Special purpose
unaudited interim condensed
consolidated financial statements

VEON Holdings B.V.
(a wholly-owned subsidiary of
VEON Ltd.)

As of and for the six and three-month periods
ended June 30, 2019

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INTERIM CONDENSED CONSOLIDATED INCOME STATEMENT

for the six and three-month periods ended June 30

		Six-month period		Three-month period	
	Note	2019	2018*	2019	2018*
(In millions of U.S. dollars, except per share amounts)					
Service revenues		4,086	4,295	2,081	2,138
Sale of equipment and accessories		201	161	112	100
Other revenues / other income		99	69	68	36
Total operating revenues	2	**4,386**	**4,525**	**2,261**	**2,274**
Service costs		(760)	(877)	(390)	(438)
Cost of equipment and accessories		(206)	(155)	(116)	(96)
Selling, general and administrative expenses		(1,372)	(1,692)	(689)	(853)
Depreciation		(810)	(690)	(408)	(336)
Amortization		(202)	(250)	(109)	(127)
Impairment (loss) / reversal		(9)	(10)	(3)	(7)
Gain / (loss) on disposal of non-current assets		(14)	(37)	(7)	(20)
Gain / (loss) on disposal of subsidiaries		1	20	1	20
Operating profit		**1,014**	**834**	**540**	**417**
Finance costs		(416)	(413)	(209)	(202)
Finance income		37	27	21	11
Other non-operating losses, net		15	(32)	10	(20)
Net foreign exchange gain / (loss)		(9)	(8)	(21)	(19)
Profit / (loss) before tax		**641**	**408**	**341**	**187**
Income tax expense	3	(262)	(256)	(181)	(136)
Profit / (loss) from continuing operations		**379**	**152**	**160**	**51**
Profit / (loss) after tax from discontinued operations		—	(300)	—	(170)
Profit / (loss) for the period		**379**	**(148)**	**160**	**(119)**
Attributable to:					
The owners of the parent (continuing operations)		339	129	155	52
The owners of the parent (discontinued operations)		—	(300)	—	(170)
Non-controlling interest		40	23	5	(1)
		379	**(148)**	**160**	**(119)**

* *Prior year comparatives are restated following the retrospective recognition of depreciation and amortization charges in respect of Deodar in 2018.*

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

INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

for the six and three-month periods ended June 30

	Note	Six-month period		Three-month period	
		2019	2018*	2019	2018*
(In millions of U.S. dollars)					
Profit / (loss) for the period		**379**	**(148)**	**160**	**(119)**
Items that may be reclassified to profit or loss					
Net movement on cash flow hedges		—	—	—	3
Share of other comprehensive income / (loss) of joint ventures		—	(18)	—	(6)
Foreign currency translation		18	(351)	(34)	(384)
Other comprehensive income / (loss) for the period, net of tax		**18**	**(369)**	**(34)**	**(387)**
Total comprehensive income / (loss) for the period, net of tax		**397**	**(517)**	**126**	**(506)**
Attributable to:					
The owners of the parent		409	(453)	160	(428)
Non-controlling interests		**(12)**	**(64)**	**(34)**	**(78)**
		397	**(517)**	**126**	**(506)**

* *Prior year comparatives are restated following the retrospective recognition of depreciation and amortization charges in respect of Deodar in 2018.*

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INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

as of

(In millions of U.S. dollars)	Note	June 30, 2019	December 31, 2018
Assets			
Non-current assets			
Property and equipment	5	7,176	4,925
Intangible assets	6	1,719	1,841
Goodwill	6	3,971	3,816
Deferred tax assets		139	197
Other assets		153	193
Total non-current assets		**13,158**	**10,972**
Current assets			
Inventories		178	141
Trade and other receivables		756	691
Financial assets	7	1,928	761
Current income tax assets		51	112
Other assets		332	357
Assets held for sale		18	17
Cash and cash equivalents	8	1,305	1,767
Total current assets		**4,568**	**3,846**
Total assets		**17,726**	**14,818**
Equity and liabilities			
Equity			
Equity attributable to equity owners of the parent		4,926	4,180
Non-controlling interests		(1,009)	(891)
Total equity		**3,917**	**3,289**
Non-current liabilities			
Financial liabilities	7	7,761	6,567
Provisions		109	93
Deferred tax liabilities		156	180
Other liabilities		29	37
Total non-current liabilities		**8,055**	**6,877**
Current liabilities			
Trade and other payables		1,975	1,775
Financial liabilities	7	2,290	1,290
Provisions		152	186
Current income tax payables		144	196
Other liabilities		1,187	1,201
Liabilities held for sale		6	4
Total current liabilities		**5,754**	**4,652**
Total equity and liabilities		**17,726**	**14,818**

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

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the six-month period ended June 30, 2019

