

Who We Are

MegaFon is one of Russia's largest mobile operators in terms of revenue and subscribers. We provide services in all market segments, including voice, data and other mobile and fixed-line telecommunications services, digital TV and IP telephony. We also have subsidiaries in Tajikistan, Abkhazia and South Ossetia. As of the end of 2015, MegaFon provided services to 76.8 million subscribers, including 74.8 million subscribers in Russia.



Our extensive networks

Our advanced infrastructure enables us to deliver a wide range of high-quality mobile services throughout Russia. In 2015, we entered new regions and increased the total number of our base stations by 9.9% to 113,230 units. Our 2G and 3G networks cover 97.7% and 89.5% of the population respectively¹. As of the end of 2015, MegaFon's 4G services available to 59.2%¹ of the Russian population, in 77 regions of Russia and in 14 of the 15 largest cities (with a population of over 1 million people). By continuously developing our infrastructure, we want to provide our customers with fast and stable connection, high quality of connections and high speed mobile Internet.



Our broad service portfolio

Our high-quality services, all targeting real customer needs, extend far beyond voice, mobile and fixed-line data transfer. We also provide a range of value-added services to retail customers, business and government clients and other telecommunication service providers. We work with corporate clients to develop and provide bespoke business solutions. We have a consumer hardware business, selling handsets and other devices. Our MegaLabs subsidiary, meanwhile, specialises in developing innovative solutions in M2M, financial services, media, content and the cloud.



Our respected brand

In 2015, MegaFon updated its brand positioning. At the heart of the new positioning is the idea that MegaFon continuously improves quality of communication to make people across Russia feel that they are close to their loved ones, even when they are far apart. According to a survey among the subscribers of the top four Russian mobile operators, at the end of 2015 the key unique attributes of the MegaFon brand were: 'high communication quality' and 'commitment to improving communication quality' MegaFon intends to use its unique attributes to achieve its strategic objectives in 2016.



Our retail network

MegaFon's own controlled distribution network include 2,096 MegaFon Retail stores, 1,980 franchised stores and approx. 4,000 stores of the nationwide Euroset chain, which we own in partnership with VimpelCom. Together, these are the primary places in which we come into face-to-face contact with customers, adding value and enhancing our brand through the friendly and speedy resolution of issues, the delivery of professional advice and high standards of service.



Exceptional people

The commitment and accountability of MegaFon's employees are what makes our business so successful. Attracting and retaining the best possible talent is the mission-critical driving force behind all our training and personal development activities. As of 31 December 2015, we employed 31,576 people.

