

Corporate Governance Framework

MegaFon's investment appeal, sustainability and success rely on efficient corporate governance. The consistent development and enhancement of the corporate governance system helps us build and maintain trust-based relationships with our investors, employees and other stakeholders.

The Company's Board of Directors and executive bodies take ultimate responsibility for the corporate governance system, which is designed to balance the interests of our shareholders and management. As part of our commitment to continuous improvement, we are constantly looking at ways to develop and enhance our corporate governance policies and procedures.

KEY CORPORATE GOVERNANCE PRINCIPLES

Our approach to corporate governance is guided by a set of principles, which are fully compliant with national and international legislation requirements and standards.

MegaFon's corporate governance principles are:

- enabling shareholders to fully exercise their rights relating to their shareholdings in the Company;
- strategic governance and effective supervision of the Company's executive bodies by the Board of Directors, which in turn is accountable to the General Shareholders Meeting;
- appropriate management of MegaFon's day-to-day operations by the Company's executive bodies and their accountability to the Company's Board of Directors and shareholders;
- timely disclosure of complete and accurate information about the Company, including its financial position, performance, ownership and governance structure;
- effective control of the Company's financial and business operations;
- ensuring the protection of the interests and statutory rights of shareholders and other investors, creditors and other stakeholders, and commitment to high standards of social responsibility in the Company's activities.

CORPORATE GOVERNANCE DEVELOPMENTS IN 2015

In a most significant development in MegaFon's ongoing efforts to improve its corporate governance system, in 2015, the Company's constituent documents were brought into compliance with the provisions of Article 4 of the Civil Code of the Russian Federation (new version).

On 1 September 2014, Federal Law No. 99-FZ enacted on 5 May 2014 entered into effect. This Law materially amended Article 4 (Legal Entities), Part 1 of the Russian Civil Code. In particular, joint-stock companies are now classified as public and non-public. The amendment does not imply a change of legal form as the concept of a "joint-stock-company" remains; rather, it results in the introduction of new types of classification for such business entities.

On 20 April 2015, an extraordinary General Meeting of Shareholders approved amendments to MegaFon's Charter, including a change in the Company name, in order to comply with these changes in Article 4 of the Civil Code. As a result of the amendment, OJSC MegaFon was renamed PJSC MegaFon.

Another important development in improving the effectiveness of the Company's corporate governance was the implementation of the "two keys" ("two-in-the-box") principle, a new concept also recently introduced.

Specifically, in accordance with the amendments introduced to the Civil Code of the Russian Federation by Federal Law No. 99-FZ, a corporation's charter may provide for the powers of a sole executive body to be granted to several persons acting jointly, or for multiple executive bodies capable of acting independently to be appointed. Both individuals and legal entities may act as a sole executive body of a corporation (Clause 3, Article 65.3).

The amendment to the Russian Civil Code has introduced a new concept in Russian corporate law, aligning it more closely with a number of advanced foreign legal systems that have long espoused the practice of appointing several directors in one company – the so-called "two-keys" ("two-in-the-box") principle.

On 30 June 2015, the Annual General Meeting of Shareholders approved a new version of the Company's Charter to incorporate these new concepts. The new version provides for the appointment of a new executive, to be known as the Chief Operating Officer, to act independently from Chief Executive Officer within clearly defined duties of office.

The appointment of an additional person with executive powers is a powerful tool to maximise the effectiveness of the day-to-day management of the Company. The Chief Operating Officer is responsible for day-to-day management of the business, including business segments, infrastructure, branches and subsidiaries, while the Chief Executive Officer is focused on MegaFon's shareholder value growth, development and implementation of the Company's strategy, and mergers and acquisitions.

Another aspect of this change is that one individual can act with full executive powers when the other individual is on vacation or temporarily unable to carry out his duties.

RELATED-PARTY TRANSACTIONS

Related-party transactions are regulated by Article 11 of Federal Law No. 208-FZ *On Joint-Stock Companies*. Under these provisions, transactions in which shareholders, members of the Board of Directors, or members of executive bodies are interested parties must be approved by either the Board of Directors or the General Meeting of Shareholders. The interested member(s) of the Board of Directors or the interested shareholder(s) does(do) not vote on the relevant resolution.

MegaFon pays close attention to identifying and controlling transactions in which shareholders, members of the Board of Directors, or members of executive bodies are interested parties. Through its SAP ERP system, MegaFon has developed procedures for determining and monitoring such transactions. All MegaFon counterparties are regularly checked for possible relationships with the main shareholders and members of the executive bodies.

In accordance with such procedures, all related-party transactions are subject to preliminary review by specific committees of MegaFon's Board of Directors, based upon the subject matter. In 2015, the Audit Committee carried out preliminary reviews, recommending for the Board's approval (and the Board of Directors subsequently approved) a total of 63 related-party transactions. The Finance and Strategy Committee carried out preliminary reviews, recommending for the Board's approval (and the Board of Directors subsequently approved) 10 such transactions.

➔ The list of related-party transactions effected by MegaFon in 2015 is available on the Company's website at www.megafon.ru/ad/ar2015_sdm.

MAJOR TRANSACTIONS

In 2015, MegaFon concluded no transactions which qualify as "major transactions" (as defined by Article 78 of Federal Law No. 208-FZ *On Joint-Stock Companies*).

BOARD MEMBERS' INDEPENDENCE AND THE BALANCE OF INTERESTS

In accordance with the requirements of Russian law and regulation, the Board of Directors of a public company must include independent directors. Pursuant to the Regulations on the Audit Committee and the Remuneration and HR Development Committee of the Board of Directors, these committees must have at least one independent director meeting a specific set of requirements, including¹:

- having no relationship with the Company;
- having no links with the Company's significant shareholder;
- having no relationship with the Company's competitors or significant counterparties;
- having no relationship with any government or municipal entity.

Upon election, all members of the Board of Directors go through a process to determine whether or not they meet the independence criteria set out in the Corporate Governance Code. At the conclusion of this process, the Board determines which directors qualify as independent directors.

In accordance with these procedures, in 2015, the Company's Board of Directors designated Jan Erik Rudberg, Lord Paul Myners, and Sergey A. Kulikov as independent directors.

COMPLIANCE WITH CORPORATE GOVERNANCE CODE

In March 2014, the Central Bank of Russia adopted a new Corporate Governance Code, marking a milestone in corporate governance. The new version of the Code is the result of a joint effort between market regulators, the Moscow Exchange, international organisations, investors and issuers, as well as international and Russian corporate governance experts. The Code contains best practices and standards and is designed to enhance corporate governance in Russian companies.

The Code's recommendations are primarily aimed at public and state-owned companies. Certain standards and recommendations contained in the Code have already been included in the new Listing Rules of the Moscow Exchange.

➔ Information on MegaFon's compliance with the new Corporate Governance Code is available on the Company's website at www.megafon.ru/ad/ar2015_sdm.

