Unaudited special purpose interim
condensed consolidated
financial statements

**VimpelCom Holdings B.V.**

As at and for the three month period ended
March 31, 2017

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# INTERIM CONDENSED CONSOLIDATED INCOME STATEMENT

for the three month period ended March 31

| | Note | 2017 | 2016 |
|---|---|---|---|
| *(In millions of U.S. dollars, except per share amounts)* | | | |
| Service revenues * | | 2,203 | 1,947 |
| Sale of equipment and accessories | | 51 | 44 |
| Other revenues / other income | | 27 | 19 |
| **Total operating revenues** | 4 | **2,281** | **2,010** |
| **Operating expenses** | | | |
| Service costs * | | (443) | (387) |
| Cost of equipment and accessories | | (56) | (52) |
| Selling, general and administrative expenses | | (865) | (715) |
| Depreciation | | (389) | (331) |
| Amortization | | (120) | (111) |
| Impairment reversal / (loss) | | 3 | (8) |
| Loss on disposals of non-current assets | | (7) | (3) |
| **Total operating expenses** | | **(1,877)** | **(1,607)** |
| **Operating profit** | | **404** | **403** |
| Finance costs | | (194) | (222) |
| Finance income | | 36 | 33 |
| Other non-operating losses | 7 | (38) | (49) |
| Share of loss of joint ventures and associates | 6 | (100) | (5) |
| Net foreign exchange gain | | 115 | 57 |
| **Profit before tax** | | **223** | **217** |
| Income tax expense | 5 | (141) | (117) |
| **Profit for the period** | | **82** | **100** |
| **Attributable to:** | | | |
| The owners of the parent | | 88 | 54 |
| Non-controlling interest | | (6) | 46 |
| | | **82** | **100** |

* In 2016, the Group has aligned its practices for content revenue across the group. The impact of this refinement in policy was not material and reduced the revenue and the operating costs by US$6 for the period ended March 31, 2016. The net results, financial position and operating cash flows for these periods remained unaffected. The Company concluded that net presentation of the content revenue better reflected the actual nature and substance of the arrangements with content providers.

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

# INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

for the three month period ended March 31

| *(In millions of U.S. dollars)* | **2017** | **2016** |
|---|---|---|
| **Profit for the period** | **82** | **100** |
| *Items that may be reclassified to profit or loss* | | |
| Net movement on cash flow hedges (net of tax of US$ nil and US$ nil for the three month period in 2017 and 2016 respectively) | - | (2) |
| Foreign currency translation | 129 | 92 |
| **Other comprehensive income for the period, net of tax** | **129** | **90** |
| **Total comprehensive income for the period, net of tax** | **211** | **190** |
| **Attributable to:** | | |
| The owners of the parent | 208 | 149 |
| Non-controlling interests | 3 | 41 |
| | **211** | **190** |

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

# INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

as at

| *(In millions of U.S. dollars)* | Note | March 31, 2017 | December 31, 2016 |
|---|---|---|---|
| **Assets** | | | |
| **Non-current assets** | | | |
| Property and equipment | 8 | 6,748 | 6,713 |
| Intangible assets | 9 | 2,180 | 2,225 |
| Goodwill | 9 | 4,873 | 4,696 |
| Investments in joint ventures and associates | 6 | 2,115 | 2,179 |
| Deferred tax assets | | 308 | 343 |
| Non-current income tax advance | | 26 | 25 |
| Other financial assets | 10 | 906 | 917 |
| Other assets | | 33 | 29 |
| **Total non-current assets** | | **17,189** | **17,127** |
| **Current assets** | | | |
| Inventories | | 138 | 125 |
| Trade and other receivables | | 828 | 787 |
| Other assets | | 395 | 425 |
| Current income tax assets | | 186 | 169 |
| Other financial assets | 10 | 390 | 323 |
| Cash and cash equivalents | 11 | 1,657 | 2,312 |
| **Total current assets** | | **3,594** | **4,141** |
| **Total assets** | | **20,783** | **21,268** |
| **Equity and liabilities** | | | |
| **Equity** | | | |
| Equity attributable to equity owners of the parent | | 7,174 | 7,479 |
| Non-controlling interests | | (224) | 82 |
| **Total equity** | | **6,950** | **7,561** |
| **Non-current liabilities** | | | |
| Financial liabilities | 10 | 7,498 | 7,625 |
| Provisions | | 110 | 101 |
| Other liabilities | | 35 | 44 |
| Deferred tax liabilities | | 345 | 331 |
| **Total non-current liabilities** | | **7,988** | **8,101** |
| **Current liabilities** | | | |
| Trade and other payables | | 1,832 | 1,999 |
| Other liabilities | | 1,320 | 1,195 |
| Other financial liabilities | 10 | 2,303 | 1,915 |
| Current income tax payables | | 4 | 55 |
| Provisions | | 386 | 442 |
| **Total current liabilities** | | **5,845** | **5,606** |
| **Total equity and liabilities** | | **20,783** | **21,268** |

