

Shareholders' Equity

CHARTER CAPITAL

MegaFon's charter capital consists of 620,000,000 ordinary registered uncertified shares, each with a par value of RUB 0.1. The Company is authorised to issue 100,000,000,000 additional ordinary shares. MegaFon has no preferred shares. All issues of ordinary registered uncertified shares have been combined into one issue with the state number 1-03-00822-J. The Government does not hold any shares in the Company.

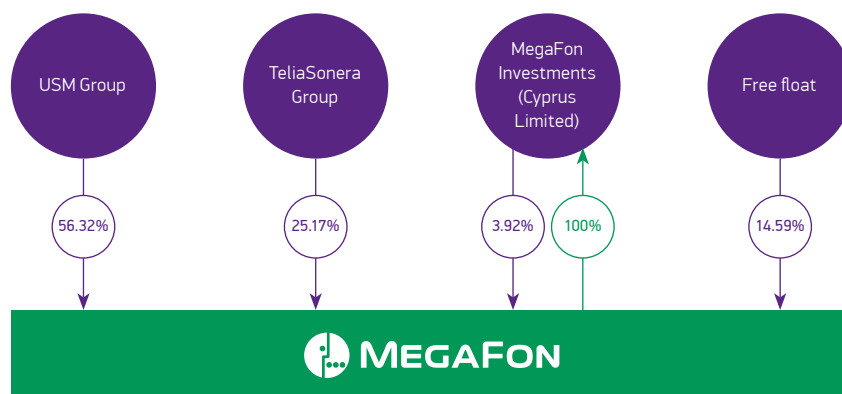
In connection with its IPO held in November 2012 (see below), MegaFon created a global depositary receipt (GDR) programme under which ordinary shares may be converted into an equal number of GDRs. Each GDR represents an interest in one ordinary share. Holders of GDRs have essentially the same rights as holders of ordinary shares in terms of participation in general shareholders meetings and receipt of dividends.

As at 31 December 2015, MegaFon's major shareholders were USM Group, which jointly held 56.32% of the Company's charter capital, and TeliaSonera Group¹, which held 25.17% of the Company's charter capital.

The holdings of the major shareholders of MegaFon have not changed during the reporting year.

SHAREHOLDER STRUCTURE

MEGAFON SHAREHOLDER STRUCTURE AS AT 31 DECEMBER 2015



The structure above does not reflect the formal ownership structure because, for the sake of simplicity, it omits intermediate companies through which shares may be held.

SHAREHOLDERS' HOLDINGS IN MEGAFON AS AT 31 DECEMBER 2015.

| Shareholder | Holding, total | Ordinary shares | GDRs |
|--------------------------------------|----------------|-----------------|---------------|
| USM Group | 56.32% | 53.66% | 2.66% |
| TeliaSonera Group | 25.17% | 25.00% | 0.17% |
| MegaFon Investments (Cyprus Limited) | 3.92% | 0.00% | 3.92% |
| Free float | 14.59% | 0.72% | 13.87% |
| Total | 100.00% | 79.39% | 20.61% |

Presence on the stock exchange and share price performance

In November 2012, MegaFon conducted an initial public offering (IPO) on the Moscow Exchange and London Stock Exchange. The offering price was US\$ 20 per ordinary share / GDR. The total offering size was US\$ 1.8bn, including the exercise of an overallotment option. A total of 2,153,000 ordinary shares and 89,326,500 GDRs were sold in the offering. This implied a market capitalisation for MegaFon of US\$ 11.2bn on the listing date.

MegaFon's GDRs are traded on the Main Market of the London Stock Exchange.

MegaFon's ordinary shares are traded on the Moscow Exchange. They are included in the highest (Level I) Quotation List of the Moscow Exchange, which highlights the high standards of our corporate governance and consistently high liquidity of our shares. The Company's ordinary shares were initially included in Quotation List C; on 19 August 2013, they were admitted to trading on Quotation List B; and since late April 2014, they traded on Quotation List A2.

MegaFon shares
on the Highest
Quotation List
of MOEX since 2014

¹ The name of TeliaSonera Group was changed to TeliaCompany Group. This change is valid from 18 April 2016.

