

## Press-release

## MegaFon announces financial results for Q1 2016

MOSCOW, Russia (28 April 2016) - PJSC "MegaFon" ("MegaFon", or the "Company") (LSE: MFON), a leading Russian integrated telecommunications operator, announces its unaudited consolidated financial results<sup>1</sup> for the first quarter 2016.

### Key highlights of the First Quarter 2016<sup>2</sup>

- Consolidated revenue increased by 1.6% y-o-y<sup>3</sup> to RUB 75,150 million
- Revenue from wireless data services increased by 15.6% y-o-y to RUB 20,648 million
- OIBDA decreased by 5.4% y-o-y to RUB 30,247 million
- OIBDA margin was 40.2% versus 43.2% in Q1 2015
- Net Profit increased by 19.4% y-o-y to RUB 8,837 million
- CAPEX increased by 76.7% y-o-y to RUB 14,298 million
- Free Cash Flow amounted to RUB 8,924 million
- Net Debt as of 31 March 2016 was RUB 173,866 million
- The number of mobile subscribers grew by 6.2% y-o-y to 76.4 million<sup>4</sup> as of 31 March 2016

<sup>1</sup> Based on the IFRS interim condensed consolidated financial statements reviewed by JSC KPMG

<sup>2</sup> See Schedule 1 for definitions of the terms used and Schedule 2 for the reconciliation of Non-IFRS measures. Due to rounding manual calculations for financials and KPIs may differ from those displayed.

<sup>3</sup> Year over year ("y-o-y") stands for the same periods in the current and previous year on either a quarterly or yearly basis

<sup>4</sup> Consolidated data includes subscribers of the Company in Russia and the subscribers of its subsidiaries: "TT mobile" CJSC in the Republic of Tajikistan, "AQUAFON-GSM" CJSC in the Republic of Abkhazia and "OSTELEKOM" CJSC in the Republic of South Ossetia

## Key corporate events of the First Quarter 2016 and recent developments

- Recommendation for Dividends for 2015
  - On 27 April, based on the results for 2015, MegaFon's Board of Directors recommended payment of a final dividend for 2015 in the amount of RUB 30 billion, equivalent to RUB 48.38 per ordinary share (or GDR), subject to approval by the Annual General Meeting of Shareholders to be held on 30 June 2016 (the "AGM")
  - The Board will also make a recommendation to shareholders, later this year, for the payment of an interim dividend for 2016, the amount of which will be based on the financial performance of the Company at that point in time
- Registration of New Bond Programme
  - On 20 April, MegaFon registered a new programme with the regulatory authorities to issue interest-bearing nonconvertible exchange bonds in the maximum principal amount of RUB 80 billion (the "Programme")
  - Each bond issue under the Programme will have a maturity of up to 30 years, and the coupon rate for each bond issue will be determined separately at the time of issue, either by an auction or by book building
- Upgrade of Bundled Tariffs and Tariff Options
  - In February and March, MegaFon upgraded its Internet tariff options and bundled tariff plans to fit to customer patterns of use. As a result, the data traffic allowance under the Internet tariff options was increased in certain regions, and subscription fees were significantly reduced
- Cooperation with Payment System Mir
  - MegaFon has become the first mobile operator to start working with the Russian national payment system Mir. Starting from March 2016, holders of Mir banking cards can pay for MegaFon's mobile communication services via the "Autopayment" service. This is an important step in promoting the Russian national payment system and expanding the methods of payment for MegaFon's services
- MVNO Project with Glonass
  - On 1 April, MegaFon signed a contract with the state-owned company GLONASS (Global Navigation Satellite System) to act as a full-MVNO partner and an operator for transmission of emergency call traffic. This project is an important milestone for MegaFon, which has a strong track record in successful implementation of MVNO projects
- Joint Project with ER-Telecom
  - In April, MegaFon and ER-Telecom launched a joint offering relating to mobile and fixed-line services. Customers subscribing to MegaFon's bundled tariff plans get access to fixed-line broadband Internet and digital TV from ER-Telecom with a 20% discount. This joint

service was initially offered in three large cities in Siberia and may be extended to other regions going forward

- Resignation of Chief Executive Officer
  - Mr. Ivan Tavrín has announced his resignation as MegaFon's CEO effective on 29 April 2016.
  - The Board has proposed that Mr. Sergei Soldatenkov be elected at the AGM as the new CEO for a term of three years ending on the date of the 2019 Annual General Meeting of Shareholders. In the interim, Mr. Soldatenkov will hold the position of acting CEO until his official appointment as the new CEO.
  - Mr. Ivan Streshinsky was elected as the Chairman of the Board to replace Mr. Soldatenkov, effective 27 April 2016.
  - Mr. Soldatenkov was the CEO of the Company from 1 May 2003 to 20 April 2012 and the Chairman of the Board of MegaFon from 08 June 2012 to 27 April 2016.

