Consolidated financial statements

Public Joint Stock Company "Vimpel-Communications"

(a wholly-owned subsidiary of VEON Ltd.)

as of 31 December 2016 and
for the year ended 31 December 2016

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Contents

Independent Auditor's Report

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

Our opinion

In our opinion, the consolidated financial statements present fairly, in all material respects the consolidated financial position of Public Joint Stock Company "Vimpel-Communications" (a wholly-owned subsidiary of VEON Ltd. hereinafter referred to as "the Company" or "PJSC VimpelCom") and its subsidiaries (hereinafter collectively referred to as "VimpelCom") as at 31 December 2016, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards.

What we have audited

VimpelCom's consolidated financial statements comprise:

- the consolidated statement of financial position as at 31 December 2016;
- the consolidated income statement for the year ended 31 December 2016;
- the consolidated statement of comprehensive income for the year ended 31 December 2016;
- the consolidated statement of changes in equity for the year ended 31 December 2016;
- the consolidated statement of cash flows for the year ended 31 December 2016; and
- the notes to the consolidated financial statements, which include significant accounting policies and other explanatory information.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the '*Auditor's Responsibilities for the Audit of the Consolidated Financial Statements*' section of our report.

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

Independence

We are independent of VimpelCom in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) together with the ethical requirements of the Auditor's Professional Ethics Code and Auditor's Independence Rules that are relevant to our audit of the consolidated financial statements in the Russian Federation. We have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code.

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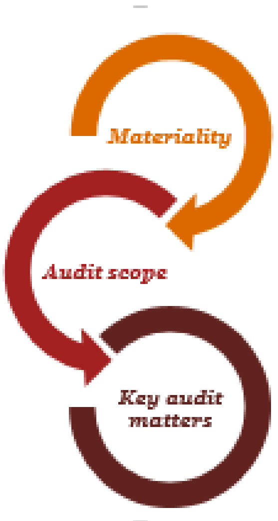
Our audit approach

Overview and context

PJSC VimpelCom is a telecommunications company providing voice and data services through a range of mobile and fixed-line technologies as well as selling subscriber equipment and accessories. The group comprises of seven components and therefore we considered our group audit scope and approach as set out in the scope of our group audit section. We paid specific attention to the areas of focus driven by the operations of the company, as set out below.



Materiality

- Overall materiality: RUB 3,000 million, which represents 2.3% of Earnings Before Interest, Taxes, Depreciation and Amortisation (“EBITDA”)

Audit scope

- We conducted our work at the corporate headquarters in Russia and at the most significant subsidiaries, located in Russia, Uzbekistan, Kazakhstan and Kyrgyzstan. The work consisted of full scope audits for those significant subsidiaries and risk assessment procedures for less significant subsidiaries in Georgia, Armenia and Laos.
- Since some of the functions of VimpelCom, like accounting policies and methodology, valuation, treasury and tax are centralised at the level of VEON Ltd. in the Netherlands our work also included those functions to the extent they are managing, approving and monitoring the related balances and transactions of VimpelCom.
- The group engagement team visited Kazakhstan to review the work of the component team covering subsidiaries in Kazakhstan and Kyrgyzstan while the component team covering subsidiaries in Uzbekistan visited Moscow to enable us to review their work
- Audit coverage of 97% of consolidated revenue and 99% of consolidated total assets was obtained.

Key audit matters

- Compliance with anti-bribery laws and regulations
- Carrying value of goodwill and investments in joint ventures
- Revenue recognition - accuracy of revenue recorded given the complexity of systems as well as presentation of revenue gross or net

We designed our audit by determining materiality and assessing the risks of material misstatement in the consolidated financial statements. In particular, we considered where management made subjective judgements; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits, we also addressed the risk of management override of internal controls, including among other matters consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

Our engagement as a whole consisted of review procedures on the quarterly interim financial information, interim tests of controls and year-end audit procedures. Given the size of VimpelCom and its operations, we are involved on a continuous basis and have ongoing discussions with the finance functions, Company and subsidiaries' management and Board of Directors.

We ensured that the audit teams both at group and at component levels included the appropriate skills and competences, which are needed for the audit of a telecommunications company. We therefore included revenue assurance/IT and tax specialists as well as experts in the areas of treasury and valuations in our team.

Materiality

The scope of our audit was influenced by our application of materiality. An audit is designed to obtain reasonable assurance whether the financial statements are free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the consolidated financial statements.

Based on our professional judgement, we determined certain quantitative thresholds for materiality, including the overall group materiality for the consolidated financial statements as a whole as set out in the table below. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, if any, both individually and in aggregate on the financial statements as a whole.

Overall group materiality	RUB 3,000 million (2015: RUB 3,500 million)
How we determined it	We determined the materiality as 2.3% (2015: 2.4%) of EBITDA as disclosed in Note 7 of the consolidated financial statements. The reduction compared to 2015 reflects primarily the deterioration in operating results of VimpelCom expressed in Russian Rouble following the devaluation of local currencies against the Russian rouble in Kazakhstan and Uzbekistan.
Rationale for the materiality benchmark applied	Our rationale for determining the most appropriate materiality benchmark was based on our analysis of the common information needs of users of the financial statements. We first considered 'profit before taxes'. However, as profits tend to fluctuate significantly, we concluded this was not a representative benchmark. We have therefore then considered EBITDA. We noted that this benchmark is being used by VimpelCom equity and debt investors to assess its financial performance. Additionally, a number of VimpelCom debt agreements contain covenants that are linked to EBITDA. On this basis, we concluded EBITDA to be an appropriate materiality benchmark.
Component materiality	To each component in our audit scope, we, based on our judgement, allocated materiality that is less than or equal to our overall materiality.

The range of materiality allocated across components was between RUB 600 million and RUB 3,000 million.

We also take misstatements and/or possible misstatements into account that, in our judgement, are material for qualitative reasons, such as those impacting the compliance with financial covenants related to the loans that are maintained throughout the Group and at Company level.

How we tailored our group audit scope

We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the consolidated the financial statements as a whole, taking into account the geographic and management structure of VimpelCom, the accounting processes and controls, and the industry in which VimpelCom operates.

PJSC VimpelCom is the parent company of a group of entities. The financial information of this group is included in the consolidated financial statements of PJSC VimpelCom, the holder of shares in subsidiaries. Some of the functions of VimpelCom, including accounting policies and methodology, valuation, treasury and tax are centralised at the level of VEON Ltd. headquartered in Amsterdam.

Components in Russia, Uzbekistan and Kazakhstan were subjected to audits of their complete financial information as those components are individually significant to the group. The component in Kyrgyzstan was subjected to full scope audit procedures as it included significant or higher risk areas. For Uzbekistan, Kazakhstan and Kyrgyzstan components we used component auditors from other PwC network firms who are familiar with the local laws and regulations to perform the audit work. For the Russian component, the group engagement team performed the work. For the processes centralised at the level of VEON Ltd. listed above we used PwC network firm in the Netherlands to perform the related audit work.

In total, in performing these procedures, we achieved the following coverage on the financial line items:

Revenue	97%
EBITDA	98%
Profit before tax	96%
Total assets	99%

None of the remaining components represented individually more than 2% of total group revenue or total group assets. For those remaining components we performed, among others, analytical procedures to corroborate our assessment that there were no significant risks of material misstatements within those components.

We issued instructions to the audit teams of the components in our audit scope. These instructions included our risk analysis, materiality, and scope of the work to be performed. We determined the level of our involvement in the audit work of these entities in order to be able to conclude whether sufficient appropriate audit evidence had been obtained as a basis for our opinion on the group financial statements as a whole. We have had individual conference calls with each of the in-scope component auditors multiple times during the year including upon the conclusion of their work. During these calls, we have discussed the significant accounting and audit issues identified by the component auditors, the reports of the component auditor, the findings of their procedures and other matters, which could be of relevance for the consolidated financial statements.

As mentioned above certain reporting matters are predominantly centrally determined by VEON Ltd. group management and are audited by us with the involvement of the PwC network firm in the Netherlands. This includes amongst others non-current assets impairment testing, valuation of derivative financial instruments, the appropriateness of application of hedge accounting, the appropriateness of roaming rebates and the follow-up on whistle-blower allegations and other ethics cases monitored at the group level. We have agreed the scope, evaluated competence, capabilities, expertise and objectivity of the PwC Netherlands specialists involved, obtained, reviewed and evaluated the results of PwC Netherlands audit and specialist teams' work in these complex audit areas and incorporated those into our audit file.

By performing the procedures above at components, combined with additional procedures at VimpelCom level and VEON Ltd. level, we have obtained sufficient and appropriate audit evidence regarding the financial information of the group as a whole to provide a basis for our opinion on the consolidated financial statements.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. We have communicated the key audit matters to the Board of Directors, but they are not a comprehensive reflection of all matters that were identified by our audit and that we communicated. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter	**How our audit addressed the Key audit matter**
Compliance with anti-bribery laws and regulations *Note 25* As disclosed in Note 25 to the consolidated financial statements during the first quarter of 2016, VEON Ltd., the parent of the Company, reached resolutions through agreements with the U.S. Securities and Exchange Commission ("SEC"), the U.S. Department of Justice ("DOJ"), and the Dutch Public Prosecution Service (Openbaar Ministerie) ("OM") relating to the previously disclosed investigations under the U.S. Foreign Corrupt Practices Act (the "FCPA") and relevant Dutch laws, pertaining to the Company's business in Uzbekistan and prior dealings with Takilant Ltd. Under the terms of the agreements, VEON Ltd. paid an aggregate amount of USD 795 million in fines and disgorgements to the SEC, the DOJ and the OM in 2016. This amount was deducted from the already existing provision of USD 900 million recorded by VEON Ltd. in the third quarter of 2015 and disclosed in the 2015	In order to assess and corroborate the position taken by VimpelCom with respect to the settlement agreements, we have had extensive discussions with management of VEON Ltd., as well as their external and internal legal counsel in order to assess the impact of the investigation and the deferred settlement thereof on the consolidated financial statements. In these discussions, we have used our own legal and forensic specialists to assess the ramifications of the information provided by both management and the external counsel. We also read the minutes of the Board meetings and obtained confirmation from the external counsel that the facts and circumstances as made available to us are accurate and complete. We also assessed the objectivity and competence of the external legal counsel.

Key audit matter	How our audit addressed the Key audit matter
annual consolidated financial statements of VEON Ltd. As of 31 December 2016, VEON Ltd. maintains a provision of USD 66 million related to future legal costs to be incurred with respect to adhering to the specific requirements of the agreements as disclosed in Note 25. Additionally, as disclosed by VEON Ltd. in its SEC filings, on September 5, 2016, VimpelCom accepted the resignation of Mikhail Slobodin, Chief Executive Officer of the Company, with immediate effect, following news that he had been named as a person of interest in an investigation by Russian authorities into allegations of corruption at his prior employer, T Plus (a subsidiary of the Renova Group), of which Mr. Slobodin was an executive before joining VimpelCom. Given the territories VimpelCom operates in, there is an increased risk of bribery and corruption that requires additional attention. Also, we considered the above circumstances resulting in a key audit matter in the context of significance of the corresponding contingencies disclosed in the consolidated financial statements.	In response to the increased risk of bribery and corruption, we have performed audit procedures including: • Understanding of the local laws and regulations and various levels of interaction with government officials. • Assessing and testing unusual payments or expenses, relationships with related parties, agents, charities and social organisations, and review of complex contracts. • Understanding and assessing the facts and circumstances and decisions made by VimpelCom upon reacting to one-off special situations. Our procedures included the use of forensics expertise and testing of selected transactions. Based on our procedures performed we have not identified any material omissions in the related contingencies disclosures in the consolidated financial statements.

Key audit matter	How our audit addressed the Key audit matter
Carrying value of goodwill and investments in joint ventures *Note 10 and Note 13* VimpelCom has a goodwill balance of RUB 106,617 million and a balance of investments in joint ventures of RUB 7,641 as at 31 December 2016. Impairment charges to goodwill have been recognised in the past. We considered this area to be a key audit matter due to the size of the goodwill balance as well as the fact that the determination of the fair value less costs of disposal as used by VimpelCom in its annual goodwill impairment tests as disclosed in Note 10 to the consolidated financial statements is complex and requires substantial judgment from management. The determination of the recoverable value, in particular the fair value less costs of disposal, is based on assumptions, such as the growth rate, the weighted average cost of capital and the success of strategic initiatives, that are affected by expected future market conditions and the continuing challenging economic and political environments in the territories where the Company and its subsidiaries operate in. VimpelCom performed its annual goodwill impairment test in accordance with IAS36 - Impairment of Assets as of 1 October 2016. Management concluded that RUB 3,017 million of impairment charges were to be recorded for the Cash Generating Unit ('CGU') in Kyrgyzstan. Additionally, given that the carrying amount of goodwill in Georgia CGU had been written down to nil in prior years but the impairment test identified further impairment losses, they were allocated to the carrying amounts of property and equipment and intangible assets of this CGU based on relative carrying value before the impairment in the total amount of RUB 1,872 million. Furthermore, due to operational underperformance of Euroset joint venture,	In the context of the annual goodwill impairment test, we have performed various procedures which varied in depth per CGU based on our risk assessment with respect to the volatility of the economic circumstances, the extent of the related goodwill balance as compared to our materiality used and the headroom available between the carrying value and the fair value less costs of disposal. Particular focus was on the CGU's that were impaired. Our audit procedures were performed by the audit team in conjunction with the valuations experts and included, amongst others: • The assessment of management's determination of the fair value to support the valuation of the investments in subsidiaries, and related internal controls. Our valuation specialists assisted us in evaluating and challenging the composition of management's future cash flow forecasts and the process by which they were drawn up as well as the key assumptions underlying the valuation model used by VimpelCom, which includes amongst others the weighted average cost of capital, discount rate, terminal growth rate and VimpelCom and industry metrics ('average revenue per user', subscriber base, EBITDA margins). Where possible we have validated the assumptions against available external benchmarks. • Specific attention was also given to the valuation of the strategic initiatives and whether such initiatives could be corroborated from a market participants' perspective. • A retrospective review of the prior year estimates by comparing the current year actual results to those projected in the prior year noting no indicators of impairment. We also inspected management's reporting and organizational structure to be able to conclude

Key audit matter	How our audit addressed the Key audit matter
management determined the recoverable amount of VimpelCom's investment in Euroset and recognised an impairment loss in the amount of RUB 5,993 million. The subsequent triggering events analysis as of 31 December 2016 did not reveal further impairments to be recorded.	whether the determination of cash generating units is appropriate. • Recalculated the carrying values, exchange rates, methodologies and calculations used in the impairment test. • Assessed the adequacy of the VimpelCom's disclosures regarding assumptions and sensitivities as included in Note 10 and Note 13 to the consolidated financial statements. Based on our procedures, we concur with the management's estimates of the impairment charges recognised in the consolidated financial statements and believe the related disclosures in Note 10 and Note 13 are adequate.

Key audit matter	How our audit addressed the Key audit matter
Revenue recognition - accuracy of revenue recorded given the complexity of systems as well as presentation as gross or net *Note 8* Throughout VimpelCom, there is a large number and wide variety of legacy billing and other operating support systems, including multiple manual interfaces, which results in an increased risk around the accuracy of the revenue recorded. Furthermore, the increased offering of services in collaboration with third parties requires the application of significant judgement to determine the appropriateness of recognition of revenue on a gross or net basis.	Our audit approach included controls testing and substantive procedures, including data analytics, covering, in particular: • Understanding and testing the IT environment in which billing, rating and other relevant support systems reside, including the change control procedures in place around systems involved in material revenue streams; • Testing the design and operational effectiveness of the order-to-cash related controls, including the effective remediation or mitigation of identified control deficiencies; • Testing the end-to-end reconciliation from business support systems to billing and rating systems to the general ledger. The testing included validating material journals between the billing system or intelligent networks and the general ledger. • Reconciling the amounts of vouchers and other top-ups with respect to prepaid services to the transactional cash receipts data per the cash system; • Performing tests on the accuracy of customer bill generation on a sample basis and testing of a sample of the credits and discounts applied to customer bills; • Testing cash receipts for a sample of customers back to the customer invoice; and • Review of service arrangements with respect to content provision and other services involving third parties and assessment of the (consistency of) application of the accounting principles for principal versus agent transactions. Based on our work, we noted no significant issues on the accuracy of revenue recorded in the year. With respect to the presentation of revenue on a gross or net basis, we have challenged

Key audit matter	How our audit addressed the Key audit matter
	management as to their application of judgement and particularly the weighting of the various considerations to be used to determine the appropriate accounting presentation. Based on our procedures performed we are satisfied with the associated judgments around gross or net presentation of revenue.

Responsibilities of management and those charged with governance for the consolidated financial statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRS, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing VimpelCom's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate VimpelCom or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing VimpelCom's financial reporting process.

Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 VimpelCom's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events

or conditions that may cast significant doubt on VimpelCom's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause VimpelCom to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within VimpelCom to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The certified auditor responsible for the audit resulting in this independent auditor's report is Evgeny Klimenko.

