

Press-release

MegaFon announces financial results for Q4 2016 and the full year 2016

MOSCOW, Russia (16 March 2017) - PJSC "MegaFon" ("MegaFon", or the "Company") (LSE: MFON), a leading Russian integrated telecommunications operator, announces its audited consolidated financial results¹ for Q4 2016 and the full year 2016.

Key highlights of Q4 2016²

- Consolidated revenue decreased by 0.8% y-o-y³ to RUB 81,287 million
- Revenue from wireless data services increased by 1.9% y-o-y to RUB 21,372 million
- Adjusted OIBDA⁴ decreased by 1.6% y-o-y to RUB 29,053 million
- Adjusted OIBDA margin was 35.7% versus 36.0% in Q4 2015
- Net Profit decreased by 42.3% y-o-y to RUB 3,079 million
- CAPEX increased by 13.1% y-o-y to RUB 26,715 million
- Free Cash Flow increased by 2.1% and amounted to RUB 14,121 million
- Net Debt as of 31 December 2016 was RUB 196,856 million
- The number of mobile subscribers as of 31 December 2016 grew by 0.8% y-o-y to 77.4 million⁵

Key highlights of the full year 2016

- Consolidated revenue increased by 0.9% y-o-y to RUB 316,275 million
- Revenue from wireless data services increased by 5.7% y-o-y to RUB 84,441 million
- Adjusted OIBDA decreased by 8.5% y-o-y to RUB 121,139 million
- Adjusted OIBDA margin decreased to 38.3% versus 42.2% in 2015
- Net Profit decreased by 34.7% y-o-y to RUB 25,496 million
- CAPEX decreased by 6.5% y-o-y to RUB 65,577 million
- Free Cash Flow totaled RUB 46,927 million, a decrease of 12.8% over 2015

¹ Based on the IFRS consolidated financial statements audited by JSC KPMG

² 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.

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

⁴ Adjusted OIBDA is OIBDA net of impairment charge in the amount of RUB 3.4 billion related to the goodwill allocated to the Broadband Internet cash generating unit

⁵ 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

- Approval of RUB 15 billion dividend distribution
 - On 09 December 2016, MegaFon's Extraordinary General Meeting of Shareholders approved an additional interim dividend in the total amount of RUB 15 billion⁶, equivalent to RUB 24.19 per ordinary share (or GDR)
 - As a result, the total amount of dividends distributed in 2016 amounted to RUB 50 billion⁷, equivalent to RUB 80.63 per ordinary share (or GDR)
- Acquisition of Mail.Ru Group
 - On 23 December 2016, the Board of Directors approved the acquisition of a 15.2% equity interest (63.8% voting interest) in Mail.Ru Group Limited (LSE:MAIL) ("Mail.Ru"), a leading company in the Russian-speaking internet market, for total consideration of USD 740 million, with USD 640 million payable upon completion and the remaining USD 100 million payable one year after completion
 - On 20 January 2017, the shareholders of the Company approved the transaction and completion of the transaction occurred on 9 February 2017
 - The transaction is aimed at achieving strategic advantages for both companies, including enhancement of MegaFon's digital products, promotion of a special VKmobile offering for users of the VK social network, improvement in client targeting and segmentation and other potential initiatives
 - Following the transaction, MegaFon and Mail.Ru will continue operating as separate entities, dealing on an arms-length basis, with both independent management teams dedicated to preserving each company's corporate culture and governance and ensuring continuity of their operating and product development activities, at the same time focusing on cooperating in areas of mutual strategic and economic benefit
- Strategic partnership to develop industrial internet market in Russia
 - On 28 November 2016, MegaFon and the Russian Association of Industrial Internet signed a strategic partnership agreement aimed at development of the IIoT market in Russia, creation of universal branch standards and development of joint IIoT projects
- Tariff initiatives to improve the Company's business performance
 - In late December 2016, MegaFon revamped its bundled tariffs to bring them in line with the market:
 - Allowances in the two cheapest bundled tariffs were reduced while the monthly subscriber fee remained unchanged
 - The monthly fees for higher-end bundled tariffs with the same amount of available allowances were increased

⁶ The exact amount of the dividends declared and paid was RUB 14,997,800,000. Approximately RUB 0.59 billion were paid to MegaFon's wholly-owned subsidiary MegaFon Investments (Cyprus) Limited ("MICL"), which holds the Company's treasury shares

