Consolidated financial statements

Public Joint Stock Company "Vimpel-Communications"

(a wholly-owned subsidiary of VimpelCom Ltd.)

as of 31 December 2015 and
for the year ended 31 December 2015

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Contents

Independent Auditor's Report

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

We have audited the accompanying consolidated financial statements of Public Joint Stock Company Vimpel-Communications (a wholly-owned subsidiary of VimpelCom Ltd.) and its subsidiaries (hereinafter collectively referred to as **"VimpelCom"**), which comprise the consolidated statement of financial position as of 31 December 2015 and the consolidated statements of income, comprehensive income, changes in equity and cash flows for 2015, and notes comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, 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.

Auditor's Responsibility

Our responsibility is to express an opinion on the fair presentation of these consolidated financial statements based on our audit. We conducted our audit in accordance with Russian Federal Auditing Standards and International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements 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 the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to express an opinion on the fair presentation of these consolidated financial statements.

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Independent Auditor's Report (Continued)

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of VimpelCom as of 31 December 2015, and its financial performance and its cash flows for 2015 in accordance with International Financial Reporting Standards.

AO PricewaterhouseCoopers Audit

31 March 2016
Moscow, Russian Federation

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

Audited entity: Public Joint Stock Company Vimpel-Communications

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

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

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

Independent auditor: AO PricewaterhouseCoopers Audit

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

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

Certificate of membership in self regulated organisation non-profit partnership "Audit Chamber of Russia" No. 870. ORNZ 10201003683 in the register of auditors and audit organizations

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

Consolidated income statement
for the year ended 31 December 2015

	Note	Years ended 31 December 2015	2014
		(All amounts in millions of Rubles unless otherwise stated)	
Service revenue		**363,322**	346,155
Sale of equipment and accessories		**10,749**	8,133
Other revenue		**1,167**	762
Total operating revenue	7	**375,238**	355,050
Operating expenses			
Service costs		**(100,749)**	(96,821)
Cost of equipment and accessories		**(12,933)**	(9,189)
Selling, general and administrative expenses	8	**(116,039)**	(106,572)
Depreciation	13	**(58,781)**	(50,699)
Amortization	14	**(9,892)**	(6,939)
Impairment loss	9, 13, 14	**(4,698)**	(3,329)
Loss on disposal of non-current assets		**(1,809)**	(1,796)
Total operating expenses		**(304,901)**	(275,345)
Operating profit		**70,337**	79,705
Finance costs		**(26,805)**	(29,104)
Finance income		**2,391**	13,930
Net foreign exchange loss		**(18,236)**	(21,486)
Other non-operating (losses) / gains, net	10	**(3,063)**	4,473
Share of gain / (loss) of joint ventures and associates accounted for using the equity method	12	**1,173**	(518)
Profit before tax		**25,797**	47,000
Income tax expense	11	**(4,358)**	(9,742)
Profit for the year		**21,439**	37,258
Profit attributable to:			
Owners of the Company		**19,260**	36,185
Non-controlling interests	12	**2,179**	1,073
		21,439	37,258

Consolidated statement of comprehensive income for the year ended 31 December 2015

	Years ended 31 December	
	2015	**2014**
	(All amounts in millions of Rubles unless otherwise stated)	
Profit for the year	**21,439**	37,258
Other comprehensive income to be reclassified to profit or loss in subsequent periods:		
Cash flow hedge reserve	**(640)**	654
Income tax effect	**–**	–
Net loss arising on revaluation of available-for-sale financial assets at fair value through other comprehensive income	**(491)**	(932)
Income tax effect	**–**	–
Exchange differences arising on net investment in foreign operations	**20,319**	41,128
Income tax effect	**(1,556)**	(2,975)
Other comprehensive income for the year, net of tax	**17,632**	37,875
Total comprehensive income for the year, net of tax	**39,071**	75,133
Attributable to:		
Owners of the Company	**40,794**	67,338
Non-controlling interests	**(1,723)**	7,795
	39,071	75,133

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

Consolidated statement of financial position
as of 31 December 2015

	Note	31 December 2015	31 December 2014
		(All amounts in millions of Rubles unless otherwise stated)	
Assets			
Non-current assets			
Property and equipment	13	**265,899**	274,549
Intangible assets	14	**35,976**	29,299
Goodwill	9	**113,369**	113,557
Investments in joint ventures and associates	12	**14,519**	13,346
Deferred income tax assets	11	**2,225**	923
Other financial assets	15	**99,388**	248,934
Other non-current non-financial assets	16	**436**	910
Total non-current assets		**531,812**	681,518
Current assets			
Inventories	17	**6,266**	3,627
Trade and other receivables	18	**27,980**	29,097
Other current non-financial assets	16	**8,025**	8,623
Current income tax assets	11	**5,713**	3,264
Other current financial assets	15	**29,108**	15,888
Cash and cash equivalents	19	**63,385**	87,197
Total current assets		**140,477**	147,696
Assets classified as held for sale		**178**	308
Total assets		**672,467**	829,522
Equity and liabilities			
Equity			
Equity attributable to equity owners of the Company	20	**266,329**	224,666
Non-controlling interests	12	**14,059**	8,074
Total equity		**280,388**	232,740
Non-current liabilities			
Financial liabilities	15	**199,657**	378,592
Provisions	22	**3,600**	5,394
Other non-current non-financial liabilities	16	**804**	880
Deferred income tax liabilities	11	**19,096**	22,971
Total non-current liabilities		**223,157**	407,837
Current liabilities			
Trade and other payables		**58,684**	61,146
Dividends payable	21	**8**	7
Other current non-financial liabilities	16	**25,191**	25,668
Other financial liabilities	15	**82,180**	97,686
Current income tax payables	11	**258**	172
Provisions	22	**2,601**	4,266
Total current liabilities		**168,922**	188,945
Total equity and liabilities		**672,467**	829,522

Public Joint Stock Company "Vimpel-Communications"
(a wholly-owned subsidiary of VimpelCom Ltd.)

Consolidated statement of changes in equity for the year ended 31 December 2015

	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
		Attributable to the owners of the Company									
		(All amounts in millions of Rubles unless otherwise stated)									
As of 1 January 2015		**3**	**40,234**	**22,997**	**142,745**	**18,027**	**660**	**–**	**224,666**	**8,074**	**232,740**
Profit for the year		–	–	–	19,260	–	–	–	**19,260**	2,179	**21,439**
Other comprehensive income		–	–	–	–	22,665	(640)	(491)	**21,534**	(3,902)	**17,632**
Total comprehensive income		**–**	**–**	**–**	**19,260**	**22,665**	**(640)**	**(491)**	**40,794**	**(1,723)**	**39,071**
Dividends declared	21	–	–	–	–	–	–	–	**–**	(7,609)	**(7,609)**
Effect of options over non-controlling interests in subsidiaries		–	–	(697)	–	–	–	–	**(697)**	15,294	**14,597**
Acquisition of non-controlling interest		–	–	(218)	–	–	–	–	**(218)**	23	**(195)**
Transactions under common control	6	–	–	2,326	–	(542)	–	–	**1,784**	–	**1,784**
As of 31 December 2015		**3**	**40,234**	**24,408**	**162,005**	**40,150**	**20**	**(491)**	**266,329**	**14,059**	**280,388**

Consolidated statement of changes in equity for the year ended 31 December 2014

	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
		Attributable to the owners of the Company									
		(All amounts in millions of Rubles unless otherwise stated)									
As of 1 January 2014		**3**	**40,234**	**20,188**	**106,399**	**(9,158)**	**6**	**932**	**158,604**	**6,578**	**165,182**
Profit for the year		–	–	–	36,185	–	–	–	**36,185**	1,073	**37,258**
Other comprehensive income		–	–	–	–	31,431	654	(932)	**31,153**	6,722	**37,875**
Total comprehensive income		**–**	**–**	**–**	**36,185**	**31,431**	**654**	**(932)**	**67,338**	**7,795**	**75,133**
Dividends declared		–	–	–	121	–	–	–	**121**	(980)	**(859)**
Effect of options over non-controlling interests in subsidiaries		–	–	1,501	–	(3,894)	–	–	**(2,393)**	(5,512)	**(7,905)**
Share-based payment transactions		–	–	(37)	40	–	–	–	**3**	–	**3**
Acquisition of non-controlling interest		–	–	–	–	–	–	–	–	193	**193**
Transactions under common control		–	–	1,345	–	(352)	–	–	**993**	–	**993**
As of 31 December 2014		**3**	**40,234**	**22,997**	**142,745**	**18,027**	**660**	**–**	**224,666**	**8,074**	**232,740**

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

Consolidated statement of cash flows for the year ended 31 December 2015

	Note	Years ended 31 December 2015	2014
		(All amounts in millions of Rubles unless otherwise stated)	
Operating activities			
Profit for the year		**21,439**	37,258
Income tax expense	11	**4,358**	9,742
Profit before tax		**25,797**	47,000
Non-cash adjustments to reconcile profit before tax to net cash flows from operating activities:			
Depreciation	13	**58,781**	50,699
Impairment loss	9	**4,698**	3,329
Amortization	14	**9,892**	6,939
Loss on disposal of non-current assets		**1,809**	1,796
Finance income		**(2,391)**	(13,930)
Finance costs		**26,805**	29,104
Other non-operating losses / (gains), net	10	**3,063**	(4,473)
Net foreign exchange loss		**18,236**	21,486
Share of (gain) / loss of joint ventures and associates accounted for using the equity method	12	**(1,173)**	518
Movements in provisions		**1,009**	803
Operating cash flows before working capital adjustments, interest and income taxes		**146,526**	143,271
Working capital adjustments			
Change in trade and other receivables		**(7,337)**	(4,933)
Change in inventories		**(2,835)**	959
Change in trade and other payables		**3,404**	4,481
Interest and income taxes			
Interest paid		**(25,971)**	(28,958)
Interest received		**9,906**	1,138
Income tax paid		**(14,883)**	(10,318)
Net cash flows from operating activities		**108,810**	105,640
Investing activities			
Proceeds from sale of property, equipment and intangible assets		**647**	649
Purchase of property, equipment and intangible assets		**(69,659)**	(81,151)
Issue of loans	23	**(104,400)**	(7,302)
Repayment of loans issued	23	**311,166**	7,530
(Outflows) / inflows from deposits, net		**(18,303)**	4,447
Proceeds from sale of available-for-sale financial assets		**4,725**	2,157
Disposal of subsidiaries, net of cash disposed	6	**(373)**	(175)
Acquisition of subsidiaries, net of cash acquired		**(823)**	–
Receipt of dividends		**15**	4
Net cash flows from / (used in) investing activities		**122,995**	(73,841)
Financing activities			
Acquisition of non-controlling interest		**(241)**	–
Proceeds from borrowings, net of fees paid	15	**43,403**	55,750
Repayment of borrowings	15	**(300,513)**	(42,393)
Dividends paid to equity holders		**–**	(15,093)
Dividends paid to non-controlling interests	21	**(7,624)**	(909)
Net cash flows used in financing activities		**(264,975)**	(2,645)
Net (decrease) / increase in cash and cash equivalents		**(33,170)**	29,154
Effect of exchange rate changes on cash and cash equivalents, net		**9,358**	25,387
Cash and cash equivalents at the beginning of the year		**87,197**	32,656
Cash and cash equivalents at the end of the year		**63,385**	87,197

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 (“RUR”). In these notes, Russian Ruble amounts are presented in millions unless otherwise indicated.

VimpelCom earns revenue by providing voice, data and other telecommunication services through a range of wireless, fixed and broadband internet services, as well as selling equipment and accessories.

As of 31 December 2015, 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 2015 and for the year ended 31 December 2015 were authorized for issue by the General Director on 31 March 2016.

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 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.

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 statement of financial position, consolidated income statement, consolidated statements of comprehensive income, 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.

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

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.

Inter-company transactions, balances and unrealised 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.

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.

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.

If the Company loses control over a subsidiary, it derecognizes the related subsidiary’s assets (including goodwill), liabilities, non-controlling interest and other components of equity.

3. Significant accounting policies

New accounting pronouncements 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:

IFRS 15, “*Revenue from contracts with customers”*. The standard replaces IAS 18 “*Revenue”* and IAS 11 “*Construction contracts”* and related interpretations. The standard is issued on 28 May 2014 and effective for annual periods beginning on or after 1 January 2018. The primary impact on revenue reporting will be that when the Group sells subsidized devices together with airtime service agreements to customers, revenue allocated to equipment and recognized when control of the device passes to the customer will increase and revenue recognized as services are delivered will reduce. In addition, certain incremental costs incurred in acquiring a contract with a customer will be deferred on the balance sheet and amortized as revenue is recognized under the related contract; this will generally lead to the later recognition of charges for some commissions payable to third party dealers and employees. The Group is in the process of assessing the impact of IFRS 15. The highlighted changes may have a material impact on the consolidated income statement and consolidated statement of financial position upon adoption of IFRS 15 in 2018.