## Ivan Tavrín, Chief Executive Officer of MegaFon, commented on the financial and operational results as follows:



Despite the continued weakening of the Russian economy and intensified competition, MegaFon demonstrated growth in all of its business segments. The principal growth driver, as in the past, was the revenue from mobile data services, which grew by 15.6% y-o-y. In addition, we continue to ramp up revenues from wireline services, including through the recent acquisition of GARS last year, and the strengthening of our market position in B2G segment.

We are facing competitive challenges in the telecom sector that have forced the industry players to undertake aggressive initiatives to maintain or improve their market shares. While maintaining our “smart” approach to investing in products and services, in consideration of the needs of our customers we made downward revisions to our tariffs and increased the amount of services in our packages. We believe that these actions will facilitate an increase in usage of our services and expand our subscriber base, thereby delivering high client engagement and revenue growth. As of 31 March we managed to increase the number of subscribers by 6.2% to 76.4 million.

At the same time, we continue expanding our 3G and 4G networks to accommodate the current and future needs of our customers. We remain focused on development of our unified billing system, which, we believe, will contribute to greater efficiency in our business.

I am pleased to announce that the Company's Board of Directors has recommended payment of a final dividend for 2015 in the amount of 30 billion rubles, subject to approval by the Annual General Meeting of Shareholders in June 2016.

Our Board of Directors will also make a recommendation later this year for the payment of an interim dividend for 2016, the amount of which will be based on the financial performance of the Company at that point of time.

After four fantastic years as CEO of MegaFon I have submitted my resignation to the Board. On that note I would like to thank the entire management team for their great work and for the legacy we created together. I am very proud of what we have achieved and am absolutely confident that the Company is in the best possible hands and very well positioned for future continued growth.

## Key Consolidated Financial Data (in Millions of Rubles)

	Q1 2016	Q1 2015	Q1 2016/ Q1 2015
Revenue	75,150	73,983	1.6%
Wireless Services	64,558	64,093	0.7%
Including data revenue	20,648	17,855	15.6%
Wireline Services	6,007	5,499	9.2%
Sales of equipment & accessories	4,585	4,391	4.4%
OIBDA	30,247	31,964	(5.4%)
OIBDA Margin	40.2%	43.2%	(3.0 p.p.)
Net Profit	8,837	7,402	19.4%
Net Profit Margin	11.8%	10.0%	1.8 p.p.
CAPEX	14,298	8,093	76.7%
CAPEX / Revenue	19.0%	10.9%	8.1 p.p.

## Key Financial Data in Russia (in Millions of Rubles)<sup>5</sup>

	Q1 2016	Q1 2015	Q1 2016/ Q1 2015
Revenue	73,973	72,722	1.7%
Wireless Services	63,394	62,840	0.9%
Including data revenue	20,321	17,538	15.9%
Wireline Services	5,997	5,495	9.1%
Sales of equipment & accessories	4,582	4,387	4.4%
OIBDA	30,194	31,790	(5.0%)
OIBDA Margin	40.8%	43.7%	(2.9 p.p.)
Net Profit	9,656	8,107	19.1%
Net Profit Margin	13.1%	11.1%	2.0 p.p.

<sup>5</sup> Excluding mutual settlements with "TT mobile" CJSC, "AQUAFON-GSM" CJSC and "OSTELEKOM" CJSC

## Revenue

Our total consolidated revenue in Q1 2016 increased by 1.6% y-o-y to RUB 75,150 million. Revenue from Russia remained the major component, accounting for over 98.4% of total revenue.

Wireless service revenue increased by 0.7% y-o-y to RUB 64,558 million despite increased competition and continued decline in traditional voice revenue. Wireless data revenue remained the key driver of this growth, increasing by 15.6% y-o-y to RUB 20,648 million. Our 3G and 4G network expansion programme and extensive promotional activities resulted in an increase in penetration of data-enabled devices to 54.4% and increased subscriber usage of heavier data-consuming products. An 8.3% y-o-y increase in our value added services revenue, driven by the growing popularity of our products such as mobile notification and mobile finance, also contributed to the growth of wireless service revenue.

Wireline service revenue increased by 9.2% y-o-y to RUB 6,007 million as a result of the strengthening of our positions in the B2G segment and further expansion in the B2B segment, supported by the acquisition of GARS.