(In millions of U.S. dollars)	Note	Number of shares outstanding	Attributable to equity owners of the parent: Issued capital	Capital Surplus	Other capital reserves	Accumulated deficit	Foreign currency translation	Total	Non-controlling interests	Total equity
As of December 31, 2018		**30,099,998**	**39**	**13,035**	**256**	**(2,937)**	**(6,213)**	**4,180**	**(891)**	**3,289**
Adjustments arising due to IFRS 16	13	—	—	—	—	(3)	—	(3)	(1)	(4)
As of January 1, 2019		**30,099,998**	**39**	**13,035**	**256**	**(2,940)**	**(6,213)**	**4,177**	**(892)**	**3,285**
Profit / (loss) for the period		—	—	—	—	339	—	339	40	379
Other comprehensive income / (loss)		—	—	—	(2)	(2)	74	70	(52)	18
Total comprehensive income / (loss)		—	—	—	(2)	337	74	409	(12)	397
Dividends declared to non-controlling interest	9	—	—	—	—	—	—	—	(108)	(108)
(Distributions to) and capital contributions from parent		—	—	350	—	—	—	350	—	350
Other		—	—	—	1	(11)	—	(10)	3	(7)
As of June 30, 2019		**30,099,998**	**39**	**13,385**	**255**	**(2,614)**	**(6,139)**	**4,926**	**(1,009)**	**3,917**

for the six-month period ended June 30, 2018

(In millions of U.S. dollars)	Note	Number of shares outstanding	Attributable to equity owners of the parent: Issued capital	Capital Surplus	Other capital reserves	Accumulated deficit	Foreign currency translation	Total	Non-controlling interests	Total equity
As of December 31, 2017 *		**30,099,998**	**39**	**13,553**	**245**	**(3,855)**	**(5,473)**	**4,509**	**(441)**	**4,068**
Adjustments arising due to IFRS 9 and IFRS 15		—	—	—	—	46	—	46	11	57
As of January 1, 2018 *		**30,099,998**	**39**	**13,553**	**245**	**(3,809)**	**(5,473)**	**4,555**	**(430)**	**4,125**
Profit / (loss) for the period *		—	—	—	—	(171)	—	(171)	23	(148)
Other comprehensive income / (loss) *		—	—	—	(19)	(3)	(260)	(282)	(87)	(369)
Total comprehensive income / (loss) *		—	—	—	(19)	(174)	(260)	(453)	(64)	(517)
Dividends declared to non-controlling interest		—	—	—	—	—	—	—	(92)	(92)
(Distributions to) and capital contributions from parent		—	—	(602)	—	—	—	(602)	—	(602)
Other		—	—	—	3	(16)	—	(13)	11	(2)
As of June 30, 2018 *		**30,099,998**	**39**	**12,951**	**229**	**(3,999)**	**(5,733)**	**3,487**	**(575)**	**2,912**

* *Prior year comparatives are restated following the retrospective recognition of depreciation and amortization charges in respect of Deodar in 2018.*

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

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

for the six-month period ended June 30

(In millions of U.S. dollars)	Note	2019	2018*
Operating activities			
Profit / (loss) before tax from continuing operations		641	408
Non-cash adjustments to reconcile profit before tax to net cash flows			
Depreciation, amortization and impairment loss / (reversal)		1,022	950
Gain / (loss) on disposal of non-current assets		14	37
Gain / (loss) on disposal of subsidiaries		(1)	(20)
Finance income		(37)	(27)
Finance costs		416	413
Other non-operating losses		(15)	32
Net foreign exchange gain		9	8
Changes in trade and other receivables and prepayments		(180)	(41)
Changes in inventories		(27)	(120)
Changes in trade and other payables		81	175
Changes in provisions and pensions and others		54	21
Interest paid		(353)	(388)
Interest received		26	26
Income tax paid		(241)	(202)
Net cash flows from operating activities		**1,409**	**1,272**
Investing activities			
Purchase of property, plant and equipment and intangible assets		(823)	(1,169)
Loans granted		(486)	—
Receipts from / (payment on) deposits	4	(662)	1,042
Receipts from / (investment in) financial assets		(16)	36
Other proceeds from investing activities, net		23	9
Net cash flows from / (used in) investing activities		**(1,964)**	**(82)**
Financing activities			
Acquisition of non-controlling interest		(5)	—
Proceeds from borrowings, net of fees paid**	7	1,205	606
Repayment of borrowings		(1,257)	(1,371)
Repayment of lease liabilities (principal element of lease payments)		(167)	—
(Distributions to) / contributions from owners of the parent		350	(602)
Dividends paid to non-controlling interests		(62)	(11)
Net cash flows from / (used in) financing activities		**64**	**(1,378)**
Net (decrease) / increase in cash and cash equivalents		(491)	(188)
Net foreign exchange difference		(6)	(39)
Cash and cash equivalents at beginning of period		1,751	1,253
Cash and cash equivalents at end of period, net of overdrafts* **	**8**	**1,254**	**1,026**

* *Prior year comparatives are restated following the retrospective reversal of reclassification of Deodar assets and liabilities as held for sale and retrospective recognition of depreciation and amortization charges in 2018.*

** *Fees paid for borrowings were US$14 (2018: US$5).*

*** *Overdrawn amount was US$51 (2018: US$150)*

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

Notes to the interim condensed consolidated financial statements

(in millions of U.S. dollars unless otherwise stated)

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

1 GENERAL INFORMATION

VEON Holdings B.V. ("**VEON**", the "**Company**", and together with its consolidated subsidiaries, the "**Group**" or "**we**") was established as a private company with limited liability under the laws of the Netherlands on June 29, 2009. The registered office and principal place of business of VEON is located at Claude Debussylaan 88, 1082 MD Amsterdam, the Netherlands. The Company is an indirectly wholly-owned subsidiary of VEON Ltd.

