Consolidated financial statements

Open Joint Stock Company "Vimpel-Communications"

(a wholly-owned subsidiary of VimpelCom Ltd.)

for the year ended 31 December 2012

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Contents

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Report of Independent Auditors

The Board of Directors and Shareholders of OJSC Vimpel-Communications

We have audited the accompanying consolidated financial statements of Open Joint Stock Company Vimpel-Communications (a wholly-owned subsidiary of VimpelCom Ltd.) (**"VimpelCom"**), which comprise the consolidated statement of financial position as of December 31, 2012, and the related consolidated income statement and consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in conformity with International Financial Reporting Standards; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free of material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of VimpelCom at December 31, 2012, and the consolidated results of its operations and its cash flows for the year then ended in conformity with International Financial Reporting Standards.

Ernst & Young LLC

22 March 2013

Open Joint Stock Company "Vimpel-Communications"

(a wholly-owned subsidiary of VimpelCom Ltd.)

Consolidated income statement

	Note	Year ended 31 December 2012	2011
		(All amounts in thousands of US dollars unless otherwise stated)	
Service revenues		**10,538,602**	10,339,584
Sale of equipment and accessories		**377,938**	314,696
Other revenues		**31,109**	13,851
Total operating revenues	8	**10,947,649**	10,668,131
Operating expenses			
Service costs		**(2,812,565)**	(2,752,871)
Cost of equipment and accessories		**(351,931)**	(376,507)
Selling, general and administrative expenses		**(3,134,344)**	(3,297,297)
Depreciation	10	**(1,464,270)**	(1,413,151)
Amortization	11	**(370,847)**	(416,099)
Impairment loss	12	**(26,168)**	(526,275)
Loss on disposals of non-current assets	3	**(162,359)**	(45,435)
Total operating expenses		**(8,322,484)**	(8,827,635)
Operating profit		**2,625,165**	1,840,496
Finance costs		**(836,983)**	(782,091)
Finance income		**365,559**	240,732
Net foreign exchange gain		**31,792**	183,108
Other non-operating gains/(losses) (net)	21	**583,970**	(138,213)
Shares of profit of associates and joint ventures accounted for using the equity method	7	**62,075**	65,496
Profit before tax		**2,831,578**	1,409,528
Income tax expense	9	**(495,571)**	(486,611)
Profit for the year		**2,336,007**	922,917
Attributable to:			
Owners of the parent		**2,280,096**	1,061,027
Non-controlling interest		**55,911**	(138,110)
		2,336,007	922,917

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

Consolidated statement of comprehensive income

	Note	Year ended 31 December 2012	2011
		(All amounts in thousands of US dollars unless otherwise stated)	
Profit for the year		**2,336,007**	922,917
Other comprehensive income			
Cash flow hedge reserve	14	**(3,309)**	–
Income tax effect		**–**	–
Shares of exchange differences on translation of associates and joint ventures accounted for using the equity method		**33,311**	(41,390)
Income tax effect		**–**	–
Reclassification to other non-operating losses of accumulated exchange differences on translation of foreign operations for equity interest in acquiree in business combination achieved in stages	21	**–**	43,100
Income tax effect		**–**	–
Net gain arising on revaluation of available-for-sale financial assets at fair value through other comprehensive income		**9,246**	
Income tax effect		**–**	–
Exchange differences on translation of foreign operations		**184,684**	(259,763)
Income tax effect		**6,153**	(8,801)
Other comprehensive income/(loss) for the year, net of tax		**230,085**	(266,854)
Total comprehensive income for the year, net of tax		**2,566,092**	656,063
Attributable to:			
Owners of the parent		**2,508,936**	788,609
Non-controlling interests		**57,156**	(132,546)
		2,566,092	656,063

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

Consolidated statement of financial position

	Note	31 December 2012	31 December 2011
		(All amounts in thousands of US dollars unless otherwise stated)	
Assets			
Non-current assets			
Property and equipment	10	**7,763,187**	7,245,361
Intangible assets	11	**1,067,164**	1,217,158
Goodwill	12	**3,603,922**	3,479,464
Investments in associates and joint ventures	7	**1,114,407**	388,155
Deferred tax asset		**10,281**	–
Other financial assets	14	**4,766,582**	3,669,369
Other non-current non-financial assets	22	**18,231**	85,208
Total non-current assets		**18,343,774**	16,084,715
Current assets			
Inventories	13	**97,101**	152,454
Trade and other receivables	15	**641,448**	634,756
Other current non-financial assets	22	**212,430**	262,110
Current income tax asset		**115,140**	128,255
Other current financial assets	14	**431,042**	26,392
Cash and cash equivalents	16	**981,845**	653,461
Total current assets		**2,479,006**	1,857,428
Assets classified as held for sale	5	**86,089**	1,473
Total assets		**20,908,869**	17,943,616
Equity and liabilities			
Equity			
Equity attributable to equity owners of the parent	17	**7,480,701**	5,284,888
Non-controlling interests	17	**(10,524)**	35,056
Total equity		**7,470,177**	5,319,944
Non-current liabilities			
Financial liabilities	14	**8,278,505**	8,466,250
Provisions	20	**226,259**	138,227
Other non-current non-financial liabilities	22	**40,394**	49,734
Deferred tax liability	9	**488,702**	450,086
Total non-current liabilities		**9,033,860**	9,104,297
Current liabilities			
Trade and other payables	23	**1,431,872**	1,317,507
Other current non-financial liabilities	22	**809,253**	714,849
Other financial liabilities	14	**2,040,749**	1,392,519
Current income tax payable		**5,826**	10,488
Provisions	20	**59,484**	84,012
Total current liabilities		**4,347,184**	3,519,375
Liabilities directly associated with the assets classified as held for sale	5	**57,648**	–
Total equity and liabilities		**20,908,869**	17,943,616

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

Consolidated statement of changes in equity

	Note	Issued capital	Capital surplus	Other capital reserves	Retained earnings	Foreign currency translation reserve	Cash flow hedge reserve (Note 14)	Available-for-sale reserve (Note 14)	Total	Non-controlling interest	Total equity
		Attributable to the owners of the parent									
As of 1 January 2012		**92**	**1,433,396**	**311,933**	**4,265,292**	**(725,825)**	**–**	**–**	**5,284,888**	**35,056**	**5,319,944**
Profit for the year		–	–	–	2,280,096	–	–	–	**2,280,096**	55,911	**2,336,007**
Other comprehensive income		–	–	–	–	222,903	(3,309)	9,246	**228,840**	1,245	**230,085**
Total comprehensive income		**–**	**–**	**–**	**2,280,096**	**222,903**	**(3,309)**	**9,246**	**2,508,936**	**57,156**	**2,566,092**
Dividends declared	18	–	–	–	(604,419)	–	–	–	**(604,419)**	(25,433)	**(629,852)**
Divestment	6	–	–	(1,444)	–	1,558	–	–	**114**	(43,672)	**(43,558)**
Changes in fair value of options over non-controlling interests in subsidiaries	14	–	–	(12,420)	–	(4,933)	–	–	**(17,353)**	(33,654)	**(51,007)**
Acquisition of non-controlling interest	6	–	–	(9,551)	–	–	–	–	**(9,551)**	644	**(8,907)**
Share-based payment transactions	19	–	–	(1,338)	–	–	–	–	**(1,338)**	–	**(1,338)**
Transactions under common control (sale of URS and Tacom)	6	–	–	333,030	–	(13,606)	–	–	**319,424**	(621)	**318,803**
As of 31 December 2012		**92**	**1,433,396**	**620,210**	**5,940,969**	**(519,903)**	**(3,309)**	**9,246**	**7,480,701**	**(10,524)**	**7,470,177**

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

Consolidated statement of changes in equity (continued)

		Attributable to the owners of the parent									
	Note	Issued capital	Capital Surplus	Other capital reserves	Retained earnings	Foreign currency translation reserve	Cash flow Hedge Reserve (Note 14)	Available-for-sale Reserve (Note 14)	Total	Non-controlling interest	Total equity
As of 1 January 2011		**92**	**1,433,396**	**29,562**	**4,443,079**	**(445,009)**	**–**	**–**	**5,461,120**	**(25,066)**	**5,436,054**
Profit for the year		–	–	–	1,061,027	–	–	–	**1,061,027**	(138,110)	**922,917**
Other comprehensive income		–	–	2,925	–	(275,343)	–	–	**(272,418)**	5,564	**(266,854)**
Total comprehensive income		**–**	**–**	**2,925**	**1,061,027**	**(275,343)**	**–**	**–**	**788,609**	**(132,546)**	**656,063**
Dividends declared	18	–	–	–	(1,238,814)	–	–	–	**(1,238,814)**	(444)	**(1,239,258)**
Interest free loan from an entity under common control	24	–	–	80,687	–	–	–	–	**80,687**	–	**80,687**
Changes in fair value of options on non-controlling interests in subsidiaries	14	–	–	(53,421)	–	–	–	–	**(53,421)**	(59,440)	**(112,861)**
Acquisition of non-controlling interest		–	–	(12,591)	–	–	–	–	**(12,591)**	241,830	**229,239**
Restructuring of shareholding in consolidated subsidiaries	14	–	–	264,074	–	(5,473)	–	–	**258,601**	(10,263)	**248,338**
Acquisition of new subsidiaries		–	–	(391)	–	–	–	–	**(391)**	20,985	**20,594**
Share-based payment transactions	19	–	–	1,088	–	–	–	–	**1,088**	–	**1,088**
As of 31 December 2011		**92**	**1,433,396**	**311,933**	**4,265,292**	**(725,825)**	**–**	**–**	**5,284,888**	**35,056**	**5,319,944**

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

Consolidated statement of cash flows

	Note	2012	2011
		(All amounts in thousands of US dollars unless otherwise stated)	
Operating activities			
Profit for the year		**2,336,007**	922,917
Income tax expense	9	**495,571**	486,611
Profit before tax		**2,831,578**	1,409,528
Non-cash adjustment to reconcile profit before tax to net cash flows:			
Depreciation	10	**1,464,270**	1,413,151
Impairment loss	12	**26,168**	526,275
Amortization	11	**370,847**	416,099
Loss on disposals of non-current assets		**162,359**	45,435
Finance income		**(365,559)**	(240,732)
Finance costs		**836,983**	782,091
Other non-operating (gains)/losses (net)	21	**(583,970)**	138,213
Net foreign exchange gain		**(31,792)**	(183,108)
Shares of profit of associates and joint ventures accounted for using the equity method	7	**(62,075)**	(65,496)
Movements in provisions		**44,565**	34,163
Operating profit before working capital adjustments, interest and income taxes		**4,693,374**	4,275,619
Working capital adjustments			
Change in trade and other receivables and prepayments		**(3,493)**	(318,620)
Change in inventories		**10,140**	(62,072)
Change in trade and other payables		**130,402**	305,791
Interest and income taxes			
Interest paid		**(732,072)**	(620,700)
Interest received		**23,005**	218,747
Income tax paid		**(443,978)**	(462,491)
Net cash flows from operating activities		**3,677,378**	3,336,274
Investing activities			
Proceeds from sale of property, equipment and intangible assets		**38,898**	104,265
Purchase of property, equipment and intangible assets		**(1,958,314)**	(2,539,021)
Issue of loans		**(1,122,054)**	(3,747,878)
Repayment of loans issued		**72,794**	958,883
Inflows/(outflows) from deposits		**(12,357)**	22,309
Proceeds from sale of available-for-sale financial asset		**10,160**	3,801
Investments in joint ventures	6	**(2,300)**	–
Receipts from associates		**–**	12,500
Divested cash net of proceeds from sale of shares in subsidiaries	6	**(93,786)**	–
Acquisition of a subsidiaries, net of cash acquired		**(1,494)**	(544,594)
Receipt of dividends		**1,155**	–
Net cash flows used in investing activities		**(3,067,298)**	(5,729,735)
Financing activities			
Net proceeds from exercise of share options		**–**	1,151
Acquisition of non-controlling interest	6	**(8,819)**	(12,950)
Proceeds from borrowings net of fees paid		**1,457,934**	4,696,336
Repayment of borrowings		**(1,086,236)**	(1,018,997)
Dividends paid to equity holders of the parent	18	**(612,343)**	(1,225,064)
Dividends paid to non-controlling interests	18	**(25,035)**	(275)
Net cash flows from/(used in) financing activities		**(274,499)**	2,440,201
Net increase/decrease in cash and cash equivalents		**335,581**	46,740
Net foreign exchange difference		**(6,809)**	(43,836)
Cash and cash equivalents at beginning of period		**653,461**	650,557
Cash classified as asset held for sale		**(388)**	–
Cash and cash equivalents at end of period		**981,845**	653,461

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

1. General information

Open Joint Stock Company "Vimpel-Communications" (**OJSC** "**VimpelCom**", "**VimpelCom**", the "**Company**", together with its subsidiaries referred to as the "**Group**" or "**we**") was registered in the Russian Federation ("**Russia**") on 15 September 1992 as a closed joint stock company, re-registered as an open joint stock company on 28 July 1993 and began full-scale commercial operations in June 1994.

The registered office of VimpelCom is located at Russian Federation, 127083 Moscow, Ulitsa 8-Marta, Dom 10, Building 14.

The consolidated financial statements are presented in United States dollars ("**US dollars**" or "**US$**"), as this is the functional and reporting currency of our controlling shareholder VimpelCom Ltd. In these notes United States dollar amounts are presented in thousands, except for share amounts and as otherwise indicated and all values are rounded to the nearest thousand (USD thousand) unless otherwise indicated.

VimpelCom Ltd., the ultimate controlling shareholder of the Company, was incorporated in Bermuda on 5 June 2009, as an exempted company under the name New Spring Company Ltd., which was subsequently changed to VimpelCom Ltd. on 1 October 2009. VimpelCom Ltd. was formed to recapitalize OJSC "VimpelCom" and acquire CJSC "Kyivstar G.S.M." ("**Kyivstar**"). Altimo Holdings & Investments Limited ("**Altimo**") and Telenor ASA ("**Telenor**") together with certain of their respective affiliates were the two major shareholders in each of the companies.

VimpelCom earns revenues by providing voice, data and other telecommunication services through a range of wireless, fixed and broadband internet services, as well as selling equipment and accessories. As of 31 December 2012, the Company operated telecommunications services in Russia, Kazakhstan, Ukraine, Armenia, Tajikistan, Uzbekistan, Georgia, Kyrgyzstan, Cambodia and Laos primarily under the "Beeline" brand name.

The consolidated financial statements of the Company for the year ended 31 December 2012 were authorized for issue by General Director on 22 March 2013.

2. Basis of the consolidated financial statements

2.1. Basis of preparation

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("**IFRS**") as issued by the International Accounting Standards Board ("**IASB**"), effective at the time of preparing the consolidated financial statements and applied by VimpelCom.

VimpelCom maintains its accounting records and prepares its financial statements in accordance with the Regulations on Accounting, Reporting and tax legislation in the Russian Federation. VimpelCom's subsidiaries outside the Russian Federation maintain their accounting records in accordance with local regulations and tax legislation. The accompanying consolidated financial statements have been prepared from these accounting records and adjusted as necessary in order to comply with IFRS.

The consolidated financial statements have been prepared on a historical cost basis, unless disclosed otherwise.

2. Basis of the consolidated financial statements (continued)

2.1. Basis of preparation (continued)

The preparation of these consolidated financial statements have 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 estimates and assumptions affects the amounts reported in the statement of financial position and the income statement, 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.

Application of certain accounting principles requires a higher degree of subjectivity when making judgments and changes in the underlying conditions could significantly affect the consolidated financial statements. Note 4 below includes further discussion of certain critical accounting estimates and judgements.

2.2. Basis of consolidation

The consolidated financial statements comprise the financial statements of the Company and its subsidiaries.

Subsidiaries are fully consolidated from the date of acquisition, which is the date on which the Company obtains control, and continue to be consolidated until the date when such control ceases. The financial statements of the subsidiaries are prepared for the same reporting period as the parent company, using consistent accounting policies.

All intercompany accounts and transactions within the Group have been eliminated.

Non-controlling interests are reported in the consolidated statement of financial position as a separate component of equity. Non-controlling interests represent the equity in subsidiaries not attributable, directly or indirectly, to the Company. We refer to Note 14 for the effect of options over non-controlling interests.

3. Significant accounting policies

Standards issued but not yet effective

Vimpelcom adopts new IFRSs by following the transitional requirements of each new standard. The following new or revised IFRSs (relevant to the Group) have been issued but are not yet effective:

IAS 1 Presentation of Items of Other Comprehensive Income – Amendments to IAS 1

The amendments to IAS 1 change the grouping of items presented in other comprehensive income (OCI). Items that could be reclassified (or ‘recycled’) to profit or loss at a future point in time (for example, net gain on hedge of net investment, exchange differences on translation of foreign operations, net movement on cash flow hedges and net loss or gain on available-for-sale financial assets) would be presented separately from items that will never be reclassified (for example, actuarial gains and losses on defined benefit plans and revaluation of land and buildings). The amendment affects presentation only and will have no impact on the Group’s financial position or reported performance. The amendment becomes effective for annual periods beginning on or after 1 July 2012.

3. Significant accounting policies (continued)

Standards issued but not yet effective (continued)

IAS 12 Income Taxes (Amendment) – Deferred Taxes: Recovery of Underlying Assets

The amendment clarified the determination of deferred tax on investment property measured at fair value andintroduces a rebuttable presumption that deferred tax on investment property measured using the fair value model in IAS 40 should be determined on the basis that its carrying amount will be recovered through sale. It includes the requirement that deferred tax on non-depreciable assets that are measured using the revaluation model in IAS 16 should always be measured on a sale basis. The amendment is effective for annual periods beginning on or after 1 January 2012 and has been no effect on the Group's financial position, performance or its disclosures.

IAS 28 Investments in Associates and Joint Ventures (as revised in 2011)

As a consequence of the new IFRS 11 *Joint Arrangements*, and IFRS 12 *Disclosure of Interests in Other Entities*, IAS 28 *Investments in Associates*, has been renamed IAS 28 *Investments in Associates and Joint Ventures*, and describes the application of the equity method to investments in joint ventures in addition to associates. The application of the equity method has not changed as a result of this amendment. Therefore no impact on the Group accounts.

IAS 32 Offsetting Financial Assets and Financial Liabilities – Amendments to IAS 32

These amendments permits financial assets and liabilities to be offset against each other for balance sheet presentation only where a currently existing, legally enforceable, unconditional right of offset applies to all counterparties of the financial instruments in all situations, including both normal operations and insolvency. The amendments also clarify the application of the IAS 32 offsetting criteria to settlement systems (such as central clearing house systems) which apply gross settlement mechanisms that are not simultaneous. These amendments are not expected to impact the Group's financial position or reported performance and become effective for annual periods beginning on or after 1 January 2014.

IFRS 7 Disclosures – Offsetting Financial Assets and Financial Liabilities – Amendments to IFRS 7

These amendments require an entity to disclose information about rights to set-off and related arrangements (e.g., collateral agreements). The disclosures would provide users with information that is useful in evaluating the effect of netting arrangements on an entity's financial position. The new disclosures are required for all recognised financial instruments that are set off in accordance with IAS 32 *Financial Instruments: Presentation*. The disclosures also apply to recognised financial instruments that are subject to an enforceable master netting arrangement or similar agreement, irrespective of whether they are set off in accordance with IAS 32. These amendments will not impact the Group's financial position or reported performance and become effective for annual periods beginning on or after 1 January 2013.

IFRS 9 Financial Instruments: Classification and Measurement

IFRS 9, as issued, reflects the first phase of the IASB's work on the replacement of IAS 39 and applies to classification and measurement of financial assets and financial liabilities as defined in IAS 39. The standard was initially effective for annual periods beginning on or after 1 January 2013, but Amendments to IFRS 9 *Mandatory Effective Date of IFRS 9 and Transition Disclosures*, issued in December 2011, moved the mandatory effective date to 1 January 2015. In subsequent phases, the IASB will address hedge accounting and impairment of financial assets. The Group will quantify the effect in conjunction with the other phases, when the final standard including all phases is issued.

3. Significant accounting policies (continued)

Standards issued but not yet effective (continued)

IFRS 10 Consolidated Financial Statements

IFRS 10 replaces the portion of IAS 27 *Consolidated and Separate Financial Statements* that addresses the accounting for consolidated financial statements. It also addresses the issues raised in SIC-12 *Consolidation – Special Purpose Entities*. IFRS 10 establishes a single control model that applies to all entities including special purpose entities and defines that control is an investor's ability to use its power over another entity, to affect the variable returns derived from its involvement with that entity. The changes introduced by IFRS 10 will require management to exercise significant judgement to determine which entities are controlled and therefore are required to be consolidated by a parent, compared with the requirements that were in IAS 27. Based on the preliminary analyses performed, IFRS 10 has no impact on the Group financial statements. This standard becomes effective for annual periods beginning on or after 1 January 2013.

IFRS 11 Joint Arrangements

IFRS 11 replaces IAS 31 *Interests in Joint Ventures* and SIC-13 *Jointly-controlled Entities – Non-monetary Contributions by Venturers*. IFRS 11 removes the option to account for jointly controlled entities (JCEs) using proportionate consolidation. Instead, JCEs that meet the definition of a joint venture must be accounted for using the equity method. In 2012 VimpelCom had to re-measure its 49.9% stake at Euroset due to creation of a Joint Venture with Megafon and acquisition of additional 0.1% interest. The re-measurement amounted to US$ 606,424 following the requirements of IAS 31 to fair value the previously (pre-transaction) held interest. As a result of the new IFRS 11 the re-measurement would not be allowed and due to its retrospective application VimpelCom will reverse the re-measurement in 2013 via retained earnings as an adjustment to the opening balance. There are no other implications from IFRS 11.

IFRS 12 Disclosure of Interests in Other Entities

IFRS 12 includes all of the disclosures that were previously in IAS 27 related to consolidated financial statements, as well as all of the disclosures that were previously included in IAS 31 and IAS 28. These disclosures relate to an entity's interests in subsidiaries, joint arrangements, associates and structured entities. A number of new disclosures are also required. Vimpelcom is currently assessing the impact IFRS 12 may have on the disclosures in its consolidated financial statements. This standard becomes effective for annual periods beginning on or after 1 January 2013.

IFRS 13 Fair Value Measurement

IFRS 13 establishes a single source of guidance under IFRS for all fair value measurements. IFRS 13 does not change when an entity is required to use fair value, but rather provides guidance on how to measure fair value under IFRS when fair value is required or permitted. Based on the Group's assessment and accounting analysis, the new standard will have no impact on Vimpelcom's financial position or reported performance. This standard becomes effective for annual periods beginning on or after 1 January 2013.

3. Significant accounting policies (continued)

Business combinations

Business combinations are accounted for in accordance with IFRS 3 (revised January 2008), using the acquisition method. The cost of the acquisition, or the total consideration transferred, is measured at the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assumed, contingent consideration given and equity instruments issued by the Group in exchange for control of the acquiree and the amount of any non-controlling interest in the acquiree. Determining the fair value of assets acquired and liabilities assumed requires the use of significant estimates and assumptions, including assumptions with respect to future cash inflows and outflows, discount rates, licenses and other assets' lives and market multiples, among other items. The results of operations of acquired businesses are included in the consolidated financial statements from the date of acquisition.

For each business combination, VimpelCom elects whether to measure the non-controlling interest in the acquiree at fair value or at the proportionate share in the recognised amounts of the acquiree's identifiable net assets. Acquisition costs are expensed as incurred in the income statement.

If the business combination is achieved in stages, the acquisition date fair value of the Group's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date and the difference is recognised through profit or loss.