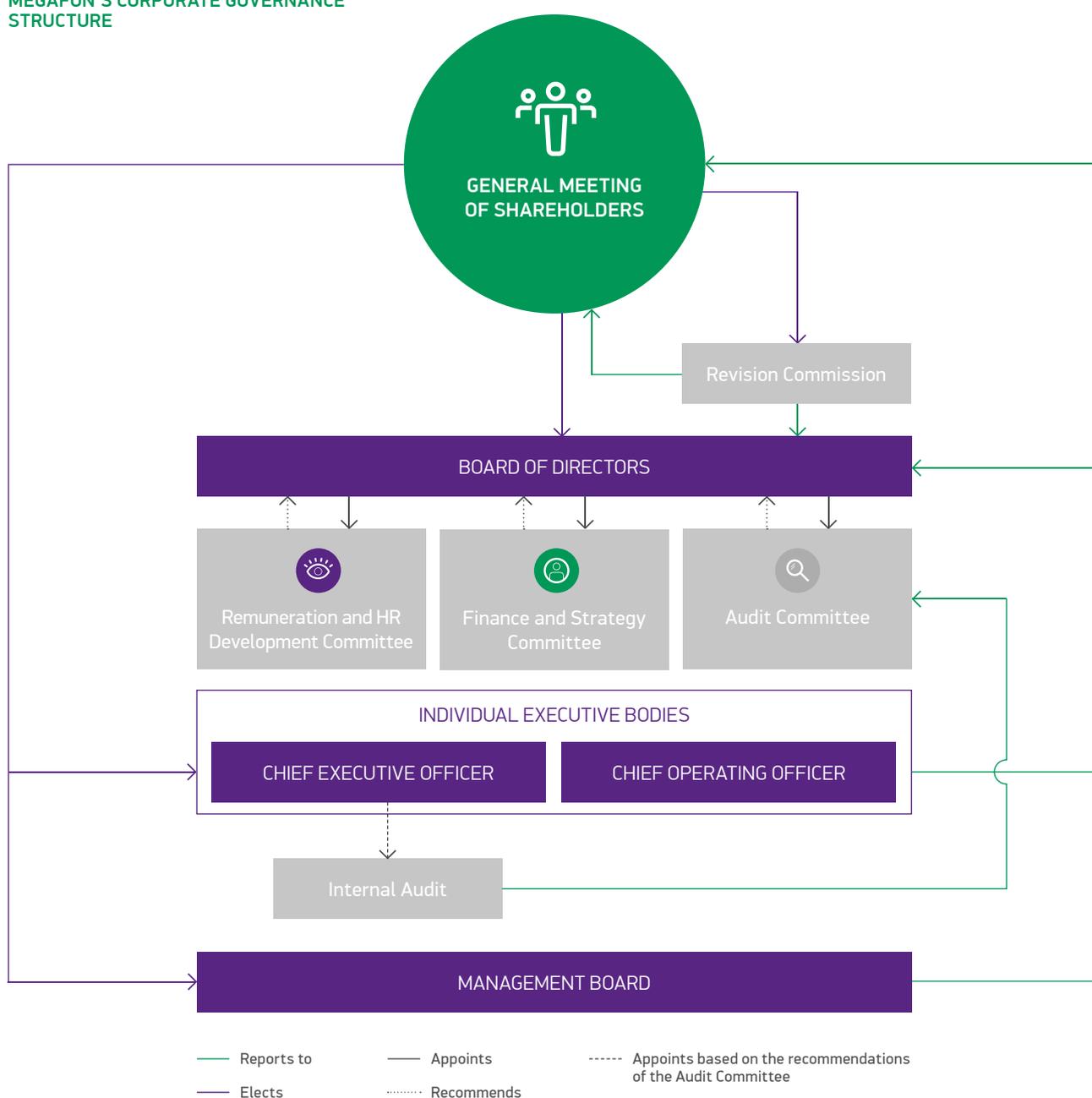


¹ The full list of criteria of the Board members' independence is stipulated in the Corporate Governance Code (letter of the Central Bank of Russia No. 06-52/2463 dated 10 April 2014) and the Listing Rules of the Moscow Exchange.

Corporate Governance Structure

In line with the Federal Law *On Joint Stock Companies* and MegaFon's Charter, our principal management bodies are the General Meeting of Shareholders, the Board of Directors, the Management Board (collective executive body), the Chief Executive Officer and the Chief Operating Officer (individual executive bodies).

MEGAFON'S CORPORATE GOVERNANCE STRUCTURE



Governance Bodies

GENERAL MEETING OF SHAREHOLDERS

The General Meeting of Shareholders is MegaFon's main governing body. Under the Company's Charter and applicable Russian laws, shareholders' participation is required in decision-making on some of the more important corporate matters, including profit distributions and approval of major transactions.

→ The procedure for holding General Meetings of Shareholders is set out in the Regulations on the General Meeting of Shareholders, available on the Company's website at http://corp.megafon.ru/ai/document/147/file/pologenie_Obshem_sobranii_akcion.pdf.

The Annual General Meeting of Shareholders must be held once a year, not earlier than three months and not later than six months after the end of the fiscal year.

In 2015, the Annual General Meeting of Shareholders was held on 30 June in the form of a face-to-face meeting of shareholders. The total number of votes held by persons entitled to take part in the Annual General Meeting was 620,000,000 (the number of votes for cumulative voting was 4,340,000,000). The holders of shares and GDRs entitled to cast 90.1% of the total number of votes took part in the meeting.

Resolutions approved by the Annual General Meeting of Shareholders were as follows:

- approval of the Company's 2014 Annual Report;
- approval of the 2014 annual accounting statements, including profit and loss statements;
- distribution of the Company's profits and losses based on the 2014 financial year results, including dividend payment (declaration), determination of the amount of dividends payable on shares, and the payment method and procedure;
- election of the Board of Directors;
- approval of the size of the Management Board, and election of its members;
- approval of an independent auditor;
- election of the Revision Commission;
- approval of the new version of the Company's Charter (Version No. 4);
- election of the Company's Chief Executive Officer;
- election of the Company's Chief Operating Officer.

In between Annual General Meetings, MegaFon may sometimes hold extraordinary General Meetings of Shareholders. The decision to convene an extraordinary meeting is made by the Board of Directors – either on its own initiative or at the request of the Revision Commission, the independent auditor, or shareholders holding at least 10% of the Company's voting shares.

In 2015, MegaFon held four extraordinary General Meetings of Shareholders: on 19 January, 13 April, 20 April, and 11 December, all of which were held by absentee voting.

Key resolutions approved by the extraordinary General Meetings of Shareholders were as follows:

- approval of related-party transactions;
- approval of amendments to the Company's Charter;
- election of I.V. Tavrin as the Company's Chief Executive Officer, with a term of office till the date of the Annual General Meeting of the Company's Shareholders in 2015;
- declaration of dividends for the first nine months of 2015, including the determination of the amount of dividends payable, and of the payment method and procedure.

→ Detailed information on extraordinary General Meetings of Shareholders held in 2015 is available on the Company's website at corp.megafon.com/investors/shareholdermeetings/extraordinary_general_shareholde/#2015.