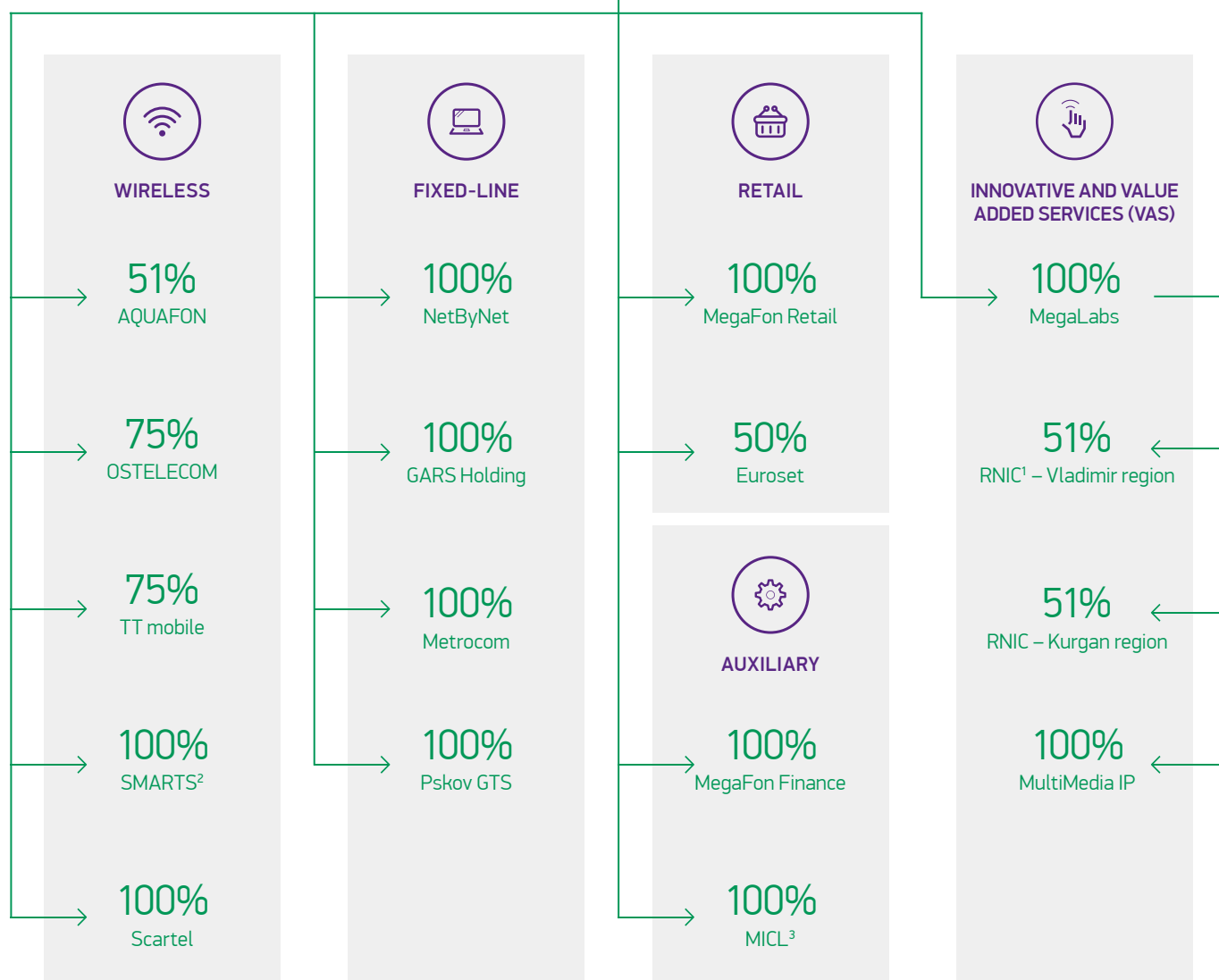


Innovative, affordable hardware

We aim to improve our customers' lives at a reasonable cost with every device we sell. Our affordable data-enabled smartphones and tablets are enabling customers to access innovative services that open up new opportunities for them right across Russia. The wide range of 4G-enabled devices, routers, modems, dongles and other devices, which we offer in our controlled distribution channels, is making it easy to access the new world of 4G and enjoy such popular services as streaming audio, HD-video, online games, social networks and others.