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

## INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the three month period ended March 31, 2017

| *(In millions of U.S. dollars)* | Attributable to equity owners of the parent | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Number of shares outstanding | Issued capital | Capital Surplus | Other capital reserves | Retained earnings | Foreign currency translation | Total | Non-controlling interests | Total equity |
| **As at January 1, 2017** | **30,099,998** | **39** | **15,581** | **270** | **(3,496)** | **(4,915)** | **7,479** | **82** | **7,561** |
| Loss for the period | | - | - | - | 88 | - | 88 | (6) | 82 |
| Other comprehensive income | | - | - | - | - | 120 | 120 | 9 | 129 |
| **Total comprehensive income** | | - | - | - | 88 | 120 | 208 | 3 | 211 |
| Dividends declared (Note 12) | | - | - | - | (501) | - | (501) | (62) | (563) |
| Changes in a parent's ownership interest in a subsidiary that do not result in a loss of control (Note 3) | | - | - | (12) | - | - | (12) | (247) | (259) |
| **As at March 31, 2017** | **30,099,998** | **39** | **15,581** | **258** | **(3,909)** | **(4,795)** | **7,174** | **(224)** | **6,950** |

for the three month period ended March 31, 2016

| *(In millions of U.S. dollars)* | Attributable to equity owners of the parent | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Number of shares outstanding | Issued capital | Capital Surplus | Other capital reserves | Retained earnings | Foreign currency translation | Total | Non-controlling interests | Total equity |
| **As at January 1, 2016** | **30,099,998** | **39** | **12,794** | **180** | **(3,542)** | **(5,046)** | **4,425** | **107** | **4,532** |
| Profit for the period | | - | - | - | 54 | - | 54 | 46 | 100 |
| Other comprehensive income / (loss) | | - | - | (2) | - | 97 | 95 | (5) | 90 |
| **Total comprehensive income** | | - | - | (2) | 54 | 97 | 149 | 41 | 190 |
| Disposal of VC ESOP B.V. | | - | - | 94 | - | - | 94 | - | 94 |
| **As at March 31, 2016** | **30,099,998** | **39** | **12,794** | **272** | **(3,488)** | **(4,949)** | **4,668** | **148** | **4,816** |

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

# INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

for the three month period ended March 31

| *(In millions of U.S. dollars)* | Note | 2017 | 2016 |
|---|---|---|---|
| **Operating activities** | | | |
| Profit before tax | | 223 | 217 |
| *Non-cash adjustments to reconcile profit before tax to net cash flows:* | | | |
| Depreciation, amortization and impairment losses / (reversals) | | 506 | 450 |
| Loss on disposals of non-current assets | | 7 | 3 |
| Finance costs | | 194 | 222 |
| Finance income | | (36) | (33) |
| Other non-operating losses | | 38 | 49 |
| Share of loss of joint ventures and associates | | 100 | 5 |
| Net foreign exchange gain | | (115) | (57) |
| Changes in trade and other receivables and prepayments | | (42) | (48) |
| Changes in inventories | | (6) | 19 |
| Changes in trade and other payables | | 172 | 44 |
| Changes in provisions and pensions | | (61) | (11) |
| Interest paid | | (191) | (188) |
| Interest received | | 15 | 17 |
| Income tax paid | | (126) | (123) |
| **Net cash flows from / (used in) operating activities** | | **678** | **566** |
| **Investing activities** | | | |
| Proceeds from sale of property, plant and equipment and intangible assets | | 2 | 2 |
| Purchase of property, plant and equipment and intangible assets | | (479) | (442) |
| Loans granted | | - | (110) |
| Receipts from loans granted | | - | 285 |
| (Payment on) / receipts from deposits | | (59) | 80 |
| (Investment in) / receipts from financial assets | | (46) | 9 |
| Proceeds from sales of share in subsidiaries, net of cash | | - | 20 |
| **Net cash flows used in investing activities** | | **(582)** | **(156)** |
| **Financing activities** | | | |
| Acquisition of non-controlling interest | 3 | (259) | - |
| Proceeds from borrowings, net of fees paid* | 10 | 276 | 549 |
| Repayment of borrowings | | (678) | (465) |
| Dividends paid to non-controlling interests | | (69) | - |
| **Net cash flows (used in) / from financing activities** | | **(730)** | **84** |
| Net change in cash and cash equivalents | | (634) | 494 |
| Net effect of foreign exchange rate changes | | (21) | (2) |
| Cash and cash equivalents at beginning of period | | 2,312 | 1,606 |
| **Cash and cash equivalents at end of period** | 11 | **1,657** | **2,098** |

** Fees paid for borrowings were US$22 (2016: US$6).*

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

# 1 GENERAL INFORMATION

VimpelCom Holdings B.V. ("**VimpelCom**", 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 VimpelCom is located at Claude Debussylaan 88, 1082 MD Amsterdam, the Netherlands. The Company is an indirectly wholly-owned subsidiary of VEON Ltd. ("**VEON**").

The special purpose 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, except for share and per share (or American Depository Shares (**"ADS"**)) amounts and as otherwise indicated.

**Nature of operations and principal activities**
VimpelCom earns revenues by providing voice and data telecommunication services through a range of traditional and broadband mobile and fixed-line technologies. As at March 31, 2017, the Company operated telecommunications services in Russia, Pakistan, Algeria, Bangladesh, Ukraine, Uzbekistan, Kazakhstan, Armenia, Tajikistan, Georgia, Kyrgyzstan and Laos, and in Italy via a 50/50 joint venture.