BOARD OF DIRECTORS

The Board of Directors exercises general control over the Company by setting business development priorities and defining the Company's growth strategy. The Board's main purpose is to enhance the efficiency and transparency of the Company's internal controls, and improve the monitoring framework and accountability of its management bodies, while protecting and promoting the rights of all shareholders.

→ The full powers of the Board are set out in detail in MegaFon's Charter and the Regulations on the Board of Directors, available on the Company's website at <http://corp.megafon.ru/investors/docs/ustav/>.

COMPOSITION OF THE BOARD OF DIRECTORS

In 2015, the Company's Board of Directors consisted of seven members, including three independent directors. The Board of Directors was re-elected at the 2015 Annual General Meeting of Shareholders.

Until 30 June 2015, the Board of Directors had consisted of the following members:

- Sergey V. Soldatenkov (Chairman);
- Berndt Kenneth Karlberg;
- Sergey A. Kulikov;
- Carl Peter Christian Luiga;
- Lord Paul Myners;
- Jan Erik Rudberg;
- Vladimir Y. Streshinsky.

Since 30 June 2015, the Board of Directors has consisted of the following members:

- Sergey V. Soldatenkov (Chairman);
- Sergey A. Kulikov;
- Carl Peter Christian Luiga;
- Lord Paul Myners;
- Jan Erik Rudberg;
- Vladimir Y. Streshinsky;
- Ingrid Maria Stenmark.

Governance Bodies (continued)

SHORT BIOGRAPHIES OF THE BOARD MEMBERS

Sergey V. Soldatenkov

Chairman of the Board of Directors (non-executive director);
Member of the Remuneration and HR Development Committee;
Member of the Audit Committee.



Born in 1963.

In 1986, Mr Soldatenkov graduated from Leningrad Institute of Aviation Instrument Engineering with a degree in radio engineering.

From 2003 to April 2012, he was Chief Executive Officer of MegaFon.

He has been Member of the Board of Directors since May 2012 (Chairman of the Board since June 2012).

Since April 2014, he has been member of the Board of Directors of METALLOINVEST MC LLC.

Percentage share ownership in the Company: 0.0412%.

During the year, his share ownership changed from 0.0128% to 0.0412%.

Percentage of the Company's ordinary shares held: nil.

Vladimir Y. Streshinsky

Non-executive member of the Board of Directors;
Chairman of the Finance and Strategy Committee;
Member of the Remuneration and HR Development Committee.



Born in 1969.

Graduated from Moscow Institute of Physics and Technology in 1992.

Mr Streshinsky is currently a member of the Board of Directors of JSC Kommersant Publishing House, LLC Metalloinvest Management Company, USM Holdings Limited, Mail.ru Group Limited, UTH Russia Limited, USM Monaco Limited, and OJSC CITY.

He is also Chief Executive Officer of LLC USM Advisors.

He has been Member of the Board of Directors since June 2008.

Percentage share ownership in the Company: 0.012%.

Percentage of the Company's ordinary shares held: nil.

Lord Paul Myners

Independent Member of the Board of Directors;
Chairman of the Remuneration and HR Development Committee.



Born in 1948.

Graduated from the University of London.

He is currently a member of the Board of RIT Capital Partners, Chairman of the Board of Directors and Partner at Cevian Capital LLP, and Chairman of the Board of Directors and Managing Partner at Autonomous Research LLP. Lord Myners is also Chairman of the Board of Platform Acquisition Holdings Limited and of Nomad Holdings Limited, and a member of the Global Advisory Board and Chairman of the London School of Economics and Political Science. Lord Myners is also

involved with the UK Government as a member of the House of Lords and member of a Parliamentary Committee. He also acts as a non-executive director of Ecofin Water & Power Opportunities PLC.

He has been Member of the Board of Directors since March 2013.

Percentage share ownership in the Company: 0.000484%.

Percentage of the Company's ordinary shares held: nil.

Carl Peter Christian Luiga

Non-executive member of the Board of Directors;
Member of the Finance and Strategy Committee.



Born in 1968.

Mr Luiga holds a B.A. in economics from Stockholm University. He has been Senior Vice President and Chief Financial Officer of TeliaSonera AB¹ since April 2014. Currently, he is Chairman of the Board of Directors of TeliaSonera Sverige AB, TeliaSonera Asset Finance, and TeliaSonera Finance AB, and a member of the Board of Turkcell Holding AS and TeliaSonera Finland Oyj. Since November 2013, he has been Managing Director and Chairman of the Board of Directors of TeliaSonera Asia Holding BV and Fintur

Holding BV. He is also a Representative of the Board of Directors of Viveka Luiga Ekonomibyrå AB and Managing Director of TeliaSonera UTA Holding BV.

He has been Member of the Board of Directors since March 2014.

Percentage share ownership in the Company: nil.

Percentage of the Company's ordinary shares held: nil.

¹ The name of TeliaSonera AB was changed to Telia Company AB. This change is valid from 18 April 2016.



7 members
of Board of Directors



3 independent
directors

Participation in committees



Finance and Strategy Committee



Remuneration and HR Development Committee



Audit Committee

Sergey A. Kulikov

Independent Member of the Board of Directors;
Member of the Finance and Strategy Committee.



Born in 1976.

In 1999, he graduated from the Military University of the Ministry of Defence of the Russian Federation, and in 2009, obtained a degree in state and municipal management from the Russian Presidential Academy of National Economy and Public Administration. In 2011, Mr Kulikov presented his thesis to and was awarded a Candidate of Economic Sciences degree at the Military Academy of the General Staff of the RF Armed Forces. Currently, Mr Kulikov is Executive Director and a member of the Management Board of Rostec State Corporation, a member of the Board of Directors of Yota Holding Limited, and Chairman of the Board of Directors of OJSC RT-Global Resources. He has also been a member of the Management Board of the

Russian Engineering Union since 2008 and Chief Executive Officer of LLC RT-Business Development since 2014. Since 2015, he has been Chairman of the Board of Directors of LLC RT-Infom and a member of the Board of Directors of JSC United Instrument Manufacturing Corporation. Mr Kulikov is an associate professor at the Subdepartment of Business and Foreign Trade Activities at Bauman Moscow State Technical University.

He has been a Member of the Board of Directors since March 2014.

Percentage share ownership in the Company: nil.

Percentage of the Company's ordinary shares held: nil.

Jan Erik Rudberg

Independent Member of the Board of Directors;
Chairman of the Audit Committee.



Born in 1945.

He is a graduate of the Gothenburg School of Business Administration.

Since 2003, he has been a Corporate Advisor to, and is now Chairman of the Board of Directors of Hogia AB. Mr Rudberg is also Chairman of the Board of Kcell JSC and a member of the Board of Turkcell Iletsisim

Hizmetleri A.S.

He has been Member of the Board of Directors since June 2010.

Percentage share ownership in the Company: nil.

Percentage of the Company's ordinary shares held: nil.

Ingrid Maria Stenmark

Non-executive member of the Board of Directors;
Member of the Audit Committee (since 16 July 2015).