Revenue from sales of equipment and accessories increased by 4.4% y-o-y to RUB 4,585 million, although numbers relating to the prior year may have been affected by an unusual spike in Q4 2014 influenced by the adverse economic environment. However we saw a revival of the demand for more expensive devices, including iPhones and tablets.

## OIBDA and OIBDA Margin

OIBDA decreased by 5.4% y-o-y to RUB 30,247 million in Q1 2016, and OIBDA margin declined by 3.0 p.p. to 40.2% due to:

- higher dealer commissions as a result of the growing number of subscribers, including those acquired through Svyaznoy;
- increased general and administrative expenses relating principally to increased rent expense driven by higher office rent costs and continued expansion of our network and inflation-driven increases in utility rates;
- the increase in radio frequency fees due to new way of calculating eGSM fees, mandated by Roscomnadzor's order no126 of 16 October 2015.

## Net Profit

Net profit in Q1 2016 increased by 19.4% y-o-y to RUB 8,837 million mostly due to foreign exchange gains in Q1 2016.

## CAPEX

Consolidated CAPEX in Q1 2016 increased by 76.7% y-o-y to RUB 14,298 million, including RUB 2,199 million paid for additional frequency spectrum at frequency distribution auctions. Without including the latter amount, consolidated CAPEX would have grown 49.5% y-o-y.

## Free Cash Flow

Consolidated free cash flow decreased by 24.0% y-o-y to RUB 8,924 million mostly due to increased capital expenditures.

## Net Debt

Consolidated net debt as of 31 March 2016 decreased by RUB 6,980 million to RUB 173,866 million from RUB 180,846 million as of 31 December 2015 due to robust cash generation and revaluation of our foreign currency denominated debt.

## Earnings per Share

Consolidated basic and diluted EPS in Q1 2016 increased y-o-y from RUB 12 per share to RUB 15 per share due, which is in line with the increase in net profit discussed above.

## Dividends

On 27 April 2016, the Board of Directors of the Company recommended payment of a final dividends for 2015 in the amount of RUB 30 billion, equivalent to RUB 48.38 per ordinary share (or GDR), subject to approval by the Annual General Meeting of Shareholders on 30 June 2016. The Board will also make a recommendation later this year for the payment of an interim dividend for 2016, the amount of this will be based on the financial performance of the Company at that point in time.

## Outlook/Guidance

We maintain our previously announced guidance and reiterate that we expect our revenue growth in 2016 to be flat to low single digits, the OIBDA to be in the range of RUB 120 – 126 billion. We revise our guidance for capital expenditures for 2016 and we now anticipate that this will not exceed RUB 70 billion.

## Key Operational Highlights in Russia

### Wireless subscribers

	31 Mar 2016	31 Mar 2015	31 Mar 2016/ 31 Mar 2015
Number of wireless subscribers (K)	74,537	69,517	7.2%
of which data service users (K)	29,601	26,918	10.0%
Share of data service users	39.7%	38.7%	1.0 p.p.

Our Russian wireless subscriber base continued to grow and increased by 7.2% y-o-y to 74.5 million as of 31 March 2016 as a result of our new B2C and B2B initiatives based on a proactive marketing campaign to acquire new subscribers and our new cooperation with Svyaznoy, the second largest mobile retailer in Russia.

Our data service user base expanded faster than the overall subscriber base, representing a 10.0% y-o-y growth, largely due to effective promotion of MegaFon data services in Q1 2016. Our data users represent 39.7% of the overall subscriber base.

### Data operating indicators

	Q1 2016	Q1 2015	Q1 2016/ Q1 2015
ARPDU (RUB)	232	219	5.9%
DSU (MB)	3,942	3,195	23.4%

ARPDU in Q1 2016 increased by 5.9% y-o-y to RUB 232 due to the growth in data traffic usage on the back of the continued 3G and 4G/LTE rollout.

DSU in Q1 2016 increased by 747 megabytes, or 23.4% y-o-y to 3,942 megabytes, due to promotion of complete plug-and-play packaged solutions and new tariff initiatives, including our recent upgrade of internet options, designed to stimulate demand for data transfer.

## Conference Call

MegaFon will be hosting an analyst and investors conference call today with a simultaneous audiocast to discuss its Q1 2016 results.

