



# Securities

## SHAREHOLDERS' EQUITY

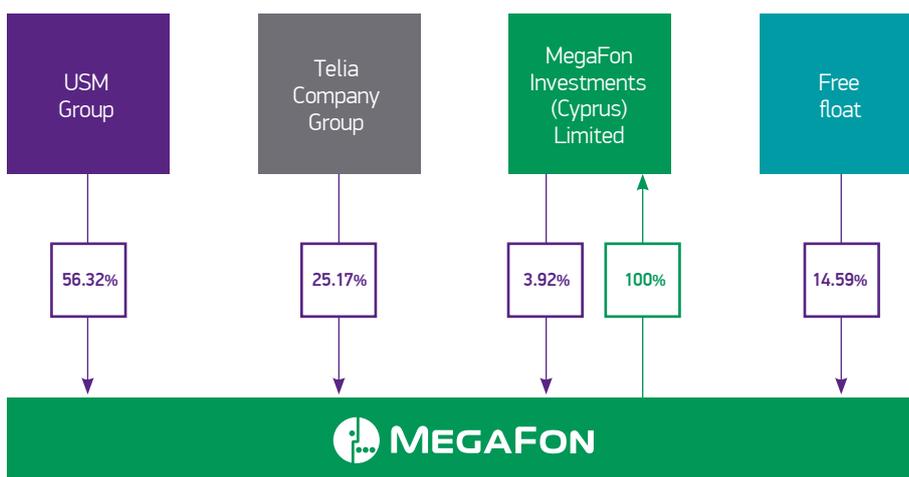
MegaFon's charter capital totals RUB 62,000,000 consisting of 620 million ordinary registered uncertified shares with a par value of RUB 0.1 each. The Company is authorised to issue 100,000,000,000 additional ordinary shares. MegaFon has no preferred shares. All issues of ordinary registered uncertified shares have been combined into one issue with state number 1-03-00822-J. The Government does not hold any shares in the Company.

In 2012, MegaFon conducted an initial public offering (IPO) on the Moscow Exchange and the London Stock Exchange. As part of this public offering, the Company established its Global Depositary Receipt (GDR) programme under which MegaFon's ordinary shares may be converted into an equal number of GDRs, with each GDR representing 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 in accordance with the applicable laws of the Russian Federation.

As at 31 December 2016, MegaFon's major shareholders were the USM Group of companies (56.32% interest) and TeliaCompany Group (25.17% interest). The holdings of the major shareholders of MegaFon have not changed during the reporting period.

As at 31 December 2016, the percentage of MegaFon's ordinary shares and GDRs in free float was 14.59%, as in the previous year. In 2016, the percentage of ordinary shares in free float increased 2.2%. As a result of the volatility of the RUB/US\$ exchange rate during 2016 and because of the fact that MegaFon pays dividends on ordinary shares in roubles, investors have become increasingly interested in holding the Company's ordinary shares.

## SHAREHOLDER STRUCTURE OF MEGAFON AS AT 31 DECEMBER 2016



The structure above may 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 2016

Shareholder	Holding, total, %	Ordinary shares, %	GDRs, %
USM Group	56.32	56.32	0.0
Telia Company Group	25.17	25.0	0.17
MegaFon Investments (Cyprus) Limited	3.92	0.0	3.92
Free float	14.59	2.2	12.39
<b>Total</b>	<b>100</b>	<b>83.52</b>	<b>16.48</b>



## Securities (continued)

### Presence on Stock Exchanges

MegaFon's GDRs are traded on the Main Market of the London Stock Exchange. MegaFon's ordinary shares are listed on the Moscow Exchange. They are included in the highest (Level I) Quotation List of the Moscow Exchange. MegaFon's GDRs are included in the FTSE Russia IOB Index and the Company's ordinary shares are included in the MICEX Index, the Moscow Exchange Broad Market Index and the Moscow Exchange Telecoms Index.