Born in 1966.

She holds an MSc in Law from Stockholm University.

She is Vice President, Head of CEO Office for TeliaSonera AB's sole executive body. Ms Stenmark is also a member of the Board of Directors of TeliaSonera Asia Holding B.V., TeliaSonera UTA Holding B.V., Turkcell Holding A.S., Kcell JSC, Sonera Holding B.V., and Fintur Holdings B.V.

She has been a Member of the Board of Directors since June 2015.

Percentage share ownership in the Company: nil.

Percentage of the Company's ordinary shares held: nil.

Berndt Kenneth Karlberg

Non-executive member of the Board of Directors (until 30 June 2015);
Member of the Audit Committee (until 30 June 2015)



Born in 1954.

He is a graduate of the Senior Officer Programme at the Swedish Military Academy. He is currently the owner and Managing Director of KarNet AB.

Percentage share ownership in the Company: nil.

Percentage of the Company's ordinary shares held: nil.

He was a Member of the Board of Directors since September 2013.

Governance Bodies (continued)

BOARD OF DIRECTORS MEETINGS

In 2015, the Board of Directors held 13 meetings, of which five were face-to-face meetings, seven were meetings held by absentee voting, and one strategy session. The Board of Directors was informed of the Company's key operational business processes, considering in particular the following matters at its meetings:

- management reports reviewing quarterly business performance of the Company and its rivals;
- individual reports by Directors on the state of affairs of specific Company's branches and subsidiaries (Ural branch, Volga branch, North-West branch, OJSC MegaFon Retail, CJSC MegaLabs);
- review of the impact of amendments to the Civil Code and other Russian laws;
- review of Scartel integration status;
- alternative views of the Company's strategy;
- the Company's asset restructuring plans;
- report on investor perception of the Company.

At its strategy session, the Board of Directors reviewed the key business areas for MegaFon and its business strategy, and also made recommendations to the Company's management to help determine the direction of further development.

In spring 2015, an independent assessment of the Board of Directors' performance and effectiveness was carried out by "Board Solutions" at the Board's initiative in line with best corporate governance practices.

Based on the results of this assessments, the Board of Directors identified certain priority areas for improving its performance, to be further developed in a joint effort with the management, in particular:

- review of the Company's approach to strategic development and identification of new growth drivers;
- succession planning and individual performance assessment by the CEO for top management;
- a new approach to designing short-term / long-term incentive programmes for the Company's management.

BREAKDOWN OF REMUNERATION FOR 2015

	Remuneration, RUB m		
	Chairman of the Board of Directors	Independent members of the Board of Directors	Non-independent members of the Board of Directors
Remuneration for service on a management body	4	65	9
Salary	0	0	0
Benefits	0	0	0
Reimbursement of expenses	0	1	0
Bonuses	0	0	0
Long-term incentives	0	0	0
Pension plan contributions	0	0	0
TOTAL REMUNERATION	4	66	9

BOARD REMUNERATION

Our Board members are remunerated for the performance of their duties. The amount of remuneration is approved by the General Meeting of Shareholders and depends on the actual hours worked in the previous year. In 2015, the AGM approved the amount of remuneration of the Board and payment procedure. The total amount paid to Board members in 2015 was RUB 79m.

BOARD COMMITTEES

MegaFon's three principal Board Committees provide oversight and strategic planning in three areas of concern to the Board of Directors:

- Audit Committee;
- Finance and Strategy Committee;
- Remuneration and HR Development Committee.

Committee members are selected upon election of a new Board of Directors. In 2015, the composition of the Board Committees was approved by the Board of Directors at its meeting on 16 July.

Audit Committee

The Board's Audit Committee is responsible for all matters relating to internal and external audits of the Company's financial and business operations.

The Committee's principal responsibilities are to:

- make recommendations regarding external auditors and fees; resolve issues arising during audits; and review the work and performance of internal Auditors;
- analyse the effectiveness of internal controls; review reports and recommendations from the Revision Committee and internal Auditors; and review the effectiveness of procedures of internal control over the Company's financial and business operations;
- continuously evaluate risk management systems; and make recommendations for risk response and systems improvement.

As at 31 December 2015, the following Board Members were members of the Audit Committee:

- Jan Erik Rudberg (Chairman);
- Sergey V. Soldatenkov;
- Ingrid Maria Stenmark.

In 2015, seven meetings of the Audit Committee were held.

The key actions taken in 2015 were:

- review of operation of internal controls;
- analysis of tax exposures and results of tax audits;
- risk identification and operation of the Company's risk management system;
- development of the internal control and risk management systems;
- monitoring of the Company's compliance with the laws of the Russian Federation and the UK regarding disclosures and reporting;
- implementation of the Company's Code of Business Conduct and Ethics;
- consideration of the internal audit reports;
- approval of the annual internal audit plan;
- consideration of related-party transactions relating to business activities or operations and making recommendations on their approval for the Board of Directors;
- monitoring of development of the Company's governance, risk, and compliance (GRC) system;
- review of the development and implementation of the Company's insider information protection systems;
- review of the execution of the action plan to improve personal data protection.

Finance and Strategy Committee

The Finance and Strategy Committee exercises control over the Company's strategic development, business planning, budgeting and investment processes.

The Committee's principal responsibilities are to:

- determine the Company's strategic direction, including review of management reports on progress towards strategic objectives;
- agree the Company's annual budgets and business plans and oversee their implementation;
- oversee the Company's cash and liquidity management policies;
- review and approve the terms of proposed M&A transactions;
- review the terms of borrowings and other financing, and make recommendations on their approval for the Board of Directors;
- review the terms of major transactions and transactions with a cumulative value exceeding US\$ 50,000,000, and make recommendations on their approval for the Board of Directors.

In 2015, the following Board Members were elected to the Finance and Strategy Committee:

- Vladimir Y. Streshinsky (Chairman);
- Sergey A. Kulikov;
- Carl Peter Christian Luiga.

In 2015, 11 meetings of the Finance and Strategy Committee were held.

The key actions taken in 2015 were:

- approval of the 2016 budget and business plan;
- review and approval of acquisitions by the Company's subsidiaries, and recommendations on acquisition of new assets;
- review of certain of the Company's related-party transactions, including the approval of loans between the Company and its subsidiaries;
- review of transactions with a cumulative value exceeding US\$ 50,000,000, including facility agreements between the Company and banks, and agreements for the supply of telecommunications equipment.