¹ Based on MegaFon estimates

OUR ORGANISATIONAL STRUCTURE

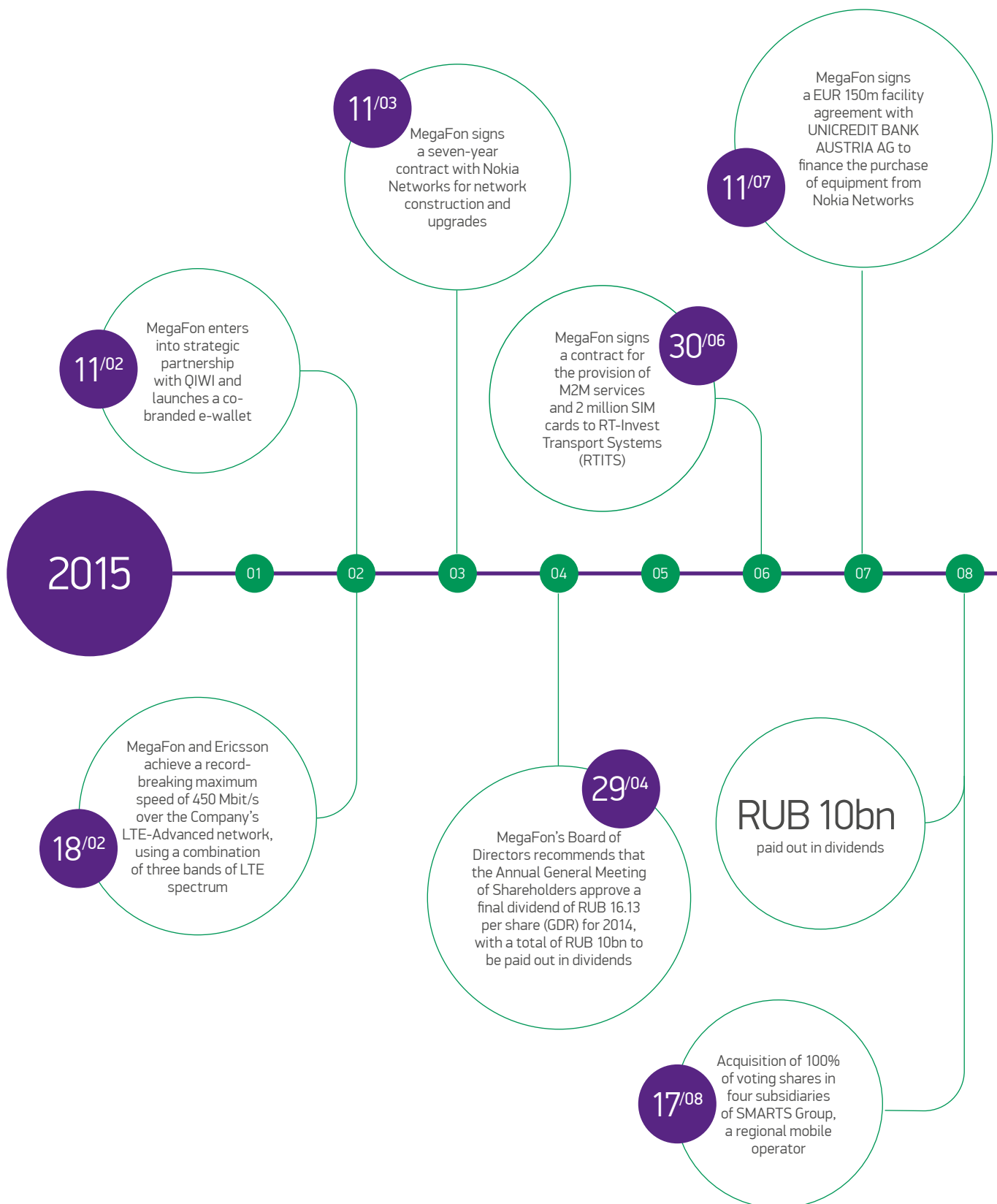


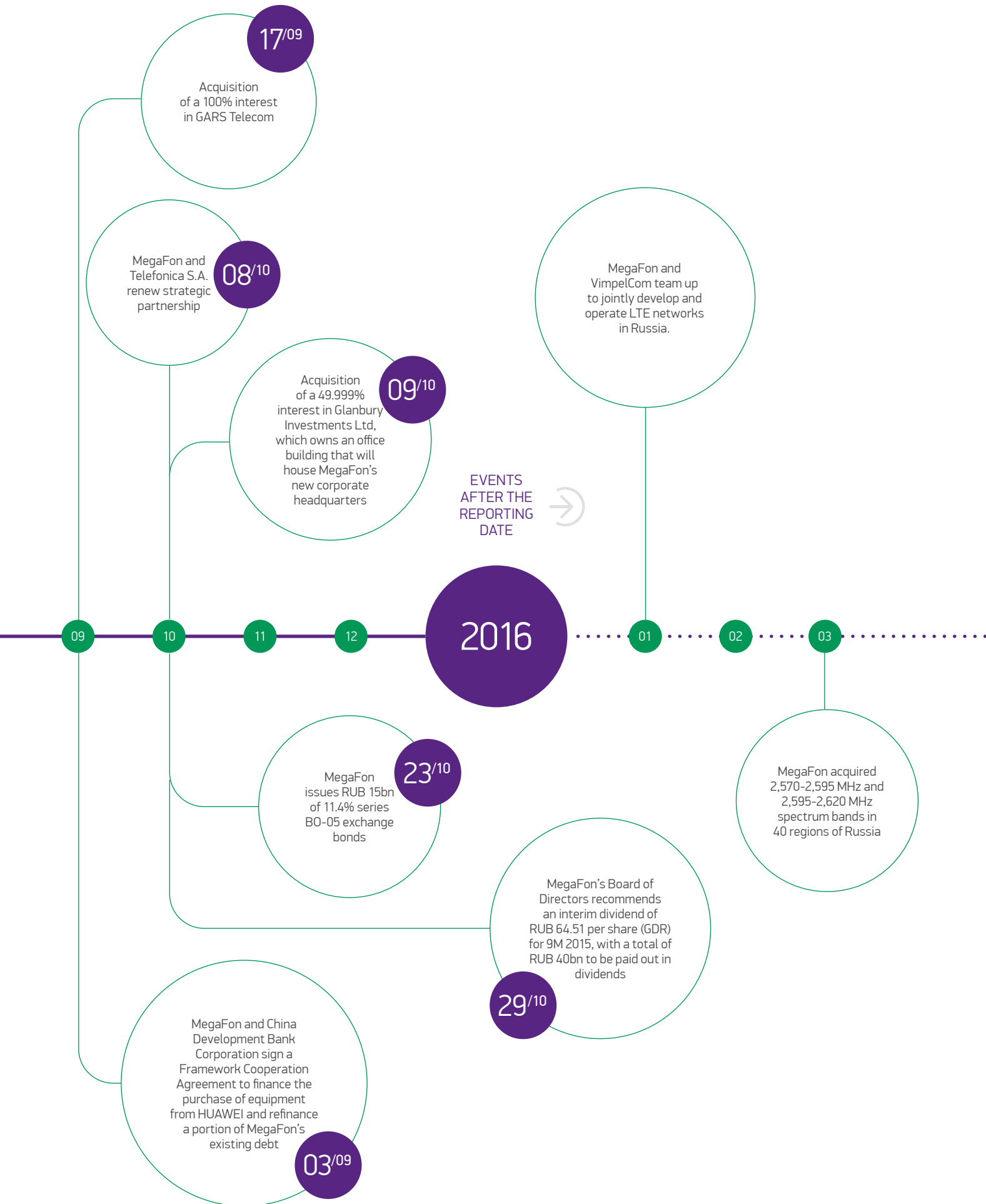
¹ Regional Navigation & Information Centre.

² Includes five companies in Samara, Astrakhan, Volgograd, Yaroslavl regions and the Chuvash Republic, acquired from the SMARTS Group in 2014 and 2015.

