Special purpose
unaudited interim condensed
consolidated financial statements

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

As of and for the six and three-month periods
ended June 30, 2020

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INTERIM CONDENSED CONSOLIDATED INCOME STATEMENT

for the six and three-month periods ended June 30

(In millions of U.S. dollars, except per share amounts)	Note	Six-month period 2020	Six-month period 2019	Three-month period 2020	Three-month period 2019
Service revenues		3,773	4,086	1,795	2,081
Sale of equipment and accessories		160	201	72	112
Other revenue		55	99	25	68
Total operating revenues	2	**3,988**	**4,386**	**1,892**	**2,261**
Other operating income	4	2	—	2	—
Service costs		(746)	(760)	(365)	(390)
Cost of equipment and accessories		(163)	(206)	(74)	(116)
Selling, general and administrative expenses		(1,279)	(1,372)	(611)	(689)
Depreciation		(803)	(810)	(388)	(408)
Amortization		(175)	(202)	(85)	(109)
Impairment (loss) / reversal		(1)	(9)	(1)	(3)
Gain / (loss) on disposal of non-current assets		(12)	(14)	(6)	(7)
Gain / (loss) on disposal of subsidiaries		—	1	—	1
Operating profit		**811**	**1,014**	**364**	**540**
Finance costs		(392)	(416)	(186)	(209)
Finance income		35	37	18	21
Other non-operating gain / (loss)		101	15	86	10
Net foreign exchange gain / (loss)		(18)	(9)	10	(21)
Profit / (loss) before tax		**537**	**641**	**292**	**341**
Income tax expense	3	(147)	(262)	(68)	(181)
Profit / (loss) for the period		**390**	**379**	**224**	**160**
Attributable to:					
The owners of the parent		360	339	205	155
Non-controlling interest		30	40	19	5
		390	**379**	**224**	**160**

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

INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

for the six and three-month periods ended June 30

		Six-month period		Three-month period	
(In millions of U.S. dollars)	**Note**	**2020**	**2019**	**2020**	**2019**
Profit / (loss) for the period		**390**	**379**	**224**	**160**
Items that may be reclassified to profit or loss					
Foreign currency translation	1	(488)	18	94	(34)
Other		2	—	—	—
Items reclassified to profit or loss					
Other		(5)	—	—	—
Other comprehensive income / (loss) , net of tax		**(491)**	**18**	**94**	**(34)**
Total comprehensive income / (loss) , net of tax		**(101)**	**397**	**318**	**126**
Attributable to:					
The owners of the parent		(55)	409	309	160
Non-controlling interests		(46)	(12)	9	(34)
		(101)	**397**	**318**	**126**

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

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

as of

(In millions of U.S. dollars)	Note	June 30, 2020	December 31, 2019
Assets			
Non-current assets			
Property and equipment	5	6,668	7,324
Intangible assets	6	5,107	5,675
Investments and derivatives	7	757	236
Deferred tax assets		117	134
Other assets		174	163
Total non-current assets		**12,823**	**13,532**
Current assets			
Inventories		102	169
Trade and other receivables *		553	628
Investments and derivatives *	7	1,591	1,670
Current income tax assets		35	16
Other assets		322	330
Cash and cash equivalents	8	1,147	1,183
Total current assets		**3,750**	**3,996**
Total assets		**16,573**	**17,528**
Equity and liabilities			
Equity			
Equity attributable to equity owners of the parent		2,130	2,530
Non-controlling interests		891	994
Total equity		**3,021**	**3,524**
Non-current liabilities			
Debt and derivatives	7	7,583	7,744
Provisions		121	138
Deferred tax liabilities		113	140
Other liabilities		29	32
Total non-current liabilities		**7,846**	**8,054**
Current liabilities			
Trade and other payables *		1,849	1,972
Debt and derivatives *	7	2,813	2,767
Provisions		101	155
Current income tax payables		97	102
Other liabilities		846	954
Total current liabilities		**5,706**	**5,950**
Total equity and liabilities		**16,573**	**17,528**

** Certain comparative amounts have been reclassified to conform to the current period presentation, refer to Note 13 for further details.*

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

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the six-month period ended June 30, 2020