Time: 11.00 (New York time), 16.00 (London time), 18.00 (Moscow time)

Dial-in details:

Local - Moscow, Russia:	+7 495 213 0977
National free phone - Russian Federation:	+8 800 500 9311
Local - London, United Kingdom:	+44(0)20 3427 1911
National free phone - United Kingdom:	0 800 279 5736
Local - New York, United States of America:	+1 646 254 3367
National free phone - United States of America:	+1 877 280 1254
Access confirmation code:	5235548
Password:	MegaFon

## Audiocast and slide presentation

<http://ir.megafon.com/>

The presentation file in PDF format will be available for download at least one hour before the event starts

Replay facilities

(will be available for 7 days)

Replay password	5235548 followed by #
Russia Toll Free	+8 10 800 2870 1012
UK Toll Free	0 800 358 7735
USA Toll Free	+1 866 932 5017
Local – Moscow, Russia	+7 495 705 9453
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## For More Information

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## Notes to Editors

**MegaFon PJSC** is a leading Russian integrated telecommunication service provider, operating in all segments of the telecommunications markets in Russia, and in the Republics of Abkhazia, South Ossetia and Tajikistan. MegaFon is a recognized market leader in the provision of mobile data services, was the first operator in Russia to launch commercial operation of a third generation (3G) network and was the first operator in the world to launch commercial operation of an LTE-Advanced (4G) data network. MegaFon is traded on the Moscow Stock Exchange and the London Stock Exchange under the symbol MFON. Additional information about MegaFon and the products and services provided by MegaFon can be found at <http://www.megafon.ru>

### Disclaimer/ Forward Looking Statements

The above discussion and analysis should be read in conjunction with the Company's Consolidated Financial Statements which are available for download on the Company's website at: <http://ir.megafon.com>

Certain statements and/or other information included in this document may not be historical facts and may constitute "forward looking statements" within the meaning of Section 27A of the U.S. Securities Act of 1933 and Section 2(1)(e) of the U.S. Securities Exchange Act of 1934, as amended. The words "believe", "expect", "anticipate", "intend", "estimate", "plans", "forecast", "project", "will", "may", "should" and similar expressions may identify forward looking statements but are not the exclusive means of identifying such statements. Forward looking statements include statements concerning our plans, expectations, projections, objectives, targets, goals, strategies, future events, future revenues, operations or performance, capital expenditures, financing needs, our plans or intentions relating to the expansion or contraction of our business as well as specific acquisitions and dispositions, our competitive strengths and weaknesses, the risks we face in our business and our response to them, our plans or goals relating to forecasted production, reserves, financial position and future operations and development, our business strategy and the trends we anticipate in the industry and the political, economic, social and legal environment in which we operate, and other information that is not historical information, together with the assumptions underlying these forward looking statements. By their very nature, forward looking statements involve inherent risks, uncertainties and other important factors that could cause our actual results, performance or achievements to be materially different from results, performance or achievements expressed or implied by such forward-looking statements. Such forward-looking statements are based on numerous assumptions regarding our present and future business strategies and the political, economic, social and legal environment in which we will operate in the future. We do not make any representation, warranty or prediction that the results anticipated by such forward-looking statements will be achieved, and such forward-looking statements represent, in each case, only one of many possible scenarios and should not be viewed as the most likely or standard scenario. We expressly disclaim any obligation or undertaking to update any forward-looking statements to reflect actual results, changes in assumptions or in any other factors affecting such statements.

## Schedule 1: Definitions

**Wireless Subscriber** is defined as each SIM card that is activated in our billing system or has had at least one chargeable traffic event (that is, use of voice, VAS or data transfer services) within the preceding three months, whether chargeable to the subscriber or to a third party (for example, interconnection charges payable by other operators). Where an individual person holds more than one SIM card, each SIM card is included as a separate subscriber.

**Data service user** is defined as a subscriber who has consumed any amount of data traffic within preceding month.

**ARPDU (Average Monthly Revenue Per Data Services User)** is calculated for a given period by dividing the Company's data services revenues for a given period by the average number of its data services users during that period, and further dividing the result by the number of months in that period.

**DSU (Monthly Average Data Services Usage per User)** is calculated by dividing the total number of megabytes transferred by our network during a given period by the average number of data services users during such period and dividing the result by the number of months in such period.

**OIBDA (Operating Income Before Depreciation and Amortisation)** is a financial measure which should be considered as supplementary, but not as an alternative to the information provided in the financial statements of the Company. OIBDA margin means OIBDA as a percentage of revenue. The Company believes that OIBDA provides a better measure of the Company's actual operational results including our ability to finance capital expenditures, acquisitions and other investments and our ability to incur and service debt. While it does not take into account depreciation of property and equipment, amortisation of intangible assets and gain/(loss) from disposal of non-current assets, which are considered as operating expenses in IFRS, these expenses primarily represent non-cash charges related to long-lived assets acquired or constructed in prior periods. OIBDA is widely used by investors, analysts and rating agencies as a measure to evaluate and compare current and future operating performance and to determine the value of companies within the telecommunications industry. A reconciliation of OIBDA to operating profit is provided in Schedule 2.