³ MegaFon Investments (Cyprus) Limited, owner of 3.92% shares in MegaFon.

Key Events of the Year





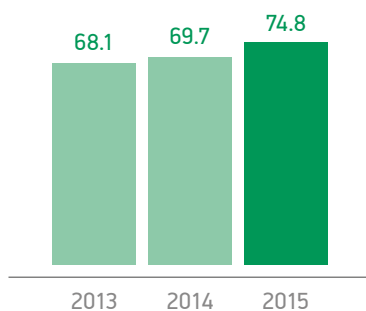
Our Highlights

Stable operational and financial performance

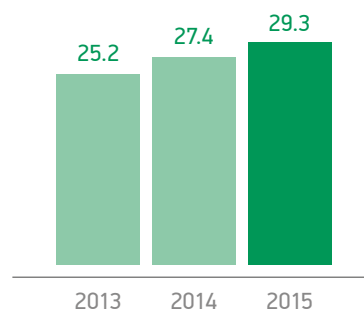
In spite of negative trends in the economy and increasing competition in the telecoms, in 2015 we demonstrated solid financial and operational performance and achieved the goals we set for the year.

Superior operating performance^{1,2...}

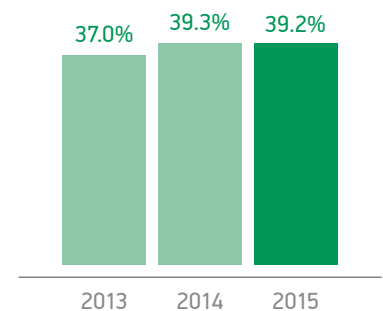
SUBSCRIBERS, (m people)



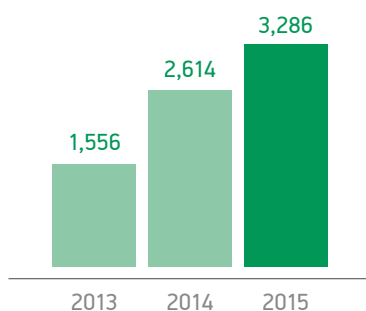
USERS OF MOBILE DATA SERVICES, (m people)



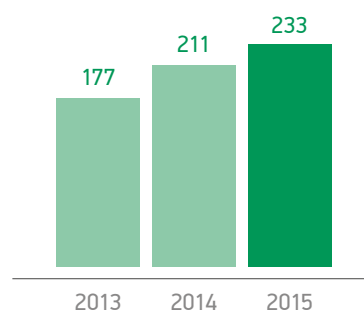
SHARE OF MOBILE DATA USERS, (%)



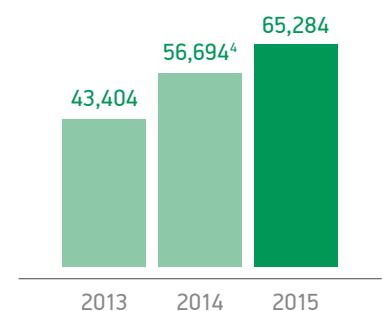
DSU, (MB per month)



ARPDU, (RUB per month)



3G AND 4G BASE STATIONS³, (units)



¹ All figures disclosed under non-financial highlights refer to our Russian operations

² Some of the operating KPIs presented here vary from those reported earlier due to the change in methodology for data service users calculation. Data service user is defined as a subscriber who has consumed any amount of data traffic within preceding month.

³ Hereinafter – in units for Russia only

⁴ Verified data for 2014

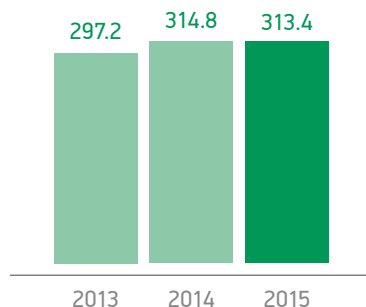
+4.2 p.p.

25.5%

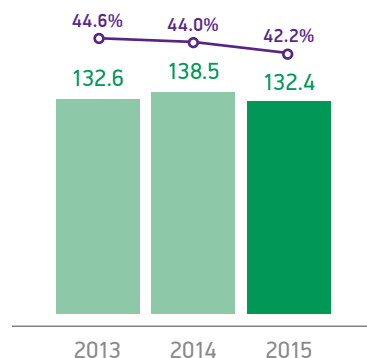
share of mobile data in total revenue in 2015

...translating into healthy financials

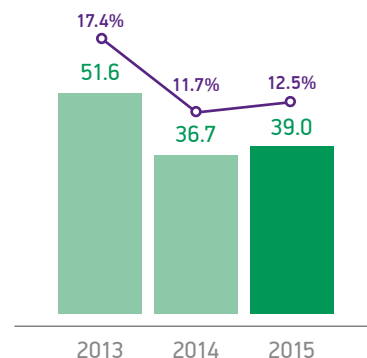
REVENUE, (RUB bn)