IFRS 9, “*Financial instruments: Classification and Measurement”*. It replaces the guidance in IAS 39 that relates to the classification and measurement of financial instruments. The standard is issued in July 2014 and effective for accounting periods beginning on or after 1 January 2018. The Group has yet to assess IFRS 9’s impact, which may have a material impact on the consolidated income statement and consolidated financial position upon adoption in 2018.

IFRS 16, *“Leases”.* It replaces the guidance in IAS 17 whereby most of the operating leases will be recorded on the statement of financial position. The standard is issued in January 2016 and effective for accounting periods beginning on or after 1 January 2019. The Group has yet to assess the impact of IFRS 16, which may have a material impact on the consolidated income statement and consolidated financial position upon adoption in 2019.

3. Significant accounting policies (continued)

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 and loss as part of the gain or loss on disposal.

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 2015, the principal rate of exchange used for translating foreign currency balances was USD 1 = RUR 72.8827 (31 December 2014: USD 1 = RUR 56.2584).

The foreign exchange rate in Uzbekistan applied for consolidation purposes is an official rate published by the Central Bank of the Republic of Uzbekistan. However, this exchange rate is not achievable in expatriating funds out of the country due to restrictions imposed by the local government. The assets of our business in Uzbekistan represented RUR 88,490 of the total assets in the Company’s consolidated statement of financial position as of 31 December 2015. However, if the Company applied the exchange rate implied by market transactions, we believe the assets of Uzbekistan would decrease significantly in RUR terms.

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.

Wireless 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.

3. Significant accounting policies (continued)

Wireless services (continued)

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.

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.

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.

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.

Interconnect and roaming revenue

Interconnect revenue (transit traffic) is generated when the Group receives traffic from mobile or fixed customers of other operators and that traffic terminates on VimpelCom’s network. Revenue is recognized on a gross or net basis depending on the amount of control over the traffic routing and hence exposure to risks and rewards.

The Group recognizes mobile usage and roaming service revenue based on minutes of traffic processed or contracted fee schedules when the services are rendered. Roaming revenue include both revenue from VimpelCom customers who roam outside of their home country network and revenue from other wireless carriers for roaming by their customers on VimpelCom’s network. Revenue due from foreign carriers for international roaming calls is recognized in the period in which the call occurs.

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.

3. Significant accounting policies (continued)

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.

Dealer commissions

Dealer commissions are expensed in the consolidated income statement when the services are provided unless they met the definition of an asset.

Taxation

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

In cases when 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 fully 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.

Property and equipment

Property and equipment are stated at cost, net of accumulated depreciation and 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 measuring equipment	3-10 years;
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.

3. Significant accounting policies (continued)

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.

Intangible assets (excluding Goodwill)

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 as follows:

- licenses and other significant 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.

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 available 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. See Note 9 for further details about the carrying amount of goodwill and CGUs.

Leases

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards associated with ownership of the leased asset to VimpelCom. All other leases are classified as operating leases. The determination of whether an arrangement is, or contains, a lease is based on the substance of the arrangement at the inception date or when the terms of the agreement are modified.

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.

3. Significant accounting policies (continued)

Operating leases

The rental payable under operating leases is recognized as 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 non-financial assets.

Impairment of assets

Property and equipment, intangible assets and investments in associates and joint ventures 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. If there are such indicators (i.e. asset becoming idle, damaged or no longer in use), 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.

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 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.

Cash and cash equivalents

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.

Inventories

Inventories are valued at the lower of cost and net realizable value and carried at the weighted-average cost basis.

Provisions

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.

Financial instruments and hedging

The Company applies 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.

4. Significant accounting judgments, estimates and assumptions

Accounting judgments

Impairment of non-current assets

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

Estimating recoverable amounts of assets and CGUs must, in part, be based on management's evaluations, including the determination of the appropriate CGUs, the discount rate, estimates of future performance, the revenue generating capacity of the assets, timing and amount of future purchases of property and equipment, assumptions of the future market conditions and the long-term growth rate into perpetuity (terminal value). 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.

All 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 developments of operating margins are 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.

See Note 9 for further information about the goodwill and other non-current assets impairment test.

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

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 important 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, history and expectations for replacements or transfer of assets, climate and quality of components used. The actual economic lives of intangible assets may be different from our estimated useful lives, thereby resulting in a different carrying value of our 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. See Note 13 and Note 14 for further information.

4. Significant accounting judgments, estimates and assumptions (continued)

Fair value of financial instruments

Where the fair value of financial assets and financial liabilities recorded in the consolidated statement of financial position cannot be derived from active markets, their fair value is determined using valuation techniques, including discounted cash flow models. The inputs to these models are taken from observable markets where possible, but when this is not feasible, a degree of judgment is required in establishing fair values. The judgments include considerations of inputs such as liquidity risk, credit risk and volatility. Changes in assumptions about these factors could affect the reported fair value of financial instruments. See Note 15 for further information.

Provisions and contingencies

The Group is subject to various legal proceedings, disputes and claims, including regulatory discussions related to the Group's business, licenses, tax positions and investments, and the outcomes 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 or to be 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 legal proceedings and regulatory discussions. Management's estimates relating to legal proceedings and regulatory discussions in these countries involve a high level of uncertainty. See Note 22 and Note 24 for further information.

5. Financial risk management

The Group's principal financial liabilities, other than derivatives, comprise 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 derive 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 VimpelCom Ltd. oversee the management of these risks. The Company's senior management is supported by the treasury department that advises on financial risks and the appropriate financial risk governance framework for the Company. Also, the Finance and Strategy Committee at VimpelCom 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 Group risk appetite. All derivative activities for risk management purposes are carried out by specialist teams that have the appropriate skills, experience and supervision.

Management of the Company as well as the senior management of VimpelCom Ltd. review and agree 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 prices comprise three types of risk: interest rate risk, currency risk and credit risk.

(All amounts in millions of Rubles unless otherwise stated)

5. 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 long-term debt obligations with floating interest rates. The Company manages its interest rate risk by having a portfolio of primarily fixed rate loans and borrowings.

As of 31 December 2015 approximately 98% of the Company's borrowings are at a fixed rate of interest (31 December 2014: 98%).

Interest rate sensitivity

The following table demonstrates the sensitivity to a reasonably possible change in interest rates on loans and borrowings, 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:

	Increase / decrease	Effect on profit before tax	
Interest rate sensitivity	**in basis points**	**2015**	**2014**
US Dollar	+100	669	786
Euro	+100	3	8
Kazakh Tenge	+100	6	8
Uzbek Som	+100	563	322
Russian Ruble	+100	22	54
Other currencies	+100	6	14
US Dollar	-100	(669)	(786)
Euro	-100	(3)	(8)
Kazakh Tenge	-100	(6)	(8)
Uzbek Som	-100	(563)	(322)
Russian Ruble	-100	(22)	(54)
Other currencies	-100	(6)	(14)

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 cash flow exposures that are expected to occur within a maximum 18-month period.

Foreign currency sensitivity

The following table demonstrates the sensitivity to a reasonably possible change in the 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)

5. Financial risk management (continued)

Foreign currency sensitivity (continued)

	Change in foreign exchange rate against USD	Effect on profit before tax		Effect on other components of equity	
		2015	2014	2015	2014
Russian Ruble	10% depreciation	(4,360)	(1,889)	2,004	389
Kazakh Tenge	10% depreciation	999	2,411	–	–
Uzbek Sum	10% depreciation	(26)	(1,468)	(1,955)	–
Georgian Lari	10% depreciation	(1,914)	(1,228)	–	–
Armenian Dram	10% depreciation	1,178	780	–	–
Kyrgyzstani Som	10% depreciation	695	745	–	–
Other currencies	10% depreciation	(62)	(460)	–	–
Russian Ruble	10% appreciation	4,800	2,204	(2,204)	(404)
Kazakh Tenge	10% appreciation	(1,098)	(2,652)	–	–
Uzbek Sum	10% appreciation	28	1,614	2,150	–
Georgian Lari	10% appreciation	2,105	1,351	–	–
Armenian Dram	10% appreciation	(1,295)	(858)	–	–
Kyrgyzstani Som	10% appreciation	(765)	(820)	–	–
Other currencies	10% appreciation	68	506	–	–

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 for trade receivables) and from its treasury activities, including deposits with banks and financial institutions, derivative 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, equipment sales are typically paid in advance of delivery, except for equipment sold to dealers on credit terms. VimpelCom’s credit risk arising from its trade accounts receivable from customers is mitigated as a result of 94% its active customers being subscribed to a prepaid service as of 31 December 2015 (31 December 2014: 94%) and, accordingly, not giving rise to credit risk in this regard.

VimpelCom’s credit risk arising from its trade accounts receivable from dealers is mitigated due to the 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 mitigates credit risk in this regard.

5. Financial risk management (continued)

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.

Credit risk (continued)

The Company’s maximum exposure to credit risk for the components of the consolidated statement of financial position at 31 December 2015 and 2014 are the carrying amounts as illustrated in Note 15, the carrying amounts of trade and other receivables and cash and cash equivalents as presented in the 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 that not more than 35% of borrowings should mature in a single year. 28% of the Company’s debt will mature in less than one year at 31 December 2015 (31 December 2014: 20%) based on the carrying value of bank loans, equipment financing and loans from others 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. 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 VimpelCom Ltd. or its subsidiaries can act as a lender of funds (Note 23).

At 31 December 2015, the Company has a Revolving Credit Facility available maturing in May 2017 for the amount of RUR 15,000 (31 December 2014: RUR 15,000), which is not utilized at these dates.

On 30 December 2015, PJSC “VimpelCom” entered into credit facility agreement with “Sberbank of Russia” for the amount of RUR 30,000 with drawdown date of 31 March 2016. The facility bears interest at a rate of 11.55% per annum and matures on 29 June 2018.

The table below summarises 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.

(All amounts in millions of Rubles unless otherwise stated)

5. Financial risk management (continued)

Liquidity risk (continued)

At 31 December 2015	Less than 1 year 2016	1-3 years 2017-2018	3-5 years 2019-2020	More than 5 years > 2020	Total
Bank loans and bonds	89,346	128,601	8,408	50,813	277,168
Loans from related parties	5,218	19,234	–	36,217	60,669
Equipment financing	5,163	4,445	478	–	10,086
Trade and other payables	58,684	–	–	–	58,684
Total financial liabilities	**158,411**	**152,280**	**8,886**	**87,030**	**406,607**
Related derivative financial instruments - assets					
- Gross cash inflows	(35,929)	(1,178)	–	–	(37,107)
- Gross cash outflows	34,025	1,089	–	–	35,114
Related derivative financial instruments-assets, net	**(1,904)**	**(89)**	**–**	**–**	**(1,993)**

At 31 December 2014	Less than 1 year 2015	1-3 years 2016-2017	3-5 years 2018-2019	More than 5 years > 2019	Total
Bank loans and bonds	109,967	142,522	77,296	64,315	394,100
Loans from related parties	10,239	18,715	24,722	108,049	161,725
Equipment financing	5,841	6,842	1,509	-	14,192
Derivatives over non-controlling interest	–	18,565	–	–	18,565
Trade and other payables	61,146	–	–	–	61,146
Total financial liabilities	**187,193**	**186,644**	**103,527**	**172,364**	**649,728**
Related derivative financial instruments - assets					
- Gross cash inflows	(33,947)	–	–	–	**(33,947)**
- Gross cash outflows	23,827	–	–	–	**23,827**
Related derivative financial instruments-assets, net	**(10,120)**	–	–	–	**(10,120)**

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 maximise 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 2015 and 31 December 2014.

The Net debt to EBITDA ratio is an important measure to assess the 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 on disposals of non-current assets, other non-operating losses and shares of profit/(loss) of associates and joint ventures.

The Net debt to EBITDA ratio relevant to VimpelCom as of 31 December 2015 and 2014 was 2.6x and 2.4x, respectively. The required ratio is < 3.5x (2014: < 3.5x) for a portion of the debt. The ratio is calculated based on the consolidated financial statements of PJSC "VimpelCom" prepared under IFRS in RUR as translated into USD.

Collateral

The Company provides collateral for some lenders which is described for individual loans in Note 24.

6. Significant transactions

Restructuring of the Company's ownership in Sky Mobile LLC (Kyrgyzstan) and KaR-Tel LLP (Kazakhstan)

In May 2015, VimpelCom's indirect ownership interests in Kazakhstan and Kyrgyzstan subsidiaries were changed from 71.5% to 75% in KaR-Tel LLP and from 71.5% to 50.1% in Sky Mobile LLC in accordance with the new shareholder agreement. Concurrently, the ownership in KaR-Tel LLP and Sky Mobile LLC was moved from Cyprus to Swiss holding companies and the related dividend mandates, as well as the put option which was held by the non-controlling interest holder and call options (value nil), held by the Company, have been cancelled. The changes in the ownership structure as well as derecognition of the put option liability of RUR 14,016 were recorded directly in equity as a transaction between the shareholders acting in their capacity as the owners of the company and resulted in a net decrease to parent equity of RUR 697 and increase to non-controlling interest of RUR 15,294. The reversal of deferred tax liabilities of RUR 4,853 resulted in a corresponding decrease of income tax expense for the period related to withholding taxes on distributed and future dividends. No cash consideration was exchanged in connection with the above restructuring and the Company will continue to control Kar-Tel LLP and Sky Mobile LLC subsequent to the transaction.