During the three month period ended March 31, 2017, several local currencies demonstrated significant volatility against the U.S. dollar, which impacted the Company's financial position and results of operations following the translation of non-U.S. currency amounts into U.S. dollars for consolidation purposes. In particular, in U.S. dollar terms, the fluctuations of local currencies caused a 10% increase in total revenue for the Group for the three month period of 2017 as compared with the same period of 2016.

In addition, the foreign exchange rate in Uzbekistan applied for consolidation purposes is the official rate published by the Central Bank of the Republic of Uzbekistan. However, this exchange rate is not achievable in expatriating funds out of the country due to long term restrictions imposed by the local government. The total net assets of the Uzbekistan operations contributing to the consolidated financial position of the Group as at March 31, 2017 amounted to US$833. However, if the Company applied the exchange rate implied by market transactions, the net assets would decrease significantly in U.S. dollar terms.

# 2 BASIS OF PREPARATION OF THE SPECIAL PURPOSE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

## BASIS OF PREPARATION

The special purpose interim condensed consolidated financial statements for the three months ended March 31, 2017 have been prepared in accordance with IAS 34 *Interim Financial Reporting*.

The special purpose 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 special purpose annual special purpose consolidated financial statements as at and for the year ended December 31, 2016.

The preparation of these special purpose 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 judgements, estimates and assumptions affects the amounts reported in the statement of financial position, income statement, statement of cash flows, statement of changes in equity as well as the notes. The final amounts for items for which estimates and assumptions were made in the consolidated financial statements may differ from those reported in these statements due to the uncertainties that characterize the assumptions and conditions on which the estimates are based.

### New standards, interpretations and amendments adopted by the Group

The accounting policies adopted in the preparation of the special purpose interim condensed consolidated financial statements are consistent with those followed in the preparation of the Group's annual consolidated financial statements as at and for the year ended December 31, 2016.

A number of new and amended standards became effective as at January 1, 2017. However, the Company did not have to change its accounting policies or make retrospective adjustments as a result of adopting these standards. The Group has not early adopted any other standards, interpretations or amendments that have been issued but have not yet become effective.

## 3 Significant transactions

### Global Telecom Holding S.A.E. ("GTH") share buyback

Global Telecom Holdings S.A.E. ("**GTH**"), a subsidiary of the Company, bought back 524,569,062 ordinary shares from its shareholders for EGP 4.1 billion (US$259), which transaction settled on February 21, 2017. VimpelCom did not take part in the share buyback. As a result of the share buyback, the Company's interest in GTH increased by 5.77% from 51.92% to 57.69%, resulting in a US$12 loss recognized directly in equity. The cancellation of the 524,569,062 ordinary shares was approved at an extraordinary general meeting of GTH's shareholders on March 19, 2017 and took effect on April 16, 2017 after ratification by the Egyptian Financial Supervisory Authority of the minutes of the March 19, 2017 extraordinary general meeting.

## 4 Segment information

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

Management evaluates the performance of the Company's segments on a regular basis, primarily based on earnings before interest, tax, depreciation, amortization, impairment loss, loss on disposals of non-current assets, other non-operating losses and shares of profit / (loss) of associates and joint ventures (**"Adjusted EBITDA"**).

In the first quarter of 2017, management has included the Italy Joint Venture (refer Note 6) as a separate reportable segment, due to its increasing contribution to the Company's overall financial result and position.

Financial information by reportable segment for the three periods ended March 31, 2017 and 2016, is presented in the following tables, with the exception of Italy Joint Venture, for which financial information is presented in Note 6. 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.

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

**Three month period ended March 31, 2017**

| | Russia | Algeria | Pakistan | Bangladesh | Ukraine | Uzbekistan | HQ and Other | Total Segments |
|---|---|---|---|---|---|---|---|---|
| **Revenue** | | | | | | | | |
| External customers | 1,090 | 232 | 370 | 151 | 138 | 153 | 147 | 2,281 |
| Inter-segment | 7 | - | - | - | 5 | - | (12) | - |
| **Total revenue** | **1,097** | **232** | **370** | **151** | **143** | **153** | **135** | **2,281** |
| **Adjusted EBITDA** | **409** | **114** | **154** | **69** | **77** | **79** | **15** | **917** |
| **Other disclosures** | | | | | | | | |
| Capital expenditure | 117 | 26 | 34 | 10 | 29 | 22 | 22 | 260 |

**Three month period ended March 31, 2016**

| | Russia | Algeria | Pakistan | Bangladesh | Ukraine | Uzbekistan | HQ and Other | Total Segments |
|---|---|---|---|---|---|---|---|---|
| **Revenue** | | | | | | | | |
| External customers | 876 | 279 | 273 | 155 | 130 | 165 | 132 | **2,010** |
| Inter-segment | 8 | - | - | - | 6 | - | (14) | **-** |
| **Total revenue** | **884** | **279** | **273** | **155** | **136** | **165** | **118** | **2,010** |
| **Adjusted EBITDA** | **328** | **158** | **116** | **70** | **71** | **100** | **13** | **856** |
| **Other disclosures** | | | | | | | | |
| Capital expenditure | 48 | 27 | 12 | 17 | 10 | 29 | 52 | **195** |

