligations denominated in USD from adverse USD-RUB movements. As of 31 December 2017 there were no outstanding derivatives. As of 31 December 2016 the notional amount outstanding of derivative contracts (only forwards) was RUB 27,369 with an average execution rate of 66.05.

(All amounts in millions of Rubles unless otherwise stated)

15. Financial assets and liabilities (continued)

Derivatives not designated as hedging instruments

The Company uses foreign currency denominated borrowings, foreign exchange swaps, options and zero cost collars and forward currency contracts to manage its transaction exposures. These currency forward contracts are not designated as cash flow, fair value or net investment hedges and are entered into for periods consistent with currency transaction exposures, generally from one to six months. Although the derivatives have not been designated in a hedge relationship, they act as a commercial hedge and offset the underlying transaction when they occur.

Offsetting financial assets and liabilities

For the financial assets and liabilities subject to netting arrangements, each agreement between the Group and the counterparty allows for net settlement of the relevant financial assets and liabilities when both elect to settle on a net basis. In the absence of such an election, financial assets and liabilities are settled on a gross basis.

The major arrangements applicable for the Group are agreements with national and international interconnect operators and agreements with roaming partners.

Several entities of the Group have entered into International Swaps and Derivatives Association, Inc. (ISDA) Master Agreements or equivalent documents with their counterparties, governing the derivative transactions entered into between these entities and their counterparties. These documents provide for set-off of outstanding derivative positions in the event of termination if an Event of Default of either entity or the counterparty occurs.

As of 31 December 2017	Gross amounts recognized	Gross amounts set off in the consolidated statement of financial position	Net amounts presented in the consolidated statement of financial position
Trade and other receivables	23,854	(213)	23,641
Trade and other payables	51,925	(213)	51,712

As of 31 December 2016	Gross amounts recognized	Gross amounts set off in the consolidated statement of financial position	Net amounts presented in the consolidated statement of financial position
Trade and other receivables	29,081	(1,213)	27,868
Trade and other payables	57,933	(1,213)	56,720

(All amounts in millions of Rubles unless otherwise stated)

16. Other assets and other liabilities

Other non–current assets consisted of the following:

	31 December 2017	31 December 2016
Advances to suppliers and prepayments	**392**	709
Input value added tax	**82**	–
Deferred costs related to connection fees	**53**	101
Other non-current assets	**28**	109
Other non–current assets	**555**	919

Other current assets consisted of the following:

	31 December 2017	31 December 2016
Input value added tax	**5,453**	5,374
Advances to suppliers	**5,383**	6,681
Prepaid taxes	**460**	314
Deferred costs related to connection fees	**229**	126
Others	**170**	219
Other current assets	**11,695**	12,714

Other non–current liabilities consisted of the following:

	31 December 2017	31 December 2016
Long–term deferred revenue	**244**	472
Other non–current liabilities	**1,060**	319
Other non–current liabilities	**1,304**	791

Other current liabilities consisted of the following:

	31 December 2017	31 December 2016
Customer advances, net of VAT	**10,820**	11,833
Other taxes payable	**7,629**	5,321
Amounts due to employees	**3,931**	2,447
Customer deposits	**1,340**	1,438
Short–term deferred revenue	**825**	914
Other liabilities	**156**	469
Other current liabilities	**24,701**	22,422

17. Inventories

Inventories are measured at the lower of cost and net realizable value and carried at the weighted-average cost basis. Inventory consisted of the following as of 31 December:

	31 December 2017	31 December 2016
Telephone handsets and accessories for sale	**3,378**	6,077
SIM-Cards	**522**	645
Scratch cards	**9**	29
Other inventory	**172**	283
Obsolescence allowance	**(780)**	(864)
Total	**3,301**	6,170

The cost of inventories recognized as an expense is mainly accounted for in the consolidated income statement line “Cost of equipment and accessories”. Other expenses and write down of inventories amounted to RUB 1,740 and RUB 2,585 for the years ended 31 December 2017 and 2016, respectively.

(All amounts in millions of Rubles unless otherwise stated)

18. Trade and other receivables

Trade and other receivables are measured at amortized cost and include invoiced amounts less appropriate allowances for estimated uncollectible amounts. Estimated uncollectible amounts are calculated based on the ageing of the receivable balances, payment history and other evidence of collectability. Receivable balances are written off when management deems them not to be collectible.

Trade and other receivables consisted of the following as of 31 December:

	31 December 2017	31 December 2016
Trade receivables, gross	**24,884**	26,291
Allowance for doubtful accounts	**(2,485)**	(2,474)
Trade receivables, net	**22,399**	23,817
Other receivables	**1,242**	4,051
Total trade and other receivables	**23,641**	27,868

As of 31 December 2017 trade receivables with a value of RUB 2,485 (2016: RUB 2,474) were impaired. See below the movements in the allowance for the doubtful accounts:

	2017	2016
Balance as of 1 January	**2,474**	2,825
Charge for the year	**2,602**	2,330
Accounts receivable written off	**(2,107)**	(2,373)
Classified as held for sale	**(58)**	
Change in estimates	**(295)**	(170)
Foreign currency translation adjustment	**(131)**	(138)
Balance as of 31 December	**2,485**	2,474

As of 31 December the ageing analysis of trade receivables is as follows:

	Total trade receivables	Neither past due nor impaired	Past due but not impaired		
			< 30 days	30-120 days	> 120 days
As of 31 December 2017	**22,399**	**17,489**	**2,362**	**1,728**	**820**
As of 31 December 2016	23,817	18,213	3,147	1,603	854

19. Cash and cash equivalents

Cash and cash equivalents are held for the purpose of meeting short-term cash commitments rather than for investment or other purposes. Cash and cash equivalents in the consolidated statement of financial position are comprised of cash at banks and on hand and highly liquid investments that are readily convertible to known amounts of cash, are subject to only an insignificant risk of changes in value and have an original maturity of less than 92 days.