Golden Telecom Limited

On 24 December 2015, PJSC "VimpelCom" signed an agreement to sell its indirect 100% stake in Golden Telecom Limited, a subsidiary operated on the wholesale interconnect markets, to a related party of the Group and one of the subsidiaries of VimpelCom Ltd. for total consideration of USD 20,800,000 (the equivalent of RUR 1,462 at the exchange rate provided by the Central Bank of Russia as of 28 December 2015). The sale was completed on 28 December 2015. As of 28 December 2015, net liabilities of Golden Telecom Limited were RUR 316.

7. 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 reportable 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, loss on disposals of non-current assets, net foreign exchange gain/(loss), other non-operating losses and share of profit/(loss) of associates and joint ventures ("EBITDA").

Starting 1 January 2015, management decided to separately present certain operating units as separate reportable segments to enhance understanding of the business, and better reflect on the actual structure of the Group.

Therefore, the Company's reportable segments now include Russia, Kazakhstan and Uzbekistan (which were split out of the former "CIS" segment), HQ and Others (which includes our operations in Kyrgyzstan, Armenia and Georgia from the former "CIS" segment and Laos from the former "All Others" segment, as well as headquarter expenses and other unallocated adjustments and inter-company eliminations). The comparative information has been adjusted accordingly.

Financial information by reportable segment for the years ended 31 December 2015 and 31 December 2014 is presented in the following tables. Inter-segment revenues between operating segments are on an arm's length basis in a manner similar to transactions with third parties. The segment data for acquired operations are reflected herein from the date of their respective acquisition.

(All amounts in millions of Rubles unless otherwise stated)

7. Segment information (continued)

Information by reportable segments for the year ended 31 December 2015

	Russia	Uzbekistan	Kazakhstan	HQ and others	Group
Revenue					
External customers	277,178	43,332	34,503	20,225	**375,238**
Inter-segment	1,249	62	102	(1,413)	**–**
Total operating revenue	**278,427**	**43,394**	**34,605**	**18,812**	**375,238**
EBITDA	**110,145**	**26,551**	**13,851**	**(5,030)**	**145,517**
Other disclosures					
Capital expenditures	56,775	3,385	3,967	6,878	**71,005**
Impairment loss	(1,945)	(508)	(378)	(1,867)	**(4,698)**

Information by reportable segments for the year ended 31 December 2014

	Russia	Uzbekistan	Kazakhstan	HQ and others	Group
Revenue					
External customers	280,735	27,607	28,043	18,665	**355,050**
Inter-segment	1,163	30	52	(1,245)	**–**
Total operating revenue	**281,898**	**27,637**	**28,095**	**17,420**	**355,050**
EBITDA	**111,935**	**17,652**	**10,984**	**1,897**	**142,468**
Other disclosures					
Capital expenditures	61,310	3,240	4,554	2,335	**71,439**
Impairment loss	(155)	–	–	(3,174)	**(3,329)**

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

	2015	2014
EBITDA	**145,517**	142,468
Depreciation	**(58,781)**	(50,699)
Amortization	**(9,892)**	(6,939)
Impairment loss	**(4,698)**	(3,329)
Loss on disposal of non-current assets	**(1,809)**	(1,796)
Finance costs	**(26,805)**	(29,104)
Finance income	**2,391**	13,930
Other non-operating (losses)/gains, net	**(3,063)**	4,473
Share of gain/(loss) of joint ventures and associates accounted for using the equity method	**1,173**	(518)
Net foreign exchange loss	**(18,236)**	(21,486)
Income tax expense	**(4,358)**	(9,742)
Profit for the year	**21,439**	37,258

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

	2015	2014
Mobile line	**325,084**	299,211
Fixed line	**50,154**	55,839
Total	**375,238**	355,050

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

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

	2015	2014
Personnel costs	**29,651**	26,657
Customer associated costs	**27,583**	27,239
Network and IT costs	**19,957**	18,505
Operating lease and other rent expenses	**14,580**	15,079
Taxes	**12,024**	9,179
Consulting and professional service costs	**3,788**	3,937
Losses on receivables	**1,769**	1,504
Other G&A expenses	**6,687**	4,472
Total	**116,039**	106,572

9. Impairment

Carrying amount of goodwill and cash-generating units

Goodwill acquired through business combinations has been allocated to CGUs for impairment testing as follows:

CGU's	31 December 2015	Impairment	Acquisition of subsidiary	Translation adjustment	31 December 2014	Impairment	Translation adjustment	31 December 2013
Russia	**87,979**	–	132	–	**87,847**	–	–	**87,847**
Kyrgyzstan	**11,002**	–	–	56	**10,946**	–	3,333	**7,613**
Kazakhstan	**5,333**	–	–	(2,331)	**7,664**	–	2,371	**5,293**
Armenia	**4,287**	(1,059)	–	981	**4,365**	–	1,392	**2,973**
Uzbekistan	**4,768**	–	–	2,033	**2,735**	–	(2,307)	**5,042**
Laos	**–**	–	–	–	**–**	(1,866)	757	**1,109**
Total	**113,369**	**(1,059)**	**132**	**739**	**113,557**	**(1,866)**	**5,546**	**109,877**

There were no changes to the methodology of goodwill allocation to CGUs in 2015.

The Company performed its annual goodwill impairment test as of 1 October 2015. 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. 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 2015 for any adverse developments that could have negatively impacted the valuations, and none were identified.

The recoverable amounts of the CGUs have been determined based on fair value less costs of disposal calculations using cash flow projections from business plans including subsequent changes in the existing networks, renewal of the telecom licenses as well as any intended restructurings. To the extent the business initiatives would not be valued by the market due to their early stages, they were no included in the cash flow projections. The business plans as approved by the Group’s senior management cover the period of five years. The key assumptions and outcome of the impairment test is discussed separately below.

Impairment losses

Due to higher weighted average costs of capital for the CGU Armenia, an impairment was concluded in the amount of RUR 1,059. The recoverable amount was determined based on a fair value less costs of disposal calculation using the latest cash flow projections (Level 3 fair value). The Company applied post-tax discount rate of 12.1%.

9. Impairment (continued)

Impairment losses (continued)

Based on the annual goodwill impairment test as of 1 October 2015, there were no impairments concluded for other CGUs.

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 recorded an impairment of RUR 3,639 (Note 13).

Key assumptions

The key assumptions and inputs used by the Company in undertaking the impairment test are the discount rate, average revenue growth rate (excluding perpetuity period), terminal growth rate, average operating margin and average capital expenditure as a percentage of revenue.

Operating margin is defined as the ratio of operating income to revenue. Capital expenditure is defined as additions to property and equipment and intangible assets other than goodwill.

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 5.5% (2014: 5.5%) and the systematic risk, beta, represents the median of the raw betas of the entities comparable in size and geographic footprint with the ones of VimpelCom Ltd. ("Peer Group") since the Company is part of VimpelCom 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 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. Due to the current macroeconomic and geopolitical situation in Russia, the Company applied higher discount rates for the last quarter of 2015 and the year 2016.

The Company estimates operating margin calculated based on EBITDA divided by Total Operating Revenue for each CGU and each future year.

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.

Terminal growth rate is estimated based on a percentage that is lower than or equal to the country long-term inflation forecast, depending on the CGU.

The forecast of operating income 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. Similarly, the capital expenditures are based on the budget of the following year and network roll-out plans.

(All amounts in millions of Rubles unless otherwise stated)

9. Impairment (continued)

Key assumptions (continued)

Discount rate (functional currency)	2015	2014
Russia*	**11.2%**	11.2%
Kazakhstan	**12.3%**	11.4%
Kyrgyzstan	**14.2%**	16.5%
Uzbekistan	**18.4%**	10.2%
Armenia	**12.9%**	11.7%
Georgia	**12.6%**	13.1%

*Due to the current macroeconomic and geopolitical situation in Russia, the Company applied higher discount rates for the last quarter of 2015 (21.6%) and for the year 2016 (15.0%).

Average annual revenue growth rate during forecasted period (functional currency)	2015	2014
Russia	**2.4%**	1.2%
Kazakhstan	**3.5%**	2.9%
Kyrgyzstan	**2.4%**	2.7%
Uzbekistan	**1.7%**	(3.6%)
Armenia	**(0.7%)**	2.1%
Georgia	**6.5%**	5.8%

Terminal growth rate	2015	2014
Russia	**1.0%**	1.0%
Kazakhstan	**3.0%**	3.0%
Kyrgyzstan	**2.5%**	3.0%
Uzbekistan	**2.0%**	2.0%
Armenia	**2.0%**	4.0%
Georgia	**3.0%**	3.0%

Average operating margin	2015	2014
Russia	**25.4%**	21.1%
Kazakhstan	**39.0%**	34.8%
Kyrgyzstan	**44.5%**	36.9%
Uzbekistan	**50.7%**	22.0%
Armenia	**21.1%**	13.7%
Georgia	**17.2%**	13.8%

Average capital expenditure as a percentage of revenue	2015	2014
Russia	**16.5%**	17.5%
Kazakhstan	**20.3%**	13.0%
Kyrgyzstan	**12.3%**	14.1%
Uzbekistan	**16.3%**	20.0%
Armenia	**11.8%**	15.7%
Georgia	**16.4%**	18.9%

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 (losses)/gains, net

Other non-operating (losses)/gains, net consisted of the following for the years ended 31 December:

	Note	2015	2014
Early redemption fee	15	**(2,389)**	–
Loss on sale of foreign currency, net		**(475)**	(16)
Effect of refilling tax returns		**457**	–
Changes in the fair value of hedge derivatives	15	**(352)**	218
Changes in the fair value of non-hedge derivatives	15	**(284)**	7,410
Impairment of available-for-sale financial asset net of result of disposal	15	–	(2,073)
Change of the fair value of derivatives over non-controlling interest		–	(1,937)
Net results of disposal of subsidiaries		–	255
Other (losses) / gains		**(20)**	616
Total other non-operating (losses) / gains, net		**(3,063)**	4,473

11. Income taxes

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

	2015	2014
Consolidated income statement:		
Current income tax		
Current income tax charge	**7,087**	7,713
Withholding tax expenses	**1,749**	13
	8,836	7,726
Deferred income tax		
Relating to origination and reversal of temporary differences	**(4,478)**	2,016
Income tax expense reported in the consolidated income statement	**4,358**	9,742
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	**(1,556)**	(2,975)
Income tax charged to other comprehensive income	**(1,556)**	(2,975)

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:

	2015		2014	
Profit before tax	**25,797**	%	47,000	%
Income tax expense computed on profit before tax at statutory tax rate	**5,159**	**20.0%**	9,400	20.0%
Difference due to the effects of:				
Non-deductible impairment of non-current assets including goodwill	**212**	**0.8%**	615	1.3%
Changes in recognition of deferred tax assets on losses and other carry forwards	**878**	**3.4%**	1,120	2.4%
Other non-deductible / (non-taxable income) expenses	**3,029**	**11.7%**	(1,133)	(2.4%)
Current and deferred tax effect of intragroup dividends	**(3,570)**	**(13.8%)**	725	1.5%
Refiling of tax returns	**(284)**	**(1.1%)**	73	0.2%
Tax claims and provisions	**(1,105)**	**(4.3%)**	509	1.1%
Change in tax rates	**1,085**	**4.2%**	–	–
Different tax rates in different jurisdictions	**(1,412)**	**(5.5%)**	(1,019)	(2.2%)
Other	**366**	**1.4%**	(548)	(1.2%)
Income tax expense reported in the consolidated income statement	**4,358**	**16.9%**	9,742	20.7%

The effective income tax rate amounts to 16.9% in 2015 (2014: 20.7%). The decrease of the tax rate was mainly caused by effect of current and deferred withholding taxes offset by change in income tax rates in Uzbekistan.