### TRADING STATISTICS FOR MEGAFON'S GDRs ON THE LONDON STOCK EXCHANGE, 2016

Average daily trading volume, US\$ m	8.0 <sup>1</sup>
Average daily trading volume, shares traded	778,961 <sup>2</sup>
52-week high, US\$	12.85
52-week low, US\$	8.30
Period-end price, US\$	9.45
Period-end market capitalisation, US\$ m	5,859

Source: Bloomberg

### TRADING STATISTICS FOR MEGAFON'S ORDINARY SHARES ON THE MOSCOW EXCHANGE, 2016

Average number of trades per day	157.2
Average daily trading volume, shares traded	236,059
Average number of trades per day	2,390
52-week high, RUB	884.0
52-week low, RUB	530.2
Period-end price, RUB	579.6
Period-end market capitalisation, RUB bn	359.4

Source: Bloomberg

### TRADING SUMMARY OF MEGAFON'S GDRs

Exchange	London Stock Exchange (LSE)
Market	Main Market
Listing category	Standard GDRs
Admission to trading / listing date	03 December 2012
Stock ticker symbol	MFON LI
Conversion ratio	1 GDR represents 1 ordinary share
Index inclusion	FTSE Russia IOB

### TRADING SUMMARY OF MEGAFON'S ORDINARY SHARES

Exchange	Moscow Exchange
Market	First Level Quotation List
Listing category	Ordinary share
Admission to trading / listing date	28 November 2012
Stock ticker symbol	MFON
Nominal value, RUB	0.1
Index inclusion	MICEX Index, Moscow Exchange Broad Market Index, Moscow Exchange Telecoms Index

### PERFORMANCE OF MEGAFON'S GDRs IN 2016, US\$



### PERFORMANCE OF MEGAFON'S ORDINARY SHARES IN 2016, RUB



<sup>(1)</sup> Average daily trading volume, excluding the volume on 30 November 2016 when trading in MegaFon securities was extremely high. Average daily trading volume including the 30 November 2016 trading was US\$ 8.4m.

<sup>(2)</sup> Average daily trading volume, excluding the volume on 30 November 2016 when trading in MegaFon securities was extremely high. Average daily trading volume including the 30 November 2016 trading was 828,000 shares traded.



## DIVIDEND POLICY

MegaFon has in place a Dividend Policy approved in 2012, which specifies that the Board of Directors must recommend, and the General Meeting of Shareholders must thereafter approve, the amount of dividend to be disbursed.

The aim of the Dividend Policy is to ensure a sustainable and attractive dividend yield for the Company's shareholders. The amount actually distributed will take into account 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 factors that may impact the Company's credit ratings. The Company seeks to pay at least 50% of adjusted net profit or 70% of adjusted cash flow (whichever is greater) in dividends annually. The recommended pay-out percentages may be adjusted upwards or downwards by the Board of Directors as needed to maintain an optimal capital structure based on a net debt/adjusted OIBDA ratio of 1.2–1.5x.



The specific terms of MegaFon's Dividend Policy are available in the Dividend section of the corporate website, at [http://corp.megaфон.com/investors/stock\\_and\\_capital/dividend/](http://corp.megaфон.com/investors/stock_and_capital/dividend/).

The annual General Meeting of Shareholders held on 30 June 2016 resolved to distribute dividends based on the Company's results for FY2015 in the amount of RUB 29,995,600,000 (or RUB 48.38 per ordinary share or GDR); and based on the Company's results for Q1 2016 in the amount of RUB 4,997,200,000 (or RUB 8.06 per ordinary share or GDR). The extraordinary General Meeting of Shareholders held on 9 December 2016 approved the payment of RUB 14,997,800,000 in dividends (or RUB 24.19 per ordinary share or GDR) based on the results for the first nine months of 2016. The aggregate amount of dividends declared in 2016 totalled RUB 49,990,600,000 (or RUB 80.63 per ordinary share or GDR).

## DIVIDEND HISTORY

Reporting period	2013	2014	2015	2016
Total dividends declared in the reporting period, RUB bn	40.0	40.0	50.0	50.0
DPS, RUB	64.51	64.51	80.64	80.63

### 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 Double Tax Treaties signed between Russia and the countries of residence of the beneficial owners of the dividends.

The above tax is determined, withheld and paid to the Treasury of Russia by the tax agent upon each payment of dividends, i.e. by MegaFon in relation to dividends paid to the shareholders whose shares are registered in the Company's securities register, and by a Russian depository in all 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 the following documents to the tax agent before the date the dividend is paid:

- a certificate confirming his/her residence in the country which concluded the relevant Double Tax Treaty with Russia. This certificate must be duly notarised by a competent authority. If such certification is made in a foreign language, the tax agent must also be provided with translations into the Russian language of the relevant documents;
- a confirmation that such shareholder is the actual sole beneficial owner of the relevant income (this is a new requirement, applicable since 1 January 2017).

If a foreign shareholder admits to having no beneficial ownership over the said dividend income (or a part thereof), provisions of Double Tax Treaties may apply to another party provided that such a party directly and/or indirectly holds a stake in the Russian company paying dividends and has submitted the above documents to the tax agent paying out such income.