Cash and cash equivalents consisted of the following items:

	31 December 2017	31 December 2016
Cash and cash equivalents at banks and on hand	**22,863**	43,796
Short–term deposits with an original maturity of less than 92 days	**2,100**	3,714
Total cash and cash equivalents	**24,963**	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.

As of 31 December 2017, there were no restricted cash and cash equivalent balances. As of 31 December 2016, the cash balances in Uzbekistan of RUB 21,083 were restricted due to local government or central bank regulations and were therefore unable to be repatriated.

19. Cash and cash equivalents (continued)

In December 2017, following currency liberalization in Uzbekistan, the Company repatriated a net amount of approximately USD 200 million (the equivalent of RUB 11,520 as of 31 December 2017 at the exchange rate provided by the Central Bank of Russia) from Unitel LLC, its wholly owned subsidiary in Uzbekistan. The repatriation resulted in a foreign exchange loss of USD 49 million (the equivalent of RUB 2,822 as of 31 December 2017 at the exchange rate provided by the Central Bank of Russia).

20. Issued capital

Common shares

As of 31 December 2017, the Company had 51,281,022 issued and outstanding, fully paid registered common shares at a nominal value of 0.5 kopecks each. As of 31 December 2017, 51,281,021 common shares were owned by PJSC "VimpelCom"'s immediate parent VEON Holdings B.V., the wholly-owned indirect subsidiary of VEON Ltd. and 1 common share was owned by VEON Ltd., the ultimate parent of the Group. In addition to the issued and outstanding shares, the Company shall have the right to issue an additional 38,718,978 common registered shares having a nominal value of 0.5 kopecks each (authorized shares).

Each fully paid common shares are, subject to Charter of PJSC "VimpelCom" and Russian law, entitles its holder to: (a) participate in shareholder general meetings; (b) have one vote on all issues voted upon at a general shareholder meeting, except for the purposes of cumulative voting for the election of the Board of Directors, in which case each common share shall have the same number of votes as the total number of members to be elected to the Board Directors and all such votes may be cast for a single candidate or may be distributed between or among two or more candidates; (c) receive dividends approved by the general shareholder meeting; (d) in the event of our liquidation, receive a pro rata share of value of the property (or the portion of the value of the property); (e) any other rights set forth in Charter of PJSC "VimpelCom" and Russian law.

Convertible preference shares

In 1996, PJSC VimpelCom issued 6,426,600 preferred shares. As of 31 December 2017, all of the shares of preferred stock (6,426,600 shares) were owned by PJSC “VimpelCom”’s parent VEON Holdings B.V., the subsidiary of VEON Ltd. Each share of preferred stock entitles its holder (i) to participate in Shareholders’ General Meetings with the right to vote on all issues (each preferred share shall have one vote at a Shareholders’ General Meeting); (ii) to receive annually a fixed dividend of 0.1 of a kopeck per preferred share and (iii) to receive a fixed liquidation value of 0.5 of a kopeck per preferred share in the event of VimpelCom’s liquidation, to the extent there are sufficient funds available; (iv) to include issues on the agenda of the Shareholders’ General Meeting. Each share of preferred stock is convertible into one share of common stock at any time after 30 June 2016, at the election of the holder upon payment to VimpelCom of a conversion premium equal to 100% of the market value of one share of common stock at the time of conversion.

Nature and purpose of reserves

Other capital reserves

Other capital reserves are mainly used to recognize the results of transactions that do not result in a change of control with non-controlling interest and to recognize the results of transactions under common control.

Foreign currency translation reserve

The foreign currency translation reserve is used to record exchange differences arising from the translation of the financial statements of foreign subsidiaries. The decrease in the foreign currency reserve relates mainly to the strengthening of the RUB and the depreciation of emerging markets currencies in which VimpelCom operates.

(All amounts in millions of Rubles unless otherwise stated)

21. Dividends

On 13 February 2017, VIP 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 RUB 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 RUB 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 RUB 0.006 for all preferred type “A” registered shares in the aggregate. On 13 July 2017, PJSC “VimpelCom” paid annual dividends to the shareholders based on 2016 financial year results in the amount of RUB 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 RUB 1,675.

On 6 October 2017, VIP Kazakhstan Holding AG, a subsidiary of the Company, declared dividends to its shareholders which were paid on 10 October 2017. The portion of dividends paid to the minority shareholder amounted to USD 10.8 million (the equivalent of RUB 623 as of 6 October 2017 at the exchange rate provided by the Central Bank of Russia (as of the date of dividends declared)).

22. Provisions

Accounting policies

Provisions are recognized when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Provisions are discounted using a current pre-tax rate if the time value of money is significant.