(All amounts in millions of Rubles unless otherwise stated)

11. Income taxes (continued)

Deferred income tax

As of 31 December 2015 and 2014, the Group reported the following deferred income tax assets and liabilities on the consolidated statements of financial position:

	2015	2014
Deferred income tax assets	2,225	923
Deferred income tax liabilities	(19,096)	(22,971)
Net deferred income tax position	**(16,871)**	(22,048)

The following table shows the movements of the deferred income tax assets and liabilities in 2015:

	31 December 2015	Charge to profit and loss	Changes in composition of the group	Tax rate changes	Other	Currency translation adjustment	31 December 2014
Property and equipment	**(21,155)**	166	(9)	(1,736)	–	(74)	(19,502)
Intangible assets	**(1,722)**	(181)	(178)	(184)	–	(146)	(1,033)
Other non-current assets	**(405)**	(154)	–	(30)	–	(5)	(216)
Trade accounts receivable	**(111)**	(491)	–	526	–	141	(287)
Other current assets	**(180)**	848	–	(93)	–	7	(942)
Undistributed retained earnings of subsidiaries	**(1,564)**	5,320	–	–	–	(147)	(6,737)
Provisions	**473**	(339)	–	49	–	(21)	784
Financial liabilities (non-current)	**407**	574	–	–	–	(422)	255
Other non-financial liabilities (non-current)	**175**	19	–	1	–	–	155
Trade and other payables	**4,927**	1,300	–	139	–	(2)	3,490
Other current non-financial liabilities	**518**	(1,241)	–	115	–	(39)	1,683
Other current financial liabilities	**(56)**	(343)	–	128	–	333	(174)
Other movements and temporary differences	**1,359**	58	–	–	1,080	151	70
Tax losses and other carry forwards	**5,196**	905	–	–	–	(161)	4,452
Non recognized deferred tax assets on losses and other carry forwards	**(4,733)**	(878)	–	–	–	191	(4,046)
Net deferred tax position	**(16,871)**	5,563	(187)	(1,085)	1,080	(194)	(22,048)

The following table shows the movements of the deferred income tax assets and liabilities in 2014:

	31 December 2014	Charge to profit and loss	Currency translation adjustment	31 December 2013
Property and equipment	(19,502)	(1,317)	(305)	(17,880)
Intangible assets	(1,033)	602	124	(1,759)
Other non-current assets	(216)	(8,892)	13	8,663
Trade accounts receivable	(287)	(848)	(43)	604
Other current assets	(942)	(7,534)	39	6,553
Undistributed retained earnings of subsidiaries	(6,737)	(725)	(2,641)	(3,371)
Provisions	784	(156)	(26)	966
Financial liabilities (non-current)	255	8,962	–	(8,707)
Other non-financial liabilities (non-current)	155	(10)	(14)	179
Trade and other payables	3,490	548	117	2,825
Other current non-financial liabilities	1,683	217	164	1,302
Other current financial liabilities	(174)	6,376	(54)	(6,496)
Other movements and temporary differences	70	564	(364)	(130)
Tax losses and other carry forwards	4,452	1,317	56	3,079
Non recognized deferred tax assets on losses and other carry forwards	(4,046)	(1,120)	142	(3,068)
Net deferred tax position	**(22,048)**	**(2,016)**	**(2,792)**	**(17,240)**

(All amounts in millions of Rubles unless otherwise stated)

11. Income taxes (continued)

Deferred income tax (continued)

VimpelCom has the following amounts of unused tax losses and other carry forwards as of 31 December 2015:

Year of expiration	Recognized losses	Recognized DTA	Non recognized losses	Non recognized DTA
0-5 years	–	–	8,193	1,437
6-10 years	2,312	463	16,478	3,296
Total	**2,312**	**463**	**24,671**	**4,733**

As of 31 December 2015, the amount of other deductible temporary differences for which no deferred tax asset recognized amounted to RUR 6,341 (31 December 2014: RUR 5,457). The reported non recognized deferred income tax assets on such temporary differences amounted to RUR 951 (31 December 2014: RUR 844).

VimpelCom reports the tax effect of the existence of undistributed profits of subsidiaries that will be distributed in the foreseeable future. At 31 December 2015, the Company recorded a deferred income tax liability of RUR 1,564 (31 December 2014: RUR 6,737) 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. At 31 December 2015, 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 RUR 136,125 (31 December 2014: RUR 71,336). Accordingly, no deferred income tax liability is recognized for this amount of undistributed profits.

(All amounts in millions of Rubles unless otherwise stated)

12. Investments

12.1. Information about subsidiaries

The consolidated financial statements of the Group include the following key subsidiaries as of 31 December 2015 and 31 December 2014:

Name of key subsidiaries	Note	Country of operation	Nature of the subsidiary	Ownership interest held by the Group	
				2015	**2014**
KaR-Tel, LLP	6	Kazakhstan	Operating	**75.00%**	71.50%
2Day Telecom		Kazakhstan	Operating	**59.00%**	59.00%
Unitel, LLC		Uzbekistan	Operating	**100.00%**	100.00%
Buzton JV		Uzbekistan	Operating	**54.00%**	54.00%
Sky Mobile, LLC	6	Kyrgyzstan	Operating	**50.10%**	71.50%
Mobitel, LLC		Georgia	Operating	**51.00%**	51.00%
ArmenTel, CJSC		Armenia	Operating	**100.00%**	100.00%
VimpelCom Lao Co. Ltd.		Lao PDR	Operating	**78.00%**	78.00%
Rascom, CJSC		Russia	Operating	**54.00%**	54.00%
Vimpelcom Finance, LLC		Russia	Holding	**100.00%**	100.00%
Vimpelcom-Invest, LLC		Russia	Holding	**100.00%**	100.00%
Ararima Enterprises Limited		Cyprus	Holding	**100.00%**	100.00%
Limnotex Developments Ltd.		Cyprus	Holding	**71.50%**	71.50%
Menacrest Limited		Cyprus	Holding	**71.50%**	71.50%
VC ESOP N.V.	25	Belgium	Holding	**99.99%**	99.99%
B.V. VimpelCom Finance S.à.r.l.		The Netherlands, Luxemburg	Holding	**100.00%**	100.00%
VimpelCom B.V.		The Netherlands	Holding	**100.00%**	100.00%
Silkway Holding B.V.		The Netherlands	Holding	**100.00%**	100.00%
VimpelCom Holding Laos B.V.		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 A.G.		Switzerland	Holding	**75.00%**	–
VIP Kyrgyzstan Holding A.G.		Switzerland	Holding	**50.10%**	–
Golden Telecom Limited	6	BVI	Operating	**–**	100.00%

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	
		2015	**2014**	**2015**	**2014**	**2015**	**2014**
KaR-Tel, LLP	Kazakhstan	25.00%	28.50%	7,717	7,808	2,636	1,606
Sky Mobile, LLC	Kyrgyzstan	49.90%	28.50%	12,219	3,239	2,804	900
Mobitel, LLC	Georgia	49.00%	49.00%	(7,060)	(4,370)	(2,522)	(891)

(All amounts in millions of Rubles unless otherwise stated)

12. Investments (continued)

12.2. Material partly-owned subsidiaries (continued)

Summarised income statements for the years ended 31 December 2015 and 2014:

	KaR-Tel, LLP		Sky Mobile, LLC		Mobitel, LLC	
	2015	**2014**	**2015**	**2014**	**2015**	**2014**
Operating revenue	**32,116**	26,513	**9,993**	6,836	**3,495**	3,074
Operating expenses	**(24,761)**	(19,915)	**(5,677)**	(4,172)	**(3,867)**	(3,678)
Other income/(costs)	**6,346**	891	**1,937**	880	**(4,774)**	(1,214)
Profit / (loss) before tax	**13,701**	7,489	**6,253**	3,544	**(5,146)**	(1,818)
Income tax expense	**(3,159)**	(1,855)	**(633)**	(385)	**–**	–
Profit / (loss) for the year	**10,542**	5,634	**5,620**	3,159	**(5,146)**	(1,818)
Attributed to:						
Owners of the Company	**7,906**	4,028	**2,816**	2,259	**(2,624)**	(927)
Non-controlling interest	**2,636**	1,606	**2,804**	900	**(2,522)**	(891)
	10,542	5,634	**5,620**	3,159	**(5,146)**	(1,818)

Summarised statements of financial position as of 31 December 2015 and 2014:

	KaR-Tel, LLP		Sky Mobile, LLC		Mobitel, LLC	
	2015	**2014**	**2015**	**2014**	**2015**	**2014**
Property and equipment	**14,525**	23,263	**4,899**	4,821	**4,435**	3,816
Intangible assets	**5,182**	7,551	**11,788**	11,376	**3,231**	1,004
Other non-current assets	**1,608**	6,866	**104**	56	**–**	–
Trade and other receivables	**1,465**	1,363	**1,130**	781	**227**	330
Cash and cash equivalents	**9,945**	26,816	**3,307**	6,741	**329**	434
Other current assets	**5,741**	1,856	**5,402**	1,828	**453**	261
Financial liabilities	**(917)**	–	**–**	–	**(20,662)**	(13,610)
Provisions	**(514)**	(506)	**(29)**	(3)	**(105)**	(23)
Other liabilities	**(6,168)**	(9,370)	**(2,114)**	(1,605)	**(2,317)**	(1,130)
Total equity	**30,867**	57,839	**24,487**	23,995	**(14,409)**	(8,918)
Attributed to:						
Owners of the Company	**23,150**	50,031	**12,268**	20,756	**(7,349)**	(4,548)
Non-controlling interests	**7,717**	7,808	**12,219**	3,239	**(7,060)**	(4,370)
	30,867	57,839	**24,487**	23,995	**(14,409)**	(8,918)

Summarised cash flow statements for the years ended 31 December 2015 and 2014:

	KaR-Tel, LLP		Sky Mobile, LLC		Mobitel, LLC	
	2015	**2014**	**2015**	**2014**	**2015**	**2014**
Net cash flows from operating activities	**7,918**	9,720	**4,948**	3,192	**481**	799
Net cash flows (used in) / from investing activities	**(19,801)**	2,396	**(4,398)**	751	**(2,724)**	(729)
Net cash flows (used in) / from financing activities	**(6,379)**	(3,316)	**(5,009)**	–	**2,116**	(67)
Effect of exchange rate changes on cash and cash equivalents	**1,391**	9,418	**1,025**	2,198	**24**	192
Net (decrease) / increase in cash and cash equivalents	**(16,871)**	18,218	**(3,434)**	6,141	**(103)**	195

(All amounts in millions of Rubles unless otherwise stated)

12. Investments (continued)

12.3. Investments in joint ventures and associates

The aggregate carrying value of the investments in joint ventures and associates as of 31 December 2015 and 31 December 2014 is as follows:

	31 December 2015	31 December 2014
Investments in joint ventures	**14,519**	13,346

The following table is the aggregate financial information of the investments in joint ventures and associates which are held by the Company as of and for the years ended 31 December 2015 and 2014:

	2015	2014
Profit / (loss) before tax	**3,133**	(377)
Income tax expense	**(787)**	(24)
Profit / (loss) for the year	**2,346**	(401)
Other comprehensive income	**–**	–
Total comprehensive income / (loss)	**2,346**	(401)
Elimination of intercompany transactions	**–**	–
Group's share of gain / (loss) for the year from investments in joint ventures and associates	**1,173**	(201)
Impairment of investments in associates	**–**	(317)
Share of gain / (loss) of joint ventures and associates accounted for using the equity method	**1,173**	(518)

(All amounts in millions of Rubles unless otherwise stated)

13. Property and equipment

Property and equipment consisted of the following:

	Telecom-munication equipment	Land, buildings and construc-tions	Office and measuring equipment	Other equipment	Equipment not installed and assets under construction	Total
Cost						
As of 31 December 2013	**395,470**	**15,361**	**36,927**	**19,155**	**41,935**	**508,848**
Additions	9,937	277	198	72	52,728	**63,212**
Disposals	(38,616)	(82)	(2,070)	(384)	(573)	**(41,725)**
Divestment of a subsidiary	(1,808)	(36)	(20)	(3)	(42)	**(1,909)**
Reclassification to assets held for sale	(577)	–	(47)	–	(882)	**(1,506)**
Transfer	46,192	1,636	9,233	(1,769)	(55,292)	**–**
Translation adjustment	21,349	2,046	3,518	2,536	3,974	**33,423**
As of 31 December 2014	**431,947**	**19,202**	**47,739**	**19,607**	**41,848**	**560,343**
Additions	6,067	166	229	85	49,281	**55,828**
Acquisition of a subsidiary	89	–	36	6	19	**150**
Disposals	(19,771)	(433)	(7,577)	(349)	(399)	**(28,529)**
Divestment of a subsidiary	(193)	–	(44)	–	(1)	**(238)**
Reclassification to assets held for sale	25	–	(17)	–	–	**8**
Transfer	49,612	773	7,305	1,587	(59,277)	–
Translation adjustment	2,797	(191)	(1,870)	(1,151)	(556)	**(971)**
As of 31 December 2015	**470,573**	**19,517**	**45,801**	**19,785**	**30,915**	**586,591**
Depreciation and impairment						
As of 31 December 2013	**(215,442)**	**(5,326)**	**(24,344)**	**(11,599)**	**(716)**	**(257,427)**
Depreciation charge for the year	(43,249)	(1,062)	(4,713)	(1,675)	–	**(50,699)**
Disposals	36,975	39	1,909	239	–	**39,162**
Divestment of a subsidiary	1,125	26	17	2	7	**1,177**
Reclassification to assets held for sale	465	–	31	–	702	**1,198**
Impairment	(1,123)	–	–	(155)	–	**(1,278)**
Transfer	(35)	(10)	(1,707)	1,721	31	**–**
Translation adjustment	(13,569)	(930)	(2,347)	(1,045)	(36)	**(17,927)**
At 31 December 2014	**(234,853)**	**(7,263)**	**(31,154)**	**(12,512)**	**(12)**	**(285,794)**
Depreciation charge for the year	(50,927)	(1,297)	(4,907)	(1,650)	–	**(58,781)**
Disposals	18,397	287	7,406	257	(71)	**26,276**
Divestment of a subsidiary	163	–	3	–	–	**166**
Reclassification to assets held for sale	(16)	–	12	–	–	**(4)**
Impairment (Note 9)	–	–	–	–	(3,639)	**(3,639)**
Translation adjustment	(870)	(104)	1,459	656	(57)	**1,084**
As of 31 December 2015	**(268,106)**	**(8,377)**	**(27,181)**	**(13,249)**	**(3,779)**	**(320,692)**
Net book value						
As of 31 December 2014	**197,094**	**11,939**	**16,585**	**7,095**	**41,836**	**274,549**
As of 31 December 2015	**202,467**	**11,140**	**18,620**	**6,536**	**27,136**	**265,899**

As of 31 December 2015, none of the assets were pledged as collateral and no assets have restrictions on title.