Goodwill is initially measured at cost, being the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the Group's previously held equity interest in the acquiree, if any, over the fair value of the net amounts of identifiable assets acquired and liabilities assumed at the acquisition date. After initial recognition, goodwill is carried at cost less any accumulated impairment losses.

In the event the acquisition is achieved in stages, goodwill is recognised at the time when the Group obtains control over the entity.

If the consideration is lower than the fair value of the net assets of the subsidiary acquired, the difference is recognised in profit or loss.

Goodwill is not amortised but is tested for impairment on at least an annual basis or when impairment indicators are observed.

The Group may enter into business combinations which include options (call, put, or a combination of both) over the shares of the non-controlling interest.

Where there are call options, the Group considers the implications on control. Where call options lead to the establishment of control, then the proportions of the acquiree's subsequent profits or losses and changes in equity allocated to the parent and non-controlling interests will be based on the present ownership interest, only to the extent that the Group does not have current access to the economic benefits of the shares of non-controlling interest. To the extent the call option provides a present ownership (through current access to the underlying economic benefits), a gross liability is recognised, whereby any changes in the liability are recognised in profit and loss. If the call option does not provide present ownership it is recorded as a derivative asset at fair value through profit and loss.

3. Significant accounting policies (continued)

Business combinations (continued)

Where there are put options granted to the non-controlling interest, then a financial liability is recognised. These liabilities are initially measured at fair value which is the present value of the redemption amount and are subsequently measured in accordance with IAS 39. Where the Group does not have a present ownership interest in the outstanding shares, at each period end the difference between the financial liability and the non-controlling interest (which reflects its share of the profit and losses, and changes in equity, of the acquiree) is accounted for as an equity transaction. Where the put option does provide a present ownership interest, the changes in the liability are recognised in profit or loss.

Once the Group has acquired control of a business, any further transaction that changes the Group's ownership interest, but does not result in the Group losing control, is accounted for an equity transaction. Any difference between the amount paid for the change in ownership interest and the corresponding share of the carrying amount of the net assets is charged or credited to shareholders' equity.

Common-control transactions

For business combinations exercised under common control, VimpelCom measures the net assets of the transaction at the carrying amounts in the accounts of the transferor. The amount of consideration is agreed between the parties.

Investment in associates

An associate is an entity over which the Group has significant influence and that is neither a subsidiary nor an interest in a joint venture. Significant influence is the power to participate in the financial and operating policy decisions of the investee without control or joint control over those policies, and is assumed if the Group holds, directly or indirectly, 20 percent or more but less than 50 percent of the voting power of the investee, unless it can be clearly demonstrated that it does not have significant influence.

Investments in associates are incorporated in the financial statements of the Group using the equity method of accounting. Under the equity method, the investment in associate is initially recognised at cost and is adjusted in subsequent periods for the post acquisition changes in the Group's share of the net assets of the associate and less any impairment in the value of the investment. The Group's share of losses of an associate in excess of the Groups' interest in that associate are recognised only to the extent that the Group has incurred a legal or constructive obligation or made payments on behalf of the associate.

The financial statements of the associate are prepared for the same reporting period as the Group. Where necessary, adjustments are made to bring the accounting policies in line with those of the Group.

Upon loss of significant influence, the Group measures and recognises its remaining investment at its fair value. Any difference between the carrying amount of the former associate upon loss of significant influence and the fair value of the remaining investment and proceeds from disposal is recognised in profit and loss.

3. Significant accounting policies (continued)

Interest in joint ventures

The Group has interests in joint ventures which are jointly controlled entities, whereby the venturers have a contractual arrangement that establishes joint control over the economic activities of the entity, requiring unanimous agreement for financial and operating decisions among the venturers. VimpelCom recognises its interests in joint ventures using the equity method. The financial statements of the joint ventures are prepared for the same reporting period as the group. Adjustments are made where necessary to bring the accounting policies in line with those of the Group.

Upon loss of joint control, VimpelCom measures and recognises its remaining investment at its fair value unless investment should be accounted for as an investments in associate. Any difference between the carrying amount of the former jointly controlled entities upon loss of joint control and the fair value of the remaining investment and proceeds from disposal is recognised in profit or loss.

Goodwill upon acquisition is recorded as part of the investment value.

Foreign currency translation

The consolidated financial statements of the Group are presented in US dollars, whereas Russian rouble is VimpelCom's functional currency. Each entity in the Group determines its own functional currency and amounts included in the financial statements of each entity are measured using that functional currency.

Transactions denominated in foreign currencies are initially recognised at the functional currency rate prevailing on the date of the transaction. At period end, monetary assets and liabilities are translated to the functional currency using the closing rate with differences taken to profit and loss. Non-monetary items that are measured in terms of historical cost in foreign currency are translated to the functional currency at the rate prevailing on the initial transaction dates. Non-monetary items carried at fair value are translated to the functional currency at the date when the fair value was determined.

Upon consolidation. the assets and liabilities of foreign operations are translated into US dollars at the rate of exchange prevailing at the reporting date and their income statements are translated at the weighted average exchange rate for the period whenever this is a reasonable approximation or at the exchange rates prevailing at the dates of transaction otherwise. The exchange rate differences arising on consolidation translation are recognised in other comprehensive income. On disposal or loss of control of a foreign operation, the component of other comprehensive income relating to that particular foreign operation is recognised in profit and loss.

Revenue recognition

VimpelCom generates revenues from providing voice, data and other telecommunication services through a range of wireless, fixed and broadband Internet services, as well as selling equipment and accessories. Products and services may be sold separately or in bundled packages.

Revenue is recognised to the extent the Group has delivered goods or rendered services under an agreement, the amount of the revenue can be measured reliably and it is probable that the economic benefits associated with the transaction will flow to the Group. Revenue is measured at the fair value of the consideration received and is stated net of value-added-tax and sales tax charged to customers.

3. Significant accounting policies (continued)

Wireless services

Service revenues include revenues from airtime charges from contract and prepaid subscribers, monthly contract fees, interconnect revenues, roaming charges and charges for value added services ("**VAS**"). VAS includes short messages ("**SMS**"), multimedia messages ("**MMS**"), caller number identification, call waiting, data transmission, mobile Internet, downloadable content and other services. The content revenue relating to VAS is presented net of related costs when the Company acts as an agent of the content providers and gross when the Company acts as the primary obligor of the transaction. More specifically, the accounting for revenue sharing agreements and delivery of content depends on the analysis of the facts and circumstances surrounding these transactions, which will determine if the revenue is recognised gross or net.

VimpelCom charges subscribers a fixed monthly fee for the use of certain services. Such fees are recognised as revenue in the respective month.

Service revenue is generally recognised when the services (including VAS and roaming revenue) are rendered.

Sales of prepaid cards, used as a method of cash collection, is accounted for as customer advances for future services and the respective revenue is deferred until the customer uses the airtime. Prepaid cards might not have expiration dates but are subject to statutory expiration periods, and unused prepaid balances are added to service revenue based on an estimate of the expected balance that will expire unused.

Sales of equipment

Revenues from mobile equipment sales, such as handsets, are recognised in the period in which the equipment is sold to either a customer or, if sold via an intermediary, when the significant risks and rewards associated with the device have passed to the intermediary and the intermediary has no general right of return or if a right of return exists, when such a right has expired.

Interconnect and roaming revenue

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

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

3. Significant accounting policies (continued)

Fixed-line services

Revenue from traditional voice services and other service contracts is accounted for when the services are provided. Revenue from Internet services is measured primarily by monthly fees and internet-traffic volume which has not been included in monthly fees. Payments from customers for fixed-line equipment are not recognised as revenue until installation and testing of such equipment are completed and accepted by the customer. Domestic Long Distance / International Long Distance ("**DLD/ILD**") and zonal revenues are recorded gross or net depending on the contractual arrangements with the end-users.

Connection fees

VimpelCom defers upfront telecommunications connection fees. The deferral of revenue is recognised over the estimated average subscriber life or the minimum contractual term. The Company also defers direct incremental costs related to connection fees for fixed line subscribers, in an amount not exceeding the revenue deferred.

Multiple elements agreements ("MEA")

MEA are agreements under which VimpelCom provides more than one service. Services/products may be provided or "bundled" under different agreements or in groups of agreements which are interrelated to such an extent that, in substance, they are elements of one agreement. In the event of a MEA, each element is accounted for separately if it can be distinguished from the other elements and has a fair value on a standalone basis.

The customer's perspective is important in determining whether the transaction contains multiple elements or is just a single element arrangement. The relative fair value method is applied in determining the value to be allocated to each element of a MEA. Fair value is determined as the selling price of the individual item. If an item has not been supplied by the Group yet, but is sold by other suppliers, the fair value is the price at which the items are sold by the other suppliers. Some tariffs include bundle rollovers which effectively allow customers to rollover unused minutes from one month to the following month. For these tariffs, the portion of the access fee representing the fair value of the rolled over minutes is deferred until the service is delivered.

Classification of non-operating items

The Company distinguishes results of operations into operating and non-operating parts depending on the nature of the transaction. Results that directly relate to operations are classified as operating items regardless of whether they involve cash, occur irregularly, infrequently, or are unusual in amount. Results that do not directly relate to operations such as sale of investments, changes in fair value of investments and other financial instruments are classified as non-operating.

Interest income/expense

For financial instruments measured at amortized cost interest income or expense is recorded using the effective interest rate, which is the rate that exactly discounts the estimated future cash payments or receipts based on the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or liability. Interest income/or expense is included in financing income/costs in the consolidated income statement.

3. Significant accounting policies (continued)

Taxation

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

In cases when the tax relates to items that are charged directly to equity, the tax is also charged directly to equity.

Current income tax

Current tax is the expected tax payable on the taxable income for the year and any adjustments to tax payable in respect of previous years. Current tax, for the current and prior periods, to the extent unpaid, is recognised as a liability. If the amount already paid in respect of current and prior period exceeds the amount due for those periods, the excess is recognised as an asset.

Current tax liabilities (assets) for the current and prior periods is measured at the amount expected to be paid to (recovered from) the taxation authorities, using the tax rates (and tax laws) that have been enacted or substantially enacted by the end of the reporting period.

Uncertain tax positions

Vimpelcom's policy is to comply fully with applicable tax regulations in the jurisdictions in which its operations are subject to income taxes. Vimpelcom's estimates of current income tax expense and liabilities are calculated assuming that all tax computations filed by Vimpelcom's subsidiaries will be subject to a review or audit by the relevant tax authorities. Vimpelcom and the relevant tax authorities may have different interpretations of how regulations should be applied to actual transactions. Such uncertain tax positions are accounted for in accordance with IAS 12 *Income Taxes* or IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* depending on the type of tax in question.

VimpelCom records provisions for income taxes it estimates will ultimately be payable when the review or audits have been completed, including allowances for any interest and penalties which may become payable.

For provisions for taxes other than income tax, the Company follows the general policy on provisions.

Deferred taxation

Deferred taxes are recognised using the liability method and thus are computed as the taxes recoverable or payable in future periods in respect of deductible or taxable temporary differences. A temporary difference arises where the carrying amount of an asset or liability is different from its corresponding tax base.

Deferred tax assets and liabilities are generally recognised for all taxable temporary differences, except to the extent that they arise from:

a) the initial recognition of non tax deductible goodwill; or
b) the initial recognition of an asset or liability in a transaction which
   - is not a business combination; and
   - at the time of the transaction, affects neither accounting profit nor taxable profit (tax loss).

3. Significant accounting policies (continued)

Deferred taxation (continued)

Deferred tax assets are recognised for all deductible temporary differences to the extent that it is probable that future taxable profit will be available against which the deductible temporary differences can be utilized. Deferred tax assets are also recognised for the carryforward of unused tax losses and unused tax credits to the extent that it is probable that future taxable profits will be available to offset unused tax losses and unused tax credits. The carrying amount of deferred tax assets is reviewed at each reporting period date and adjusted to reflect changes in probability that sufficient taxable profits will be available to allow all or part of the assets to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantially enacted by the end of the reporting period.

Deferred tax is recognised for all taxable temporary differences associated with investments in subsidiaries, branches and associates, and interests in joint ventures except to the extent that the parent, investor or venturer is able to control the timing of the reversal of the temporary difference, and it is probable that the temporary difference will not reverse in the foreseeable future.

Tax assets and liabilities are offset when the entity has a legally enforceable right to offset current tax assets against current tax liabilities, and when they relate to income taxes levied by the same taxation authority on either the same taxable entity, or different taxable entities which intend either to settle current tax liabilities and assets on a net basis.

Property and equipment

Property and equipment (P&E) are stated at cost, net of accumulated depreciation and accumulated impairment losses, if any.

The costs of an item of P&E include:

- its purchase price, including import duties and non-refundable purchase taxes, after deducting trade discounts and rebates;
- any costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. This includes capitalizing the internal labour cost of technical departments involved in the network development;
- initial cost estimations of dismantling and removing the item and restoring the site to which it is located, with an equal obligation recognised;
- costs of installation and assembly of a connection line between the client and the Company's network;
- costs of site preparation, e.g. creating a foundation for the installation of connections; and
- professional fees, e.g. for engineers.

3. Significant accounting policies (continued)

Property and equipment (continued)

Depreciation is calculated on a straight-line basis over the estimated useful lives of the assets as follows:

Telecommunication equipment	6-10 years
Buildings and constructions	10-20 years
Office and measuring equipment	6-10 years
Other equipment	3-10 years

Equipment acquired under a finance lease arrangement is depreciated on a straight-line basis over its estimated useful life or the lease term, whichever is shorter.

Repair and maintenance costs which do not meet capitalization requirements are expensed as incurred.

The carrying amount of an item in P&E is derecognised on disposal or when no future economic benefits are expected from its use or disposal. The gain or loss from derecognition of an item in P&E is calculated as the difference between the net proceeds from disposal, if any, and the carrying amount of the item, and is included in the income statement when derecognised.

Each asset’s residual value, useful life and method of depreciation is reviewed at the end of each financial year, and adjusted prospectively if necessary.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset, that necessarily takes a substantial period of time (longer than six months) to get ready for its intended use, are capitalized as part of the cost of the respective assets. All other borrowing costs are expensed in the period incurred. Borrowing costs consist of interest and other costs that VimpelCom incurs in connection with the borrowing of funds in order to produce qualifying assets.

Leases

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

Finance leases

At the commencement of a finance lease term, VimpelCom recognises the assets and liabilities in its statement of financial position at amounts equal to the fair value of the leased property or, if lower, the present value of the minimum lease payments as determined at the inception of the lease. The corresponding liability to the lessor is included in the statement of financial position as a finance lease obligation.

3. Significant accounting policies (continued)

Finance leases (continued)

The discount rate used in calculating the present value of the minimum lease payments is the interest rate implicit in the lease. If it is impracticable to determine the interest rate implicit in the lease, the Company's incremental borrowing rate is used. Any initial direct costs of VimpelCom related to the lease are added to the amount recognised as an asset.

Operating leases

The rental payable under operating leases is recognised as operating lease expenses in the income statement on a straight-line basis over the lease term unless another systematic basis is more representative of the time pattern of the VimpelCom's benefit. No asset is capitalized. If the periodic payments or part of the periodic payments has been prepaid, the Company recognises these prepayments in the statement of financial position as a other non-financial assets.

Intangible assets (excluding Goodwill)

Intangible assets acquired separately are measured initially at cost. Following initial recognition, intangible assets are carried at cost less accumulated amortization and accumulated impairment losses, if any. Internally generated intangible assets (excluding eligible development costs) are expensed in the income statement as incurred. The cost basis of intangible assets acquired as part of a business combination is the fair value of the assets at acquisition date.

Intangible assets with a finite useful life are amortized over the assigned life on a systematic basis starting from the date the asset is ready for use. The amortization method reflects the pattern in which the asset's future economic benefits are expected to be consumed by the Group. If that pattern cannot be determined reliably, the straight-line method is used. For intangible assets associated with customer relationships, the Company uses a declining balance amortization pattern based on the value contribution brought by customers. For other intangible assets the straight-line method is used. The useful lives for licenses and other significant intangibles depend on details and terms of the license or other agreements. The amortization charge for each period is recognised in profit or loss. The amortization period and the amortization method for an intangible asset with a finite useful life is reviewed at least annually.

Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in the income statement when the asset is derecognised.

Goodwill

Goodwill is the excess of the fair value of an acquired business over the fair vaue of its identifiable net assets at the acquisition date. Goodwill is initally recognised as an asset at cost and is subsequently measured at cost less any accumulated impairment losses. Goodwill is not subject to ammorization but is tested for impairment annually as of 1 October and as necessary when circumstances indicate that the carrying value may be impaired. Goodwill impairment is identified by assessing the recoverable amount of each cash generating unit ("CGU") (or group of CGU's) as more fully described below. Where the recoverable amount of the cash-generating unit is less than the carrying amount, an impairment loss is recognised. Impairment losses relating to goodwill cannot be reversed in future periods.

3. Significant accounting policies (continued)

Impairment of non-financial assets

Property and equipment, intangible assets and investments in associates and joint ventures are tested for impairment in accordance with IAS 36, unless classified as held for sale. Pursuant to IAS 36, the Company assesses, at the end of each reporting period, whether there are any indicators that an asset may be impaired. If there are such indicators or when annual impairment testing is required, the Company estimates the recoverable amount of the asset. An asset's recoverable amount is the higher of an asset's or cash-generating unit's ("**CGU**") fair value less costs to sell and its value in use. Where the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

In determining fair value less costs to sell, recent market transactions are taken into account, if available. If no such transactions can be identified, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share prices for publicly traded subsidiaries or other available fair value indicators. Unless otherwise disclosed, recoverable amount represents value in use.

The Company bases its impairment calculation on detailed budgets and forecast calculations which are prepared separately for each of the Company's CGU's. These budgets and forecast calculations are available for a period of five years. For longer periods, a long term growth rate is calculated and applied in order to project future cash flows after the fifth year.

Impairment losses of continuing operations are recognised in the income statement in a separate line item.

For assets other than goodwill, an assessment is made at each reporting date whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the Company estimates the asset's or CGU's recoverable amount. A previously recognised impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognised. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in the income statement unless the asset is carried at a revalued amount, in which case the reversal is treated as a revaluation increase.

Financial instruments

Financial assets or liabilities

Initial recognition and measurement

When a financial asset or financial liability in the scope of IAS 39 is initially recognised, it is measured at fair value plus transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability (except for a financial asset or financial liability at fair value through profit or loss, in which case transaction costs are expensed). Regular way purchases and sales of financial assets are accounted for at the trade date.

3. Significant accounting policies (continued)

Financial instruments (continued)

Subsequent measurement of financial assets

Financial assets are classified into the following categories:

- Fair value through profit and loss
- Loans and receivables
- Held to maturity
- Available for sale
- Derivatives designated as hedging instruments in an effective hedge

The Company determines the classification of its financial assets at initial recognition.

The subsequent measurement of financial assets depends on their classification as follows that is relevant for the Group:

Fair value through profit and loss ("FVTPL")

Financial assets at fair value through profit and loss are, in principle, acquired for the purpose of selling in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments as defined by IAS 39. Financial assets at fair value through profit and loss are carried in the statement of financial position at fair value with changes in fair value recognised in the income statement.

The reclassification to loans and receivables, available-for-sale or held to maturity depends on the nature of the asset. This evaluation does not affect any financial assets designated at fair value through profit or loss using the fair value option at designation, these instruments cannot be reclassified after initial recognition.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement loans and receivables are subsequently measured at amortized cost using the effective interest rate ("**EIR**") method. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The amortization based on EIR is included in the income statement.

Trade and other receivables include invoiced amounts less appropriate allowances for estimated irrecoverable amounts. Estimated irrecoverable amounts are based on the ageing of the receivable balances, payment history and other evidence of collectability. Receivable balances are written off when management deems them not to be collectible.

3. Significant accounting policies (continued)

Financial instruments (continued)

Derecognition of financial assets

A financial asset is derecognised when:

a) the contractual rights to the cash flows from the financial asset have expired; or

b) the Company has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either

  a) the Group has transferred substantially all the risks and rewards of the asset, or

  b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Impairment of financial assets

A financial asset or a group of financial assets is impaired and impairment losses are incurred if there is objective evidence of impairment as a result of a past event that occurred subsequent to the initial recognition of the asset.

The Company assesses at each balance sheet date whether there is objective evidence that a financial asset or group of assets may be impaired.

In the case of equity investments classified as available-for-sale, objective evidence would include a significant or prolonged decline in the fair value of the investment below its cost. 'Significant' is evaluated against the original cost of the investment and "prolonged" against the period in which the fair value has been below its original.

For the purpose of collective evaluation of impairment, financial assets are grouped on the basis of similar credit risk characteristics (for example, on the basis of a credit risk evaluation or grading process that considers asset type, industry, geographical location, collateral type, past-due status and other relevant factors).

For assets carried at amortized cost, the impairment loss is the difference between the asset's carrying amount and the present value of estimated future cash flows at the original EIR (excluding future expected credit losses that have not yet been incurred). For assets classified as available-for-sale, the impairment loss is the difference between the carrying value of the asset and its fair value.

The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the income statement. Financial assets together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Company.

3. Significant accounting policies (continued)

Financial instruments (continued)

Subsequent measurement of financial liabilities

Financial liabilities are classified as liabilities at fair value through profit or loss (including trading liabilities), derivatives designated as hedging instruments and other (i.e. accounts payable, notes payable). Financial liabilities are classified as held for trading if they are acquired for the purpose of repurchase in the near term. This category includes derivative financial instruments entered into by the Group that are not designated as effective hedging instruments in hedge relationships as defined by IAS 39. Separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments. Trading liabilities (including derivatives when they have negative fair values) are measured at fair value. The changes in fair value is included in the net profit or loss for the period. All other (non-trading) financial liabilities are carried at amortized cost (i.e. loan payables).

Derecognition of financial liabilities

The Company removes a financial liability (or a part of a financial liability) from its statement of financial position when it is extinguished, i.e. when the obligation specified in the contract is discharged, cancelled or expires.

Modification or exchanges of debt commitments

An exchange between an existing borrower and lender of debt instruments is accounted for as an extinguishment of the original financial liability or asset and the recognition of a new financial liability or assets if the terms of the instruments are substantially different. ‘Substantially different’ has been met if the net present value of the cash flows under the new terms (including any fees paid net of any fees received) discounted at the original effective interest rate is at least 10% different from the discounted present value of the remaining cash flows of the original debt instrument.

Offsetting of financial instruments

A financial asset or liability is only offset when the Company:

1. has a current enforceable legal right to offset the recognised amounts; and
2. intends to either settle on a net basis or realize the asset and sell the liability simultaneously.

Fair value of financial instruments

The fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction. The best evidence of fair value is a quoted price in an active market. If the market for a financial instrument is not active, the fair value could be determined by using an appropriate valuation technique, such as recent arm's length market transactions between knowledgeable, willing parties, of another instrument that is substantially the same. Other valuation techniques include the discounted cash flow analysis and option pricing models.

3. Significant accounting policies (continued)

Financial instruments (continued)

The Company uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities

Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly

Level 3: techniques which use inputs that have a significant effect on the recorded fair value that are not based on observable market data

Derivative financial instruments and hedge accounting

Initial recognition and subsequent measurement

The Company uses derivative instruments such as forwards, interest rate swaps and forward rate agreements, futures, options and others. Such derivative instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as financial assets when the fair value is positive and as financial liabilities when the fair value is negative.

When a contract is entered into, the instrument is initially recognised at fair value, with subsequent changes in fair value being recognised as a financial component of income. Where a hedge relationship is identified and the derivative financial instrument is designated as a hedge, subsequent changes in fair value are accounted for in accordance with the following specific criteria. The relationship between each derivative qualifying as a hedging instrument and the hedged item is documented to include the risk management objective, the strategy for covering the hedge and the means by which the hedging instrument's effectiveness will be assessed. An assessment of the effectiveness of each hedge is made when each derivative financial instrument becomes active and throughout the hedge term.