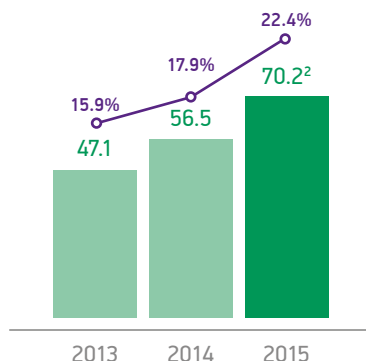
OIBDA, (RUB bn) + OIBDA MARGIN, (%)



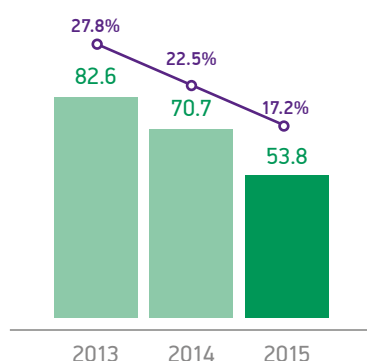
NET PROFIT¹, (RUB bn) + NET PROFIT MARGIN, (%)



CAPEX, (RUB bn) + CAPEX TO REVENUE, (%)



FREE CASH FLOW³, (RUB bn) + FREE CASH FLOW TO REVENUE, (%)



1 Profit for the year attributable to equity holders of the Company
 2 CAPEX including acquisition of four companies from the SMARTS Group
 3 Verified data for 2013-2014

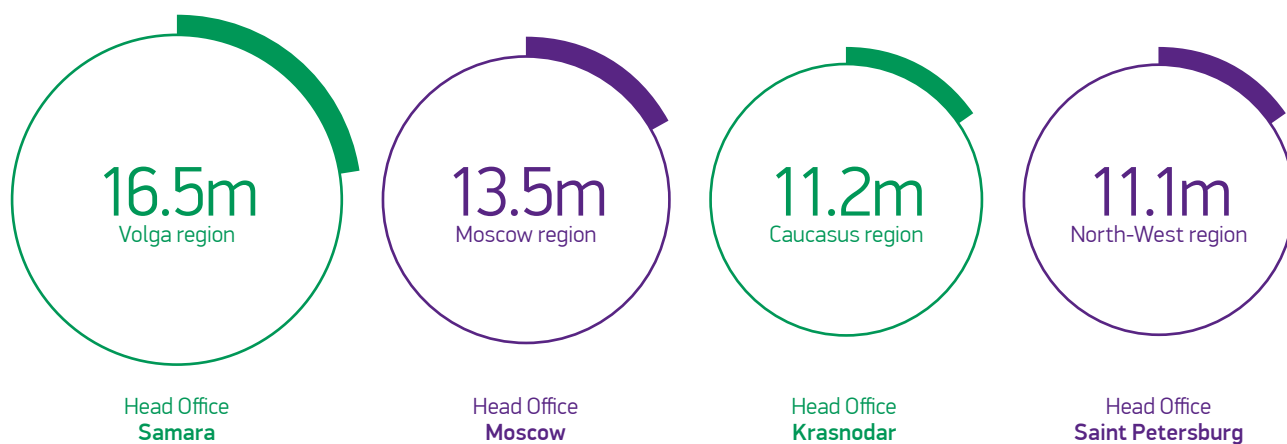
Geographic Presence

Driving continuous development

We remain focused on increasing the quality of the connections across Russia and improving services through the modernisation of 4G, 3G and 2G networks



Subscriber number by branch





RUSSIA

MEGAFON

Customer base	74.8m
Market share by customer	29.7%
Mobile internet users	29.3m
4G-enabled devices registered on network	7.85m
Revenues, RUB	308.4bn
Capex in 2015, RUB	69.0bn

TAJIKISTAN

TT MOBILE

Customer base	1.8m
Market share by customer	27%
Mobile internet users	0.5m
4G-enabled devices registered on network	-
Revenues, RUB	3.5bn
Capex in 2015, RUB	0.9bn

ABKHAZIA

AQUAFON-GSM

Customer base	0.15m
Market share by customer	59%
Mobile internet users	0.06m
4G-enabled devices registered on network	-
Revenues, RUB	1.2bn
Capex in 2015, RUB	0.2bn

SOUTH OSSETIA

OSTELECOM

Customer base	0.07m
Market share by customer	100%
Mobile internet users	0.03m
4G-enabled devices registered on network	0.002m
Revenues, RUB	0.3bn
Capex in 2015, RUB	0.04bn



Head Office Ekaterinburg



Head Office Novosibirsk



Head Office Khabarovsk



Head Office Nizhny Novgorod



Chairman's Statement



Dear Shareholders and Investors,

In 2015, MegaFon continued to successfully pursue sustainable growth. Our effective management and coordinated efforts to reach our targets ensured a solid performance during the reporting period and helped us successfully complete our three-year strategic cycle for 2012–2015.



I am proud to say that notwithstanding a very challenging macroeconomic environment MegaFon proved itself capable of adapting to a fast-changing environment, becoming more customer-centric while holding onto its own concepts and ideas.