The following table provides the reconciliation of consolidated Adjusted EBITDA to consolidated income statement before tax for the three month period ended March 31:

| | **2017** | **2016** |
|---|---|---|
| **Total Segments Adjusted EBITDA** | 917 | 856 |
| Depreciation | (389) | (331) |
| Amortization | (120) | (111) |
| Impairment reversal / (loss) | 3 | (8) |
| Loss on disposals of non-current assets | (7) | (3) |
| Finance costs | (194) | (222) |
| Finance income | 36 | 33 |
| Other non-operating losses | (38) | (49) |
| Share of loss of joint ventures and associates | (100) | (5) |
| Net foreign exchange gain | 115 | 57 |
| **Profit before tax** | 223 | 217 |

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

# 5 INCOME TAXES

Current income tax is the expected tax expense, payable or receivable on the taxable income or loss for the 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 March 31:

| | 2017 | 2016 |
|---|---|---|
| Current income taxes | 108 | 139 |
| Deferred income taxes | 34 | (22) |
| **Income tax expense** | **141** | **117** |
| **Effective tax rate** | **63.2%** | **53.9%** |

In the first quarter of 2017, the difference between the statutory tax rate in the Netherlands (25.0%) and the effective corporate income tax rate for the Group (63.2%) was mainly driven by higher profitability in countries with a higher nominal rate, non-deductible expenses, income tax losses for which no deferred tax-asset has been recognized and an adjustment to net deferred tax liability of US$10 recorded in the first quarter of 2017 relating to activities in Bangladesh, Russia and HQ.

In the first quarter of 2016, the difference between the statutory tax rate in the Netherlands (25.0%) and the effective corporate income tax rate for the Group (53.9%) was mainly driven by non-deductible expenses, income tax losses for which no deferred tax-asset has been recognized and higher statutory tax rates in Uzbekistan, where the statutory tax rate increased from 15.0% to 53.3%.

# 6 SHARE OF LOSS OF JOINT VENTURES AND ASSOCIATES

Share of loss of joint ventures and associates was contributed by the following investments for the three months ended March 31:

| | 2017 | 2016 |
|---|---|---|
| Italy Joint Venture | (89) | - |
| Other joint ventures and associates | (11) | (5) |
| **Share of profit / (loss) of joint ventures and associates** | **(100)** | **(5)** |

## ITALY JOINT VENTURE

On November 5, 2016, the Company completed the transaction with CK Hutchison Holdings Ltd to form a joint venture in Italy, combining their respective businesses. Refer to Note 6 in the annual consolidated financial statements for further details.

The information of the Italy Joint Venture disclosed below reflects the amounts presented in the financial statements of the relevant joint venture and not the Group's share of those amounts. The information presented below has been amended to reflect adjustments made by the Company when using the equity method, including fair value adjustments and modifications for differences in accounting policy.

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

The loss for the period for the Italy Joint Venture for the three months ended March 31, 2017 is disclosed below.

| | 2017 |
|---|---|
| Revenue | 1,637 |
| Operating expenses | (1,606) |
| Other (expenses) / income | (187) |
| Income tax expenses | (22) |
| **Loss for the period** | **(178)** |
| Other comprehensive income | - |
| **Total comprehensive loss** | **(178)** |

Included within operating expenses is US$445 of depreciation and amortization expense. Included within Other (expenses) / income is US$102 of interest expense.

As disclosed in Note 4, the Italy Joint Venture is a separate reportable segment. Financial information for the three period ended March 31, 2017 is presented below.

| | 2017 |
|---|---|
| **Revenue** | |
| External customers | 1,637 |
| Inter-segment | - |
| **Total revenue** | **1,637** |
| **Adjusted EBITDA** | **476** |
| **Other disclosures** | |
| Capital expenditure | 256 |

The following table provides a reconciliation of Adjusted EBITDA to Loss for the period for the Italy Joint Venture, for three month period ended March 31, 2017.

| | 2017 |
|---|---|
| **Adjusted EBITDA** | **476** |
| Depreciation and amortization | (445) |
| Other (expenses) / income | (187) |
| Income tax expenses | (22) |
| **Loss for the period** | **(178)** |

# 7 OTHER NON-OPERATING LOSSES

Other non-operating losses consisted of the following for the three months ended March 31:

| | 2017 | 2016 |
|---|---|---|
| Change of fair value of embedded derivative | (3) | - |
| Change of fair value of other derivatives | (34) | (44) |
| Other gains | (1) | (5) |
| **Other non-operating losses** | **(38)** | **(49)** |

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

# 8 PROPERTY AND EQUIPMENT

## ACQUISITIONS AND DISPOSALS

The movement in property and equipment for the three months ended March 31 included the following:

| | 2017 | 2016 |
|---|---|---|
| Cost of acquired assets | 218 | 133 |
| Net book value of assets disposed | 11 | 1 |
| Net loss on disposal of assets | 7 | 2 |

For the three months ended March 31, 2017, there were no other material changes to property and equipment, other than foreign currency translation differences and depreciation charges. Included in depreciation is accelerated depreciation of US$29, pertaining to network modernization activities in Bangladesh and Ukraine and network integration in Pakistan.