AO PricewaterhouseCoopers Audit

31 March 2017
Moscow, Russian Federation

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

Audited entity: Public Joint Stock Company Vimpel-Communications

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

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

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

Independent auditor: AO PricewaterhouseCoopers Audit

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

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

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

ORNZ 11603050547 in the register of auditors and audit organizations

Consolidated income statement
for the year ended 31 December 2016

	Note	2016	2015*
		Years ended 31 December	
		(All amounts in millions of Rubles unless otherwise stated)	
Service revenues*		**344,233**	362,136
Sale of equipment and accessories		**11,016**	10,749
Other revenues		**601**	1,167
Total operating revenues	7,8	**355,850**	374,052
Operating expenses			
Service costs*		**(93,292)**	(99,563)
Cost of equipment and accessories		**(12,413)**	(12,933)
Selling, general and administrative expenses**	9	**(119,901)**	(116,039)
Depreciation	14	**(56,754)**	(58,781)
Amortization	15	**(11,057)**	(9,892)
Impairment loss	10, 14, 15	**(6,140)**	(4,698)
Loss on disposals of non-current assets		**(1,497)**	(1,809)
Total operating expenses		**(301,054)**	(303,715)
Operating profit		**54,796**	70,337
Finance costs		**(24,815)**	(26,805)
Finance income		**6,356**	2,391
Net foreign exchange gain / (loss)		**8,088**	(18,236)
Other non-operating losses, net	11	**(6,356)**	(3,063)
Share of (loss) / gain of joint ventures accounted for using the equity method	13	**(885)**	1,173
Impairment of joint ventures accounted for using the equity method	13	**(5,993)**	–
Profit before tax		**31,191**	25,797
Income tax expense	12	**(18,459)**	(4,358)
Profit for the year		**12,732**	21,439
Profit attributable to:			
The owners of the Company		**16,445**	19,260
Non-controlling interests	13	**(3,713)**	2,179
		12,732	21,439

* *Certain comparative amounts shown here do not correspond to the 2015 consolidated financial statements and reflect reclassification adjustments made to conform to the current period presentation as detailed in Note 8;*

** *Expenses have been presented based on the nature of the expense in the consolidated income statement other than Selling, general and administrative expenses, which has been presented based on the function of the expense.*

Public Joint Stock Company “Vimpel-Communications”
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Consolidated statement of comprehensive income
for the year ended 31 December 2016

	Years ended 31 December	
	2016	**2015**
	(All amounts in millions of Rubles unless otherwise stated)	
Profit for the year	**12,732**	21,439
Other comprehensive income to be reclassified to profit or loss in subsequent periods:		
Cash flow hedge reserve	**(137)**	(640)
Income tax effect	**–**	–
Net loss arising on revaluation of available-for-sale financial assets at fair value through other comprehensive income	**–**	(491)
Income tax effect	**–**	–
Exchange differences arising on net investment in foreign operations	**(37,332)**	20,319
Income tax effect	**1,516**	(1,556)
Other comprehensive (loss) / income for the year, net of tax	**(35,953)**	17,632
Total comprehensive (loss) / income for the year, net of tax	**(23,221)**	39,071
Attributable to:		
Owners of the Company	**(19,524)**	40,794
Non-controlling interests	**(3,697)**	(1,723)
	(23,221)	39,071

Consolidated statement of financial position as of 31 December 2016

	Note	31 December 2016	31 December 2015
		(All amounts in millions of Rubles unless otherwise stated)	
Assets			
Non-current assets			
Property and equipment	14	**237,011**	265,899
Intangible assets	15	**35,565**	35,976
Goodwill	10	**106,617**	113,369
Investments in joint ventures	13	**7,641**	14,519
Deferred income tax assets	12	**2,299**	2,225
Other financial assets	16	**58,027**	99,388
Other non-current non-financial assets	17	**919**	436
Total non-current assets		**448,079**	531,812
Current assets			
Inventories	18	**6,170**	6,266
Trade and other receivables	19	**27,868**	27,980
Other current non-financial assets	17	**12,714**	8,025
Current income tax assets	12	**2,589**	5,713
Other current financial assets	16	**10,303**	29,108
Cash and cash equivalents	20	**47,510**	63,385
Total current assets		**107,154**	140,477
Assets classified as held for sale		**–**	178
Total assets		**555,233**	672,467
Equity and liabilities			
Equity			
Equity attributable to equity owners of the Company	21	**225,845**	266,329
Non-controlling interests	13	**9,301**	14,059
Total equity		**235,146**	280,388
Non-current liabilities			
Financial liabilities	16	**146,848**	199,657
Provisions	23	**2,655**	3,600
Other non-current non-financial liabilities	17	**791**	804
Deferred income tax liabilities	12	**13,775**	19,096
Total non-current liabilities		**164,069**	223,157
Current liabilities			
Trade and other payables		**56,720**	58,684
Dividends payable	22	**–**	8
Other current non-financial liabilities	17	**22,422**	25,191
Other financial liabilities	16	**71,796**	82,180
Current income tax payables	12	**1,931**	258
Provisions	23	**3,149**	2,601
Total current liabilities		**156,018**	168,922
Total equity and liabilities		**555,233**	672,467

Public Joint Stock Company “Vimpel-Communications”
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Consolidated statement of changes in equity for the year ended 31 December 2016

	Note	Attributable to the owners of the Company									
		Issued capital	**Capital surplus**	**Other capital reserves***	**Retained earnings**	**Foreign currency translation reserve***	**Cash flow hedge reserve**	**Available-for-sale reserve**	**Total**	**Non-controlling interests**	**Total equity**
		(All amounts in millions of Rubles unless otherwise stated)									
As of 31 December 2015		**3**	**40,234**	**24,408**	**162,005**	**40,150**	**20**	**(491)**	**266,329**	**14,059**	**280,388**
Profit for the year		–	–	–	16,445	–	–	–	**16,445**	(3,713)	**12,732**
Other comprehensive income		–	–	–	–	(35,832)	(137)	–	**(35,969)**	16	**(35,953)**
Total comprehensive income / (loss)		**–**	**–**	**–**	**16,445**	**(35,832)**	**(137)**	**–**	**(19,524)**	**(3,697)**	**(23,221)**
Dividends declared	22	–	–	–	(17,500)	–	–	–	**(17,500)**	(1,273)	**(18,773)**
Acquisition of non-controlling interests		–	–	(597)	–	–	–	–	**(597)**	131	**(466)**
Acquisition of subsidiaries		–	–	32	–	–	–	–	**32**	81	**113**
Transactions under common control	6	–	–	(3,036)	–	(350)	–	491	**(2,895)**	–	**(2,895)**
As of 31 December 2016		**3**	**40,234**	**20,807**	**160,950**	**3,968**	**(117)**	**–**	**225,845**	**9,301**	**235,146**

* Please refer to Note 21 for further description of the nature of the account

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

	Attributable to the owners of the Company									
	Issued capital	**Capital surplus**	**Other capital reserves***	**Retained earnings**	**Foreign currency translation reserve***	**Cash flow hedge reserve**	**Available-for-sale reserve**	**Total**	**Non-controlling interests**	**Total equity**
	(All amounts in millions of Rubles unless otherwise stated)									
As of 31 December 2014	**3**	**40,234**	**22,997**	**142,745**	**18,027**	**660**	**–**	**224,666**	**8,074**	**232,740**
Profit for the year	–	–	–	19,260	–	–	–	**19,260**	2,179	**21,439**
Other comprehensive income	–	–	–	–	22,665	(640)	(491)	**21,534**	(3,902)	**17,632**
Total comprehensive income / (loss)	**–**	**–**	**–**	**19,260**	**22,665**	**(640)**	**(491)**	**40,794**	**(1,723)**	**39,071**
Dividends declared	–	–	–	–	–	–	–	**–**	(7,609)	**(7,609)**
Effect of options over non-controlling interests in subsidiaries	–	–	(697)	–	–	–	–	**(697)**	15,294	**14,597**
Acquisition of non-controlling interests	–	–	(218)	–	–	–	–	**(218)**	23	**(195)**
Transactions under common control	–	–	2,326	–	(542)	–	–	**1,784**	–	**1,784**
As of 31 December 2015	**3**	**40,234**	**24,408**	**162,005**	**40,150**	**20**	**(491)**	**266,329**	**14,059**	**280,388**

* Please refer to Note 21 for further description of the nature of the account

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

Consolidated statement of cash flows for the year ended 31 December 2016

	Note	Years ended 31 December 2016	2015
		(All amounts in millions of Rubles unless otherwise stated)	
Operating activities			
Profit for the year		**12,732**	21,439
Income tax expense	12	**18,459**	4,358
Profit before tax		**31,191**	25,797
Non-cash adjustments to reconcile profit before tax to net cash flows from operating activities:			
Depreciation	14	**56,754**	58,781
Impairment loss	10	**6,140**	4,698
Amortization	15	**11,057**	9,892
Loss on disposal of non-current assets		**1,497**	1,809
Finance income		**(6,356)**	(2,391)
Finance costs		**24,815**	26,805
Other non-operating losses / (gains), net	11	**6,356**	3,063
Net foreign exchange (gain) / loss		**(8,088)**	18,236
Share of (gain) / loss of joint ventures accounted for using the equity method	13	**885**	(1,173)
Impairment of joint ventures accounted for using the equity method	13	**5,993**	–
Movements in provisions		**3,977**	1,009
Operating cash flows before working capital adjustments, interest and income taxes		**134,221**	146,526
Working capital adjustments			
Change in trade and other receivables		**(10,604)**	(7,337)
Change in inventories		**39**	(2,835)
Change in trade and other payables		**(2,613)**	3,404
Interest and income taxes			
Interest paid		**(23,576)**	(25,971)
Interest received		**3,732**	9,906
Income tax paid		**(16,117)**	(14,883)
Net cash flows from operating activities		**85,082**	108,810
Investing activities			
Proceeds from sale of property, equipment and intangible assets		**195**	647
Purchase of property, equipment and intangible assets		**(64,912)**	(69,659)
Issue of loans	24	**(44,704)**	(104,400)
Repayment of loans issued	24	**86,776**	311,166
Outflows from deposits, net		**(1,109)**	(18,303)
Inflow / (outflow) from investments in other financial assets		**(4,330)**	4,725
Disposal of subsidiaries, net of cash disposed	7	**1,569**	(373)
Acquisition of subsidiaries, net of cash acquired		**16**	(823)
Receipt of dividends		**2**	15
Net cash flows (used in) / from investing activities		**(26,497)**	122,995
Financing activities			
Outflows from changes in ownership interests in a consolidated subsidiaries		**(1,098)**	(241)
Proceeds from borrowings, net of fees paid	16	**33,463**	43,403
Repayment of borrowings	16	**(74,582)**	(300,513)
Dividends paid to equity holders	22	**(17,500)**	–
Dividends paid to non-controlling interests	22	**(1,266)**	(7,624)
Proceeds from sale of non-controlling interests		**59**	–
Net cash flows used in financing activities		**(60,924)**	(264,975)
Net decrease in cash and cash equivalents		**(2,339)**	(33,170)
Effect of exchange rate changes on cash and cash equivalents, net		**(13,536)**	9,358
Cash and cash equivalents at the beginning of the year		**63,385**	87,197
Cash and cash equivalents at the end of the year		**47,510**	63,385

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

1. General information

Public Joint Stock Company ”Vimpel-Communications” (PJSC “VimpelCom”, together with its consolidated subsidiaries referred to as the “Group”, “VimpelCom”, the “Company” or “we”) was registered in the Russian Federation (“Russia”) on 15 September 1992 as a joint stock company of the closed type, re-registered as a joint stock company of the open type on 28 July 1993 and began full-scale commercial operations in June 1994. The Company was re-registered as an Open Joint Stock Company on 28 March 1995. The Company was re-registered as a Public Joint Stock Company on 19 June 2015.

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

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

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

As of 31 December 2016, the Company operated telecommunications services in Russia, Kazakhstan, Armenia, Uzbekistan, Georgia, Kyrgyzstan and Laos primarily under the “Beeline” brand name.

The consolidated financial statements of the Company as of 31 December 2016 and for the year ended 31 December 2016 were authorized for issue by the General Director on 31 March 2017.

2. Basis of preparation of the consolidated financial statements

Basis of preparation

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"), effective at the time of preparing the consolidated financial statements and applied by VimpelCom. The consolidated financial statements have been prepared on a historical cost basis, unless disclosed otherwise.

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

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

Basis of consolidation

The consolidated financial statements comprise the financial statements of PJSC “VimpelCom” and its subsidiaries. Subsidiaries are all entities (including structured entities) over which PJSC “VimpelCom” has control.

Intercompany transactions, balances and unrealized gains or losses on transactions between Group companies are eliminated. When necessary, amounts reported by subsidiaries have been adjusted to conform with the Group’s accounting policies.

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

Basis of consolidation (continued)

When the Group ceases to consolidate a subsidiary due to loss of control, the related subsidiary's assets (including goodwill), liabilities, non-controlling interest and other components of equity are de-recognized.

This may mean that amounts previously recognized in other comprehensive income are reclassified to profit or loss. Any consideration received is recognized at fair value, and any investment retained is re-measured to its fair value with the change in carrying amount, and this fair value becomes the initial carrying amount for the purposes of subsequently accounting for the retained interest. Any resultant gain or loss is recognized in the income statement.

3. Significant accounting policies that relate to the consolidated financial statements as a whole

Accounting policies are included in the relevant notes to these financial statements.

New accounting pronouncements not yet adopted by the Group

The following are significant and relevant new standards that are issued, but not yet effective, up to the date of the issuance of the Group's consolidated financial statements, and which have not been early adopted by the Company:

IFRS 15, "*Revenue from contracts with customers*". The standard replaces IAS 18 "*Revenue*" and IAS 11 "*Construction contracts*" and related interpretations. The standard is effective for annual periods beginning on or after 1 January 2018. The primary impact on revenue reporting will be that when the Group sells subsidized devices together with airtime service agreements to customers, revenue allocated to equipment and recognized when control of the device passes to the customer will increase and revenue recognized as services are delivered will reduce. In addition, certain incremental costs incurred in acquiring a contract with a customer will be deferred in the consolidated statement of financial position and amortized as revenue is recognized under the related contract; this will generally lead to the later recognition of charges for some commissions payable to third party dealers and employees. The Group is continuing to assess the impact of IFRS 15, however, based on the analysis performed so far, the Company does not expect any material impact on revenue recognition due to currently existing product offering (i.e., pre-paid service offering). However, the Company does expect potential impact stemming from capitalization of cost incurred in acquiring a contract with a customer.

IFRS 9, "*Financial instruments*". It replaces the guidance in IAS 39 "*Financial Instruments: Recognition and Measurement*" regarding the classification and measurement of financial instruments. The standard is effective for accounting periods beginning on or after 1 January 2018. The Group has yet to assess the impact of IFRS 9, which may be material impact to the consolidated income statement and consolidated financial position upon adoption in 2018.

IFRS 16, *"Leases".* It replaces the guidance in IAS 17 *"Leases"* whereby the most material impact will be the elimination of the distinction between "operating" and "finance" leases and the requirement to report all leases within the statement of financial position. The standard is effective for accounting periods beginning on or after 1 January 2019. The Group has yet to assess the impact of IFRS 16, which may be material to the consolidated income statement and consolidated financial position upon adoption in 2019.

Foreign currency translation

The consolidated financial statements of the Group are presented in Russian Rubles. Each entity in the Group determines its own functional currency and amounts included in the financial statements of each entity are measured using that functional currency.

3. Significant accounting policies that relate to the consolidated financial statements as a whole (continued)

Foreign currency translation (continued)

As part of consolidation, the assets and liabilities of foreign operations are first translated into the functional currency of any intermediate parent entity (USD) and then translated from USD into Russian Rubles at the rate of exchange prevailing at the reporting date and their income statements are translated at the weighted average exchange rate for the period. The resulting exchange rate differences arising on translation of foreign operations are recognized in other comprehensive income (currency translation reserve). On disposal or loss of control of a foreign operation, the component of other comprehensive income relating to that particular foreign operation is recognized in profit and loss as part of the gain or loss on disposal.

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

As of 31 December 2016, the principal rate of exchange used for translating foreign currency balances was USD 1 = RUR 60.6569 (31 December 2015: USD 1 = RUR 72.8827).

The foreign exchange rate used to translate the local currency in Uzbekistan into Russian Rubles for consolidation purposes is an official rate published by the Central Bank of the Republic of Uzbekistan. However, this exchange rate is not achievable in expatriating funds out of the country due to restrictions imposed by the local government. The net assets of our business in Uzbekistan represented RUR 51 252 of the total assets in the Company’s consolidated statement of financial position as of 31 December 2016. However, if the Company applied the exchange rate implied by market transactions, the assets of Uzbekistan would decrease significantly in RUR terms.