VEON earns revenues by providing voice and data telecommunication services through a range of mobile and fixed-line technologies. As of June 30, 2019, the Company operated telecommunications services in Russia, Pakistan, Algeria, Bangladesh, Ukraine, Uzbekistan, Kazakhstan, Armenia, Georgia and Kyrgyzstan.

The special purpose consolidated financial statements were authorized by the Directors for issuance on August 1, 2019. The Company has the ability to amend and reissue the consolidated financial statements.

The special purpose consolidated financial statements are presented in United States dollars (**"U.S. dollar"** or **"US $**"). In these notes, U.S. dollar amounts are presented in millions, except for items as otherwise indicated.

In the notes to these interim condensed consolidated financial statements, prior year comparatives are restated following the retrospective reversal of reclassification of Deodar assets and liabilities as held for sale and retrospective recognition of depreciation charges in respect of Deodar assets. In addition, the Italy Joint Venture was classified as a discontinued operation during the 2018, resulting in the reclassification of share of profit / (loss) of the Italy Joint Venture to 'Profit / (loss) after tax from discontinued operations' for the comparative periods (for more details, please refer to Note 10 of the Group's audited annual consolidated financial statements as of and for the year ended December 31, 2018).

Major developments during the six-month period ended **June 30, 2019**

On January 1, 2019, the Company adopted a new accounting standard – IFRS 16 *Leases* – using the modified retrospective approach. This means that the cumulative impact of the adoption was recognized in retained earnings as of January 1, 2019 and comparatives were not restated. For further details please refer to Note 13.

On June 26, 2019, the Egyptian Financial Regulatory Authority ("**FRA**") approved an application submitted by the Company for a mandatory tender offer for any and all of the outstanding shares of Global Telecom Holding S.A.E. which are not owned by VEON. For further details please refer to Note 4.

In February 2019, VEON Ltd. announced a revised arrangement with Ericsson to upgrade its core IT systems in several countries in the coming years. The parties have signed binding terms to vary the existing agreements and as a result, VEON received US$350 during the first half of 2019. For further details please refer to Note 4.

2 SEGMENT INFORMATION

Management analyzes the Company's operating segments separately due to 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 reportable segments.

Management evaluates the performance of the Company's segments on a regular basis, primarily based on earnings before interest, tax, depreciation, amortization, impairment, gain / loss on disposals of non-current assets, other non-operating gains / losses and share of profit / loss of joint ventures and associates (**"Adjusted EBITDA"**) along with assessing the capital expenditures excluding certain costs such as those for telecommunication licenses and right-of-use assets (**"Capital expenditures exc. licenses & ROU"**).

As of January 1, 2019, the Company adopted the new accounting standard IFRS 16 *Leases*. Accordingly, operating lease expenses are no longer recorded in the income statement but are instead considered in recording a lease liability in the statement of financial position. The Company applied a modified retrospective approach, which means that prior period comparatives were not restated. Refer to Note 13 for more details. As a result, Adjusted EBITDA in 2019 is not

Notes to the interim condensed consolidated financial statements

(in millions of U.S. dollars unless otherwise stated)

comparable to Adjusted EBITDA 2018. The impact on Adjusted EBITDA 2019 stemming from IFRS 16 is set out in the table below.

Financial information by reportable segment for the six and three-month periods ended June 30, is presented in the following tables.

	Six-month period ended June 30									
	External customers		Inter-segment		Total revenue		Of which: Mobile		Fixed	
Revenue	2019	2018	2019	2018	2019	2018	2019	2018	2019	2018
Russia	2,160	2,330	12	10	2,172	2,340	1,911	2,039	261	301
Pakistan	690	729	20	2	710	731	709	731	1	—
Algeria	378	400	1	2	379	402	379	402	—	—
Bangladesh	271	260	—	—	271	260	271	260	—	—
Ukraine	383	318	17	11	400	329	372	306	28	23
Uzbekistan	131	155	—	—	131	155	130	154	1	1
All others	373	333	(50)	(25)	323	308	282	264	41	44
Total segments	**4,386**	**4,525**	**—**	**—**	**4,386**	**4,525**	**4,054**	**4,156**	**332**	**369**

	Three-month period ended June 30									
	External customers		Inter-segment		Total revenue		Of which: Mobile		Fixed	
Revenue	2019	2018	2019	2018	2019	2018	2019	2018	2019	2018
Russia	1,118	1,168	6	6	1,124	1,174	992	1,029	132	145
Pakistan	338	362	10	1	348	363	347	363	1	—
Algeria	186	199	1	—	187	199	187	199	—	—
Bangladesh	137	131	—	—	137	131	137	131	—	—
Ukraine	203	167	9	6	212	173	197	161	15	12
Uzbekistan	67	79	—	—	67	79	67	79	—	—
All others	212	168	(26)	(13)	186	155	166	131	20	24
Total segments	**2,261**	**2,274**	**—**	**—**	**2,261**	**2,274**	**2,093**	**2,093**	**168**	**181**

