Unaudited interim condensed consolidated financial statements

Public Joint Stock Company "Vimpel-Communications"

(a wholly-owned subsidiary of VEON Ltd.)

as of 31 March 2018 and
for the three months ended 31 March 2018

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(a wholly-owned subsidiary of VEON Ltd.)

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Contents

Report on Review of Interim Condensed Financial Information

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

Introduction

We have reviewed the accompanying interim consolidated statement of financial position of Public Joint Stock Company "Vimpel-Communications" (a wholly-owned subsidiary of VEON Ltd.) and its subsidiaries (hereinafter collectively referred to as "VimpelCom") as of 31 March 2018, and the related interim consolidated income statements and statements of comprehensive income, changes in equity and cash flows for the three-month period then ended. Management is responsible for the preparation and presentation of these interim condensed consolidated financial statements in accordance with International Accounting Standard 34, "Interim Financial Reporting". Our responsibility is to express a conclusion on these interim condensed consolidated financial statements based on our review.

Scope of Review

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

Conclusion

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

AO PricewaterhouseCoopers Audit

16 May 2018
Moscow, Russian Federation

E.V. Klimenko, engagement partner (license No.01-000057)

Audited entity: Public Joint Stock Company Vimpel-Communications

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

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

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

Independent auditor: AO PricewaterhouseCoopers Audit

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

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

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

ORNZ 11603050547 in the register of auditors and audit organizations

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

Interim consolidated income statement
for the three months ended 31 March 2018
(All amounts in millions of Rubles)

	Note	Three months ended 31 March 2018 (unaudited)	Three months ended 31 March 2017 (unaudited)
Service revenue		**75,706**	79,009
Sale of equipment and accessories		**3,199**	2,583
Other revenue		**398**	385
Total operating revenue	4	**79,303**	81,977
Operating expenses			
Service costs		**(17,353)**	(19,871)
Cost of equipment and accessories		**(3,049)**	(2,774)
Selling, general and administrative expenses	5	**(28,740)**	(31,069)
Depreciation	8	**(13,483)**	(14,285)
Amortization	9	**(2,660)**	(2,883)
Impairment loss	8	**(71)**	(20)
Loss on disposal of non-current assets		**(143)**	(175)
Total operating expenses		**(65,499)**	(71,077)
Operating profit		**13,804**	10,900
Finance costs		**(5,780)**	(5,421)
Finance income		**1,162**	1,355
Net foreign exchange gain		**1,420**	7,376
Other non-operating loss, net	6	**(111)**	(2,055)
Share of loss of joint ventures accounted for using the equity method		**–**	(707)
Profit before tax		**10,495**	11,448
Income tax expense	7	**(4,211)**	(1,713)
Profit for the period		**6,284**	9,735
Attributable to:			
The owners of the Company		**5,412**	8,751
Non-controlling interests		**872**	984
		6,284	9,735

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

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

Interim consolidated statement of comprehensive income
for the three months ended 31 March 2018
(All amounts in millions of Rubles)

	Three months ended 31 March	
	2018 (unaudited)	**2017 (unaudited)**
Profit for the period	**6,284**	9,735
Other comprehensive loss		
Items that may be reclassified subsequently to profit or loss:		
Change cash flow hedge reserve	**–**	(99)
Income tax effect	**–**	–
Exchange differences arising on net investment in foreign operations	**(601)**	(16,693)
Income tax effect	**28**	604
Other comprehensive loss for the period, net of tax	**(573)**	(16,188)
Total comprehensive income / (loss) for the period, net of tax	**5,711**	(6,453)
Attributable to:		
The owners of the Company	**5,407**	(6,800)
Non-controlling interests	**304**	347
	5,711	(6,453)

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

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

Interim consolidated statement of financial position as of 31 March 2018

(All amounts in millions of Rubles)

	Note	31 March 2018 (unaudited)	31 December 2017 (audited)
Assets			
Non-current assets			
Property and equipment	8	**200,316**	204,661
Intangible assets	9	**32,073**	31,249
Goodwill	9	**100,975**	100,814
Deferred income tax assets		**3,832**	5,304
Other financial assets	10	**1,658**	2,255
Other non-current assets	11	**1,004**	555
Total non-current assets		**339,858**	344,838
Current assets			
Inventories		**6,154**	3,301
Trade and other receivables		**22,754**	23,641
Other current assets	11	**10,178**	11,695
Current income tax assets		**4,110**	5,669
Other current financial assets	10	**66,703**	72,379
Cash and cash equivalents	12	**28,267**	24,963
Total current assets		**138,166**	141,648
Assets classified as held for sale	3	**1,258**	1,296
Total assets		**479,282**	487,782
Equity and liabilities			
Equity			
Equity attributable to equity owners of the parent		**157,282**	151,706
Non-controlling interests		**5,881**	5,550
Total equity		**163,163**	157,256
Non-current liabilities			
Financial liabilities	10	**204,608**	208,427
Provisions		**3,427**	2,771
Other non-current liabilities	11	**674**	1,304
Deferred income tax liabilities		**9,299**	10,877
Total non-current liabilities		**218,008**	223,379
Current liabilities			
Trade and other payables		**55,215**	51,712
Dividends payable		**25**	25
Other financial liabilities	10	**11,550**	24,161
Other current liabilities	11	**25,779**	24,701
Current income tax payables		**780**	196
Provisions		**3,992**	3,988
Total current liabilities		**97,341**	104,783
Liabilities directly associated with the assets classified as held for sale	3	**770**	2,364
Total equity and liabilities		**479,282**	487,782