		Attributable to equity owners of the parent								
(In millions of U.S. dollars)	Note	Number of shares outstanding	Issued capital	Capital Surplus	Other capital reserves	Accumulated deficit	Foreign currency translation	Total	Non-controlling interests	Total equity
As of December 31, 2019		**30,099,998**	**39**	**13,385**	**(2,377)**	**(2,406)**	**(6,111)**	**2,530**	**994**	**3,524**
Profit / (loss) for the period		—	—	—	—	360	—	360	30	390
Other comprehensive income / (loss)		—	—	—	(5)	(1)	(409)	(415)	(76)	(491)
Total comprehensive income / (loss)		—	—	—	(5)	359	(409)	(55)	(46)	(101)
Dividends declared to non-controlling interest		—	—	—	—	—	—	—	(59)	(59)
(Distributions to) and capital contributions from	9	—	—	(341)	—	—	—	(341)	—	(341)
Other		—	—	—	(4)	27	(27)	(4)	2	(2)
As of June 30, 2020		**30,099,998**	**39**	**13,044**	**(2,386)**	**(2,020)**	**(6,547)**	**2,130**	**891**	**3,021**

for the six-month period ended June 30, 2019

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

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

for the six-month period ended June 30

		Six-month period	
(In millions of U.S. dollars)	**Note**	**2020**	**2019**
Operating activities			
Profit / (loss) before tax		537	641
Non-cash adjustments to reconcile profit before tax to net cash flows			
Depreciation, amortization and impairment loss / (reversal)		979	1,021
(Gain) / loss on disposal of non-current assets		12	14
(Gain) / loss on disposal of subsidiaries		—	(1)
Finance costs		392	416
Finance income		(35)	(37)
Other non-operating (gain) / loss		(101)	(15)
Net foreign exchange (gain) / loss		18	9
Changes in trade and other receivables and prepayments***		(96)	(168)
Changes in inventories		45	(27)
Changes in trade and other payables***		(40)	83
Changes in provisions, pensions and other		(5)	54
Interest paid		(336)	(353)
Interest received		19	26
Income tax paid		(175)	(241)
Net cash flows from operating activities		**1,214**	**1,422**
Investing activities			
Purchase of property, plant and equipment and intangible assets		(890)	(823)
Loans granted		(331)	(497)
Receipts from / (payment on) deposits		(98)	(662)
Receipts from / (investment in) financial assets***		(39)	(16)
Other proceeds from investing activities, net		7	23
Net cash flows from / (used in) investing activities		**(1,351)**	**(1,975)**
Financing activities			
Proceeds from borrowings, net of fees paid*	7	2,951	1,205
Repayment of debt***		(2,433)	(1,424)
Acquisition of non-controlling interest		(1)	(5)
(Distributions to) / contributions from owners of the parent		(341)	350
Dividends paid to non-controlling interests		(19)	(62)
Net cash flows from / (used in) financing activities		**157**	**64**
Net (decrease) / increase in cash and cash equivalents		20	(491)
Net foreign exchange difference		(35)	(6)
Cash and cash equivalents at beginning of period		1,159	1,751
Cash and cash equivalents at end of period, net of overdrafts**	**8**	**1,144**	**1,254**

* *Fees paid for borrowings were US$15 (2019: US$14).*

** *Overdrawn amount was US$3 (2019: US$57)*

*** *Certain comparative amounts have been reclassified to conform to the current period presentation*

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

GENERAL INFORMATION ABOUT THE GROUP

1 GENERAL INFORMATION

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

VEON generates revenue from the provision of voice, data and other telecommunication services through a range of mobile and fixed-line technologies, as well as selling equipment and accessories.

The special purpose consolidated financial statements were authorized by the Directors for issuance on August 6, 2020. The Company has the ability to amend and reissue the consolidated financial statements.

The interim condensed consolidated financial statements are presented in United States dollars ("**U.S. dollar**" or "**US$**"). In these notes, U.S. dollar amounts are presented in millions, unless otherwise indicated.

Major developments during the six-month period ended June 30, 2020

Financing activities

In June 2020, the Company. entered into a new RUB bilateral term loan agreement with Sberbank for a total amount of RUB100 billion (US$1,450), subsequently utilizing an amount of RUB87.5 billion (US$1,281). The proceeds were used to prepay outstanding amounts under a previous Sberbank term facilities agreement. For further details please refer to Note 7.

In April 2020, the Company established a Global Medium Term Note program for the issuance of bonds in multiple currencies, with a limit equivalent to US$6,500. In June 2020, VEON Holdings B.V. executed a drawdown of RUB20 billion (US$288) senior unsecured notes under the program. For further details please refer to Note 7.

Coronavirus outbreak

On March 11, 2020 the World Health Organization declared the novel strain of coronavirus (COVID-19) a global pandemic and recommended containment and mitigation measures worldwide.

The second quarter saw the full impact on our operations of the lockdowns imposed across our markets in response to the COVID-19 pandemic. This resulted in material disruption to our retail operations following store closures, which impacted gross connections and airtime sales. Restrictions on travel resulted in a significant decline in roaming revenues and the loss of migrant customers from our subscriber base, particularly in Russia.