When the hedge refers to changes in the fair value of a recognised asset or liability, the changes in the fair value of the hedging instrument and those of the hedged item are both recognised in profit or loss. If the hedge is not fully effective, the non-effective portion is treated as finance income or expense for the year in the income statement.

For a cash flow hedge, the fair value changes of the derivative are subsequently recognised, limited to the effective portion, in a specific equity reserve (the "cash flow hedge reserve"). A hedge is normally considered highly effective if from the beginning and throughout its life the changes in the expected cash flows for the hedged item are substantially offset by the changes in the fair value of the hedging instrument. When the economic effects deriving from the hedged item are realized, the reserve is reclassified to the income statement together with the economic effects of the hedged item. Whenever the hedge is not highly effective, the non-effective portion of the change in fair value of the hedging instrument is immediately recognised as a financial component of the profit or loss for the year. The Company designated cash flow hedges with respect to certain obligations denominated in USD for the entities which functional currency is RUR. These obligations are translated at the year-end exchange rate and any resulting exchange gains and losses are offset in the income statement against the change in the fair value of the hedging instrument.

3. Significant accounting policies (continued)

Financial instruments (continued)

When hedged forecasted cash flows are no longer considered highly probable during the term of a derivative, the portion of the "cash flow hedge reserve" relating to that instrument is reclassified as a financial component of the profit or loss for the year. If instead the derivative is sold or no longer qualifies as an effective hedging instrument, the "cash flow hedge reserve" recognised to date remains as a component of equity and is reclassified to profit or loss for the year in accordance with the criteria of classification described above when the originally hedged transaction affects profit or loss.

Inventories

Inventories are valued at the lower of cost and net realizable value. The costs of inventories is comprised of all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition. Inventories are expensed by applying the weighted-average cost method.

Cash and cash equivalents

Cash and cash equivalents in the statement of financial position is comprised of cash at the banks and on hand and highly liquid investments with an original maturity of less than 90 days that are readily convertible to known amounts of cash and are subject to only an insignificant risk of changes in value.

Convertible preference shares

The Company has issued convertible shares of preferred stock that entitles its holder to one vote per convertible preferred share, voting together with the common shares as a single class, except where cumulative voting applies when electing directors. Convertible preferred shares do not have dividend rights. The holders of convertible preferred shares, in the event of our winding-up or dissolution, are not entitled to any payment or distribution in respect of our surplus assets.

Provisions

Provisions are recognised when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that the Group will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. No provision is made where the legal procedures are at too early of a stage.

The amount recognised as a provision is the best estimate of the expenditure required to settle the obligation at the balance sheet date. Provisions are discounted to their present value if the effect of the time value of money is material. In order to calculate the present value, a pre-tax risk free rate that reflects current market assessments of the time value of money and the risks specific to the liability is used.

3. Significant accounting policies (continued)

Provisions (continued)

In some cases, a part or all of the expenditure required to settle a provision is expected to be reimbursed by another party. The reimbursement is recognised only if it is virtually certain that the reimbursement will be received when the obligation is settled. The reimbursement is treated as a separate asset.

Contingent liabilities and assets are not recognised on the statement of financial position.

Share-based payments

Certain of the Group's employees are entitled to equity-settled share-based payments. These payments are measured at fair value (excluding the effect of non market-based vesting conditions) at the grant date. The fair value determined at the grant date is recognised as a compensation expense, and as a corresponding increase in equity. Compensation expense is recorded on a straight-line basis over the vesting period, based on the Group's estimate of the shares that will eventually vest and adjusted for the effect of non market-based vesting conditions. The income statement expense or credit for a period represents the movement in cumulative expense recognised as of the beginning and end of that period.

No expense is recognised for awards that do not ultimately vest, except for equity-settled transactions for which vesting is conditional upon a market or non-vesting condition. These are treated as vesting irrespective of whether or not the market or non-vesting condition is satisfied, provided that all other performance and/or service conditions are satisfied.

VimpelCom uses the Black-Scholes model and Monte-Carlo simulation for determining the fair value at the grant date.

The Company also has share-based compensation in the form of cash settled stock appreciation rights ("**SARs**") and Phantom plans which it offers to a selected group of directors and senior management. The cost of these share plans is remeasured based on fair value of the instruments on each reporting date and is required to be recognised over the period during which the employees are required to provide services in exchange for the equity-based compensation. Any changes in fair value at the date of settlement are recognised in the income statement.

Consolidated statement of cash flows

The Company presents cash flows from operating activities using the indirect method.

4. Significant accounting judgements, estimates and assumptions

Accounting judgements

In the process of applying the Group's accounting policies, management has made the following judgements, which have the most significant effect on the amounts recognised in the consolidated financial statements:

Lease commitments – Company as lessee

The Company has entered into a number of land and property leases. The Company has determined, based on an evaluation of the terms and conditions of certain arrangements, such as the lease term constituting a substantial portion of the economic life of the property or the present value of the minimum lease payments being substantially all of the fair value of the leased property, that it either does or does not bear the significant risks and rewards of ownership of these properties and accounts for the contracts as either finance or operating leases accordingly.

Critical accounting estimates

A critical accounting estimate is an estimate that is both important to the presentation of the Group's financial position and requires management's most difficult, subjective or complex judgements, often as a result of the need to determine estimates and develop assumptions about the outcome of matters that are inherently uncertain.

Management evaluates such estimates on an ongoing basis, based upon historical results, historical experience, trends, consultations with experts, forecasts of the future, and other methods which management considers reasonable under the circumstances. Management considers the accounting estimates discussed below to be its critical accounting estimates, and, accordingly, provides an explanation of each below.

Revenue recognition

The Group's revenues primarily consist of revenues from sale of services and periodic subscriptions. The Group offers subscribers, via multiple element arrangements ("bundles") or otherwise, a number of different services with different price plans, and provides discounts in various types and forms, often in connection with different campaigns, over the contractual or average customer relationship period. Determining the fair value of each deliverable can require complex estimates due to the nature of the goods and services provided. The Group also sells wholesale products to other operators and vendors in different countries and across borders. Management has to make estimates related to revenue recognition, relying to some extent, on information from other operators regarding values of services delivered. Management also makes estimates for the final outcome in instances where the other parties dispute the amounts charged. Furthermore, management has to estimate the average customer relationship for revenue that is initially recognised as deferred revenue in the statement of financial position and is thereafter recognised in the income statement over a future period, e.g. connection fees. Management also applies judgement in evaluating gross or net presentation of revenue and associated fees. In this case, among others, the main factor is whether the Company is considered as the primary obligor in the transactions.

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

Critical accounting estimates (continued)

Business combinations

We have entered into certain acquisitions in the past and may make additional acquisitions in the future. For the larger acquisitions, third-party valuation experts are engaged to assist in determining and allocating the fair values of the assets acquired and liabilities assumed. Our financial statements are impacted by the manner in which we allocate the purchase price in a business combination, as assets that are considered to be subject to depreciation will reduce future operating results, whereas goodwill and certain other intangible assets are of a non-amortizing nature, therefore there is no income statement impact. As part of our purchase price allocation, it is necessary to determine the purchase price paid, which includes the fair value of securities issued and an estimate for any contingent consideration.

After the purchase price is established, we allocate it to the underlying assets acquired and liabilities assumed, therefore assets and liabilities that are not originally reflected in the acquired entity need to be assessed and valued. This process requires significant judgment on our part as to what those assets and liabilities are and how they should be valued. Significant acquired intangible assets that have been recognised by the Group in connection with business combinations include customer bases, customer contracts, brands, licenses, service concession rights, roaming agreements and software. The significant tangible assets primarily include telecommunication equipment. The valuation of the individual assets, in particular intangible assets related to assets such as customer intangibles, brands, and so forth, requires us to make significant assumptions, including, among others, the expected future cash flows, the appropriate interest rate to value those cash flows and expected future customer churn rates. All of these factors, which are generally developed in conjunction with the guidance and input of professional valuation specialists, require judgment and estimates. A change in any of these estimates or judgments could change the amount of the purchase price to be allocated to the particular asset or liability. The resulting change in the purchase price allocation to a non-goodwill asset or liability has a direct impact on the residual amount of the purchase price that cannot be allocated, referred to as "goodwill". See below Note 6 for further information about significant business combinations.

Impairment of non-current assets

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

Pursuant to IFRS, Goodwill, and other intangible assets with indefinite useful life and intangible assets not yet brought into use must be tested for impairment annually or more often if indicators of impairment exist. Other assets are tested for impairment when circumstances indicate there may be a potential impairment.

Estimating recoverable amounts of assets and CGUs must in part be based on management’s evaluations, including the determination of the appropriate CGUs, the discount rate, estimates of future performance, the revenue generating capacity of the assets, timing and amount of future purchases of property and equipment, assumptions of the future market conditions and the long-term growth rate into perpetuity (terminal value). Changing the assumptions selected by management, in particular, the discount rate and growth rate assumptions used to estimate the recoverable amounts of assets, could significantly impact the Group’s impairment evaluation and hence results.

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

Critical accounting estimates (continued)

A significant part of the Group’s operations is in countries with emerging markets. The political and economic situation in these countries may change rapidly and global financial turmoil and recession may potentially have a significant impact on these countries. Moreover recessionary effects and the debt crisis in Europe in 2011 and 2012, as well as increased macroeconomic risks impacted our assessment of cash flow forecasts and the discount rates applied.

There are significant variations between different markets with respect to growth, mobile penetration, Average Revenue Per User ("**ARPU**"), market share and similar parameters, resulting in differences in earnings before interest, tax, depreciation and amortization ("**EBITDA**") margins. The future developments of EBITDA margins are important in the Group’s impairment assessments, and the long-term estimates of EBITDA margins are highly uncertain. In particular, this is the case for emerging markets that are still not in a mature phase.

See below Note 12 for further information about goodwill and other long-lived assets impairment test.

Depreciation and amortization of non-current assets

Depreciation and amortization expenses are based on management estimates of useful life, residual value, and amortization method of property and equipment and intangible assets. Estimates may change due to technological developments, competition, changes in market conditions and other factors and may result in changes in the estimated useful life and in the amortization or depreciation charges. Technological developments are difficult to predict and our views on the trends and pace of development may change over time. Some of the assets and technologies, in which the Group invested several years ago, are still in use and provide the basis for the new technologies. Critical estimates in the evaluations of useful lives for intangible assets include, but are not limited to, the estimated average customer relationship based on churn, the remaining license or concession period and the expected developments in technology and markets.

The useful lives of property and equipment and intangible assets are reviewed at least annually, taking into consideration the factors mentioned above and all other important relevant factors. Estimated useful lives for similar types of assets may vary between different entities in the Group due to local factors such as growth rate, maturity of the market, history and expectations for replacements or transfer of assets, climate and quality of components used. The actual economic lives of intangible assets may be different than our estimated useful lives, thereby resulting in a different carrying value of our intangible assets with finite lives. We continue to evaluate the amortization period for intangible assets with finite lives to determine whether events or circumstances warrant revised amortization periods. A change in estimated useful lives is a change in accounting estimate, and depreciation and amortization charges are adjusted prospectively.

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

Critical accounting estimates (continued)

Deferred tax assets and uncertain tax positions

Deferred tax assets are recognised to the extent that it is probable that the assets will be realised. Significant judgement is required to determine the amount that can be recognised and depends foremost on the expected timing, level of taxable profits, tax planning strategies and the existence of taxable temporary differences. The judgements relate primarily to losses carried forward in some of the Group's foreign operations. When an entity has a history of recent losses the deferred tax asset arising from unused tax losses is recognised only to the extent that there is convincing evidence that sufficient future taxable profit will be generated. Estimated future taxable profit is not considered such evidence unless that entity has demonstrated the ability by generating significant taxable profit for this year or there are certain other events providing sufficient evidence of future taxable profit. New transactions and the introduction of new tax rules may also affect the judgements due to uncertainty concerning the interpretation of the rules and any transitional rules. Provisions for uncertain tax positions are recognised when it is probable that a tax position will not be sustained and the amount can be reliably measured. The expected resolution of uncertain tax positions is based upon managements' judgement of the likelihood of sustaining a position taken through tax audits, tax courts and/or arbitration, if necessary. Circumstances and interpretations of the amount or likelihood may change through the settlement process. Furthermore, the resolution of uncertain tax positions is not always within the control of the Group and it is often dependent on the efficiency of the legal processes in the relevant taxing jurisdictions in which the Group operates. Issues can, and often do, take many years to resolve. See Note 9 and Note 25 for further information.

Fair value of financial instruments

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

Provisions

The Group is subject to various legal proceedings, disputes and claims, including regulatory discussions related to the Group's business, licenses, tax positions and investments, and the outcomes are subject to significant uncertainty. Management evaluates, among other factors, the degree of probability of an unfavourable outcome and the ability to make a reasonable estimate of the amount of loss. Unanticipated events or changes in these factors may require the Group to increase or decrease the amount recorded or to be recorded for a matter that has not been previously recorded because it was not considered probable or a reasonable estimate could not be made.

For certain operations in emerging markets, the Group is involved in legal proceedings, and regulatory discussions. Management's estimates relating to legal proceedings and regulatory discussions in these countries involve a high level of uncertainty.

(All amounts in thousands of US dollars unless otherwise stated)

5. Disposal groups

Sotelco

VimpelCom intends to dispose its entire indirect 90.0% stake in Sotelco Ltd. ("Sotelco"). Assets and liabilities of Sotelco qualify as a Disposal Group under IFRS 5 *Non-current Assets Held for sale and Discontinued Operations* and therefore are reclassified in the Statement of Financial Position as of 31 December 2012 in the accompanying condensed consolidated financial statements. The company "Sotelco" is presented in the "All other" reportable segment.

As of 31 December 2012 Sotelco's (100%) carrying values were as follows:

	31 December 2012
Assets of disposal group classified as held for sale	
Property and equipment	29,367
Intangible assets	25,654
Other non-current non-financial assets	15,575
Trade accounts receivable	2,546
Inventory	864
Other current non-financial assets	1,972
Cash and cash equivalents	388
Total assets of the disposal group	**76,366**
Liabilities of disposal group classified as held for sale	
Non-current financial liabilities	34,743
Provisions, non-current	2,979
Other current non-financial liabilities	6,723
Trade and other payables	7,924
Current financial liabilities	5,279
Total liabilities of the disposal group	**57,648**
Total net assets of the disposal group	**18,718**

The remaining part of assets of disposal groups classified as held for sale in the consolidated statement of financial position in the amount US$ 9,723 is represented by OJSC Vimpelcom subsidiary LLC Investment consulting agency "Center of Commercial Property" belonging to "Russia" reportable segment.

6. Business combinations and other significant transactions

Euroset, Joint venture arrangement with Megafon

On 6 December 2012, VimpelCom acquired 0.1% of the shares of Euroset Holding N.V. ("**Euroset**"), one of the largest wireless equipment retailer in the Russian Federation, to increase its ownership interest to 50% of Euroset. The shares were issued by Euroset to OJSC VimpelCom subsidiary simultaneously with the acquisition of the other 50% of the shares of Euroset by Lefbord Investments Limited, a company owned by OJSC MegaFon and Garsdale Services Investment Limited. As part of the transaction our fully owned subsidiary Ararima Enterprises Limited ("Ararima") paid US$ 2,300 to Alpazo Limited, the previous 50.1% shareholder of Euroset, as compensation for dilution of its shareholding resulting from issuance of additional shares to Ararima. All previous call and put options in relation to Euroset shares have been terminated.

(All amounts in thousands of US dollars unless otherwise stated)

6. Business combinations and other significant transactions (continued)

Euroset, Joint venture arrangement with Megafon (continued)

As a result of the transaction, VimpelCom and Megafon will each own 50% of Euroset equity, effectively establishing joint venture with equal shareholder rights.

The investment in Euroset is classified as a joint venture under IAS 31 after the additional interest of 0.1% was acquired and a new Corporate Governance agreement signed. The investment is accounted for using the equity method. As a result of gaining joint control, the previously held 49.9% interest in Euroset has been re-measured at fair value based on the price paid by Megafon and reported as Other non-operating gain in the accompanying consolidated income statement following the provisions of IAS 31 and IAS 27 in the amount of US$ 623,031. In addition, the related accumulated foreign currency translation loss was reclassified in amount of US$ 16,607 from other comprehensive income to the same line item in the income statement. The overall impact will have to be reversed in 2013 following the application of the new IFRS 11 that becomes effective as of January 2013 (Note 3 – Standards issued but not yet effective).

Acquisition of non-controlling interest

On 11 March 2012 VimpelCom acquired the non-controlling interest of 13% share in LLC "Sakhalin Telecom", VimpelCom's fixed-line subsidiary in Sakhalin region, in the amount of RUR 113 million (the equivalent to US$ 3,895 at the average exchange for March 2012). On 13 March 2012 Company acquired the non-controlling interest of 10.39% of shares of CJSC "ST Mobile", VimpelCom's mobile subsidiary in Sakhalin region, in the amount of RUR 147 million (the equivalent to US$ 5,012 at the average exchange rate for March 2012). After transaction OJSC "VimpelCom" became a holder of 99.2% participatory interest of LLC "Sakhalin Telecom" and 100% shares of CJSC "ST Mobile".

Ukrainian Radiosystems

On 21 September 2012 VimpelCom signed an agreement to sell its entire indirect 100% stake in PJSC "Ukrainian Radiosystems" ("**URS**"), a subsidiary operated in Ukraine, to a related party Kyivstar for cash consideration of US$ 0.005. The sale was completed on 1 October 2012.

As of 1 October 2012 the major classes of assets and liabilities of URS were as follows:

	1 October 2012
Assets	
Property and equipment	19,773
Intangible assets	2,764
Trade and other receivables	27,603
Other current non-financial assets	770
Cash and cash equivalents	11,188
Total assets	**62,098**
Liabilities	
Trade and other payables	35,742
Other current non-financial liabilities	6,271
Provisions, current	433
Current financial liabilities	361,657
Total liabilities	**404,103**
Total net assets	**(342,005)**

(All amounts in thousands of US dollars unless otherwise stated)

6. Business combinations and other significant transactions (continued)

Tacom LLC

On 21 December 2012, Silkway Holding B.V., a wholly owned subsidiary of VimpelCom, signed an agreement to transfer its entire 100% stake in VimpelCom BVI Ltd., 98% owner of our operating subsidiary Tacom LLC in Tajikistan, to VimpelCom Holdings B.V., an immediate parent of VimpelCom.

As of 21 December 2012 the major classes of assets and liabilities of Tacom LLC were as follows:

	21 December 2012
Property and equipment	87,610
Intangible assets	4,778
Goodwill	13,063
Inventory	1,193
Trade and other receivable	5,886
Other current non-financial assets	4,353
Cash and cash equivalents	345
Total assets	**117,228**
Non-current financial liabilities	38,078
Deferred tax liability	4,643
Trade and other payables	20,235
Other current non-financial Liabilities	4,356
Current financial liabilities	4,945
Total liabilities	**72,257**
Total net assets	**44,971**

Sale of GTEL-Mobile

On 29 March 2011, VimpelCom agreed with GTEL, its local partner in Vietnam, on a financing plan for their investment, GTEL-Mobile, that could result in the Company providing investments in total of up to US$ 500,000 through 2013. The Company completed the first stage of the financing plan by paying US$ 196,000 for the newly issued shares and thereby increasing its stake in GTEL-Mobile from 40% to 49% on 26 April 2011. All proceeds from this financing will be used for GTEL-Mobile’s development.

The Company agreed to invest another US$ 304,000 under this plan, which increased its economic interest in GTEL-Mobile from 49% to 65%. The additional financing and equity increase were subject to meeting certain performance targets by GTEL-Mobile and obtaining further regulatory approvals. Based on 2011 performance those targets have not been met and as a result the Company was released from its obligation to finance GTEL-Mobile.

The primary reason for the increase in ownership was expanding VimpelCom’s operations in Vietnam.

In conjunction with the financing agreements described above, VimpelCom and GTEL agreed on certain changes to the joint venture agreement and charter of GTEL-Mobile. Under the revised agreement, VimpelCom was assigned with the operational management of GTEL-Mobile, by way of substantial control over adoption of annual budgets and appointment of the General Director of GTEL-Mobile who was granted with wide authority with respect of day-to-day operations.

(All amounts in thousands of US dollars unless otherwise stated)

6. Business combinations and other significant transactions (continued)

Sale of GTEL-Mobile (continued)

Based on these agreed changes, VimpelCom started consolidating GTEL-Mobile from 26 April 2011 onwards.

The increase in ownership in GTEL-Mobile and subsequent consolidation wass accounted for as a business combination achieved in stages, as defined by IFRS 3. The acquisition achieved in stages requires remeasurement of previously held equity interest in the acquiree at its acquisition-date fair value and recognizing the resulting gain or loss, if any, in earnings. As of the acquisition date the fair value of previously held interest was US$ 157,523 representing the fair value of 40% stake based on DCF adjusted for control premium. The resulting loss of US$ 39,620 was recognized as other non-operating losses item of income statement in 2011 year. In prior reporting periods, the Company recognized a portion of changes in the value of its equity interest in GTEL-Mobile associated with foreign currency translation in other comprehensive income. As of the acquisition date, the respective accumulated foreign currency translation adjustment of US$ 43,100 was reclassified from other comprehensive income and included in the current period earnings as other non-operating losses item of income statement in 2011 year.

On 23 April 2012 VimpelCom completed the sale of its entire indirect 49.9% stake in GTEL-Mobile to GTEL Transmit and Infrastructure Service One Member Company Limited, or "GTEL Transmit", a related party of our Vietnamese local partner, Global Telecommunications Corporation, or "GTEL" for cash consideration of US$ 45,000. VimpelCom has no further obligations or liabilities to GTEL or GTEL-Mobile and GTEL Mobile as a result of the completion of the sale. The net result from sale of US$ 850 was reported as other non-operating loss in the consolidated income statement.

As of 23 April 2012 the major classes of assets and liabilities of GTEL-Mobile were as follows:

	23 April 2012
Property and equipment	16,468
Inventory	6,431
Trade and other receivable	2,358
Other current non-financial assets	4,091
Cash and cash equivalents	127,980
Total assets	**157,328**
Non-current financial liabilities	25,327
Provisions, non-current	5,740
Trade and other payable	27,080
Other current non-financial Liabilities	7,465
Total liabilities	**65,612**
Total net assets	**91,716**

(All amounts in thousands of US dollars unless otherwise stated)

7. Investments in associates and joint ventures

The Company has the following investments in and carrying values of associates and joint ventures:

	Percentage of ownership	31 December 2012	31 December 2011
Joint ventures			
Euroset	50.0%	**1,079,220**	–
Rascom	54.0%	**35,171**	31,555
Associates			
Euroset	49.9%	**–**	355,024
Others		**16**	1,576
Total		**1,114,407**	388,155

Because we do not have ability to unilaterally direct financial and operating activities of Rascom, and there is a joint control over Rascom the investment in Rascom is classified as a joint venture under IAS 31. The Company accounts for this investment under the equity method.

The following table includes summarized consolidated financial information of the investments in Rascom and Euroset (associate in 2011 and until December 2012 – Note 6) which are held by the Company as of and for the years ended 31 December 2012 and 2011:

	31 December 2012	31 December 2011
Share of the joint venture's/associate's statement of financial position		
Current assets	**487,596**	374,569
Non-current assets	**204,343**	188,624
Current liabilities	**606,979**	521,672
Non-current liabilities	**21,278**	45,920
Equity	**63,682**	(4,399)
Goodwill from acquisition	**1,050,709**	390,978
Carrying amount of the investment	**1,114,391**	386,579

	2012	2011
Share of the joint venture's/associate's revenue and profit		
Revenue	**1,340,801**	1,186,527
Profit for the year	**62,075**	65,496
Share of profit of joint venture's/associates reported	**62,075**	65,496

8. Segment information

Management analyzes the 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 by reportable segments separately. The segment data for acquired operations are reflected herein from the date of their acquisition.