4. Significant accounting judgments, estimates and assumptions

Accounting judgments

Revenue recognition

The Group’s revenue consists primarily of revenue from sale of telecommunications services and periodic subscriptions. The Group offers customers, via multiple element agreements (‘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 third party 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 recognized as deferred revenue in the consolidated statement of financial position and thereafter recognized in the consolidated income statement over a future period, for example, revenue from connection fees. Management also applies judgment 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, and the extent of latitude in establishing prices. See Note 8 for further information regarding revenue recognized by the Company.

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

Accounting Estimates and Assumptions

Impairment of non-current assets

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

Estimating recoverable amounts of assets and cash generating units (“CGUs”) must, in part, be based on management’s evaluations, including the determination of the appropriate CGUs, the relevant discount rate, estimation of future performance, the revenue-generating capacity of assets, timing and amount of future purchases of property and equipment, assumptions of future market conditions and the long-term growth rate into perpetuity (terminal value). In doing this, management needs to assume a market participant perspective. 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.

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 recession may potentially have a significant impact on these countries. On-going recessionary effects in the world economy and increased macroeconomic risks impact our assessment of cash flow forecasts and the discount rates applied.

There are significant variations between different markets with respect to growth, mobile penetration, average revenue per user (“ARPU”), market share and similar parameters, resulting in differences in operating margins. The future development of operating margins is important in the Group’s impairment assessments, and the long-term estimates of these margins are highly uncertain. In particular this is the case for emerging markets that are still not in a mature phase.

See Note 10 for further information regarding the results of impairment testing for goodwill and other non-current assets.

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 new technologies. Significant estimates in the evaluation 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 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, historical and expected replacements or transfer of assets and quality of components used. The actual economic lives of intangible assets may be different than estimated useful lives, thereby resulting in a different carrying value of intangible assets with finite lives. We continue to evaluate the amortization period for intangible assets with finite lives to determine whether events or circumstances warrant revised amortization periods. A change in estimated useful lives is a change in accounting estimate, and depreciation and amortization charges are adjusted prospectively. See Note 14 and Note 15 for further information.

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

Accounting Estimates and Assumptions

Provisions and contingencies

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

For certain operations in emerging markets, the Group is involved in various regulatory discussions. Management’s estimates relating to regulatory discussions in these countries involve a high level of uncertainty. See Note 23 and Note 25 for further information.

5. Financial risk management

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

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

The Company’s senior management together with the senior management of its ultimate parent company VEON Ltd. oversee the management of these risks. The Company’s senior management is supported by the treasury department who advises on financial risks and the appropriate financial risk governance framework for the Company. Also, the Finance and Strategy Committee at VEON Ltd., provides assurance to the Company’s senior management that the Group’s financial risk management activities are governed by appropriate policies and procedures and that financial risks are identified, measured and managed in accordance with Group policies and the Group’s risk appetite. All derivative activities for risk management purposes are carried out by specialist teams with appropriate skills, experience and supervision.

Management of the Company as well as the senior management of VEON Ltd. review and agree on policies for managing each of these risks, which are summarized below.

Market risk

Market risk is the risk that the fair value of future cash flows or a financial instrument will fluctuate because of changes in market prices. Market risk comprises interest rate risk and foreign currency risk.

Interest rate risk

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

As of 31 December 2016 approximately 99% of the Company’s borrowings are at a fixed rate of interest (31 December 2015: 98%).

(All amounts in millions of Rubles unless otherwise stated)

5. Financial risk management (continued)

Interest rate sensitivity

The following table demonstrates the sensitivity to possible changes in interest rates on loans and borrowings, taking into account the related derivative financial instruments, cash and cash equivalents and current deposits. With all other variables held constant, the Company's profit before tax is affected through the impact on floating rate borrowings, cash and issued loans as follows:

Interest rate sensitivity	+ Increase / - decrease in basis points	Effect on profit before tax 2016	2015
US Dollar	+100	**513**	669
Euro	+100	**4**	3
Kazakh Tenge	+100	**4**	6
Uzbek Som	+100	**442**	563
Russian Ruble	+100	**48**	22
Other currencies	+100	**5**	6
US Dollar	-100	**(513)**	(669)
Euro	-100	**(4)**	(3)
Kazakh Tenge	-100	**(4)**	(6)
Uzbek Som	-100	**(442)**	(563)
Russian Ruble	-100	**(48)**	(22)
Other currencies	-100	**(5)**	(6)

Foreign currency risk

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

The Company manages its foreign currency risk by selectively hedging cash flow exposures that are expected to occur within a maximum 18-month period.

Foreign currency sensitivity

The following table demonstrates the sensitivity to a possible change in exchange rates against the USD with all other variables held constant. Additional sensitivity changes to the indicated currencies are expected to be approximately proportionate. The table shows the effect on the Company's profit before tax (due to changes in the value of monetary assets and liabilities, including non-designated foreign currency derivatives) and equity (due to the effect on the cash flow hedge reserve and/or effect on currency translation reserve for quasi-equity loans). The Company's exposure to foreign currency changes for all other currencies is not material.

(All amounts in millions of Rubles unless otherwise stated)

5. Financial risk management (continued)

Foreign currency sensitivity (continued)

	Change in foreign exchange rate against USD	Effect on profit / (loss) before tax		Effect on other components of equity	
		2016	**2015**	**2016**	**2015**
Russian Ruble	10% depreciation	**(4,806)**	(4,360)	**1,808**	2,004
Kazakh Tenge	10% depreciation	**66**	999	**–**	–
Uzbek Sum	10% depreciation	**(218)**	(26)	**(1,640)**	(1,955)
Georgian Lari	10% depreciation	**(1,794)**	(1,914)	**–**	–
Armenian Dram	10% depreciation	**1,091**	1,178	**–**	–
Kyrgyzstani Som	10% depreciation	**119**	695	**–**	–
Other currencies	10% depreciation	**(36)**	(62)	**–**	–
Russian Ruble	10% appreciation	**5,048**	4,800	**(2,006)**	(2,204)
Kazakh Tenge	10% appreciation	**(73)**	(1,098)	**–**	–
Uzbek Sum	10% appreciation	**240**	28	**1,804**	2,150
Georgian Lari	10% appreciation	**1,974**	2,105	**–**	–
Armenian Dram	10% appreciation	**(1,200)**	(1,295)	**–**	–
Kyrgyzstani Som	10% appreciation	**(131)**	(765)	**–**	–
Other currencies	10% appreciation	**26**	68	**–**	–

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 from trade receivables) and from its treasury activities, including deposits with banks and financial institutions, derivative financial instruments and other financial instruments. See Note 20 for further information on restrictions on cash balances.

Trade accounts receivable consist of amounts due from customers for airtime usage and amounts due from dealers and customers for equipment sales. In certain circumstances, VimpelCom requires deposits as collateral for airtime usage. In addition, VimpelCom has introduced a prepaid service and equipment sales are typically paid in advance of delivery, except for of equipment sold to dealers on credit terms. VimpelCom's credit risk arising from the services the Company provides to customers is mitigated to a large extent due to 89% of its active customers being subscribed to a prepaid service as of 31 December 2016 (31 December 2015: 94%) and, accordingly, not giving rise to credit risk.

VimpelCom's credit risk arising from its trade accounts receivable from dealers is mitigated due to the risk being spread across a large number of dealers. Management periodically reviews the history of payments and credit worthiness of the dealers. The Company also has receivables from other local and international operators from interconnect and roaming services provided to their customers, as well as receivables from customers using fixed-line services, such as business services, wholesale services and services to residents. Receivables from other operators for roaming services are settled through clearing houses, which helps to mitigate credit risk in this regard.

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

VimpelCom issues advances to a variety of its vendors of property and equipment for its network development. The contractual arrangements with the most significant vendors provide for equipment financing in respect of certain deliveries of equipment. VimpelCom periodically reviews the financial position of vendors and their compliance with the contract terms.

(All amounts in millions of Rubles unless otherwise stated)

5. Financial risk management (continued)

Credit risk (continued)

The Company's maximum exposure to credit risk for the components of the consolidated statement of financial position at 31 December 2016 and 2015 are the carrying amounts as illustrated in Note 16, the carrying amounts of trade and other receivables and cash and cash equivalents as presented in the consolidated statement of financial position and the amounts of the related party loans guaranteed by the Company as disclosed in Note 25.

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. As of 31 December 2016, 32% (31 December 2015: 28%) of the Company's debt will mature in less than one year based on the carrying value of bank loans, equipment financing and loans from others reflected in the consolidated financial statements. The Company assessed the concentration of risk with respect to refinancing its debt and concluded it to be low based on liquidity in the markets the Company has access to, and recent history of refinancing. The Company believes that access to sources of funding is sufficiently available and the Company's policy is to diversify the funding sources where possible. Furthermore VEON Ltd. or its subsidiaries can act as a lender of funds (Note 24).

At 31 December 2016, the Company has a Revolving Credit Facility with Sberbank of Russia available maturing in May 2017 for the amount of RUR 15,000 (31 December 2015: RUR 15,000), which is not utilized at these dates.

The table below summarizes 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 16 as the below table includes both notional amounts and interest while the carrying amounts are based on amongst others notional amounts, fair value adjustments and unamortized fees. Related information on guarantees issued is disclosed in Note 25.

	Less than 1 year	**1-3 years**	**3-5 years**	**More than 5 years**	
At 31 December 2016	**2017**	**2018-2019**	**2020-2021**	**> 2021**	**Total**
Bank loans and bonds	79,660	80,259	45,056	2,705	207,680
Loans from related parties	927	14,605	988	32,196	48,716
Equipment financing	3,393	1,923	–	–	5,316
Derivative financial instruments – liabilities					
- Gross cash inflows	(27,369)	–	–	–	(27,369)
- Gross cash outflows	29,828	–	–	–	29,828
Trade and other payables	56,720	–	–	–	56,720
Total financial liabilities	**143,159**	**96,787**	**46,044**	**34,901**	**320,891**
Related derivatives financial instruments - assets					
- Gross cash inflows	(1,296)	–	–	–	(1,296)
- Gross cash outflows	1,189	–	–	–	1,189
Total related derivative financial instruments - assets, net	**(107)**	–	–	–	**(107)**

(All amounts in millions of Rubles unless otherwise stated)

5. Financial risk management (continued)

Liquidity risk (continued)

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

Capital management

The primary objective of the Company’s capital management is maintaining healthy capital ratios in order to meet current debt covenants requirements and secure access to debt and capital markets at all times and maximize shareholder value. The Company manages its capital structure and makes adjustments to it in light of changes in economic conditions. To maintain or adjust the capital structure, the Company may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares.

No changes were made in the objectives, policies or processes for managing capital during the years ended 31 December 2016 and 31 December 2015.

The Net debt to EBITDA ratio is an important measure used by the Company to assess its capital structure in light of maintaining a strong credit rating. Net Debt represents the amount of interest-bearing debt at amortized costs and guarantees given less cash and cash equivalents and current and non-current bank deposits. EBITDA is defined as earnings before interest, tax, depreciation, amortization and impairment, loss on disposals of non-current assets, other non-operating losses and shares of profit / (loss) of joint ventures.

The Net debt to EBITDA ratio relevant to VimpelCom as of 31 December 2016 and 2015 was 3.1x and 2.6x, respectively. The required ratio is < 3.5x (2015: < 3.5x) for a portion of the debt. The ratio is calculated based on the consolidated financial statements of the Company prepared under IFRS in Russian rubles as translated into U.S. Dollars.

Collateral

The Company provides collateral for some lenders which are described for individual loans in Note 25.

6. Significant transactions

Accounting policies

Business combinations

Business combinations are accounted for in using the acquisition method. The cost of the acquisition is measured at the aggregate of the fair values at the date of exchange of assets given, liabilities incurred or assumed and equity instruments issued by the Group.

The acquiree's identifiable assets and liabilities are recognized at their fair values at the acquisition date. Determining the fair value of assets acquired and liabilities assumed requires the use of significant estimates and assumptions, among other items, including assumptions with respect to future cash inflows and outflows, discount rates and other characteristics of the asset or liability that a market participant would take into account when pricing the asset or liability at measurement date. 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 recognized amounts of the acquiree's identifiable net assets. Acquisition costs are expensed as incurred in the income statement.

Goodwill is measured as 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 net amounts of identifiable assets acquired and liabilities assumed at the acquisition date.

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. The Group considers such options to assess possible implications on control, if any.

Transactions under common control

For business combinations exercised under common control, VimpelCom measures the net assets of the transaction at the carrying amounts, the difference between the amount received for the transaction and the corresponding carrying amount of the net assets is accounted for as equity transaction.

Transactions with non-controlling interests that do not result in loss of control

Transactions with non-controlling interests that do not result in loss of control are accounted for as equity transactions – that is, as transactions with the owners in their capacity as owners. The difference between fair value of any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

Transactions under common control

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

On 24 August 2016, a new legal entity JSC "National Tower Company" (hereinafter "NTC") was incorporated as a result of a corporate spin-off of a portion of PJSC "VimpelCom"'s tower infrastructure. NTC is indirectly 100% owned by VEON Ltd., ultimate parent of PJSC "VimpelCom". As of 24 August 2016, net assets transferred to NTC as part of the spin-off were RUR 9,073.

(All amounts in millions of Rubles unless otherwise stated)

6. Significant transactions (continued)

Acquisition of non-controlling interests

On 30 September 2016 the Company acquired an additional interest of 16% in its subsidiary 2Day Telecom LLP increasing its interest to 75%, for cash consideration of USD 7,380 thousand (the equivalent of RUR 466.11 as of 30 September 2016 at the exchange rate provided by the Central Bank of Russia). On the same date, the Company acquired an additional 36.75% interest in its subsidiary KazEuroMobile LLP for cash consideration of KZT 1, increasing its interest to 75%. The purpose of these transactions was to streamline the ownership structure of the Group. The transactions were accounted for through equity by increasing other capital reserves.

7. Segment information

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

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

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

Financial information by reportable segment for the years ended 31 December 2016 and 31 December 2015 is presented in the following tables. Inter-segment revenues are on an arm's length basis in a manner similar to transactions with third parties. The segment data for acquired operations are reflected herein from the date of their respective acquisition.

Information by reportable segments for the year ended 31 December 2016

	Russia	**Uzbekistan**	**Kazakhstan**	**HQ and others**	**Group**
Revenue					
External customers	272,044	44,414	22,535	16,857	**355,850**
Inter-segment	996	52	75	(1,123)	**–**
Total operating revenue	**273,040**	**44,466**	**22,610**	**15,734**	**355,850**
EBITDA	**103,866**	**26,485**	**8,520**	**(8,627)**	**130,244**
Other disclosures					
Capital expenditures	42,697	11,269	10,056	4,114	**68,136**
Impairment loss	(1,234)	–	(13)	(4,893)	**(6,140)**
Non-current assets*	355,808	27 396	24,795	40,080	**448,079**

* Other than financial instruments and deferred tax assets, which are included in HQ and others along with consolidation eliminations.

(All amounts in millions of Rubles unless otherwise stated)

7. Segment information (continued)

Information by reportable segments for the year ended 31 December 2015

	Russia	Uzbekistan	Kazakhstan	HQ and others	Group
Revenue					
External customers	275,992	43,332	34,503	20,225	**374,052**
Inter-segment	1,249	62	102	(1,413)	**–**
Total operating revenue	**277,241**	**43,394**	**34,605**	**18,812**	**374,052**
EBITDA	**110,145**	**26,551**	**13,851**	**(5,030)**	**145,517**
Other disclosures					
Capital expenditures	56,775	3,385	3,967	6,878	**71,005**
Impairment loss	(1,945)	(508)	(378)	(1,867)	**(4,698)**
Non-current assets*	386,446	29 553	23,437	92,376	**531,812**

* Other than financial instruments and deferred tax assets, which are included in HQ and others along with consolidation eliminations.

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

	2016	2015
EBITDA	**130,244**	145,517
Depreciation	**(56,754)**	(58,781)
Amortization	**(11,057)**	(9,892)
Impairment loss	**(6,140)**	(4,698)
Loss on disposal of non-current assets	**(1,497)**	(1,809)
Finance costs	**(24,815)**	(26,805)
Finance income	**6,356**	2,391
Other non-operating losses, net	**(6,356)**	(3,063)
Share of (loss) / gain of joint ventures accounted for using the equity method	**(885)**	1,173
Impairment of joint ventures accounted for using the equity method	**(5,993)**	–
Net foreign exchange gain / (loss)	**8,088**	(18,236)
Income tax expense	**(18,459)**	(4,358)
Profit for the year	**12,732**	21,439

8. Revenue

Accounting policies

Revenue recognition

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

Generally, revenue for products is recorded when the equipment is sold or upon transfer of the associated risks and rewards, and revenue for services is recorded when the services are rendered. Revenue for bundled packages is recorded based on the relative fair value allocation of each component in the bundle.

Mobile services

Service revenue includes revenue from airtime charges from contract and prepaid customers, monthly contract fees, interconnect revenue, roaming charges and charges for value added services ("VAS"). VAS includes short messages ("SMS"), multimedia messages ("MMS"), caller number identification, call waiting, data transmission, mobile internet, downloadable content, mobile finance services, machine-to-machine and other services. The content revenue relating to VAS is presented net of related costs when the Company acts as an agent of the content providers and gross when the Company acts as the primary obligor of the transaction.