Conversely, demand for our data services remained strong during the quarter, enabling us to continue to grow our data revenues at a double-digit pace. We also experienced a continued shift in data traffic from mobile to fixed networks as lockdowns encouraged home working and schooling alongside a greater use of devices through our domestic broadband services.

Furthermore, an increase in demand for hard currencies has resulted in the devaluation of exchange rates in the countries in which VEON operates. As such, in the first half of 2020, the book value of assets and liabilities of our foreign operations, in U.S. dollar terms, has decreased significantly, with a corresponding loss of US$488 recorded against the foreign currency translation reserve in the Statement of Comprehensive Income.

Our management has taken appropriate measures to keep our personnel safe and secure. As of the date of these financial statements, we have not observed any particular material adverse impacts to our business, financial condition, and results of operations, other than as described above, and the group liquidity is sufficient to fund the business operations for at least another 12 months.

Notes to the interim condensed consolidated financial statements

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

OPERATING ACTIVITIES OF THE GROUP

2 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. All the segments are grouped and analyzed as three main markets - our cornerstone, our growth engines and our frontier markets - representing the Company's strategy and capital allocation framework.

Management evaluates the performance of the Company's segments on a regular basis, primarily based on earnings before interest, tax, depreciation, amortization, impairment, gain / loss on disposals of non-current assets, other non-operating gains / losses and share of profit / loss of joint ventures and associates (**"Adjusted EBITDA"**) along with assessing the capital expenditures excluding certain costs such as those for telecommunication licenses and right-of-use assets (**"CAPEX exc. licenses and ROU"**). Management does not analyze assets or liabilities by reportable segments.

As of December 31, 2019, management decided to include Kazakhstan as a separate reportable segment due to the increased impact of Kazakhstan operations on the overall business (as described in the Group's audited annual consolidated financial statements as of and for the year ended December 31, 2019). In addition, management decided to show the financial impact of HQ and eliminations separately from operating companies. Comparative figures for six and three-month periods ended June 30, 2019 have been adjusted to reflect this change.

Financial information by reportable segment for the six and three-month periods ended June 30, is presented in the following tables. Inter-segment transactions between segments are not material, and are made on terms which are comparable to transactions with third parties.

For the six-month period ended June 30

	Service revenue				Sale of equipment and accessories		Other revenue		Total Revenue	
	Mobile		Fixed							
	2020	2019	2020	2019	2020	2019	2020	2019	2020	2019
Our cornerstone										
Russia	1,506	1,714	265	260	151	191	5	7	1,927	2,172
Our growth engines										
Pakistan	559	662	—	—	3	4	42	45	604	710
Ukraine	429	372	30	25	—	—	2	2	461	400
Kazakhstan	190	180	37	33	2	1	1	39	230	253
Uzbekistan	101	130	1	1	—	—	—	—	102	131
Our frontier markets										
Algeria	343	378	—	—	2	1	—	—	345	379
Bangladesh	262	264	—	—	—	1	5	6	267	271
Other frontier markets	55	66	12	14	2	3	—	—	69	83
Other										
HQ and eliminations	(17)	(13)	—	—	—	—	—	—	(17)	(13)
Total segments	**3,428**	**3,753**	**345**	**333**	**160**	**201**	**55**	**99**	**3,988**	**4,386**

Notes to the interim condensed consolidated financial statements

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

	Adjusted EBITDA		CAPEX exc. licenses and ROU	
	2020	2019	2020	2019
Our cornerstone				
Russia	784	966	415	462
Our growth engines				
Pakistan	280	369	153	118
Ukraine	313	256	96	67
Kazakhstan	124	152	52	53
Uzbekistan	45	67	26	39
Our frontier markets				
Algeria	145	172	38	48
Bangladesh	113	114	59	37
Other frontier markets	25	28	19	14
Other				
HQ and eliminations	(27)	(76)	2	—
Total segments	**1,802**	**2,048**	**860**	**838**

For the three-month period ended June 30

	Service revenue				Sale of equipment and accessories		Other revenue		Total Revenue	
	Mobile		Fixed							
	2020	2019	2020	2019	2020	2019	2020	2019	2020	2019
Our cornerstone										
Russia	711	883	128	131	68	106	—	3	907	1,124
Our growth engines										
Pakistan	266	324	—	—	1	2	21	21	288	348
Ukraine	208	198	14	13	—	—	1	2	223	213
Kazakhstan	92	94	19	17	1	—	—	39	112	150
Uzbekistan	47	66	—	—	—	—	—	—	47	66
Our frontier markets										
Algeria	159	187	—	—	1	—	—	—	160	187
Bangladesh	128	134	—	—	—	—	3	3	131	137
Other frontier markets	25	34	6	7	1	4	—	—	32	43
Other										
HQ and eliminations	(8)	(7)	—	—	—	—	—	—	(8)	(7)
Total segments	**1,628**	**1,913**	**167**	**168**	**72**	**112**	**25**	**68**	**1,892**	**2,261**