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

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

Interim consolidated statement of changes in equity
for the three months ended 31 March 2018

(All amounts in millions of Rubles)

		Attributable to the owners of the Company								
	Note	**Issued capital**	**Capital surplus**	**Other capital reserves**	**Retained earnings**	**Foreign currency translation reserve**	**Cash flow hedge reserve**	**Total**	**Non-controlling interests**	**Total equity**
As of 31 December 2017 (audited)		**3**	**40,234**	**37,317**	**135,096**	**(60,944)**	**–**	**151,706**	**5,550**	**157,256**
Adjustments arising due to new accounting standards	2	–	–	–	169	–	–	**169**	46	**215**
As of 1 January 2018		**3**	**40,234**	**37,317**	**135,265**	**(60,944)**	**–**	**151,875**	**5,596**	**157,471**
Profit for the period		–	–	–	5,412	–	–	**5,412**	872	**6,284**
Other comprehensive income / (loss)		–	–	–	–	(5)	–	**(5)**	(568)	**(573)**
Total comprehensive income		**–**	**–**	**–**	**5,412**	**(5)**	**–**	**5,407**	**304**	**5,711**
Disposal of subsidiary		–	–	–	–	–	–	**–**	(19)	**(19)**
As of 31 March 2018 (unaudited)		**3**	**40,234**	**37,317**	**140,677**	**(60,949)**	**–**	**157,282**	**5,881**	**163,163**

Interim consolidated statement of changes in equity
for the three months ended 31 March 2017

(All amounts in millions of Rubles)

	Attributable to the owners of the Company								
	Issued capital	**Capital surplus**	**Other capital reserves**	**Retained earnings**	**Foreign currency translation reserve**	**Cash flow hedge reserve**	**Total**	**Non-controlling interests**	**Total equity**
As of 31 December 2016 (audited)	**3**	**40,234**	**20,807**	**160,950**	**3,968**	**(117)**	**225,845**	**9,301**	**235,146**
Profit for the period	–	–	–	8,751	–	–	**8,751**	984	**9,735**
Other comprehensive income	–	–	–	–	(15,452)	(99)	**(15,551)**	(637)	**(16,188)**
Total comprehensive income / (loss)	**–**	**–**	**–**	**8,751**	**(15,452)**	**(99)**	**(6,800)**	**347**	**(6,453)**
Dividends declared	–	–	–	–	–	–	**–**	(3,215)	**(3,215)**
Changes in an ownership interest in a subsidiary that do not result in a loss of control	–	–	30	–	–	–	**30**	29	**59**
As of 31 March 2017 (unaudited)	**3**	**40,234**	**20,837**	**169,701**	**(11,484)**	**(216)**	**219,075**	**6,462**	**225,537**

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

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

Interim consolidated statement of cash flows
for the three months ended 31 March 2018

(All amounts in millions of Rubles)

	Note	Three months ended 31 March 2018	2017
Operating activities			
Profit for the period		**6,284**	9,735
Income tax expense	7	**4,211**	1,713
Profit before tax		**10,495**	11,448
Non-cash adjustments to reconcile profit before tax to net cash flows from operating activities:			
Depreciation	8	**13,483**	14,285
Impairment loss	8	**71**	20
Amortization	9	**2,660**	2,883
Loss on disposal of non-current assets		**143**	175
Finance income		**(1,162)**	(1,355)
Finance costs		**5,780**	5,421
Other non-operating loss, net	6	**111**	2,055
Net foreign exchange gain		**(1,420)**	(7,376)
Share of loss of joint ventures accounted for using the equity method		**–**	707
Movements in provisions		**259**	284
Operating cash flows before working capital adjustments, interest and income taxes		**30,420**	28,547
Working capital adjustments			
Change in trade and other receivables		**2,209**	909
Change in inventories		**(2,736)**	(314)
Change in trade and other payables		**3,610**	6,449
Interest and income taxes			
Interest paid		**(6,118)**	(5,120)
Interest received		**349**	560
Income tax paid		**(2,550)**	(4,583)
Net cash flows from operating activities		**25,184**	26,448
Investing activities			
Proceeds from sale of property, equipment and intangible assets, net of purchase of property, equipment and intangible assets		**(12,460)**	(17, 435)
Issue of loans		**(19,117)**	(3,780)
Repayment of loans issued		**26,266**	4,379
Inflows / (outflows) from deposits, net		**66**	(1,104)
Outflows from investments in other financial assets		**–**	(1,373)
Disposal of subsidiaries, net of cash disposed		**424**	–
Acquisition of subsidiaries, net of cash acquired		**17**	–
Net cash flows used in investing activities		**(4,804)**	(19,313)
Financing activities			
Proceeds from borrowings, net of fees paid		**286**	5,552
Repayment of borrowings		**(17,173)**	(18,191)
Dividends paid to non-controlling interests		**–**	(3,101)
Proceeds from changes in ownership interests in a consolidated subsidiaries		**–**	59
Net cash flows used in financing activities		**(16,887)**	(15,681)
Net increase / (decrease) in cash and cash equivalents		**3,493**	(8,546)
Effect of exchange rate changes on cash and cash equivalents, net		**(175)**	(4,842)
Cash and cash equivalents at the beginning of the period		**24,963**	47,510
Cash and cash equivalent classified as assets held for sale at the beginning of the period		**65**	–
Cash and cash equivalent classified as assets held for sale at the end of the period		**(79)**	–
Cash and cash equivalents at the end of the period		**28,267**	34,122