8. Revenue (continued)

Accounting policies (continued)

Mobile services (continued)

More specifically, the accounting for revenue sharing agreements and delivery of content depends on the analysis of the facts and circumstances surrounding these transactions, which will determine if the revenue is recognized gross or net.

Service revenue is generally recognized when the services (including VAS and roaming revenue) are rendered. Sales of prepaid cards, used as a method of cash collection, is accounted for as customer advances for future services and the respective revenue is deferred until the customer uses the airtime. Prepaid cards might not have expiration dates but are subject to statutory expiration periods, and unused prepaid balances are added to service revenue based on an estimate of the expected balance that will expire unused. VimpelCom charges customers a fixed monthly fee for the use of certain services. Such fees are recognized as revenue in the respective month when earned.

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.

Fixed-line services

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

Connection fees

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

Sales of equipment

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

Multiple elements agreements ("MEA")

MEA are agreements under which VimpelCom provides more than one service. Services/products may be provided or "bundled" under different agreements or in groups of agreements which are interrelated to such an extent that, in substance, they are elements of one agreement. In the event of an MEA, each element is accounted for separately if it can be distinguished from the other elements and has a fair value on a standalone basis. The customer's perspective is important in determining whether the transaction contains multiple elements or is just a single element arrangement. The relative fair value method is applied in determining the value to be allocated to each element of an MEA. Fair value is determined as the selling price of the individual item. If an item has not been sold separately by the Group yet, but is sold by other suppliers, the fair value is the price at which the items are sold by the other suppliers.

(All amounts in millions of Rubles unless otherwise stated)

8. Revenue (continued)

Accounting policies (continued)

Reclassification adjustments

In 2016, the Group has aligned its practices for content and other service revenue across the Group, and re-presented the comparative period 2015 reducing service revenue and operating costs for the period. The impact of this refinement in policy was not material for any periods presented, and reduced the service revenue and service costs by RUR 1,367 in 2016 and RUR 1,186 in 2015. The net results, financial position and operating cash flows for these periods remained unaffected. The Company concluded that net presentation of the content revenue better reflected the actual nature and substance of the arrangements with content providers.

Mobile and fixed line services

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

	2016	2015
Mobile line	**306,084**	322,190
Fixed line	**49,766**	51,862
Total	**355,850**	374,052

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

9. Selling, general and administrative expenses

Dealer commissions

Dealer commissions are expensed in the consolidated income statement when the services are provided unless they meet the definition of an asset. Dealer commissions are part of customer associated costs.

Operating leases

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

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

	2016	2015
Customer associated costs	**28,168**	27,583
Personnel costs	**26,558**	29,651
Network and IT costs	**19,620**	19,957
Operating lease and other rent expenses	**18,113**	14,580
Taxes other than income tax	**14,545**	12,024
Consulting and professional service costs	**5,685**	3,788
Losses on receivables	**2,330**	1,769
Other expenses	**4,882**	6,687
Total	**119,901**	116,039

(All amounts in millions of Rubles unless otherwise stated)

10. Impairment

Accounting policies

Goodwill

Goodwill is recognized for the future economic benefits arising from net assets acquired that are not individually identified and separately recognized.

Goodwill is not amortized but is tested for impairment annually and as necessary when circumstances indicate that the carrying value may be impaired.

The Company bases its impairment calculation on detailed budgets and forecast calculations which are prepared separately for each of the Company’s cash generating units (“CGUs”). These budgets and forecast calculations are prepared for a period of five years. For longer periods, a long-term growth rate is applied in order to project future cash flows after the fifth year.

Impairment of assets

Property and equipment and intangible assets are tested for impairment. The Company assesses, at the end of each reporting period, whether there are any indicators that an asset may be impaired. If there are such indicators (i.e. asset becoming idle, damaged or no longer in use), the Company estimates the recoverable amount of the asset.

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

Carrying amount of goodwill and cash-generating units

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

CGU's	31 December 2016	Impairment	Acquisition of subsidiary	Translation adjustment	31 December 2015	Impairment	Acquisition of subsidiary	Translation adjustment	31 December 2014
Russia	**87,984**	–	5	–	**87,979**	–	132	–	**87,847**
Kyrgyzstan	**7,094**	(3,017)	–	(891)	**11,002**	–	–	56	**10,946**
Kazakhstan	**4,521**	–	–	(812)	**5,333**	–	–	(2,331)	**7,664**
Armenia	**3,567**	–	–	(720)	**4,287**	(1,059)	–	981	**4,365**
Uzbekistan	**3,451**	–	–	(1,317)	**4,768**	–	–	2,033	**2,735**
Total	**106,617**	**(3,017)**	**5**	**(3,740)**	**113,369**	**(1,059)**	**132**	**739**	**113,557**

There were no changes to the methodology of goodwill allocation to CGUs in 2016.

The Company performed its annual goodwill impairment test as of 1 October 2016. The Company considers the relationship between market capitalization and its book value, changes in country risk premiums and significant decreases in the operating results of its CGUs versus budgeted amounts among other factors, when reviewing for indicators of impairment on a quarterly basis. As of the impairment test date the market capitalization of the Group was not below the book value of its equity. The Company further performed an assessment for the period between 1 October and 31 December 2016 for any adverse developments that could have negatively impacted the valuations.

The recoverable amounts of CGUs have been determined based on fair value less costs of disposal calculations using cash flow projections from business plans approved in the first quarter of 2016 by the Group’s senior management. These plans were updated for subsequent changes in the actual performances as well as any changes in the existing networks, renewal of the telecom licenses, any restructurings and other business initiatives. To the extent the business initiatives would not be valued by the market due to their early stages, they were not included in the cash flow projections. The business plans cover a period of five years. The key assumptions and outcomes of the impairment test are discussed separately below.

(All amounts in millions of Rubles unless otherwise stated)

10. Impairment (continued)

Impairment losses

During the 2016 and 2015 annual impairment test the following CGUs were impaired and the impairment losses were recorded as follows:

	2016				2015			
CGU	**Goodwill**	**Property and equipment**	**Intangible assets**	**Total 2016**	**Goodwill**	**Property and equipment**	**Intangible assets**	**Total 2015**
Kyrgyzstan	3,017	–	–	**3,017**	–	130	–	**130**
Georgia	–	1,057	815	**1,872**	–	68	–	**68**
Russia	–	1,234	–	**1,234**	–	1,945	–	**1,945**
Kazakhstan	–	13	–	**13**	–	378	–	**378**
Laos	–	4	–	**4**	–	1	–	**1**
Armenia	–	–	–	**–**	1,059	609	–	**1,668**
Uzbekistan	–	–	–	**–**	–	508	–	**508**
Total	**3,017**	**2,308**	**815**	**6,140**	**1,059**	**3,639**	**–**	**4,698**

During the 2016 annual impairment test the Company concluded impairments for the CGUs Georgia and Kyrgyzstan. The impairments were concluded largely due to lower operating performances in those countries. The recoverable amount was determined based on a fair value less costs of disposal calculation using the latest cash flow projections (Level 3 fair value). For Georgia CGU, the carrying amount of goodwill was already nil prior to the impairment test. As such, the total amount of the impairment loss was allocated to the carrying amounts of property and equipment and intangible assets based on relative carrying value before the impairment.

Additionally, in connection with the rollout of the Company’s transformation strategy and commitment to network modernization, the Company has re-evaluated the plans for its existing network, including equipment purchased but not installed, and consequently recorded an impairment loss for the CGUs Russia, Kazakhstan and Laos.

There were no impairments concluded for other CGUs during the 2016 annual impairment test.

Key assumptions

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

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

Capital expenditure is defined as purchases of property and equipment and intangible assets other than goodwill.

The discount rates used in the impairment test were initially determined in USD based on the risk free rate for 20-year maturity bonds of the United States Treasury, adjusted for a risk premium to reflect both the increased risk of investing in equities and the systematic risk of the specific CGU relative to the market as a whole.

The equity market risk premium used was 5.5% (2015: 5.5%). The systematic risk, beta, represents the median of the raw betas of the entities comparable in size and geographic footprint with the ones of VEON Ltd. ("Peer Group") since the Company is part of VEON Ltd. group.

The debt risk premium is based on the median of Standard & Poors long-term credit rating of the Peer Group.

The weighted average cost of capital is determined based on target debt-to-equity ratios representing the median historical five-year capital structure for each entity from the Peer Group.

(All amounts in millions of Rubles unless otherwise stated)

10. Impairment (continued)

Key assumptions (continued)

The discount rate in functional currency of a CGU is adjusted for the long-term inflation forecast of the respective country in which the business operates, as well as the applicable country risk premium. Due to the current macroeconomic situation in Russia, the Company applied higher discount rates for the last quarter of 2016 and the year 2017.

Discount rate (functional currency)	2016	2015
Russia*	9.7%	11.2%
Kazakhstan	12.4%	12.3%
Kyrgyzstan	14.5%	14.2%
Uzbekistan	15.4%	18.4%
Armenia	12.0%	12.9%
Georgia	10.3%	12.6%

**Due to the current macroeconomic and geopolitical situation in Russia, the Company applied higher discount rates for the last quarter of 2016 (12.7%) and for the year 2017 (10.7%).*

The revenue growth rates vary based on numerous factors, including size of market, GDP (Gross Domestic Product), foreign currency projections, traffic growth, market share and others.

Average annual revenue growth rate during forecast period (functional currency)	2016	2015
Russia	2.4%	2.4%
Kazakhstan	4.4%	3.5%
Kyrgyzstan	(1.8%)	2.4%
Uzbekistan	1.7%	1.7%
Armenia	(2.8%)	(0.7%)
Georgia	6.4%	6.5%

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

Terminal growth rate	2016	2015
Russia	1.0%	1.0%
Kazakhstan	2.0%	3.0%
Kyrgyzstan	2.5%	2.5%
Uzbekistan	1.0%	2.0%
Armenia	1.0%	2.0%
Georgia	1.0%	3.0%

The forecasted operating margin is based on the budget of the following year and assumes cost optimization initiatives which are part of on-going operations, as well as regulatory and technological changes known to date, such as telecommunication license issues and price regulation among others. Similarly, the capital expenditures are based on the budget of the following year and network roll-out plans.

Average operating (EBITDA) margin	2016	2015
Russia	38.6%	44.1%
Kazakhstan	43.6%	52.3%
Kyrgyzstan	43.9%	54.1%
Uzbekistan	58.2%	61.2%
Armenia	37.8%	35.5%
Georgia	25.7%	32.2%

(All amounts in millions of Rubles unless otherwise stated)

10. Impairment (continued)

Key assumptions (continued)

Average capital expenditure as a percentage of revenue	2016	2015
Russia	15.9%	16.5%
Kazakhstan	18.8%	20.3%
Kyrgyzstan	17.0%	12.3%
Uzbekistan	18.2%	16.3%
Armenia	14.1%	11.8%
Georgia	17.3%	16.4%

Sensitivity to changes in assumptions

There is no reasonably possible change in any of the above key assumptions which would cause the carrying value of any CGU to significantly exceed its recoverable amount and would result in additional material impairment loss to be recognized.

11. Other non-operating losses, net

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

	Note	2016	2015
Changes in the fair value of non-hedge derivatives	16	**(6,911)**	(284)
Income/ (loss) on sale of foreign currency, net		**404**	(475)
Changes in the fair value of hedge derivatives	16	**2**	(352)
Early redemption fee		**–**	(2,389)
Effect of refilling tax returns		**–**	457
Other gains / (losses), net		**149**	(20)
Total other non-operating losses, net		**(6,356)**	(3,063)

12. Income taxes

Accounting policies

Income taxes

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

In cases where the tax relates to items that are charged to other comprehensive income or directly to equity, the tax is also charged respectively to other comprehensive income or directly to equity.

Uncertain tax positions

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

Deferred taxation

Deferred income taxes are recognized using the liability method and thus are computed as the taxes recoverable or payable in future periods in respect of deductible or taxable temporary differences.

(All amounts in millions of Rubles unless otherwise stated)

12. Income taxes (continued)

Deferred taxation (continued)

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

	2016	2015
Current income tax		
Current income tax charge	**21,644**	7,087
Withholding tax expenses	**962**	1,749
Total current income tax	**22,606**	8,836
Deferred income tax		
Origination / (reversal) of temporary difference	**(5,989)**	(5,998)
Changes in tax rates	**–**	1,085
Current year tax losses unrecognized	**519**	879
Recognition and utilization of previously unrecognized tax loss/ tax credit	**1,119**	(345)
Expiration of tax losses	**156**	1
Derecognition of previously recognized tax losses	**–**	402
Adjustments of previous years	**(36)**	(375)
Other deferred tax effects	**84**	(127)
Total deferred income tax	**(4,147)**	(4,478)
Income tax expense reported in the consolidated income statement	**18,459**	4,358
Consolidated statement of comprehensive income:		
Income tax effect of foreign currency gains related to intercompany loans that form part of VimpelCom’s net investment in foreign operations	**1,516**	(1,556)
Income tax charged to other comprehensive income	**1,516**	(1,556)

The table below outlines the reconciliation between the statutory tax rate in the Russian Federation and effective corporate income tax rates for the Group, together with the corresponding amounts:

	2016		2015	
Profit before tax	**31,191**	**%**	25,797	%
Income tax expense computed on profit before tax at statutory tax rate	**6,238**	**20.0%**	5,159	20.0%
Difference due to the effects of:				
Non-deductible impairment of non-current assets including goodwill	**833**	**2.7%**	212	0.8%
Changes in recognition of deferred tax assets on losses and other carry forwards	**675**	**2.2%**	878	3.4%
Other non-deductible / (non-taxable income) expenses	**489**	**1.6%**	3,029	11.7%
Current and deferred tax effect of intragroup dividends	**1,081**	**3.5%**	(3,570)	(13.8%)
Refiling of tax returns	**(68)**	**(0.2%)**	(284)	(1.1%)
Tax claims and provisions	**(97)**	**(0.3%)**	(1,105)	(4.3%)
Change in tax rates	**–**	**0.0%**	1,085	4.2%
Different tax rates in different jurisdictions	**7,954**	**25.5%**	(1,412)	(5.5%)
Effect of deductible temporary differences not recognized	**1,101**	**3.5%**	156	0.6%
Other	**253**	**0.6%**	210	0.8%
Income tax expense reported in the consolidated income statement	**18,459**	**59.2%**	4,358	16.9%

The effective income tax rate amounts to 59.2% in 2016 (2015: 16.9%). The increase of the tax rate was mainly caused by higher income tax rate in Uzbekistan and non-deductible expenses.

Explanatory notes to the effective tax rate

Non-deductible impairment of non-current assets including goodwill

The effect of impairment relates to impairment of goodwill in Kyrgyzstan of RUR 3,017 with income tax effect is RUR 302, impairment of property and equipment in Russia with income tax effect of RUR 247 and impairment of property and equipment and intangible assets in Georgia with income tax effect of RUR 282 (see Note 10).

12. Income taxes (continued)

Deferred taxation (continued)

Explanatory notes to the effective tax rate (continued)

Change in recognition of deferred tax assets

In 2016, the effective tax rate was impacted by a RUR 675 change in recognition of deferred tax assets resulting mainly from tax losses for which no deferred tax asset was recognized. Similar to 2015, most part of this relates to Georgia (RUR 411 in 2016, RUR 611 in 2015).

Other non-deductible / (non-taxable income) expenses (Permanent differences)

The non-deductible expenses (net of non-taxable income) have an increasing effect on the effective tax rate of RUR 489. The most significant items are RUR 993 relating to impairment of investment in join venture, non-deductible foreign exchange results of RUR (430) and nondeductible interest expenses amounted to RUR (799).

Current and deferred tax effect of intragroup dividends

The amount of RUR 1,081 in 2016 relates to withholding tax on dividends from Kyrgyzstan that was accrued due to expected future dividend distributions during 2017. In 2015, the effect of current and deferred withholding taxes on undistributed earnings resulted in a tax loss of RUR (3,570). The amount includes a tax benefit of RUR (5,320) of release of accrued withholding taxes on distribution of dividends after the restructuring of Kar-tel and Sky-Mobile.

Refiling of tax returns

The effect of refiling of tax returns of RUR (68) decreased the effective tax rate and resulted from revised declaration for 2014 in Russia.

Tax claims

The tax claims relate to provisions for uncertain income tax positions.

Different tax rates

Adjustment of RUR 7,954 is due to different tax rates of countries that are higher or lower compared to the Russian statutory tax rate of 20%. The amount mainly relates to Uzbekistan which has a profit before tax of RUR 22,883 and a statutory tax rate of 53%.

Effect of deductible temporary differences not recognized

Effect of deductible temporary differences not recognized increased from RUR 156 in 2015 to RUR 1,101 in 2016 and in both years relate to Georgia. In 2016 the entity reports a full valuation allowance against its gross DTA.

Other

Other effect of RUR 195 includes prior year adjustments, effect of minimum taxes and utilization of previously unrecognized tax losses.