13

BoD meetings
were held in 2015

DIRECTORS' ATTENDANCE AT BOARD MEETINGS AND COMMITTEE MEETINGS IN 2015

Director	Meeting of Board of Directors	Meetings of Audit Committee	Meetings of Finance and Strategy Committee	Meetings of Remuneration and HR Development Committee
Sergey V. Soldatenkov	13/13	7/7	–	8/8
Vladimir Y. Streshinsky	13/13	–	11/11	8/8
Lord Paul Myners	13/13	–	–	8/8
Carl Peter Christian Luiga	13/13	–	11/11	–
Sergey A. Kulikov	13/13	–	11/11	–
Jan Erik Rudberg	13/13	7/7	–	–
Ingrid Maria Stenmark	7/7 BoD member since 30 June 2015	5/5 Committee member since 16 July 2015	–	–
Berndt Kenneth Karlberg	6/6 BoD member until 30 June 2015	2/2 Committee member until 30 June 2015	–	–

Governance Bodies (continued)

Remuneration and HR Development Committee

The principal responsibilities of the Remuneration and HR Development Committee are to:

- assess the performance of the Company's Board of Directors;
- review and make recommendations on performance targets of the Company, and make recommendations to the Board on bonuses and incentive programmes for the top management team;
- review personnel remuneration strategies and make recommendations to the Board of Directors on employee bonus programmes;
- review HR processes for motivating employees to achieve individual targets and deliver superior results;
- review specific HR initiatives and projects;
- review regular and ad hoc surveys of employee performance and attitudes.

In 2015, the following Board Members were elected to the Remuneration and HR Development Committee:

- Lord Paul Myners (Chairman);
- Sergey V. Soldatenkov;
- Vladimir Y. Streshinsky.

In 2015, eight meetings of the Remuneration and HR Development Committee were held.

During the year, the Committee considered and recommended for the Board's approval short- and long-term incentive programmes for the Company's management for 2015. In July 2015, the long-term incentive programmes were reviewed and the Board of Directors approved their revised versions.

The Committee also considered:

- results of the employee engagement survey;
- results of the Company's CEO and top management performance assessment;
- the Company's talent development policy based on the organisational climate and corporate performance survey.

CORPORATE SECRETARY

The Corporate Secretary acts as the guarantor of the compliance by the Company's management with procedures and principles that ensure the exercise of rights and legitimate interests of the Company's shareholders.

The Corporate Secretary is responsible for effective communication with our shareholders, and organises the work of the Board of Directors and the Board committees. The Corporate Secretary ensures that the Company's management bodies strictly follow their mandates, and helps the executive management, the Board of Directors and the shareholders interact more effectively.

The Corporate Secretary is elected by the Board of Directors and reports to it. MegaFon has stringent requirements for the person elected to this position. Today, the role of the Corporate Secretary goes far beyond its traditionally administrative remit. It is increasingly outward-focused, incorporating investor engagement and corporate communications.

Elena L. Breeva is the Company's Corporate Secretary.

Elena L. Breeva
Born in 1979.

In 2003, she graduated from the Moscow State Law University named after O.E.Kutafin. In 2010, she graduated from the Faculty of Economics of the State University of Management.

Joined MegaFon in 2010. In November 2013, Ms Breeva was appointed the Corporate Secretary by the Company's Board of Directors. She was re-elected in 2014 and 2015. Ms Breeva also acts as the Company's Controller, responsible for insider information control and security.

Percentage share ownership in the Company: nil.

Percentage of the Company's ordinary shares held: nil.

MANAGEMENT BOARD

Providing leadership support to the Chief Executive Officer (CEO) and the Chief Operating Officer (COO), the Management Board is MegaFon's executive collegial management body. It is responsible for all aspects of operational management, apart from those which fall within the remit of the General Meeting of Shareholders, the Board of Directors, and the CEO or COO.

The size and composition of the Management Board are approved annually by the General Meeting of Shareholders based on recommendations from the CEO. The CEO is also the Chairman of the Management Board.

As at 31 December 2015, the composition of the Management Board was as follows:

- Ivan V. Tavrin (CEO and Chairman of the Management Board);
- Alexander V. Bashmakov;
- Valery L. Velichko;
- Gevork A. Vermishyan;
- Vlad Wolfson;
- Anait G. Gasparian;
- Dmitry L. Kononov;
- Pavel V. Korchagin;
- Andrey B. Levykin;
- Konstantin M. Likhodedov;
- Mikhail I. Molotkov;
- Alexey B. Semenov;
- Anna A. Serebryanikova;
- Alexey L. Tyutin;
- Evgeny N. Chermashentsev.

Changes made to the composition of the Management Board during 2015 were as follows: Mikhail I. Molotkov joined the Board; and Stanislav A. Frolov and Mikhail A. Dubin left the Board due to their resignation from all of their positions with the Company.



15 members
of Management Board

CHIEF EXECUTIVE OFFICER AND CHIEF OPERATING OFFICER

The Chief Executive Officer and the Chief Operating Officer, along with the Management Board, manage the Company's day-to-day operations, except for the matters reserved to the Company's General Meeting of Shareholders or the Board of Directors.

The Chief Executive Officer and the Chief Operating Officer are elected by the General Meeting of Shareholders, which also determines their terms of office. The Chief Executive Officer and the Chief Operating Officer are accountable to the Board of Directors and the General Meeting of Shareholders.

The Chief Executive Officer and the Chief Operating Officer act independently from one another.

At the Annual General Meeting of Shareholders held on 30 June 2015, Ivan V. Tavrín was re-elected the Company's Chief Executive Officer (he was first elected to this position in April 2012; prior to that, from 2003 to April 2012, the position of MegaFon's Chief Executive Officer had been held by Sergey V. Soldatenkov).

The Annual General Meeting of Shareholders held on 30 June 2015 also approved a new position of the Chief Operating Officer, and elected Evgeny N. Chermashentsev to the new position with a term of office until the date of the Annual General Meeting of Shareholders in 2018.

REMUNERATION OF MEMBERS OF THE MANAGEMENT BOARD, THE CHIEF EXECUTIVE OFFICER AND THE CHIEF OPERATING OFFICER

The Board of Directors determines the structure and size of remuneration payable to members of the Company's executive management. In 2015, the aggregate payments to members of the Management Board, including remuneration and reimbursement of expenses, totalled RUB 822m.

In 2012 and 2013 the Company's Board of Directors approved two long-term incentive programmes (LTI 2012 and LTI 2013) for certain key executive and senior level employees under which the parties selected to participate are awarded rights to phantom shares. The maximum number of phantom shares which could be awarded under each plan was 1.1% of the share capital of the Company (or 14 million phantom shares in the aggregate) at the base price of US\$ 17.86 per share under LTI 2012 and US\$ 24.25 per share under LTI 2013.

Each plan had a three year duration and rights to phantom shares vest, and payments due to awardees are settled, in the second and third years. Awardees receive payments on the basis of the difference between the base price and the weighted-average price of the Company's shares in the period between January 15 and March 15 in the relevant year of vesting (the strike price).

In 2015 the Board of Directors of the Company approved an amendment to the terms of LTI 2012 and LTI 2013 to change

the base price and the strike price for the awards outstanding as at 31 December 2014 and 2015 (for which settlement was due in April-May 2015 and April-May 2016) to RUB 555 per share and RUB 744 per share, respectively.

In November 2012, the Board of Directors approved a long-term incentive plan for the Company's Chief Executive Officer. Under this plan, Mr Tavrín was granted the right, exercisable before May 2017, to buy from our subsidiary, MegaFon Investments (Cyprus) Limited, shares of MegaFon representing a 5% stake in the Company at the IPO price (US\$ 20 per share). Mr Tavrín exercised this right in 2012 and 2013, thereby acquiring shares representing in the aggregate 2.5% of the Company's issued shares.