SERGEY SOLDATENKOV
Chairman of the Board

GOVERNANCE DEVELOPMENTS

Our corporate governance framework was established and operates in accordance with requirements, regulations and recommendations of the Central Bank of Russia, the UK Financial Conduct Authority, Moscow and London Stock Exchanges, as well as in line with best global practices. In 2015, the Board of Directors prepared to amend the Regulations on the Audit Committee and the Remuneration and HR Development Committee to align them with recommendations issued by trade regulators, and with best practices. We intend to expand the functions of these committees, taking one more step towards optimising the Company's corporate governance framework. In other words, we are consistently providing proof of our commitment to the pillars of corporate governance: transparency, fairness, responsibility, and accountability.

With the ever-changing financial and information markets, the Company is taking great care to protect insider information and reinforce anti-corruption efforts. We are closely monitoring all relevant regulatory changes while also adopting risk management best practices. In addition, we have planned to carry out a comprehensive set of measures aimed at the development of a risk culture in 2016 and 2017 and the assessment of risks in the Company's material processes and projects, including the Shared Service Centre, Unified Billing and business planning. Particular attention will be given to more fundamental training of the Company's senior management on risk management and mitigation.

Another important development in improving the effectiveness of the Company's corporate governance was the implementation of the new "two keys" ("two-in-the-box") principle for the Russian corporate practice, providing for the appointment of several sole executive bodies acting independently from one another in clearly defined roles. In June 2015, the Annual General Meeting of Shareholders approved a new version of MegaFon's Charter introducing the position of the Chief Operating Officer responsible for the day-to-day management of the business, including business segments, infrastructure, branches and subsidiaries.

In spring 2015, an independent assessment of the Board of Directors' performance was carried out. Based on the assessment results, the Board of Directors defined a number of priority areas for improving its performance, in particular:

- the Company's strategic development,
- the Company's succession planning framework,
- new approach to designing short-term/long-term incentive plans for the Company's management.

STRATEGY

The results of our three-year growth strategy show that the Company achieved significant gains – our strengthened market position, enhanced customer base, and improved business efficiency brought MegaFon to the forefront of innovation.

Today, the Russian telecommunications industry continues to evolve at a rapid pace, with changes from customer demand mix and retail business transformations, through modified approaches taken by mobile operators to infrastructure development, for example, splitting off tower infrastructures into separate companies. In 2016, we plan to go even further – developing a new corporate strategy to enable continued growth for the Company at this inflection point, albeit on a different path, one which is adjusted to address changes in the economic environment, market demand and the evolving needs of our customers.

DIVIDENDS

Protection of the interests and rights of our shareholders and investors lies at the heart of MegaFon's dividend policy. Since floating its shares on the London Stock Exchange and Moscow Exchange, the Company has regularly paid dividends to its shareholders, starting from FY2012. In 2015, the Annual General Meeting of Shareholders resolved to pay RUB 10 bn in dividends for FY2014 (RUB 16.13 per share or GDR). In addition, the Extraordinary General Meeting of Shareholders resolved to make payment of an additional RUB 40bn in dividends for the first 9 months of 2015 (RUB 64.51 per share or GDR). As a result, dividends accrued in 2015 totalled a record RUB 50bn.

STAKEHOLDER INTERACTION

MegaFon provides communications services on a daily basis to millions of our subscribers. We are fully aware of the significance of our services in the daily life of our customers. We have great responsibilities to both the state and society as a whole.

Therefore, we are particularly focused on our interactions with stakeholders – shareholders, customers, partners, and of course, our people. Fairness and respect are the basic principles underpinning our ongoing dialogue with stakeholders. For us, sustainable development is not just another area of activity – it is an integral aspect of MegaFon's business strategy. Finally, we value our reputation and take pride in the high customer satisfaction rates that we have achieved.

OUTLOOK

In line with the Board of Directors' scope of authority set out in the Company's Charter, in 2016, we intend to continue operating for the benefit of our shareholders, customers, and employees – defining priority areas, improving decision-making management, and streamlining our motivation system.

Despite the challenging macroeconomic situation in Russia, we look to the future with confidence. Our expertise and our insights into market processes and industry trends leave us well-positioned not just to overcome the current economic downturn but to retain our market position.

I want to thank all MegaFon employees, who were "Truly with Us" in this challenging environment and delivered a solid performance for the Company in 2015.



SERGEY SOLDATENKOV
Chairman of the Board

Chief Executive's Review



Solid financial and operational performance was achieved in spite of negative trends in the economy and increasing competition in the telecoms industry. We have maintained our leadership position in communication quality, and further developed our pro-active customer-centric approach.