# 9 INTANGIBLE ASSETS

## ACQUISITIONS AND DISPOSALS

The intangible assets acquired in the three months ended March 31 included the following:

| | 2017 | 2016 |
|---|---|---|
| Telecommunications licenses, frequencies and permissions | 5 | 42 |
| Software | 36 | 17 |
| Customer relationships | - | - |
| Other intangible assets | 1 | 3 |
| **Total intangible assets acquired** | **42** | **62** |

For the three months ended March 31, 2017, there were no impairment losses recognized in respect of intangible assets, and no material changes to intangible assets other than foreign currency translation differences and amortization charges.

## GOODWILL

The movement in goodwill for the Group, per cash generating unit (**"CGU"**), consisted of the following for the three months ended March 31, 2017:

| CGU | March 31, 2017 | Currency translation | December 31, 2016 |
|---|---|---|---|
| Russia | 2,486 | 174 | 2,312 |
| Algeria | 1,397 | 4 | 1,393 |
| Pakistan | 495 | (2) | 497 |
| Kazakhstan | 187 | 11 | 176 |
| Kyrgyzstan | 146 | 1 | 145 |
| Uzbekistan | 103 | (11) | 114 |
| Armenia | 59 | - | 59 |
| **Total** | **4,873** | **177** | **4,696** |

Goodwill is tested for impairment annually (at October 1) or when circumstances indicate the carrying value may be impaired. The Company's impairment test for goodwill is primarily based on fair value less cost of disposal calculations that use a discounted cash flow model. The key assumptions used to determine the recoverable amount for the different cash generating units were disclosed in the Group's annual special purpose consolidated financial statements as at and for the year ended December 31, 2016.

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

There was no goodwill impairment recorded in the first quarter of 2017. There was no goodwill impairment recorded in the first quarter of 2016.

# 10 FINANCIAL ASSETS AND LIABILITIES

There were no significant changes in financial assets and liabilities in the three month periods ended March 31, 2017, except for the scheduled repayments of debt or as described below. Furthermore, there were no changes in risks and risk management policies as disclosed in the Group's annual special purpose consolidated financial statements as at and for the year ended December 31, 2016.

## SIGNIFICANT CHANGES IN THE FINANCIAL ASSETS AND LIABILITIES

**New GTH Loan facility**

GTH entered into an unsecured short-term loan agreement with Citi and ING Bank for a principal amount of US$200, on February 3, 2017. The loan agreement has an initial term of six months (the "**Initial Term**"), which is capable of being extended until December 15, 2017, and carries interest at a rate of LIBOR plus 4.00% per annum during the Initial Term (rising to LIBOR plus 5.00% per annum for the period from the expiry of the Initial Term to December 15, 2017 in the event the term of the loan agreement is extended), with two of the GTH's fully owned subsidiaries (International Wireless Communications Pakistan Limited and Telecom Ventures Limited) acting as guarantors. Subject to the terms of the loan agreement, the loan amount was fully utilized on February 14, 2017 and was used for funding the share buyback of GTH, refer Note 3.

**New multi-currency term and revolving facilities up to US$2,250**

The Company entered into a new multi-currency term and revolving facilities agreement (the **"TL/RCF"**) of up to US$2,250 on February 16, 2017. The TL/RCF replaced the US$1,800 revolving credit facility signed in 2014. The term facility has a five-year tenor and the revolving credit facility has an initial tenor of three years, with VimpelCom having the right to request two one-year extensions to the tenor of the revolving credit facility, subject to lender consent. Several international banks have committed to the TL/RCF in an aggregate amount of US$2,108. The TL/RCF includes an option to increase the amount of the facility up to the full amount US$2,250, which would consist of a term facility of US$562.5 and a revolving credit facility of US$1,687.5. VimpelCom will have the option to make each drawdown under the facilities in either US Dollars or Euros. Under this facilities agreement, the Net Debt to Adjusted EBITDA covenant ratio will be calculated on the basis of the consolidated financial statements of VEON Ltd. and "pro-forma" adjusted for acquisitions and divestments of any business bought or sold during the relevant period.

On April 6, 2017 VimpelCom drew down EUR 494 million (US$526) under the Term loan.

**Redemption of Ruble bonds**

On March 2, 2017, PJSC VimpelCom announced the reset of the coupon rate on its 10% Ruble bonds with a principal amount of RUB 15,052 million (US$258) maturing on March 8, 2022. The new coupon rate of 7.00% per annum will be applicable for the next six coupon periods (i.e. next three years) and will reset on March 3, 2020. Following the reset of the coupon rate, a number of bondholders exercised their put options with respect to the Ruble bonds in aggregate principal amounts of RUB 14,459 million (US$248) which was repaid on March 17, 2017.

Subsequent to the settlement, the total outstanding amount of 7% Ruble bonds was RUB 597 million (US$10).

**Sberbank revolving credit facility drawdown**

On March 16, 2017 and on April 10, 2017 PJSC VimpelCom drew down RUB 4,000 million and RUB 11,000 million (US$68 and US$193) respectively under its revolving credit facility with Sberbank. The facility matures on May 29, 2017.