Source of estimation uncertainty

The Group is involved in various legal proceedings, disputes and claims, including regulatory discussions related to the Group’s business, licenses, tax positions and investments, and the outcomes of these are subject to significant uncertainty. Management evaluates, among other factors, the degree of probability of an unfavorable outcome and the ability to make a reasonable estimate of the amount of loss. Unanticipated events or changes in these factors may require the Group to increase or decrease the amount recorded for a matter that has not been previously recorded because it was not considered probable.

For certain operations in emerging markets, the Group is involved in various regulatory discussions. Management’s estimates relating to regulatory discussions in these countries involve a high level of uncertainty. See Note 24.

(All amounts in millions of Rubles unless otherwise stated)

22. Provisions (continued)

The following table summarizes the movement in provisions for the years ended 31 December 2017 and 2016:

	Income taxes provisions	Tax provisions other than income tax	Provision for decommis-sioning	Legal and other provisions	Total provisions
As of 31 December 2015	**1,882**	**491**	**3,600**	**228**	**6,201**
Arising during the year	464	1,997	196	311	**2,968**
Divestment of a subsidiary	–	–	(870)		**(870)**
Utilized	–	(991)	(317)	(249)	**(1,557)**
Unused amounts reversed	(598)	(76)	(13)	(1)	**(688)**
Discount rate adjustment and imputed interest (change in estimates)	–	–	124	–	**124**
Translation adjustment	(19)	(135)	(200)	(20)	**(374)**
As of 31 December 2016	**1,729**	**1,286**	**2,520**	**269**	**5,804**
Non–current portion	–	–	2,520	135	**2,655**
Current portion	1,729	1,286	–	134	**3,149**
As of 31 December 2016	**1,729**	**1,286**	**2,520**	**269**	**5,804**
Arising during the year	2,110	417	646	91	**3,264**
Divestment of a subsidiary	(30)	–	–	–	**(30)**
Utilized	–	(945)	(16)	(7)	**(968)**
Unused amounts reversed	(727)	(33)	(95)	(35)	**(890)**
Reclassified to held for sale	–	–	(203)	–	**(203)**
Translation adjustment	(31)	(39)	(137)	(11)	**(218)**
As of 31 December 2017	**3,051**	**686**	**2,715**	**307**	**6,759**
Non–current portion	–	–	2,715	56	**2,771**
Current portion	3,051	686	–	251	**3,988**

23. Related parties

As of 31 December 2017, PJSC “VimpelCom” is a wholly-owned indirect subsidiary of VEON Ltd. As of 31 December 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.

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 years:

	For the year ended 31 December 2017	For the year ended 31 December 2016
Revenue from Telenor	**55**	79
Revenue from Kyivstar	**1,097**	1,990
Revenue from joint ventures	**178**	276
Revenue from Teta Telecom or its subsidiaries	**1,103**	1,512
Revenue from VEON Ltd. or its subsidiaries	**1,031**	925
Revenue from other related parties	**317**	–
	3,781	4,782
Services from Telenor	**57**	65
Services from Kyivstar	**2,164**	3,386
Services from joint ventures	**1,634**	1,243
Services from Teta Telecom or its subsidiaries	**3,765**	4,637
Services from VEON Ltd. or its subsidiaries	**15,358**	9,390
Services from other related parties	**55**	26
	23,033	18,747
Finance income from VEON Ltd. or its subsidiaries	**746**	4,435
Finance costs from VEON Ltd. or its subsidiaries	**12,313**	2,142
Other loss from VEON Ltd. or its subsidiaries (Note 15)	**(638)**	–
Other gain from other related parties, net	**–**	32

(All amounts in millions of Rubles unless otherwise stated)

23. Related parties (continued)

	As of 31 December 2017	As of 31 December 2016
Accounts receivable from Telenor	**–**	13
Accounts receivable from Kyivstar	**310**	374
Accounts receivable from joint ventures	**697**	803
Accounts receivable from Teta Telecom or its subsidiaries	**474**	138
Accounts receivable from VEON Ltd. or its subsidiaries	**762**	2,693
Accounts receivable from other related parties	**136**	92
	2,379	4,113
Accounts payable to Telenor	**–**	23
Accounts payable to Kyivstar	**185**	266
Accounts payable to joint ventures	**225**	199
Accounts payable to Teta Telecom or its subsidiaries	**675**	1,038
Accounts payable to VEON Ltd. or its subsidiaries	**11,100**	8,200
Accounts payable to other related parties	**2**	–
	12,187	9,726
Loans granted to VEON Ltd. or its subsidiaries	**73,211**	41,323
Interest receivable from VEON Ltd. or its subsidiaries	**252**	3,024
Loans received from VEON Ltd. or its subsidiaries	**188,437**	27,346
Interest payable to VEON Ltd. or its subsidiaries	**7,703**	6,730
Unamortised fees related to loans received from VEON Ltd. or its subsidiaries	**(800)**	–
Loans received from VEON Ltd. or its subsidiaries classified as liabilities directly associated with the assets classified as held for sale	**1,239**	–
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	**34**	–

As a result of a settlement of a cash tender offer for certain outstanding debt securities (issued by VIP Finance Ireland Limited (SPE) and purchased by VEON Holdings B.V.) loss from early redemption occurred in amount of RUB 4,430, which appeared related party transaction as well. See details in Note 15.