Shareholders' Equity (continued)

TRADING SUMMARY OF MEGAFON'S GDRS AND ORDINARY SHARES

| Global Depository Receipt | |
|-------------------------------------|-----------------------------------|
| Exchange | London Stock Exchange (LSE) |
| Market | Main Market |
| Listing category | Standard GDRs |
| Type of depository receipt | 144A, Reg S |
| Admission to trading / listing date | 3 December 2012 |
| Stock ticker symbol | MFON LI |
| Conversion ratio | 1 GDR represents 1 ordinary share |
| Index inclusion | MSCI Russia, FTSE Russia IOB |

| Ordinary Shares | |
|------------------------|---|
| Exchange | Moscow Exchange |
| Listing level | First Level Quotation List |
| Security type/category | Ordinary share |
| Trading start date | 28 November 2012 |
| Stock ticker symbol | MFON |
| Nominal value, RUB | 0.10 |
| Index inclusion | MICEX Index, Moscow Exchange Broad Market Index, Moscow Exchange Telecoms Index |

PERFORMANCE OF MEGAFON'S GDRS IN 2015, US\$



PERFORMANCE OF MEGAFON'S ORDINARY SHARES IN 2015, RUB



TRADING STATISTICS FOR MEGAFON'S GDRS ON THE LONDON STOCK EXCHANGE, 2015

| Indicator | |
|---|---------|
| Average daily trading volume, US\$ m | 7.6 |
| Average daily trading volume, shares traded | 520,035 |
| 52-week high, US\$ | 19.0 |
| 52-week low, US\$ | 11.4 |
| Period-end price, US\$ | 11.65 |
| Period-end market capitalisation, US\$ m | 7,223 |

TRADING STATISTICS FOR MEGAFON'S ORDINARY SHARES ON THE MOSCOW EXCHANGE, 2015

| Indicator | |
|---|--------|
| Average daily trading volume, RUB m | 60.08 |
| Average daily trading volume, shares traded | 68,436 |
| Average number of trades per day | 894 |
| 52-week high, RUB | 1,085 |
| 52-week low, RUB | 725 |
| Period-end price, RUB | 850 |
| Period-end market capitalisation, RUB bn | 527 |

Bonds

BOND ISSUES

During 2015, two issues of rouble-denominated exchange bonds of PJSC MegaFon of the series BO-04 and BO-05, as well as three bond issues of MegaFon Finance LLC, 100% subsidiary of PJSC MegaFon, of the series 05, 06 and 07 were outstanding.

In May 2015, the Company completed an early repayment of the entire issue of the series BO-04 rouble-denominated exchange bonds for the total amount of RUB 15bn. In October 2015, MegaFon placed an issue of its series BO-05 exchange bonds in the total amount of RUB 15bn at a coupon rate of 11.4% p.a. for a 2-year period.

ROUBLE BOND ISSUES OUTSTANDING IN 2015

| Issuer | MegaFon Finance LLC | MegaFon Finance LLC | MegaFon Finance LLC | PJSC MegaFon | PJSC MegaFon |
|---------------------------|--|----------------------|----------------------|------------------------------------|------------------------------------|
| Issue number | Series 05 ¹ | Series 06 | Series 07 | Series BO-04 exchange-traded bonds | Series BO-05 exchange-traded bonds |
| Coupon, % per annum | Coupons 1-4 – 8.05% Coupons 5-7 – 9.85% | Coupons 1-10 – 8.00% | Coupons 1-10 – 8.00% | Coupons 1-2 – 9.45% | Coupons 1-4 – 11.4% |
| Coupon period | 182 days | 182 days | 182 days | 182 days | 182 days |
| Issue size, RUB | 10,000,000,000 | 10,000,000,000 | 10,000,000,000 | 15,000,000,000 | 15,000,000,000 |
| Placement date | 11 October 2012 | 13 March 2013 | 13 March 2013 | 20 May 2014 | 23 October 2015 |
| Maturity date: | 29 September 2022 | 01 March 2023 | 01 March 2023 | 19 May 2015 | 10 October 2025 |
| Earliest put option date | 07 April 2016 | 07 March 2018 | 07 March 2018 | repaid in full in May 2015 | 20 October 2017 |
| State registration number | 4-05-36027-R | 4-06-36027-R | 4-07-36027-R | 4B02-04-00822-J | 4B02-05-00822-J |
| ISIN code | RU000A0JT4G6 | RU000A0JTR98 | RU000A0JTRA9 | RU000A0JUMD2 | RU000A0JVVB5 |

¹ 8,249,296 bonds in the amount of RUB 8,249,296,000 were purchased in October 2014 pursuant to a mandatory put option following a coupon rate revision on 24 September 2014. A further 1,636,213 bonds in the amount of RUB 1,636,213,000 were purchased in April 2016 under a mandatory put option following a coupon rate reset on 23 March 2016. The remaining 114,491 bonds in the amount of RUB 114,491,000 were not paid off as at the date of this report.