**Alfa-Bank credit facility amendment and extension**

On March 29, 2017, VimpelCom Amsterdam B.V., the immediate parent of the Company and the original borrower, and VimpelCom, as the new borrower, entered into an amendment agreement with respect to a US$500 facility agreement with AO "Alfa-Bank," as the original lender and agent, dated April 2, 2014. Pursuant to the amendment agreement, the maturity date of the facility has been extended to October 17, 2017. Further, VimpelCom has replaced VimpelCom Amsterdam B.V. as the borrower, and the guarantee from VimpelCom has been terminated. In addition, VimpelCom has agreed that AO "Alfa-Bank" may assign certain of the principal amount of the facility (or transfer its obligations) to other specified lenders. On March 29, 2017, VimpelCom received confirmation that US$350 of the extended facility had been assigned by AO "Alfa-Bank" to Sberbank.

On April 5, 2017, VimpelCom Amsterdam B.V., as the original borrower, and VimpelCom, as the new borrower, entered into a subsequent amendment agreement in respect of a second US$500 facility agreement. Refer to Note 15 for further details.

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

## 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 special purpose interim condensed consolidated financial statements as at March 31, 2017, other than those with carrying amounts that are reasonable approximations of fair values:

| | Carrying value | | Fair value | |
|---|---|---|---|---|
| **Financial assets** | **March 31, 2017** | **December 31, 2016** | **March 31, 2017** | **December 31, 2016** |
| **Financial assets at fair value through profit or loss** | | | | |
| Derivatives not designated as hedges | | | | |
| Foreign exchange contracts | - | 2 | - | 2 |
| Embedded derivatives in notes | 8 | 12 | 8 | 12 |
| **Financial assets at fair value** | | | | |
| Available for sale financial assets | 94 | 71 | 94 | 71 |
| **Total financial assets at fair value** | **102** | **85** | **102** | **85** |
| **Loans granted, deposits and other financial assets** | | | | |
| Loans granted and interest accrued | 763 | 746 | 873 | 855 |
| Bank deposits and interest accrued | 408 | 385 | 408 | 385 |
| Other investments | 23 | 24 | 23 | 24 |
| **Total loans granted, deposits and other financial assets** | **1,194** | **1,155** | **1,304** | **1,264** |
| **Total financial assets** | **1,296** | **1,240** | **1,406** | **1,349** |
| Non-current | 906 | 917 | | |
| Current | 390 | 323 | | |

| | Carrying value | | Fair value | |
|---|---|---|---|---|
| **Financial Liabilities** | **March 31, 2017** | **December 31, 2016** | **March 31, 2017** | **December 31, 2016** |
| **Financial liabilities at fair value through profit or loss** | | | | |
| Derivatives not designated as hedges | | | | |
| Foreign exchange contracts | 41 | 27 | 41 | 27 |
| **Financial liabilities at fair value** | | | | |
| Derivatives designated as cash flow hedges | | | | |
| Foreign exchange contracts | 8 | 4 | 8 | 4 |
| Interest rate exchange contracts | 3 | 3 | 3 | 3 |
| Contingent consideration | 47 | 47 | 47 | 47 |
| **Total financial liabilities at fair value** | **99** | **81** | **99** | **81** |
| **Total financial liabilities at amortized cost** | **9,702** | **9,459** | **10,197** | **9.861** |
| **Total financial liabilities** | **9,801** | **9,540** | **10,296** | **9,942** |
| Non-current | 7,498 | 7,625 | | |
| Current | 2,303 | 1,915 | | |

The fair value of the financial assets and liabilities are included at the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. The fair values were estimated based on quoted market prices for our bonds, derived from market prices or by using discounted cash flows under the agreement at the rate applicable for the instruments with similar maturity and risk profile.

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

The carrying amount of cash and cash equivalents, trade and other receivables, and trade and other payables approximate their respective fair value.

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

The fair value of Available for sale financial assets are determined through comparison of various multiples and reference to market valuation of similar entities quoted in an active market. If information is not available, a discounted cash flow method is used.

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

## FAIR VALUE HIERARCHY

As at March 31, 2017 and December 31, 2016, the Group recognized financial instruments at fair value in the statement of financial position.

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

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

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

| **As at March 31, 2017** | **Level 1** | **Level 2** | **Level 3** | **Total** |
|---|---|---|---|---|
| **Financial assets at fair value through profit or loss** | | | | |
| Derivatives not designated as hedges | | | | |
| Embedded derivatives in notes | - | 8 | - | 8 |
| **Financial assets at fair value** | | | | |
| Available for sale financial assets | - | 65 | 29 | 94 |
| **Total financial assets at fair value** | **-** | **73** | **29** | **102** |
| **Financial liabilities at fair value through profit or loss** | | | | |
| Derivatives not designated as hedges | | | | |
| Foreign exchange contracts | - | 41 | - | 41 |
| **Financial liabilities at fair value** | | | | |
| Derivatives designated as cash flow hedges | | | | |
| Foreign exchange contracts | - | 8 | - | 8 |
| Interest rate exchange contracts | - | 3 | - | 3 |
| Contingent consideration | - | - | 47 | 47 |
| **Total financial liabilities at fair value** | **-** | **52** | **47** | **99** |