The accompanying notes are an integral part of these interim condensed 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 interim condensed consolidated financial statements are presented in Russian Rubles (“RUB”). In these notes, Russian Ruble amounts are presented in millions unless otherwise indicated.

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

As of 31 March 2018, the Company operated telecommunications services in Russia, Kazakhstan, Armenia, Uzbekistan, Georgia, Kyrgyzstan and Laos primarily under the “Beeline” brand name. As of 31 March 2018, our operations in Laos were classified as held for sale, see Note 3 for further details.

The interim condensed consolidated financial statements of the Company as of 31 March 2018 and for the three months ended 31 March 2018 were authorized for issue by the General Director on 16 May 2018.

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

Basis of preparation

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

The interim condensed consolidated financial statements do not include all the information and disclosures required in the annual consolidated financial statements and should be read in conjunction with the Group’s audited annual consolidated financial statements as of and for the year ended 31 December 2017, which have been prepared in accordance with International Financial Reporting Standards.

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

New standards, interpretations and amendments adopted by the Group

The accounting policies adopted in the preparation of the Group’s interim condensed consolidated financial statements are consistent with those followed in the preparation of the Group’s annual consolidated financial statements as of and for the year ended 31 December 2017 except for the adoption of amended Standards that are mandatory for financial annual periods beginning on 1 January 2018.

(All amounts in millions of Rubles unless otherwise stated)

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

New standards, interpretations and amendments adopted by the Group (continued)

A number of new and amended standards became effective as of 1 January 2018, the impact of which is described below. The Group has not early adopted any other standards, interpretations or amendments that have been issued but have not yet become effective.

New accounting standards in 2018

The following table presents the transitional impact that adoption of IFRS 9 "Financial Instruments" ("IFRS 9") and IFRS 15 "Revenue from contracts with customers" ("IFRS 15") have had on the opening balance sheet of the Group, as of 1 January 2018.

	Impact of IFRS 9	Impact of IFRS 15	Total impact
	Impairment	Revenue and contract costs	of IFRS 9 and IFRS 15
Assets			
Non-current assets			
Deferred tax assets	20	(153)	**(133)**
Other assets	–	557	**557**
Current assets			
Trade and other receivables, allowance for doubtful debt	(189)	–	**(189)**
Other assets	–	(148)	**(148)**
Equity and liabilities			
Equity attributable to equity owners of the parent	(151)	320	**169**
Non-controlling interests	(18)	64	**46**
Other liabilities	–	(128)	**(128)**

IFRS 15 "Revenue from contracts with customers"

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

Revenue recognition

Due to the nature of the Group's existing product offerings (i.e. prevailing pre-paid service offerings), as well as the Group's existing accounting policies, the impact of IFRS 15 on revenue recognition by the Group will be immaterial.

Costs of obtaining a contract with customer

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

The Group applies the practical expedient available in IFRS 15 for contract costs for which the amortization would have been shorter than 12 months. Such costs relate primarily to commissions paid to third-party dealers upon top-up of prepaid credit by customers and sale of top-up cards. The impact of capitalizing contract costs upon implementation of IFRS 15 is shown in the table earlier in this Note.

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

New standards, interpretations and amendments adopted by the Group (continued)

New accounting standards in 2018 (continued)

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

Transition

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

The impact that adoption of IFRS 15 has had on the opening balance sheet of the Group, as of 1 January 2018, is shown in the table presented earlier in this Note.

IFRS 9 “Financial instruments”

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

Classification and measurement

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

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

Debt instruments should be classified and measured either at:

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

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

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

The company continues to initially measure financial assets at its fair value plus transaction cost upon initial recognition, except for financial assets measured at fair value through profit and loss, consistent with current practices. The classification of financial assets has not been impacted by the transition to IFRS 9 on 1 January 2018.