Transactions with Telenor relate to operations with Telenor East Holding II AS, its consolidated subsidiaries, its direct owners and their consolidated subsidiaries. VimpelCom has roaming contracts and contracts to provide telecommunication services to Telenor. As a result of changes to the composition of the Supervisory Board of VEON Ltd., announced on 8 December 2017, Telenor is no longer represented on VEON Ltd.’s Supervisory Board, and as such, Telenor and its affiliates are no longer considered to be a related party.

Outstanding balances and transactions with joint ventures relate to operations with VimpelCom’s equity investees (Note 12.3). PJSC VimpelCom has commercial contracts with Euroset. Revenue from Euroset primarily for mobile and fixed line services and from the sale of equipment and accessories. PJSC VimpelCom accrued to Euroset certain expenses primarily dealer commissions and bonuses for services for acquisition of new customers, customer care and receipt of customers’ payments.

Outstanding balances and transactions with subsidiaries of VEON Ltd. including Kyivstar and Teta Telecom or its subsidiaries, mainly represent telecommunication services.

(All amounts in millions of Rubles unless otherwise stated)

23. Related parties (continued)

Loans granted to VEON Ltd. or its subsidiaries

As of 31 December 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	31 December 2017	31 December 2016
VEON Holdings B.V.[1]	13 Dec 2017	<3 months	8.0%	RUB / USD	**49,873**	–
VEON Holdings B.V.[2]	7 Aug 2017	–	LIBOR+0.8%	USD	**12,415**	–
VEON Holdings B.V.[3]	31 Mar 2017	–	LIBOR+0.6%	USD	**8,720**	–
TNS-Plus (Teta Telecom)	2007-2011	2018-2021	9.46%	KZT	**1,109**	1,168
VEON Micro Holdings B.V.[4]	26 Feb. 2016	Feb., 2018	5.00%	USD	**1,094**	1,152
VEON Ltd.[5]	7 Oct. 2010	–	LIBOR+7.5%	USD	–	34,057
VEON Holdings B.V.[6]	5 Jul. 2016	–	LIBOR+4.0%	USD	–	4,246
NTC[7]	1 Sep. 2016	–	10.0%	RUB	–	700
Total					**73,211**	41,323

[1] On 13 December 2017, PJSC "VimpelCom" entered into a loan agreement with VEON Holdings B.V. The revolving term loan facility for five years made available under this loan agreement for the maximum principal amount of RUB 60,000. The rate of interest in each loan is specified in each utilization request. The repayment day with respect to each loan cannot be longer than three months from the relevant utilisation date of that loan. In December 2017, PJSC "VimpelCom" provided RUB 38,150 and USD 200 million (the equivalent of RUB 11,723 as of the date of transaction at the exchange rate provided by the Central Bank of Russia). In the first quarter of 2018 PJSC "VimpelCom" provided RUB 10,000 to VEON Holdings B.V. and VEON Holdings B.V. repaid RUB 10,000 and USD 225 million (the equivalent of RUB 12,778 as of the date of each transaction at the exchange rate provided by the Central Bank of Russia);

[2] On 7 August 2017, CJSC VEON Armenia (former CJSC ArmenTel) signed a current account agreement with VEON Holdings B.V. for a maximum amount of USD 214 million. The agreement has no maturity date and the interest rate amounts to LIBOR+0.8%. In August 2017, CJSC VEON Armenia deposited USD 214 million with VEON Holdings B.V. (the equivalent of RUB 12,809 as of the dates of transactions at the exchange rate provided by the Central Bank of Russia). The total amount of capitalized interest in 2017 was USD 1.5 million;

[3] On 31 March 2017, VEON Eurasia 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 VEON Holdings B.V. for a maximum amount of USD 100 million. On 19 July 2017, the amendment agreement was signed which increased the maximum amount to USD 200 million. During the year ended 31 December 2017 VEON Eurasia S.à r.l. deposited USD 151.4 million with VEON Holdings B.V. and VEON Holdings B.V. repaid USD 50 thousands under this agreement (the equivalent of RUB 8,656 and RUB 3, respectively, as of the dates of transactions at the exchange rate provided by the Central Bank of Russia). The total amount of interest capitalized in 2017 was USD 0.87 million;

[4] On 26 February 2016, VEON Eurasia S.à r.l. entered into a term loan facility agreement with related party VEON Micro Holdings B.V. On 15 March 2016, VEON Eurasia S.à r.l. provided loan in the total amount of the facility of USD 19 million (the equivalent of RUR 1,333 as of 15 March 2016 at the exchange rate provided by the Central Bank of Russia). In the first quarter of 2018 the repayment date was reassigned and the loan was fully repaid on 29 March 2018;

[5] On 11 October 2017, VEON Ltd. early repaid USD 561.5 million (the equivalent of RUB 32,607 as of 11 October 2017 at the exchange rate provided by the Central Bank of Russia) to the Company under the loan agreement dated 7 October 2010. The Company also agreed to waive the requirement to pay the accrued interest by VEON Ltd. under the loan agreement dated 7 October 2010 for the period 1 January 2017 to and including the repayment date in the amount of USD 39.1 million (the equivalent of RUB 2,271 as of 11 October 2017 at the exchange rate provided by the Central Bank of Russia);

[6] On 9 March 2017, VEON Holdings B.V. repaid USD 70 million (the equivalent of RUB 4,078 as of 9 March 2017 at the exchange rate provided by the Central Bank of Russia);

[7] During the first quarter of 2017, JSC National Tower Company ("NTC") drew down RUB 700 and repaid RUB 300. In April 2017, NTC fully repaid RUB 1,100.