	Six-month period ended June 30				Three-month period ended June 30			
	Adjusted EBITDA		Capital expenditures exc. licenses & ROU		Adjusted EBITDA		Capital expenditures exc. licenses & ROU	
Other disclosures	2019	2018 *	2019	2018	2019	2018 *	2019	2018
Russia	966	884	462	373	498	441	236	215
Pakistan	369	349	118	123	186	174	67	57
Algeria	172	178	48	42	83	87	30	28
Bangladesh	114	91	37	76	54	44	23	21
Ukraine	256	184	67	61	138	95	38	35
Uzbekistan	67	68	39	26	35	34	14	17
Others	104	47	67	56	72	12	41	29
Total segments	**2,048**	**1,801**	**838**	**757**	**1,066**	**887**	**449**	**402**

** Impact from IFRS 16 is not included in the 2018 comparative numbers following a modified retrospective approach.*

Notes to the interim condensed consolidated financial statements

(in millions of U.S. dollars unless otherwise stated)

The following table provides the reconciliation of consolidated Adjusted EBITDA to Profit / (loss) before tax for the six and three-month periods ended June 30:

	Six-month period		Three-month period	
	2019	2018	2019	2018
Total Segments Adjusted EBITDA	**2,048**	**1,801**	**1,066**	**887**
Depreciation	(810)	(690)	(408)	(336)
Amortization	(202)	(250)	(109)	(127)
Impairment (loss) / reversal	(9)	(10)	(3)	(7)
Gain / (loss) on disposal of non-current assets	(14)	(37)	(7)	(20)
Gain / (loss) on disposal of subsidiaries	1	20	1	20
Finance costs	(416)	(413)	(209)	(202)
Finance income	37	27	21	11
Other non-operating losses, net	15	(32)	10	(20)
Net foreign exchange gain / (loss)	(9)	(8)	(21)	(19)
Profit / (loss) before tax	**641**	**408**	**341**	**187**

The following table provides the details that the adoption of IFRS 16 had on Adjusted EBITDA for the six and three-month periods ended June 30 for each operating segment:

	Six-month period June 30, 2019			Three-month period June 30, 2019		
	Adjusted EBITDA pre-IFRS 16	Impact of IFRS 16	Adjusted EBITDA post-IFRS 16	Adjusted EBITDA pre-IFRS 16	Impact of IFRS 16	Adjusted EBITDA post-IFRS 16
Russia	799	167	966	413	85	498
Pakistan	345	24	369	175	11	186
Algeria	155	17	172	74	9	83
Bangladesh	94	20	114	44	10	54
Ukraine	245	11	256	132	6	138
Uzbekistan	64	3	67	33	2	35
Others	96	8	104	71	1	72
Total segments	**1,798**	**250**	**2,048**	**942**	**124**	**1,066**

3 INCOME TAXES

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

Income tax expense consisted of the following for the six and three-month periods ended June 30:

	Six-month period		Three-month period	
	2019	2018	2019	2018
Current income taxes	252	302	163	167
Deferred income taxes	10	(46)	18	(31)
Income tax expense	**262**	**256**	**181**	**136**
Effective tax rate*	40.9%	62.7%	53.1%	72.7%

** Effective tax rate for prior year comparatives has been recalculated based on restated profit / (loss) before tax, arising from the retrospective recognition of depreciation and amortization charges in respect of Deodar in 2018.*

The difference between the statutory tax rate in the Netherlands (25.0)% and the effective corporate income tax rate for the Group in the six and three-month periods ending June 30, 2019 (40.9% and 53.1%, respectively) was primarily driven by profitability in countries with a higher nominal rate and income tax losses, primarily within holding entities in the Netherlands, for which no deferred tax-asset has been recognized.

The difference between the statutory tax rate in the Netherlands (25.0)% and the effective corporate income tax rate for the Group in the six and three-month periods ending June 30, 2018 (62.7% and 72.7%, respectively) was primarily driven by profitability in countries with a higher nominal rate and income tax losses, primarily within holding entities in the Netherlands, for which no deferred tax-asset has been recognized.

4 SIGNIFICANT TRANSACTIONS

Mandatory tender offer application in relation to GTH

On February 10, 2019, VEON submitted an application to the Egyptian Financial Regulatory Authority (the **"FRA"**) to approve a mandatory tender offer by the Company for any and all of the outstanding shares of GTH which are not owned by VEON (up to 1,997,639,608 shares, representing approximately 42.31% of GTH's issued shares) (the **"MTO"**). On June 26, 2019, the FRA approved the MTO at an adjusted offer price of EGP 5.08 per share. The MTO commenced on July 2, 2019, and is expected to end on August 6, 2019. No liability was established as of June 30, 2019. The MTO will be funded by cash on hand and/or the utilization of undrawn credit facilities. Any increase of the Company's interest in GTH will be accounted for directly in equity upon closing of the transaction. Following the original submission of the MTO application on February 10, 2019, the Company deposited US $645, which is recorded as a current financial asset on the statement of financial position and represents a cash outflow from investing activities in the statement of cash flows. To further simplify the VEON Group's corporate structure, following a successful completion of the MTO and the requisite shareholder approval, it is anticipated that GTH will be delisted from the Egyptian Exchange (the "EGX"). Furthermore, VEON submitted an offer to GTH to acquire substantially all of its operating assets, subject to successful completion of the MTO and delisting. The asset transfers will be conducted at the imputed MTO valuation.