In March 2014 the Board of Directors of the Company agreed unanimously to amend the terms of the CEO long-term incentive plan and to accelerate the vesting of Mr. Tavrín's final two options to acquire a 2.5% interest in the Company, so that all the remaining options became exercisable at any time after 1 May 2014. In addition, the Board agreed to remove a restriction preventing Mr Tavrín from holding more than 5% of the Company's share capital until May 2017. On 30 December 2014, Mr Tavrín exchanged all of the Company shares acquired pursuant to the exercise of his options and his unexercised option for 2.5% of the Company's shares for a stake in USM Group.

TOTAL REMUNERATION PAID TO MEMBERS OF THE MANAGEMENT BOARD IN 2015

Remuneration type	Remuneration amount, RUB m
Salary	240
Benefits	0
Reimbursement of expenses	2
Bonuses and long-term incentives	580
Pension plan contributions	0
Total remuneration	822

Governance Bodies (continued)

SHORT BIOGRAPHIES OF MEMBERS OF THE MANAGEMENT BOARD

Ivan V. Tavrin

CEO and Management Board Chairman

Born in 1976.

He graduated from Moscow State Institute of International Relations in 1998 with a degree in law. Mr Tavrin has been a member of the Management Board since 7 March 2012. He was First Deputy CEO of MegaFon from 19 January 2012 until 20 April 2012, when he became the CEO and Chairman of the Management Board. He is currently a member of the Board of Directors at MO-TV Holdings Limited, LLC 7TV Media Group, LLC CTC Investments, and LLC Vyber Radio holding company.

He is also Chairman of the Board of Directors at UTH Russia Limited and JSC Kommersant Publishing House. He is also a member of the Board of Directors and CEO at Media-One Holdings Limited.

Percentage share ownership in the Company: nil¹.

Percentage of the Company's ordinary shares held: nil.

Alexander V. Bashmakov

Chief Technological Officer

Born in 1984.

He holds a degree in economics with a major in marketing from Ural State Technical University. From 2005 to 2008, he worked in strategic consulting for Accenture; and in 2008–2012, as analyst and then engagement manager at The Boston Consulting Group. He joined the Company in March 2012, and later in the same year was appointed Director of Strategy. In August 2015, he was appointed Chief Technological Officer. He has been Member of the Management Board since June 2013.

Percentage share ownership in the Company: nil.

Percentage of the Company's ordinary shares held: nil.

Evgeny N. Chermashentsev

Chief Operating Officer

Born in 1977.

Mr Chermashentsev graduated from Saratov State University. From 2006 to 2007, he was CEO and Development Director of LLC Regional Media Group. Between 2008 and 2012, as Director of Regional Development, he was responsible for media asset management at CJSC Media-1 Management. From 2009 to 2012, he was CEO of LLC Vyber Radio. Mr Chermashentsev joined MegaFon in May 2012 as an adviser to the Chief Executive Officer. In August 2012, he became Director of Corporate Business Development, and in December 2013, Director of Infrastructure. On 1 July 2015, he was appointed Chief Operating Officer of MegaFon and is responsible for the day-to-day management of the Company.

He has been a member of the Management Board since October 2012.

A member of the Board of Directors of CJSC PETER-SERVICE and an adviser to CEO of LLC Scartel since 2015.

Percentage share ownership in the Company: nil.

Percentage of the Company's ordinary shares held: nil.

Anait G. Gasparian

Director for Corporate Development

Born in 1981.

She holds a degree in economics from St. Petersburg State University. From 2007 to 2008, she was at Renaissance Capital as part of its Investment Banking, Consumer & Retail Group. In 2009, she was Projects Lead on Operational Effectiveness at MC Euroset. From 2010 to 2012, she was Director for Corporate Development at UTH Russia. She was appointed Director for Corporate Development at MegaFon in April 2012, and has been Member of the Management Board since October of that year.

Percentage share ownership in the Company: nil.

Percentage of the Company's ordinary shares held: nil.

Dmitry L. Kononov

Director, Investor Relations and M&A

Born in 1964.

He graduated from the University of Colorado, Denver, with a degree in Financial Accounting. Joined MegaFon in 2000 and was Chief Financial Officer from 2002 to 2004. In 2008, Mr Kononov was appointed Director for Mergers & Acquisitions, and in 2012, he also became Director of Investor Relations. From 1993 to 1999, he served as First Deputy General Director and then as Chief Financial Officer of CJSC "Delta Telecom", the first cellular telephone company in the country. In 1999, he was promoted to Chief Financial Officer of RTDC, a subsidiary of US West/MediaOne International (USA), which incorporated and actively invested in a number of providers of DAMPS/NMT/GSM services in certain regions of Russia. In 2000, he became a consultant to the Board of Directors of First National Holding SA and Chief Financial Officer of OJSC "Telecominvest", subsequently serving as a member of its board (until 2008).

He has been Member of the Management Board since June 2014.

Percentage share ownership in the Company: nil.

Percentage of the Company's ordinary shares held: nil.

Pavel V. Korchagin

Director of North-West Branch

Born in 1960.

He graduated from Bauman Moscow State Technical University with a degree in automated systems.

From 1993 to 2002, he was a senior engineer and, later, Head of the Department for Informatics and Automation of Bank Operations at Sberbank in Volgograd. From 2002 to 2003, he was Technical Director and then General Director of CJSC Volgograd Mobile. He became Technical Director at CJSC Mobicom-Centre in 2003 and was appointed First Deputy General Director in April 2007. In July 2009, Mr Korchagin became First Deputy Director of the Company's Central branch. From September 2011 to December 2014, he was Director of Central branch. In January 2015, he was appointed Director of Volga branch, and in February 2016, he was appointed Director of the Company's North-West branch.

He has been Member of the Management Board since November 2011.

Percentage share ownership in the Company: nil.

Percentage of the Company's ordinary shares held: nil.

¹ In June and July 2013, Mr Tavrin indirectly acquired a total of 277,000 Company GDRs.

Andrey B. Levykin

Director of Far East Branch

Born in 1973.

He graduated from Samara State Technical University with a degree in mechanical engineering.

From December 2012 to September 2013, he was Director for Infrastructure at the Company's Volga branch, having previously held various positions there, including First Deputy Director of the branch, Commercial Director, and Deputy Commercial Director for Marketing. In September 2013, Mr Levykin was appointed Director of the Company's Far East branch.

He has been Member of the Management Board since October 2013.

Percentage share ownership in the Company: nil.

Percentage of the Company's ordinary shares held: nil.

Konstantin M. Likhodedov

Director of Consumer Business

Born in 1976.