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

New standards, interpretations and amendments adopted by the Group (continued)

New accounting standards in 2018 (continued)

IFRS 9 “Financial instruments” (continued)

Impairment (allowance for doubtful debt)

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

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

Hedge Accounting

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

Transition

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

All hedge accounting relationships existing as of 1 January 2018 have been continued under IFRS 9.

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

IFRS 16 “Leases”

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

IFRIC 23 “Uncertainty over income tax treatments”

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

(All amounts in millions of Rubles unless otherwise stated)

3. Significant transactions

Exit from Euroset Joint Venture

On 7 July 2017, PJSC "VimpelCom" entered into a Framework Agreement with PJSC "MegaFon" ("MegaFon") to unwind their retail joint venture, Euroset Holding N.V. ("Euroset"). On 22 February 2018, the completion occurred in relation to the transaction to end their Euroset joint venture. Pursuant to terms of the transaction, PJSC "VimpelCom" acquired approximately half of Euroset's retail stores in Russia and paid to MegaFon RUB 1,250, subject to certain adjustments, while MegaFon acquired PJSC "VimpelCom"'s 50% interest in Euroset, resulting in MegaFon now owning 100% of Euroset. As a result of the transaction, PJSC "VimpelCom" has fully disposed of its interest in Euroset. Prior to the transaction, Euroset, Russia's mobile and electronics retail network, was co-owned by PJSC "VimpelCom" and MegaFon. The transaction was accounted for as an asset acquisition, primarily the acquisition of contract-based intangible assets representing the right to use of retail stores.

Laos operations classified as held for sale

On 27 October 2017, VimpelCom Holding Laos B.V. ("VimpelCom Laos"), a subsidiary of the Company, entered into a Sale and Purchase Agreement for the sale of its operations in Laos to the Lao People's Democratic Republic ("Government of Laos"). Under the agreement, VimpelCom Laos will transfer its 78% interest in VimpelCom Lao Co. Limited ("VIP Lao") to the Government of Laos, the minority shareholder, in exchange for purchase consideration of USD 22 million. As a result of this anticipated transaction, we classified our Laos business as an asset held for sale on 30 June 2017. In connection with this classification, the Company no longer accounts for depreciation and amortization expenses of VIP Lao assets. Purchase consideration was received in two separate payments, on 8 December 2017 and 22 February 2018. The sale of Laos was completed subsequent to period end, on 3 May 2018.

As of 31 March 2018, the assets and liabilities of VIP Lao classified as held for sale are presented below:

	31 March 2018
Property and equipment	871
Intangible assets	118
Current assets	269
Total assets held for sale	**1,258**
Non-current liabilities	277
Current liabilities	493
Total liabilities directly associated with the assets classified as held for sale	**770**

Included in the equity of the Group is cumulative other comprehensive income of RUB 356 and non-controlling interests of RUB (118) related to Laos business, which is classified as held for sale.

4. Segment information

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

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

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

(All amounts in millions of Rubles unless otherwise stated)

4. Segment information (continued)

Financial information by reportable segment for the three months ended 31 March 2018 and 31 March 2017 is presented in the following tables. Inter-segment revenues between operating segments are on an arm's length basis in a manner similar to transactions with third parties. The segment data for acquired operations are reflected herein from the date of their respective acquisition.

Information by reportable segments for the three months ended 31 March 2018

	Russia	Uzbekistan	Kazakhstan	HQ and others	Group
Revenue					
External customers	66,394	4,295	5,803	2,811	**79,303**
Inter-segment	85	6	19	(110)	**–**
Total operating revenue	**66,479**	**4,301**	**5,822**	**2,701**	**79,303**
EBITDA	**24,749**	**1,926**	**2,277**	**1,209**	**30,161**
Other disclosures					
Capital expenditures	9,213	526	602	1,676	**12,017**
Impairment loss	(61)	–	(12)	2	**(71)**

Information by reportable segments for the three months ended 31 March 2017

	Russia	Uzbekistan	Kazakhstan	HQ and others	Group
Revenue					
External customers	64,608	9,002	5,179	3,188	**81,977**
Inter-segment	162	6	7	(175)	**–**
Total operating revenue	**64,770**	**9,008**	**5,186**	**3,013**	**81,977**
EBITDA	**23,805**	**4,639**	**1,877**	**(2,058)**	**28,263**
Other disclosures					
Capital expenditures	6,836	1,310	589	595	**9,330**
Impairment loss	(20)	–	–	–	**(20)**

The following table provides the reconciliation of consolidated EBITDA to consolidated profit for the three months ended 31 March:

	Three months ended 31 March	
	2018	**2017**
EBITDA	**30,161**	28,263
Depreciation	**(13,483)**	(14,285)
Amortization	**(2,660)**	(2,883)
Impairment loss	**(71)**	(20)
Loss on disposal of non-current assets	**(143)**	(175)
Finance costs	**(5,780)**	(5,421)
Finance income	**1,162**	1,355
Other non-operating loss, net	**(111)**	(2,055)
Share of loss of joint ventures accounted for using the equity method	–	(707)
Net foreign exchange gain	**1,420**	7,376
Income tax expense	**(4,211)**	(1,713)
Profit for the period	**6,284**	9,735