Notes to the interim condensed consolidated financial statements

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

	Adjusted EBITDA		CAPEX exc. licenses and ROU	
	2020	2019	2020	2019
Our cornerstone				
Russia	357	498	249	236
Our growth engines				
Pakistan	133	186	85	67
Ukraine	151	138	58	38
Kazakhstan	61	97	28	42
Uzbekistan	20	35	21	14
Our frontier markets				
Algeria	64	83	24	30
Bangladesh	54	54	15	23
Other frontier markets	11	15	12	8
Other				
HQ and eliminations	(7)	(40)	1	(9)
Total segments	**844**	**1,066**	**493**	**449**

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

	Six-month period		Three-month period	
	2020	2019	2020	2019
Profit / (loss) before tax	**537**	**641**	**292**	**341**
Adjustments to reconcile Profit / (loss) before tax to Total Adjusted EBITDA				
Depreciation	803	810	388	408
Amortization	175	202	85	109
Impairment loss / (reversal)	1	9	1	3
(Gain) / loss on disposal of non-current assets	12	14	6	7
(Gain) / loss on disposal of subsidiaries	—	(1)	—	(1)
Finance costs	392	416	186	209
Finance income	(35)	(37)	(18)	(21)
Other non-operating (gain) / loss	(101)	(15)	(86)	(10)
Net foreign exchange (gain) / loss	18	9	(10)	21
Total Adjusted EBITDA	**1,802**	**2,048**	**844**	**1,066**

Notes to the interim condensed consolidated financial statements

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

3 INCOME TAXES

Income tax expense is the total of the current and deferred income taxes. Current income tax is the expected tax expense, payable or receivable on taxable income or loss for the period, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable or receivable in respect of previous years. Deferred income tax is the tax asset or liability resulting from a difference in income recognition between enacted or substantively enacted local tax law and group IFRS accounting.

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

	Six-month period		Three-month period	
	2020	2019	2020	2019
Current income taxes	155	252	97	163
Deferred income taxes	(8)	10	(29)	18
Income tax expense	**147**	**262**	**68**	**181**
Effective tax rate	27.4 %	40.9 %	23.3 %	53.1 %

The difference between the statutory tax rate in the Netherlands (25.0%) and the effective corporate income tax rate for the Group in the six and three-month periods ending June 30, 2020 (27.4% and 23.3%, respectively) was primarily driven by a number of non-deductible expenses incurred by the Group in various countries, which are recorded in our consolidated income statement, as well as withholding taxes accrued for forecasted dividends from our operating companies.

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

INVESTING ACTIVITIES OF THE GROUP

4 SIGNIFICANT TRANSACTIONS

GTH restructuring

During the first half of 2020, VEON continued with the restructuring of Global Telecom Holding S.A.E. ("**GTH**"), with the intragroup transfer of Mobilink Bank and GTH Finance B.V. completed in March and April 2020, respectively. As the operating assets of GTH had previously been, and will continue to be, fully consolidated within the balance sheet of the VEON Group, there was no material impact on these consolidated financial statements stemming from these intragroup transfers. For further details on GTH restructuring, refer to the Group's audited annual consolidated financial statements as of and for the year ended December 31, 2019.

Revised technology infrastructure partnership with Ericsson

In February 2019, VEON Ltd. announced a revised arrangement with Ericsson to upgrade its core IT systems in several countries in the coming years and to release Ericsson from the development and delivery of the Full Stack Revenue Manager Solution. The parties signed binding terms to vary the existing agreements and as a result VEON received US$350 during the first half of 2019. As the settlement amount is payable to VEON Ltd. but was received and retained by the Company, the settlement amount was recorded in the equity statement as a contribution made by the parent.

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

5 PROPERTY AND EQUIPMENT

The following table summarizes the movement in the net book value of property and equipment for the six-month period ended June 30.

	Six-month period	
	2020	2019
Balance as of January 1	**7,324**	**4,925**
Adjustment due to new accounting standard (IFRS 16)	—	1,932
Additions	838	826
Disposals	(24)	(28)
Depreciation	(803)	(810)
Impairment	(1)	(9)
Translation adjustment	(689)	265
Other	23	77
Balance as of June 30	**6,668**	**7,178**

Notes to the interim condensed consolidated financial statements

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

6 INTANGIBLE ASSETS

The following table summarizes the movement in the net book value of intangible assets, including goodwill for the six-month period ended June 30.