Mr Likhodedov graduated from St. Petersburg State University of Economics and Finance. In 2007–2008, he was Deputy CEO of TV-3 channel, and in 2008, Deputy CEO of MTV Russia. In 2008–2009, he acted as Executive Director of Vyber Radio Group. Between 2009 and 2011, Mr Likhodedov was CEO of 7TV. From November 2011 to May 2012, he was CEO of Disney Channel. He joined MegaFon in June 2012 as Director of the Company's Stolichny branch. In August 2015, he was also appointed its Director of Consumer Business. Since September 2015, he has been a member of the Supervisory Board of Euroset Holding N.V. and CEO of LLC Scartel.

He has been Member of the Management Board since October 2012.

Percentage share ownership in the Company: nil.

Percentage of the Company's ordinary shares held: nil.

Mikhail I. Molotkov

Director of Central Branch

Born in 1979.

Mr Molotkov graduated from Nizhny Novgorod State Technical University.

From January 2010 to January 2013, he was Commercial Director of the Company's Central branch; in February 2013, he became Director of Consumer Business at Central branch. In January 2015, Mr Molotkov was appointed Director of MegaFon's Central branch. He has been Member of the Management Board since June 2015.

Percentage share ownership in the Company: nil.

Percentage of the Company's ordinary shares held: nil.

Alexey B. Semenov

Director of Stolichny Branch

Born in 1982.

Mr Semenov graduated from Samara State Academy of Economics.

From 2005 to 2009, he was Director of the Mary El Republic branch office of OJSC MSS-Povolzhie. From 2009 to 2012, he held the position of Executive Director of CJSC TT mobile, a subsidiary of MegaFon in Tajikistan. In August 2012, Mr Semenov was appointed Director of MegaFon's North-West branch. In August 2015, he was appointed Director of MegaFon's Stolichny branch.

He has been Member of the Management Board since October 2012.

Percentage share ownership in the Company: nil.

Percentage of the Company's ordinary shares held: nil.

Anna A. Serebryanikova

Director of Legal Affairs and Government Relations

Born in 1974.

She graduated with honours from Moscow State University, Faculty of Law, and holds a Master of Law degree from Manchester University.

From 1998 to 2004, Ms Serebryanikova was a senior legal counsel and department head at the Non-Commercial Foundation for Enterprise Restructuring and Financial Institutions Development under the Ministry of Finance of the Russian Federation. Between 2004 and 2006, she was a lawyer at J.P. Galmond & Co. In 2006, Ms Serebryanikova became international legal affairs adviser to MegaFon's Chief Executive Officer. In 2008, she was appointed the Company's Director of Legal Affairs and held this position until 2012, when it was renamed Director of Legal Affairs and Government Relations. From 2008 to 2013, she also served as Corporate Secretary, and from 2010 to 2011, she acted as Deputy CEO for Corporate Development of CJSC Sinterra.

She has been Member of the Management Board since January 2009.

From December 2012 to November 2015, was Member of the Management Board of Euroset Holding N.V., and since November 2015, she has been a Member of the Supervisory Board of Euroset Holding N.V.

Percentage share ownership in the Company: nil.

Percentage of the Company's ordinary shares held: nil.

Alexey L. Tyutin

Director of Kavkaz (Caucasus) Branch

Born in 1963.

Mr Tyutin holds degrees in industrial and civil construction from Mikoyan Kuibyshev Institute of Engineering and Construction, and in economic and social planning from Samara State Academy of Economics. He became Head of the Corporate Finance Department of OJSC MSS-Povolzhie in December 2001, and Deputy CEO for Commercial Affairs of OJSC MSS-Povolzhie in 2004. In April 2009, he was appointed Director of MegaFon's Siberia branch. In August 2015, he was appointed Director of MegaFon's Kavkaz (Caucasus) branch.

He has been Member of the Management Board since June 2009.

In December 2015 was elected to the Board of Directors of CJSC OSTELECOM and CJSC Aquafon-GSM.

Percentage share ownership in the Company: nil.

Percentage of the Company's ordinary shares held: nil.

Governance Bodies (continued)

Valery L. Velichko

Director of Ural Branch

Born in 1970.

He is a graduate of the Dzerzhinsky Higher Institute of Border Defence, the Ministry of Internal Affairs' Special Police School in Bryansk, and Urals Academy of Public Administration. From 2006 to 2009, Mr Velichko was Director of Security at CJSC Urals GSM. He has been Director of the Company's Ural branch since April 2011. Previously, he was Deputy Director and Director of Security there.

He has been Member of the Management Board since June 2011.

Percentage share ownership in the Company: nil.

Percentage of the Company's ordinary shares held: nil.

Gevork A. Vermishyan

Chief Financial Officer

Born in 1978.

He graduated from the International Economic Relations Department at the Financial University under the Government of the Russian Federation. From 2002 to 2007, he held several positions at OAO LUKOIL, including Deputy Head of the Corporate Borrowing Department. From 2007 to July 2011, he was Director of Corporate Finance / Head of Corporate Debt at Sistema JSFC. He was appointed Chief Financial Officer of MegaFon in July 2011.

He has been Member of the Management Board since November 2011.

Mr Vermishyan has been a member of the Board of Directors at CJSC TT Mobile and CJSC OSTELECOM since 2013, and at CJSC Aquafon-GSM since 2012.

Percentage share ownership in the Company: 0.000968%.

Percentage of the Company's ordinary shares held: 0.000968%.

Vlad Wolfson

Director for Corporate Business Development

Born in 1977.

He graduated from Kyiv National University of Trade and Economics in Ukraine, and the University of Haifa in Israel.

Between 2008 and 2010, he was Head of Sales to small and mid-size business customers at AO VimpelCom. From 2010 to 2012, Mr Wolfson served as Vice President of Sales and Marketing at Medsi Group JSC. Mr Wolfson joined MegaFon in 2012 as Director for Corporate Clients, and in December 2013 he was appointed Director for Corporate Business Development.

He has been Member of the Management Board since June 2014.

Percentage share ownership in the Company: nil.

Percentage of the Company's ordinary shares held: nil.

Stanislav A. Frolov

Director of Caucasus Operations and Member of the Management Board (until August 2015 when he resigned from all positions held with the Company)

Born in 1975.

Mr Frolov graduated from Voronezh State University and All-Russian Distance Learning Institute of Finance and Economics. From 2009 to 2010, he was Director of Federal State Unitary Enterprise Rostechinventarization, Federal Technical Inventory Bureau. In 2011, Mr Frolov was Managing Director of OJSC Corporation for the Development of the North Caucasus, and from 2011 to 2012, CEO of LLC Eurostroy. He joined MegaFon's Head Office in 2012, and was appointed Director of Caucasus Operations in September 2012.

Mr Frolov was Member of the Management Board from October 2012 to August 2015.

He was a member of the Board of Directors of CJSC OSTELECOM and CJSC Aquafon-GSM from December 2013 to December 2015, a member of the Board of Director of CJSC TT mobile from December 2014 to December 2015.

Percentage share ownership in the Company: nil.

Percentage of the Company's ordinary shares held: nil.

Mikhail A. Dubin

Executive Director for Consumer Business and Member of the Management Board (until August 2015 when he resigned from all positions held with the Company)

Born in 1978.