⁷ The exact amount of the dividends declared and paid was RUB 49,990,600,000. Approximately RUB 2 billion of these dividends were paid to MICL

- In January 2017, MegaFon discontinued offering unlimited data tariff plans, including those plans offered by its subsidiary Yota
- MegaFon to provide telecommunication services at FIFA 2017 and 2018 events
 - In March 2017, MegaFon was chosen as an official provider of telecommunication infrastructure and additional services at all locations for the events of the FIFA 2017 Confederations Cup and FIFA 2018 World Football Cup
 - MegaFon will build and test 5G zones at FIFA World Cup 2018 locations in Moscow and St Petersburg to ensure super-high speed mobile Internet and provide high quality network coverage for guests and teams
- Acquisition of additional frequencies in the Volga Region
 - On 28 February 2017, MegaFon completed the acquisition of a 100% interest in three entities in Ulyanovsk, Saransk and Penza from the regional mobile operator JSC “SMARTS”
 - Each of the entities owns 14.8 MHz of spectrum in the 1,800 MHz band
 - The acquisition will strengthen MegaFon’s position in the 1,800 MHz spectrum band in the Volga region and will provide for a more efficient, fast and cost-effective 4G roll-out in the region

Sergey Soldatenkov, Chief Executive Officer of MegaFon, commented on the financial and operational results as follows:



MegaFon's performance in 2016 was in line with our guidance for the year despite the difficult competitive environment in the Russian telecoms industry. The increasing pressures from tough competition caused us to reduce prices for services, while at the same time to increase spending on acquisition and retention of subscribers as well as network development.

The financial performance of MegaFon in Q4 2016 and the full year completely reflected the market situation; our consolidated revenue, amounting to RUB 316 billion, was essentially flat y-o-y, the growth in data revenue slowed, and our adjusted OIBDA margin declined to 38.3%, although the increases in revenue from equipment sales and wireline services were bright spots for the year.

In this uncertain environment we undertook a number of initiatives aimed at strengthening our current position and anticipating eventual improvement in our business. Given the fact that mobile penetration in Russia is now approximately 180%, we have decided that it would be inappropriate to continue aggressively building our subscriber base. Instead, we will focus more on improving the quality of customer care and delivering value in order to maintain the loyalty of our existing subscribers. At the same time we will continue to develop our value-added services in order to monetize mobile data and increase our revenues from this source.

The proposal to acquire a controlling stake in the Mail.Ru Group was the signature event of last year. This step will enable us to transform our business and evolve from a mobile operator into an integrated digital communications company. It will give us an opportunity to develop, together with Mail.Ru, brand new products and services for our customers, which will combine mobile data and digital technology capabilities and open a new chapter in the history of both MegaFon and the entire telecom market in Russia. We are pleased to report that the transaction, which was completed in early February of this year, received overwhelming support from our shareholders.

We are also in the final stages of defining our strategy for the next three to five years, which we hope to announce at the end of May.

Our key priority remains to ensure the continued attractiveness of our shares to investors. In October 2016, the Board recommended, and the shareholders approved, an additional dividend for 2016 in the amount of RUB 15 billion. When combined with the dividend approved in June 2016, the total amount of dividends distributed in 2016 amounted to RUB 50 billion, which is in line with the 2015 amount.

Key Consolidated Financial Data (in Millions of Rubles)

	Three Months			Full Year		
	Q4 2016	Q4 2015	Q4 2016/ Q4 2015	2016	2015	2016/ 2015
Revenue	81,287	81,980	(0.8%)	316,275	313,383	0.9%
Wireless Services	65,871	68,481	(3.8%)	263,645	270,043	(2.4%)
Including data revenue	21,372	20,973	1.9%	84,441	79,912	5.7%
Wireline Services	6,988	6,934	0.8%	25,661	23,434	9.5%
Sales of equipment & accessories	8,428	6,565	28.4%	26,969	19,906	35.5%
Adjusted OIBDA	29,053	29,511	(1.6%)	121,139	132,357	(8.5%)
Adjusted OIBDA Margin	35.7%	36.0%	(0.3 p.p.)	38.3%	42.2%	(3.9 p.p.)
Net Profit	3,079	5,332	(42.3%)	25,496	39,041	(34.7%)
Net Profit Margin	3.8%	6.5%	(2.7 p.p.)	8.1%	12.5%	(4.4 p.p.)
CAPEX	26,715	23,627	13.1%	65,577	70,164	(6.5%)
CAPEX / Revenue	32.9%	28.8%	4.1 p.p.	20.7%	22.4%	(1.7 p.p.)