	Six-month period	
	2020	2019
Balance as of January 1	**5,675**	**5,657**
Adjustment due to new accounting standard (IFRS 16)	—	(15)
Additions	122	101
Amortization	(175)	(204)
Translation adjustment	(519)	151
Other	4	—
Balance as of June 30	**5,107**	**5,690**

Goodwill

Included within total intangible asset movements for the six month periods ended June 30, 2020, as shown above, are the following movements in goodwill for the group, per cash generating unit (**"CGU"**):

CGU *	June 30, 2020	Currency translation	December 31, 2019
Russia	2,005	(260)	2,265
Algeria	1,077	(90)	1,167
Pakistan	309	(26)	335
Kazakhstan	145	(9)	154
Uzbekistan	36	(3)	39
Total	**3,572**	**(388)**	**3,960**

** There is no goodwill allocated to the CGUs of Ukraine, Bangladesh, Armenia, Kyrgyzstan or Georgia*

Impairment analysis

Goodwill is tested for impairment annually (at October 1) or when circumstances indicate the carrying value may be impaired. The Company's impairment test for goodwill is primarily based on fair value less cost of disposal calculations that use a discounted cash flow model. When reviewing for indicators of impairment in interim periods, the Company considers, amongst others, the relationship between its market capitalization and its book value, as well as weighted average cost of capital and the quarterly financial performances of each cash-generating unit (**"CGU"**). In addition to the above, in the first half of 2020, the Company also considered the impact of COVID-19 when reviewing for indicators of impairment (refer Note 1 for further details).

As a result of the above, the Company performed impairment testing for Russia CGU as of June 30, 2020. Based on the recoverable amount calculated and the carrying value of the CGU, no impairment loss was recorded in the first half of 2020.

Although we believe that judgments made supporting our impairment assessment are reasonable (relying on information reasonably available to us), the COVID-19 pandemic makes it challenging for us to estimate the future performance of our CGUs. As circumstances change and/or new information becomes available, we may be required to record impairments in future periods.

Notes to the interim condensed consolidated financial statements

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

Key assumptions

The recoverable amount of the CGU has been determined based on fair value less costs of disposal calculations, using cash flow projections from the business plan prepared by management. For further details regarding calculations and assumptions used for impairment testing, refer to the Group's audited annual consolidated financial statements as of and for the year ended December 31, 2019.

CGU	Discount rate	Average growth rate *	Terminal growth rate	Average operating margin *	Average CAPEX / revenue *,**
Russia	9.6 %	4.3 %	1.6 %	32.4 %	28.8 %

** During the explicit forecast period of five years*

*** CAPEX excludes licenses and ROU*

Sensitivity to changes in assumptions

The following table illustrates the CGU's remaining headroom if certain key parameters would adversely change by one percentage point within both the explicit forecast period and the terminal period. Any additional adverse changes in the key parameters by more than one percentage point would further proportionally decrease the headroom.

		Remaining headroom / (impairment) as a result of change in assumption				
CGU	Existing headroom	Discount rate	Average growth rate *	Terminal growth rate	Average operating margin ***	Average CAPEX / revenue **,***
		+1 pp	-1 pp	-1 pp	-1 pp	+1 pp
Russia	17	(682)	(262)	(558)	(465)	(472)

** During the explicit forecast period of five years*

*** CAPEX excludes licenses and ROU*

**** During the explicit forecast period of five years and terminal value*

Notes to the interim condensed consolidated financial statements

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

FINANCING ACTIVITIES OF THE GROUP

7 INVESTMENTS, DEBT AND DERIVATIVES

The Company holds the following investments and derivative assets:

	June 30, 2020	December 31, 2019
At fair value		
Derivatives not designated as hedges	17	11
Derivatives designated as net investment hedges	—	—
Investments in debt instruments	65	34
	82	**45**
At amortized cost		
Loans granted to subsidiaries of the ultimate parent	1,802	1,479
Security deposits and cash collateral	301	256
Loans granted to customers - microfinance banking *	125	116
Bank deposits	20	—
Other investments	18	10
	2,266	**1,861**
Total investments and derivatives	**2,348**	**1,906**
Non-current	757	236
Current	1,591	1,670

The Company holds the following debt and derivative liabilities:

	June 30, 2020	December 31, 2019
At fair value		
Derivatives not designated as hedges	62	52
Derivatives designated as net investment hedges	26	161
Contingent consideration	—	41
	88	**254**
At amortized cost		
Principal amount outstanding	7,850	7,497
Interest accrued	85	82
Discounts, unamortized fees, hedge basis adjustment	(6)	(10)
Bank loans and bonds	**7,929**	**7,569**
Lease liabilities	1,797	2,064
Put-option liability over non-controlling interest	320	342
Customer deposits - microfinance banking *	192	186
Other financial liabilities *	70	96
	10,308	**10,257**
Total debt and derivatives	**10,396**	**10,511**
Non-current	7,583	7,744
Current	2,813	2,767

** Certain comparative amounts have been reclassified to conform to the current period presentation, refer to Note 13 for further details.*

Significant changes in financial assets and financial liabilities

There were no significant changes in financial assets and liabilities in the six-month period ended June 30, 2020, except for the scheduled repayments of debt or as described below. Furthermore, there were no changes in risk management policies as disclosed in the Group's annual consolidated financial statements as of and for the year ended December 31, 2019.