Mr Dubin holds a degree in international economics from the Financial University under the Government of the Russian Federation and a PhD in economics. Between 1999 and 2007, he held various positions at Sberbank, dealing with project financing in the telecommunications sector. From 2009 to 2010, he was Deputy CEO of LLC AF Telecom Holding and OJSC Telecominvest. He joined MegaFon in July 2010 as First Deputy Executive Director for Strategic Development. In October 2012, he was appointed Executive Director for Consumer Business. In addition, from April to August 2015 he was CEO of LLC Scartel.

Mr Dubin was Member of the Management Board from November 2010 to August 2015.

Percentage share ownership in the Company: nil.

Percentage of the Company's ordinary shares held: nil.

Control Bodies

Effectiveness and accountability underpin MegaFon's corporate governance principles. To ensure such effectiveness and accountability in our operations, the Company has a number of dedicated bodies and internal controls in place.

REVISION COMMISSION

The Revision Commission is elected annually by the General Meeting of Shareholders to control MegaFon's financial and business operations. The Commission members cannot be members of the Board or other management bodies of the Company. The Revision Commission cannot have more than three members. The current members of the Revision Commission are: Pavel Kaplun (Chairman), Managing Director, Head of the Investment and Analytical Department at LLC USM Advisors; Yuri Zheimo, Director of Internal Audit at MegaFon; and Sami Haavisto, Senior Business Controller at TeliaSonera Eurasia.

➔ More information on the powers of the Revision Commission is available on the Company's website at http://ir.megafon.com/ai/document/3597/file/Regulations_on_Revision_Commission_2008.pdf.

INTERNAL AUDIT

The Company's Internal Audit team reports administratively to the Chief Executive Officer, and functionally to the Audit Committee of the Board of Directors. Its operations are based on the Regulations on Internal Audit approved by the Board of Directors, as well as the International Standards for the Professional Practice of Internal Auditing. The Company's branches and MegaFon Retail have their own Internal Audit teams, which in turn report to the Internal Audit team at the Company's headquarters. The Internal Audit team provides assurance to and advises on the Company's operational processes, including procurement, investment, construction, customer service, processes for external and internal reporting, IT and information security systems, as well as participates in the development of various internal procedures.

INTERNAL CONTROL OVER FINANCIAL REPORTING

The internal control system in place at MegaFon is a set of organisational measures, policies, instructions and procedures designed to ensure the preparation of reliable financial statements and compliance with statutory/regulatory requirements in this area. The effectiveness of this system is maintained through the following actions:

- updating codes and standards relating to the internal control system and its functioning;
- regular monitoring of the quality of control procedures execution;
- regular surveys of key process owners on the effectiveness of internal controls;
- analysis of business processes and related risks to verify the effectiveness of performance of internal controls in these processes;
- annual testing of key control procedures on a sample basis.

In 2015, as part of our efforts to further develop the Company's internal control system (ICS), MegaFon adopted a unified methodology for the performance of ICS activities designed to regulate the Company's actions and aimed at maintaining the effectiveness of internal controls.

EXTERNAL AUDIT

MegaFon engages independent external auditors to audit the annual financial statements and review the quarterly financial statements. The Audit Committee makes an annual assessment of prospective auditors and makes recommendations to the General Meeting of Shareholders (in particular, recommendations regarding the auditors' fees). The selected independent auditors are then approved by the General Meeting of Shareholders.

The Annual General Meeting of Shareholders held on 30 June 2015 approved JSC KPMG as the Company's external auditors.

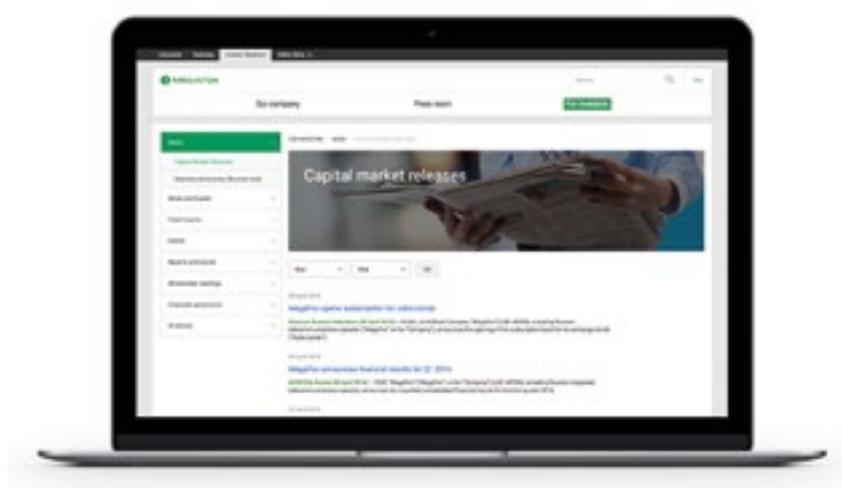
The Company had not previously engaged JSC KPMG to audit its consolidated accounting statements. The total fees paid to JSC KPMG for its audit services provided during 2015 amounted to RUB 58m, and RUB 38m were paid for non-audit services. JSC KPMG was engaged to provide non-audit services due to its knowledge and understanding of MegaFon's business.

Information Disclosure. Insider Information Protection

Compliance is the foundation of MegaFon's corporate governance system. MegaFon complies with regulations relating to joint-stock companies, including the provisions of Russia's Federal Law *On Joint-Stock Companies*. Since the Company has a listing on the London Stock Exchange (LSE), it is required to comply with the Disclosure and Transparency Rules of the UK Financial Conduct Authority for "standard" companies, and the LSE Listing Rules.

For each fiscal year ending 31 December, MegaFon publishes audited consolidated financial statements prepared in accordance with IFRS and also provides unaudited consolidated financial statements under IFRS at the end of the first, second and third fiscal quarters. The Company places announcements of its financial results, as well as notices of upcoming General Meetings of Shareholders and other important and price-sensitive information, on the LSE website via its Regulatory News Service (RNS), and in Russia via an authorised information agency, Interfax. These announcements are followed by the publication of press releases on the corporate website at corp.megafon.com/investors/.

➔ Information disclosed under Russian and UK regulations is published via authorised agencies in Russia and the UK, and also on the corporate website at corp.megafon.com/investors/news/capital_market_releases/ and/or corp.megafon.ru/investoram/raskrytie_informatsii/



As a public company listed on Russian and UK stock exchanges, MegaFon understands that prevention of illegal uses of its considerable amounts of insider information is a top priority.

The Company consistently implements safeguards to ensure the security of insider information, making improvements to its data security framework every year. As part of these efforts, in 2012, the Board of Directors approved a number of regulations on the use of the Company's insider information. In the period 2013 – 2015 MegaFon implemented additional internal procedures to restrict access to

insider information and insider information protection tools, including those applicable for mobile devices.

MegaFon plans to continue to further develop its insider information protection system and roll out additional protection tools. MegaFon will also continue to provide training and follow up testing for Company employees to raise staff awareness of insider information security, which is critical to our business.