**Net Profit** is profit for the period attributable to equity holders of the Company.

**EPS (Earnings per Share)** means an amount of the Company's profit allocated to one share of its stock, and is calculated by dividing Net Profit for a reporting period by the weighted average number of shares outstanding during the period. No earnings are allocated to treasury shares.

**Diluted EPS** is calculated by adjusting both numerator and denominator in the EPS calculation so as to reflect the effect of including the additional shares that would have been outstanding if all options and other rights to acquire shares had been converted into actual shares.

**Capital Expenditures (CAPEX)** comprises the cost of purchases of new equipment, new construction, acquisition of new or upgrades to software, acquisition of spectrum and other intangible assets, and purchases of other long-term assets, together with related costs incurred prior to the intended use of the applicable assets, all accounted for as of the earliest time of payment or delivery. Long-term assets obtained through business combinations are not included in the calculation of capital expenditures.

**Free Cash Flow** means cash from operating activities, less cash paid for purchases of property, equipment and intangible assets, increased by proceeds from sales of property and equipment and interest paid. It is a financial measure which should be considered as supplementary but not as an alternative to the information provided in the Company's financial statements. This metric measures the Company's ability to generate cash after accruals required to maintain and expand the Company's assets. A reconciliation of free cash flow and cash from operating activities is provided in Schedule 2.

**Net debt position** means the difference between (a) cash, cash equivalents, and principal amount of deposits and (b) principal amount of loans and borrowings less unamortised debt issuance fees. It is a financial measure which should be considered as supplementary but not as an alternative to the information provided in the Company's financial statements. The Company believes that this metric provides useful information as to the liquidity position of the Company after debt repayments. A description of how the metric is calculated is provided in Schedule 2.

## Schedule 2: Reconciliations of Non-IFRS Financial Measures (Unaudited Data)

### OIBDA (In millions of Rubles)

	Q1 2015	Q2 2015	Q3 2015	Q4 2015	Q1 2016
Operating profit	17,946	20,762	21,792	15,458	15,560
Depreciation	12,134	11,981	12,283	11,775	12,715
Amortisation	1,800	1,845	1,845	1,823	1,867
Loss from disposal of long-lived assets	84	149	225	455	105
<b>OIBDA</b>	<b>31,964</b>	<b>34,737</b>	<b>36,145</b>	<b>29,511</b>	<b>30,247</b>

### OIBDA Margin as percentage of Revenue

	Q1 2015	Q2 2015	Q3 2015	Q4 2015	Q1 2016
Operating profit	24.3%	27.3%	26.8%	18.8%	20.7%
Depreciation	16.4%	15.7%	15.1%	14.4%	16.9%
Amortisation	2.4%	2.4%	2.3%	2.2%	2.5%
Loss on disposal of non-current assets	0.1%	0.2%	0.3%	0.6%	0.1%
<b>OIBDA margin</b>	<b>43.2%</b>	<b>45.6%</b>	<b>44.5%</b>	<b>36.0%</b>	<b>40.2%</b>

### Net debt (In millions of Rubles)

	31 Mar 2015	30 Jun 2015	30 Sep 2015	31 Dec 2015	31 Mar 2016
Cash and cash equivalents	38,394	61,965	70,782	17,449	15,631
Bank deposits (principal amount)	44,697	14,930	3,838	20,210	18,747
Loans and borrowings (principal amount), less unamortised fees and discounts	(212,154)	(190,503)	(197,584)	(218,505)	(208,244)
<b>Net debt</b>	<b>(129,063)</b>	<b>(113,608)</b>	<b>(122,964)</b>	<b>(180,846)</b>	<b>(173,866)</b>

## Free cash flow (In millions of Rubles)

	Q1 2015	Q2 2015	Q3 2015	Q4 2015	Q1 2016
Net cash flows from operating activities	18,570	26,746	29,422	28,611	22,633
Purchase of property, equipment and intangible assets	(10,196)	(11,750)	(23,818)	(18,691)	(17,359)
Proceeds from sale of property and equipment	83	103	76	42	33
Interest paid	3,289	4,246	3,190	3,874	3,617
<b>Free cash flow</b>	<b>11,746</b>	<b>19,345</b>	<b>8,870</b>	<b>13,836</b>	<b>8,924</b>