Net investment hedge

In the first quarter of 2020, the fair values of the Company's derivatives designated as net investment hedges increased significantly due to depreciation of the Russian ruble, resulting in a US$275 gain recorded against the foreign currency translation reserve, which partially offset the translation loss related to our foreign operations. Appreciation of RUB in the second quarter of 2020 reduced this gain by US$146, leading to a net gain of US$129 for the six-month period ended June 30, 2020.

Ex-Warid license renewal

The ex-Warid license renewal was due in May 2019. Pursuant to directions from the Islamabad High Court, the Pakistan Telecommunication Authority ("PTA") issued a license renewal decision on July 22, 2019 requiring payment of US$39.5 per MHz for 900 MHz spectrum and US$29.5 per MHz for 1800 MHz spectrum, equating to an aggregate price of approximately US$450 (excluding advance tax of 10%). On August 17, 2019, Jazz appealed the PTA's order to the Islamabad High Court. On August 21, 2019, the Islamabad High Court suspended the PTA's order pending the outcome of the appeal and subject to Jazz making payment in the form of security (under protest) as per the options given in the PTA's order. In September 2019, Jazz deposited approximately US$225 in order to maintain its appeal in the Islamabad High Court regarding the PTA's underlying decision on the license renewal. There were no specific terms and conditions attached to the deposit. The deposit is recorded as a non-current financial asset in the statement of financial position.

On May 18, 2020 a further US$57 was paid under protest, presented within 'Receipts from / (payment on) deposits' in the statement of cash flows. A hearing date before the Islamabad High Court was scheduled for April 9, 2020 but was adjourned in light of court closures due to COVID-19.

Refinancing of RUB debt - Sberbank

In June 2020, the Company entered into a new RUB bilateral term loan agreement with Sberbank. The agreement comprises four facilities for a total amount of RUB100 billion (US$1,450) with final maturity dates ranging between two and four years. Shortly after the agreement was signed, VEON fully utilized three facilities for a total amount of RUB87.5 billion (US$1,281) and used the proceeds to prepay all outstanding amounts under the Sberbank term facilities agreement signed on May 19, 2017. The fourth facility available under the agreement signed in June 2020 was fully utilized subsequent to reporting date, in July 2020.

Global Medium Term Note program

In April 2020, the Company established a Global Medium Term Note program for the issuance of bonds (the **"MTN Program"**), with a program limit of US$6,500 or the equivalent thereof in other currencies. In June 2020, VEON executed a drawdown of RUB20 billion (US$288) senior unsecured notes under the Program, maturing in June 2025.

Extension and transfer of Banglalink syndicated loan

In April 2020, Banglalink Digital Communications Limited, a wholly-owned subsidiary, extended the maturity of its US$300 syndicated loan by an additional two years to 2022. Following this extension, VEON Digital Amsterdam B.V., a subsidiary of the Company's parent, acquired the loan from the original lenders. No material transactional costs were incurred.

Loan granted to VEON Digital Amsterdam B.V.

In April 2020, the Company granted a loan of US$300 to VEON Digital Amsterdam B.V under the same terms as the Banglalink syndicate loan(above). The initial term of the loan is two years.

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

Drawdowns under the Revolving Credit Facility

In March 2020, the Company executed two drawdowns under the existing Revolving Credit Facility for an aggregate amount of US$600. Although these drawdowns are short-term in nature, VEON has an enforceable right to roll them over until final maturity date of the facility in February 2022.

Refinancing of RUB debt - AO "Alfa-Bank"

In March 2020, the Company amended and restated the existing facility with AO "Alfa-Bank", increasing its size and utilization from RUB17.5 billion to RUB30 billion (US$165). Following this amendment and restatement, the final maturity of this facility has been set to March 10, 2025.

GTH bonds prepayment

In February 2020, GTH Finance B.V., the Company's subsidiary, repaid at par the US$500 6.25% bonds, originally maturing April 26, 2020.

US$300 tap issuance of existing senior notes

In January 2020, the Company issued US$300 in senior unsecured notes due 2025, which are consolidated and form a single series with the US$700 4.00% senior notes due in 2025 issued by the Company in October 2019. VEON used the net proceeds of the tap issuance to refinance certain existing outstanding debt.