## Securities (continued)



~RUB 50bn

total amount of declared dividends in 2016

Special rules apply to shareholders who hold MegaFon's shares or GDRs through foreign nominee holders. In such a case, the depository will withhold income tax at the standard rates applicable to the beneficial owners of the dividend income prescribed by the Russian Tax Code or by the Double Tax Treaty. Should the Double Tax Treaty provide for an additional reduction in the tax rate subject to certain criteria being met, such reduced rates will not be applied by the depository.

Shareholders may claim a refund of excess tax withheld and paid to the Russian Treasury by the tax agent by providing the Russian tax authorities with the necessary 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 intends to comply with the legislation affecting payment of dividends as directed by its professional advisers. In the absence of proper evidence confirming that a different tax rate is applicable, MegaFon intends to withhold income tax on dividends at the rates listed above.

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



RUB 20bn

total amount of placed bonds of PJSC "MegaFon"

### BONDS

At the beginning of 2016, one issue of rouble-denominated exchange-traded bonds (series BO-05) and three bond issues of MegaFon Finance LLC, a 100% subsidiary of PJSC MegaFon (series 05, 06 and 07) were outstanding.

In April 2016, MegaFon registered with the Moscow Exchange an exchange-traded bond programme for the issuance of bonds up to a total principal amount of RUB 80bn, with a maximum maturity of 30 years. Under this bond programme, MegaFon placed two issues of exchange-traded bonds in 2016, as follows.

In May 2016, MegaFon placed 10 million exchange-traded bonds series BO-001R-01, each with a principal amount of RUB 1,000 and maturing on the 1,092nd day from the placement date. The total issue of RUB 10bn bore a coupon rate of 9.95% p.a., and becomes due in May 2019.

In June 2016, PJSC MegaFon placed a further 10 million exchange-traded bonds series BO-001R-02, each with a principal amount of RUB 1,000 and maturing on the 3,640th day from the placement start date. The interest rate on the total issue of RUB 10bn was fixed at 9.9% p.a. for the first five years. After that, the coupon rate for the next two years will be 2-year OFZ yield plus 100 basis points. For the final three years the coupon rate will be 3-year OFZ yield plus 100 basis points. MegaFon has a repurchase option on the bonds exercisable on the fifth and the seventh anniversary of their placement. The final maturity date for the bonds is May 2026.

In 2016, MegaFon Finance LLC repurchased the bulk of its series 05 bonds, which were outstanding as of the beginning of 2016, as a result of two put options exercised by their holders. At the beginning of 2016, 1,750,704 bonds of MegaFon Finance LLC from series 05 were outstanding. In April 2016, at the behest of their holders, MegaFon Finance LLC purchased 1,636,213 series 05 bonds at 100% of principal, for a total purchase price of RUB 1.64bn. In October 2016, again at the behest of the holders, MegaFon Finance LLC repurchased 114,424 series 05 bonds at 100% of principal, for a total purchase price of RUB 114m. Following these repurchases, 67 series 05 bonds remain outstanding subject to a further put option exercisable in April 2017. The final maturity date of the series 05 bonds is September 2022.

During 2016, in line with general trends in the Russian market for rouble-denominated bonds, the average coupon rate on MegaFon's bonds declined from double digits at the beginning of the year to below 10%. These changes reflected the lower cost of debt financing after the CBR key rate was reduced in June and September 2016, as well as much higher liquidity.



**ROUBLE-DENOMINATED BOND ISSUES OUTSTANDING IN 2016**

Issuer	MegaFon Finance LLC	MegaFon Finance LLC	MegaFon Finance LLC	PJSC MegaFon	PJSC MegaFon	PJSC MegaFon
Issue number	Series 05 <sup>1</sup>	Series 06	Series 07	Series B0-05 exchange-traded bonds	Series B0-001R-01 exchange-traded bonds	Series B0-001R-02 exchange-traded bonds
Coupon, % per annum	Coupons 1-4 – 8.05% Coupons 5-7 – 9.85% Coupons 8-9 – 0.1%	Coupons 1-10 – 8.0%	Coupons 1-10 – 8.0%	Coupons 1-4 – 11.4%	9.95%	9.90%
Coupon period	182 days	182 days	182 days	182 days	182 days	91 days
Issue size, RUB	10,000,000,000	10,000,000,000	10,000,000,000	15,000,000,000	10,000,000,000	10,000,000,000
Placement date	11 October 2012	13 March 2013	13 March 2013	23 October 2015	12 May 2016	10 June 2016
Maturity date	29 September 2022	01 March 2023	01 March 2023	10 October 2025	09 May 2019	29 May 2026
Put option date	11 April 2017	14 March 2018	14 March 2018	24 October 2017	—	—
Call option date	—	—	—	—	—	June 2021 June 2023
State registration number	4-05-36027-R	4-06-36027-R	4-07-36027-R	4B02-05-00822-J	4B02-01-00822-J-001P	4B02-02-00822-J-001P
ISIN code	RU000A0JT4G6	RU000A0JTR98	RU000A0JTRA9	RU000A0JVV B5	RU000A0JWGG3	RU000A0JWKA8