(All amounts in millions of Rubles unless otherwise stated)

23. Related parties (continued)

Loans received from VEON Ltd. or its subsidiaries

As of 31 December 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	31 December 2017	31 December 2016
VEON Luxembourg Finance S.A.[1]	19 May, 2017	May, 2022	11.40%	RUB	**95,000**	–
VEON Luxembourg Finance S.A.[2]	19 Jun., 2017	Jun., 2022	11.00%	RUB	**40,100**	–
VEON Luxembourg Finance S.A.[3]	11 Oct., 2017	Oct., 2022	125% of the key rate	RUB	**15,000**	–
VEON Luxembourg Finance S.A.[4]	26 Mar., 2015	Mar., 2032	6.50%	USD	**13,133**	12,756
VEON Holdings B.V.[5]	14 Feb., 2013	Feb., 2018	9.60%	RUB	**12,000**	12,000
VEON Luxembourg Finance S.A.[6]	9 Aug., 2017	Aug., 2022	11,25%	RUB	**9,454**	–
VEON Holdings B.V.[7]	24 Jun 2016	Sep., 2021	5.91%	RMB	**3,750**	1,289
VEON Micro Holdings B.V.[8]	27 Jan., 2016	Jan., 2018	5.00%	USD	–	1,152
VEON Micro Holdings B.V.[8]	17 May, 2016	Dec., 2017	LIBOR (6M) + 2.3%	USD	–	149
Total					**188,437**	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 RUB 99,000 with the maturity date 19 May 2022. The lender charged facility fee in the amount of RUB 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 RUB 95,000;

[2] On 19 June 2017, PJSC “VimpelCom” signed a credit facility agreement with VEON 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. On 12 December 2017, PJSC “VimpelCom” extended the maturity date of the loan to 19 June 2022;

[3] On 11 October 2017, PJSC “VimpelCom” signed a credit facility agreement with VEON Luxembourg Finance S.A. for the amount of RUB 15,000 with the maturity date 11 October 2022.The float rate of interest on each loan for each interest period is a percentage rate per annum which is 125 per cent of the key rate of Central Bank of Russia. On 16 October 2017, PJSC “VimpelCom” drew down RUB 15,000;

[4] During the year ended 31 December 2017, LLC Mobitel (subsidiary of the PJSC “VimpelCom”) drew down USD 17.7 million (the equivalent of RUB 922 as of the dates of transactions at the exchange rate provided by the Central Bank of Russia);

[5] On 7 February 2018, PJSC “VimpelCom” fully repaid principal outstanding of a credit facility agreement between PJSC “VimpelCom” and VEON Holdings B.V. dated 14 February 2013 in the amount of RUB 12,000 along with interest outstanding;

[6] 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 RUB 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 RUB 9,454;

[7] During the year ended 31 December 2017 PJSC “VimpelCom” drew down RMB 276.29 million (the equivalent of RUB 2,312 as of the dates of transactions at the exchange rate provided by the Central Bank of Russia). On 22 March 2018, PJSC “VimpelCom” effected early repayment of a credit facility agreement between PJSC “VimpelCom” and VEON Holdings B.V. dated 24 June 2016 in the full amount of RMB 424 million along with interest outstanding. Credit facility was repaid in RUB based on the exchange rate quoted by the Central Bank of Russia on the date of the repayment (RUB 3,850 of principal amount);

[8] The loans related to VimpelCom Lao Company Ltd. (subsidiary of the PJSC “VimpelCom”) were reclassified to liabilities directly associated with the assets classified as held for sale on 30 June 2017 (Note 5). The total outstanding amount as of 31 December 2017 was USD 21.5 million (the equivalent of RUB 1,238 as of 31 December 2017 at the exchange rate provided by the Central Bank of Russia). In March 2018 VEON Micro Holdings B.V. sold all these loans to VimpelCom Holding Laos B.V. (subsidiary of the PJSC “VimpelCom”);

On 18 August 2017, PJSC “VimpelCom” signed a Revolving Credit Facility Agreement with VEON Luxembourg Finance S.A. for the amount of RUB 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.

Terms and conditions of transactions with related parties

Outstanding balances at year-end are unsecured, settlements occur in cash. There have been no guarantees provided or received for any related party receivables or payables. The terms and amounts of the Company’s guarantees of the related party loans that existed as of 31 December 2017 are disclosed in Note 24. For the years ended 31 December 2017 and 2016, VimpelCom did not record any impairment of receivables relating to amounts owed by related parties. This assessment is undertaken each financial year through examining the financial position of the related party and the market in which the related party operates.

23. Related parties (continued)

Compensation of key management personnel of the Company

The General Director and key vice presidents of PJSC “VimpelCom” are the key management personnel.

The amount of accrued remuneration to key management personnel of the Company for the year 2017 amounted to RUB 639.2 (2016: RUB 741.2). The amount of social insurance contributions related to accrued remuneration to key management personnel of the Company amounted to RUB 48.9 (2016: RUB 95.0). Remuneration to key management personnel of the Company is mainly represented by a short-term category of employee benefits.