(All amounts in millions of Rubles unless otherwise stated)

13. Property and equipment (continued)

Capitalized borrowing costs

During 2015 and 2014 VimpelCom capitalized interest in the cost of property and equipment in the amount of RUR 356 and RUR 917, respectively. The rate used to determine the amount of interest eligible for capitalization was 8.7% and 8.2% for the years ended 31 December 2015 and 2014, respectively.

Finance lease

The carrying value of property and equipment held under finance leases as of 31 December 2015 and 2014 was RUR 4,462 and RUR 3,895, respectively. Additions during the year include RUR 1,347 in 2015 and RUR 1,350 in 2014 of property and equipment under finance lease.

14. Intangible assets

The total gross carrying value and accumulated amortization of VimpelCom’s intangible assets consisted of the following:

	Telecommu-nications licenses, frequencies and permissions	Software	Brands and trademarks	Customer relation-ships	Telephone line capacity	Other intangible assets	Total
Cost							
As of 31 December 2013	**46,285**	**36,646**	**765**	**20,760**	**5,683**	**7,719**	**117,858**
Additions	2,292	5,500	–	–	22	413	**8,227**
Disposals	(14,469)	(756)	(64)	–	–	(87)	**(15,376)**
Divestment of a subsidiary	(22)	(52)	–	(552)	–	–	**(626)**
Translation adjustment	6,403	3,195	208	(202)	(46)	1,217	**10,775**
As of 31 December 2014	**40,489**	**44,533**	**909**	**20,006**	**5,659**	**9,262**	**120,858**
Additions	5,967	7,583	–	–	–	1,627	**15,177**
Acquisition of a subsidiary	–	–	–	–	–	905	**905**
Disposals	(5,081)	(16,415)	(53)	–	(18)	(1,984)	**(23,551)**
Transfer	143	88	–	–	–	(231)	**–**
Translation adjustment	(2,215)	(473)	53	2	191	(82)	**(2,524)**
As of 31 December 2015	**39,303**	**35,316**	**909**	**20,008**	**5,832**	**9,497**	**110,865**
Amortization and impairment							
As of 31 December 2013	**(36,394)**	**(27,893)**	**(684)**	**(13,140)**	**(4,519)**	**(6,386)**	**(89,016)**
Amortization charge for the year	(943)	(4,431)	(59)	(1,409)	167	(264)	**(6,939)**
Impairment	(100)	(85)	–	–	–	–	**(185)**
Disposals	14,462	719	64	–	–	87	**15,332**
Divestment of a subsidiary	7	26	–	422	–	–	**455**
Translation adjustment	(7,125)	(2,303)	(207)	118	(450)	(1,239)	**(11,206)**
As of 31 December 2014	**(30,093)**	**(33,967)**	**(886)**	**(14,009)**	**(4,802)**	(7,802)	**(91,559)**
Amortization charge for the year	(2,218)	(5,811)	(7)	(1,126)	(323)	(407)	**(9,892)**
Disposals	5,081	16,385	53	–	18	1,976	**23,513**
Translation adjustment	2,395	779	(56)	(2)	(247)	180	**3,049**
As of 31 December 2015	**(24,835)**	**(22,614)**	**(896)**	**(15,137)**	**(5,354)**	**(6,053)**	**(74,889)**
Net book value							
As of 31 December 2014	**10,396**	**10,566**	**23**	**5,997**	**857**	**1,460**	**29,299**
As of 31 December 2015	**14,468**	**12,702**	**13**	**4,871**	**478**	**3,444**	**35,976**

(All amounts in millions of Rubles unless otherwise stated)

14. Intangible assets (continued)

As of 31 December 2015 and 2014, none of the assets were pledged as collateral and no assets have restrictions on title. During 2015 and 2014 VimpelCom did not capitalize any interest in the cost of intangible assets.

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 carried in the consolidated financial statements as of 31 December 2015 and 2014 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 2015	**31 December 2014**	**31 December 2015**	**31 December 2014**
Financial assets at fair value through profit or loss				
Derivatives not designated as hedges				
Foreign exchange contracts	**912**	5,243	**912**	5,243
Financial assets at fair value through other comprehensive income				
Derivatives designated as cash flow hedges				
Foreign exchange contracts	**1,258**	2,092	**1,258**	2,092
Available–for–sale financial assets	**1,847**	1,913	**1,847**	1,913
Total financial assets at fair value	**4,017**	9,248	**4,017**	9,248
Loans granted, deposits and other financial assets at amortised cost				
Loans granted to related parties, principal (Note 23)	**93,063**	244,791	**81,892**	201,844
Bank deposits	**26,522**	6,136	**26,522**	6,136
Interest receivable	**730**	3,349	**730**	3,349
Other financial assets	**4,164**	1,298	**4,164**	1,298
Total loans granted, deposits and other financial assets at amortised cost	**124,479**	255,574	**113,308**	212,627
Total other financial assets	**128,496**	264,822	**117,325**	221,875
Other financial liabilities at amortised cost				
Interest-bearing loans, bonds and finance lease liabilities, principal	**237,205**	334,122	**243,101**	303,726
Loans payables to related parties, principal (Note 23)	**35,068**	122,882	**25,813**	98,720
Unamortised fees	**(1,348)**	(1,613)	–	–
Interest payable	**10,912**	6,290	**6,349**	6,274
Financial liability to non–controlling interest via equity	**–**	14,597	–	13,004
Total other financial liabilities at amortised cost	**281,837**	476,278	**275,263**	421,724
Total other financial liabilities	**281,837**	476,278	**275,263**	421,724

(All amounts in millions of Rubles unless otherwise stated)

15. Financial assets and liabilities (continued)

Carrying values and fair values (continued)

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

Other financial assets	31 December 2015	31 December 2014
Non-current portion	**99,388**	248,934
Current portion	**29,108**	15,888
Total other financial assets	**128,496**	264,822
Other financial liabilities		
Non-current portion	**199,657**	378,592
Current portion	**82,180**	97,686
Total other financial liabilities	**281,837**	476,278

The fair value of the financial assets and liabilities are included at the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. The fair values were estimated based on quoted market prices of 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.

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

(All amounts in millions of Rubles unless otherwise stated)

15. Financial assets and liabilities (continued)

Fair value hierarchy

The following table provides the disclosure of fair value measurements separately for each major class of assets and liabilities measured at fair value except for trade and other receivables, cash and cash equivalents and trade and other payables whose carrying amounts are reasonable approximations of fair values and related to Level 2 class of assets and liabilities.

	As of 31 December 2015		
	(Level 1)	**(Level 2)**	**(Level 3)**
Financial assets at fair value through profit or loss			
Derivatives not designated as hedges			
Foreign exchange contracts	–	912	–
Financial assets at fair value through other comprehensive income			
Derivatives designated as cash flow hedges			
Foreign exchange contracts	–	1,258	–
Available–for–sale financial asset	1,847	–	–
Total financial assets at fair value	**1,847**	**2,170**	**–**
Financial assets for which fair values are disclosed			
Loans granted to related parties, principal (Note 23)	–	81,892	–
Bank deposits	–	26,522	–
Interest receivable	–	730	–
Other financial assets	–	4,164	–
Total financial assets for which fair values are disclosed	**–**	**113,308**	**–**
Financial liabilities for which fair values are disclosed			
Other financial liabilities at amortised cost	145,109	130,154	–
Total financial liabilities for which fair values are disclosed	**145,109**	**130,154**	**–**

	As of 31 December 2014		
	(Level 1)	**(Level 2)**	**(Level 3)**
Financial assets at fair value through profit or loss			
Derivatives not designated as hedges			
Foreign exchange contracts	–	5,243	–
Financial assets at fair value through other comprehensive income			
Derivatives designated as cash flow hedges			
Foreign exchange contracts		2,092	
Available–for–sale financial asset	1,913	–	–
Total financial assets at fair value	**1,913**	**7,335**	**–**
Assets for which fair values are disclosed			
Loans granted to related parties (Note 23)	–	201,844	–
Bank deposits	–	6,136	–
Interest receivable	–	3,349	–
Other financial assets	–	1,298	–
Total assets for which fair values are disclosed	**–**	**212,627**	**–**
Financial liabilities for which fair values are disclosed			
Other financial liabilities at amortised cost	115,367	306,357	–
Total financial liabilities for which fair values are disclosed	**115,367**	**306,357**	**–**

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 2015, 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 2015 and 2014:

Lender or bonds series	Interest rate	Maturity	Currency	2015	2014
Eurobonds	6.49-9.13%	2016-2021	USD	**122,430**	174,401
Sberbank of Russia	12.75%	2017-2018	RUR	**60,595**	89,060
Ruble bonds	10.00-11.90%	2022-2025	RUR	**40,057**	55,000
Loans received from related parties (Note 23)	3.78-11.00%	2016-2032	RUR/USD	**35,068**	122,882
HSBC	3 month MOSPRIME + 1.05%	2017-2019	RUR	**4,839**	6,575
Finance lease liabilities	9.10-23.90%	2016-2055	RUR/USD	**3,176**	2,576
CISCO Systems Finance International	7.95-12%	2016-2018	RUR	**2,857**	3,358
ANZ bank	3.50%	2016	USD	**1,381**	1,066
Kazkommertsbank JSC	19.00%	2016	KZT	**891**	–
Unicredit – HVB[1]	AB SEK Rate + 0.75%	2016	USD	**533**	1,724
Huawei	8.00%	2017	USD	**404**	362
Others				**42**	–
Total loans, bonds and finance lease liabilities, principal				**272,273**	457,004
Non-current portion				**194,309**	365,317
Current portion				**77,964**	91,687
				272,273	457,004

[1] On 29 February 2016, the full USD 7.3 million outstanding amount of this loan was early repaid (the equivalent of RUR 548 as of 29 February 2015 at the exchange rate provided by the Central Bank of Russia).

Major treasury events during 2015

On 2 March 2015, “Sberbank of Russia” informed PJSC “VimpelCom” of an increase in fixed interest rates to between 14.50% and 16.25% with effect from 1 June 2015 in accordance with the terms of the credit facility agreements between PJSC “VimpelCom” and “Sberbank of Russia”. The increase in interest rates would apply to three loans from “Sberbank of Russia” with a total principal amount outstanding of RUR 80,274 as of 1 June 2015. The actual fixed interest rate as from 1 June 2015 was 14.5% per annum.

On 5 August 2015, PJSC “VimpelCom” and “Sberbank of Russia” signed the amendments to the three Sberbank credit facility agreements to reduce fixed interest rate to between 8.75% and 14.0% depending on certain conditions set out in the agreements. The decrease in interest rates would apply to three loans from “Sberbank of Russia” with a total principal amount outstanding of RUR 77,497 as of 5 August 2015. The actual fixed interest rate as from 5 August 2015 is 12.75%. In addition, as a result of further amendments entered into between PJSC “VimpelCom” and “Sberbank of Russia” on 30 December 2015, the fixed interest rates on the term loan facilities with “Sberbank of Russia” can no longer be unilaterally increased by “Sberbank of Russia”.

On 2 March 2015, VimpelCom Amsterdam B.V. announced that it commenced a cash tender offer for up to USD 2,100 million aggregate principal amount of the outstanding U.S. dollar notes issued by VimpelCom Holdings B.V. and guaranteed by PJSC “VimpelCom” and loan participation notes issued by VIP Finance Ireland Limited and UBS (Luxembourg) S.A. (Eurobonds) for the sole purpose of funding loans to PJSC “VimpelCom”. The total outstanding amount of these bonds was USD 6,700 million (USD 3,100 million of which accounts for PJSC “VimpelCom”). The tender offer expired on 30 March 2015 and settlement took place on 2 April 2015. On 2 April 2015, PJSC “VimpelCom” bought the notes issued by VIP Finance Ireland Limited and UBS (Luxembourg) S.A. in the total principal amount of USD 1,420 million from VimpelCom Amsterdam B.V. for further cancellation. After that the outstanding principal amount of debt under the 6.493%-9.125% Eurobonds due in 2016-2021 was USD 1,680 million as of 2 April 2015 (the equivalent of RUR 98,034 as of 2 April 2015 at the exchange rate provided by the Central Bank of Russia).