(All amounts in millions of Rubles unless otherwise stated)

5. Selling, general and administrative expenses

Selling, general and administrative expenses for the three months ended 31 March consist of the following:

	Three months ended 31 March	
	2018	**2017***
Personnel costs	**6,548**	7,247
Customer associated costs	**6,879**	6,846
Network and IT costs	**5,230**	4,840
Operating lease and other rent expenses	**4,620**	4,707
Taxes other than income tax	**2,669**	3,187
Consulting and professional service costs	**1,032**	2,445
Losses on receivables	**842**	782
Other G&A expenses	**920**	1,015
Total	**28,740**	31,069

* *In the second quarter of 2017, the Group aligned its practices for cost classification across the group by making reclassifications within selling, general and administrative expenses for certain cost categories and therefore the comparative figures for the three months ended 31 March 2017 were re-presented. Major changes related to partial reclassification of consulting and professional service costs and other general and administrative expenses to customer associated costs and taxes other than income tax. The impact of this refinement in policy was not material for any periods presented. The net results, financial position and operating cash flows for these periods remained unaffected. The Company concluded that the updated classification within selling, general and administrative expenses better reflected the actual nature of such costs.*

6. Other non-operating loss, net

Other non-operating loss, net consisted of the following for the three months ended 31 March:

	Three months ended 31 March	
	2018	**2017**
Changes in the fair value of non-hedge derivatives	**81**	(2,079)
Loss on sale of foreign currency, net	**(3)**	(18)
Other (loss) / gain, net	**(189)**	42
Total other non-operating loss, net	**(111)**	(2,055)

7. Income taxes

Income tax expense is recognised in each interim period based on the best estimate of the weighted average annual income tax rate expected for the full financial year. Amounts accrued for income tax expense in one interim period may have to be adjusted in a subsequent interim period of that financial year if the estimate of the annual income tax rate changes.

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

Income tax expense consisted of the following for the three months ended 31 March:

	Three months ended 31 March	
	2018	**2017**
Profit before tax	**10,495**	11,448
Current income tax	**(5,004)**	(3,686)
Deferred income tax	**793**	1,973
Income tax expense reported in the interim consolidated income statement	**(4,211)**	(1,713)
Effective tax rates	**40%**	15%

(All amounts in millions of Rubles unless otherwise stated)

7. Income taxes (continued)

The effective income tax rate for the three months ended 31 March 2018 amounts to 40% (2017: 15%). In the three-month period ended 31 March 2018 the effective income tax rate was mainly driven by higher tax rate in Uzbekistan, new transition tax introduced in United States, which includes new requirements with respect to foreign income inclusion and deduction items, and other adjustments relating to Russia and Uzbekistan. In the three-month period ended 31 March 2017 the effective income tax rate was mainly driven by non-deductible expenses and higher tax rate in Uzbekistan.

8. Property and equipment

During the three months ended 31 March 2018 and 2017, the Company had the following changes in property and equipment:

		Three months ended 31 March	
	Note	**2018**	**2017**
Net book value as of 1 January		**204,661**	237,011
Additions		**8,879**	7,603
Net book value of assets disposed		**(283)**	(324)
Translation adjustment		**613**	(4,659)
Depreciation charge		**(13,483)**	(14,285)
Impairment		**(71)**	(20)
Net book value as of 31 March		**200,316**	225,326

9. Intangible assets and goodwill

During the three months ended 31 March 2018 and 2017, the Company had the following changes in intangible assets and goodwill:

	Three months ended 31 March			
	2018		**2017**	
	Other intangible assets	**Goodwill**	**Other intangible assets**	**Goodwill**
Opening net book value as of 1 January	**31,249**	**100,814**	35,565	106,617
Additions	**3,138**	–	1,728	–
Net book value of assets disposed	–	–	(7)	–
Translation adjustment	**346**	**161**	(309)	(1,328)
Amortization charge	**(2,660)**	–	(2,883)	–
Closing net book value as of 31 March	**32,073**	**100,975**	34,094	105,289

Goodwill is tested for impairment annually (at 1 October) or when circumstances indicate the carrying value may be impaired. The Company's impairment test for goodwill is primarily based on fair value less cost of disposal calculations that use a discounted cash flow model. The key assumptions used to determine the recoverable amount for the different cash generating units were disclosed in the annual consolidated financial statements as of and for the year ended 31 December 2017.

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

There was no goodwill impairment recorded during the three months period ended 31 March 2018.