(All amounts in thousands of US dollars unless otherwise stated)

8. Segment information (continued)

Management utilizes multiple views of data to measure segment performance. However, the dominant measurements are consistent with VimpelCom's consolidated financial statements and, accordingly, are reported on the same basis herein. Intersegment revenues are eliminated in consolidation. Intersegment revenues may be accounted for at amounts different from sales to unaffiliated companies. The accounting policies of the segments are the same as those of VimpelCom.

VimpelCom defined Russia, CIS (including Georgia), Ukraine as operating segments based on the business activities in different geographical areas.

"All other" category includes Asia and headquarter expenses and other unallocated adjustments and eliminations.

Prior to 1 January 2012, management evaluated the performance of its segments primarily based on earnings before interest, tax, depreciation, amortization and impairment loss ("**adjusted EBITDA**") as calculated based on US Generally Accepted Accounting Principles. Beginning in 2012, while still utilizing the same measure of segment performance, the information analysed by management is based on IFRS. Information for comparative periods was adjusted to IFRS and is presented below accordingly.

Financial information by reportable segment for the year ended 31 December 2012 and 31 December 2011 is presented in the following tables.

Information by reportable segments for year ended 31 December 2012

	Russia	CIS	Ukraine	Total	All other	Group
Revenue						
External customers	9,131,348	1,664,165	81,228	**10,876,741**	70,908	**10,947,649**
Inter-segment	58,417	91,164	8,513	**158,094**	(158,094)	**–**
Total operating revenues	**9,189,765**	**1,755,329**	**89,741**	**11,034,835**	**(87,186)**	**10,947,649**
EBITDA	**3,878,056**	**812,481**	**6,032**	**4,696,569**	**(47,760)**	**4,648,809**
Other disclosures						
Capital expenditures	1,630,969	383,671	8,143	**2,022,783**	235,194	**2,257,977**
Impairment loss	(17,168)	–	–	**(17,168)**	(9,000)	**(26,168)**

Information by reportable segments for year ended 31 December 2011

	Russia	CIS	Ukraine	Total	All other	Group
Revenue						
External customers	9,002,534	1,469,857	133,543	**10,605,934**	62,197	**10,668,131**
Inter-segment	61,836	119,352	18,223	**199,411**	(199,411)	**–**
Total operating revenues	**9,064,370**	**1,589,209**	**151,766**	**10,805,345**	**(137,214)**	**10,668,131**
EBITDA	**3,641,211**	**710,287**	**4,989**	**4,356,487**	**(115,031)**	**4,241,456**
Other disclosures						
Capital expenditures	2,006,676	624,747	5,291	**2,636,714**	86,080	**2,722,794**
Impairment loss	–	–	–	**–**	(526,275)	**(526,275)**

(All amounts in thousands of US dollars unless otherwise stated)

8. Segment information (continued)

The following table provides the breakdown of operating revenues from external customers by mobile and fixed line services:

Breakdown of revenue per mobile and fixed line

	2012	2011
Fixed line	**1,665,203**	1,638,403
Mobile line	**9,282,446**	9,029,728
Total	**10,947,649**	10,668,131

These business activities include the following operations: mobile primarily includes providing wireless telecommunication services to the Company's subscribers and other operators, fixed line primarily includes all activities for providing wireline telecommunication services, broadband and consumer Internet. VimpelCom provides both mobile and fixed line services in Russia, Ukraine and CIS.

The Company's management does not review total assets and total liabilities per segment, and therefore this information has not been presented in these statements. Neither are depreciation and amortization reviewed per segment.

The following table provides the reconciliation of consolidated EBITDA to consolidated profit for the year:

Reconciliation between EBITDA and profit for the year

	2012	2011
EBITDA	**4,648,809**	4,241,456
Depreciation	**(1,464,270)**	(1,413,151)
Amortization	**(370,847)**	(416,099)
Impairment loss	**(26,168)**	(526,275)
Loss on disposals of non-current assets	**(162,359)**	(45,435)
Finance costs	**(836,983)**	(782,091)
Finance income	**365,559**	240,732
Other non-operating gains/(losses) (net)	**583,970**	(138,213)
Shares of profit of associates and joint ventures accounted for using the equity method	**62,075**	65,496
Net foreign exchange gain	**31,792**	183,108
Income tax expense	**(495,571)**	(486,611)
Profit for the year	**2,336,007**	922,917

(All amounts in thousands of US dollars unless otherwise stated)

9. Income taxes

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

	Year ended 31 December	
	2012	**2011**
Consolidated income statement		
Current income tax		
Current income tax charge	**506,689**	475,037
Adjustments in respect of current income tax of previous year	**(17,295)**	(19,880)
Deferred tax		
Relating to origination and reversal of temporary differences	**6,177**	31,454
Income tax expense reported in the income statement	**495,571**	486,611
Consolidated statement of comprehensive income		
Income tax effect of foreign currency translation related to permanently invested loans	**6,153**	(8,801)
Income tax charged directly to other comprehensive income	**6,153**	(8,801)

In the table below, we show the reconciliation between the statutory tax rate in the Russian Federation and effective corporate income tax rates for the group, together with the corresponding amounts.

	31 December 2012	**%**	**31 December 2011**	**%**
Income tax expense computed on income before taxes at statutory tax rate	**566,315**	**20.1%**	281,906	20.0%
Effect of goodwill impairment	**1,800**	**0.0%**	25,300	1.8%
Effect of changes in unrecognized deferred tax assets	**14,797**	**0.5%**	156,068	11.1%
Effect of non-deductible expenses (non-taxable income)	**(122,173)**	**-4.3%**	40,041	2.8%
Tax effect of intragroup dividends	**30,865**	**1.1%**	23,218	1.6%
Effect of refilling of tax returns	**(17,295)**	**-0.6%**	(19,880)	-1.4%
Effect of tax claims	**28,534**	**1.0%**	21,405	1.5%
Effect of different tax rates in different jurisdictions	**(7,214)**	**-0.3%**	(33,531)	-2.4%
Other	**(58)**	**0.0%**	(7,916)	-0.6%
Income tax expense reported in the accompanying consolidated financial statements	**495,571**	**17.5%**	486,611	34.5%

The applicable (or effective) tax rate amounts to 17.1% in 2012 (2011: 34.5%). The decrease of the tax rate is primarily due to effect of non-taxable income (-4.3% or US$ (122,173)), mainly represented by the revaluation of investment in Euroset, and lower effect of changes in unrecognized deferred tax assets effect in 2011, mainly represented by losses from impairment of Vietnam and Cambodia CGU's (Note 12).

Deferred tax

Deferred corporate income tax assets in respect of deductible temporary differences, for tax losses and other tax credits carried forward (mainly carry forward of non-deductible interest) are recongnized to the extent that the realization of the related tax benefit through future taxable profits is probable.

(All amounts in thousands of US dollars unless otherwise stated)

9. Income taxes (continued)

Deferred tax (continued)

VimpelCom has the following amounts of unused tax losses and other carry forwards for which no deferred tax asset is recognized as of 31 December 2012:

Year of expiration	Recognised losses	Recognised DTA	Non recognised losses	Non recognised DTA
0-5 years	–	–	190,336	35,437
6-10 years	7,170	1,434	488,999	97,800
>10 years	–	–	–	–
Indefinitely	12,932	2,458	9,588	1,821
Total	**20,102**	**3,892**	**688,923**	**135,058**

As of 31 December 2012, the amount of deductible temporary differences for which no deferred tax asset has been recognised in the statement of financial position of VimpelCom amounts to US$ 7,909. The reported non recognised deferred income tax on temporary differences amounts to US$ 39,545.

Deferred tax balances were calculated by applying the presently enacted statutory tax rate effective to the period in which the temporary differences between the carrying amounts and tax base of assets and liabilities are expected to reverse. The following table shows the movements of the deferred tax assets and liabilities in 2012:

	31 December 2011	Divestments (Note 6)	Charge to profit and loss	Currency translation adjustment	Other comprehen-sive income	31 December 2012
Property and equipment	(444,677)	5,214	(42,917)	(27,849)	–	(510,229)
Intangibles	(157,924)	(539)	103,928	(6,241)	–	(60,776)
Other non-current assets	8,191	–	(30,814)	5,067	(6,153)	(23,709)
Trade accounts receivable	7,690	(337)	(2,052)	(504)	–	4,797
Other current assets	(5,112)	7	(4,170)	(131)	–	(9,406)
Undistributed retained earnings of subsidiaries	(35,202)	–	(22,303)	–	–	(57,505)
Provisions	10	–	23,795	555	–	24,360
Financial liabilities (non-current)	2,583	–	(9,467)	(116)	–	(7,000)
Other non-financial liabilities (non-current)	17,702	–	(8,237)	515	–	9,980
Trade accounts payable and other	107,586	(2,811)	(1,685)	4,959	–	108,049
Other current non-financial liabilities	45,270	(82)	(7,880)	2,152	–	39,460
Other current financial liabilities	3,938	(11,005)	13,411	178	–	6,522
Other movements and temporary differences	(1,400)	153	(6,367)	758	–	(6,856)
Tax losses and other carry forwards	163,266	(33,222)	8,900	6	–	138,950
Non recognized deferred tax assets on losses and other carry forwards	(162,007)	47,268	(20,319)	–	–	(135,058)
Net deferred tax position	**(450,086)**	**4,646**	**(6,177)**	**(20,651)**	**(6,153)**	**(478,421)**

(All amounts in thousands of US dollars unless otherwise stated)

9. Income taxes (continued)

Deferred tax (continued)

The following table shows the movements of the deferred tax assets and liabilities in 2011:

	31 December 2010	Acquisitions	Charge to profit and loss	Currency translation adjustment	Other comprehen-sive income	31 December 2011
Property and equipment	(374,490)	(12,365)	(74,489)	16,667	–	(444,677)
Intangibles	(162,946)	(9,144)	9,347	4,819	–	(157,924)
Other non-current assets	(6,421)	1,274	10,662	(6,125)	8,801	8,191
Trade accounts receivable	7,788	421	(874)	355	–	7,690
Other current assets	1,077	(78)	(6,184)	73	–	(5,112)
Undistributed retained earnings of subsidiaries	(11,987)	–	(23,215)	–	–	(35,202)
Provisions	–	–	10	–	–	10
Financial liabilities (non-current)	1,916	–	844	(177)	–	2,583
Other non-financial liabilities (non-current)	17,478	163	957	(896)	–	17,702
Trade accounts payable and other	48,524	31	67,108	(8,077)	–	107,586
Other current non-financial liabilities	43,851	72	3,806	(2,459)	–	45,270
Other current financial liabilities	12,282		(9,550)	1,206	–	3,938
Other movements and temporary differences	166	–	(1,566)	–	–	(1,400)
Tax losses and other carry forwards	181,591	–	(18,325)	–	–	163,266
Non recognized deferred tax assets on losses and other carry forwards	(172,022)	–	10,015	–	–	(162,007)
	(413,193)	**(19,626)**	**(31,454)**	**5,386**	**8,801**	**(450,086)**

(All amounts in thousands of US dollars unless otherwise stated)

10. Property and equipment

Property and equipment, at cost, consisted of the following at 31 December 2012 and 2011:

	Telecommu-nications equipment	Land, buildings and constructions	Office and measuring equipment	Other equipment	Equipment not installed and assets under construction	Total
Cost						
At 31 December 2010	**8,767,019**	**362,641**	**899,247**	**504,743**	**1,234,655**	**11,768,305**
Additions	335,679	18,199	5,510	34,093	2,127,733	**2,521,214**
Acquisition of a subsidiary	188,705	66,903	12,123	24,302	46,007	**338,040**
Disposals	(224,065)	(48,208)	(24,239)	(5,710)	(61,818)	**(364,040)**
Transfer	1,349,086	26,181	100,480	57,389	(1,532,504)	**632**
Translation adjustment	(502,858)	(16,833)	(46,387)	(25,310)	(88,961)	**(680,349)**
At 31 December 2011	**9,913,566**	**408,883**	**946,734**	**589,507**	**1,725,112**	**13,583,802**
Additions	559,389	41,292	2,087	5,764	1,412,280	**2,020,812**
Divestment of a subsidiary	(208,115)	(57,082)	(27,935)	(61,918)	(25,631)	**(380,681)**
Disposals	(345,457)	(5,094)	(53,505)	(61,887)	(75,468)	**(541,411)**
Reclass to asset held for sale	(112,969)	(2,771)	(4,669)	(15,491)	(1,996)	**(137,896)**
Transfer	1,149,364	24,087	124,595	12,268	(1,310,314)	**–**
Translation adjustment	307,912	27,625	65,412	24,308	100,517	**525,774**
At 31 December 2012	**11,263,690**	**436,940**	**1,052,719**	**492,551**	**1,824,500**	**15,070,400**
Depreciation and impairment						
At 31 December 2010	**(4,535,249)**	**(101,658)**	**(497,174)**	**(244,034)**	**–**	**(5,378,115)**
Depreciation charge for the year	(1,162,721)	(29,181)	(134,067)	(87,182)	–	**(1,413,151)**
Disposals	291,008	82	30,153	6,730	–	**327,973**
Impairment (Note 12)	(136,380)	(24,878)	(10,142)	(23,455)	(28,167)	**(223,022)**
Translation adjustment	294,946	6,404	30,683	15,841	–	**347,874**
At 31 December 2011	**(5,248,396)**	**(149,231)**	**(580,547)**	**(332,100)**	**(28,167)**	**(6,338,441)**
Depreciation charge for the year	(1,243,038)	(25,268)	(129,864)	(63,741)	(2,359)	**(1,464,270)**
Divestment of a subsidiary	157,806	33,236	19,649	22,323	23,816	**256,830**
Disposals	322,099	61	2,079	40,289	–	**364,528**
Reclass to asset held for sale	90,425	2,753	3,437	11,914	–	**108,529**
Impairment (Note 12)	–	–	–	–	(17,168)	**(17,168)**
Translation adjustment	(192,716)	(6,116)	(10,170)	(8,942)	723	**(217,221)**
At 31 December 2012	**(6,113,820)**	**(144,565)**	**(695,416)**	**(330,257)**	**(23,155)**	**(7,307,213)**
Net book value						
At 31 December 2011	**4,665,170**	**259,652**	**366,187**	**257,407**	**1,696,945**	**7,245,361**
At 31 December 2012	**5,149,870**	**292,375**	**357,303**	**162,294**	**1,801,345**	**7,763,187**

Capitalized borrowing costs

VimpelCom capitalized borrowing costs in the cost of non-current assets in the amount of US$ 69,525, US$ 60,888 in 2012 and 2011, respectively. The rate used to determine the amount of borrowing costs eligible for capitalization is 8.3% and 8.0% for the years ended 31 December 2012 and 2011, respectively.

Finance lease

The carrying value of property and equipment held under finance leases at 31 December 2012 was US$ 92,699 and US$ 30,295 at 31 December 2011.

Additions during the year include US$ 75,402 in 2012 and US$ 25,573 in 2011 of property and equipment under finance lease.

(All amounts in thousands of US dollars unless otherwise stated)

11. Intangible assets

The total gross carrying value and accumulated amortization of VimpelCom's intangible assets consisted of the following at 31 December:

	Telecommu-nication licenses, frequencies and permissions	Goodwill	Software considered to be intangible assets	Brands and trademarks	Customer relation-ships	Telephone line capacity	Other intangible assets	Total
Cost								
At 31 December 2010	**1,469,848**	**3,293,026**	**937,222**	**17,485**	**617,402**	**159,075**	**262,482**	**6,756,540**
Additions	66,102	22,304	104,861	107	947	5,016	25,829	**225,166**
Acquisition of a subsidiary	209,773	469,826	9,459	5,733	31,486	1,500	4	**727,781**
Disposals	(30,483)	–	(32,406)	–	(11)	(1,470)	(1,384)	**(65,754)**
Transfer	11,790	–	18,461	(3,199)	(35,693)	(23,687)	32,328	**–**
Translation adjustment	(61,209)	(179,482)	(43,004)	(901)	(33,077)	(2,360)	(16,863)	**(336,896)**
At 31 December 2011	**1,665,821**	**3,605,674**	**994,593**	**19,225**	**581,054**	**138,074**	**302,396**	**7,306,837**
Additions	50,041	–	169,591	2,558	–	623	14,352	**237,165**
Divestment of a subsidiary	(152,442)	(139,272)	(16,199)	–	–	(4,005)	(36)	**(311,954)**
Disposals	(101,474)	–	(24,699)	15	–	(12,906)	(83,972)	**(223,036)**
Reclassification	–	(7,513)	–	–	–	–	–	**(7,513)**
Reclass to asset held for sale	(42,451)	–	(5,011)	–	–	(287)	–	**(47,749)**
Translation adjustment	40,070	154,033	62,911	5,076	76,413	53,318	7,470	**399,291**
At 31 December 2012	**1,459,565**	**3,612,922**	**1,181,186**	**26,874**	**657,467**	**174,817**	**240,210**	**7,353,041**
Amortization and impairment								
At 31 December 2010	**(907,294)**	**–**	**(653,510)**	**(11,168)**	**(239,206)**	**(57,858)**	**(214,881)**	**(2,083,917)**
Amortization charge for the year	(175,188)	–	(123,440)	(10,023)	(62,324)	(42,555)	(2,569)	**(416,099)**
Disposals	26,771	–	24,328	–	11	–	1,661	**52,771**
Impairment (Note 12)	(142,896)	(126,210)	(4,144)	–	–	–	–	**(273,250)**
Transfer	(646)	–	(3,581)	(3)	10,390	7,852	(14,012)	**–**
Translation adjustment	44,048	–	34,737	1,969	16,717	2,717	10,092	**110,280**
At 31 December 2011	**(1,155,205)**	**(126,210)**	**(725,610)**	**(19,225)**	**(274,412)**	**(89,844)**	**(219,709)**	**(2,610,215)**
Amortization charge for the year	(149,471)	–	(134,463)	(714)	(65,063)	(17,987)	(3,149)	**(370,847)**
Divestment of subsidiary	148,943	126,210	13,907	–	–	2,262	27	**291,349**
Impairment (Note 12)	–	(9,000)	–	–	–	–	–	**(9,000)**
Disposals	72,648	–	77,757	1,466	–	3,297	29,731	**184,899**
Reclass to asset held for sale	19,396	–	2,452	–	–	247	–	**22,095**
Translation adjustment	(23,793)	–	(98,416)	(206)	(37,023)	(26,446)	(4,352)	**(190,236)**
At 31 December 2012	**(1,087,482)**	**(9,000)**	**(864,373)**	**(18,679)**	**(376,498)**	**(128,471)**	**(197,452)**	**(2,681,955)**
Net book value								
At 31 December 2011	**510,616**	**3,479,464**	**268,983**	**–**	**306,642**	**48,230**	**82,687**	**4,696,622**
At 31 December 2012	**372,083**	**3,603,922**	**316,813**	**8,195**	**280,969**	**46,346**	**42,758**	**4,671,086**

Telecommunication licenses not in use mainly comprise of the LTE licenses in Russia and CIS, for which the business operations have not yet been started, in the amount of US$ 57,886 as of 31 December 2012 and US$ 28,909 as of 31 December 2011.

(All amounts in thousands of US dollars unless otherwise stated)

12. Impairment

Carrying amount of goodwill and cash-generating units

Goodwill acquired through business combinations have been allocated to the cash-generating units (CGU) for impairment testing as follows:

CGU's	31 December 2012	31 December 2011
Russia	**2,872,390**	2,709,966
Kyrgyzstan	**244,546**	245,678
Kazakhstan	**164,259**	174,146
Uzbekistan	**154,061**	154,061
Armenia	**109,960**	115,036
Laos	**58,706**	67,514
Tadjikistan	**–**	13,063
Total	**3,603,922**	3,479,464

There were no changes to the methodology of goodwill allocation to CGU's in 2012.

As a result of further integration between fixed line and mobile businesses, compared to 2009 and 2010 the Company changed the methodology of allocation of goodwill to CGU's for Russia and Armenia whereas starting from 2011 the goodwill is no longer tested on the levels of Russia Mobile, Russia Fixed, Armenia Mobile and Armenia Fixed but rather on a country level.

The Company performed its annual impairment test as at 1 October. The Company considers the relationship between market capitalization and its book value, among other factors, when reviewing for indicators of impairment. As of the reporting dates the market capitalization of the Group was not below the book value of its equity. As a result of reviewing all relevant indicators, no additional impairment testing was performed at the respective year-ends.

The recoverable amounts of the CGU's except for Cambodia and Euroset have been determined based on a value in use calculation using cash flow projections from business plans covering 3 years and extrapolated for another 2 years approved by the Group senior management. The pre-tax discount rate applied to cash flow projections is stated in the table below and cash flows beyond the five year period are extrapolated using a terminal growth rate stated in the table below. The recoverable amounts of Cambodia and Euroset CGU's have been determined based on the fair value less cost of sale ("**FVLCS**") basis representing the price of the investments market participants would be willing to pay. FVLCS was determined based on comparable transactions between market participants.

(All amounts in thousands of US dollars unless otherwise stated)

12. Impairment (continued)

Carrying amount of goodwill and cash-generating units (continued)

CGU's	2012	2011
Discount rate (functional currency)		
Russia	**12.1%**	15.0%
Kyrgyzstan	**16.0%**	21.4%
Kazakhstan	**14.5%**	14.9%
Uzbekistan	**11.4%**	12.0%
Armenia	**14.0%**	13.4%
Terminal growth rate		
Russia	**4.4%**	3.5%
Kyrgyzstan	**3.0%**	3.0%
Kazakhstan	**3.0%**	3.0%
Uzbekistan	**2.0%**	2.0%
Armenia	**4.0%**	4.0%

The Company estimates revenue growth rates and operating income margin for each reporting unit and each future year. These growth rates vary based on numerous factors, including size of market, GDP (Gross Domestic Product), foreign currency projections, traffic growth, market share and others. The forecast of operating income margin is based on the next year budget and assumes cost optimization initiatives which are part of ongoing operations as well as regulatory and technological changes know to date (such as telecommunication license issues, price regulation etc.).

The discount rate was initially determined in US$ based on the risk free rate for 20-year maturity bonds of the United States Treasury adjusted for a risk premium to reflect both the increased risk of investing in equities and the systematic risk of the specific CGU. Equity market risk premium is 6.8% and the systematic risk, beta, represents median of the raw betas of the entities comparable in size and geographic footprint with the ones of VimpelCom Ltd. ("**Peer Group**") since the Company is part of VimpelCom Ltd. group. Debt risk premium is the mediam of Standard&Poors long term credit rating of the Peer Group. Weighted average cost of capital is determined based on forward-looking debt-to-equity ratio representing the median five-year capital structure for each entity from the Peer Group. The discount rate in functional currency is adjusted for long-term inflation forecast.

(All amounts in thousands of US dollars unless otherwise stated)

12. Impairment (continued)

Carrying amount of goodwill and cash-generating units (continued)

The five-year average growth rate during forecasted period and terminal operating margin during forecasted period for the major CGU's are presented in the table below:

CGU's	2012	2011
Average revenue growth rate during forecasted period		
Russia	**4.9%**	5.0%
Kyrgyzstan	**10.0%**	10.8%
Kazakhstan	**4.4%**	6.1%
Uzbekistan	**1.9%**	9.6%
Armenia	**-0.8%**	1.0%
Average operating margin		
Russia	**25.5%**	27.2%
Kyrgyzstan	**37.4%**	37.8%
Kazakhstan	**29.9%**	27.9%
Uzbekistan	**14.8%**	14.2%
Armenia	**7.5%**	12.1%

The results of recoverable amount analyses were corroborated with other value indicators where available, such as the Company's market capitalization, comparable company earnings multiples and research analyst estimates.