15. Financial assets and liabilities (continued)

Major treasury events during 2015 (continued)

The carrying value of the bonds subject to the purchase was adjusted on 31 March 2015 upon closing of the tender to reflect on the expected additional cash flows of the bonds stemming from the agreed premiums amounting to USD 33.6 million (the equivalent of RUR 2,027 at the average exchange rate for March, 2015 provided by the Central Bank of Russia). This adjustment to the carrying value was recorded in the “Other non-operating (losses) / gains, net” as part of the “Early redemption fees” account to reflect on the nature of the adjustment. The unamortized debt issuance costs were released to the consolidated income statement at the date of the closing due significantly reduced expected remaining time of the amortization period. The total amount of the unamortized fees to be released amounted to USD 6 million (the equivalent of RUR 362 at the average exchange rate for March, 2015 provided by the Central Bank of Russia). Since the release of the debt issuance costs was part of the tender, it was recorded as part of “Other non-operating gain/(loss), net” in the account “Early redemption fees”.

On 5 March 2015, PJSC “VimpelCom” announced the reset of the coupon rate on its 8.85% put-able Ruble bonds in a principal amount of RUR 25,000 maturing on 8 March 2022 and in a principal amount of RUR 10,000 maturing on 14 March 2022. The new coupon rate of 10.00% per annum is applicable for the next four coupon periods (next two years) and will reset again on 5 March 2017 at the same time as the next bondholder put date. Following the reset of the coupon rate, bondholders exercised their put options in aggregate principal amounts of RUR 24,788 and RUR 9,995 which was repaid on 20 March 2015 and 26 March 2015, respectively. After that the outstanding principal amount of debt became RUR 217.

In March 2015, KaR-Tel LLP entered into an agreement to provide loans to Aureglia Limited in the amount of USD 100 million with a 2.41% interest rate per annum for a period of 175 days. On 10 March 2015, KaR-Tel LLP provided loans under this agreement in the amount of USD 100 million (the equivalent of RUR 5,999 as of 10 March 2015 at the exchange rate provided by the Central Bank of Russia). On 24 June 2015 the full outstanding amount of this loan was early repaid.

On 4 May 2015, KaR-Tel LLP entered into a KZT 8,300 million (the equivalent of RUR 2,284 as of 4 May 2015 at the exchange rate provided by the Central Bank of Russia) term loan facility agreement with Kazkommertsbank JSC as lender, bearing interest at a rate of 19%. KaR-Tel LLP has provided a cash deposit in the amount of USD 50 million (the equivalent of RUR 2,557 as of 4 May 2015 at the exchange rate provided by the Central Bank of Russia) as a security. The loan enables KaR-Tel LLP to ensure a higher level of liquidity in local currency. The facility has a term of one year and was fully drawn down on 4 May 2015.

On 24 September 2015, PJSC “VimpelCom” signed a loan facility agreement with CISCO Systems Finance International for a total amount of RUR 894. The purpose of the facility is to finance equipment provided to PJSC “VimpelCom” by CISCO Systems Finance International on a reimbursement basis. The facility bears interest at a rate of 12% per annum. On 2 October 2015, PJSC “VimpelCom” drew down RUR 894.

On 16 October 2015, PJSC ”VimpelCom” issued RUR 15,000 and RUR 10,000 Ruble bonds due in 2025 with a coupon of 11.90%, payable semi-annually. This coupon is applicable for the first four coupon periods (first two years) and will reset on 13 October 2017 along with the bondholder put date. The proceeds were used to refinance scheduled debt repayments.

On 3 November 2015, PJSC “VimpelCom” confirmed the final allocation of the secondary offer of Ruble bonds in a principal amount of RUR 14,840 due 2022 with an investor put option on 17 March 2017. The proceeds have been settled on 5 November 2015. The Bonds have a coupon of 10.0% per annum. Interest is payable semi-annually. The selling price was 98.05% and the yield to the next put option date is 11.91%. The proceeds were used to refinance scheduled debt repayments.

On 30 December 2015, the Company entered into Credit Facility agreement with “Sberbank of Russia” for the amount of RUR 30,000 that was fully drawn on 31 March 2016. The facility bears interest rate of 11.55%. Credit Facility matures on 29 June 2018.

15. Financial assets and liabilities (continued)

Major treasury events during 2015 (continued)

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.

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. The Company has designated the majority of its derivative contracts, which mainly relate to hedging the interest and foreign exchange risk of external debt, as formal hedges and applies hedge accounting on these derivative contracts.

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.

The company cash flow hedge accounting to hedge the risk on future foreign currency cash flows and floating interest rate cash flows.

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-RUR movements. As of 31 December 2015 the notional amount outstanding of these derivative contracts (only forwards) was RUR 35 713 with an average execution rate of 69.02 (As of 31 December 2014 notional amount outstanding of zero-cost collars was RUR 33 947 with an average cap rate of 48.72 and an average floor rate of 39.95).

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.

Available-for-sale financial assets

Available-for sale financial assets comprise investment in shares of VimpelCom Ltd. The fair value of the quoted equity shares is determined by reference to published price quotations in an active market. As part of stock-based compensation program of VimpelCom Ltd. VC ESOP N.V., a subsidiary of VimpelCom, holds shares of VimpelCom Ltd. The number of shares were 7 726 487 shares as of 31 December 2015 and 8,132,989 shares as of 31 December 2014.

(All amounts in millions of Rubles unless otherwise stated)

15. Financial assets and liabilities (continued)

Available-for-sale financial assets (continued)

For available-for-sale financial assets, the Company assesses at each reporting date whether there is objective evidence that an investment or a group of investments is impaired. In the case of equity investments classified as available-for-sale, objective evidence would include a significant or prolonged decline in the fair value of the investment below its cost. Based on these criteria, the Company did not identify impairment of available-for-sale investment in quoted shares in 2015 (2014: RUR 2,066).

Offsetting arrangements

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. Based on these documents, only in case of an Event of Default of either the entity or the counterparty, it is allowed to offset any derivative positions outstanding.

16. Other non-financial assets and liabilities

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

	31 December 2015	31 December 2014
Deferred costs related to connection fees	**152**	191
Advances to suppliers and prepayments	**87**	268
Other non-current assets	**197**	451
Other non–current non–financial assets	**436**	910

Other current non–financial assets consisted of the following:

	31 December 2015	31 December 2014
Advances to suppliers	**4,408**	5,570
Input value added tax	**3,059**	2,682
Prepaid taxes	**284**	21
Deferred costs related to connection fees	**94**	181
Others	**180**	169
Other current non–financial assets	**8,025**	8,623

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

	31 December 2015	31 December 2014
Long–term deferred revenue	**602**	880
Other non–current liabilities	**202**	–
Other non–current non–financial liabilities	**804**	880

(All amounts in millions of Rubles unless otherwise stated)

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

Other current non–financial liabilities consisted of the following:

	31 December 2015	31 December 2014
Customer advances, net of VAT	**13,787**	14,089
Other taxes payable	**5,631**	6,276
Amounts due to employees	**3,047**	2,255
Customer deposits	**1,457**	1,297
Short–term deferred revenue	**903**	1,236
Other liabilities	**366**	515
Other current non–financial liabilities	**25,191**	25,668

17. Inventories

Inventory consisted of the following:

	31 December 2015	31 December 2014
Telephone handsets and accessories for sale	**6,195**	3,260
SIM-Cards	**466**	499
Scratch cards	**33**	54
Other inventory	**386**	377
Obsolescence allowance	**(994)**	(563)
Total	**6,266**	3,627

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 RUR 2,103 and RUR 1,937 for the years ended 31 December 2015 and 2014, respectively.

18. Trade and other receivables

Trade and other receivables consisted of the following:

	31 December 2015	31 December 2014
Trade accounts receivable, gross	**28,452**	30,395
Allowance for doubtful accounts	**(2,825)**	(2,706)
Trade accounts receivable, net	**25,627**	27,689
Other receivables	**2,353**	1,408
Trade and other receivables	**27,980**	29,097

As of 31 December 2015 trade receivables with an initial value of RUR 2,825 (2014: RUR 2,706) were impaired and, thus, fully provided for. See below the movements in the allowance for the doubtful accounts:

	2015	2014
Balance as of 1 January	**2,706**	2,461
Charge for the year	**1,769**	1,504
Accounts receivable written off	**(1,596)**	(1,426)
Divestment of subsidiary	**–**	(54)
Foreign currency translation adjustment	**(54)**	221
Balance as of 31 December	**2,825**	2,706

(All amounts in millions of Rubles unless otherwise stated)

18. Trade and other receivables (continued)

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

		Neither past due	Past due but not impaired		
	Total	**nor impaired**	**< 30 days**	**30-120 days**	**> 120 days**
As of 31 December 2015	**25,627**	**18,799**	**3,878**	**2,003**	**947**
As of 31 December 2014	27,689	20,869	4,038	2,328	454

19. Cash and cash equivalents

Cash and cash equivalents consisted of the following items:

	31 December 2015	**31 December 2014**
Cash and cash equivalents at banks and on hand	**62,885**	79,476
Short–term deposits with an original maturity of less than 92 days	**500**	7,721
Total cash and cash equivalents	**63,385**	87,197

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

The cash balances as of 31 December 2015 in Uzbekistan of RUR 36,083 (31 December 2014: RUR 29,954) are restricted from repatriation due to the local government and central bank regulations. The restrictions have effect on international payments only, while such cash can be used for transactions within the country.

20. Issued capital

Common shares

As of 31 December 2015, 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 2015, 51,281,021 common shares were owned by PJSC "VimpelCom"'s immediate parent VimpelCom Holdings B.V., the wholly-owned indirect subsidiary of VimpelCom Ltd. and 1 common share was owned by VimpelCom 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.

(All amounts in millions of Rubles unless otherwise stated)

20. Issued capital (continued)

Convertible preference shares

In 1996, PJSC VimpelCom issued 6,426,600 preferred shares. As of 31 December 2015, all of the shares of preferred stock (6,426,600 shares) were owned by PJSC "VimpelCom"'s parent VimpelCom Holdings B.V., the subsidiary of VimpelCom 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.

21. Dividends

On 17 July 2015 the subsidiary of the Company VimpelCom Kazakhstan Holding AG declared and paid dividends to non-controlling interest in the amount of USD 104.28 million (the equivalent of RUR 5,939 as of 17 July 2015 at the exchange rate provided by the Central Bank of Russia).

On 11 August 2015 the subsidiary of the Company VimpelCom Kyrgyzstan Holding AG declared dividends to non-controlling interest in the amount of USD 22.8 million (the equivalent of RUR 1,469 as of 11 August 2015 at the exchange rate provided by the Central Bank of Russia). The dividends were paid on 17 August 2015.

22. Provisions

The following table summarizes the movement in provisions for the years ended 31 December 2015 and 2014:

	Income taxes provisions	Tax provisions other than income tax	Provision for decommis-sioning	Legal and other provisions	Total provisions
As of 31 December 2014	**3,107**	**736**	**5,394**	**423**	**9,660**
Arising during the year	2,325	288	879	1,280	**4,772**
Utilised	–	–	(33)	(1,059)	**(1,092)**
Unused amounts reversed	(3,567)	(588)	(2,538)	(306)	**(6,999)**
Translation adjustment	17	55	(102)	(110)	**(140)**
At 31 December 2015	**1,882**	**491**	**3,600**	**228**	**6,201**
Non–current portion	–	–	3,600	–	**3,600**
Current portion	1,882	491	–	228	**2,601**

	Income taxes provisions	Tax provisions other than income tax	Provision for decommis-sioning	Legal and other provisions	Total provisions
As of 31 December 2013	**2,859**	**625**	**4,147**	**243**	**7,874**
Arising during the year	1,059	511	1,094	158	**2,822**
Divestment of a subsidiary	(10)	(10)	–	–	**(20)**
Utilised	(292)	(127)	(72)	–	**(491)**
Unused amounts reversed	(570)	(260)	(43)	(2)	**(875)**
Translation adjustment	61	(3)	268	24	**350**
As of 31 December 2014	**3,107**	**736**	**5,394**	**423**	**9,660**
Non-current portion	–	–	5,394	–	**5,394**
Current portion	3,107	736	–	423	**4,266**

(All amounts in millions of Rubles unless otherwise stated)

23. Related parties

Shareholders and other related parties

As of 31 December 2015, PJSC "VimpelCom" is a wholly-owned indirect subsidiary of VimpelCom Ltd. As of 31 December 2015, VimpelCom Ltd. is primarily owned by two major 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"). VimpelCom 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 2015	**For the year ended 31 December 2014**
Revenue from Telenor	**47**	12
Revenue from Kyivstar	**4,736**	5,835
Revenue from associates	**336**	395
Revenue from joint ventures	**297**	434
Revenue from Teta Telecom or its subsidiaries	**2,197**	1,821
Revenue from other related parties	**1,046**	987
	8,659	9,484
Services from Telenor	**123**	21
Services from Kyivstar	**5,783**	5,345
Services from associates	**243**	269
Services from joint ventures	**1,216**	1,393
Services from Teta Telecom or its subsidiaries	**5,940**	4,655
Services from VimpelCom Ltd. or its subsidiaries	**7,600**	5,530
Services from other related parties	**22**	106
	20,927	17,319
Finance income from VimpelCom Ltd. or its subsidiaries	**730**	13,030
Finance costs from VimpelCom Ltd. or its subsidiaries	**3,007**	5,600
Other gain/(loss) from other related parties, net	**452**	26

	As of 31 December 2015	**As of 31 December 2014**
Accounts receivable from Telenor	**85**	213
Accounts receivable from Kyivstar	**756**	2,991
Accounts receivable from associates	–	79
Accounts receivable from joint ventures	**618**	1,496
Accounts receivable from Teta Telecom or its subsidiaries	**307**	522
Accounts receivable from VimpelCom Ltd. or its subsidiaries	**3,929**	2,155
Accounts receivable from other related parties	**101**	341
	5,796	7,797
Accounts payable to Telenor	**(65)**	91
Accounts payable to Kyivstar	**723**	1,974
Accounts payable to associates	–	26
Accounts payable to joint ventures	**162**	1,125
Accounts payable to Teta Telecom or its subsidiaries	**1,333**	1,955
Accounts payable to VimpelCom Ltd. or its subsidiaries	**6,023**	3,282
	8,176	8,453
Loans granted to VimpelCom Ltd. or its subsidiaries	**93,063**	244,791
Interest receivable from VimpelCom Ltd. or its subsidiaries	**730**	3,240
Loans received from VimpelCom Ltd. or its subsidiaries	**35,068**	122,882
Interest payable to VimpelCom Ltd. or its subsidiaries	**6,800**	1,055

(All amounts in millions of Rubles unless otherwise stated)

23. Related parties (continued)

Shareholders and other related parties (continued)

Outstanding balances and 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.