(All amounts in millions of Rubles unless otherwise stated)

12. Income taxes (continued)

Deferred income tax

As of 31 December 2016 and 2015, the Group reported the following deferred income tax assets and liabilities on the consolidated statements of financial position:

	2016	2015
Deferred income tax assets	**2,299**	2,225
Deferred income tax liabilities	**(13,775)**	(19,096)
Net deferred income tax position	**(11,476)**	(16,871)

The following table shows the movements of the deferred income tax assets and liabilities in 2016:

	31 December 2016	Charge to profit and loss	Changes in composition of the group	Other	Currency translation adjustment	31 December 2015
Property and equipment	**(18,711)**	2,189	(264)	–	519	**(21,155)**
Intangible assets	**(1,218)**	311	181	–	12	**(1,722)**
Other non-current assets	**(328)**	73	–	–	4	**(405)**
Trade accounts receivable	**(221)**	74	1	–	(185)	**(111)**
Other current assets	**125**	445	–	–	(140)	**(180)**
Undistributed retained earnings of subsidiaries	**(1,361)**	(436)	–	–	639	**(1,564)**
Provisions	**732**	102	178	–	(21)	**473**
Financial liabilities (non-current)	**730**	321	–	–	2	**407**
Other non-financial liabilities (non-current)	**150**	(24)	–	–	(1)	**175**
Trade and other payables	**5,424**	511	(4)	–	(10)	**4,927**
Other current non-financial liabilities	**1,097**	660	(61)	–	(20)	**518**
Other current financial liabilities	**281**	121	–	–	216	**(56)**
Other movements and temporary differences	**1,254**	(246)	36	120	(15)	**1,359**
Tax losses and other carry forwards	**4,236**	536	43	(1,188)	(351)	**5,196**
Non recognized deferred tax assets on losses and other carry forwards	**(3,666)**	(490)	(43)	1,188	412	**(4,733)**
Net deferred tax position	**(11,476)**	4,147	67	120	1,061	**(16,871)**

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

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

(All amounts in millions of Rubles unless otherwise stated)

12. Income taxes (continued)

Deferred income tax (continued)

VimpelCom has the following amounts of unused tax losses and other carry forwards as of 31 December 2016:

Tax losses year of expiration	Recognized losses	Recognized DTA	Non recognized losses	Non recognized DTA
0-5 years	–	–	20,981	3,207
6-10 years	3,426	570	2,154	459
Total	**3,426**	**570**	**23,135**	**3,666**

As of 31 December 2016, the amount of deductible temporary differences for which no deferred tax asset recognized amounted to RUR 1,638 (31 December 2015: RUR 6,341).

VimpelCom reports the tax effect of the existence of undistributed profits of subsidiaries that will be distributed in the foreseeable future. As of 31 December 2016, the Company recorded a deferred income tax liability of RUR 1,361 (31 December 2015: RUR 1,564) relating to the tax effect of the undistributed profits that will be distributed in the foreseeable future, primarily in relation to its Kazakhstan and Kyrgyzstan operations. As of 31 December 2016, undistributed earnings of VimpelCom’s foreign subsidiaries (outside the Russian Federation) which are indefinitely invested and that will not be distributed in the foreseeable future, amounted to approximately RUR 116,532 (31 December 2015: RUR 136,125). Accordingly, no deferred income tax liability is recognized for this amount of undistributed profits.

Income tax assets

The Company reported current income tax assets totaling RUR 2,589. This relates to advanced tax payments in Uzbekistan, Armenia and Kazakhstan which can only be offset against income tax liabilities in fiscal periods subsequent to 2016.

(All amounts in millions of Rubles unless otherwise stated)

13. Investments

13.1. Information about subsidiaries

The consolidated financial statements of the Group include the following key subsidiaries as of 31 December 2016 and 31 December 2015:

Name of key subsidiaries	Note	Country of operation	Nature of the subsidiary	Ownership interest held by the Group	
				2016	**2015**
KaR-Tel, LLP		Kazakhstan	Operating	**75.00%**	75.00%
2Day Telecom, LLP	6	Kazakhstan	Operating	**75.00%**	59.00%
KazEuroMobile, LLP	6	Kazakhstan	Operating	**75.00%**	38.25%
Unitel, LLC		Uzbekistan	Operating	**100.00%**	100.00%
Buzton, LLC		Uzbekistan	Operating	**54.00%**	54.00%
Sky Mobile, LLC		Kyrgyzstan	Operating	**50.12%**	50.12%
Mobitel, LLC		Georgia	Operating	**51.00%**	51.00%
ArmenTel, CJSC		Armenia	Operating	**100.00%**	100.00%
VimpelCom Lao Co. Ltd.		Lao PDR	Operating	**78.00%**	78.00%
Rascom, CJSC		Russia	Operating	**54.00%**	54.00%
Vimpelcom-Invest, LLC		Russia	Holding	**100.00%**	100.00%
Ararima Enterprises Limited		Cyprus	Holding	**100.00%**	100.00%
Limnotex Developments Ltd.		Cyprus	Holding	**71.50%**	71.50%
Menacrest A.G. (Menacrest Limited)		Switzerland	Holding	**71.50%**	71.50%
B.V. VimpelCom Finance S.à.r.l.		The Netherlands, Luxemburg	Holding	**100.00%**	100.00%
VimpelCom B.V.		The Netherlands	Holding	**100.00%**	100.00%
Silkway Holding B.V.		The Netherlands	Holding	**100.00%**	100.00%
VimpelCom Holding Laos B.V.		The Netherlands	Holding	**100.00%**	100.00%
Golden Telecom, Inc.		USA (Delaware)	Holding	**100.00%**	100.00%
Freevale Enterprises		BVI	Holding	**100.00%**	100.00%
VIP Kazakhstan Holding A.G.		Switzerland	Holding	**75.00%**	75.00%
VIP Kyrgyzstan Holding A.G.		Switzerland	Holding	**50.10%**	50.10%
Vimpelcom Finance, LLC		Russia	Holding	**–**	100.00%
VC ESOP N.V.	6	Belgium	Holding	**–**	99.99%

13.2. Material partly-owned subsidiaries

Financial information before inter-company eliminations of subsidiaries that have material non-controlling interests are provided below:

Name of significant subsidiaries	Country of operation	Equity interest held by non-controlling interest in %		Book values of non-controlling interests		Profit / (loss) allocated to non-controlling interests	
		2016	**2015**	**2016**	**2015**	**2016**	**2015**
KaR-Tel, LLP	Kazakhstan	25.00%	25.00%	5,873	7,717	679	2,636
Sky Mobile, LLC	Kyrgyzstan	49.88%	49.88%	6,383	12,214	(1,313)	2,804
Mobitel, LLC	Georgia	49.00%	49.00%	(7,790)	(7,060)	(2,709)	(2,522)

(All amounts in millions of Rubles unless otherwise stated)

13. Investments (continued)

13.2. Material partly-owned subsidiaries (continued)

Summarised income statements for the years ended 31 December 2016 and 2015:

	KaR-Tel, LLP		Sky Mobile, LLC		Mobitel, LLC	
	2016	**2015**	**2016**	**2015**	**2016**	**2015**
Operating revenue	**20,537**	32,116	**9,062**	9,993	**3,148**	3,495
Operating expenses	**(17,063)**	(24,761)	**(10,566)**	(5,677)	**(5,499)**	(3,867)
Other income / (costs)	**181**	6,346	**(829)**	1,937	**(3,178)**	(4,774)
Profit / (loss) before tax	**3,655**	13,701	**(2,333)**	6,253	**(5,529)**	(5,146)
Income tax expense	**(940)**	(3,159)	**(300)**	(633)	**–**	–
Profit / (loss) for the year	**2,715**	10,542	**(2,633)**	5,620	**(5,529)**	(5,146)
Attributed to:						
Owners of the Company	**2,036**	7,906	**(1,320)**	2,816	**(2,820)**	(2,624)
Non-controlling interest	**679**	2,636	**(1,313)**	2,804	**(2,709)**	(2,522)
	2,715	10,542	**(2,633)**	5,620	**(5,529)**	(5,146)

Summarised statements of financial position as of 31 December 2016 and 2015:

	KaR-Tel, LLP		Sky Mobile, LLC		Mobitel, LLC	
	2016	**2015**	**2016**	**2015**	**2016**	**2015**
Property and equipment	**12,338**	14,525	**4,883**	4,899	**2,327**	4,435
Intangible assets	**9,285**	5,182	**7,943**	11,788	**1,777**	3,231
Other non-current assets	**1,404**	1,608	**103**	104	**–**	–
Trade and other receivables	**949**	1,465	**373**	1,130	**342**	227
Cash and cash equivalents	**1,756**	9,945	**2,002**	3,307	**106**	329
Other current assets	**3,888**	5,741	**147**	5,402	**259**	453
Financial liabilities	**–**	(917)	**–**	–	**(19,006)**	(20,662)
Provisions	**(425)**	(514)	**(935)**	(29)	**(90)**	(105)
Other liabilities	**(5,703)**	(6,168)	**(1,719)**	(2,114)	**(1,613)**	(2,317)
Total equity	**23,492**	30,867	**12,797**	24,487	**(15,898)**	(14,409)
Attributed to:						
Owners of the Company	**17,619**	23,150	**6,414**	12,273	**(8,108)**	(7,349)
Non-controlling interests	**5,873**	7,717	**6,383**	12,214	**(7,790)**	(7,060)
	23,492	30,867	**12,797**	24,487	**(15,898)**	(14,409)

Summarised cash flow statements for the years ended 31 December 2016 and 2015:

	KaR-Tel, LLP		Sky Mobile, LLC		Mobitel, LLC	
	2016	**2015**	**2016**	**2015**	**2016**	**2015**
Net cash flows from operating activities	**6,415**	7,918	**3,878**	4,948	**390**	481
Net cash flows (used in) / from investing activities	**(8,549)**	(19,801)	**3,735**	(4,398)	**(1,524)**	(2,724)
Net cash flows (used in) / from financing activities	**(5,491)**	(6,379)	**(7,137)**	(5,009)	**963**	2,116
Effect of exchange rate changes on cash and cash equivalents	**(563)**	1,391	**(1,780)**	1,025	**(51)**	24
Net (decrease) / increase in cash and cash equivalents	**(8,188)**	(16,871)	**(1,304)**	(3,434)	**(222)**	(103)

(All amounts in millions of Rubles unless otherwise stated)

13. Investments (continued)

13.3. Investments in joint ventures

Accounting policies

The Company's investments in its associates and joint ventures are accounted for using the equity method. Under the equity method, the investment in an associate or a joint venture is initially recognized at cost. The carrying amount of the investment is adjusted to recognize changes in the Company's share of net profit after tax, other comprehensive income and equity of the associate or joint venture since the acquisition date.

The Company assesses, at the end of each reporting period, whether there are any indicators that an investments in a Joint Venture may be impaired. If there are such indicators (i.e. Joint Venture making losses), the Company estimates the recoverable amount of the Joint Venture after applying the equity method.

Joint ventures	Country of incorporation	Nature of entity	Ownership held by the Group (%)		Book values of investments in joint ventures as of 31 December	
			2016	2015	2016	2015
Euroset Holding N.V. ("Euroset")	Russia	Operating	50%	50%	7,641	14,519

The following table is the aggregate financial information of the investments in joint ventures which are held by the Company as of and for the years ended 31 December 2016 and 2015:

	2016	2015
(Loss) / profit before tax	**(2,212)**	3,133
Income tax expense	**443**	(787)
(Loss) / profit for the year	**(1,769)**	2,346
Other comprehensive income	–	–
Total comprehensive (loss) / income	**(1,769)**	2,346
Group's share of (loss) / gain for the year from investments in joint ventures accounted for using the equity method	**(885)**	1,173
Impairment of investments in joint ventures accounted for using the equity method	**(5,993)**	–

In 2016, due to operational underperformance of Euroset, the Company recorded an impairment of RUR 5,993. The recoverable amount of Euroset has been determined based on fair value less costs of disposal calculations using the most recent cash flow projections.

Key assumptions

	31 December 2016
Discount rate (functional currency)	16%
Average annual revenue growth rate during forecast period (functional currency)	4.5%
Terminal growth rate	1%
Average operating (EBITDA) margin during forecast period	3.7%

(All amounts in millions of Rubles unless otherwise stated)

14. Property and equipment

Property and equipment consisted of the following:

	Telecom-munication equipment	Land, buildings and constructions	Office and measuring equipment	Other equipment	Equipment not installed and assets under construction	Total
Cost						
As of 31 December 2014	**431,947**	**19,202**	**47,739**	**19,607**	**41,848**	**560,343**
Additions	6,067	166	229	85	49,281	**55,828**
Acquisition of a subsidiary	89	–	36	6	19	**150**
Disposals	(19,771)	(433)	(7,577)	(349)	(399)	**(28,529)**
Divestment of a subsidiary	(193)	–	(44)	–	(1)	**(238)**
Reclassification to assets held for sale	25	–	(17)	–	–	**8**
Transfer	49,612	773	7,305	1,587	(59,277)	–
Translation adjustment	2,797	(191)	(1,870)	(1,151)	(556)	**(971)**
As of 31 December 2015	**470,573**	**19,517**	**45,801**	**19,785**	**30,915**	**586,591**
Additions	3,209	61	102	79	50,917	**54,368**
Acquisition of a subsidiary	10	–	–	–	–	**10**
Disposals	(36,657)	(504)	(1,420)	(1,903)	(1,106)	**(41,590)**
Reclassification to assets held for sale	–	(131)	–	–	178	**47**
Transfer	36,141	681	5,193	1,007	(43,022)	**–**
Translation adjustment	(21,493)	(1,134)	(2,021)	(1,715)	(2,523)	**(28,886)**
As of 31 December 2016	**451,783**	**18,490**	**47,655**	**17,253**	**35,359**	**570,540**
Depreciation and impairment						
At 31 December 2014	**(234,853)**	**(7,263)**	**(31,154)**	**(12,512)**	**(12)**	**(285,794)**
Depreciation	(50,927)	(1,297)	(4,907)	(1,650)	–	**(58,781)**
Disposals	18,397	287	7,406	257	(71)	**26,276**
Divestment of a subsidiary	163	–	3	–	–	**166**
Reclassification to assets held for sale	(16)	–	12	–	–	**(4)**
Impairment	–	–	–	–	(3,639)	**(3,639)**
Translation adjustment	(870)	(104)	1,459	656	(57)	**1,084**
As of 31 December 2015	**(268,106)**	**(8,377)**	**(27,181)**	**(13,249)**	**(3,779)**	**(320,692)**
Depreciation	(48,697)	(1,311)	(5,316)	(1,430)	–	**(56,754)**
Disposals	25,905	276	1,286	1,455	641	**29,563**
Impairment (Note 10)	(706)	(91)	(64)	(138)	(1,309)	**(2,308)**
Transfer	44	(15)	4	265	(298)	**–**
Translation adjustment	13,033	636	1,381	1,242	370	**16,662**
As of 31 December 2016	**(278,527)**	**(8,882)**	**(29,890)**	**(11,855)**	**(4,375)**	**(333,529)**
Net book value						
As of 31 December 2015	**202,467**	**11,140**	**18,620**	**6,536**	**27,136**	**265,899**
As of 31 December 2016	**173,256**	**9,608**	**17,765**	**5,398**	**30,984**	**237,011**

As of 31 December 2016, none of the assets were pledged as collateral and no assets have restrictions on title.

Property and equipment are stated at cost, net of accumulated depreciation and accumulated impairment losses, if any.

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

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

14. Property and equipment (continued)

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

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

Finance leases

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

The discount rate used in calculating the present value of the minimum lease payments is the interest rate implicit in the lease. If there is no interest rate in the lease, the Company's incremental borrowing rate is used. Any initial direct costs of VimpelCom related to the lease are added to the amount recognized as an asset.

The carrying value of property and equipment held under finance leases as of 31 December 2016 and 2015 was RUR 5,383 and RUR 4,462, respectively. Additions during the year include RUR 1,794 in 2016 and RUR 1,347 in 2015 of property and equipment under finance lease.

Capitalized borrowing costs

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

During 2016 and 2015 VimpelCom capitalized interest in the cost of property and equipment in the amount of RUR 290 and RUR 356, respectively. The rate used to determine the amount of interest eligible for capitalization was 10.4% and 8.7% for the years ended 31 December 2016 and 2015, respectively.

Other non-cash investing activities

In 2016, VimpelCom acquired property and equipment in the amount of RUR 20,020 (2015: RUR 18,131), which was not paid for as at respective year end.