Settlement of GTH Taxes

On June 26, 2019, GTH reached agreement with the Egyptian Tax Authority (**"ETA"**) to settle all outstanding tax liabilities of GTH and its Egyptian subsidiaries for a total amount of US$136 (the **"GTH Tax Settlement"**). The GTH Tax Settlement is in respect of tax liabilities of GTH and its Egyptian subsidiaries for the tax years 2000 through 2018. From June 26, 2019, following the first settlement payment of US$54 by GTH to the ETA, GTH is released in relation to tax years from 2006 through 2007 and 2010 through 2018. In respect of the years 2000 through 2005 and 2008 through 2009 for GTH and all years up to and including 2018 for GTH's Egyptian subsidiaries, the tax releases are expected to take effect immediately on the payment of the second settlement of US$82 by no later than December 31, 2019, at which time GTH is expected to delist from EGX. The respective liabilities to tax authorities have been increased by US$55.

Revised technology infrastructure partnership with Ericsson

On February 25, 2019, VEON Ltd. announced a revised arrangement with Ericsson to upgrade its core IT systems in several countries in the coming years and to release Ericsson from the development and delivery of the Full Stack Revenue Manager Solution. This revised arrangement enables VEON to continue upgrading IT infrastructure with new digital business support systems (DBSS) using existing software from Ericsson which is already deployed in certain operating companies within VEON. The parties signed binding terms to vary the existing agreements and as a result VEON received US$350 during the first half of 2019. The settlement amount was recorded in the income statement within 'Other operating gains / (losses)'.

Termination of joint operation in Kazakhstan

In April 2019, the Group received a settlement amount of US$38 from Kcell Joint Stock Company ("Kcell"), related to the termination of the network sharing agreement between Kcell and our subsidiary in Kazakhstan.

Notes to the interim condensed consolidated financial statements

(in millions of U.S. dollars unless otherwise stated)

5 PROPERTY AND EQUIPMENT

The movement in property and equipment for the six and three-month periods ended June 30 included the following:

	Six-month period		Three-month period	
	2019	2018	2019	2018
Right-of-use assets upon adoption of IFRS 16 (Note 13)	2,003	—	—	—
Cost of acquired right-of-use assets	153	—	97	—
Cost of other acquired assets (excluding right-of-use assets)	746	647	408	314
Net book value of assets disposed	29	44	10	24

Right-of-use assets arising from lease contract primarily relate to land for network sites, network infrastructure and equipment and buildings.

6 INTANGIBLE ASSETS

There were no material changes to intangible assets during the six and three-month periods ended June 30.

The ex-Warid license renewal was due in May 2019. Pursuant to directions from the Islamabad High Court, the Pakistan Telecommunication Authority ("**PTA**") issued a license renewal decision on July 22, 2019 requiring payment of US$40 per MHz for 900 MHz spectrum and US$30 per MHz for 1800 MHz spectrum, equating to an aggregate price of approximately US$450 (excluding applicable taxes of approximately 13%). The PTA's decision can be appealed to the Islamabad High Court before August 21, 2019.

GOODWILL

The movement in goodwill for the Group, per cash generating unit (**"CGU"**), consisted of the following for the six-month period ended June 30, 2019:

CGU	June 30, 2019	Currency translation	December 31, 2018
Russia	2,222	204	2,018
Algeria	1,172	(4)	1,176
Pakistan	325	(46)	371
Kazakhstan	155	2	153
Kyrgyzstan	54	—	54
Uzbekistan	43	(1)	44
Total	**3,971**	**155**	**3,816**

Goodwill is tested for impairment annually (at October 1) or when circumstances indicate the carrying value may be impaired. The Company's impairment test for goodwill is primarily based on fair value less cost of disposal calculations that use a discounted cash flow model. The key assumptions used to determine the recoverable amount for the different CGU's were disclosed in the annual consolidated financial statements as of and for the year ended December 31, 2018.

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

There was no goodwill impairment recorded in the first half of 2019 (2018: nil).

Notes to the interim condensed consolidated financial statements

(in millions of U.S. dollars unless otherwise stated)

7 FINANCIAL ASSETS AND LIABILITIES

	June 30, 2019	December 31, 2018
Financial assets		
Financial assets at fair value		
Derivatives not designated as hedges	8	14
Derivatives designated as net investment hedges	—	45
Investments in debt instruments *	45	36
Other	—	3
	53	**98**
Financial assets at amortized cost		
Loans granted to the parent and its subsidiaries	1,173	673
Cash pledged as collateral (see Note 4)	668	31
Other investments	42	17
	1,883	**721**
Total financial assets	**1,936**	**819**
Non-current	8	58
Current	1,928	761

** Investments in debt instruments relate primarily to government bonds and are measured at fair value through other comprehensive income (with recycling).*

	June 30, 2019	December 31, 2018
Financial Liabilities		
Financial liabilities at fair value		
Derivatives not designated as hedges	52	65
Derivatives designated as net investment hedges	92	—
Contingent consideration	33	40
Other	—	3
	177	**108**
Financial liabilities at amortized cost		
Bank loans and bonds - principal	7,413	7,297
Bank loans and bonds - accrued interest and unamortized fees	60	69
Lease liabilities	2,077	—
Put-option liability over non-controlling interest	271	306
Other financial liabilities	53	77
	9,874	**7,749**
Total financial liabilities	**10,051**	**7,857**
Non-current	7,761	6,567
Current	2,290	1,290

Significant changes in financial assets and financial liabilities

There were no significant changes in financial assets and liabilities in the six-month period ended June 30, 2019, the scheduled repayments of debt, adoption of IFRS 16 *Leases*, or as described below. Furthermore, there were no changes in risks and risk management policies as disclosed in the Group's annual consolidated financial statements as of and for the year ended December 31, 2018.