IVAN TAVRIN
Chief Executive Officer

Dear Shareholders, Partners, and Colleagues,

For many businesses and industries 2015 was a year of transformation, a time for reviewing management strategies, and a test of corporate resilience against the backdrop of a worsening economic environment within Russia. The mobile telecommunications industry was no exception here and, given the added factor of intensified competition, the paradigm of interaction between the market players called for reinvention. Despite all this, in 2015 we achieved the goals we set for the year and delivered performance consistent with our expectations. Solid financial and operational performance was achieved in spite of negative trends in the economy and increasing competition in the telecoms industry. We have maintained our leadership position in communication quality, and further developed our pro-active customer-centric approach.

2015 HIGHLIGHTS

In 2015, our consolidated revenue totaled RUB 313.4bn, the same level as in 2014. Our consolidated OIBDA was RUB 132.4bn, with an industry-leading OIBDA margin of 42.2%. CAPEX (including acquisition in August 2015 of frequencies from four companies of the SMARTS Group) grew 24.2% year-on-year to RUB 70.2bn.

Given the increased volatility in the rouble, we have continued the implementation of initiatives to ensure the Company's financial sustainability and optimise its debt portfolio. Over 80% of our cash and deposits are held in US dollars or euros. 55% of our debt portfolio is due in three years or more, with the overwhelming majority of the Company's debt denominated in roubles and the percentage of FX-denominated loans and borrowings which are not hedged being less than 30%. Including interest and cross-currency swaps over 80% of our debt portfolio has fixed rates.

To secure sustainable financing for growth we have signed loan agreements with China Development Bank Corporation, providing credit facilities of up to US\$ 600m, of which US\$ 300m will be used to finance purchases of equipment and services from Huawei to support further rollout and replacement of equipment for our network. The second loan facility will be used to refinance existing higher rate debt.

To finance the purchase of telecommunications equipment, software and related services from Nokia Solutions and Networks we also signed a Finnvera-covered facility agreement with Unicredit Bank Austria AG for EUR 150m in June 2015, and a further facility agreement with Sberbank for the RUB equivalent of EUR 70m in December 2015.

Also in December 2015, we signed a new revolving credit facility agreement with Sberbank for RUB 30bn, of which RUB 15bn was immediately drawn down to prepay more expensive short-term debt and extend maturities for a further two to three years.

We continued to tap the Russian debt market as well, successfully completing a placement of RUB 15bn of 11.4% two-year exchange-traded bonds in October 2015, with the offering being oversubscribed over three times. Complementing this achievement was our early repayment in May 2015 of the entire issue of the Company's series BO-04 exchange-traded bonds in order to reduce interest costs.

In 2015, we made vigorous efforts to improve communication quality by further developing our network, focusing on two key areas: upgrades of existing and replacement of obsolete equipment in our 2G and 3G networks and the active rollout of our 4G/LTE high-speed transmission network. Our state-of-the-art infrastructure which provides fast, high-quality data transmission to meet the communications needs of our customers comprised over 113,000 base stations as of the end of 2015, with the total number of base stations growing 10% over the previous year and the number of 3G and 4G base stations amounting to 65,300. At the end of 2015, the total length of our fibre-optic communications lines was 184,400 km, enough to circle the globe almost five times.

Yet another milestone in our commitment to infrastructure development came when we signed a seven-year contract with Nokia to construct and upgrade MegaFon's nationwide 4G+ federal network using Single RAN (radio access network) technology.

Frequency bands are a key asset for any mobile operator and, to improve our spectrum position, we made a number of important acquisitions over the year. Specifically, in August 2015, the Company acquired additional spectrum in the Samara, Astrakhan and Yaroslavl regions and the Chuvash Republic through the purchase of a 100% interest in four companies belonging to the SMARTS Group, which significantly improved our position in the 900/1,800 MHz bands in these regions. In October 2015, MegaFon made the winning bids at Russia's first auction for frequencies held by the Federal Service for Supervision of

>80%
of our cash and deposits
are held in US\$

Communications, Information Technology, and Mass Media for the 1,800 MHz bands in Dagestan and the Karachay-Cherkess Republic, which will enable us to improve network quality and minimise capital expenses on infrastructure expansion in these regions. This year, in another auction held in February 2016, MegaFon acquired frequencies in the 2,570–2,595 MHz and 2,595–2,620 MHz bands in 40 regions of Russia, including St Petersburg and the Leningrad region.

In addition, in accordance with our investment strategy, MegaFon completed several strategic transactions. In September 2015, we acquired a 100% interest in GARS Holding Limited ("GARS"), which provides a full range of fixed-line services to tenants of business centres in Moscow and St Petersburg. This strategic transaction will significantly expand our footprint in Russia's two capitals and consolidate our position in the corporate and SME segments of the telecoms market.

I should also mention that, in October 2015, we acquired a 49.999% interest in a new class A office building at Oruzheyny Pereulok in Moscow, which will allow us to consolidate all of our Moscow offices and production sites in a single location in the centre of Moscow, thereby saving occupancy costs and improving our internal communications and inter-actions.

Also in 2015 we completed and placed into full operation our Global Network Operational Centre (GNOC), one of the largest and most advanced hubs in Russia and globally to monitor the performance of our entire network and ensure its reliable operation.