(All amounts in millions of Rubles unless otherwise stated)

15. Intangible assets

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

	Telecommu-nications licenses, frequencies and permissions	Software	Brands and trademarks	Customer relation-ships	Telephone line capacity	Other intangible assets	Total
Cost							
As of 31 December 2014	**40,489**	**44,533**	**909**	**20,006**	**5,659**	**9,262**	**120,858**
Additions	5,967	7,583	–	–	–	1,627	**15,177**
Acquisition of a subsidiary	–	–	–	–	–	905	**905**
Disposals	(5,081)	(16,415)	(53)	–	(18)	(1,984)	**(23,551)**
Transfer	143	88	–	–	–	(231)	**–**
Translation adjustment	(2,215)	(473)	53	2	191	(82)	**(2,524)**
As of 31 December 2015	**39,303**	**35,316**	**909**	**20,008**	**5,832**	**9,497**	**110,865**
Additions	7,668	6,100	–	–	–	–	**13,768**
Acquisition of a subsidiary	1	24	–	–	–	9	**34**
Disposals	(615)	(3,955)	(94)	(416)	(909)	(429)	**(6,418)**
Transfer	1,990	415	1	–	12	(2,418)	**–**
Translation adjustment	(5,390)	(2,351)	(114)	8	(618)	(864)	**(9,329)**
As of 31 December 2016	**42,957**	**35,549**	**702**	**19,600**	**4,317**	**5,795**	**108,920**
Amortization and impairment							
As of 31 December 2014	**(30,093)**	**(33,967)**	**(886)**	**(14,009)**	**(4,802)**	(7,802)	**(91,559)**
Amortization	(2,218)	(5,811)	(7)	(1,126)	(323)	(407)	**(9,892)**
Disposals	5,081	16,385	53	–	18	1,976	**23,513**
Translation adjustment	2,395	779	(56)	(2)	(247)	180	**3,049**
As of 31 December 2015	**(24,835)**	**(22,614)**	**(896)**	**(15,137)**	**(5,354)**	**(6,053)**	**(74,889)**
Amortization	(3,224)	(6,387)	(10)	(912)	(246)	(278)	**(11,057)**
Impairment (Note 10)	(746)	(66)	–	–	–	(3)	**(815)**
Disposals	487	3,958	94	416	908	423	**6,286**
Transfer	–	7	–	–	1	(8)	**–**
Translation adjustment	3,832	1,815	114	(8)	608	759	**7,120**
As of 31 December 2016	**(24,486)**	**(23,287)**	**(698)**	**(15,641)**	**(4,083)**	**(5,160)**	**(73,355)**
Net book value							
As of 31 December 2015	**14,468**	**12,702**	**13**	**4,871**	**478**	**3,444**	**35,976**
As of 31 December 2016	**18,471**	**12,262**	**4**	**3,959**	**234**	**635**	**35,565**

As of 31 December 2016 and 2015, none of the assets were pledged as collateral and no assets have restrictions on title. During 2016 and 2015 VimpelCom did not capitalize any interest in the cost of intangible assets.

Intangible assets acquired separately are measured initially at cost and are subsequently measured at cost less accumulated amortization and impairment losses.

Intangible assets with a finite useful life are amortized over the estimated useful life as follows:

- licenses and other significant contractual intangibles are amortized with the straight-line method over the contractual life of the asset as defined by the license or other agreement;
- intangible assets associated with customer relationships are generally amortized with a declining balance amortization pattern based on the value contribution brought by customers;
- other intangible assets are amortized with the straight-line method over an estimated useful life not exceeding 5 years;

(All amounts in millions of Rubles unless otherwise stated)

15. Intangible assets (continued)

The amortization period and the amortization method for an intangible asset with a finite useful life are reviewed at least annually.

Non-cash investing activities

During 2016, VimpelCom acquired intangible assets in the amount of RUR 2,531 (2015: RUR 3,541), which was not paid for as at respective year end.

16. Financial assets and liabilities

Carrying values and fair values

Set out below is a comparison by class of the carrying amounts and fair value of the Company's financial instruments that are recognized in the consolidated financial statements as of 31 December 2016 and 2015 except for cash and cash equivalents, trade and other receivables and trade and other payables where the carrying amount is a reasonable approximation of fair value (based on future cash flows discounted at current market rates):

	Carrying value		Fair value	
	31 December 2016	**31 December 2015**	**31 December 2016**	**31 December 2015**
Financial assets at fair value through profit or loss				
Derivatives not designated as hedges				
Foreign exchange contracts	**101**	912	**101**	912
Financial assets at fair value through other comprehensive income				
Derivatives designated as cash flow hedges				
Foreign exchange contracts	**–**	1,258	**–**	1,258
Available–for–sale financial assets	**–**	1,847	**–**	1,847
Total financial assets at fair value	**101**	4,017	**101**	4,017
Loans granted, deposits and other financial assets at amortised cost				
Loans granted to related parties, principal (Note 24)	**41,323**	93,063	**47,208**	81,892
Bank deposits	**22,544**	26,522	**22,544**	26,522
Interest receivable	**3,024**	730	**3,549**	730
Other financial assets	**1,338**	4,164	**1,338**	4,164
Total loans granted, deposits and other financial assets at amortised cost	**68,229**	124,479	**74,639**	113,308
Total other financial assets	**68,330**	128,496	**74,740**	117,325
Financial liabilities at fair value through profit or loss				
Derivatives not designated as hedges				
Foreign exchange contracts	**1,623**	–	**1,623**	–
Financial liabilities at fair value through other comprehensive income				
Derivatives designated as cash flow hedges				
Foreign exchange contracts	**247**	–	**247**	–
Total financial liabilities at fair value	**1,870**	–	**1,870**	–
Other financial liabilities at amortised cost				
Loans, bonds and finance lease liabilities, principal	**180,426**	237,205	**189,615**	243,101
Loans payables to related parties, principal (Note 24)	**27,346**	35,068	**18,887**	25,813
Unamortised fees	**(761)**	(1,348)	**–**	–
Interest payable	**9,763**	10,912	**5,950**	6,349
Total other financial liabilities at amortised cost	**216,774**	281,837	**214,452**	275,263
Total other financial liabilities	**218,644**	281,837	**216,322**	275,263

(All amounts in millions of Rubles unless otherwise stated)

16. Financial assets and liabilities (continued)

Carrying values and fair values (continued)

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

Other financial assets	31 December 2016	31 December 2015
Non-current portion	**58,027**	99,388
Current portion	**10,303**	29,108
Total other financial assets	**68,330**	128,496
Other financial liabilities		
Non-current portion	**146,848**	199,657
Current portion	**71,796**	82,180
Total other financial liabilities	**218,644**	281,837

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

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

The fair value of Available for Sale financial instruments is determined by reference to published price quotations in an active market.

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

Fair value hierarchy

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

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

(All amounts in millions of Rubles unless otherwise stated)

16. Financial assets and liabilities (continued)

Fair value hierarchy (continued)

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

	As of 31 December 2016		
	(Level 1)	(Level 2)	(Level 3)
Financial assets at fair value through profit or loss			
Derivatives not designated as hedges			
Foreign exchange contracts	–	101	–
Total financial assets at fair value	**–**	**101**	**–**
Loans granted, deposits and other financial assets at amortised cost			
Loans granted to related parties, principal (Note 24)	–	7,191	40,017
Bank deposits	–	22,544	–
Interest receivable	–	20	3,529
Other financial assets	–	1,338	–
Total loans granted, deposits and other financial assets at amortised cost	**–**	**31,093**	**43,546**
Financial liabilities at fair value through profit or loss			
Derivatives not designated as hedges			
Foreign exchange contracts	–	1,623	–
Financial liabilities at fair value through other comprehensive income			
Derivatives designated as cash flow hedges			
Foreign exchange contracts	–	247	–
Total financial liabilities at fair value	**–**	**1,870**	**–**
Financial liabilities for which fair values are disclosed			
Other financial liabilities at amortised cost	120,155	94,297	–
Total financial liabilities for which fair values are disclosed	**120,155**	**96,167**	**–**

	As of 31 December 2015		
	(Level 1)	(Level 2)	(Level 3)
Financial assets at fair value through profit or loss			
Derivatives not designated as hedges			
Foreign exchange contracts	–	912	–
Financial assets at fair value through other comprehensive income			
Derivatives designated as cash flow hedges			
Foreign exchange contracts	–	1,258	–
Available–for–sale financial asset	1,847	–	–
Total financial assets at fair value	**1,847**	**2,170**	**–**
Financial assets for which fair values are disclosed			
Loans granted to related parties, principal (Note 24)	–	81,892	–
Bank deposits	–	26,522	–
Interest receivable	–	730	–
Other financial assets	–	4,164	–
Total financial assets for which fair values are disclosed	**–**	**113,308**	**–**
Financial liabilities for which fair values are disclosed			
Other financial liabilities at amortised cost	145,109	130,154	–
Total financial liabilities for which fair values are disclosed	**145,109**	**130,154**	**–**

On a quarterly basis, the Company reviews if there are any indicators for a possible transfer between the fair value measurements. During the year ended 31 December 2016, there were no transfers between Level 1 and Level 2 fair value measurements, and there were no transfers into or out of Level 3 fair value measurements.

(All amounts in millions of Rubles unless otherwise stated)

16. Financial assets and liabilities (continued)

Loans, bonds and finance lease liabilities

The Company has the following principal amounts outstanding for loans, bonds and finance lease liabilities as of 31 December 2016 and 2015:

Lender or bonds series	Interest rate	Maturity	Currency	2016	2015
Eurobonds	7.75-9.13%	2018-2021	USD	**69,738**	122,430
Sberbank of Russia	11.55-12.75%	2017-2018	RUR	**61,913**	60,595
Ruble bonds[1]	10.00-11.90%	2022-2025	RUR	**40,057**	40,057
Loans received from related parties (Note 24)	5.00-9.60%	2017-2032	RUR/USD/ RMB	**27,346**	35,068
Finance lease liabilities	7.70-23.90%	2017-2055	RUR/USD	**3,808**	3,176
HSBC	3 month MOSPRIME + 1.05%	2017-2019	RUR	**3,103**	4,839
CISCO Systems Finance International	8.85-12.00%	2017-2018	RUR	**1,224**	2,857
ANZ bank	3.50%	2016	USD	**–**	1,381
Kazkommertsbank JSC	19.00%	2016	KZT	**–**	891
Unicredit – HVB[2]	AB SEK Rate + 0.75%	2016	USD	**–**	533
Others				**583**	446
Total loans, bonds and finance lease liabilities, principal				**207,772**	272,273
Non-current portion				**141,208**	194,309
Current portion				**66,564**	77,964
				207,772	272,273

[1] Subject to investor put option at 17 March 2017 (Note 26) and 13 October 2017;

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

Major treasury events during 2016

A subsidiary B.V. Vimpelcom Finance S.à.r.l. had short term deposits as of 31 December 2015 amounts to USD 20 million (the equivalent of RUR 1,458 as of 31 December 2015 at the exchange rate provided by the Central Bank of Russia) with ANZ Bank as security for the loan provided by the same bank to VimpelCom Lao Co. Ltd. The loan from ANZ Bank was repaid on 29 January 2016 and the related deposit was released as well.

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

Significant changes in financial assets and liabilities also relate to the loans received from related parties and the amount of interest due on them, loans granted to related parties and the amount of interest due on them as further described in Note 24.

Financial instruments and hedging policy

The Company applies cash flow hedge accounting using financial instruments (usually derivatives) to mitigate all or some of the risk of a hedged item. Any gains or losses on the hedging instrument (a derivative) are initially included in other comprehensive income. The amount included in other comprehensive income is the lesser of the fair value of the hedging instrument and the hedged item. Where the hedging instrument has a fair value greater than the hedged item, the excess is recorded within the profit or loss as ineffectiveness. Gains or losses deferred in other comprehensive income are reclassified to profit or loss when the hedged item affects the consolidated income statement.

16. Financial assets and liabilities (continued)

Financial instruments and hedging policy (continued)

Any derivative instruments for which no hedge accounting is applied are recorded at fair value with any fair value changes recognized directly in the consolidated income statement.

Derivative financial instruments

VimpelCom uses derivative instruments, including swaps, forward contracts and options to manage certain foreign currency and interest rate exposures. The Company views derivative instruments as risk management tools and does not use them for trading or speculative purposes. The Company has designated the majority of its derivative contracts, which mainly relate to hedging the interest and foreign exchange risk of external debt, as formal hedges and applies hedge accounting on these derivative contracts.

All derivatives are accounted for on a fair value basis and the changes in fair value are recorded in profit or loss, except for derivative instruments which are accounted for using cash flow hedge accounting. Cash flows from derivative instruments are reported in the consolidated statement of cash flows in the same line where the underlying cash flows of the hedged item are recorded.

Derivatives under hedge accounting

The Company uses foreign exchange forwards/swaps, options and zero cost collars to manage its exposure to variability in cash flows that is attributable to foreign exchange and interest rate risk to loans and borrowings. Most of these derivative contracts are either designated as cash flow or fair value hedges and are entered into for periods up to the maturity date of the hedged loans and borrowings.

Foreign exchange contracts

VimpelCom enters into short-term forwards agreements with several banks in order to protect cash flows of its short-term financial and non-financial obligations denominated in USD from adverse USD-RUR movements. As of 31 December 2016, the notional amount outstanding of these derivative contracts (only forwards) was RUR 27,369 with an average execution rate of 66.05 (As of 31 December 2015 notional amount outstanding of derivative contracts (only forwards) was RUR 35,713 with an average execution rate of 69.02).

Derivatives not designated as hedging instruments

The Company uses foreign currency denominated borrowings, foreign exchange swaps, options and zero cost collars and forward currency contracts to manage its transaction exposures. These currency forward contracts are not designated as cash flow, fair value or net investment hedges and are entered into for periods consistent with currency transaction exposures, generally from one to six months. Although the derivatives have not been designated in a hedge relationship, they act as a commercial hedge and offset the underlying transaction when they occur.

Available-for-sale financial assets

As of 31 December 2015, available-for sale financial assets comprised investment in shares of VEON Ltd. As part of stock-based compensation program of VEON Ltd. VC ESOP N.V., a subsidiary of VimpelCom, held shares of VEON Ltd. The fair value of the quoted equity shares is determined by reference to published price quotations in an active market. As of 31 December 2015, the number of shares were 7 726 487 shares. On 10 March 2016, VimpelCom signed an agreement to sell its indirect 99.99% stake in VC ESOP N.V. to one of the subsidiaries of VEON Ltd. (Note 6).

(All amounts in millions of Rubles unless otherwise stated)

16. Financial assets and liabilities (continued)

Offsetting financial assets and liabilities

For the financial assets and liabilities subject to netting arrangements, each agreement between the Group and the counterparty allows for net settlement of the relevant financial assets and liabilities when both elect to settle on a net basis. In the absence of such an election, financial assets and liabilities are settled on a gross basis.

The major arrangements applicable for the Group are agreements with national and international interconnect operators and agreements with roaming partners.

Several entities of the Group have entered into International Swaps and Derivatives Association, Inc. (ISDA) Master Agreements or equivalent documents with their counterparties, governing the derivative transactions entered into between these entities and their counterparties. Based on these documents, only in case of an Event of Default of either the entity or the counterparty, it is allowed to offset any derivative positions outstanding.

As of 31 December 2016	Gross amounts recognized	Gross amounts set off in the consolidated statement of financial position	Net amounts presented in the consolidated statement of financial position
Trade and other receivables	29,081	(1,213)	27,868
Trade and other payables	57,933	(1,213)	56,720

As of 31 December 2015	Gross amounts recognized	Gross amounts set off in the consolidated statement of financial position	Net amounts presented in the consolidated statement of financial position
Trade and other receivables	29,678	(1,698)	27,980
Trade and other payables	60,382	(1,698)	58,684

17. Other non-financial assets and liabilities

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

	31 December 2016	31 December 2015
Advances to suppliers and prepayments	**709**	87
Deferred costs related to connection fees	**101**	152
Other non-current assets	**109**	197
Other non–current non–financial assets	**919**	436

Other current non–financial assets consisted of the following:

	31 December 2016	31 December 2015
Advances to suppliers	**6,681**	4,408
Input value added tax	**5,374**	3,059
Prepaid taxes	**314**	284
Deferred costs related to connection fees	**126**	94
Others	**219**	180
Other current non–financial assets	**12,714**	8,025

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

	31 December 2016	31 December 2015
Long–term deferred revenue	**472**	602
Other non–current liabilities	**319**	202
Other non–current non–financial liabilities	**791**	804

(All amounts in millions of Rubles unless otherwise stated)

17. Other non–financial assets and liabilities (continued)

Other current non–financial liabilities consisted of the following:

	31 December 2016	31 December 2015
Customer advances, net of VAT	**11,833**	13,787
Other taxes payable	**5,321**	5,631
Amounts due to employees	**2,447**	3,047
Customer deposits	**1,438**	1,457
Short–term deferred revenue	**914**	903
Other liabilities	**469**	366
Other current non–financial liabilities	**22,422**	25,191

18. Inventories

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

Inventory consisted of the following as of 31 December:

	31 December 2016	31 December 2015
Telephone handsets and accessories for sale	**6 077**	6,375
SIM-Cards	**645**	466
Scratch cards	**29**	33
Other inventory	**283**	386
Obsolescence allowance	**(864)**	(994)
Total	**6 170**	6,266

The cost of inventories recognized as an expense is mainly accounted for in the consolidated income statement line “Cost of equipment and accessories”. Other expenses and write down of inventories amounted to RUR 2,585 and RUR 2,103 for the years ended 31 December 2016 and 2015, respectively.