Sensitivity to changes in assumptions

Other than as disclosed below, there is no reasonably possible change in any of the above key assumptions, which would cause the carrying value of any CGU to exceed its recoverable amount.

To illustrate the respective CGU's headroom as of the impairment test date and the magnitude of potential goodwill impairments relative to future changes in recoverable amount, had the recoverable amount of the following material cash generating units been hypothetically lower by the percentages listed below, the CGU's carrying amount value would have exceeded recoverable amount as of the impairment test date by approximately the following amounts set forth in the table.

CGU's	Headroom	10%	20%	30%
Armenia	32,534	(7,481)	(47,496)	(87,511)

The following table illustrates, for Armenia, for reasonably possible changes, the amount by which each key assumption must change in isolation in order for the estimated recoverable amount to equal its carrying value.

CGU's	Increase of WACC (p.p.)
Armenia	1.0

(All amounts in thousands of US dollars unless otherwise stated)

12. Impairment (continued)

Sensitivity to changes in assumptions (continued)

The result of the impairment test in 2012 indicated impairment in Laos CGU's belonging to "All other" operating segment and goodwill impairment was recorded in amount of US$ 9,000. In 2011, the impairments tests indicated impairment in Vietnam and Cambodia CGU's and the Company recorded goodwill impairment of US$ 126,210, property and equipment of US$ 223,022 and telecommunication licenses of US$ 142,896 as well as other assets of US$ 34,147.

The remaining US$ 17,168 recognised in profit and loss for the year ended 31 December 2012 relates to the warehouse building in the centre of Moscow owned by LLC Investment consulting agency "Center of Commercial Property", a subsidiary of OJSC VimpelCom. The company decided to offer the building for sale in the third quarter of 2012 year. According to the requirements of IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations* the building was remeasured at its fair value resulting on recognition of impairment loss. The recoverable amount of the building is its fair value less costs to sell determined by reference to an active market.

13. Inventories

Inventory consisted of the following as at:

	31 December 2012	31 December 2011
Telephone handsets and accessories for sale	**69,806**	121,010
SIM-Cards	**14,463**	16,808
Scratch cards	**1,251**	3,704
Info materials	**1,258**	3,703
Equipment for sale	**37**	1,601
Other inventory	**10,286**	5,628
Total	**97,101**	152,454

The cost of inventories recognised as an expense is mainly accounted for in the PL line "Cost of equipment and accessories". Other expenses and write down of inventories amounted for US$ 73,528 and US$ 85,216 for the years ended 31 December 2012 and 2011, respectively.

14. Financial assets and liabilities

VimpelCom uses derivative instruments, including swaps, forward contracts and options to manage certain foreign currency and interest rate exposures. The Company views derivative instruments as risk management tools and does not use them for trading or speculative purposes.

All derivatives are accounted for on a fair value basis and the changes in fair value are recorded in the income statement, except for options over non-controlling interests and derivative instruments which are accounted for using cash flow hedge accounting. The changes in carrying value are recorded in either equity or in the income statement, as further described below.

Cash flows from derivative instruments are reported in the section in the statement of cash flows where the underlying cash flows are recorded.

(All amounts in thousands of US dollars unless otherwise stated)

14. Financial assets and liabilities (continued)

Financial assets

The Company has the following financial assets at:

	Note	31 December 2012	31 December 2011
Financial assets at fair value through profit or loss			
Derivatives over non-controlling interest		**81,092**	72,741
Foreign exchange contracts		**4,340**	–
Financial assets at fair value through other comprehensive income			
Available for sale financial asset		**94,285**	95,444
Total financial assets at fair value		**179,717**	168,185
Loans granted, deposits and other financial assets		**–**	–
Loans to related parties	24	**4,859,337**	3,454,047
Bank deposits		**33,237**	16,574
Interest receivable		**95,425**	44,744
Other financial asset		**29,908**	12,211
Total loans granted, deposits and other financial assets		**5,017,907**	3,527,576
Total financial assets		**5,197,624**	3,695,761
Total current		**431,042**	26,392
Total non-current		**4,766,582**	3,669,369

Available-for-sale financial assets

Available-for sale financial assets include investment in shares of VimpelCom Ltd. The fair value of the quoted equity shares is determined by reference to published price quotations in an active market. As part of stock-based compensation program of VimpelCom Ltd. (Note 19), VC ESOP N.V., a subsidiary of the Company, holds shares of VimpelCom Ltd. The number of shares was 8,996,457 VimpelCom Ltd. shares as of 31 December 2012, 10,078,608 VimpelCom Ltd. shares as of 31 December 2011.

Impairment of available-for-sale financial investments

For available-for-sale financial investments, the Company assesses at each reporting date whether there is objective evidence that an investment or a group of investments is impaired. In the case of equity investments classified as available-for-sale, objective evidence would include a significant or prolonged decline in the fair value of the investment below its cost.

Based on these criteria, the Company identified an impairment on available-for-sale investment quoted shares of US$ nil and US$ 57,653, which is recognised within other non-operating losses in the income statement (Note 21) for the years ended 31 December 2012 and 2011, respectively.

(All amounts in thousands of US dollars unless otherwise stated)

14. Financial assets and liabilities (continued)

Financial liabilities

The Company has the following financial liabilities at:

	31 December 2012	31 December 2011
Financial liabilities at fair value through profit or loss or through equity		
Derivatives over non-controlling interest	**441,704**	390,697
Foreign exchange contracts	**31,798**	–
Total financial liabilities at fair value	**473,502**	390,697
Financial liabilities at amortised cost		
Short-term bank loans, bonds and equipment financing	**1,600,604**	1,347,030
Long-term bank loans, bonds and equipment financing	**8,086,715**	8,129,307
Total bank loans, bonds and equipment financing	**9,687,319**	9,476,337
Finance lease	**84,567**	16,923
Unamortised balance of fair value adjustment on interest free Kyivstar loan (Note 24)	**–**	(72,490)
Unamortised fees	**(65,084)**	(68,034)
Interest payable	**138,950**	115,336
Total other financial liabilities at amortised cost	**9,845,752**	9,468,072
Total financial liabilities	**10,319,254**	9,858,769
Total current	**2,040,749**	1,392,519
Total non-current	**8,278,505**	8,466,250

The Company has the following borrowings, interest-bearing bank loans and bonds:

Interest-bearing loans and borrowings and equipment financing	**Interest rate**	**Maturity**	**Currency**	**31 December 2012**	**31 December 2011**
Eurobonds 2021	7.748%	2021	USD	**1,000,000**	1,000,000
Eurobonds 2018	9.125%	2018	USD	**1,000,000**	1,000,000
Eurobonds 2016	6.493%-8.25%	2016	USD	**1,100,000**	1,100,000
Eurobonds 2013	8.375%	2013	USD	**800,647**	800,647
Sberbank	8.40%-9.25%	2013-2018	RUR	**2,805,188**	3,460,312
Ruble Bonds 2015	8.300%	2015	RUR	**658,486**	621,193
Ruble Bonds 2014	7.400%	2014	RUR	**329,243**	310,597
Ruble Bonds 2013	9.250%	2013	RUR	**329,507**	311,366
Ruble Bonds 2022	8.850%	2022	RUR	**1,152,351**	–
Kyivstar Loan	interest free	2012	UAH	**–**	401,011
Citibank International plc	6M LIBOR + 0.1%	2012	USD	**–**	11,835
Unicredit - HVB	AB SEK Rate + 0.75%	2016	USD	**77,305**	100,634
HSBC	6 month MOSPRIME + 0.08%	2014	RUR	**15,049**	23,660
HSBC	3 month MOSPRIME + 1.00%	2019	RUR	**195,024**	–
Cisco	16.0%	2012	RUR	**–**	10,418
BayernLB (Hermes2)	6 month LIBOR + 0.38%	2012	USD	**–**	9,451
China Construction Bank	6 month LIBOR + 2.1%	2017	USD		25,032
Huawei	8.0%	2014	USD	**6,217**	6,276
HSBC	3M MOSPRIME + 1.05%	2017	RUR	**135,794**	153,725
Cisco	7.35%	2014	RUR	**23,437**	35,563
Cisco	7.95%	2015	RUR	**39,381**	–
Huawei	Libor 6m + 5.5%, cap at 7%	2014	USD	**–**	12,019
Others			USD/RUR	**19,690**	82,598
Total loans and equipment financing				**9,687,319**	9,476,337
Less current portion				**(1,600,604)**	(1,347,030)
Long-term portion of equipment financing				**8,086,715**	8,129,307

14. Financial assets and liabilities (continued)

Derivatives over non-controlling interest – Put and call options

Limnotex

On 24 August 2011 the Company entered into put and call agreements of up to 28.5% shares in its indirect subsidiary, Limnotex Developments Ltd. ("**Limnotex**"), which owns 100% of KaR-Tel, Kazakhstan. Based on the agreement, Crowell Investments Limited ("**Crowell**"), the non-controlling shareholder of Limnotex, holds two put options for Limnotex shares: the first put option for 13.5% is exercisable during 2013 at a fixed price of US$ 297,000 and the second put option for 15% is exercisable during 2017 at a fixed price of US$ 330,000. The put option granted to the non-controlling interests gives rise to a financial liability which is initially measured at the present value of the redemption amount. Therefore, the Company accounted for a liability regarding these arrangements of US$ 441,704 and US$ 390,697 as of 31 December 2012 and 2011, respectively, representing the fair value of the underlying redemption amount whereas the change in fair value is recorded in equity since there is no present access to benefits over all shares held by non-controlling shareholders. The outcome is dependent on discount rate – in case the rate increases for 1 pp the liability will decrease for US$ 10,018, in case the rate decreases for 1 pp the liability will increase for US$ 10,480.

The call options as amended allow the Company to acquire the total of 28.5% of Limnotex shares at a multiple of EBITDA. Both options are exercisable during the period between April 2012 and May 2018. The call option does not give the Company present ownership rights. Therefore the option is accounted for as a financial asset at fair value through profit and loss and accounted for as an asset regarding these arrangements of US$ 81,092 and US$ 72,741 as of 31 December 2012 and 2011, respectively, representing the fair value of the options as of 31 December 2012 and 2011. The fair value of the options was determined based on expected exercise period at May 2018 and estimated exercise price of US$ 1,452,700. The outcome is influenced by changes in exercise period and exercise price but does not have material impact on the results of operations.

Foreign exchange contracts

During August, September and November 2012 OJSC VimpelCom entered into short-term forward and zero-cost collar agreements with several banks for a total notional amount of $US 1,335,539, in order to protect the cash flows of its short-term financial obligations denominated in USD from adverse USD-RUB movement. The expected effect on profit and loss and cash flows is the first and second quarter of 2013 year. As of 31 December 2012 the notional amount outstanding of the derivative contracts was $US 1,105,396. Derivative contracts with notional amounts of US$ 972,048 have been designated as a hedging instrument to hedge cash flows of the financial obligations. The fair value of these derivatives is US$ 27,459 negative and it was recognised in the accounting records as a liability in the line "Foreign exchange contracts". The effective portion of changes in fair value of foreign exchange contracts was recognised in other comprehensive income in the consolidated statement of changes in equity in the amount $US 3,309. The ineffective portion of changes in fair value of foreign exchange contracts was recognised in the amount US$ 15,430 as other non-operating loss. The remaining change in fair value was recognised in the same lines as where the underlying hedged items affect the profit and loss. The fair value of the derivative contracts to which no hedge accounting is applied amounts to US$ 3,841, which was recognised as other non-operating loss and a liability in the line "Foreign exchange contracts".

(All amounts in thousands of US dollars unless otherwise stated)

14. Financial assets and liabilities (continued)

Fair values

Set out below is a comparison by class of the carrying amounts and fair value of the Company's financial instruments that are carried in the consolidated financial statements as at 31 December (based on future cash flows discounted at current market rates):

	Carrying value		Fair value	
	31 December 2012	**31 December 2011**	**31 December 2012**	**31 December 2011**
Derivatives over non-controlling interest	**81,092**	72,741	**81,092**	72,741
Foreign exchange contracts	**4,340**	–	**4,340**	–
Available-for-sale financial asset	**94,285**	95,444	**94,285**	95,444
Total financial assets at fair value through profit or loss and other comprehensive income	**179,717**	168,185	**179,717**	168,185
Loans to related parties	**4,859,337**	3,454,047	**5,102,798**	3,454,047
Bank deposits	**33,237**	16,574	**33,237**	16,574
Interest receivable	**95,425**	44,744	**95,425**	44,744
Other financial asset	**29,908**	12,211	**29,908**	12,211
Total loans granted, deposits and other financial assets	**5,017,907**	3,527,576	**5,261,368**	3,527,576
Trade and other receivables	**641,448**	634,756	**641,448**	634,756
Cash and cash equivalents	**981,845**	653,461	**981,845**	653,461
Total financial assets	**6,820,917**	4,983,978	**7,064,378**	4,983,978
Derivatives over non-controlling interest	**441,704**	390,697	**441,704**	390,697
Foreign exchange contracts	**31,798**	–	**31,798**	–
Total financial liabilities at fair value through profit or loss	**473,502**	390,697	**473,502**	390,697
Trade and other payables	**1,431,872**	1,317,507	**1,431,872**	1,317,507
Other financial liabilities	**9,845,752**	9,468,072	**10,302,998**	9,304,232
Total financial liabilities at amortised cost	**11,277,624**	10,785,579	**11,734,870**	10,621,739
Total financial liabilities	**11,751,126**	11,176,276	**12,208,372**	11,012,436

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

(All amounts in thousands of US dollars unless otherwise stated)

14. Financial assets and liabilities (continued)

Fair value hierarchy

As of 31 December 2012 and 2011 the Company held financial instruments carried at fair value on the statement of financial position in accordance with IAS 39.

The Company measures the fair value of quoted equity securities by reference to published price quotations in an active market (Level 1).

The Company measures the fair value of derivatives except for options related to business combinations on a recurring basis, using observable inputs (Level 2), such as LIBOR, EURIBOR and swap curves, basis swap spreads and foreign exchange rates, floating rates for US$ using income approach with present value techniques.

The Company measures the fair value of options related to business combinations on a recurring basis, using unobservable inputs (Level 3), such as projected redemption amounts, volatility, fair value of underlying shares using income approach with present value techniques and Black-Scholes model.

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

Fair value hierarchy

	As of 31 December 2012		
Description	**(Level 1)**	**(Level 2)**	**(Level 3)**
Financial assets at fair value through profit or loss			
Derivatives over non-controlling interest	–	–	81,092
Foreign exchange contracts	–	4,340	–
Financial assets at fair value through other comprehensive income			
Available-for-sale financial asset	94,285	–	–
Total financial assets at fair value	**94,285**	**4,340**	**81,092**
Financial liabilities at fair value through profit or loss			
Derivatives over non-controlling interest	–	–	441,704
Foreign exchange contracts	–	31,798	
Total financial liabilities at fair value			

(All amounts in thousands of US dollars unless otherwise stated)

14. Financial assets and liabilities (continued)

Fair value hierarchy (continued)

Description	As of 31 December 2011 (Level 1)	(Level 2)	(Level 3)
Financial assets at fair value through profit or loss			
Derivatives over non-controlling interest	–	–	72,741
Financial assets at fair value through other comprehensive income			
Available-for-sale financial asset	95,444	–	–
Total financial assets at fair value	**95,444**	**–**	**72,741**
Financial liabilities at fair value through profit or loss			
Derivatives over non-controlling interest	–	–	390,697
Total financial liabilities at fair value	**–**	**–**	**390,697**

The movement of financial instruments measured at the fair value using unobservable inputs (Level 3) is presented below:

	As of 31 December 2012	Currency translation adjustment	Attribution to non-controlling interest	Change in fair value reported in earnings (Note 21)	Change in fair value reported in equity	As of 31 December 2011
Financial assets at fair value through profit or loss						
Derivatives over non-controlling interest	81,092	–	–	8,351	–	72,741
Total financial assets	**81,092**	**–**	**–**	**8,351**	**–**	**72,741**
Financial liabilities at fair value through profit or loss						
Derivatives over non-controlling interest	441,704	4,933	33,654	–	12,420	390,697
Total financial liabilities at fair value	**441,704**	**4,933**	**33,654**	**–**	**12,420**	**390,697**

	As of 31 December 2011	Attribution to non-controlling interest	Change in fair value reported in earnings (Note 2)	Change in fair value reported in equity	As of 31 December 2010
Financial assets at fair value through profit or loss					
Derivatives over non-controlling interest	–	–	(5,335)	–	5,335
Other financial assets					
Derivatives over non-controlling interest	72,741	–	4,522	59,335	8,884
Total financial assets	**72,741**	**–**	**(813)**	**59,335**	**14,219**
Financial liabilities at fair value through profit or loss					
Derivatives over non-controlling interest	–	–	(3,757)	–	3,757
Other financial liabilities					
Derivatives over non-controlling interest	390,697	56,000	–	(351,617)	686,314
Total financial liabilities at fair value	**390,697**	**56,000**	**(3,757)**	**(351,617)**	**690,071**

(All amounts in thousands of US dollars unless otherwise stated)

15. Trade and other receivables

Trade and other receivables consisted of the following at:

	31 December 2012	31 December 2011
Trade accounts receivable, gross	**648,511**	656,981
Allowance for doubtful accounts	**(77,166)**	(70,693)
Trade accounts receivable, net	**571,345**	586,288
Roaming discounts	**63,834**	48,468
Dividends receivable	**6,269**	–
	641,448	634,756

As of 31 December 2012 trade receivables at initial value of US$ 77,166 (2011: US$ 70,693) were impaired and fully provided for. See below for the movements in the allowance for impairment of receivables:

	2012	2011
Balance as of 1 January	**70,693**	69,374
Divestment of subsidiary	**(1,971)**	–
Charge for the year	**60,586**	46,760
Accounts receivable written off	**(55,099)**	(42,431)
Foreign currency translation adjustment	**2,957**	(3,010)
Balance as of 31 December	**77,166**	70,693

As at 31 December the ageing analysis of trade receivables is as follows.

			Past due but not impaired				
	Total	Neither past due nor impaired	< 30 days	30-60 days	61-90 days	91-120 days	> 120 days
31 December 2012	**571,345**	**96,261**	**311,111**	**74,587**	**29,306**	**22,637**	**37,443**
31 December 2011	586,288	98,970	313,592	60,412	17,716	7,190	88,408

16. Cash and cash equivalents

Cash and cash equivalents consisted of the following items as at:

	31 December 2012	31 December 2011
Cash at banks and on hand	**946,285**	498,489
Short-term deposits with the original maturity of less than 90 days	**35,560**	154,972
Total cash and cash equivalents	**981,845**	653,461

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

16. Cash and cash equivalents (continued)

The cash balances as of 31 December 2012 in Uzbekistan of US$ 105,113 (31 December 2011: US$ 12,078) are restricted for the use of the Company due to the local government, central bank restrictions. The restrictions have effect on international payments only, while such cash can be used for transactions within the country.

At 31 December 2012, the Company has Revolving Credit Facility available maturing in November 2014 for the amount of RUB 15 billion (the equivalent to US$ 493,865 as of 31 December 2012). At 31 December 2011 the principle debt outstanding under this Revolving Facility was RUR 10.5 billion (equivalent to US$ 326,126 as of 31 December 2011). As of 31 December 2012 no draw downs have been made under this Revolving Facility.

17. Issued capital and reserves

The Company has 90,000,000 authorized common shares with a nominal value of 0.005 rubles per share, of which 51,281,022 shares were issued, fully paid and outstanding as of 31 December 2012 (31 December 2011: 51,281,022).

Convertible preference shares

In 1996, VimpelCom issued 6,426,600 shares of preferred stock. As of 31 December 2012 all of the shares of preferred stock (6,426,600 shares) were owned by of VimpelCom's parent VimpelCom Holdings B.V., the subsidiary of VimpelCom Ltd. Each share of preferred stock entitles its holder to (i) one vote, (ii) to receive a fixed dividend of 0.001 ruble per share per year and (iii) to receive a fixed liquidation value of 0.005 Russian rubles per share in the event of VimpelCom's liquidation, to the extent there are sufficient funds available. Each share of preferred stock is convertible into one share of common stock at any time after 30 June 2016, at the election of the holder upon payment to VimpelCom of a conversion premium equal to 100% of the market value of one share of common stock at the time of conversion.

Nature and purpose of reserves

Other capital reserves

Share-based payment transactions

The share-based payment transactions reserve is used to recognise the value of equity-settled share-based payment transactions provided to employees, including key management personnel, as part of their remuneration. Refer to the Note 19 for further details of these plans.

Cash flow hedge reserve

The cash flow hedge reserve is used to record accumulated impact of derivatives designated as cash flow hedges (Note 14).

Foreign currency translation reserve

The foreign currency translation reserve is used to record exchange differences arising from the translation of the financial statements of the Company. It is also used to record the effect of hedging net investments in foreign operations.

(All amounts in thousands of US dollars unless otherwise stated)

18. Dividends

Dividends declared and paid to equity holders of the parent

	2012	2011
Declared during the year		
Dividends on ordinary shares		
Final dividend for 2010	–	282,817
First Interim dividend for 2011	–	955,997
Final dividend for 2011	604,419	–
Total	**604,419**	**1,238,814**

On 21 May 2012, in the Annual General Meeting of Shareholders the decision was adopted (i) to pay annual dividends to holders of common registered shares based on financial results for the year ended 31 December 2011 in the amount of 370.00 roubles (the equivalent to 0.012 US dollars at average exchange rate for May, 2012) per common share for the total amount of RUR 18,973.98 million (the equivalent to US$ 604,419 at exchange rate as of 21 May 2012) for all common registered shares in the aggregate; and (ii) to pay annual dividends to holders of preferred registered shares of type "A" based on financial results for the year ended 31 December 2011 in the amount of 0.025 kopecks (the equivalent to 0.00001 US dollars at average exchange rate for May, 2012) per preferred type "A" registered share for a total amount of 1,606.65 rubles (the equivalent to 0.051 US dollars at average exchange rate for May, 2012) for all preferred type "A" registered shares in the aggregate.

On 19 December 2012 (i) the annual dividends were paid in the amount of RUR 18,973.98 million (equivalent to US$ 612,343 at the exchange rate as of 19 December 2012) for all common registered shares in the aggregate; and (ii) the annual dividends were paid in the amount of RUR 1,606.65 (equivalent to US$ 0.051 at the exchange rate as of 19 December 2012) for all preferred type "A" registered shares in the aggregate. In accordance with Russian tax legislation, VimpelCom withheld a tax from the dividend payment in the amount of RUR 948.70 million (equivalent to US$ 30,617 at the exchange rate as of 19 December 2012).

Dividends declared and paid to non-controlling interest

On 10 December 2012 the decision was adopted by the Company to pay interim dividends to non-controlling interest in the amount of US$ 25,035. On 18 December 2012 the interim dividends were fully paid. Also in 2012 dividends were accrued to other non-controlling interest in amount of US$ 398.

19. Share-based payments

Stock option plans

The Company adopted stock option plans, the 2000 Stock Option Plan and the 2010 Stock Option Plan, under which it grants options to certain of its officers, employees, directors and consultants to acquire shares of common stock of VimpelCom Ltd.

Options are granted by VC ESOP N.V., a subsidiary of VimpelCom, administering the Stock Option Plan.

(All amounts in thousands of US dollars unless otherwise stated)

19. Share-based payments (continued)

Stock option plans (continued)

The Group has no legal or constructive obligation to repurchase or settle the options in cash.