Key Financial Data in Russia (in Millions of Rubles)⁸

	Three Months			Full Year		
	Q4 2016	Q4 2015	Q4 2016/ Q4 2015	2016	2015	2016/ 2015
Revenue	80,118	80,590	(0.6%)	311,567	308,367	1.0%
Wireless Services	64,714	67,109	(3.6%)	258,990	265,085	(2.3%)
Including data revenue	21,022	20,646	1.8%	83,119	78,677	5.6%
Wireline Services	6,979	6,920	0.8%	25,619	23,393	9.5%
Sales of equipment & accessories	8,425	6,561	28.4%	26,958	19,889	35.5%
Adjusted OIBDA	29,283	29,480	(0.7%)	122,105	132,124	(7.6%)
Adjusted OIBDA Margin	36.5%	36.6%	(0.1 p.p.)	39.2%	42.8%	(3.6 p.p.)
Net Profit	4,257	5,643	(24.6%)	30,306	42,198	(28.2%)
Net Profit Margin	5.3%	7.0%	(1.7 p.p.)	9.7%	13.7%	(4.0 p.p.)

⁸ Excluding mutual settlements with "TT mobile" CJSC, "AQUAFON-GSM" CJSC and "OSTELEKOM" CJSC

Revenue

Our total consolidated revenue for 2016 increased by 0.9% y-o-y and reached RUB 316,275 million, fully in line with our guidance, while our consolidated revenue for Q4 2016 decreased by 0.8% y-o-y to RUB 81,287 million.

Russian revenue for Q4 2016 and the full year 2016 remained the major component, accounting for over 98.6% and 98.5%, respectively, of total consolidated revenue.

Our wireless revenue decreased in Q4 2016 by 3.8% y-o-y to RUB 65,871 million, and in the full year 2016 by 2.4% y-o-y to RUB 263,645 million, in each case reflecting the continued stagnation of traditional voice services due to a shift to digital technologies and growing popularity of alternative Over the Top services as well as the increased penetration of bundled offerings.

However, a significant increase in revenue from handsets and equipment together with the positive performance of our wireline service revenue throughout the year served to offset this decline in our wireless revenue.

The increasing number of subscribers choosing bundled tariffs (which generally are more economical for subscribers because they have higher data allowances) also served to slow the growth rate of mobile data revenue, which increased in Q4 2016 by only 1.9% y-o-y to RUB 21,732 million and in the full year 2016 by 5.7% y-o-y to RUB 84,441 million. At the same time, the share of data revenue in total consolidated revenue increased in Q4 2016 from 25.6% to 26.3% and in the full year 2016 from 25.5% to 26.7%. An increase in revenue from value-added services in Q4 2016 of 4.9% y-o-y and of 5.2% for the full year 2016, on the back of further development of MegaFon's popular services, including MegaFon TV and the MegaFon card, partially compensated for the decline in wireless revenue.

Wireline service revenue for the full year 2016 increased by 9.5% y-o-y to RUB 25,661 million due to continued expansion of our B2B and B2G client base and development of our portfolio of products. However, because the comparable Q4 2015 results included the effects of certain one-off contracts and the acquisition of GARS, wireline service revenue in Q4 2016 increased by only 0.8% y-o-y to RUB 6,988 million.

Revenue from sales of equipment and accessories for Q4 2016 increased by 28.4% y-o-y to RUB 8,428 million, and for the full year 2016 increased by 35.5% y-o-y to RUB 26,969 million, as a result of the demand for more expensive high-end devices which we marketed with attractive bundled offerings. The average price of phones sold in MegaFon retail stores in Q4 2016 increased by 85% y-o-y to RUB 4,323.

Adjusted OIBDA and adjusted OIBDA Margin

In Q4 2016 our adjusted OIBDA decreased by 1.6% y-o-y to RUB 29,053 million mainly due to a 5.1% increase in the cost of revenue, resulting from the higher sales of equipment and accessories noted above and higher rent expenses, which was partially off-set by an 11.5%

reduction in employee benefit costs due to the revision of bonus accruals and related social charges, a RUB 450 million decrease in radio frequencies fees, and a 5.4% decrease in sales and marketing expenses. Adjusted OIBDA margin in Q4 2016 decreased by 0.3 p.p. y-o-y to 35.7% compared to 36.0% in Q4 2015.