Fair values

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

- 'Bank loans and bonds, including interest accrued', for which fair value is equal to US$8,193 at June 30, 2020 (December 31, 2019: US$7,867); and
- 'Lease liabilities', for which fair value has not been determined.

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

As of June 30, 2020 and December 31, 2019, the Group recognized financial instruments at fair value in the statement of financial position, all of which were measured based on Level 2 inputs, except for Contingent consideration, for which fair value is classified as Level 3. Observable inputs (Level 2) used in valuation techniques include inter-bank interest rates, bond yields, swap curves, basis swap spreads, foreign exchange rates and credit default spreads. During the six-month period ended June 30, 2020, there were no transfers between Level 1, Level 2 and Level 3 fair value measurements.

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

	Contingent consideration
As of December 31, 2019	**41**
Fair value changes recognized in the income statement	(41)
As of June 30, 2020	**—**

In 2015, International Wireless Communications Pakistan Limited and Pakistan Mobile Communications Ltd (**"PMCL"**), each indirect subsidiaries of the Company, signed an agreement with Warid Telecom Pakistan LLC and Bank Alfalah Limited, to combine their operations in Pakistan. In July 2016, the transaction was closed and PMCL acquired 100% of the voting shares in Warid Telecom (Pvt) Limited (**"Warid"**) for a consideration of 15% of the shares in PMCL. As a result, VEON gained control over Warid.

Notes to the interim condensed consolidated financial statements

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

As part of the share purchase agreement, an earn-out payment was agreed in the event that a tower transaction is effected by PMCL within four years from the acquisition date. The earn-out would also apply if another telecommunications operator in Pakistan effects a tower transaction, provided the transaction meets certain parameters, in the same timeframe. The contingent consideration would be settled with a transfer of PMCL shares.

As of the reporting date, the probability of completion of a tower deal in Pakistan prior to the relevant deadline, upon which contingent consideration would be paid, became remote. As a result, the fair value of Contingent consideration was revised downwards to zero, with a corresponding gain in the consolidated income statement.

All impairment losses and changes in fair values of investments, debt and derivatives are unrealized and are recorded in "Other non-operating gain / (loss)" in the consolidated income statement.

8 CASH AND CASH EQUIVALENTS

Cash and cash equivalents consisted of the following items:

	June 30, 2020	December 31, 2019
Cash at banks and on hand	640	867
Short-term deposits with original maturity of less than three months	507	316
Cash and cash equivalents	**1,147**	**1,183**
Less overdrafts	(3)	(24)
Cash and cash equivalents, net of overdrafts (as presented in the consolidated statement of cash flows)	**1,144**	**1,159**

As of June 30, 2020 and December 31, 2019, there were no restricted cash and cash equivalent balances. Cash balances as of June 30, 2020 include investments in money market funds of US$27 (December 31, 2019: US$155).

As of June 30, 2020, some bank accounts forming part of a cash pooling program and being an integral part of the Company's cash management remained overdrawn by US$3 (2019: US$24). Even though the total balance of the cash pool remained positive, the Company has no legally enforceable right of set-off and therefore the overdrawn accounts are presented as financial liabilities within the statement of financial position. At the same time, because the overdrawn accounts are an integral part of the Company's cash management, they were included as cash and cash equivalents within the statement of cash flows.

9 DIVIDENDS AND CAPITAL DISTRIBUTIONS

In March and June 2020, the Company made capital distributions to its shareholder of US$270 and US$71, respectively. There were no dividends or capital distributions to the Company's shareholder during the six-month period ended June 30, 2019.

Notes to the interim condensed consolidated financial statements

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

ADDITIONAL INFORMATION

10 RELATED PARTIES

The Company is indirectly wholly-owned subsidiary of VEON Ltd., which in turn has one major shareholder, L1T VIP Holdings S.à r.l. (LetterOne).

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

	Six-month period		Three-month period	
	2020	2019	2020	2019
Revenue from				
VEON Wholesale Services B.V.	—	46	—	23
Others	—	—	—	(1)
	—	**46**	**—**	**22**
Services from				
VEON Wholesale Services B.V.	2	35	1	18
VEON Ltd.	1	9	5	(8)
	3	**44**	**6**	**10**

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

	June 30, 2020	December 31, 2019
Accounts receivable due from		
VEON Ltd.	98	96
Others	20	19
Financial asset receivable, including interest accrued, from		
VEON Amsterdam B.V.	1,157	1,289
VC ESOP N.V.	157	155
VEON Digital limited	—	19
Interest accrued	21	15
	1,453	**1,593**
Accounts payable to related parties		
VEON Ltd.	321	326
Others	29	36
Financial liabilities to related parties	5	3
	355	**365**

COMPENSATION OF KEY MANAGEMENT PERSONNEL OF THE COMPANY

Value growth cash-based long-term incentive plans

The carrying value of obligations under the Value-growth cash based long-term incentive plan (the **“LTI Plan”**) as of June 30, 2020 and December 31, 2019, respectively, was equal to US$5 and US$7. Included within ‘Selling, general and administrative expenses’ for the six and three-month periods ended June 30, 2020, respectively, is an expense of US$2 (2019: expense of US$2) and US$0 (2019: gain of US$1) relating to share-based payment expense under the LTI Plan.