19. Trade and other receivables

Trade and other receivables are measured at amortized cost and include invoiced amounts less appropriate allowances for estimated uncollectible amounts. Estimated uncollectible amounts are calculated 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.

Trade and other receivables consisted of the following as of 31 December:

	31 December 2016	31 December 2015
Trade accounts receivable, gross	**26,291**	28,452
Allowance for doubtful accounts	**(2,474)**	(2,825)
Trade accounts receivable, net	**23,817**	25,627
Other receivables	**4,051**	2,353
Trade and other receivables	**27,868**	27,980

(All amounts in millions of Rubles unless otherwise stated)

19. Trade and other receivables (continued)

As of 31 December 2016 trade receivables with a value of RUR 2,474 (2015: RUR 2,825) were impaired and, thus, fully provided for. See below the movements in the allowance for the doubtful accounts:

	2016	**2015**
Balance as of 1 January	**2,825**	2,706
Charge for the year	**2,330**	1,769
Accounts receivable written off	**(2,373)**	(1,596)
Change in estimates	**(170)**	–
Foreign currency translation adjustment	**(138)**	(54)
Balance as of 31 December	**2,474**	2,825

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

			Past due but not impaired		
	Total	**Neither past due nor impaired**	**< 30 days**	**30-120 days**	**> 120 days**
As of 31 December 2016	**23,817**	**18,213**	**3,147**	**1,603**	**854**
As of 31 December 2015	25,627	18,799	3,878	2,003	947

20. Cash and cash equivalents

Cash and cash equivalents are held for the purpose of meeting short-term cash commitments rather than for investment or other purposes. Cash and cash equivalents in the consolidated statement of financial position are comprised of cash at banks and on hand and highly liquid investments that are readily convertible to known amounts of cash, are subject to only an insignificant risk of changes in value and have an original maturity of less than 92 days.

Cash and cash equivalents consisted of the following items:

	31 December 2016	**31 December 2015**
Cash and cash equivalents at banks and on hand	**43,796**	62,885
Short–term deposits with an original maturity of less than 92 days	**3,714**	500
Total cash and cash equivalents	**47,510**	63,385

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

The cash balances as of 31 December 2016 in Uzbekistan of RUR 21,038 (31 December 2015: RUR 36,083) are restricted due to local government or central bank regulations and therefore cannot currently be repatriated.

21. Issued capital

Common shares

As of 31 December 2016, the Company had 51,281,022 issued and outstanding, fully paid registered common shares at a nominal value of 0.5 kopecks each. As of 31 December 2016, 51,281,021 common shares were owned by PJSC "VimpelCom"'s immediate parent VimpelCom Holdings B.V., the wholly-owned indirect subsidiary of VEON Ltd. and 1 common share was owned by VEON Ltd., the ultimate parent of the Group. In addition to the issued and outstanding shares, the Company shall have the right to issue an additional 38,718,978 common registered shares having a nominal value of 0.5 kopecks each (authorized shares).

21. Issued capital (continued)

Common shares (continued)

Each fully paid common shares are, subject to Charter of PJSC "VimpelCom" and Russian law, entitles its holder to: (a) participate in shareholder general meetings; (b) have one vote on all issues voted upon at a general shareholder meeting, except for the purposes of cumulative voting for the election of the Board of Directors, in which case each common share shall have the same number of votes as the total number of members to be elected to the Board Directors and all such votes may be cast for a single candidate or may be distributed between or among two or more candidates; (c) receive dividends approved by the general shareholder meeting; (d) in the event of our liquidation, receive a pro rata share of value of the property (or the portion of the value of the property); (e) any other rights set forth in Charter of PJSC "VimpelCom" and Russian law.

Convertible preference shares

In 1996, PJSC VimpelCom issued 6,426,600 preferred shares. As of 31 December 2016, all of the shares of preferred stock (6,426,600 shares) were owned by PJSC “VimpelCom”’s parent VimpelCom Holdings B.V., the subsidiary of VEON Ltd. Each share of preferred stock entitles its holder (i) to participate in Shareholders’ General Meetings with the right to vote on all issues (each preferred share shall have one vote at a Shareholders’ General Meeting); (ii) to receive annually a fixed dividend of 0.1 of a kopeck per preferred share and (iii) to receive a fixed liquidation value of 0.5 of a kopeck per preferred share in the event of VimpelCom’s liquidation, to the extent there are sufficient funds available; (iv) to include issues on the agenda of the Shareholders’ General Meeting. Each share of preferred stock is convertible into one share of common stock at any time after 30 June 2016, at the election of the holder upon payment to VimpelCom of a conversion premium equal to 100% of the market value of one share of common stock at the time of conversion.

Nature and purpose of reserves

Other capital reserves

Other capital reserves are mainly used to recognize the results of transactions that do not result in a change of control with non-controlling interest and to recognize the results of transactions under common control (Note 6).

Foreign currency translation reserve

The foreign currency translation reserve is used to record exchange differences arising from the translation of the financial statements of foreign subsidiaries. The decrease in the foreign currency reserve relates mainly to the strengthening of the RUR and the depreciation of emerging markets currencies in which VimpelCom operates.

22. Dividends

On 29 June 2016, in the annual general meeting of shareholders the decision was adopted to pay annual dividends in the monetary form based on 2015 financial year results: (1) to holders of common registered shares in the amount of three hundred forty-one rubles 26 kopecks per one common share for the total amount of RUR 17,500.16 for all common registered shares in the aggregate; and (2) to holders of preferred type “A” registered shares in the amount of 0.1 kopecks per one preferred type “A” registered share for a total amount of RUR 0.006 for all preferred type “A” registered shares in the aggregate. On 14 July 2016, VimpelCom paid all dividends to the shareholders based on 2015 financial year results in the amount of RUR 16,625.16, net of tax withheld. In accordance with Russian tax legislation, VimpelCom withheld a tax on dividend payments in the amount of RUR 875.

On 28 July 2016, VimpelCom Kazakhstan Holding AG, a subsidiary of the Company, declared dividends to its shareholders. The portion of dividends paid on 2 August 2016 to the minority shareholder amounted to USD 17.6 million net of withholding tax (the equivalent of RUR 1,161 as of 28 July 2016 at the exchange rate provided by the Central Bank of Russia). .

(All amounts in millions of Rubles unless otherwise stated)

23. Provisions

Provisions are recognized when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Provisions are discounted using a current pre-tax rate if the time value of money is significant.

The following table summarizes the movement in provisions for the years ended 31 December 2016 and 2015:

	Income taxes provisions	Tax provisions other than income tax	Provision for decommis-sioning	Legal and other provisions	Total provisions
As of 31 December 2015	**1,882**	**491**	**3,600**	**228**	**6,201**
Arising during the year	464	1,997	196	311	2,968
Divestment of a subsidiary	–	–	(870)		(870)
Utilized	–	(991)	(317)	(249)	(1,557)
Unused amounts reversed	(598)	(76)	(13)	(1)	(688)
Discount rate adjustment and imputed interest (change in estimates)	–	–	124	–	124
Translation adjustment	(19)	(136)	(200)	(19)	(374)
At 31 December 2016	**1,729**	**1,286**	**2,520**	**269**	**5,804**
Non–current portion	–	–	2,520	135	2,655
Current portion	1,729	1,286	–	134	3,149

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

(All amounts in millions of Rubles unless otherwise stated)

24. Related parties

As of 31 December 2016, PJSC “VimpelCom” is a wholly-owned indirect subsidiary of VEON Ltd. VEON Ltd. has changed its name from VimpelCom Ltd. to VEON Ltd., effective as of 30 March 2017. As of 31 December 2016, VEON Ltd. is primarily owned by two largest shareholders: L1T VIP Holdings S.à.r.l., a member of the Letter One group of companies (hereinafter: “LetterOne”), and Telenor East Holding II AS, a member of the Telenor group of companies (hereinafter: “Telenor”). VEON Ltd. has no ultimate controlling shareholder.

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

	For the year ended 31 December 2016	**For the year ended 31 December 2015**
Revenue from Telenor	**79**	47
Revenue from Kyivstar	**1,990**	4,736
Revenue from associates	**–**	336
Revenue from joint ventures	**276**	297
Revenue from Teta Telecom or its subsidiaries	**1,512**	2,197
Revenue from VEON Ltd. or its subsidiaries	**925**	1,046
	4,782	8,659
Services from Telenor	**65**	123
Services from Kyivstar	**3,386**	5,783
Services from associates	**1**	243
Services from joint ventures	**1,243**	1,216
Services from Teta Telecom or its subsidiaries	**4,637**	5,940
Services from VEON Ltd. or its subsidiaries	**9,390**	7,600
Services from other related parties	**25**	22
	18,747	20,927
Finance income from VEON Ltd. or its subsidiaries	**4,435**	730
Finance costs from VEON Ltd. or its subsidiaries	**2,142**	3,007
Other gain from other related parties, net	**32**	452

	As of 31 December 2016	**As of 31 December 2015**
Accounts receivable from Telenor	**13**	85
Accounts receivable from Kyivstar	**374**	756
Accounts receivable from joint ventures	**803**	618
Accounts receivable from Teta Telecom or its subsidiaries	**138**	307
Accounts receivable from VEON Ltd. or its subsidiaries	**2,693**	3,929
Accounts receivable from other related parties	**92**	101
	4,113	5,796
Accounts payable to Telenor	**23**	(65)
Accounts payable to Kyivstar	**266**	723
Accounts payable to joint ventures	**199**	162
Accounts payable to Teta Telecom or its subsidiaries	**1,038**	1,333
Accounts payable to VEON Ltd. or its subsidiaries	**8,200**	6,023
	9,726	8,176
Loans granted to VEON Ltd. or its subsidiaries	**41,323**	93,063
Interest receivable from VEON Ltd. or its subsidiaries	**3,024**	730
Loans received from VEON Ltd. or its subsidiaries	**27,346**	35,068
Interest payable to VEON Ltd. or its subsidiaries	**6,730**	6,800

(All amounts in millions of Rubles unless otherwise stated)

24. Related parties (continued)

Outstanding balances and transactions with Telenor relate to operations with Telenor East Holding II AS, its consolidated subsidiaries, its direct owners and their consolidated subsidiaries. VimpelCom has roaming contracts and contracts to provide telecommunication services to Telenor.

Outstanding balances and transactions with joint ventures relate to operations with VimpelCom's equity investees (Note 13.3) and mainly represent sales of handsets equipment and accessories, dealer commissions and bonuses for services for acquisition of new customers, customer care and receipt of customers' payments.

Outstanding balances and transactions with subsidiaries of VimpelCom Ltd. including Kyivstar and Teta Telecom or its subsidiaries, mainly represent telecommunication services.

Loans granted to VEON Ltd. or its subsidiaries

As of 31 December 2016 and 31 December 2015, the principal amounts of loans granted to VEON Ltd. or its subsidiaries were as follows:

Borrower	Date of agreement	Maturity	Interest rate	Currency	31 December 2016	31 December 2015
VEON Ltd.	7 Oct. 2010	Dec., 2070	LIBOR+7.5%	USD	**34,057**	40,921
VimpelCom Holdings B.V.[1]	5 Jul. 2016	Jul, 2019	LIBOR+4.0%	USD	**4,246**	–
Teta Telecom	2007-2011	2017-2021	10.60%	KZT	**1,168**	1,378
VimpelCom Micro Holdings B.V.[2]	26 Feb. 2016	Feb., 2018	5.00%	USD	**1,152**	–
NTC[3]	1 Sep. 2016	Sep., 2018	10.00%	RUR	**700**	–
VimpelCom Amsterdam B.V.[4]	13 Apr. 2015	Apr, 2018	LIBOR+4.0%	USD	**–**	45,187
Kyivstar[5]	8 June 2004	Feb., 2016	5.00%	USD	**–**	1,917
Kyivstar[5]	15 Oct. 2008	Feb., 2016	7.70%	USD	**–**	1,093
VimpelCom (BVI) AG[5]	27 Jul. 2010	Jul., 2016	5.20%	USD	**–**	751
VimpelCom (BVI) AG[5]	17 Nov. 2011	Nov.,2016	5.20%	USD	**–**	671
Golden Telecom Limited[5]	1 Jun. 2010	Sep., 2016	5.00%	USD	**–**	430
Others[6]					**–**	715
Total					**41,323**	93,063

[1] On 5 July 2016, PJSC "VimpelCom" signed an agreement to grant a Revolving Credit Facility with related party VimpelCom Holdings B.V. amounted to USD 500 million (the equivalent of RUR 31,842 as of 5 July 2016 at the exchange rate provided by the Central Bank of Russia). The interest rate under this agreement is LIBOR (1 month) + 4% and it is determined monthly. During the year ended 31 December 2016 the net cash outflow on the loan and outstanding amount of the loan as of 31 December 2016 was amounted to USD 70 million under the credit facility agreement (the equivalent of RUR 4,246 as of 31 December 2016 at the exchange rate provided by the Central Bank of Russia). On 9 March 2017, VimpelCom Holdings B.V. repaid USD 70 million (the equivalent of RUR 4,078 as of 9 March 2017 at the exchange rate provided by the Central Bank of Russia);

[2] On 26 February 2016, B.V. Vimpelcom Finance S.à.r.l. (subsidiary of the PJSC "VimpelCom") entered into a term loan facility agreement with related party VimpelCom Micro Holdings B.V. On 15 March 2016, B.V. Vimpelcom Finance S.à.r.l. provided loan in the total amount of the facility of USD 19 million (the equivalent of RUR 1,333 as of 15 March 2016 at the exchange rate provided by the Central Bank of Russia);

[3] On 1 September 2016, PJSC "VimpelCom" signed an agreement to grant a Revolving Credit Facility for the amount of RUR 2 100 to JSC "National Tower Company" ("NTC") with the final maturity date on 2 September 2018. The interest rate under this agreement is 10%. During the year ended 31 December 2016 JSC National Tower Company drew down RUR 700. During the first quarter of 2017 JSC National Tower Company drew down RUR 700 and repaid RUR 300;

[4] During the year ended 31 December 2016 the net cash flow on the loan amounted to USD 620 million (the equivalent of RUR 42,348 as of the dates of transactions at the exchange rates provided by the Central Bank of Russia). The loan was early repaid on 28 June 2016;

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

[6] The full outstanding amount of loans were repaid in June, 2016.

(All amounts in millions of Rubles unless otherwise stated)

24. Related parties (continued)

Loans received from VEON Ltd. or its subsidiaries

As of 31 December 2016 and 31 December 2015, the principal amounts of loans received from VEON Ltd. or its subsidiaries were as follows:

Lender	Date of agreement	Maturity	Interest rate	Currency	31 December 2016	31 December 2015
Weather Capital Special Purpose 1 S.A.[1]	26 Mar. 2015	Mar., 2032	6.50%	USD	**12,756**	14,307
VimpelCom Holdings B.V.	14 Feb. 2013	Feb., 2018	9.60%	RUR	**12,000**	12,000
VimpelCom Holdings B.V. [2]	24 Jun 2016	Sep., 2021	5.91%	RMB	**1,289**	–
VimpelCom Micro Holdings B.V.[3]	27 Jan., 2016	Jan., 2018	5.00%	USD	**1,152**	–
VimpelCom Micro Holdings B.V. [4]	17 May 2016	Dec., 2017	LIBOR (6M) + 2.3%	USD	**149**	–
Weather Capital Special Purpose 1 S.A.[5]	13 Apr. 2007	Apr., 2017	11.00%	USD	**–**	5,335
Weather Capital Special Purpose 1 S.A.[5]	27 May 2008	Jun., 2016	11.00%	USD	**–**	3,426
Total					**27,346**	35,068

[1] In December 2016 LLC Mobitel (subsidiary of the PJSC "VimpelCom") drew down USD 6 million (the equivalent of RUR 386 as of the dates of transactions at the exchange rate provided by the Central Bank of Russia);

[2] On 24 June 2016, PJSC "VimpelCom" signed a Credit Facility Agreement with VimpelCom Holdings B.V. for the amount of seven hundred million RMB (the equivalent of RUR 6,844 as of 24 June 2016 at the exchange rate provided by the Central Bank of Russia) with the final maturity date on 20 September 2021. The interest rate under this agreement is 5.91%. In the fourth quarter of 2016 PJSC "VimpelCom" drew down RMB 148 million (the equivalent of RUR 1,359 as of the dates of transactions at the exchange rate provided by the Central Bank of Russia). In the first quarter of 2017 PJSC "VimpelCom" drew down RMB 114.89 million (the equivalent of RUR 986 as of the dates of transactions at the exchange rate provided by the Central Bank of Russia);

[3] On 27 January 2016, VimpelCom Lao Co Ltd. (subsidiary of the PJSC "VimpelCom") drew down USD 19 million (the equivalent of RUR 1,555 as of 27 January 2016 at the exchange rate provided by the Central Bank of Russia) under new term loan facility agreement with related party VimpelCom Micro Holdings B.V. The facility is bearing 5% per annum;

[4] On 17 May 2016 VimpelCom B.V. assigned to related party VimpelCom Micro Holdings B.V. a loan with outstanding amount of USD 4.5 million (the equivalent of RUR 292 as of 17 May 2016 at the exchange rate provided by the Central Bank of Russia). The loan bears 6m LIBOR + 2.3% per annum and to be repaid by December 2017. On 30 May 2016 loan was partly repaid for an amount of USD 2 million (the equivalent of RUR 132 as of 30 May 2016 at the exchange rate provided by the Central Bank of Russia);

[5] On 10 March 2016, VimpelCom signed an agreement to sell its indirect 99.99% stake in VC ESOP N.V. to one of the subsidiaries of VEON Ltd. (Note 6).