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

| **As at December 31, 2016** | **Level 1** | **Level 2** | **Level 3** | **Total** |
|---|---|---|---|---|
| **Financial assets at fair value through profit or loss** | | | | |
| Derivatives not designated as hedges | | | | |
| Foreign exchange contracts | - | 2 | - | 2 |
| Embedded derivatives in notes | - | 12 | - | 12 |
| **Financial assets at fair value** | | | | |
| Derivatives designated as cash flow hedges | | | | |
| Foreign exchange contracts | - | - | - | - |
| Available for sale financial assets | - | 42 | 29 | 71 |
| **Total financial assets at fair value** | **-** | **56** | **29** | **85** |
| **Financial liabilities at fair value through profit or loss** | | | | |
| Derivatives not designated as hedges | | | | |
| Foreign exchange contracts | - | 27 | - | 27 |
| **Financial liabilities at fair value** | | | | |
| Derivatives designated as cash flow hedges | | | | |
| Foreign exchange contracts | - | 4 | - | 4 |
| Interest rate exchange contracts | - | 3 | - | 3 |
| Contingent consideration | - | - | 47 | 47 |
| **Total financial liabilities at fair value** | **-** | **34** | **47** | **81** |

The reconciliation of movements relating to financial instruments classified in Level 3 of the fair value hierarchy:

| | **Financial assets at fair value** | | **Financial liabilities at fair value** | |
|---|---|---|---|---|
| | **Available for sale** | **Total** | **Contingent consideration** | **Total** |
| **As at December 31, 2016** | **29** | **29** | **47** | **47** |
| **As at March 31, 2017** | **29** | **29** | **47** | **47** |

Transfers into and out of fair value hierarchy levels are recognized at the end of the reporting period (or the date of the event or change in circumstances that caused the transfer). On a quarterly basis, the Company reviews if there are any indicators for a possible transfer between the Level 2 and Level 3. This depends on how the Company is able to obtain the underlying input parameters when assessing the fair valuations.

During the three month period ended March 31, 2017, there were no transfers between Level 1, Level 2 and Level 3 fair value measurements.

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

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

## 11 CASH AND CASH EQUIVALENTS

Cash and cash equivalents consisted of the following items:

| | March 31, 2017 | December 31, 2016 |
|---|---|---|
| Cash at banks and on hand | 1,337 | 1,386 |
| Short-term deposits with original maturity of less than three months | 320 | 926 |
| **Total cash and cash equivalents** | **1,657** | **2,312** |

As at March 31, 2017, cash balances in Uzbekistan and Ukraine of US$334 and US$3, respectively (December 31, 2016: US$347 and US$3, respectively), are restricted due to local government or central bank regulations and therefore cannot currently be repatriated.

In addition, short and long term deposits at financial institutions in Uzbekistan of US$361 as at March 31, 2017 (December 31, 2016: US$372) are also subject to the same restrictions.

Cash balances as at March 31, 2017 include investments in money market funds of US$1 (December 31, 2016: US$575).

## 12 DIVIDENDS DECLARED

Following the amendments to the AO "Alfa-Bank," facility, (refer to note 10), the Company was assigned to and assumed a US$501 debt obligation from the Company's parent, VimpelCom Amsterdam B.V.. The transaction was deemed to be a distribution from the Company to the parent and has been accounted for as a dividend in kind in the first quarter of 2017. The amendment agreement with respect to the second US$500 facility with AO "Alfa-Bank" signed on April 5, 2017 (refer Note 15) will also be recognized as a dividend in kind in the second quarter of 2017.

Furthermore, the Company declared and paid a dividend of US$113 to its shareholder on April 7, 2017.

## 13 RELATED PARTIES

As at March 31, 2017, the Company is a wholly-owned subsidiary of VEON Ltd., which is in turn owned by two major shareholders: LetterOne Holding S.A. ("**LetterOne**") and Telenor East Holding II AS ("**Telenor**").

### SERVICE AGREEMENTS

All service agreements with related parties are disclosed in Note 25 in the Company's annual special purpose consolidated financial statements as at and for the year ended December 31, 2016. There were no new agreements entered into between the Company and related parties during the three month period ended March 31, 2017.

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

The following table provides the total amount of transactions that have been entered into with related parties for the three months ended March 31:

| | 2017 | 2016 |
|---|---|---|
| Revenue from Telenor | 11 | 13 |
| Revenue from associates and joint ventures | 8 | 1 |
| Revenue from VEON Ltd. or its subsidiaries | 2 | 9 |
| Finance income from VEON Ltd. or its subsidiaries | 17 | 22 |
| | **38** | **45** |
| Services from Telenor | 10 | 11 |
| Services from associates and joint ventures | 6 | 3 |
| Services from VEON Ltd. or its subsidiaries | 54 | 24 |
| Finance costs to VEON Ltd. or its subsidiaries | - | 62 |
| | **70** | **100** |

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

| | March 31, 2017 | December 31, 2016 |
|---|---|---|
| Accounts receivable from Telenor | 14 | 13 |
| Accounts receivable from associates and joint ventures | 27 | 24 |
| Accounts receivable from VEON Ltd. or its subsidiaries | 117 | 112 |
| Other financial asset receivable from VEON Ltd. or its subsidiaries | 761 | 745 |
| Accounts receivable from other related parties | 1 | 1 |
| | **920** | **895** |
| Accounts payable to Telenor | 10 | 9 |
| Accounts payable to associates and joint ventures | 6 | 5 |
| Accounts payable due to VEON Ltd. or its subsidiaries | 347 | 329 |
| Other financial liabilities due to VEON Ltd. or its subsidiaries | 14 | 15 |
| | **377** | **358** |