11 RISKS, COMMITMENTS, CONTINGENCIES AND UNCERTAINTIES

Other than disclosed below and elsewhere in these interim condensed consolidated financial statements, there were no material changes to risks, commitments, contingencies and uncertainties that occurred during the six-month period ended June 30, 2020.

Settlement of dispute concerning sale of Telecel Globe Limited

In 2013, GTH and Niel Natural Resources Investments S.A. ("**Niel**") entered into a Share Purchase Agreement (the **“SPA”**) in relation to the proposed purchase by Niel of GTH's majority stake in Telecel Globe Limited (**"Telecel"**) and telecommunications operations in the Central African Republic and Burundi. Pursuant to the terms of the SPA and subsequent amendments agreed, deposits of US$50 were received by GTH from Niel and recorded within other financial liabilities. Upon Niel's failure to close the intended transaction and in accordance with the terms of the SPA, the deposits paid were not refunded. GTH completed the sale of Telecel in October 2014, to another purchaser for consideration less than had been agreed with Niel.

During 2019, Niel commenced legal activities in relation to the deposit monies retained by GTH. For further details, refer to the Group’s audited annual consolidated financial statements as of and for the year ended December 31, 2019.

In June 2020, a settlement agreement was reached between GTH and Niel, which remains subject to Niel’s satisfaction of certain conditions precedent, whereby GTH will pay US$9 to Niel to resolve all claims and counterclaims at issue in the dispute, as well as associated proceedings brought by Niel in the Netherlands and Egypt. The US$41 remainder of the value deferred on the balance sheet was released to profit and loss, within 'Other non-operating gain / (loss)'.

12 EVENTS AFTER THE REPORTING PERIOD

Refinancing of loan agreement with VTB

In July 2020, VEON Holdings B.V. successfully refinanced its existing RUB 30 billion, approximately US$422, bilateral term loan agreement with VTB Bank. This refinancing extended the final maturity of the existing loan between VTB Bank and VEON Holdings B.V. to July 2025 and amended the interest cost from a fixed rate of 8.75% to floating rate equal to CBR Key Rate + 1.85 p.p..

13 BASIS OF PREPARATION OF THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

BASIS OF PREPARATION

The interim condensed consolidated financial statements for the six and three-month periods ended June 30, 2020 have been prepared in accordance with IAS 34 *Interim Financial Reporting* as issued by the International Accounting Standards Board (**"IASB"**).

The interim condensed consolidated financial statements do not include all the information and disclosures required in the annual consolidated financial statements and should be read in conjunction with the Group's audited annual consolidated financial statements as of and for the year ended December 31, 2019.

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

Certain comparative amounts have been reclassified to conform to the current period presentation. Specifically, the following December 31, 2019 balances were reclassified in the consolidated statement of financial position:

- Loans granted to customers relating to microfinance banking operations of US$116 is now presented within current Investments and derivatives (previously within Trade and other receivables); and
- Customer deposits and other liabilities relating to microfinance banking of US$186 and US$19, respectively, are now presented within current Debt and derivatives (previously within Trade and other payables).

NEW STANDARDS, INTERPRETATIONS AND AMENDMENTS ADOPTED BY THE GROUP

The accounting policies adopted in the preparation of the interim condensed consolidated financial statements are consistent with those followed in the preparation of the Group's annual consolidated financial statements as of and for the year ended December 31, 2019.

A number of new and amended standards became effective as of January 1, 2020, which are not expected to have a material impact on VEON financial statements in current or future reporting periods or on foreseeable future transactions. The Group has not early adopted any other standards, interpretations or amendments that have been issued but have not yet become effective.

In May 2020, the IASB issued an amendment to IFRS 16 'Leases', providing an option to apply a practical expedient in respect of accounting for certain rent concessions arising as a direct consequence of covid-19, such as rent holidays and temporary rent reductions. Under this amendment, which became effective as of June 30, 2020, lessees are exempted from having to consider whether these rent concessions are lease modifications. The Group has chosen not to apply the practical expedient available, and will therefore account for any rent concessions as lease modifications.

Amsterdam, August 6, 2020

VEON Holdings B.V.