Cash pledged as collateral

During the six months ended June 30, 2019, following the original submission of the MTO application on February 10, 2019, the Company deposited a collateral of US$668, which is recorded as a financial asset. See Note 4 for further details.

Banglalink Digital Communications Limited new syndicated term facility agreement

On April 25, 2019, the Company announced that its subsidiary, Banglalink Digital Communications Limited (**"Banglalink"**), entered into a new US$300 syndicated term facility agreement with several international banks. The facility is guaranteed by VEON Holdings B.V. for nil consideration. The facility has a tenor of 12 months with extension options for another 24 months upon agreement with the lenders, and was used to refinance the principal amount of Banglalink's US$300 bond that matured on May 6, 2019.

New term facility agreement

On June 26, 2019, the Company entered into a new US$600 short-term credit facility agreement with an international bank, which was not utilized as of June 30, 2019.

Pakistan Mobile Communications Limited new bilateral term facility

On June 19, 2019, Pakistan Mobile Communications Limited ("**PMCL**") entered into a bilateral secured PKR 14,369 million term facility with a local bank. The facility has a tenor of 7 years and bears interest at 6-month KIBOR increased by a margin of 0.75% per annum. The security is on comparable terms to PMCL's existing debt.

Pakistan Mobile Communications Limited new syndicated term facility and Islamic facility

In June 2019, PMCL entered into a secured syndicated term facility and an Islamic financing facility for a joint amount of up to PKR 45,000 million and a period of up to 7 years. The cost of both facilities corresponds to 6-month KIBOR increased by a margin of 0.75% per annum. The security is on comparable terms to PMCL's existing debt.

Fair values

The carrying amounts of all financial assets and liabilities are equal to or approximate their respective fair values as shown in the table above, with the exception of:

- 'Bank loans and bonds, including interest accrued', for which fair value is equal to US$7,701 at June 30, 2019 (December 31, 2018: US$7,430); and
- 'Lease liabilities', for which fair value has not been determined.

Fair values were estimated based on quoted market prices (for bonds), derived from market prices or by discounting contractual cash flows at the rate applicable for the instruments with similar maturity and risk profile.

As of June 30, 2019 and December 31, 2018, the Group recognized financial instruments at fair value in the statement of financial position, all of which were measured based on Level 2 inputs, except for Contingent consideration, for which fair value is classified as Level 3. Observable inputs (Level 2) used in valuation techniques include inter-bank interest rates, bond yields, swap curves, basis swap spreads, foreign exchange rates and credit default spreads. During the six-month period ended June 30, 2019, there were no transfers between Level 1, Level 2 and Level 3 fair value measurements.

A reconciliation of movements relating to Contingent consideration is shown below:

Notes to the interim condensed consolidated financial statements

(in millions of U.S. dollars unless otherwise stated)

Level 3 fair value movements	Contingent consideration
As of December 31, 2018	**40**
Fair value changes recognized in the income statement	(7)
As of June 30, 2019	**33**

All impairment losses and changes in fair values of financial instruments are unrealized and are recorded in “Other non-operating losses” in the consolidated income statement.

8 CASH AND CASH EQUIVALENTS

Cash and cash equivalents consisted of the following items:

	June 30, 2019	December 31, 2018
Cash at banks and on hand	733	714
Short-term deposits with original maturity of less than three months	572	1,053
Cash and cash equivalents	**1,305**	**1,767**
Less overdrafts	(51)	(16)
Cash and cash equivalents, net of overdrafts (as presented in the consolidated statement of cash flows)	**1,254**	**1,751**

As of June 30, 2019 and December 31, 2018, there were no restricted cash and cash equivalent balances. Cash balances as of June 30, 2019 include investments in money market funds of US$87 (December 31, 2018: US$349).

As of June 30, 2019, some bank accounts forming part of a cash pooling program and being an integral part of the Company’s cash management remained overdrawn by US$51 (2018: US$16). Even though the total balance of the cash pool remained positive, the Company has no legally enforceable right of set-off and therefore the overdrawn accounts are presented as financial liabilities within the statement of financial position. At the same time, because the overdrawn accounts are an integral part of the Company’s cash management, they were included as cash and cash equivalents within the statement of cash flows.

9 DIVIDENDS PAID AND PROPOSED

During the six-month period ended June 30, 2019, the Company’s subsidiaries in Russia, Algeria and Kazakhstan declared dividends for which a total amount of US$108 was payable to non-controlling interests.