24. Risks, commitments, contingencies and uncertainties

Risks

Domestic and global economy risks

The Russian Federation displays certain characteristics of an emerging market. Its economy is particularly sensitive to oil and gas prices. The legal, tax and regulatory frameworks continue to develop and are subject to frequent changes and varying interpretations. The Russian economy was growing in 2017, after overcoming the economic recession of 2015 and 2016. The economy is negatively impacted by low oil prices, ongoing political tension in the region and international sanctions against certain Russian companies and individuals. The financial markets continue to be volatile. This operating environment has a significant impact on the Group’s operations and financial position. Management is taking necessary measures to ensure sustainability of the Group’s operations. However, the future effects of the current economic situation are difficult to predict and management’s current expectations and estimates could differ from actual results.

Change in law and compliance risks

In the ordinary course of business, VimpelCom may be party to various legal and tax proceedings, including as it relates to compliance with the rules of the telecom regulators in the countries in which VimpelCom operates, competition law and anti-bribery and corruption laws. Non-compliance with such rules and laws may cause VimpelCom to be subject to claims, some of which may relate to the developing markets and evolving fiscal and regulatory environments in which VimpelCom operates. In the opinion of management, VimpelCom’s liability, if any, in all pending litigation, other legal proceeding or other matters, other than what is discussed in this Note, will not have a material effect upon the financial condition, results of operations or liquidity of VimpelCom.

Tax risks

The tax legislation in the markets in which VimpelCom operates is unpredictable and gives rise to significant uncertainties, which could complicate our tax planning and business decisions. Tax laws in many of the emerging markets in which we operate have been in force for a relatively short period of time as compared to tax laws in more developed market economies. Tax authorities in our markets often deviate in their interpretation of tax laws from industry viewpoint, as well as in their enforcement and tax collection methods.

Any sudden and unforeseen amendments of tax laws or changes in the tax authorities’ interpretations of the respective tax laws and/or double tax treaties, could have a material adverse effect on our future results of operations, cash flows or the amounts of dividends available for distribution to shareholders in a particular period (e.g. introduction of transfer pricing rules and Controlled Foreign Operation (CFC) legislation and more strict tax residency rules).

Management believes that VimpelCom has paid or accrued all taxes that are applicable. Where uncertainty exists, VimpelCom has accrued tax liabilities based on management’s best estimate. From time to time, we may also identify tax contingencies for which we have not recorded an accrual. Such unaccrued tax contingencies could materialize and require us to pay additional amounts of tax.

(All amounts in millions of Rubles unless otherwise stated)

24. Risks, commitments, contingencies and uncertainties (continued)

Risks (continued)

Currency control risks

The imposition of currency exchange controls or other similar restrictions on currency convertibility in the countries in which VimpelCom operates could limit VimpelCom’s ability to convert local currencies or repatriate local cash in a timely manner or at all, as well as, remit dividends from the respective countries. Any such restrictions could have a material adverse effect on VimpelCom's business, financial condition and results of operations. The continued success and stability of the economies of these countries will be significantly impacted by their respective governments’ continued actions with regard to supervisory, legal and economic reforms.

Capital commitments

Capital commitments for the future purchase of equipment and intangible assets are as follows:

	2017*	2016
Less than 1 year	**34,735**	19,313
Between 1 and 3 years	**14,976**	7,299
Total	**49,711**	26,612

***** *The amount contains telecom licenses capital commitment (see section “Telecom Licenses Capital Commitments” below).*

Telecom Licenses Capital Commitments

The Company’s ability to generate revenue in the countries it operates is dependent upon the operation of the wireless telecommunications networks authorized under its various licenses under GSM-900/1800, "3G" (IMT-2000/WCDMA/UMTS) and "4G" (LTE) mobile radiotelephony communications services.

Under the license agreements our operating companies are subject to certain commitments, such as territory or population coverage and network build-out requirements, level of capital expenditures, and number of base stations to be fulfilled within a certain timeframe. If we are found to be involved in practices that do not comply with applicable laws or regulations, we may be exposed to significant fines, the risk of prosecution or the suspension or loss of our licenses, frequency allocations, authorizations or various permissions, any of which could harm our business, financial condition, results of operations, or cash flows.

After expiration of the license, our operating companies might be subject to additional payments for renewals, as well as new license capital and other commitments.

On 12 July 2012 PJSC “VimpelCom” was awarded licenses to provide services over the LTE standard and its further modifications. The licenses allow the Company to provide services using radio-electronic devices via networks that use the LTE standard and its further modifications in the territory of the Russian Federation. The licenses were provided on condition that the Company will invest at least RUB 15,000 into LTE network construction per annum where the first year is the period from 12 July 2012 till 1 December 2013 – and from this time forth – every calendar year till the technical feasibility of providing services over the LTE standard and its further modifications in the territory of the Russian Federation will be in compliance with the awarded licenses but before 1 December 2019. Since 2017 the amount RUB of 15,000 related to telecom licenses capital commitments is added to the Capital commitments’ table disclosure above

(All amounts in millions of Rubles unless otherwise stated)

24. Risks, commitments, contingencies and uncertainties (continued)

Operating lease commitments

Future minimum rentals payable under non-cancellable operating leases as of 31 December are as follows:

	31 December 2017	31 December 2016
Less than 1 year	**2,495**	3,394
Between 1 and 5 years	**4,386**	9,695
More than 5 years	**681**	–
Total	**7,562**	13,089

Operating lease commitments mainly relate to the lease of base station sites and office spaces. Operating leases can be renewed but may be subject to renegotiations with lessors. Total operating lease expenses amounted to RUB 18,606 in 2017 and RUB 17,817 in 2016 (Note 8).