Chief Executive's Review (continued)

Our Unified Billing, a strategically important, complex project, deserves a special mention. We have been preparing for the realisation of this project for several years and launched its testing for B2C customers on 15 December 2015. Through this new project, we will have the technical capabilities to serve customers in any part of the country, thereby effecting an improvement in the quality of our customer service.

LEADING THE FIELD IN MOBILE DATA

In 2015, our mobile revenue was up 0.2% year-on-year, driven by industry-leading growth in revenue in mobile data and value-added services (VAS). Revenue from mobile data services, our fastest growing business segment, reached RUB 79.9bn, up 19% year-on-year and representing over 25.5% of our total revenue.

Several developments contributed to this significant growth in mobile data revenue – the growing popularity of mobile internet, subscribers using social media and instant messaging instead of telephony and SMS for communication purposes, and greater availability of smartphone offerings as well as price-cuts in this product category. Our own efforts also contributed – we continued to roll out 3G and 4G networks and to implement new business initiatives such as updates to our line of tariff plans to stimulate data usage, and a wide offering of data-enabled devices at affordable prices in our retail network. As a result, penetration of data-enabled devices on the Company's network reached 53%, while data transmission traffic per subscriber (DSU) grew to 3.3 GB per month.

The growth in revenue from mobile data and VAS fully compensated for the drop in revenue from traditional voice services, demonstrating the success of our strategy of focusing primarily on developing mobile data services and innovative products to complement such services.

The development of 4G networks and services remains the Company's priority. MegaFon's 4G network is deployed in as many as 77 regions of the Russian Federation, while LTE-Advanced services with record-breaking speeds of 150 Mbit/s–450 Mbit/s were available in nine cities, including Moscow and St Petersburg.

At the end of 2015, our roaming services were available to MegaFon's subscribers in 224 countries worldwide, while LTE-roaming services were available in 66 countries. In 2015, we saw the penetration rate of 4G-enabled devices on our network grow by 34.3% to 7.9 million devices.

ALWAYS THERE FOR OUR CUSTOMERS

We continue to make further improvements in communication quality, maintaining our industry leadership in this area. High-quality telecoms services are our key advantage and the reason why customers choose us.

We also maintain our focus on acquiring new and retaining existing customers by developing new products and tariffs to enhance our existing offerings. Our mobile subscriber base in Russia keeps growing, up 7% to 74.8 million subscribers at the end of 2015.

Our vigorous marketing initiatives and a new strategic partnership agreement with Svyaznoy, Russia's leading mobile retailer, to expand the distribution network for MegaFon's products and services, have contributed to this growth in the subscriber base.

At the same time, I want to reiterate our commitment to developing the Company's own retail chain. At the end of 2015, our controlled retail network comprised almost 2,100 MegaFon Retail stores, approx. 2,000 MegaFon-branded franchised stores, and almost 4,000 Euroset stores. We offered over 330 models of 4G-enabled devices, with sales of 4G smartphones and tablets in our retail channel up 111% in 2015 from a year before, reaching 0.5 million units.

In spring 2015, MegaFon re-examined its branding, resulting in the launch of a new communication platform, "Truly with You", which we believe will help to build a stronger emotional bond with consumers and enable MegaFon to engage with customers on a more personal level.



In conclusion, I want to thank all our employees, managers, and shareholders for all of their efforts and support in the past year and express my confidence that our team's superior expertise, and their pro-active and hard-working attitudes will continue to drive the successful growth of our business.

IVAN TAVRIN
Chief Executive Officer

We are proud to report that our customer-centric approach was recognised nationally when we won awards in two categories in the 2015 Russia Customer eXperience Awards: the Most Customer-Oriented Company in Russia (360° customer experience management) and the Best Multi-Channel Customer Experience.

MegaFon was also the winner of the 2015 Customer Rights and Quality of Service award (in the Communications and Telecoms sub-category within the Retail Services category) and the 2015 No. 1 Brand in Russia award in the Mobile Operator category.

In 2015, MegaFon was the first of the "Big Three" mobile operators to remove time limits for free on-net calls. In July 2015, we also stopped charging for on-net calls in Moscow for subscribers on our 'Perekhodi na Nol' ('Switch to Zero') tariff, which has the largest number of subscribers in the mobile market as it has no subscription fee and no billing increments for on-net calls.

OUTLOOK FOR 2016

Based on our forecasts, 2016 will be another challenging year for the Company. Tough macroeconomic conditions and the resulting changes in consumer behaviour, as well as price competition in the market, will continue to put pressure on our business and financial performance.

As we consider these factors, we are fully aware that achieving our goals will call for maximum focus and smart financial planning.

We will focus on keeping up with new market realities and trends, further improving communication quality and developing our network. We remain committed to retaining our leadership position in the Russian telecoms market, by developing the innovative areas of our business, retaining our subscriber base, and improving the efficiency of our business processes. And, of course, maximising the quality of our customers' experience will remain at the heart of everything we do.