There were no dividends or capital distributions to the Company’s parent during the six-month period ended June 30, 2019 (2018: US$602).

10 RELATED PARTIES

The Company is indirectly wholly-owned subsidiary of VEON Ltd., which in turn has one major shareholder, LetterOne Holding S.A. (**“LetterOne”**).

The following table provides the total amount of transactions that have been entered into with related parties and their affiliates for the six-months periods ended June 30:

Notes to the interim condensed consolidated financial statements

(in millions of U.S. dollars unless otherwise stated)

	Note	Six-month period		Three-month period	
		2019	2018	2019	2018
Revenue from					
VEON Wholesale Services B.V.		46	15	23	10
Others		—	1	(1)	1
		46	**16**	22	11
Services from					
VEON Wholesale Services B.V.		35	41	18	27
VEON Ltd.		9	33	(8)	16
		44	74	10	43

The following table provides the total balance of accounts with related parties and their affiliates at the end of the relevant period:

	Note	June 30, 2019	December 31, 2018
Accounts receivable due from			
VEON Ltd.		92	95
Others		31	32
Financial asset receivable, including interest accrued, from			
VEON Amsterdam B.V.		1,015	523
VC ESOP N.V.		153	150
		1,291	800
Accounts payable to related parties			
VEON Ltd.		426	380
Others		39	38
Financial liabilities to related parties		—	3
		465	421

COMPENSATION OF KEY MANAGEMENT PERSONNEL OF THE COMPANY

Value growth cash-based long-term incentive plans

The carrying value of obligations under the Value-growth cash based long-term incentive plan (the **"LTI Plan"**) as of June 30, 2019 and December 31, 2018, respectively, was equal to US$17 and US$19. Included within 'Selling, general and administrative expenses' for the six and three-month periods ended June 30, 2019, respectively, is an expense of US$2 (2018: expense of US$17) and a gain of US$1 (2018: gain of US$2) relating to share-based payment expense under the LTI Plan.

11 RISKS, COMMITMENTS, CONTINGENCIES AND UNCERTAINTIES

Other than disclosed elsewhere in these interim condensed consolidated financial statements, there were no material risks, commitments, contingencies and uncertainties that occurred during the six-month period ended June 30, 2019, and there were no material changes during the same period to the risks, commitments, contingencies and uncertainties as disclosed in the Note 8 and Note 9 in the Group's annual consolidated financial statements as of and for the year ended December 31, 2018.

As a result of the adoption of IFRS 16 all lease commitments were included into lease liabilities recognized in the interim condensed consolidated statement of financial position as of January 1, 2019. For reconciliation of the Company's operating lease commitments as of December 31, 2018, to the lease liabilities recognized on January 1, 2019 please refer to Note 13.

12 EVENTS AFTER THE REPORTING PERIOD

There were no subsequent events.

13 BASIS OF PREPARATION OF THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

BASIS OF PREPARATION

The interim condensed consolidated financial statements for the six and three-month periods ended June 30, 2019 have been prepared in accordance with IAS 34 *Interim Financial Reporting*.

The interim condensed consolidated financial statements do not include all the information and disclosures required in the annual consolidated financial statements and should be read in conjunction with the Group's audited annual consolidated financial statements as of and for the year ended December 31, 2018.

The preparation of these interim condensed consolidated financial statements has required management to apply accounting policies and methodologies based on complex and subjective judgments, estimates based on past experience and assumptions determined to be reasonable and realistic based on the related circumstances. The use of these judgments, estimates and assumptions affects the amounts reported in the statement of financial position, income statement, statement of cash flows, statement of changes in equity, 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.

NEW STANDARDS, INTERPRETATIONS AND AMENDMENTS ADOPTED BY THE GROUP

The accounting policies adopted in the preparation of the interim condensed consolidated financial statements are consistent with those followed in the preparation of the Group's annual consolidated financial statements as of and for the year ended December 31, 2018.

A number of new and amended standards became effective as of January 1, 2019, the impact of which is described below. The Group has not early adopted any other standards, interpretations or amendments that have been issued but have not yet become effective.

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 assessed the impact of IFRIC 23, which was not material to the financial statements of the Group upon adoption in 2019.

IFRS 16 'Leases'

IFRS 16 replaced IAS 17 *Leases*, the former lease accounting standard and became effective on January 1, 2019. Under the new lease standard, assets leased by the Company are being recognized on the statement of financial position of the Company with a corresponding liability.

In 2018, the Group has performed a detailed impact assessment of IFRS 16 and the impact on its adoption was as follows:

Notes to the interim condensed consolidated financial statements

(in millions of U.S. dollars unless otherwise stated)