MEGAFON'S CREDIT RATINGS

As at 31 December 2015, the following credit ratings were assigned to the Company by international rating agencies:

| Rating type | Rating | Rating outlook | Last review date |
|-----------------------------------|--------|----------------|------------------|
| Standard and Poor's | | | |
| Foreign currency long-term rating | BB+ | Negative | 04 February 2015 |
| Local currency long-term rating | BBB- | Negative | 04 February 2015 |
| Moody's | | | |
| Long-term corporate credit rating | Ba1 | Stable | 04 December 2015 |

In February 2015, Standard & Poor's (S&P) confirmed MegaFon's long-term local currency rating and changed its long-term foreign currency rating. S&P affirmed its 'BBB-' local currency rating on the Company, noting that MegaFon's profitability was above the industry average and the Company stood out for its well-balanced borrowing policy, sufficient liquidity and ability to service its debts. At the same time, S&P downgraded MegaFon's foreign currency rating to 'BB+', following its assessment of risks associated with foreign currency payments.

In February 2015, Moody's downgraded Russia's sovereign credit rating to 'Ba1', while setting the country ceiling for ratings of Russian companies at 'Ba1'. Following this revision, Moody's changed MegaFon's long-term corporate family rating to the said level, with a negative outlook. In December 2015, Moody's changed MegaFon's outlook to stable following its revision of Russia's government bond rating outlook.

Interactions with Investors

MegaFon is primarily focused on ensuring maximum clarity and transparency in its communications with the Company's shareholders and the investment community generally, all in conformity with Russian and English laws, as well as international best practice.

In 2015, MegaFon took the following actions to make communication with the investment community more complete and transparent:

1. Prepared and published reports on the Company's financial and operational results under IFRS for FY2014 and Q1–Q3 2015. The disclosure of quarterly results was accompanied by conference calls and webcasts with analysts and investors in which the Company's top management participated.
2. Prepared and published the Company's 2014 Annual Report.
3. Participated in eight conferences organised by international and Russian investment banks, where meetings with representatives of over 150 institutional investors were held.
4. Held on-site one-on-one meetings and site-visit group meetings with representatives of 50 international and Russian investors.
5. Organised and conducted two roadshows to meet institutional investors based in the United States.



Prepared and published reports on financial and operational results

4

operational and financial reports

4

conference calls and webcasts



Organized non-deal roadshow

2

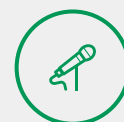
events with institutional investors in the US



Held on-site group & one-on-one meetings

50

international and Russian investors



Meetings with investors at investment conferences

8

conferences

150

investors

To support our interactions with MegaFon's shareholders we have the "For Investors" section on the corporate websites: corp.megafon.com (English version) and corp.megafon.ru (Russian version), featuring mandatory disclosure documents, corporate documents, the Company's financial statements under IFRS and RAS, information about the ordinary shares and GDRs, share price information, and a calendar of key corporate events and activities.

In 2015, MegaFon was awarded a prize at the XVIII Annual Report Competition, organised by the Moscow Exchange and RCB Media Group, for the Best Annual Report in the Telecommunications Industry category. In making its award, the jury cited its highly illustrative content and detailed disclosure of information to investors and customers.

The Company's 2014 Annual Report was also shortlisted in two categories of the prestigious Best Practice Awards by the UK Investor Relations Society.

In 2015 – early 2016, the Company's GDRs were regularly covered by analysts at 18 investment banks.

➔ Information on the analysts covering the Company's GDRs and publishing reports on a regular basis is available on the corporate IR website at corp.megafon.com/investors/stock_and_capital/analyst_coverage/.

Dividends

DIVIDEND POLICY

In accordance with the Company's dividend policy approved in 2012, the General Meeting of Shareholders approves the amount of dividend to be disbursed, based on a recommendation by the Board of Directors (following preliminary determinations by the CEO). The amount will depend on the financial results, the cash needed by the Company to develop its business, implement its strategy and meet its obligations, and any other factors that the Board of Directors believes relevant, including the impact on the Company's investment-grade credit ratings.