Options granted under both 2000 and 2010 Stock Option Plan are conditional on the grantee completing a specific period of service (vesting period) and meeting specific pre-defined KPIs, which vary depending on the grantee. The share options granted will not vest if the KPI is not met.

The contractual option terms are different per grantee and very between 3 to 5 years.

Movements during the year

The following table illustrates the number, weighted average exercise prices and movements during the year:

	2012	2011
Options outstanding , beginning of year	**3,029,340**	4,325,493
Weighted-average exercise price of options outstanding, USD per option	**16.60**	18.65
Weighted-average grant-date fair value at the beginning of the year, USD per option	**0.90**	1.39
Options transferred to parent company	**(280,000)**	(200,000)
The number of options granted or converted from ESOP	**82,500**	1,921,667
Weighted-average exercise price of options granted, USD per option	**16.74**	16.74
Weighted-average grant-date fair value of options granted during the year, USD per option	**0.37**	0.66
The number of options exercised	**–**	(130,000)
The number of options forfeited/modified/converted to SARs	**(1,267,500)**	(2,887,820)
Weighted-average exercise price of options forfeited, USD per option	**16.70**	19.92
The number of options outstanding, end of year	**1,564,340**	3,029,340
Weighted-average exercise price of options outstanding, USD per option	**16.54**	16.60
Weighted-average grant-date fair value at the end of the year, USD per option	**1.51**	1.17
Out of the options outstanding at the end of the year the number of options fully vested and exercisable	**1,564,340**	1,174,340

Valuation

The fair value of the options has been estimated using a Black Scholes option pricing model. The fair value of each grant is estimated on the date of grant (or date of modification). In estimating the fair value of the options, the Company applied significant assumptions.

The expected term of the options was determined based on analysis of historical behaviour of stock option participants. Expected volatility of VimpelCom's shares was estimated based on the historical volatility of the shares on the New York Stock Exchange over the period equal to the expected life of the option granted and other factors.

The dividend yield was included into the model based on expected dividend payment. The risk free rate was determined using the rate on the United States Government Bonds, having a remaining term to maturity equal to the expected life of the options, approximated where applicable. Forfeiture rate was determined as an average for the historic experience for all grants.

(All amounts in thousands of US dollars unless otherwise stated)

19. Share-based payments (continued)

Stock option plans (continued)

The following table illustrates the major assumptions of the Black Scholes model for the options for the years ended 31 December:

	2012	**2011**
Expected volatility	**33.1%-156%**	91%-184%
The weighted-average expected term (in years)	**1.75**	1.48
Expected dividend yield	**1.8%-6.7%**	1.8%-2.2%
Risk free interest rate	**0.26%-11.2%**	5.3%-11.2%
Forfeiture rate	**0.49**	0.07

SAR plan

Background

In 2009, OJSC VimpelCom's Board adopted a SAR plan for members of senior management and employees. Following the completion of the Exchange Offer in 2011, the plan was modified to provide that it will be administered by the Company's CEO and the Committee determines the aggregate number of SARs that may be granted. A SAR, upon vesting, entitles the holder to receive a cash amount per SAR equal to any excess of the NYSE closing price of an ADS on the exercise date over the price at which such SAR was granted.

The SAR granted is conditional on the grantee completing a specific period of service (vesting period) and meeting specific pre-defined KPIs, which vary depending on the grantee. The SAR will not vest if the KPI is not met.

The obligation under this plan is classified in other non-financial liabilities in the statement of financial position.

Movements during the year

The following table illustrates the number, weighted average exercise prices and movements during the year:

	2012	**2011**
The number of SARs outstanding , beginning of year	**1,288,460**	1,590,660
Weighted-average exercise price of SARs outstanding, USD per SAR	**13.17**	13.37
Weighted-average grant-date fair value at the beginning of the year, USD per SAR	**11.76**	11.73
Options transferred to parent company	**(119,960)**	–
The number of SARs granted or converted from ESOP	**700,000**	–
Weighted-average exercise price of SARs granted, USD per SAR	**11.95**	–
Weighted-average grant-date fair value of SARs granted during the year, USD per SAR	**1.25**	–
The number of SARs exercised	**–**	(90,960)
The number of SARs forfeited/modified	**(384,440)**	(211,240)
Weighted-average exercise price of SARs forfeited, USD per SAR	**13.42**	14.73
The number of SARs outstanding, end of year	**1,484,060**	1,288,460
Weighted-average exercise price of SARs outstanding, USD per SAR	**12.54**	13.17
Weighted-average grant-date fair value at the end of the year, USD per SAR	**0.82**	11.76
Out of the SARs outstanding at the end of the year the number of SARs fully vested and exercisable	**784,060**	1,288,460

(All amounts in thousands of US dollars unless otherwise stated)

19. Share-based payments (continued)

SAR plan (continued)

Valuation

The valuation principles and assumptions made, incl. sensitivities are the same as discussed above for the Stock Option Plans.

Executive investment plan (EIP)

In March 2012, VimpelCom Ltd. adopted the Executive Investment Plan ("**EIP**") in which certain members of our senior management will be eligible to participate. Under the EIP, participants are invited to personally invest in common shares of VimpelCom Ltd. At the same time as their investment, participants will be awarded matching options to acquire a number of matching shares at the end of a specified performance period if, at the end of that performance period, certain performance conditions and other conditions set out in the EIP documents have been met. If all conditions to vesting have been met, the number of matching shares that participants will receive when they exercise their options will be based on a multiple of their initial investment.

The EIP is administered by the compensation committee of VimpelCom Ltd.'s Supervisory Board, which committee determines which members of senior management will receive invitations to participate and the timing of awards. The compensation committee also sets the performance conditions and performance period for the vesting of the matching option. In June 2012, the compensation committee made an offer to certain members of senior management to participate in the EIP. The matching options awarded in connection with this offer will be subject to a two-year performance period and performance conditions set out in the EIP documents, as well as the terms of the EIP.

In 2012 certain executives invested US$ 50.4.

Movements during the year

	2012
The number of options granted or converted from ESOP	6,617
Weighted-average exercise price of options granted, USD per option	7.6
Weighted-average grant-date fair value of options granted during the year, USD per option	14.5
The number of options exercised	–
The number of options forfeited/modified	–
Weighted-average exercise price of options forfeited, USD per option	–
The number of options outstanding, end of year	6,617
Weighted-average exercise price of options outstanding, USD per option	7.6
Weighted-average grant-date fair value at the end of the year, USD per option	14.5
Out of the options outstanding at the end of the year the number of options fully vested and exercisable	–

Valuation

The fair value of the awards has been estimated using a Monte Carlo simulation model. The fair value of each award is estimated on the date of grant (or date of modification) and represent the expected payout. In estimating the fair value, the Company used significant assumptions taking into account the total shareholder return threshold on the VIP share performance (including dividend).

(All amounts in thousands of US dollars unless otherwise stated)

19. Share-based payments (continued)

General information

The average share price for the years ended 31 December 2012, 2011 was USD 10.24 per share, USD 12.5 per share.

The total expenses recognized in these consolidated financial statement with respect to stock-based compensation were US$ 480 and US$ 1,088 for the year ended 31 December 2012 and 2011 respectively. The total unrecognized expenses with respect to stock-based compensation were US$ 327 as of 31 December 2012.

20. Provisions

The following table summarizes the movement in provisions for the years ended 31 December 2012, 31 December 2011:

	Income taxes provisions	Tax provisions other than income tax	Provision for decommis-sioning	Legal provisions	Other provision	Total provisions
At 1 January 2012	**59,361**	**22,273**	**108,248**	**16,139**	**16,218**	**222,239**
Arising during the year	44,089	15,942	30,203	–	5,736	**95,970**
Utilised	–	–	(266)	(2,329)	(11,059)	**(13,654)**
Reclassed to asset held for sale	–	–	(2,979)	–	–	**(2,979)**
Relcassification	5,497	4,567	–			**10,064**
Unused amounts reversed	(15,560)	–	(5,740)	(13,662)	(5,856)	**(40,818)**
Translation adjustment	4,084	1,638	8,377	(142)	964	**14,921**
At 31 December 2012	**97,471**	**44,420**	**137,843**	**6**	**6,003**	**285,743**
Total current 2012	9,066	44,420	–	6	5,992	**59,484**
Total non-current 2012	88,405	–	137,843	–	11	**226,259**
At 1 January 2011	**26,605**	**11,241**	**85,803**	**46,614**	**–**	**170,263**
Acquisition of a subsidiary	–	–	–	–	–	**–**
Arising during the year	35,563	13,155	25,278	2,881	16,606	**93,483**
Utilised	–	(98)	(10,605)	(33,222)	–	**(43,925)**
Reclassification	–	–	881	–	–	**881**
Unused amounts reversed	(2,076)	(460)	–	–	–	**(2,536)**
Translation adjustment	(731)	(1,565)	(6,323)	(134)	(388)	**(9,141)**
Discount rate adjustment and imputed interest (change in estimates)	–	–	13,214	–	–	**13,214**
At 31 December 2011	**59,361**	**22,273**	**108,248**	**16,139**	**16,218**	**222,239**
Total current 2011	29,382	22,273	–	16,139	16,218	**84,012**
Total non-current 2011	29,979	–	108,248	–	–	**138,227**

(All amounts in thousands of US dollars unless otherwise stated)

20. Provisions (continued)

Income tax provision

A provision has been recognised for the uncertainties related to income taxes where it is probable that the Company will have cash outflows. Management is unable to reliably predict the outcome of any tax examinations and the materiality of their impact on VimpelCom's consolidated financial statements, if any.

Non-income tax provisions

A provision has been recognised for the uncertainties related to other taxes where it is probable that the Company will have cash outflows.

Provision for decommissioning

VimpelCom has certain legal obligations related to rented sites for base stations. These legal obligations include obligations to remediate leased land and other locations on which base stations are located.

Legal provisions

A provision has been recognised for the uncertainties related to legal claims (Note 25) where it is probable that the Company will have cash outflows.

21. Other non-operating gains/(losses)

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

	Note	2012	2011
Remeasurement of former investment in associate	7	**606,424**	–
Impairment of available-for-sale financial asset	14	**–**	(57,653)
Reclassification to other non-operating losses of exchange differences on translation of foreign operations for equity interest in acquiree in business combination achieved in stages	6	**–**	(43,100)
Remeasurement of previously held investment in GTEL-Mobile	6	**–**	(39,620)
Write off of loans		**(10,527)**	–
Disposal of subsidiaries (net)		**(2,651)**	–
Hedge results	14	**(15,430)**	–
Reversal of impairment in GTEL-Mobile		**7,271**	–
Crowell loan remeasurement		**–**	13,471
Change of fair value of non-hedge derivatives	14	**(3,841)**	–
Change in fair value of derivatives over non-controlling interest	14	**8,351**	2,944
Other gains/losses		**(5,627)**	(14,255)
		583,970	(138,213)

(All amounts in thousands of US dollars unless otherwise stated)

22. Other non-financial assets and liabilities

Other non-current non-financial assets consisted of the following as at:

	31 December 2012	31 December 2011
Deferred costs related to connection fees	**10,750**	79,598
Other long-term assets	**7,481**	5,610
Other non-current non-financial assets	**18,231**	85,208

Other current non-financial assets consisted of the following as at:

	31 December 2012	31 December 2011
Advances to suppliers	**73,211**	75,443
Input value added tax	**122,287**	131,663
Prepaid taxes	**2,024**	4,267
Deferred costs related to connection fees	**11,404**	28,779
Others	**3,504**	21,958
Other current non-financial assets	**212,430**	262,110

Other non-current non-financial liabilities consisted of the following as at:

	31 December 2012	31 December 2011
Long-term deferred revenue	**40,199**	41,633
Other non-current liabilities	**195**	8,101
Other non-current non-financial liabilities	**40,394**	49,734

Other current non-financial liabilities consisted of the following as at:

	31 December 2012	31 December 2011
Customer advances, net of VAT	**393,463**	369,392
Customer deposits	**52,783**	55,194
Other taxes payable	**208,161**	159,471
Amounts due to employees	**110,338**	98,095
Short-term deferred revenue	**35,404**	32,697
Other liabilities	**9,104**	–
Other current non-financial liabilities	**809,253**	714,849

23. Trade and other payables

	31 December 2012	31 December 2011
Trade payables	**1,403,004**	1,276,818
Deferred consideration for subsidiaries	**–**	1,156
Other payables	**28,868**	39,533
Trade and other payables	**1,431,872**	1,317,507

(All amounts in thousands of US dollars unless otherwise stated)

23. Trade and other payables (continued)

Terms and conditions of the above financial liabilities

- Trade payables are non-interest bearing and are normally settled on 90 day terms.
- Other payables are non-interest bearing and have an average term of 30 days.
- For explanations on the Group's credit risk management processes, refer to Note 26.

24. Related parties

The consolidated financial statements include the financial statements of the Company and the following most significant subsidiaries listed in the table:

				% of ownership interest held by the group	
Subsidiaries		**Country of incorporation**	**Note**	**As of 31 December 2012**	**As of 31 December 2011**
Sotelco Ltd.	Operating	Cambodia	5	**90.00%**	90.00%
Tacom LLC	Operating	Tadjikistan	7	**0%**	98.00%
Kar-Tel TOO	Operating	Kazakhstan		**71.50%**	71.50%
Teta-Telecom TOO	Operating	Kazakhstan		**71,50%**	75.00%
CJSC Sakhalin Telecom	Operating	Russia		**100%**	89.61%
Golden Telecom TOO	Operating	Ukraine		**100.00%**	100.00%
Buzton JV Ltd.	Operating	Uzbekistan		**54.00%**	54.00%
SA Telecom TOO	Operating	Kazakhstan		**100.00%**	100.00%
Mobitel Ltd.	Operating	Georgia		**51.00%**	51.00%
Sky Mobile LLC	Operating	Kyrgyzstan		**71.50%**	71.50%
Armenia Telephone Company CJSC	Operating	Armenia		**100.00%**	100.00%
Unitel LLC	Operating	Uzbekistan		**100.00%**	100.00%
PJSC Ukrainian Radiosystems	Operating	Ukraine	7	**0%**	100.00%
JSC GTEL-Mobile	Operating	Vietnam	7	**0%**	49.00%
VimpelCom Lao Co., Ltd.	Operating	Laos		**78.00%**	78.00%
Ararima Enterprises Limited	Holding	Cyprus		**100.00%**	100.00%
Atlas Trade Limited	Holding	BVI		**90.00%**	90.00%
Vimpelcom Finance B.V.	Holding	Netherlands		**100.00%**	100.00%
VC ESOP N.V.	Holding	Belgium		**99.90%**	99.90%
Limnotex Developments Ltd.	Holding	Cyprus		**71.50%**	71.50%
LLC Vimpelcom Finance	Holding	Russia		**100.00%**	100.00%
LLC Vimpelcom-Invest	Holding	Russia		**100.00%**	100.00%
Golden Telecom, Inc.	Holding	USA (Delaware)		**100.00%**	100.00%
Menacrest Limited	Holding	Cyprus		**71.50%**	71.50%
Aridus Corporation	Holding	Seychelles		**71.50%**	71.50%
Freevale Enterprises	Holding	British Virgin Islands		**100.00%**	100.00%
VimpelCom Holding Laos B.V.	Holding	Netherlands		**78.00%**	78.00%
Silkway Holding B.V.	Holding	Netherlands		**100.00%**	100.00%

(All amounts in thousands of US dollars unless otherwise stated)

24. Related parties (continued)

Shareholders and other related parties

As of 31 December 2012 the Company is a wholly-owned subsidiary of VimpelCom Ltd. As of 31 December 2012 VimpelCom Ltd. is primarily owned by two major shareholders: Telenor East Holdings II AS and Alfa Group Consortium. VimpelCom Ltd. has no ultimate controlling shareholder.

Effective from 15 August 2012, all entities affiliated with Weather Investments II S.à r.l. are no longer considered to be related to VimpelCom as a result of a change in VimpelCom Ltd's shareholder structure on that date.

The following table provides the total amount of transactions that have been entered into with related parties and balances of accounts with them for the relevant financial periods:

	For year ended 31 December 2012	For year ended 31 December 2011
Revenue from Alfa Group	**9,212**	9,507
Revenue from Telenor	**1,510**	2,900
Revenue from Kyivstar	**43,006**	43,087
Revenue from associates	**80,738**	84,806
Revenue from joint venture	**8,139**	1,184
Revenue from other related parties	**4,012**	1,550
	146,617	143,034
Services from Alfa Group	**11,453**	7,702
Services from Telenor	**3,397**	4,185
Services from Kyivstar	**109,300**	95,390
Services from associates	**180,129**	209,947
Services from joint ventures	**21,178**	11,345
Services from VimpelCom Ltd. or its subsidiaries	**34,237**	–
Services from other related parties	**1,958**	141
	361,652	328,710
Finance income from VimpelCom Ltd. or its subsidiaries	**342,567**	190,880
Finance costs from Kyivstar	**56,766**	90,056
Other gain from other related parties	**15,876**	5,793
Other gain from joint ventures	**(3,090)**	–
Other gain from Euroset (Note 6)	**(606,424)**	–
Other loss from Alfa Group	**3**	420
Other loss from other related parties	**5,328**	–

(All amounts in thousands of US dollars unless otherwise stated)

24. Related parties (continued)

Shareholders and other related parties (continued)

	31 December 2012	31 December 2011
Accounts receivable from Alfa Group	**4,457**	1,191
Accounts receivable from Telenor	**3,685**	453
Accounts receivable from Kyivstar	**16,274**	7,728
Accounts receivable from associates	**14,370**	83,149
Accounts receivable from joint ventures	**46,137**	–
Accounts receivable from other related parties	**24,296**	12,501
	109,219	105,022
Accounts payable to Alfa Group	**1**	71
Accounts payable to Telenor	**773**	609
Accounts payable to Kyivstar	**14,142**	5,532
Accounts payable from associates	**4,001**	25,510
Accounts payable from joint ventures	**24,866**	–
Accounts payable to other related parties	**47,687**	14,477
	91,470	46,199
Loans granted to Vimpelcom Ltd. or its subsidiaries	**4,859,337**	3,454,047
Interest receivable from Vimpelcom Ltd. or its subsidiaries	**89,750**	40,022
Finance lease arrangements with joint ventures	**9,936**	212
Short-term loan from Kyivstar, principal amount	**–**	401,011
Short-term loan from Kyivstar, fair value adjustment	**–**	(72,490)
Liabilities directly associated with assets classified as held for sale:		
Long-term loan from Vimpelcom Ltd. or its subsidiaries	**20,262**	–
	20,262	–

On 13 May 2011, VimpelCom granted an unsecured loan to VimpelCom Amsterdam Finance B.V., a subsidiary of VimpelCom Ltd., in the total amount of US$ 2,610,000. In the period from 20 May 2011 to 30 June 2011, VimpelCom Amsterdam Finance B.V. repaid part of this loan in the total amount US$ 54,285. In the period from 31 August 2011 to 23 November 2011, the loan was increased by the tranches in the total amount of US$ 204,298. In the period from 30 September 2011 to 31 December 2011, accrued interest on loan with VimpelCom Amsterdam Finance B.V. in the amount of US$ 147,835 was added to loan principal. In the period from 1 January 2012 to 24 April 2012 OJSC VimpelCom granted additional loan tranches in the total amount of US$ 239,987 to VimpelCom Amsterdam Finance B.V. under the agreement dated 15 April 2011. On 12 May 2012 US$ 72,700 was repaid. As of 31 December 2012 accrued interest on the loan with VimpelCom Amsterdam Finance B.V. under the agreement for the year 2012 in amount of US$ 269,882 was added to loan principal. On 13 February 2013 US$ 215,523 was repaid. As of 31 December 2012 the principal amount of debt outstanding principle under this loan agreement was US$ 3,345,016. Under the agreement, VimpelCom may grant additional US$ 288,223. The loan matures on 31 May 2014. The interest rate is 8.72% per annum. The loan is denominated in US dollars.

24. Related parties (continued)

Shareholders and other related parties (continued)

On 13 December 2010, VimpelCom granted a loan to VimpelCom Ltd. in the total amount of US$ 37,000 under the agreement dated 10 December 2010. In the period from 29 April 2011 to 23 June 2011, VimpelCom granted loans in the total amount of US$ 63,000 to VimpelCom Ltd. In the period from 30 September 2011 to 31 December 2011, VimpelCom Ltd. repaid part of this loan in the total amount US$ 30,000. In the period from 1 January 2012 to 25 April 2012, OJSC VimpelCom granted additional loan tranches in the total amount of US$ 30,000 to VimpelCom Ltd. As of 31 December 2012, the principal amount of debt outstanding under this loan agreement was US$ 100,000. On 13 February 2013 the loan was fully repaid. The interest rate is LIBOR + 0.25% per annum. From 1 January 2012 the interest rate was changed to 6.5% per annum. Maturity date under loan agreement is 13 December 2014. Funds under the agreement may be reborrowed. The loan is denominated in US dollars.

In May 2011, accrued interest on loan with VimpelCom Ltd. in the amount of US$ 8,699 was added to loan principal of US$ 467,500. In May 2012 accrued interest on the loan with VimpelCom Ltd. under the agreement for the year 2011 in amount of US$ 39,981 was added to loan principal which amounts now to US$ 516,180. As of 30 September 2012, the principal amount of debt outstanding under this loan agreement was US$ 516,180. The loan matures on 31 December 2070. The interest rate is LIBOR + 7.5% per annum. The loan is denominated in US dollars.

On 30 August 2011, VimpelCom granted an unsecured loan to VimpelCom Holdings B.V. in the total amount of US$ 50,000. Under the agreement, VimpelCom may grant additional US$ 450,000. As of 31 December 2011, the principal amount of debt was fully repaid. In the period from 1 January 2012 to 3 May 2012, OJSC VimpelCom granted additional loan tranches in the total amount of US$ 500,000 to VimpelCom Holdings B.V. under the agreement dated 22 August 2011. The loan matures on 30 August 2014. Interest rate for the first tranche made under this loan agreement is LIBOR + 0.25% per annum. From 1 January 2012 the interest rate was changed to 6.5% per annum. The loan is denominated in US dollars.

On 27 December 2012 the Company granted a new tranche in amount of US$ 350,000 to VimpelCom Amsterdam B.V. under the agreement dated 16 March 2011. On 13 February 2013 the loan was fully repaid. From 1 January 2012 the interest rate was changed to 6.5% per annum.

On 23 November 2010 the Company received short-term reimbursable interest-free loan of UAH 4,000,000 thousand from Kyivstar, the entity under common control. On 9 December 2011 the Company received a new tranche of reimbursable interest-free loan of UAH 105,000 thousand (approximately US$ 13,142). At initial recognition this facility was stated at fair value of UAH 81,859 thousand (approximately US$ 10,826). Loss on initial recognition at fair value was charged directly to equity as distributions to shareholders. In 2011, the Company repaid UAH 901,000 thousand (approximately US$ 112,771), hereinafter in this paragraph at the exchange rate as of 31 December 2011) of this interest-free loan according to the agreement terms. On 14 November 2011 the Company signed an amendment to the loan agreement, whereby maturity of the loan was prolonged to 31 December 2012.Therewith, the difference between fair value and nominal amount of the abovementioned interest-free loan, net of deferred tax effect, was charged directly to equity as distributions to shareholders. In the period from 1 January 2012 to 30 September 2012 OJSC VimpelCom repaid part of this loan in the total amount of US$ 27,935. The loan disposed due sale of PJSC "URS" (Note 6).