Finance lease

The Group has finance leases and hire purchase contracts for various items of property and equipment. Future minimum lease payments under the finance leases and hire purchase contracts together with a present value of the net minimum lease payments are as follows:

	31 December 2017		31 December 2016	
	Minimum payments	Present value of payments	Minimum payments	Present value of payments
Within one year	**793**	**412**	651	387
Between one and five years	**2,687**	**1,271**	2,609	1,331
More than five years	**3,066**	**1,863**	2,973	2,090
Total minimum lease payments	**6,546**	**3,546**	6,233	3,808
Less amounts representing finance charges	**(3,000)**	**–**	(2,425)	–
Total payments	**3,546**	**3,546**	3,808	3,808

Contingencies and uncertainties

Investigations by SEC/DOJ/OM

During the first quarter of 2016, VEON Ltd., the parent of the Company, reached resolutions through agreements with the U.S. Securities and Exchange Commission (“SEC”), the U.S. Department of Justice (“DOJ”), and the Dutch Public Prosecution Service (Openbaar Ministerie) (“OM”) relating to the previously disclosed investigations under the U.S. Foreign Corrupt Practices Act (the “FCPA”) and relevant Dutch laws, pertaining to the Company’s business in Uzbekistan and prior dealings with Takilant Ltd. Pursuant to these agreements, VEON Ltd. paid an aggregate amount of USD 795 million in fines and disgorgements to the SEC, the DOJ and the OM in the first quarter of 2016.

On 18 February 2016, the United States District Court for the Southern District of New York (the “District Court”) approved the agreements with the DOJ relating to charges that the VEON Ltd. and its subsidiary violated the anti-bribery, books-and-records and internal controls provisions of the FCPA. These agreements consisted of the deferred prosecution agreement (the “DPA”), entered into by VEON Ltd. and the DOJ and a guilty plea by Unitel LLC (“Unitel”), a subsidiary of VEON Ltd. and the Company operating in Uzbekistan. Under the agreements with the DOJ, VEON Ltd. agreed to pay a total criminal penalty of USD 230 million to the United States, including USD 40 million in forfeiture.

(All amounts in millions of Rubles unless otherwise stated)

24. Risks, commitments, contingencies and uncertainties (continued)

Contingencies and uncertainties (continued)

Investigations by SEC/DOJ/OM (continued)

In connection with the investigation by the OM, VEON Ltd. and Silkway Holding BV, a wholly owned subsidiary of VEON Ltd. and the Company, entered into a settlement agreement (the “Dutch Settlement Agreement”) related to anti-bribery and false books-and-records provisions of Dutch law. Pursuant to the Dutch Settlement Agreement, VEON Ltd. agreed to pay criminal fines of USD 230 million and to disgorge a total of USD 375 million, which was satisfied by the forfeiture to the DOJ of USD 40 million, a disgorgement to the SEC of USD 167.5 million and a further payment to the OM of USD 167.5 million beyond the criminal fines.

VEON Ltd. also consented to the entry of a final judgment and incorporated consent (the “Final Judgment”), which was approved by the District Court on 22 February 2016, relating to the SEC’s complaint against VEON Ltd., which charged violations of the anti-bribery, books-and-records and internal controls provisions of the FCPA. Pursuant to the Final Judgment, VEON Ltd. agreed to a judgment ordering disgorgement of USD 375 million, to be satisfied by the forfeiture to the DOJ of USD 40 million, the disgorgement to the OM of USD 167.5 million, and a payment to the SEC of USD 167.5 million, and imposing a permanent injunction against future violations of the U.S. federal securities laws.

The DPA, the guilty plea, the Dutch Settlement Agreement and the Final Judgment comprise the terms of the resolution of the VEON Ltd.’s potential liabilities in the previously disclosed DOJ, SEC and OM investigations regarding VEON Ltd. and Unitel.

All amounts to be paid under the DPA, the guilty plea, the Dutch Settlement Agreement and the Final Judgment were paid by VEON Ltd. in the first quarter of 2016 and were deducted from the already existing provision of USD 900 million recorded by VEON Ltd. in the third quarter of 2015 and disclosed in the 2015 annual consolidated financial statements of VEON Ltd. The remaining provision of USD 105 million recorded by VEON Ltd. related to future direct and incremental expected legal fees associated with the resolutions. In 2016, VEON Ltd. paid USD 24 million in legal fees utilizing this provision and changed its estimate by reducing the provision to a balance of USD 66 million at the end of 2016. In 2017, VEON Ltd. paid USD 14 million in legal fees utilizing this provision and changed its estimate by reducing the provision by USD 19 million, resulting in a remaining provision of USD 33 million as of 31 December 2017. VEON Ltd. cannot currently estimate the magnitude of future costs to be incurred to comply with the DPA, the SEC Judgment and the Dutch Settlement Agreement, but these costs could be significant.

The Company has considered previously the need to record the provision associated with the aforementioned investigations. Based on the final settlement terms, PJSC “VimpelCom” and its subsidiaries (including Unitel) would not be separately accountable for payment of any penalties. Instead, the fines and disgorgement that were paid by VEON Ltd. would cover all penalties potentially attributable to subsidiaries, and no fines will be imposed on the Company. Accordingly, no provision was considered necessary in the Company’s financial statements.