(All amounts in millions of Rubles unless otherwise stated)

10. Financial assets and liabilities

Carrying values and fair values

Set out below is a comparison by class of the carrying amounts and fair value of the Company's financial instruments that are carried in the interim condensed consolidated financial statements as of 31 March 2018 and 31 December 2017 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 March 2018	**31 December 2017**	**31 March 2018**	**31 December 2017**
Financial assets at fair value through profit or loss				
Derivatives not designated as hedges				
Foreign exchange contracts	**81**	–	**81**	–
Total financial assets at fair value	**81**	–	**81**	–
Loans granted, deposits and other financial assets at amortised cost				
Loans granted to related parties, principal (Note 13)	**67,023**	73,211	**67,023**	73,166
Bank deposits	–	64	–	64
Interest receivable	**158**	252	**158**	252
Other financial assets	**1,099**	1,107	**1,099**	1,107
Total loans granted, deposits and other financial assets at amortised cost	**68,280**	74,634	**68,280**	74,589
Total other financial assets	**68,361**	74,634	**68,361**	74,589
Other financial liabilities at amortised cost				
Loans, bonds and finance lease liabilities, principal	**36,076**	36,395	**38,137**	39,247
Loans payables to related parties, principal (Note 13)	**172,896**	188,437	**186,470**	193,470
Unamortised fees	**(801)**	(851)	–	–
Interest payable	**7,987**	8,607	**5,370**	5,105
Total other financial liabilities at amortised cost	**216,158**	232,588	**229,977**	237,822
Total other financial liabilities	**216,158**	232,588	**229,977**	237,822

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 March 2018 and 31 December 2017:

	31 March 2018	**31 December 2017**
Other financial assets		
Non-current portion	**1,658**	2,255
Current portion	**66,703**	72,379
Total other financial assets	**68,361**	74,634
Other financial liabilities		
Non-current portion	**204,608**	208,427
Current portion	**11,550**	24,161
Total other financial liabilities	**216,158**	232,588

Fair value hierarchy

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

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

(All amounts in millions of Rubles unless otherwise stated)

10. Financial assets and liabilities (continued)

Fair value hierarchy (continued)

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

	As of 31 March 2018 (Level 2)	As of 31 December 2017 (Level 2)
Financial assets at fair value through profit or loss		
Derivatives not designated as hedges		
Foreign exchange contracts	**81**	–
Total financial assets at fair value	**81**	–

During the three-month period ended 31 March 2018, there were no transfers between Level 1 and Level 2 fair value measurements, and no transfers into or out of Level 3 fair value measurements.

Major treasury events during 2018

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

11. Other assets and liabilities

Other non–current assets consisted of the following:

	31 March 2018	31 December 2017
Capitalized costs of obtaining customer contracts	**421**	–
Advances to suppliers and prepayments	**345**	392
Deferred costs related to connection fees	**124**	53
Input value added tax	**87**	82
Other non-current assets	**27**	28
Other non–current assets	**1,004**	555

Other current assets consisted of the following:

	31 March 2018	31 December 2017
Input value added tax	**4,703**	5,453
Advances to suppliers	**4,322**	5,383
Deferred costs related to connection fees	**504**	229
Prepaid taxes	**451**	460
Others	**198**	170
Other current assets	**10,178**	11,695

Other non–current liabilities consisted of the following:

	31 March 2018	31 December 2017
Long–term deferred revenue	**222**	244
Other non–current liabilities	**452**	1,060
Other non–current liabilities	**674**	1,304

(All amounts in millions of Rubles unless otherwise stated)

11. Other assets and liabilities (continued)

Other current liabilities consisted of the following:

	31 March 2018	31 December 2017
Customer advances, net of VAT*	**9,456**	10,820
Other taxes payable	**9,315**	7,629
Amounts due to employees	**5,615**	3,931
Short–term deferred revenue	**763**	825
Customer deposits	**466**	1,340
Other liabilities	**164**	156
Other current liabilities	**25,779**	24,701

***** *The significant amounts related to mobile customer advances in Russia and Kazakhstan are financial liability as of 31 March 2018 and 31 December 2017.*

12. Cash and cash equivalents

Cash and cash equivalents consisted of the following items:

	31 March 2018	31 December 2017
Cash and cash equivalents at banks and on hand	**24,072**	22,863
Short–term deposits with an original maturity of less than 92 days	**4,195**	2,100
Total cash and cash equivalents	**28,267**	24,963

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.

13. Related parties transactions

As of 31 March 2018, PJSC “VimpelCom” is a wholly-owned indirect subsidiary of VEON Ltd. As of 31 March 2018, VEON Ltd. is primarily owned by L1T VIP Holdings S.à r.l., a member of the LetterOne group of companies. VEON Ltd. has no ultimate controlling shareholder.