24. Related parties (continued)

Shareholders and other related parties (continued)

Outstanding balances and transactions with Alfa relate to operations with VimpelCom's Ltd. shareholder Eco Telecom (a member of the Alfa group companies), its consolidated subsidiaries, its direct owners and their consolidated subsidiaries. In particular, VimpelCom has contracts with Alfa Insurance (member of the Alfa group of companies) to provide the Company with property and equipment liability insurance; the General Service Agreement with Altimo for provision of general management, legal and regulatory services, treasury services, finance and reporting services as well as tax services. The Company also has contracts to provide fixed telecommunication service to Eco Telecom and its subsidiaries.

VimpelCom maintains bank accounts in Alfa Bank (member of the Alfa group of companies), which are used for payroll and other payments in the ordinary course of business. The balances in these bank accounts were US$ 64,111, US$ 41,208 at 31 December 2012, 2011.

Outstanding balances and transactions with Telenor relate to operations with VimpelCom's shareholder Telenor East Invest AS, its consolidated subsidiaries, its direct owners and their consolidated subsidiaries. In particular, VimpelCom has roaming contracts with ProMonte Montenegro, DTAC/UCOM Thailand, Telenor Serbia, Telenor Mobil AS Norway, Pannon GSM Telecommunications Ltd. Hungary, Telenor Mobile Sweden Norway; the General Agreement for provision of personnel and General Services Agreement for provision of general management, legal and regulatory services, treasury services, finance and reporting services as well as tax services with Telenor Russia AS. VimpelCom also has a contract to provide fixed telecommunication service to Telenor Mobile Holding AS Norway.

Outstanding balances and transactions with associates relate to operations with VimpelCom's equity investees (Note 7). Euroset transactions mainly represent sales of telephones and accessories, dealer commission payments for the acquisition of new subscribers and commission for payments receipts. Operations with associates also include purchase of bill delivery services from Firma Kurier. OJSC VimpelCom has a contract with CJSC Rascom for providing fixed telecommunication services and finance lease arrangements under which OJSC VimpelCom is a lessee.

Outstanding balance and transactions with Kyivstar mainly represent sales of equipment and telecommunication services.

Terms and conditions of transactions with related parties

Outstanding balances at the year-end are unsecured and settlement occurs in cash. There have been no guarantees provided or received for any related party receivables or payables. For the year ended December 2012, VimpelCom has not recorded any impairment of receivables relating to amounts owed by related parties. This assessment is undertaken each financial year through examining the financial position of the related party and the market in which the related party operates.

(All amounts in thousands of US dollars unless otherwise stated)

24. Related parties (continued)

Compensation of key management personnel of the Company

The amounts disclosed in the table are the amounts recognised as an expense during the reporting period related to key management personnel:

	2012	2011
Short-term employee benefits	**11,406**	8,740
Share-based payment transactions	**(383)**	1,473
Total compensation to key management personnel	**11,023**	10,213

Our senior management is eligible to participate in our stock option plans and stock appreciation rights, or SARs, plan (Note 19).

Employee benefits

Selling, general and administrative expenses include the following amounts of employee benefits for the years, ended 31 December:

	2012	2011
Employee benefits	**826,038**	857,936

The following chart sets forth the number of our employees at 31 December 2012 and 2011:

	2012	2011
Russia	**24,400**	31,701
Asia	**659**	1,553
Ukraine	**605**	962
CIS	**8,073**	7,655
Total	**33,737**	41,871

25. Commitments, contingencies and uncertainties

Risks

Currency control risks

The imposition of currency exchange controls or other similar restrictions on currency convertibility in CIS countries and particularly in Uzbekistan could limit VimpelCom’s ability to convert local currencies in a timely manner or at all. Any such restrictions could have a material adverse effect on VimpelCom's business, financial condition and results of operations. The continued success and stability of the economies of these countries will be significantly impacted by their respective governments’ continued actions with regard to supervisory, legal and economic reforms.

25. Commitments, contingencies and uncertainties (continued)

Risks (continued)

Domestic and global economy risks

The economy of countries where VimpelCom operates is vulnerable to market downturns and economic slowdowns elsewhere in the world. In 2012 the respective governments continued to take measures to support the economy in order to overcome the consequences of the global financial crisis. Despite some indications of recovery there continues to be uncertainty regarding further economic growth, access to capital and cost of capital, which could negatively affect the Company's future financial position, results of operations and business prospects.

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

Legislation risks

In the ordinary course of business, VimpelCom may be party to various legal and tax proceedings, and subject to claims, certain of which relate to the developing markets and evolving fiscal and regulatory environments in which VimpelCom operates. In the opinion of management, VimpelCom's liability, if any, in all pending litigations, other legal proceedings or other matters, other than what is discussed in this note, will not have a material effect upon the financial condition, results of operations or liquidity of VimpelCom.

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

Tax risks

The tax systems in the markets VimpelCom operates in are unpredictable and give rise to significant uncertainties, which could complicate our tax planning and business decisions. Tax laws in many of the emerging markets in which we operate have been in force for a relatively short period of time as compared to tax laws in more developed market economies. Tax authorities in our markets are often arbitrary in their interpretation of tax laws, as well as in their enforcement and tax collection activities.

In the countries where VimpelCom operates, many tax laws and related regulations were introduced in previous periods as well as in 2012 which were not always clearly written, and their interpretation is subject to the opinions of the local tax inspectors and officials of the Ministry of Finance. Instances of inconsistent opinions between local, regional and federal tax authorities and Ministry of Finance are not unusual.

Management believes that it has paid or accrued all taxes that are applicable. Where uncertainty exists, VimpelCom has accrued tax liabilities based on management's best estimate.

25. Commitments, contingencies and uncertainties (continued)

Commitments

Telecom Licenses Capital Commitments

The Company's ability to generate revenues in all countries it operates is dependent upon the operation of the wireless telecommunications networks authorized under its various licenses under GSM-900/1800 and "3G" (IMT-2000 / WCDMA / UMTS) mobile radiotelephony communications services (as of 31 December 2012) and "4G" (LTE) granted in 2011-2012. Under the license agreements operating companies are subject to certain commitments including territory or population coverage, level of capital expenditures, and number of base stations to be fulfilled within a the certain timeframe and other commitments. After expiration of the license, our operating companies might be subject to additional payments for renewals as well as new license capital and other commitments.

On 12 July 2012 OJSC VimpelCom was awarded licenses to provide services over the LTE standard and its further modifications. The licenses allow the Company to provide services using radio-electronic devices via networks that use the LTE standard and its further modifications in the territory of the Russian Federation. The licenses were provided on condition that the Company will invest at least RUR 15 billion into LTE network construction per annum (equivalent to US$ 493,865 at the exchange rate as of 31 December 2012) where the first year is the period from 12 July 2012 till 1 December 2013 – and from this time forth – every artificial year till the technical feasibility of providing services over the LTE standard and its further modifications in the territory of the Russian Federation will be in compliance with the awarded licenses but before 1 December 2019. Acquisition-related costs of RUR 401 million (equivalent to US$ 12,213 at the exchange rate as of 12 July 2012) have been capitalized to "Intangible assets" in the consolidated statement of financial position as of 31 December 2012.

Apple

On 31 March 2011, VimpelCom and Apple signed an amendment to the existing agreement regarding VimpelCom's purchase of iPhones from Apple ("the Amendment"). Under the amendment, 958,540 iPhone handsets (being the difference between 1,500,000 iPhone handsets per the original agreement and the amount actually purchased by the Company from Apple through 31 March 2011) should be purchased by the Company between 1 April 2011 and 31 March 2013. If VimpelCom does not comply with this agreed schedule and certain other terms of the Amendment, then according to the agreement VimpelCom could become liable for the shortfall in orders of iPhone handsets that existed as of 31 March 2011, less any iPhone handsets actually purchased by VimpelCom after this date. No provisions have been recorded in relation to this matter since the probability of cash outflow was assessed as remote.

Contingencies and uncertainties

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

25. Commitments, contingencies and uncertainties (continued)

Anti-Monopoly Service claim (FAS proceedings)

Pricing of iPhone

The Federal Anti-Monopoly Service ("**FAS**") in Russia commenced proceedings against OJSC VimpelCom and OJSC MTS to look into the alleged price collusion with respect to the sale prices of iPhones. On 26 April 2012 the FAS issued a decision pursuant to which OJSC VimpelCom and OJSC MTS were found guilty of price fixing in that they acted in concert to fix identical wholesale prices for iPhone4 Black 16 Gb and iPhone4 Black 32 Gb during the period from September 2010 to April 2011. Since both parties voluntarily ceased the wrongdoings the antimonopoly case was terminated. On 17 July 2012 FAS announced the operative part of its Order to impose administrative liability upon VimpelCom pursuant to which a minimum fine was imposed upon VimpelCom in the amount of RUR 18.2 million (equivalent to US$ 558 at the exchange rate as of 17 July 2012). OJSC VimpelCom decided not to appeal FAS order and to pay this fine.

Russian Anti-Monopoly Proceedings (Telenor East and Weather Investments II)

In April 2012 the Federal Anti-Monopoly Service of the Russian Federation ("**FAS**") filed a claim with the Moscow Arbitration Court against Telenor East Holding II AS (Norway) ("**Telenor East**"), Weather Investments II S.a.r.l. (Luxembourg) ("**Weather Investments II**") seeking to invalidate the following transactions: (1) Share purchase agreement dated 15 February 2012 between Telenor East AS and Weather Investments II, (2) Option Agreement dated 15 February 2012 between Telenor East and Weather Investments II and application of the consequences of invalidity of the above transactions ordered Telenor East to return to Weather Investments II the shares purchased under the share purchase agreement dated 15 February 2012, and ordered VimpelCom Ltd., Telenor East and Altimo Coöperatief U.A. (The Netherlands) to enter into a Shareholders Agreement which was terminated on 10 December 2011, subject to preliminary approval of FAS.

VimpelCom Ltd. together with OJSC VimpelCom, LLC Altimo, VimpleCom Holdings B.V. (The Netherlands), Altimo Cooperatief U.A. were joined as third parties in the lawsuit filed by the Federal Anti-Monopoly Service of the Russian Federation against Telenor East and Weather Investments II in the Moscow Arbitration Court.

On 24 April 2012, the Moscow Arbitration Court issued a Ruling Granting the Injunctive Relief pursuant to which VimpelCom Ltd. and VimpelCom Holdings B.V. were prohibited from voting at the general meetings of OJSC VimpelCom on matters to a change of the members of the management bodies, and passing resolutions on approval of major transactions and interested party transactions. The Ruling also prohibited Telenor and Weather Investments II from (i) changing the members of the management bodies of VimpelCom Ltd. and (ii) exercising the rights under the option agreement dated 15 February 2012. Telenor East filed an appeal against the Ruling on Granting the Injunctive Relief. On 24 September 2012 the Arbitration Court dismissed the appeal of Telenor East.

25. Commitments, contingencies and uncertainties (continued)

Russian Anti-Monopoly Proceedings (Telenor East and Weather Investments II) (continued)

On 23 May 2012 the Moscow Arbitration Court issued a new Ruling on Granting Injunctive Relief in the FAS proceedings. The Ruling provided that VimpelCom Ltd, OJSC VimpelCom, VimpelCom Holdings B.V., and their management bodies (CEOs and directors) pending effectiveness of the judicial act entered on the merits of the dispute in this case were prohibited from giving effect to the resolutions of the Annual General Shareholders Meeting ("**AGM**") of OJSC VimpelCom held on 21 May 2012, including:

- prohibit payment to the shareholders of OJSC VimpelCom of the dividends based on the results of operations in 2011, and transfer of the cash intended for dividend distribution to the accounts of OJSC VimpelCom or other companies with foreign banks;
- prohibit the external auditors elected at the Annual General Shareholders Meeting of OJSC VimpelCom from exercising the powers conferred onto them;
- prohibit the board of directors of OJSC VimpelCom elected at the Annual General Shareholders Meeting of OJSC VimpelCom from exercising their powers pursuant to the charter of OJSC VimpelCom;
- prohibit other actions and steps designed to transfer the funds from the accounts of OJSC VimpelCom.

OJSC VimpelCom, Weather Investments II and Telenor East filed appeals against the court's Ruling dated 23 May 2012. On 12 November 2012 the Arbitration Court dismissed the appeals of OJSC VimpelCom, Weather Investments II and Telenor East.

In the course of court hearings held on 27 November 2012, the Federal Anti-Monopoly Service of Russia filed a request to withdraw its claim and its motion for injunctive relief. On 30 November 2012 the court passed a decision to dismiss the case following the motion from the Federal Anti-Monopoly Service to withdraw its claim. The injunction has been fully lifted.

LTE frequencies claims

LLC Summa Telecom filed a claim in first instance with the Moscow City Arbitration Court against the State Commission for Radio Frequencies (the "Commission"), the Ministry of Communications and Mass Media of the Russian Federation (the "Ministry") and the Federal Service for Supervision of Communications, Information Technology and Mass Media ("Roskomnadzor"). LLC Summa Telecom claim sought to revoke the court's 8 September 2011 decision which refused to allocate frequencies in the 2500-2700 MHz frequency range and to compel the defendant to allocate the following spectrum bands: 2500-2530 MHz, 2560-2570 MHz, 2620-2630 MHz, 2660-2670 MHz, and 2680-2690 MHz.

On 12 July 2012, the Moscow City Arbitration Court upheld the claim and ruled in favour of LLC Summa Telecom. The Commission, the Ministry and Roskomnadzor filed an appeal, along with certain third parties. On 26 September 2012, OJSC VimpelCom was added as a third party to the proceedings. On 25 October 2012, the 9th Arbitration Court of Appeals overturned the 12 July 2012 decision and dismissed LLC Summa Telecom's claim. LLC Summa Telecom filed an appeal, but this was dismissed by the court on 14 February 2013.

25. Commitments, contingencies and uncertainties (continued)

LTE frequencies claims (continued)

On 7 March 2013, Summa Telecom filled an appeal with the Supreme Arbitration Court of the Russian Federation to review the rulling in exercise of the court's supervisory powers This review is currently pending. If LLC Summa Telecom prevails on its claim, it could initiate new proceedings which could potentially lead to a revision of the LTE tender, in which OJSC VimpelCom was awarded licenses and frequencies for the provision of LTE services in Russia. If a revision includes revocation of any part of LTE spectrum granted to us, it could result in a material adverse effects on our business, financial condition, results of operations and prospects.

Russian tax claims

In the Russian Federation, VimpelCom's predominant market, there were many tax laws and related regulations introduced in previous periods as well as in 2012, which were not always clearly written, and their interpretation is subject to the opinions of the local tax inspectors and officials of the Ministry of Finance. Instances of inconsistent opinions between local, regional and federal tax authorities and Ministry of Finance are not unusual. Management believes that it has paid or accrued all taxes that are applicable. Where uncertainty exists, VimpelCom has accrued tax liabilities based on management's best estimate.

On 21 January 2011, OJSC VimpelCom received a report from the tax authorities in relation to a tax audit that was conducted with respect to OJSC VimpelCom's 2007 to 2008 Russian tax filings asserting claims against OJSC VimpelCom of RUR 1,191 million which (equivalent to approximately US$ 39,213 at the exchange rate as of 31 December 2012). OJSC VimpelCom challenged the tax audit report in court of the first instance with respect to approximately RUR 941 million (equivalent to approximately US$ 30,982 at the exchange rate as of 31 December 2012) of the amount claimed in the audit. Several courts upheld OJSC VimpelCom's challenge and OJSC VimpelCom paid the RUB 250 million (equivalent to US$8.231 at the exchange rate as of 31 December 2012) balance of the fine that it had not challenged. The tax inspectorate filed an appeal with the Court of Cassation but this appeal was dismissed on 30 November 2012. On 28 February 2013 the tax inspectorate filed an appeal with the Supreme Arbitration Court concerning amount around RUR 394 million (equivalent to approximately US$12,986 at the exchange rate as of 31 December 2012). Date of the complaint in court is not appointed.

Kazakhstan

KaR-Tel litigation with ex-shareholders

On 10 January 2005, KaR-Tel received an "order to pay" ("Order to Pay") issued by The Savings Deposit Insurance Fund, a Turkish state agency responsible for collecting state claims arising from bank insolvencies (the "Fund"), in the amount of approximately US$ 4,233,000 at the exchange rate as of 31 December 2012 (stated as approximately Turkish lira 7.55 quadrillion and issued prior to the introduction of the New Turkish Lira, which became effective as of 1 January 2005). The Order to Pay, dated as of 7 October 2004, was delivered to KaR-Tel by the Bostandykski Regional Court of Almaty. The Order to Pay does not provide any information regarding the nature of, or basis for, the asserted debt, other than to state that it is a debt to the Turkish Treasury and the term for payment was 6 May 2004.

25. Commitments, contingencies and uncertainties (continued)

Kazakhstan (continued)

On 17 January 2005, KaR-Tel delivered to the Turkish consulate in Almaty a petition to the Turkish court objecting to the propriety of the order and requesting the Turkish court to cancel the Order to Pay and stay of execution proceedings in Turkey. The petition was assigned to the 4th Administrative Court in Turkey, and it should be reviewed pursuant to applicable law.

On 1 June 2006, KaR-Tel received formal notice of the 4th Administrative Court's ruling that the stay of execution request was denied. KaR-Tel’s Turkish counsel has advised KaR-Tel that the stay request is being adjudicated separately from the petition to cancel the Order to Pay. KaR-Tel submitted an appeal of the ruling with respect to the stay application.

On 1 June 2006, KaR-Tel also received the Fund's response to its petition to cancel the order. In its response, the Fund asserts, among other things, that the Order to Pay was issued in furtherance of its collection of approximately Turkish lira 7.55 quadrillion (prior to the introduction of the New Turkish Lira, which became effective as of 1 January 2005) in claims against the Uzan group of companies that were affiliated with the Uzan family in connection with the failure of T. Imar Bankasi, T.A.S. The Fund's response to KaR-Tel’s petition claims that the Uzan group of companies includes KaR-Tel, Rumeli Telecom A.S. and Telsim Mobil Telekomunikasyon Hizmetleri A.S. Rumeli Telecom A.S. and Telsim Mobil Telekomunikasyon Hizmetleri A.S are Turkish companies that owned an aggregate 60% of the equity interests in KaR-Tel until their interests were redeemed by KaR-Tel in November 2003 in accordance with a decision of the Review Panel of the Supreme Court of Kazakhstan. In July 2006, KaR-Tel submitted its response, dated 30 June 2006, to the Fund’s response via the Kazakh Ministry of Justice, to be forwarded to the 4th Administrative Court of Istanbul. In its response, KaR-Tel denied in material part the factual and legal assertions made by the Fund in support of the Order to Pay.

On 11 December 2008, KaR-Tel received a Decision of Territorial Court of Istanbul dated 12 December 2007, wherein the Court rejected KaR-Tel’s appeal with respect to the stay of execution request.

On 20 October 2009, KaR-Tel filed with Sisli 3d Court of the First Instance in Istanbul a claim to recognise in the Republic of Turkey the decision of the Almaty City Court of the Republic of Kazakhstan dated 6 June 2003 regarding, among other things, compulsory redemption of equity interests in KaR-Tel owned by Rumeli Telecom A.S. and Telsim Mobil Telekomunikasyon Hizmetleri A.S., which was confirmed by the Civil Panel of the Supreme Court of the Republic of Kazakhstan on 23 June 2003, as amended by the resolution of the Review Panel of the Supreme Court of the Republic of Kazakhstan dated 30 October 2003 ("Recognition Claim"). On 20 October 2009, KaR-Tel also filed with the 4th Administrative Court of Istanbul a petition asking the Court to treat the recognition of the Kazakhstan court decision as a precedential issue and to stay the proceedings in relation to the order to pay.

On 28 September 2010, Sisli 3d Court of the First Instance in Istanbul reviewed the Recognition Claim and ruled in favor of KaR-Tel recognizing the Kazakhstan Court judgments on the territory of the Republic of Turkey. The court decision is appealable by defendants.

25. Commitments, contingencies and uncertainties (continued)

Kazakhstan (continued)

On 25 October 2010, the 4th Administrative Court of Istanbul reviewed KaR-Tel's petition to annul the Payment Order and has ruled in favor of KaR-Tel. The Court has recognised the Order to Pay as illegal and annulled it. The court decision has been appealed by the Fund. On 18 February 2011 KaR-Tel submitted its responses to the motion on appeal. On 20 April 2011, the Fund submitted its response to KaR-Tel's reply and appeal petition. The court file was sent by the Court to the Councel of State for the appeal proceedings.

As to the Recognition Claim, the defendants, Rumeli Telecom AS and Telsim Mobil Telekommunikasyon Hizmetleri AS, have appealed the decision of Sisli 3d Court of the First Instance in Istanbul, which has ruled in favor of KaR-Tel recognizing the Kazakhstan Court judgments on the territory of the Republic of Turkey. The Company submitted its responses to such motion on appeal on 20 January 2011. The court file was sent to the Supreme Court for the appeal proceedings. On 11 July 2012, the Supreme Court upheld the ruling of Sisli 3d Court of the First Instance in Istanbul. Rumeli Telekom and Telsim filed a claim for correction of the Supreme Court decision. On 30 January 2013, the Supreme Court rejected the Rumeli Telekom and Telsim's claim for correction of the Supreme Court decision and upheld the ruling of Sisli 3d Court of the First Instance in Istanbul of 28 September 2010.

As of 22 March 2012 the Fund's and KaR-Tel's appeals on the Decision of 4th Administrative Court of Istanbul dated 25 October 2010 has been reviewed by the Prosecution Office of the Council of State and has been sent to the 13th Chamber of the Council of State for review on the merits.

The Company continues to believe that the Fund's claim is without merit, and KaR-Tel will take whatever further actions it deems necessary and appropriate to protect itself against the Fund's claim.

The 1st Roaming Claim Against KaR-Tel: Threshold amounts

On 14 May 2010, the Antimonopoly Agency of Kazakhstan ("the Agency") initiated an investigation of the alleged breach of antimonopoly laws of Kazakhstan by all three Kazakhstan GSM-operators (KaR-Tel, GSM Kazakhstan OAO Kazakhtelecom LLP (trademarks KCell, Active), and Mobile Telecom Systems LLP (trade mark Neo), by abuse of dominant position through infringement of consumers' rights by way of determination of a threshold (minimal) amount of money on consumer's account required for rendering (switching on and off) roaming services ("the Threshold Amounts").

Further, the Agency decided to consider investigations, jointly with FAS, of Kazakhstan antimonopoly law breaches with respect to all the three Kazakhstan GSM-operators, including KaR-Tel, as well as operator-partners in the Russian Federation on indications of anticompetitive concerted actions and agreements as to establishing and (or) price maintenance as well as use of per-minute step of tarification.

The Agency also decided to make a proposal to the Ministry of Telecommunications and Information of Kazakhstan as to earlier transfer to per-second tarification for roaming services (date determined by law is 1 January 2012), and to conduct an evaluation of roaming tariffs.

25. Commitments, contingencies and uncertainties (continued)

Kazakhstan (continued)

On 21 June 2010, the Agency completed the part of its investigation related to the Threshold Amounts and alleged that all three Kazakhstan GSM-operators abused their dominant position through infringement of customers' lawful rights by way of establishing the Threshold Amounts.

On 3 July 2010, the Agency initiated an administrative procedure with respect to all the three Kazakhstan GSM operators, including KaR-Tel, and issued the protocol on administrative offence ("the Protocol"). The Agency filed with the Administrative Court a claim based on the Protocol. The Company estimates KaR-Tel's share of administrative fines amounting to KZT 11.6 billion (equivalent to US$ 78,655 at the exchange rate as of 3 July 2010). KaR-Tel believes that the claim of the Agency is without merits and intends to protect its rights and lawful interest in courts of Kazakhstan. On 16 July 2010, KaR-Tel filed a claim to recognise as illegal and annul the acts of the Agency, which have served as a procedural basis for the Protocol.