Other contingencies and uncertainties

In addition to the individual matters mentioned above, the Company is involved in other disputes, litigation and regulatory inquiries and investigations, both pending and threatened, in the ordinary course of its business. The Company does not expect any liability arising from these contingencies to have a material effect on the results of operations, liquidity, capital resources or financial position of the Company. Furthermore, the Company believes it has provided for all probable liabilities arising in the ordinary course of its business.

For the ongoing matters described above, where the Company has concluded that the potential loss arising from a negative outcome in the matter cannot be estimated, the Company has not recorded an accrual for the potential loss. However, in the event a loss is incurred, it may have an adverse effect on the results of operations, liquidity, capital resources, or financial position of the Company.

(All amounts in millions of Rubles unless otherwise stated)

24. Risks, commitments, contingencies and uncertainties (continued)

Contingencies and uncertainties (continued)

Guarantees in favour of VEON Holdings B.V.

On 29 June 2011, VEON Holdings B.V. (on 29 September 2017, VimpelCom Holdings B.V. changed its name to VEON 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 RUB 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, VEON Amsterdam B.V. (on 22 August 2017, VimpelCom Amsterdam B.V. changed its name to VEON Amsterdam B.V.) partially repurchased the current notes issued by VEON Holdings B.V. On 19 June 2017 and 29 June 2017, VEON Holdings B.V. partially repurchased guaranteed notes issued by VEON Holdings B.V. on 29 June 2011 (Note 15). As of 31 December 2017 and 31 December 2016, the outstanding principal amount under the notes was USD 628.5 million (the equivalent of RUB 36,202 as of 31 December 2017 at the exchange rate provided by the Central Bank of Russia) and USD 1,629 million (the equivalent of RUB 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, VEON Holdings B.V. completed an offering of an aggregate principal amount of USD 1,600 million notes (the equivalent of RUB 48,274 as of 13 February 2013 at the exchange rate provided by the Central Bank of Russia) and notes, denominated in RUB, in the amount of RUB 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, VEON Amsterdam B.V. partially repurchased the current notes issued by VEON Holdings B.V. As of 31 December 2016, the outstanding principal amount under the notes was USD 1,554 million (the equivalent of RUB 94,261 as of 31 December 2016 at the exchange rate provided by the Central Bank of Russia) and RUB 12,000. On 30 June 2017, VEON Holdings B.V. terminated these respective guarantees. VEON 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 VEON Holdings B.V., PJSC “VimpelCom” and BNY Mellon Corporate Trustee Services Limited, each dated 13 February 2013. No triggering events under the guarantee occurred.

Guarantees in favour of VEON Amsterdam B.V.

On 20 December 2012, VEON Amsterdam B.V. (on 22 August 2017, VimpelCom Amsterdam B.V. changed its name to VEON Amsterdam B.V.) completed a term credit facility of USD 500 million (the equivalent of RUB 15,380 as of 20 December 2012 at the exchange rate provided by the Central Bank of Russia). The 8 years credit facility for VEON 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 31 December 2017 and 31 December 2016, the outstanding principal amount was USD 249.14 million (the equivalent of RUB 14,351 as of 31 December 2017 at the exchange rate provided by the Central Bank of Russia) and USD 332.19 million (the equivalent of RUB 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, VEON Amsterdam B.V. completed a term credit facility of USD 500 million (the equivalent of RUB 15,432 as of 28 March 2013 at the exchange rate provided by the Central Bank of Russia). The 8 years credit facility for VEON 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 31 December 2017 and 31 December 2016, the outstanding principal amount was USD 158.81 million (the equivalent of RUB 9,147 as of 31 December 2017 at the exchange rate provided by the Central Bank of Russia) and USD 190.57 million (the equivalent of RUB 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.

25. Events after the reporting period

Federal Antimonopoly Service in Russia

All commercial policies, including roaming prices, are subject to antitrust monitoring and control on an ongoing basis. On 14 July 2017, the Federal Antimonopoly Service in Russia (‘‘FAS’’) issued an injunction requiring all telecom operators to abolish ‘‘intra-network roaming’’ surcharges. The surcharges are applied by operators to subscribers making and receiving calls when travelling outside of their home regions. In March of 2018, the FAS opened an investigation into the intra-network roaming tariffs applied by PJSC “VimpelCom”. PJSC “VimpelCom” is currently engaged in discussions with the FAS regarding compliance with its injunction.

Exit from Euroset Joint Venture

On 22 February 2018, the completion occurred in relation to the transaction to end their Euroset joint venture. For more details refer to Note 12.3.

Loans granted to related parties and loans received from related parties

On 31 January 2018, Golden Telecom Inc. (subsidiary of the PJSC “VimpelCom”) signed a current account agreement with VEON Holdings B.V. for a maximum amount of USD 150 million. The agreement has maturity date of five years and the interest rate amounts to one month LIBOR+0.7%. In February 2018 Golden Telecom Inc. provided USD 141 million to VEON Holdings B.V. (the equivalent of 7,919 RUB as of the dates of transactions at the exchange rate provided by the Central Bank of Russia).

Significant changes in financial assets and liabilities after the reporting period related to the loans granted to related parties and loans received from related parties were also described in Note 23.