Terms and conditions of transactions with related parties

Outstanding balances at year-end are unsecured, settlements occur in cash. There have been no guarantees provided or received for any related party receivables or payables. The terms and amounts of the Company's guarantees of the related party loans that existed as of 31 December 2016 are disclosed in Note 25. For the years ended 31 December 2016 and 2015, VimpelCom did not record any impairment of receivables relating to amounts owed by related parties. This assessment is undertaken each financial year through examining the financial position of the related party and the market in which the related party operates.

Compensation of key management personnel of the Company

The General Director and key vice presidents of PJSC "VimpelCom" are the key management personnel.

The amount of accrued remuneration to key management personnel of the Company for the year 2016 amounted to RUR 741.2 (2015: RUR 773.9). The amount of social insurance contributions related to accrued remuneration to key management personnel of the Company amounted to RUR 95.0 (2015: RUR 99.9).

25. Risks, commitments, contingencies and uncertainties

Risks

Currency control risks

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

Domestic and global economy risks

The Russian Federation displays certain characteristics of an emerging market. Its economy is particularly sensitive to oil and gas prices. The legal, tax and regulatory frameworks continue to develop and are subject to frequent changes and varying interpretations. During 2016 the Russian economy was negatively impacted by low oil prices, ongoing political tension in the region and continuing international sanctions against certain Russian companies and individuals, all of which contributed to the country's economic recession characterised by a decline in gross domestic product. The financial markets continue to be volatile and are characterised by frequent significant price movements and increased trading spreads. Russia's credit rating was downgraded to below investment grade. This operating environment has a significant impact on the Group's operations and financial position. Management is taking necessary measures to ensure sustainability of the Group's operations. However, the future effects of the current economic situation are difficult to predict and management's current expectations and estimates could differ from actual results.

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

Change in law and compliance risks

In the ordinary course of business, VimpelCom may be party to various legal and tax proceedings, including as it relates to compliance with the rules of the telecom regulators in the countries in which VimpelCom operates, competition law and anti-bribery and corruption laws. Non-compliance with such rules and laws may cause VimpelCom to be subject to claims, some of which may relate to the developing markets and evolving fiscal and regulatory environments in which VimpelCom operates. In the opinion of management, VimpelCom's liability, if any, in all pending litigation, other legal proceeding or other matters, other than what is discussed in this Note, will not have a material effect upon the financial condition, results of operations or liquidity of VimpelCom.

Tax risks

The tax legislation in the markets in which VimpelCom operates is unpredictable and gives 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 often deviate in their interpretation of tax laws from industry viewpoint, as well as in their enforcement and tax collection methods.

Any sudden and unforeseen amendments of tax laws or changes in the tax authorities' interpretations of the respective tax laws and/or double tax treaties, could have a material adverse effect on our future results of operations, cash flows or the amounts of dividends available for distribution to shareholders in a particular period (e.g. introduction of transfer pricing rules and Controlled Foreign Operation (CFC) legislation and more strict tax residency rules).

(All amounts in millions of Rubles unless otherwise stated)

25. Risks, commitments, contingencies and uncertainties (continued)

Risks (continued)

Tax risks (continued)

Management believes that VimpelCom has paid or accrued all taxes that are applicable. Where uncertainty exists, VimpelCom has accrued tax liabilities based on management's best estimate. From time to time, we may also identify tax contingencies for which we have not recorded an accrual. Such unaccrued tax contingencies could materialize and require us to pay additional amounts of tax.

Capital commitments

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

	2016	**2015**
Less than 1 year	19,313	8,960
Between 1 and 3 years	7,299	–
Total	**26,612**	**8,960**

Telecom Licenses Capital Commitments

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

On 12 July 2012 PJSC "VimpelCom" was awarded licenses to provide services over the LTE standard and its further modifications. The licenses allow the Company to provide services using radio-electronic devices via networks that use the LTE standard and its further modifications in the territory of the Russian Federation. The licenses were provided on condition that the Company will invest at least RUR 15,000 into LTE network construction per annum where the first year is the period from 12 July 2012 till 1 December 2013 – and from this time forth – every calendar year till the technical feasibility of providing services over the LTE standard and its further modifications in the territory of the Russian Federation will be in compliance with the awarded licenses but before 1 December 2019.

Operating lease commitments

Future minimum rentals payable under non-cancellable operating leases as of 31 December are as follows:

	31 December 2016	**31 December 2015**
Less than 1 year	**3,394**	2,386
Between 1 and 5 years	**9,695**	5,907
More than 5 years	–	45
Total	**13,089**	8,338

Operating lease commitments mainly relate to the lease of base station sites and office spaces. Operating leases can be renewed but may be subject to renegotiations with lessors.

Total operating lease expenses amounted to RUR 18,113 in 2016 and RUR 14,580 in 2015 (Note 9).

(All amounts in millions of Rubles unless otherwise stated)

25. Risks, commitments, contingencies and uncertainties (continued)

Finance lease

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

	31 December 2016		31 December 2015	
	Minimum payments	**Present value of payments**	**Minimum payments**	**Present value of payments**
Within one year	**879**	**554**	908	612
Between one and five years	**2,903**	**1,523**	2,172	1,214
More than five years	**3,007**	**2,124**	2,429	1,350
Total minimum lease payments	**6,789**	**4,201**	5,509	3,176
Less amounts representing finance charges	**(2,588)**	**–**	(2,333)	–
Total payments	**4,201**	**4,201**	3,176	3,176

Contingencies and uncertainties

Investigations by SEC/DOJ/OM

During the first quarter of 2016, VEON Ltd., the parent of the Company, reached resolutions through agreements with the U.S. Securities and Exchange Commission ("SEC"), the U.S. Department of Justice ("DOJ"), and the Dutch Public Prosecution Service (Openbaar Ministerie) ("OM") relating to the previously disclosed investigations under the U.S. Foreign Corrupt Practices Act (the "FCPA") and relevant Dutch laws, pertaining to the Company's business in Uzbekistan and prior dealings with Takilant Ltd. Pursuant to these agreements, VEON Ltd. paid an aggregate amount of USD 795 million in fines and disgorgements to the SEC, the DOJ and the OM in the first quarter of 2016.

On 18 February 2016, the United States District Court for the Southern District of New York (the "District Court") approved the agreements with the DOJ relating to charges that the VEON Ltd. and its subsidiary violated the anti-bribery, books-and-records and internal controls provisions of the FCPA. These agreements consisted of the deferred prosecution agreement (the "DPA"), entered into by VEON Ltd. and the DOJ and a guilty plea by Unitel LLC ("Unitel"), a subsidiary of VEON Ltd. and the Company operating in Uzbekistan. Under the agreements with the DOJ, VEON Ltd. agreed to pay a total criminal penalty of USD 230 million to the United States, including USD 40 million in forfeiture.

In connection with the investigation by the OM, VEON Ltd. and Silkway Holding BV, a wholly owned subsidiary of VEON Ltd. and the Company, entered into a settlement agreement (the "Dutch Settlement Agreement") related to anti-bribery and false books-and-records provisions of Dutch law. Pursuant to the Dutch Settlement Agreement, VEON Ltd. agreed to pay criminal fines of USD 230 million and to disgorge a total of USD 375 million, which was satisfied by the forfeiture to the DOJ of USD 40 million, a disgorgement to the SEC of USD 167.5 million and a further payment to the OM of USD 167.5 million beyond the criminal fines.

VEON Ltd. also consented to the entry of a final judgment and incorporated consent (the "Final Judgment"), which was approved by the District Court on 22 February 2016, relating to the SEC's complaint against VEON Ltd., which charged violations of the anti-bribery, books-and-records and internal controls provisions of the FCPA. Pursuant to the Final Judgment, VEON Ltd. agreed to a judgment ordering disgorgement of USD 375 million, to be satisfied by the forfeiture to the DOJ of USD 40 million, the disgorgement to the OM of USD 167.5 million, and a payment to the SEC of USD 167.5 million, and imposing a permanent injunction against future violations of the U.S. federal securities laws.

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

25. Risks, commitments, contingencies and uncertainties (continued)

Contingencies and uncertainties (continued)

Investigations by SEC/DOJ/OM (continued)

All amounts to be paid under the DPA, the guilty plea, the Dutch Settlement Agreement and the Final Judgment were paid by VEON Ltd. in the first quarter of 2016 and were deducted from the already existing provision of USD 900 million recorded by VEON Ltd. in the third quarter of 2015 and disclosed in the 2015 annual consolidated financial statements of VEON Ltd. The remaining provision of USD 105 million recorded by VEON Ltd. related to future direct and incremental expected legal fees associated with the resolutions. As of 31 December 2016, VEON Ltd. had paid approximately USD 24 million in legal fees utilizing this provision, and changed its estimate by reducing the provision by USD 16 million resulting in the remaining balance of the provision of USD 66 million. VEON Ltd. cannot currently estimate the magnitude of future costs to be incurred to comply with the DPA, the Final Judgment and the Dutch Settlement Agreement, but these costs could be significant.

The Company has considered previously the need to record the provision associated with the aforementioned investigations. Based on the final settlement terms, PJSC “VimpelCom” and its subsidiaries (including Unitel) would not be separately accountable for payment of any penalties. Instead, the fines and disgorgement that were paid by VEON Ltd. would cover all penalties potentially attributable to subsidiaries, and no fines will be imposed on the Company. Accordingly, no provision was considered necessary in the Company’s financial statements.

KaR-Tel - Turkish Litigation

In 2005, the Savings Deposit Insurance Fund (the “Fund”), a Turkish state agency responsible for collecting state claims arising from bank insolvencies, issued a Payment Order against KaR-Tel for TRY 7.55 billion (the equivalent of approximately RUR 129,877 as of 31 December 2016 at the exchange rate provided by the Central Bank of Russia) . The Payment Order was based on the Fund’s claim against the Turkish Uzan Group, which the Fund alleged was a debtor of T. Imar Bankasi, an insolvent Turkish bank. Two entities in the Uzan Group (the “Former Shareholders”) held a 60% equity interest in KaR-Tel until November 2003 when KaR-Tel redeemed the Former Shareholders’ equity interest pursuant to a decision of the Almaty City Court of 6 June 2003, which was confirmed by the Kazakhstan Supreme Court on 23 July 2003 (the “Kazakh Judgment”).

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

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

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

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

On 26 April 2016, the 13th Chamber of the Council of State rejected the Savings Deposit Insurance Fund’s claim for correction and ruled in favor of KaR-Tel. No further appellate rights are available so the case has fully been concluded.

25. Risks, commitments, contingencies and uncertainties (continued)

Other contingencies and uncertainties

In addition to the individual matters mentioned above, the Company is involved in other disputes, litigation and regulatory inquiries and investigations, both pending and threatened, in the ordinary course of its business. The Company does not expect any liability arising from these contingencies to have a material effect on the results of operations, liquidity, capital resources or financial position of the Company. Furthermore, the Company believes it has provided for all probable liabilities arising in the ordinary course of its business.

For the ongoing matters described above, where the Company has concluded that the potential loss arising from a negative outcome in the matter cannot be estimated, the Company has not recorded an accrual for the potential loss. However, in the event a loss is incurred, it may have an adverse effect on the results of operations, liquidity, capital resources, or financial position of the Company.

Pledges and guarantees

Collateral

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

Guarantees in favour of VimpelCom Holdings B.V.

On 29 June 2011, VimpelCom Holdings B.V., a subsidiary owned by VEON Ltd., completed an offering of an aggregate principal amount of USD 2,200 million notes (the equivalent of RUR 62,117 as of 29 June 2011 at the exchange rate provided by the Central Bank of Russia) split between three, five and ten year tranches, with an annual interest rates range of LIBOR plus 4.0% - 7.50%. The Company guaranteed these notes issues. On 2 April 2015, VimpelCom Amsterdam B.V. partially repurchased the current notes issued by VimpelCom Holdings B.V. As of 31 December 2016 and 2015, the outstanding principal amount under the notes was USD 1,629 million (the equivalent of RUR 98,810 as of 31 December 2016 at the exchange rate provided by the Central Bank of Russia) and USD 1,629 million (the equivalent of RUR 118,726 as of 31 December 2015 at the exchange rate provided by the Central Bank of Russia), respectively. No triggering events under the guarantee occurred. The Company believes that probability of these events is remote.

On 13 February 2013, VimpelCom Holdings B.V. completed an offering of an aggregate principal amount of USD 1,600 million notes (the equivalent of RUR 48,274 as of 13 February 2013 at the exchange rate provided by the Central Bank of Russia) and notes, denominated in RUR, in the amount of RUR 12,000, split between five, six and ten year tranches, with an annual interest rates range of 5.20%-9.00%. VimpelCom guaranteed these notes issues. On 2 April 2015, VimpelCom Amsterdam B.V. partially repurchased the current notes issued by VimpelCom Holdings B.V. As of 31 December 2016, the outstanding principal amount under the notes was USD 1,554 million (the equivalent of RUR 94,261 as of 31 December 2016 at the exchange rate provided by the Central Bank of Russia) and RUR 12,000. As of 31 December 2015, the outstanding principal amount under the notes was USD 1,554 million (the equivalent of RUR 113,260 as of 31 December 2015 at the exchange rate provided by the Central Bank of Russia) and RUR 12,000. No triggering events under the guarantee occurred. The Company believes that probability of these events is remote.

(All amounts in millions of Rubles unless otherwise stated)

25. Risks, commitments, contingencies and uncertainties (continued)

Pledges and guarantees (continued)

Guarantees in favour of VimpelCom Amsterdam B.V.

On 20 December 2012, VimpelCom Amsterdam B.V. completed a term credit facility of USD 500 million (the equivalent of RUR 15,380 as of 20 December 2012 at the exchange rate provided by the Central Bank of Russia). The 8 years credit facility for VimpelCom Amsterdam B.V. is committed by China Development Bank Corporation to finance Huawei equipment. The loan bears interest at the rate of LIBOR plus 3.30% per annum. VimpelCom guaranteed this term credit facility. As of 31 December 2016 and 2015, the outstanding principal amount was USD 332.19 million (the equivalent of RUR 20,150 as of 31 December 2016 at the exchange rate provided by the Central Bank of Russia) and USD 415.23 million (the equivalent of RUR 30,263 as of 31 December 2015 at the exchange rate provided by the Central Bank of Russia), respectively. No triggering events under the guarantee occurred. The Company believes that probability of these events is remote.

On 28 March 2013, VimpelCom Amsterdam B.V. completed a term credit facility of USD 500 million (the equivalent of RUR 15,432 as of 28 March 2013 at the exchange rate provided by the Central Bank of Russia). The 8 years credit facility for VimpelCom Amsterdam B.V. is committed by HSBC Bank plc to finance Ericsson equipment. The loan bears interest at the rate of CIRR plus 0.02% per annum. VimpelCom guaranteed this term credit facility. As of 31 December 2016 and 2015, the outstanding principal amount was USD 190.57 million (the equivalent of RUR 11,559 as of 31 December 2016 at the exchange rate provided by the Central Bank of Russia) and USD 222.34 million (the equivalent of RUR 16,204 as of 31 December 2015 at the exchange rate provided by the Central Bank of Russia), respectively. No triggering events under the guarantee occurred. The Company believes that probability of these events is remote.

26. Events after the reporting period

On 13 February 2017, VimpelCom Kyrgyzstan Holding AG, a subsidiary of the Company, declared dividends to its shareholders which were paid on 16 February 2017. The portion of dividends paid to the minority shareholder amounted to USD 55 million (the equivalent of RUR 3,122 as of 16 February 2017 at the exchange rate provided by the Central Bank of Russia).

On 2 March 2017, PJSC “VimpelCom” announced the reset of the coupon rate on its 10% puttable Ruble bonds for outstanding principal amount of RUR 15,052 maturing on 8 March 2022 and for outstanding principal amount of RUR 5 maturing on 14 March 2022. The new coupon rate of 7.00% per annum is applicable for the next six coupon periods (next three years) to be reset again in March 2020. Following the reset of the coupon rate, bondholders exercised their put options in aggregate principal amounts of RUR 14,459 and RUR 2 which was repaid on 17 March 2017 and 23 March 2017, respectively. After that the outstanding principal amount of debt became RUR 597.

On 16 March 2017, PJSC “VimpelCom” drew down a tranche of RUR 4,000 under Revolving facility with Sberbank of Russia. Maturity date of the facility is 29 May 2017.