Outstanding balances and transactions with joint ventures and associates relate to operations with VimpelCom’s equity investees (Note 12.3) and mainly represent sales of handsets equipment and accessories, dealer commission and bonus payments for acquisition of new customers, customer care, receipt of subscribers’ payments and sale of scratch-cards, services for development of retail stores under «Beeline» brand name.

Outstanding balance and transactions with Kyivstar (subsidiary of VimpelCom Ltd.) and Teta Telecom and its consolidated subsidiaries (subsidiaries of VimpelCom Ltd.), mainly represent telecommunication services.

Loans granted to VimpelCom Ltd. or its subsidiaries

As of 31 December 2015 and 31 December 2014, the principal amounts of loans granted to VimpelCom Ltd. or its subsidiaries were as follows:

Borrower	Date of agreement	Maturity	Interest rate	Currency	31 December 2015	31 December 2014
VimpelCom Amsterdam B.V.[1]	13 Apr 2015	Apr, 2018	LIBOR + 4%	USD	**45,187**	–
VimpelCom Ltd.	7 Oct 2010	Dec., 2070	LIBOR+7.5%	USD	**40,921**	31,587
Kyivstar[2]	8 June 2004	Feb., 2016	5.00%	USD	**1,917**	1,480
Teta Telecom	2007-2011	2017-2021	10.60%	KZT	**1,378**	2,288
Kyivstar[2]	15 Oct 2008	Feb., 2016	7.70%	USD	**1,093**	1,030
VimpelCom (BVI) AG[2]	27 Jul 2010	Jul., 2016	5.20%	USD	**751**	580
VimpelCom (BVI) AG[2]	17 Nov 2011	Nov.,2016	5.20%	USD	**671**	518
Golden Telecom Limited[2]	1 Jun 2010	Sep., 2016	5.00%	USD	**430**	–
VimpelCom Amsterdam Finance B.V.[3]	13 May 2011	May, 2017	7.50%	USD	**–**	207,308
Others					**715**	–
Total					**93,063**	244,791

[1] On 13 April 2015, PJSC “VimpelCom” signed an agreement to grant a Revolving Credit Facility for the amount of one billion USD (the equivalent of RUR 51,068 as of 13 April 2015 at the exchange rate provided by the Central Bank of Russia) to VimpelCom Amsterdam B.V. The interest rate under this agreement is LIBOR (1 month) + 4% and it is determined monthly. In 2015, the net cash flow on this loan was amounted to USD 620 million (the equivalent of RUR 37,920 as of the dates of transactions at the exchange rate provided by the Central Bank of Russia). In January, 2016, VimpelCom Amsterdam B.V. repaid USD 250 million (the equivalent of RUR 19,622 as of the date of transaction at the exchange rate provided by the Central Bank of Russia). In February, 2016, VimpelCom Amsterdam B.V. drew down USD 90 million (the equivalent of RUR 6,870 as of the dates of transactions at the exchange rate provided by the Central Bank of Russia);

[2] The full outstanding amount of loans were repaid in February, 2016;

[3] The full outstanding amount of this loan was early repaid in 2015.

(All amounts in millions of Rubles unless otherwise stated)

23. Related parties (continued)

Loans received from VimpelCom Ltd. or its subsidiaries

As of 31 December 2015 and 31 December 2014, the principal amounts of loans received from VimpelCom Ltd. or its subsidiaries were as follows:

Lender	Date of agreement	Maturity	Interest rate	Currency	31 December 2015	31 December 2014
Weather Capital Special Purpose 1 S.A.[1]	26 Mar. 2015	Mar., 2032	6.50%	USD	**14,307**	–
VimpelCom Holdings B.V.	14 Feb. 2013	Feb., 2018	9.60%	RUR	**12,000**	12,000
Weather Capital Special Purpose 1 S.A.[2]	13 Apr. 2007	Apr., 2017	11.00%	USD	**5,335**	3,710
Weather Capital Special Purpose 1 S.A.[3]	27 May 2008	Jun., 2016	11.00%	USD	**3,426**	1,969
Weather Capital Special Purpose 1 S.A.[4]	3 Oct. 2013	Feb., 2020	5.67-6.07%	USD	–	35,724
Weather Capital Special Purpose 1 S.A.[4]	13 Nov. 2013	Feb., 2020	5.56-5.96%	USD	–	32,630
Weather Capital Special Purpose 1 S.A.[4]	22 Apr. 2013	Oct., 2021	5.75%	USD	–	22,503
Weather Capital Special Purpose 1 S.A.[4]	21 Jan. 2014	Feb., 2020	5.44-5.80%	USD	–	14,346
Total					**35,068**	122,882

[1] As of 31 December 2014, Mobitel, the Company's operator in Georgia, had intercompany debts to the PJSC "VimpelCom". On 26 March 2015, debts of Mobitel in the amount of USD 262 million (including accrued interest) (the equivalent of RUR 15,035 as of the date of the transaction at the exchange rate provided by the Central Bank of Russia) was sold to VimpelCom Amsterdam B.V. at par. Thereafter these debts were sold to Weather Capital Special Purpose 1 S.A. with the maturity in March 2032 bearing fixed interest of 6.5%;

[2] On 31 December 2015, accrued interest in the amount of USD 7.25 million (the equivalent of RUR 529 as of 31 December 2015 at the exchange rate provided by the Central Bank of Russia) were capitalized;

[3] On 31 December 2015, accrued interest in the amount of USD 2.83 million (the equivalent of RUR 207 as of 31 December 2015 at the exchange rate provided by the Central Bank of Russia) were capitalized;

[4] The loan was fully early repaid of in February, 2015.

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 2015 are disclosed in Note 24. For the years ended 31 December 2015 and 2014, 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.

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 2015 amounted to RUR 773.9 (2014: RUR 301.8). The amount of social insurance contributions related to accrued remuneration to key management personnel of the Company amounted to RUR 99.9 (2014: RUR 29.6).

24. Commitments, contingencies and uncertainties

Risks

Currency control risks

The imposition of currency exchange controls or other similar restrictions on currency convertibility in the countries in which VimpelCom operates (particularly in Uzbekistan) 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.

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. During 2015 the Russian economy was negatively impacted by low oil prices, ongoing political tension in the region and continuing international sanctions against certain Russian companies and individuals, all of which contributed to the country's economic recession characterised by a decline in gross domestic product. The financial markets continue to be volatile and are characterised by frequent significant price movements and increased trading spreads. Russia's credit rating was downgraded to below investment grade. 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.

Also, other economies of countries where VimpelCom operates are vulnerable to market downturns and economic slowdowns elsewhere in the world. The respective governments of these countries continue to take measures to support the economies in order to overcome the consequences of the global financial crisis. Despite some indications of recovery, there continues to be uncertainty regarding further economic growth, access to capital and cost of capital, which could negatively affect the Company's future financial position, results of operations and business prospects.

While management believes it is taking the appropriate measures to support the sustainability of VimpelCom's business in the current circumstances, unexpected further deterioration in the areas mentioned above could negatively affect the Company's results and financial position in a manner not currently determinable.

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, certain 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.

VimpelCom's operations and financial position will continue to be affected by political developments in the countries in which VimpelCom operates including the application of existing and future legislation, and telecom and tax regulations. These developments could have a significant impact on VimpelCom's ability to continue operations. VimpelCom does not believe that these contingencies, as related to its operations, are any more significant than those of similar enterprises in such countries.

(All amounts in millions of Rubles unless otherwise stated)

24. Commitments, contingencies and uncertainties (continued)

Risks

Tax risks

The tax legislation in the markets VimpelCom operates in is not highly predictable and gives rise to significant uncertainties, which could complicate our tax planning and business decisions. Tax law in the markets in which we operate is in process of constant development. The decisions of tax authorities in our country of operation are sometimes driven by fiscal goals rather than fairness motives.

In the Russian Federation there were many tax laws and related regulations introduced in previous periods as well as in 2015, which were not always clearly written, and their interpretation is subject to the opinions of the local tax inspectors and officials of the Ministry of Finance. Instances of inconsistent opinions between local, regional and federal tax authorities and Ministry of Finance are not unusual.

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).

Management believes that it 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. These exposures are estimates that result from uncertainties in interpretation of applicable legislation and related documentation requirements. Management will vigorously defend the entity's positions and interpretations that were applied in determining taxes recognised in these consolidated financial statements if these are challenged by the authorities.

Capital commitments

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

	2015	**2014**
Less than 1 year	8,960	495
Between 1 and 3 years	–	–
Total	**8,960**	**495**

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 and other commitments including meeting certain conditions established by the legislation regulating the communications industry. 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.

If we fail to comply with the conditions of our licenses or with the requirements established by the legislation regulating the communications industry, or if we do not obtain or comply with permits for the operation of our equipment, use of frequencies or additional licenses for broadcasting directly or through agreements with broadcasting companies, the applicable regulator could decide to levy fines, suspend, terminate or refuse to renew the license or permit. Such regulatory actions could adversely impact our ability to carry out divestitures in the relevant jurisdictions. The occurrence of any of these events could materially harm our ability to build out our networks in accordance with our plans and to retain and attract customers, could harm our reputation and could harm our business, financial condition, results of operations, cash flows and prospects.

24. Commitments, contingencies and uncertainties (continued)

Telecom Licenses Capital Commitments (continued)

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 RUR 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.

iPhone Agreement

On 4 October 2013, PJSC “VimpelCom” and Apple RUS signed an agreement regarding VimpelCom’s purchase of iPhones from Apple RUS (the “Agreement"). Under the Agreement, a specified number of iPhones handsets are to be ordered by PJSC “VimpelCom” each quarter between 4 October 2013 and 30 June 2016 according to a schedule (the “Schedule”). Pursuant to the Agreement, PJSC “VimpelCom” must acquire a minimum of 600,000 iPhone handsets during the period of the Agreement. If PJSC “VimpelCom” does not comply with the Schedule and certain other terms of the Agreement, then according to the Agreement, PJSC “VimpelCom” could become liable for the shortfall in orders of iPhone handsets.

Contingencies and uncertainties

Investigations by SEC/DOJ/OM

VimpelCom Ltd., the indirect parent of the Company, has reached resolutions through agreements with the U.S. Department of Justice (the “DOJ”), the U.S. Securities and Exchange Commission (the “SEC”) and the Dutch Public Prosecution Service (Openbaar Ministerie) (the “OM”) relating to the previously disclosed investigations under the FCPA and relevant Dutch laws pertaining to VimpelCom’s business in Uzbekistan and prior dealings with Takilant Ltd. The relevant agreements have been approved by the authorities. Pursuant to these agreements, VimpelCom Ltd. agreed to pay an aggregate amount of USD 795 million in fines and disgorgements to the SEC, the DOJ and the OM.

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. In particular, the District Court approved without modification the deferred prosecution agreement (the “DPA”) entered into by VimpelCom Ltd. and the DOJ related to charges of conspiracy to violate the anti-bribery and the books-and-records provisions of the FCPA and violation of the internal controls provisions of the FCPA. In addition, Unitel LLC (“Unitel”), a subsidiary of VimpelCom Ltd. and the Company operating in Uzbekistan, pleaded guilty to conspiring to violate the anti-bribery provisions of the FCPA, and the District Court immediately sentenced Unitel in accordance with the plea agreement between VimpelCom Ltd. and the DOJ. Under the agreements with the DOJ, VimpelCom Ltd. agreed to pay a total criminal penalty of USD 230 million to the United States, including USD 40 million in forfeiture.