Overall, adjusted OIBDA for the full year 2016 was RUB 121,139 million and exceeded the targets announced in our revised guidance. Adjusted OIBDA margin for the full year 2016 decreased by 3.9 p.p. y-o-y to 38.3% from 42.2% in 2015.

Net Profit

Consolidated net profit in Q4 2016 decreased by 42.3% y-o-y to RUB 3,079 million mainly due to an impairment charge in the amount of RUB 3,400 million relating to the goodwill allocated to the Broadband internet cash generating unit, which reflected the rapid decline in returns in the retail broadband segment and revisions in management forecasts in this segment in response to the current challenging economic environment and competitive pressures.

Net profit for the full year 2016 decreased by 34.7% y-o-y to RUB 25,496 million due to a higher cost of services as a result of a shift in our revenue structure towards wireline services and sales of equipment and accessories which are traditionally lower margin segments; higher dealer commissions resulting from the increase in the number of subscribers; increased depreciation and rent expenses resulting from continued expansion of our network as well as inflation; and higher office rent costs.

CAPEX

CAPEX in Q4 2016 increased by 13.1% y-o-y to RUB 26,715 million as compared to RUB 23,627 million in Q4 2015. We continue to maintain a significant level of investment in order to roll out our high speed mobile data network coverage across our existing network footprint as well as upgrading our 2G and 3G networks. CAPEX for the full year 2016 reached RUB 65,577, 6.5% lower than the capex number for 2015, which included the cost of the purchase of spectrum from SMARTS in Volga region.

Free Cash Flow

Our free cash flow for Q4 2016 increased by 2.1% y-o-y, from RUB 13,836 million for Q4 2015 to RUB 14,121 million for Q4 2016, mainly due to the fact that there were higher cash capital expenditures in Q4 2015.

Free cash flow for the full year 2016 decreased by 12.8% y-o-y to RUB 46,927 million mainly due to a RUB 10,319 million, or 9.1% y-o-y, reduction in operating cash flow.

Net Debt

Our net debt increased from RUB 190,207 million as of 30 September 2016 to RUB 196,856 million as of 31 December 2016, principally as a result of the dividend payment made in December 2016. We continue to pay close attention to our leverage situation and to ensure that we maintain an optimal capital structure.

Earnings per Share

Consolidated basic and diluted EPS in Q4 2016 decreased y-o-y from RUB 10 per share to RUB 5 per share, and consolidated basic and diluted EPS for the full year 2016 decreased y-o-y from RUB 66 per share to RUB 43 per share, in each case in line with the decrease in net profit.

Outlook/Guidance

We expect MegaFon's revenue for 2017 to grow in the flat to low single digit range and anticipate that our OIBDA will be in the range of RUB 112 – 118 billion. We project MegaFon's capital expenditures for 2017 to be in the range of RUB 55 – 60 billion.

This guidance represents stand-alone numbers and does not include the financial results of Mail.Ru. This guidance also does not take into account strategic advantages from the Mail.Ru transaction.

As recently disclosed by Mail.Ru, Mail.Ru's stand-alone revenue for 2017, on a pro-forma basis, is expected to grow 16-19% to between RUB 49.6 and 50.9 billion and its OIBDA margin to be around 42% for the full year 2017.

Key Operational Highlights in Russia

Wireless subscribers

	31 Dec 2016	31 Dec 2015	31 Dec 2016/ 31 Dec 2015
Number of wireless subscribers (K)	75,615	74,777	1.1%
of which data service users (K)	31,031	29,343	5.8%
Share of data service users	41.0%	38.6%	2.4 p.p.

Our Russian wireless subscriber base increased by 1.1% y-o-y to 75.6 million as of 31 December 2016 as a result of attractive tariff offerings and options. However, we are shifting our focus from gross additions to retention of our existing customer base and increasing their life-time value⁹.

Our data service user base increased by 5.8% y-o-y, due to ongoing promotion of MegaFon data services and increased adoption of data-enabled devices (57.2% of all devices registered on the MegaFon network are now data-enabled devices). Our data users currently represent 41.0% of the overall subscriber base.