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

	For the three months ended 31 March	
	2018	**2017**
Revenue from Telenor	**–**	10
Revenue from Kyivstar	**193**	286
Revenue from joint ventures	**17**	170
Revenue from Teta Telecom or its subsidiaries	**270**	235
Revenue from VEON Ltd. or its subsidiaries	**242**	338
Revenue from other related parties	**54**	–
	776	1,039
Services from Telenor	**–**	11
Services from Kyivstar	**381**	555
Services from joint ventures	**239**	358
Services from Teta Telecom or its subsidiaries	**931**	849
Services from VEON Ltd. or its subsidiaries	**1,372**	3,546
Services from other related parties	**18**	5
	2,941	5,324
Finance income from VEON Ltd. or its subsidiaries	**978**	862
Finance costs from VEON Ltd. or its subsidiaries	**4,940**	535
Other loss from VEON Ltd. or its subsidiaries	**(109)**	–
Other gain from other related parties, net	**3**	3

(All amounts in millions of Rubles unless otherwise stated)

13. Related parties (continued)

	As of 31 March 2018	As of 31 December 2017
Accounts receivable from Kyivstar	**379**	310
Accounts receivable from joint ventures	**–**	697
Accounts receivable from Teta Telecom or its subsidiaries	**528**	474
Accounts receivable from VEON Ltd. or its subsidiaries	**741**	762
Accounts receivable from other related parties	**67**	136
	1,715	2,379
Accounts payable to Kyivstar	**279**	185
Accounts payable to joint ventures	**–**	225
Accounts payable to Teta Telecom or its subsidiaries	**936**	675
Accounts payable to VEON Ltd. or its subsidiaries	**10,112**	11,100
Accounts payable to other related parties	**(45)**	2
	11,282	12,187
Loans granted to VEON Ltd. or its subsidiaries	**67,023**	73,211
Interest receivable from VEON Ltd. or its subsidiaries	**155**	252
Loans received from VEON Ltd. or its subsidiaries	**172,896**	188,437
Interest payable to VEON Ltd. or its subsidiaries	**7,290**	7,703
Unamortised fees related to loans received from VEON Ltd. or its subsidiaries	**(745)**	(800)
Loans received from VEON Ltd. or its subsidiaries classified as liabilities directly associated with the assets classified as held for sale*	–	1,239
Interest payable to VEON Ltd. or its subsidiaries related to loans received classified as liabilities directly associated with the assets classified as held for sale*	–	34

** The loans related to VimpelCom Lao Company Ltd. (subsidiary of the PJSC "VimpelCom") were reclassified to liabilities directly associated with the assets classified as held for sale on 30 June 2017 (Note 3). The total outstanding amount as of 31 December 2017 was USD 21.5 million (the equivalent of RUB 1,238 as of 31 December 2017 at the exchange rate provided by the Central Bank of Russia). In March 2018 VEON Micro Holdings B.V. sold all these loans to VimpelCom Holding Laos B.V. (subsidiary of the PJSC "VimpelCom").*

Loans granted to VEON Ltd. or its subsidiaries

As of 31 March 2018 and 31 December 2017, the principal amounts of loans granted to VEON Ltd. or its subsidiaries were as follows:

Lender	Borrower	Date of agreement	Maturity	Interest rate	Currency	31 March 2018	31 December 2017
PJSC "VimpelCom"[1]	VEON Holdings B.V.	13 Dec 2017	< 3 months	8.0%	RUB / USD	**35,835**	49,873
VEON Armenia, CJSC	VEON Holdings B.V.	7 Aug 2017	–	LIBOR+0.8%	USD	**12,417**	12,415
VEON Eurasia S.à r.l.[2]	VEON Holdings B.V.	31 Mar 2017	–	LIBOR+0.6%	USD	**9,513**	8,720
Golden Telecom Inc.[3]	VEON Holdings B.V.	31 Jan 2018	–	LIBOR+0.7%	USD	**8,106**	–
KaR-Tel, LLP	TNS-Plus	2007-2011	2018 -2021	9.46%	KZT	**1,152**	1,109
VEON Eurasia S.à r.l.[4]	VEON Micro Holdings B.V.	26 Feb 2016	Mar, 2018	5.00%	USD	–	1,094
Total						**67,023**	73,211

[1] *In the first quarter of 2018 PJSC "VimpelCom" provided RUB 10,000 to VEON Holdings B.V. and VEON Holdings B.V. repaid RUB 10,000 and USD 225 million (the equivalent of RUB 12,778 as of the date of each transaction at the exchange rate provided by the Central Bank of Russia). In April and May 2018, PJSC "VimpelCom" provided USD 50.8 million (the equivalent of RUB 3,073 as of the dates of transactions at the exchange rates provided by the Central Bank of Russia) and RUB 8,000, while VEON Holdings B.V. repaid USD 213 million (the equivalent of RUB 13,117 as of the dates of transactions at the exchange rates provided by the Central Bank of Russia);*

[2] *In the first quarter of 2018 the net changes in deposits amounted to USD 14.73 million (the equivalent of RUB 850 as of the dates of transactions at the exchange rates provided by the Central Bank of Russia);*

[3] *On 31 January 2018, Golden Telecom Inc. (subsidiary of the PJSC "VimpelCom") signed a current account agreement with VEON Holdings B.V. for a maximum amount of USD 150 million. The agreement has maturity date of five years and the interest rate amounts to one month LIBOR+0.7%. In February 2018 Golden Telecom Inc. provided USD 141 million to VEON Holdings B.V. (the equivalent of 7,919 RUB as of the dates of transactions at the exchange rates provided by the Central Bank of Russia). In April 2018, VEON Holdings B.V. repaid USD 3.3 million (the equivalent of RUB 205 as of the dates of transactions at the exchange rate provided by the Central Bank of Russia);*