	December 31, 2018	Impact of IFRS 16	January 1, 2019
Assets			
Non-current assets			
Property and equipment			
Property and equipment	4,925	(71)	4,854
Right-of-use assets	—	2,003	2,003
Intangible assets	1,841	(15)	1,826
Goodwill	3,816	—	3,816
Deferred tax assets	197	—	197
Other financial assets	193	(1)	192
Total non-current assets	**10,972**	**1,916**	**12,888**
Current assets			
Trade and other receivables	691	—	691
Other current assets	3,138	(61)	3,077
Total current assets	**3,829**	**(61)**	**3,768**
Assets classified as held for sale	17	4	21
Total assets	**14,818**	**1,859**	**16,677**
Equity			
Equity attributable to equity owners of the parent	4,180	(3)	4,177
Non-controlling interests	(891)	(1)	(892)
Total equity	**3,289**	**(4)**	**3,285**
Non-current liabilities			
Financial liabilities	6,567	(45)	6,522
Provisions	93	—	93
Lease liabilities	—	1,617	1,617
Deferred tax liabilities	180	—	180
Other liabilities	37	(9)	28
Total non-current liabilities	**6,877**	**1,563**	**8,440**
Current liabilities			
Trade and other payables	1,775	(53)	1,722
Other financial liabilities	1,290	(6)	1,284
Lease liabilities	—	361	361
Provisions	350	(3)	347
Other liabilities	1,233	(3)	1,230
	4,648	**296**	**4,944**
Liabilities associated with assets held for sale	4	4	8
Total equity and liabilities	**14,818**	**1,859**	**16,677**

The Company, as a lessee, recognizes a right-of-use asset and a lease liability on the lease commencement date.

Upon initial recognition, the right-of-use asset is measured as the amount equal to the initially measured lease liability adjusted for lease prepayments, initial direct cost, lease incentives and the discounted estimated asset retirement obligation. Subsequently, the right-of-use asset is measured at cost net of any accumulated depreciation and accumulated impairment losses. Depreciation is calculated on a straight-line basis over the shorter estimated useful lives of the right-of-use assets or the lease term.

The lease liability was measured upon initial recognition at the present value of the future lease and related fixed services payments over the lease term, discounted with the country specific incremental borrowing rate. Generally, the Company uses its incremental borrowing rate as the discount rate. Subsequently lease liabilities are measured at amortized cost using the effective interest rate method.

Right-of-use assets and lease liabilities will be remeasured subsequently if one of the following events occurs:

- Change in lease price due to indexation or rate which has become effective in reporting period
- Modifications to the lease contract
- Reassessment of the lease term

Leases of non-core assets and not related to the main operating activities of the Group, which are short-term in nature (less than 12 months including extension options) and leases of low-value items are expensed in the income statement as incurred.

Transition

The Company adopted IFRS 16 on the date the standard became effective, January 1, 2019. The Group adopted the standard using the modified retrospective approach. This means that the cumulative impact of the adoption was recognized in retained earnings as of January 1, 2019 and that comparatives were not restated.

The Group used the following practical expedients when adopting IFRS 16 on its effective date:

- IFRS 16 applied only to contracts that were previously assessed as leases in accordance with the previous IFRS standards (IAS 17 *Leases* and IFRIC 4 *Determining whether and Arrangement contains a Lease*);
- a single discount rate applied to a portfolio of leases with reasonably similar characteristics as permitted by IFRS 16;
- initial direct cost was excluded from the measurement of the right-of-use asset as at January 1, 2019;
- the Group's onerous contract provision process used as the impairment assessment of right-of-use assets upon transition.

The weighted-average incremental rate applied to lease liabilities recognized on January 1, 2019 was 9.62%.

Carrying values of property and equipment and financial liabilities related to finance leases as of December 31, 2018 were reclassified to right-of-use assets and lease liabilities, respectively on January 1, 2019. These carrying values related to finance leases were not remeasured at the transition date.

Significant judgements upon adoption IFRS 16

IFRS 16 requires the Company to assess the lease term as the non-cancelable lease term in line with the lease contract together with the period for which the Company has extension options which the Company is reasonably certain to exercise and the periods for which the Company has termination options for which the Company is not reasonably certain to exercise those termination options.

Notes to the interim condensed consolidated financial statements

(in millions of U.S. dollars unless otherwise stated)

A significant portion of the lease contracts included within Company's lease portfolio includes lease contracts which are extendable through mutual agreement between VEON and the lessor or lease contracts which are cancelable by the Company on immediately or on short notice. In assessing the lease term for the adoption of IFRS 16, the Company concluded that these cancelable future lease periods should be included within the lease term, which represents an increase to the future lease payments used in determining the lease liability upon initial recognition. The reasonably certain period used to determine the lease term is based on facts and circumstances related to the underlying leased asset and lease contracts.

The following table reconciles the Company's operating lease commitments as of December 31, 2018, to the lease liabilities recognized upon initial application of IFRS 16 on January 1, 2019.

	US$
Operating lease commitments as of December 31, 2018	608
Increase in lease commitments of cancelable leases included in reasonably certain lease term	1,846
Use of IFRS 16 practical expedients (old lease accounting continues for exceptions)	(4)
Leases commencing subsequent to transition date committed to as of December 31, 2018	(47)
Accruals included in the lease liability calculation	59
Other	22
Total undiscounted lease payments which are reasonably certain	**2,484**
Discounting effect using incremental borrowing rate	(556)
IAS 17 finance lease liabilities recognized on balance sheet as of December 31, 2018 (discounted)	54
IFRS 16 Lease liability recognized on balance sheet as of January 1, 2019	**1,982**
IFRS 16 lease liability presented as:	
Non-current	1,617
Current	361
Liabilities associated with assets held for sale	4
	1,982

Amsterdam, August 1, 2019

VEON Holdings B.V.