On 19 October 2010 the Interregional Economic Court of Astana has ruled in favor of KaR-Tel and recognised as illegal, null and void all acts of the Agency and its territorial branch, which have served as procedural basis for the Protocol.

On 15 November 2010, KaR-Tel received copy of the Agency's appeal on the decision. On 13 December 2010 the Court of Appeals upheld the decision of 19 October 2010 in favor of KaR-Tel. On 17 February 2011 the Court of Cassation reviewed the cassation petition of the Agency and upheld both the decision of 19 October 2010 and the resolution of the Court of Appeals of 13 December 2010. As a result, the decision of 19 October 2010 that has recognised all acts of the Agency and its territorial branch, which have served as procedural basis for the Protocol, as illegal, null and void, has come into force. Although the decision has come into full force and effect, it is still subject to appeal by the Agency in supervisory appeal order within 1 year from the date of receipt by the Agency of the Resolution of the Court of Cassation.

On 21 October 2011, the General Prosecutor of the Republic of Kazakhstan has filed a protest to the Supreme Court of Kazakhstan appealing in a supervisory review order the Decision of the Interregional Economic Court of Astana of 19 October 2010, which rendered unlawful and void all acts of the Antimonopoly Agency, as well as Decision of the Appeals Chamber of Astana City Court of 13 December 2010, which upheld the Economic Court decision. On 27 October 2011, KaR-Tel has received a notice from the Supreme Court of Kazakhstan indicating that the said protest has been accepted for review and the hearing took place on 16 November 2011.

On 16 November 2011, the Supervisory Chamber of the Supreme Court of Kazakhstan issued a Decision that overturned the Decision of the Interregional Economic Court of Astana of 19 October 2010, and Decision of the Appeals Chamber of Astana City Court of 13 December 2010. The Supreme Court sent the case back for the new consideration in administrative proceedings to the Interregional Administrative court of Almaty.

On 26 December 2011, the Interregional Administrative Court of Almaty accepted the request of the Company to discontinue proceedings and to return the Protocol to the Agency for rectification of deficiencies resulting from the Agency's wrongful use of total revenues recorded by the Company for the purpose of calculation of the administrative fines instead of the amount of revenues received from alleged monopolistic activity.

25. Commitments, contingencies and uncertainties (continued)

Kazakhstan (continued)

The Agency has rectified the deficiencies in the protocol and filed the amended protocol with the Court. On 15 June 2012 the Interregional Administrative Court reviewed the protocol and resolved that the Company abused its significant market power by introducing the threshold amounts for offline roaming. In the meantime the Court has accepted one of the Company's defence arguments and calculated 10% administrative fine not on the basis of total revenue of the Company for the period under consideration, but only on the basis of revenues received from offline roaming, where CAMEL-roaming allowing online billing is not available, thus reducing administrative fine from KZT 11.6 billion (equivalent to US$ 77,822 at the exchange rate as of 15 June 2012) to KZT 155 million (equivalent to US$ 1,043 at the exchange rate as of 15 June 2012). On 16 August 2012 the administrative fine was paid. The decision is subject to appeal by the public prosecutor's office within 1 year from the date thereof. The decision does not hinder the Company's opportunity to use the threshold amounts under certain cap in accordance with newly introduced Telecommunication Services Regulations.

The 2nd Roaming Claim Against KaR-Tel: Concerted actions high roaming tariffs

The Agency has continued another part of its investigation – with respect to concerted actions of Kazakhstan and Russian GSM-mobile operators on establishing and/or preservation of tariffs ("Concerted Actions Investigation"). On 25 October 2010, the Agency completed the Concerted Actions Investigation and reclassified alleged concerted actions of KaR-Tel and other Russian and Kazakhstan GSM-operators into establishing monopolistically high tariffs. On 3 November 2010, the Agency initiated an administrative procedure and issued a new protocol on administrative offence, according to which the Agency has found KaR-Tel and the other two Kazakhstan GSM-operators liable for abuse of their dominant position on the market by way of establishing monopolistically high roaming tariffs ("the New Protocol").

Under Kazakhstan laws, the Agency has lodged the New Protocol into administrative court, and the court is to review the matter and to decide on the merits and on applicable fines.

On 23 November 2010, KaR-Tel filed a claim with Astana Interregional Economic Court against the Agency requesting the Court to recognise illegal and to annul acts of the Agency preceding the New Protocol.

On 24 February 2011, the Interregional Economic Court of Astana has ruled in favor of KaR-Tel and recognised as illegal, null and void all acts of the Agency and its territorial branch, which have served as procedural basis for the Protocol. The decision was received on 28 February 2011. The decision of 28 February 2011 came into force on 30 March 2011.

On 25 November 2011, the Agency appealed to the Supreme Court of Kazakhstan in a supervisory review order the Decision of the Interregional Economic Court of Astana of 24 February 2011, which recognised as illegal, null and void all acts of the Agency. On 11 January 2012, the Supervisory Chamber of the Supreme Court of Kazakhstan reviewed the protest and overturned the Decision of the Interregional Economic Court of Astana of 24 February 2011. The Supreme Court sent the case back for the new consideration in administrative proceedings to the Interregional Administrative court of Almaty. On 1 March 2012 the Interregional Administrative court of Almaty ruled in favor of KaR-Tel and recognised the protocol of the Agency as illegal, null and void.

The term for the appeal in supervision has expired.

25. Commitments, contingencies and uncertainties (continued)

Kyrgyzstan

Since November 2006, the Chief Executive Officer and directors of the Company have received several letters from OJSC Mobile TeleSystems ("**MTS**") and its representatives claiming that Sky Mobile's Kyrgyz telecom business and its assets were misappropriated from Bitel, an MTS affiliate, and demanding that the Company not purchase Sky Mobile, directly or indirectly, or participate or assist in the sale of Sky Mobile to any other entities. These letters have suggested that MTS will take any and all legal action necessary against the Company in order to protect MTS's interest in Bitel and Bitel's assets. As of the date hereof, management is not aware of any pending legal action against the Company in connection with this matter except for the litigation against Sky Mobile discussed in the paragraph below.

Sky Mobile is a co-defendant in a litigation in the Isle of Man. The litigation was brought by affiliates of MTS against various companies and individuals directly or indirectly associated with Alfa Group and/or Altimo and Sky Mobile. The claimants allege that the Kyrgyz judgment determining that an Altimo affiliate was the rightful owner of an interest in the equity of Bitel prior to the asset sale between Sky Mobile and Bitel was wrongfully obtained and that Bitel shares and assets were misappropriated. The legal proceedings in this matter are pending.

At this time the Company is unable to assess the likelihood of the ultimate outcome of this litigation and its effect on the Company's operating results and financial position.

Pledges and guarantees

The Company and its subsidiaries did not pledge any collateral as at 31 December 2012, 2011.

Guarantee in favour of VimpelCom Holdings B.V.

On 29 June 2011, VimpelCom Holdings B.V., a subsidiary owned by VimpelCom Ltd., completed an offering of an aggregate principal amount of US$ 2,200,000 notes (the "June Bonds"), split between three-year, five-year and 10-year tranches, for the primary purpose of refinancing the outstanding principal amount of US$ 2,200,000 under the Bridge Facility Agreement. The three-year US$ 200,000 issue bears interest at an annual rate of three-month LIBOR plus 4.0%, payable quarterly and is due in June 2014. The five-year US$ 500,000 issue bears interest at an annual rate of approximately 6.25% payable semiannually and is due in March 2017. The ten-year US$ 1,500,000 issue bears interest at an annual rate of approximately 7.50% payable semiannually and is due in March 2022. VimpelCom has guaranteed the June Bonds. No triggering events under the guarantee occurred. The Company believes that probability of these events is remote.

Guarantee in favour of VimpelCom Amsterdam B.V.

12 December 2011 VimpelCom Amsterdam B.V., a subsidiary owned by VimpelCom Ltd., completed a committed revolving credit facility of approximately US$ 495,000. The three years credit facility for VimpelCom Amsterdam B.V. is committed by ten relationship banks. This facility is composed of US$ 225,000 and EUR 205 million and is guaranteed by the Company. No triggering events under the guarantee occurred. The Company believes that probability of these events is remote.

(All amounts in thousands of US dollars unless otherwise stated)

25. Commitments, contingencies and uncertainties (continued)

Guarantee in favour of VimpelCom Amsterdam B.V. (continued)

20 December 2012 VimpelCom Amsterdam B.V., a subsidiary owned by VimpelCom Ltd., completed a term credit facility of US$ 500,000. The 8 years credit facility for VimpelCom Amsterdam B.V. is committed by China Development Bank Corporation to finance Huawei equipment. The loan bears interest at the rate of LIBOR plus 3.30% per annum. VimpelCom has guaranteed this term credit facility. No triggering events under the guarantee occurred. The Company believes that probability of these events is remote.

Operating lease commitments

Operating lease payments for each of the succeeding five years are committed as follows:

	2012	2011
Less than 1 year	**65,098**	146,369
Between 1 and 5 years	**209,700**	182,292
More than 5 years	**188,007**	105,105
Total	**462,805**	433,766

Operating lease commitments mainly relate to the lease of base station sites and office spaces. Operating lease expenses amount to US$ 439,547 in 2012 and US$ 491,223 in 2011.

Financial lease

The Group has finance leases and hire purchase contracts for various items of property and equipment. Future minimum lease payments under finance leases and hire purchase contracts together with a present value of the net minimum lease payments are as follows:

	2012		2011	
	Minimum payments	**Present value of payments (Note 14)**	**Minimum payments**	**Present value of payments (Note 14)**
Within one year	**17,896**	**11,964**	4,749	2,643
Between one and five years	**53,588**	**31,268**	11,522	5,754
More than five years	**78,408**	**41,335**	18,758	8,526
Total minimum lease payments	**149,892**	**84,567**	35,029	16,923
Less amounts representing finance charges	**(65,325)**	**–**	(18,106)	–
Total payments	**84,567**	**84,567**	16,923	16,923

26. Financial risk management

The Company's principal financial liabilities, other than derivatives, comprise loans and borrowings and trade and other payables. The main purpose of these financial liabilities is to finance the Company's operations. The Company has loan and other receivables, trade and other receivables, and cash and short-term deposits that arrive directly from its operations. The Company views derivative instruments as risk management tools and does not use them for trading or speculative purposes.

The Company is exposed to market risk, credit risk and liquidity risk.

26. Financial risk management (continued)

The Company's senior management oversees the management of these risks. The Company's senior management is supported by the Treasury committee that advises on financial risks and the appropriate financial risk governance framework for the Company. The financial risk committee provides assurance to the Company's senior management that the Company's financial risk-taking activities are governed by appropriate policies and procedures and that financial risks are identified, measured and managed in accordance with Group policies and Group risk appetite. All derivative activities for risk management purposes are carried out by specialist teams that have the appropriate skills, experience and supervision. It is the Company's policy that no trading in derivatives for speculative purposes shall be undertaken.

Management reviews and agrees policies for managing each of these risks which are summarized below.

Market risk

Market risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices. Market prices comprise four types of risk: interest rate risk, currency risk, commodity price risk and other price risk, such as equity price risk. Financial instruments affected by market risk include loans and borrowings, deposits, and derivative financial instruments. The sensitivity analyses in the following sections relate to the position as of 31 December in 2012 and 2011. The sensitivity analyses have been prepared on the basis that the amount of net debt, the ratio of fixed to floating interest rates of the debt and derivatives and the proportion of financial instruments in foreign currencies are all constant and on the basis of the hedge designations in place at 31 December 2012 (2011: hedging was not implemented).The analyses exclude the impact of movements in market variables on the carrying value of pension and other post-retirement obligations (insignificant for the Company), provisions and on the non-financial assets and liabilities of foreign operations. The analyses of sensitivity with respect to the derivatives over non-controlling interests in subsidiaries are described in Note 14.

Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Company's exposure to the risk of changes in market interest rates relates primarily to the Company long-term debt obligations with floating interest rates. The Company manages its interest rate risk by having a balanced portfolio of fixed and variable rate loans and borrowings.

At 31 December 2012 approximately 96% of the Company's borrowings are at a fixed rate of interest (2011: 82%).

(All amounts in thousands of US dollars unless otherwise stated)

26. Financial risk management (continued)

Interest rate sensitivity

The following table demonstrates the sensitivity to a reasonably possible change in floating interest rates on loans and borrowings. With all other variables held constant, the Company's profit before tax is affected through the impact on floating rate borrowings and issued loans as follows:

Interest rate sensitivity	Increase/ decrease in basis points	Effect on profit before tax
2012		
US dollar	+100	8,104
RUB	+100	1,538
UZS	+100	1,051
Other currencies	+100	21
US dollar	-100	(8,104)
RUB	-100	(1,538)
UZS	-100	(1,051)
Other currencies	-100	(21)
2011		
US dollar	+100	6,470
RUB	+100	491
Euro	+100	178
Other currencies	+100	386
US dollar	-100	(6,470)
RUB	-100	(491)
Euro	-100	(178)
Other currencies	-100	(386)

Foreign currency risk

Foreign currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Company's exposure to the risk of changes in foreign exchange rates relates primarily to the debt at subsidiary level denominated in currencies other than the functional currency, the Company's operating activities (predominantly capital expenditures at subsidiary level denominated in a different currency from the subsidiary's functional currency) and the Company's net investments in foreign subsidiaries.

The Company manages its foreign currency risk by selectively hedging net transaction exposures that are expected to occur within a maximum 12-month period.

Where the nature of the hedge relationship is not an economic hedge, it is the Company's policy to negotiate the terms of the hedging derivatives to match the terms of the underlying hedge items to maximise hedge effectiveness.

The Company hedges part of its exposure to fluctuations on the translation into US dollar of its foreign operations by holding net borrowings in foreign currencies and can use foreign currency swaps and forwards for this purpose as well.

(All amounts in thousands of US dollars unless otherwise stated)

26. Financial risk management (continued)

Foreign currency sensitivity

The following table demonstrates the sensitivity to a reasonably possible change in the exchange rate of the RUB, GEL and KZT (the major currencies creating exposures in the Group), with all other variables held constant, of the Company's profit before tax (due to changes in the value of monetary assets and liabilities including non-designated foreign currency derivatives). The Company's exposure to foreign currency changes for all other currencies is not material.

	Change in foreign exchange rate	Effect on profit before tax	Effect on equity
2012	10% depreciation currencies against USD	104,422	32,959
	10% appreciation currencies against USD	(120,143)	(79,538)
2011	10% depreciation currencies against USD	(41,689)	–
	10% appreciation currencies against USD	37,899	–

The movement on the pre-tax effect is a result of a change in the fair value of derivative financial instruments not designated in a hedging relationship and monetary assets and liabilities denominated in currencies other than the functional currency of the entity. Although the derivatives have not been designated in a hedge relationship, they act as a commercial hedge and will offset the underlying transactions when they occur.

Credit risk

Credit risk is the risk that a counterparty will not meet its obligations under a financial instrument or customer contract, leading to a financial loss. The Company is exposed to credit risk from its operating activities (primarily for trade receivables) and from its financing activities, including deposits with banks and financial institutions, foreign exchange transactions and other financial instruments. See Note 16 for further information on restriction on cash balances.

Trade accounts receivable consist of amounts due from subscribers for airtime usage and amounts due from dealers and subscribers for equipment sales. In certain circumstances, VimpelCom requires deposits as collateral for airtime usage. In addition, VimpelCom has introduced a prepaid service GSM network. Equipment sales are typically paid in advance of delivery, except for equipment sold to dealers on credit terms. VimpelCom's credit risk arising from its trade accounts receivable from subscribers is mitigated due to the large number of its active subscribers (subscribers in the registered subscriber base who were a party to a revenue generating activity in the past three months and remain in the base at the end of the reported period), of which approximately 95% subscribed to a prepaid service as of 31 December 2012 (2011: 95%) and, accordingly, do not give rise to credit risk.

VimpelCom's credit risk arising from its trade accounts receivable from dealers is mitigated due to the large number of dealers. Management periodically reviews the history of payments and credit worthiness of the dealers. The Company also has receivables from other local and international operators from interconnect and roaming services provided to their customers, as well as receivables from customers using fixed-line services, such as business services, wholesale services and services to residents. Receivables from other operators for roaming services are settled through clearing houses and, accordingly, do not give rise to credit risk.

26. Financial risk management (continued)

Credit risk (continued)

VimpelCom holds available cash in bank accounts as well as other financial assets with financial institutions in countries of its operations. To manage credit risk associated with such asset holdings, VimpelCom allocates its available cash to a variety of local banks and local affiliates of international banks within the limits set forth by its treasury policy. Management periodically reviews the credit worthiness of the banks with which it holds assets.

Trade receivables

Customer credit risk is managed by each business unit subject to the Company's established policy, procedures and control relating to customer or other counterparty credit risk management. Credit quality of the customer or other telecommunication and roaming providers is assessed based on an extensive credit rating scorecard and individual credit limits are defined in accordance with this assessment. Outstanding trade and other receivables are regularly monitored and any shipments to major customers are generally covered by letters of credit or other forms of credit insurance.

The requirement for an impairment is analysed at each reporting date on an individual basis for major clients. Additionally, a large number of minor receivables are grouped into homogenous groups and assessed for impairment collectively. The calculation is based on actually incurred historical data. The maximum exposure to credit risk at the reporting date is the carrying value of each class of financial assets disclosed in Note 14. The Company does not hold collateral as security. The Company evaluates the concentration of risk with respect to trade receivables as low, as its customers are located in several jurisdictions and industries and operate in largely independent markets.

Concentrations of credit risk with respect to trade receivables are limited given that the Group's customer base is large and unrelated. Due to this management believes there is no further credit risk provision required in excess of the normal provision for bad and doubtful receivables.

Financial instruments and cash deposits

Credit risk from financial assets held with banks and financial institutions is managed by the Company's treasury department in accordance with the Company's policy. Investments of surplus funds are made only with approved counterparties and within credit limits assigned to each counterparty, which have been set as a function of the current banking relationship, the credit rating of the counterparty and the legal group it belongs to and the statement of financial position total of the counterparty. Counterparty credit limits are reviewed and approved by the Company's CFO. The limits are set to minimise the concentration of risks and therefore mitigate financial loss through potential counterparty's failure.

The Company's maximum exposure to credit risk for the components of the statement of financial position at 31 December 2012 and 2011 is the carrying amounts as illustrated in Note 14, and for derivative financial instruments the carrying amounts as noted in Note 14.

(All amounts in thousands of US dollars unless otherwise stated)

26. Financial risk management (continued)

Liquidity risk

The Company monitors its risk to a shortage of funds using a recurring liquidity planning tool. The Company's objective is to maintain a balance between continuity of funding and flexibility through the use of bank overdrafts, bank loans, debentures, preference shares, financial and operating leases. The Company's policy is that not more than 35% of borrowings should mature in a single year. 19% of the Company's debt will mature in less than one year at 31 December 2012 (2011: 13%) based on the carrying value of bank loans, equipment financing and loans from others reflected in the financial statements. The Company assessed the concentration of risk with respect to refinancing its debt and concluded it to be low. Access to sources of funding is sufficiently available.

The table below summarises the maturity profile of the Company's financial liabilities based on contractual undiscounted payments. The total amounts in the table differ from the carrying amounts as stated in Note 14 as the below table includes both notional amounts and interest while the carrying amounts are based on amongst others notional amounts, fair value adjustments and unamortized fees.

At 31 December 2012	Less than 1 year 2013	1-3 years 2014-2015	3-5 years 2016-2017	More than 5 years > 2017	Total
Bank loans and bonds	2,203,253	4,347,009	2,795,760	2,613,557	**11,959,579**
Equipment financing	161,729	238,198	140,164	48,286	**588,377**
Finance lease	17,896	29,578	24,010	78,408	**149,892**
Derivatives over non-controlling interest	297,000	–	330,000	–	**627,000**
Derivative financial instruments gross cash outflows	21,752	–	–	–	**21,752**
Trade and other payables	1,431,872	–	–	–	**1,431,872**
Total	**4,133,502**	**4,614,785**	**3,289,853**	**2,740,251**	**14,778,391**

At 31 December 2011	Less than 1 year 2012	1-3 years 2013-2014	3-5 years 2015-2016	More than 5 years >2016	Total
Bank loans and bonds	1,516,309	3,299,321	3,765,436	3,391,311	**11,972,377**
Equipment financing	133,377	198,618	102,128	28,432	**462,555**
Finance lease	4,749	7,235	4,287	18,758	**35,029**
Derivatives over non-controlling interest	–	297,000	–	330,000	**627,000**
Trade and other payables	1,317,507	–	–	–	**1,317,507**
Total	**2,971,942**	**3,802,174**	**3,871,851**	**3,768,501**	**14,414,468**

Capital management

The Company manages its capital structure and makes adjustments to it in light of changes in economic conditions. To maintain or adjust the capital structure, the Company may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. No changes were made in the objectives, policies or processes for managing capital during the years ended 31 December 2012 and 31 December 2011.

26. Financial risk management (continued)

Capital management (continued)

The Net Indebtedness / Net debt to EBITDA ratio is an important measure to assess the capital structure in light of maintaining a strong credit rating. Net Indebtedness represents the nominal amount of interest-bearing debt and guarantees given less cash and cash equivalents and current and non-current bank deposits. Net Debt represents the amount of interest-bearing debt at amortized costs and guarantees given less cash and cash equivalents and current and non-current bank deposits. EBITDA is defined as earnings before interest, tax, depreciation, amortization and impairment.

The Net Indebtedness to EBITDA ratio relevant to OJSC VimpelCom per 31 December 2012 and 2011 was 2.4 and 2.6 respectively. The required ratio is <3.5 for some of the debt. The ratio is calculated based on consolidated financial statements of OJSC VimpelCom prepared under IFRS. In case this ratio is breached OJSC VimpelCom will have an Event of Default.

Collateral

The Company provides security for some lenders of the funds which is described for individual loans in Note 25.

27. Events after the reporting period

Guarantee in favour of VimpelCom Holdings B.V.

On 13 February 2013, VimpelCom Holdings B.V., a subsidiary owned by VimpelCom Ltd., completed an offering of an aggregate principal amount of US$ 1,600,000 notes and notes, denominated in RUR, in the amount of RUR 12 billion (the equivalent to US$ 397,729 US as of 13 February 2013), split between five-year, six-year and 10-year tranches. The five-year RUR 12 billion issue bears interest at an annual rate of 9.00%, payable semiannually and is due in February 2018. The six-year US$ 600,000 issue bears interest at an annual rate of 5.20%, payable semiannually and is due in February 2019. The ten-year US$ 1,000,000 issue bears interest at an annual rate of 5.95%, payable semiannually and is due in February 2023. VimpelCom has guaranteed these Eurobond issues. No triggering events under the guarantee occurred. The Company believes that probability of these events is remote.

Loans to related parties

On 15 February 2013, VimpelCom granted a short-term loan to VimpelCom Holdings B.V. in amount of US$ 750,000. On 19 February 2013 VimpelCom granted additional tranche in amount of US$ 200,000. The loan matures on 31 May 2013. The interest rate is 2% per annum. The loan is denominated in US dollars.

On 19 February 2013, VimpelCom granted an additional short-term loan to VimpelCom Holdings B.V. in amount of US$ 50,000. The loan matures on 31 May 2013. The interest rate is 2% per annum. The loan is denominated in US dollars.

On 14 February 2013 VimpelCom signed a Facility agreement with VimpelCom Holdings B.V. in the total amount of RUR 12 billion (the equivalent to US$ 399,079 US as of 14 February 2012). On 19 February 2013 VimpelCom drew down the loan in amount of RUR 12 billion. The loan matures on 13 February 2018. The interest rate is 9.6% per annum. The loan is denominated in Russian rubles.