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

(All amounts in millions of Rubles unless otherwise stated)

13. Related parties (continued)

Loans received from VEON Ltd. or its subsidiaries

As of 31 March 2018 and 31 December 2017, the principal amounts of loans received from VEON Ltd. or its subsidiaries were as follows:

Lender	Borrower	Date of agreement	Maturity	Interest rate	Currency	31 March 2018	31 December 2017
VEON Luxembourg Finance S.A.	PJSC "VimpelCom"	19 May 2017	May, 2022	11.40%	RUB	**95,000**	95,000
VEON Luxembourg Finance S.A.	PJSC "VimpelCom"	19 Jun 2017	Jun, 2022	11.00%	RUB	**40,100**	40,100
VEON Luxembourg Finance S.A.	PJSC "VimpelCom"	11 Oct 2017	Oct, 2022	125% of the key rate	RUB	**15,000**	15,000
VEON Luxembourg Finance S.A.	VEON Georgia, LLC	26 Mar 2015	Mar, 2032	6.50%	USD	**13,056**	13,133
VEON Luxembourg Finance S.A.	PJSC "VimpelCom"	9 Aug 2017	Aug, 2022	11.25%	RUB	**9,454**	9,454
VEON Luxembourg Finance S.A.[1]	VEON Georgia, LLC	9 Jan 2018	Jun, 2018	6.5%	USD	**286**	–
VEON Holdings B.V.[2]	PJSC "VimpelCom"	14 Feb 2013	Feb, 2018	9.60%	RUB	**–**	12,000
VEON Holdings B.V.[3]	PJSC "VimpelCom"	24 Jun 2016	Sep, 2021	5.91%	RMB	**–**	3,750
Total						**172,896**	188,437

[1] *On 9 January 2018, "VEON Georgia" LLC signed a short term loan facility agreement with VEON Luxembourg Finance S.A. for the amount of USD 5 million. The interest rate per agreement is 6.5%, the maturity date is 30 June 2018. In the first quarter 2018, "VEON Georgia" LLC drew down USD 5 million (the equivalent of RUR 285 as of the dates of transactions at the exchange rates provided by the Central Bank of Russia);*

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

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

Terms and conditions of transactions with related parties

Outstanding balances at period-end are unsecured, settlements occur in cash. During the three months ended 31 March 2018, there have been no new guarantees provided or received for any related party receivables or payables and no changes occurred to the terms and amounts of the Company's guarantees of the related party loans that existed as of 31 December 2017 and were disclosed in the notes to the respective annual consolidated financial statements other than changes disclosed in Note 14. No triggering events under the existing guarantees in favor of related parties occurred. The Company believes that the probability of these events is remote.

14. Commitments, contingencies and uncertainties

There were no material commitments, contingencies and uncertainties that occurred during the three-month period ended 31 March 2018 and there were no material changes during the same period to the commitments, contingencies and uncertainties as disclosed in the Group's annual consolidated financial statements as of and for the year ended 31 December 2017 other than changes in the commitments, contingencies and uncertainties disclosed below.

Guarantees in favour of VEON Amsterdam B.V.

On 20 December 2012, VEON Amsterdam B.V. completed a term credit facility of USD 500 million (the equivalent of RUB 15,380 as of 20 December 2012 at the exchange rate provided by the Central Bank of Russia). The 8 years credit facility for VEON Amsterdam B.V. is committed by China Development Bank Corporation to finance Huawei equipment. The loan bears interest at the rate of LIBOR plus 3.30% per annum. VimpelCom guaranteed this term credit facility. As of 31 December 2017 the outstanding principal amount was USD 249.14 million (the equivalent of RUB 14,351 at the exchange rate provided by the Central Bank of Russia as of 31 December 2017). This credit facility was fully repaid on 26 March 2018. No triggering events under the guarantee occurred.

15. Events after the reporting period

On 20 April 2018 PJSC “VimpelCom” and the related party of the Group Tacom, LLC made a settlement agreement. On 23 April 2018, the settlement agreement between PJSC “VimpelCom” and Tacom, LLC was approved by the resolution of the Ninth Arbitration Appeal Court. The court decision came into force on 23 April 2018. As a result of the settlement agreement, VimpelCom's obligations under the mutual international traffic agreement in the amount of USD 20.8 million were terminated. In order to reflect this adjusting event after the reporting period, the Company adjusted in the reporting period the amounts of liabilities recognised in its financial statements as of 31 March 2018 in the amount of USD 20.8 million (the equivalent to RUB 1,194 at the exchange rate provided by the Central Bank of Russia as of 31 March 2018).

Significant changes in financial assets and liabilities after the reporting period related to the loans granted to related parties and loans received from related parties were also described in Note 13.