## Loans granted to VEON Ltd. or its subsidiaries

As of 31 March 2017 and 31 December 2016, the principal amounts of loans granted to VimpelCom Ltd. or its subsidiaries were as follows:

| Borrower | Maturity | Interest rate | Currency | March 31, 2017 | December 31, 2016 |
|---|---|---|---|---|---|
| VEON Ltd. | 2070 | Libor + 7.5% | US$ | 561 | **561** |
| VC ESOP N.V. | 2016-2017 | 11% | US$ | 135 | **133** |
| **Total** | | | | **696** | **694** |

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

**Loans received from VEON Ltd. or its subsidiaries**
As of 31 March 2017 and 31 December 2016, the principal amounts of loans received from VEON Ltd. or its subsidiaries were as follows:

| Lender | Maturity | Interest rate | Currency | March 31, 2017 | December 31, 2016 |
|---|---|---|---|---|---|
| VimpelCom Amsterdam B.V. | 2022 | 9.5% | EUR | 11 | 11 |
| **Total** | | | | **11** | **11** |

# 14 COMMITMENTS, CONTINGENCIES AND UNCERTAINTIES

There were no material commitments, contingencies and uncertainties that occurred during the three month period ended March 31, 2017, and there were no material changes during the same period to the commitments, contingencies and uncertainties as disclosed in the Group's annual special purpose consolidated financial statements as at and for the year ended December 31, 2016.

# 15 EVENTS AFTER THE REPORTING PERIOD

## ALFA-BANK FACILITY AGREEMENT

In addition to the US$500 facility agreement with Alfa Bank dated April 2, 2014 and as amended on March 29, 2017 (see Note 10), on April 5, 2017, VimpelCom Amsterdam B.V., as original borrower, and VimpelCom as the new borrower, entered into an amendment agreement with respect to a second US$500 facility agreement with AO "Alfa-Bank," as the original lender and agent, dated April 18, 2014. Pursuant to the amendment agreement, the maturity date of the facility has been extended to October 17, 2017. Further, VimpelCom has replaced VimpelCom Amsterdam B.V. as the borrower, and the guarantee from VimpelCom has been terminated. In addition, VimpelCom has agreed that AO "Alfa-Bank" may assign certain of the principal amount of the facility (or transfer its obligations) to other specified lenders. On April 5, 2017, VimpelCom received confirmation that US$300 of the extended facility had been assigned by AO "Alfa-Bank" to Sberbank.

## SPECTRUM REALLOCATION IN UZBEKISTAN

On March 31, 2017, the spectrum council of the Ministry for Development of Information Technologies and Communications of the Republic of Uzbekistan (the "**Council**") published a decision (the "**Decision**") ordering the redistribution of radio frequencies in Uzbekistan which, if it comes into force as planned in September 2017, could result in a reallocation of our subsidiary Unitel LLC's ("**Unitel**") radio frequencies to other cellular communications providers in the market. On April 21, 2017, Unitel filed a claim with the Commercial Court of Tashkent City disputing the Decision. The court has accepted the case for consideration, and the Council has filed an opposition to the claim. A preliminary hearing on Unitel's claim was held on May 10, 2017, where consideration of the matter was adjourned initially to May 23, 2017 and then further adjourned to June 6, 2017.

Separately, a working group involving the regulator and all mobile operators in Uzbekistan has been created to discuss potential terms and conditions for implementation of the Decision. Initial meetings of the group were held on May 6, 2017, and May 18, 2017, and a further meeting date is expected to be set once the mobile operators have presented their implementation proposals.

## NEW RUB 110,000 MILLION SBERBANK TERM FACILITIES AGREEMENT

VimpelCom Holdings B.V. have entered into a new Russian Ruble-denominated term facility agreement with Sberbank of Russia ("**Sberbank**") for an amount up to RUB 110,000 million (US$1,914) on May 19, 2017 (the "**Facility Agreement**"). Amounts borrowed under the Facility Agreement will be used for general corporate purposes and to refinance existing borrowings of PJSC VimpelCom, including borrowings with Sberbank. The loan has a five-year tenor with an interest rate of 10% per annum. The Facility Agreement provides for financial covenants measured against (i) net debt to EBITDA of VEON Ltd. and, for a designated period, PJSC VimpelCom (each on a consolidated basis) and (ii) EBITDA to finance costs of VEON Ltd. (on a consolidated basis). EBITDA will be "pro-forma" adjusted for acquisitions and disposals of any business bought or sold during the relevant period. On May 22, 2017, VimpelCom Holdings B.V. drew down RUB 79,000 million (US$1,375) under the Facility Agreement

## 4G/LTE LICENSE COMMITMENT PAKISTAN

In May 2017, Pakistan Mobile Communications Limited, a subsidiary of the Company was awarded, through auction, 10 MHz paired spectrum in the 1800 MHz band for a total consideration of USD 295 million plus withholding tax of 10%.

Amsterdam, May 24, 2017

VimpelCom Holdings B.V.