In connection with the investigation by the OM, VimpelCom Ltd. and Silkway Holding BV, a wholly owned subsidiary of VimpelCom Ltd. and the Company, entered into a settlement agreement (the “Dutch Settlement Agreement”) related to alleged violations of anti-bribery and false books-and-records provisions of Dutch law. Pursuant to the Dutch Settlement Agreement, VimpelCom Ltd. agreed to pay criminal fines of USD 230 million and to disgorge USD 375 million, to be 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.

24. Commitments, contingencies and uncertainties (continued)

Contingencies and uncertainties (continued)

Investigations by SEC/DOJ/OM (continued)

VimpelCom Ltd. also consented to the entry of a settlement (the “Consent”) relating to the SEC’s complaint against VimpelCom Ltd., which charged violations of the anti-bribery, books-and-records and internal controls provisions of the FCPA. On 22 February 2016, the District Court issued a final judgment that in part affirmed the terms of the Consent. Pursuant to the Consent, VimpelCom 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.

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

All amounts to be paid under the DPA, the guilty plea, the Dutch Settlement Agreement and the Consent were paid by VimpelCom Ltd. in February and March 2016 and were included in the provision made by VimpelCom Ltd. in its financial statements for the year ended 31 December 2015. Under the DPA, the DOJ will defer criminal prosecution of VimpelCom Ltd. for a term of three years. If VimpelCom Ltd. remains in compliance with all terms of the DPA during its term, the charges against VimpelCom Ltd. will be dismissed with prejudice. Under the DPA and pursuant to the Consent, VimpelCom Ltd. also represented that it has implemented and agreed that it will continue to implement a compliance and ethics program designed to prevent and detect violations of the FCPA and other applicable anti-corruption laws throughout its operations.

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 VimpelCom 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.

Under the DPA and the Consent, VimpelCom Ltd. agreed to appoint an independent compliance monitor (the “monitor”). Pursuant to the DPA and the Consent, the monitorship will continue for a period of three years, and the term of the monitorship may be terminated early or extended depending on certain circumstances, as ultimately determined and approved by the DOJ and SEC. If the DOJ determines that VimpelCom Ltd. has violated the DPA, the DOJ, in its sole discretion, may commence prosecution for the conduct covered by the DPA or extend the period of the DPA for up to one year. The monitor will assess and monitor VimpelCom Ltd.’s compliance with the terms of the DPA and Consent by evaluating, among other things, VimpelCom Ltd.’s corporate compliance program, internal accounting controls, recordkeeping and financial reporting policies and procedures. The monitor may recommend changes to VimpelCom Ltd.’s policies, procedures, and internal accounting controls that must be adopted unless they are unduly burdensome or otherwise inadvisable, in which case VimpelCom Ltd. may propose alternatives, which the DOJ and the SEC may or may not accept.

Additionally, VimpelCom Ltd. has incurred significant costs in connection with retention of legal counsel and other vendors/advisors and the internal investigation undertaken in connection with these matters. Other than what has been provided for as part of the settlement by VimpelCom Ltd., it cannot be estimated how much costs are likely to be incurred in connection with compliance with the DPA, the Consent and the Dutch Settlement Agreement, including the ongoing obligations to cooperate with the agencies regarding their investigations of other parties, the monitorship, and the costs of implementing the changes, if any, to VimpelCom Ltd.’s policies and procedures required by the monitor. However, such costs could be significant.

24. Commitments, contingencies and uncertainties (continued)

Contingencies and uncertainties (continued)

Investigations by SEC/DOJ/OM (continued)

Furthermore, the DOJ has initiated two asset forfeiture proceedings alleging that various funds located in various jurisdictions were amassed in violation of U.S. law. The relevant complaints include allegations regarding conduct by multiple companies related to the telecommunications sector in Uzbekistan, including VimpelCom Ltd., Unitel and Takilant. However, VimpelCom Ltd. and Unitel are not defendants in these actions, and VimpelCom Ltd. and Unitel do not possess or otherwise have any claims against the assets involved in the litigation. The allegations involving VimpelCom Ltd. and Unitel are the same facts covered by the agreements by VimpelCom Ltd. and Unitel with the DOJ, SEC and OM. Specifically, on 29 June 2015, the DOJ filed a civil complaint in the Southern District Court of New York, seeking the forfeiture of USD 300 million of property located in Belgium, Ireland and Luxembourg that it claims was derived in violation of U.S. law. On 10 July 2015, a federal judge signed warrant orders allowing the DOJ to proceed with forfeiture actions as described in the complaint. In that case, on 11 January 2016, the Southern District Court of New York entered a partial default judgment against all potential claimants to the subject property other than the Republic of Uzbekistan. On 18 February 2016, the DOJ filed a second civil complaint, seeking forfeiture of USD 550 million held in Swiss bank accounts, which it claims was similarly derived in violation of U.S. law. On 23 February 2016, a federal judge signed a warrant order in that case, allowing it to move forward.

KaR-Tel - Turkish Litigation

In 2005, the Savings Deposit Insurance Fund (the “Fund”), a Turkish state agency responsible for collecting state claims arising from bank insolvencies, issued a Payment Order against KaR-Tel for TRY 7.55 billion (the equivalent of approximately RUR 183,256 as of 31 December 2014 at the exchange rate provided by the Central Bank of Russia) . The Payment Order was based on the Fund’s claim against the Turkish Uzan Group, which the Fund alleged was a debtor of T. Imar Bankasi, an insolvent Turkish bank. Two entities in the Uzan Group (the “Former Shareholders”) held a 60% equity interest in KaR-Tel until November 2003 when KaR-Tel redeemed the Former Shareholders’ equity interest pursuant to a decision of the Almaty City Court of 6 June 2003, which was confirmed by the Kazakhstan Supreme Court on 23 July 2003 (the “Kazakh Judgment”).

On 20 October 2009, KaR-Tel filed with the Sisli 3d Court of the First Instance in Istanbul an application for the recognition of the Kazakh Judgment in Turkey. Following a number of hearings and appeals, on 30 January 2013, the Supreme Court upheld earlier court decisions and confirmed the recognition of the Kazakh Judgment in Turkey.

On 20 October 2009, KaR-Tel also filed with the 4th Administrative Court of Istanbul a petition asking the court to treat the recognition of the Kazakh Judgment as a court precedent and to suspend the enforcement proceedings in relation to the Order to Pay. On 25 October 2010, the 4th Administrative Court ruled that the Order to Pay was illegal and annulled it. The Court’s decision was appealed by the Fund.

On 22 March 2012, the Fund’s appeal of the decision of the 4th Administrative Court was reviewed by the Prosecution Office of the Council of State and sent to the 13th Chamber of the Council of State (the “Chamber”) for review on the merits.

On 10 April 2015, the Chamber upheld the decision of the 4th Administrative Court and ruled in KaR-Tel’s favour. The Fund filed a claim for correction of the Chamber’s decision on 8 June 2015.

KaR-Tel maintains that the Fund’s claim is without merit and intends to pursue its rights vigorously.

24. Commitments, contingencies and uncertainties (continued)

Contingencies and uncertainties (continued)

Other contingencies and uncertainties

In addition to the individual matters discussed above, the Company is also involved in legal proceedings relating to the normal conduct of its business, such as claims for regulatory and employment issues as well as general liability. The Company believes it has provided for all probable liabilities deriving from the normal course of business. The Company does not expect any liability arising from any other of these legal proceedings to have a material effect on the results of operations, liquidity, capital resources or financial position of the Company.

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.

Pledges and guarantees

Collateral

A subsidiary B.V. Vimpelcom Finance S.à.r.l. has short term deposits as of 31 December 2015 and 2014 for USD 20 million (the equivalent of RUR 1,490 as of 31 December 2015 at the exchange rate provided by the Central Bank of Russia) and USD 20 million (the equivalent of RUR 1,125 as of 31 December 2014 at the exchange rate provided by the Central Bank of Russia), respectively, with ANZ Bank as security for the loan provided by the same bank to VimpelCom Lao Co. Ltd. The loan from ANZ Bank was repaid on 29 January 2016 and the related deposit was released as well.

Guarantees in favour of VimpelCom Holdings B.V.

On 29 June 2011, VimpelCom Holdings B.V., a subsidiary owned by VimpelCom Ltd., completed an offering of an aggregate principal amount of USD 2,200 million notes (the equivalent of RUR 62,117 as of 29 June 2011 at the exchange rate provided by the Central Bank of Russia) split between three, five and ten year tranches, with an annual interest rates range of LIBOR plus 4.0% - 7.50%. The Company guaranteed these notes issues. On 2 April 2015, VimpelCom Amsterdam B.V. partially repurchased the current notes issued by VimpelCom Holdings B.V. As of 31 December 2015, the outstanding principal amount under the notes was USD 1,629 million (the equivalent of RUR 118,702 as of 31 December 2015 at the exchange rate provided by the Central Bank of Russia). No triggering events under the guarantee occurred. The Company believes that probability of these events is remote.

On 13 February 2013, VimpelCom Holdings B.V. completed an offering of an aggregate principal amount of USD 1,600 million notes (the equivalent of RUR 48,274 as of 13 February 2013 at the exchange rate provided by the Central Bank of Russia) and notes, denominated in RUR, in the amount of RUR 12,000, split between five, six and ten year tranches, with an annual interest rates range of 5.20%-9.00%. VimpelCom guaranteed these notes issues. On 2 April 2015, VimpelCom Amsterdam B.V. partially repurchased the current notes issued by VimpelCom Holdings B.V. As of 31 December 2015, the outstanding principal amount under the notes was USD 1,553 million (the equivalent of RUR 113,182 as of 31 December 2015 at the exchange rate provided by the Central Bank of Russia) and RUR 12,000. No triggering events under the guarantee occurred. The Company believes that probability of these events is remote.

(All amounts in millions of Rubles unless otherwise stated)

24. Commitments, contingencies and uncertainties (continued)

Pledges and guarantees (continued)

Guarantees in favour of VimpelCom Amsterdam B.V.

On 20 December 2012, VimpelCom Amsterdam B.V. completed a term credit facility of USD 500 million (the equivalent of RUR 15,380 as of 20 December 2012 at the exchange rate provided by the Central Bank of Russia). The 8 years credit facility for VimpelCom Amsterdam B.V. is committed by China Development Bank Corporation to finance Huawei equipment. The loan bears interest at the rate of LIBOR plus 3.30% per annum. VimpelCom guaranteed this term credit facility. As of 31 December 2015, the outstanding principal amount was USD 415.23 million (the equivalent of RUR 30,263 as of 31 December 2015 at the exchange rate provided by the Central Bank of Russia). No triggering events under the guarantee occurred. The Company believes that probability of these events is remote.

On 28 March 2013, VimpelCom Amsterdam B.V. completed a term credit facility of USD 500 million (the equivalent of RUR 15,432 as of 28 March 2013 at the exchange rate provided by the Central Bank of Russia). The 8 years credit facility for VimpelCom Amsterdam B.V. is committed by HSBC Bank plc to finance Ericsson equipment. The loan bears interest at the rate of CIRR plus 0.02% per annum. VimpelCom guaranteed this term credit facility. As of 31 December 2015, the outstanding principal amount was USD 222.34 million (the equivalent of RUR 16,204 as of 31 December 2015 at the exchange rate provided by the Central Bank of Russia). No triggering events under the guarantee occurred. The Company believes that probability of these events is remote.

Operating lease commitments

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

	31 December 2015	**31 December 2014**
Less than 1 year	**2,386**	2,018
Between 1 and 5 years	**5,907**	6,542
More than 5 years	**45**	258
Total	**8,338**	8,818

Operating lease commitments mainly relate to the lease of base station sites and office spaces.

Total operating lease expenses amounted to RUR 14,580 in 2015 and RUR 15,081 in 2014.

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 2015		**31 December 2014**	
	Minimum payments	**Present value of payments**	**Minimum payments**	**Present value of payments**
Within one year	**908**	**612**	611	381
Between one and five years	**2,172**	**1,214**	1,895	1,081
More than five years	**2,429**	**1,350**	2,187	1,114
Total minimum lease payments	**5,509**	**3,176**	4,693	2,576
Less amounts representing finance charges	**(2,333)**	**–**	(2,117)	–
Total payments	**3,176**	**3,176**	2,576	2,576

25. Events after the reporting period

On 10 March 2016, VimpelCom signed an agreement to sell its indirect 99.99% stake in VC ESOP N.V. to one of the subsidiaries of VimpelCom Ltd. and related party of the Group for total consideration of USD 1. The ownership of the 99.99% shares in VC ESOP N.V. was transferred from the Group on 1 January 2016. As of 1 January 2016, net liabilities of VC ESOP N.V. were RUR 6,873.

On 26 February 2016, B.V. Vimpelcom Finance S.à.r.l. subsidiary of the PJSC “VimpelCom” entered into a term loan facility agreement with related party VimpelCom Micro Holdings B.V. bearing interest at a rate of 5%. On 15 March 2016, B.V. Vimpelcom Finance 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). The facility matures on 26 February 2018.