Data operating indicators

	Q4 2016	Q4 2015	Q4 2016/ Q4 2015	12m 2016	12m 2015	12m 2016/ 12m 2015
ARPDU (RUB)	228	238	(4.2%)	230	233	(1.3%)
DSU (MB)	5,061	3,638	39.1%	4,286	3,286	30.4%

ARPDU in Q4 2016 decreased by 4.2% y-o-y to RUB 228 mainly due to a continued slowdown in mobile data revenue growth resulting from an increasing number of subscribers choosing cheaper bundled tariffs with higher data allowances which were introduced by MegaFon in early 2016. ARPDU in the full year 2016 decreased by 1.3% y-o-y, reflecting this same trend.

DSU in Q4 2016 increased by 1,423 megabytes, or 39.1% y-o-y, to 5,061 megabytes, due to our promotion of data-enabled devices, further intensive roll out of 4G/LTE network and continued increase in the number of 4G-enabled devices registered on the MegaFon network. DSU for the full year 2016 increased by 30.4% y-o-y to 4,286 megabytes, reflecting the effect of the same factors.

⁹ The present value of the future cash flows attributed to the subscriber during his/her entire relationship with MegaFon

Conference Call

MegaFon will be hosting an analyst and investors conference call today with a simultaneous audiocast to discuss its Q4 2016 and the full year 2016 results.

Time: 11.00 (New York time), 15.00 (London time), 18.00 (Moscow time)

Dial-in details:

To listen to the call in original language of the conference, please dial:

Access confirmation code: **4886783** (Russian & English)

To listen to the call in English only, please dial:

Access confirmation code: **8212275** (English only)

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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 **4886783** (Russian & English) followed by #
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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. In February 2017, MegaFon acquired a 15.2% equity interest (which represented 63.8% of the voting shares) in Mail.Ru Group, a leading company in the Russian-speaking internet market. MegaFon is traded on the Moscow Stock Exchange and the London Stock Exchange under the symbol MFON. Mail.Ru Group is traded on the London Stock Exchange under the symbol MAIL. Additional information about MegaFon and the products and services provided by MegaFon can be found at <http://www.megafon.ru>

Disclaimers, Statement Regarding Inside Information and 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://corp.megafon.com/investors/>

Some of the information in this document may be inside information. The subject matter, the identity of the issuer, the identity of the persons making the notification and their titles, and the date and time of the notification are all as set forth above.

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.

Adjusted OIBDA is OIBDA net of impairment charge. A reconciliation of Adjusted 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 received. 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)

Adjusted OIBDA (In millions of Rubles)

	Q4 2015	Q1 2016	Q2 2016	Q3 2016	Q4 2016
Operating profit	15,458	15,560	14,199	16,686	10,639
Depreciation	11,775	12,715	13,111	13,370	12,729
Amortisation	1,823	1,867	2,013	1,981	2,020
Loss from disposal of long-lived assets	455	105	231	248	265
Impairment of goodwill	—	—	—	—	3,400
Adjusted OIBDA	29,511	30,247	29,554	32,285	29,053

Adjusted OIBDA Margin as percentage of Revenue

	Q4 2015	Q1 2016	Q2 2016	Q3 2016	Q4 2016
Operating profit	18.8%	20.7%	18.0%	20.6%	13.1%
Depreciation	14.4%	16.9%	16.7%	16.5%	15.7%
Amortisation	2.2%	2.5%	2.6%	2.4%	2.5%
Loss from disposal of long-lived assets	0.6%	0.1%	0.2%	0.3%	0.3%
Impairment of goodwill	—	—	—	—	4.1%
Adjusted OIBDA	36.0%	40.2%	37.5%	39.8%	35.7%

Net debt (In millions of Rubles)

	31 Dec 2015	31 Mar 2016	30 Jun 2016	30 Sep 2016	31 Dec 2016
Cash and cash equivalents	17,449	15,631	35,873	25,703	31,922
Bank deposits (principal amount)	20,210	18,747	7,287	20,621	5,052
Loans and borrowings (principal amount), less unamortised fees and discounts	(218,505)	(208,244)	(210,295)	(236,531)	(233,830)
Net debt	(180,846)	(173,866)	(167,135)	(190,207)	(196,856)

Free cash flow (In millions of Rubles)

	Q4 2015	Q1 2016	Q2 2016	Q3 2016	Q4 2016
Net cash flows from operating activities	31,387	25,791	20,644	27,481	29,042
Purchase of property, equipment and intangible assets	(18,279)	(17,000)	(11,425)	(14,137)	(15,330)
Proceeds from sale of property and equipment	42	33	149	477	50
Interest received	686	100	237	456	359
Free cash flow	13,836	8,924	9,605	14,277	14,121