The Company aims to pay at least 50% of adjusted net profit or 70% of adjusted cash flow (whichever is greater) in dividends

annually. The target pay-out percentages may be adjusted upwards or downwards by the Board of Directors as needed to maintain a capital structure based on a net debt/adjusted OIBDA ratio of 1.2–1.5.

PAYMENT OF DIVIDENDS

The Annual General Meeting of Shareholders held on 30 June 2015 approved the payment of RUB 10bn in dividends for FY2014 (RUB 16.13 per share or GDR). The Extraordinary General Meeting of Shareholders held on 11 December 2015 approved the payment of RUB 40bn in dividends for the first 9 months of 2015 (RUB 64.51 per share or GDR). As a result, the dividends distributed in 2015 totalled RUB 50bn.

The procedure for the payment of dividends is as follows. The Company transfers dividends to its direct shareholders and registered nominee holders listed in the Company's register as shareholders as of the respective record dates.

The nominee holders then distribute the dividends to sub-nominees at the next levels (including the Bank of New York Mellon, as depositary under the Company's GDR programme), and asset management companies, funds, trustees and other nominee holders, who are then responsible for the distribution of dividends to persons on their books shown as entitled to receive dividends.

DIVIDEND HISTORY

| Year | 2012 | 2013 | 2014 | 2015 |
|--|-----------------------|--------------------|----------------|------------------|
| Dividend accrual period | 9 months ¹ | 12 months | 12 months | 9 months |
| Dividends paid for the period, RUB bn | 33.59 | 46.41 ² | 10.00 | 40.00 |
| Total dividends distributed in the calendar year, RUB bn | – | 40.00 | 40.00 | 50.00 |
| DPS, RUB | 54.17 | 74.85 | 16.13 | 64.51 |
| Record date | 21 May 2013 | 11 July 2014 | 13 July 2015 | 22 December 2015 |
| Dividend payment dates ³ | 22 July 2013 | 06 August 2014 | 17 August 2015 | 03 February 2016 |
| Dividend payout ratio ⁴ | 96% | 90% | 27% | 119% |

¹ Q2–Q4 2012

² Of which RUB 6.41bn in dividends for Q1 2013 were approved by the Annual General Meeting of MegaFon's Shareholders on 28 June 2013, along with the dividends for 2012, and paid out on 22 July 2013.

³ Date of official disclosure of the dividend payment at the London Stock Exchange

⁴ Total dividend as a percentage of profit for the same financial year (in accordance with IFRS) attributable to equity holders of the Company.

TAXATION OF DIVIDENDS

Under the Russian tax legislation, dividend income received by shareholders is subject to Russian income tax at the following rates:

- tax at the rate of 13% is payable on the dividend income received by Russian tax residents (both companies and individuals)
- tax at the rate of 15% is payable on the dividend income received by non-Russian tax residents (both companies and individuals). This rate may be reduced in accordance with the provisions of effective Double Tax Treaties signed between Russia and the countries of residence of the beneficial owners of dividends.

The above tax is determined, withheld and paid to the Russian Treasury by the tax agent upon each payment of dividends, i.e. by MegaFon in relation to dividends paid to the shareholders whose rights to the shares are accounted for in the Company's securities register, and by a Russian depositary in other cases.

To benefit from a reduced tax rate envisaged by a Double Tax Treaty a foreign shareholder who is the beneficial owner of the dividend income, must provide to the tax agent a certificate confirming his/her residence in the country which concluded the relevant Double Tax Treaty with Russia. The above certificate must be duly notarised by the competent authority and provided to the tax agent prior to the dividend payment date.

Special rules apply to shareholders who hold MegaFon's shares or GDRs through foreign nominee holders. In this case, the depositary withholds income tax at the standard rate prescribed by the Russian Tax Code or by the Double Tax Treaty (if applicable). Should the Double Tax Treaty provide for an additional reduction in the tax rate subject to certain criteria being met, such reduced rates are not applied.

Shareholders may subsequently claim a refund of excess tax withheld and paid to the Russian Treasury by the tax agent by providing to the Russian tax authorities documents confirming their entitlement to a reduced rate of income tax. Such a refund claim may be submitted within three years following the year of the dividend payment.

MegaFon aims to comply with the legislation affecting payment of dividends as directed by its professional advisers. In the absence of sufficient evidence confirming that a different tax rate is applicable, MegaFon intends to withhold income tax on dividends at the standard rates listed above.

MegaFon recommends that shareholders consult their tax advisers about possible legitimate ways to minimise their exposure to the Russian income tax on dividends to which they may be entitled.