**CREDIT RATINGS**

In 2016, both S&P Global and Moody’s confirmed MegaFon’s credit rating of the previous year. In late 2016-early 2017, the rating outlooks changed after the rating agencies revised their outlook for Russia’s sovereign credit rating:

- in September 2016, S&P Global changed its outlook from “Negative” to “Stable”, and in March 2017, S&P Global changed its outlook for the foreign currency long-term rating from “Stable” to “Positive”;
- in February 2017, Moody’s changed its outlook from “Negative” to “Stable”.

MegaFon enjoys a rating equivalent to the sovereign credit rating, which enables it to borrow under the best conditions available on the market.

**AS OF THE DATE OF PUBLICATION OF THIS ANNUAL REPORT, THE FOLLOWING CREDIT RATINGS WERE ASSIGNED TO THE COMPANY:**

Rating type	Rating	Rating outlook	Latest outlook review date
<b>S&amp;P Global Ratings</b>			
Foreign currency long-term rating	BB+	Positive	21 March 2017
Local currency long-term rating	BBB-	Stable	20 September 2016
<b>Moody’s</b>			
Long-term corporate credit rating	Ba1	Stable	21 February 2017

<sup>(1)</sup> On 14 October 2014, 12 April 2016 and 11 October 2016, MegaFon Finance LLC purchased a total of 9,999,933 bonds under mandatory put options amounting to RUB 9,999,933,000 in aggregate. On 06 April 2017 MegaFon Finance LLC redeemed the full issue in advance.



## Securities (continued)

### INTERACTIONS WITH INVESTORS

MegaFon continues to work on increasing the transparency of its operations and maintaining ongoing interaction with its shareholders, investors, and other stakeholders. MegaFon adheres to the principles of transparency and accessibility of information, as required by the applicable laws of the Russian Federation and the United Kingdom, regarding mandatory disclosure of information on public companies. In particular, we are guided by the provisions of Russia's Federal Law On Joint-Stock Companies, the Federal Law On Securities Market, and the Listing Rules of the Moscow Exchange and, since MegaFon lists its shares on the London Stock Exchange (LSE), we also comply with the Disclosure and Transparency Rules of the UK Financial Conduct Authority for "standard" companies and the LSE Listing Rules. At the same time, we learn from the experience of leading-edge international companies and strive to consistently implement the best practices applicable to disclosure and external communications coordination.

#### Areas of interactions with investors

In 2016, we continued to maintain a dialogue with existing and prospective investors and analysts through regular quarterly and annual financial results announcements and direct communication during investment conferences, forums and roadshows. We follow a practice of issuing press releases covering our financial results and other matters of importance and making the Company's top managers available through conference calls and meetings.

According to the principle of accessibility, the Company publishes news about its activities on the LSE website via its Regulatory News Service (RNS), on the website of the Russian authorised information agency, Interfax, at <https://www.e-disclosure.ru/>, and on the Company's official website in the For Investors section at <http://corp.megafon.com/investors/> and <http://corp.megafon.ru/investoram/>.

Corporate Action Notices and materials for general meetings of shareholders are uploaded to the UK national data storage system at [www.morningstar.co.uk/uk/NSM](http://www.morningstar.co.uk/uk/NSM).

For each fiscal year ending 31 December, we publish audited consolidated financial statements prepared in accordance with IFRS. We also provide unaudited consolidated financial statements at the end of the first, second and third fiscal quarters.



Investor materials including presentations and reports are available on the Company's website in the For Investors section at <https://corp.megafon.com/investors/>.

#### Analyst coverage

MegaFon is covered by analysts at leading international and Russian banks. As at the end of 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 website in the Analyst Coverage section at [http://corp.megafon.com/investors/stock\\_and\\_capital/analyst\\_coverage/](http://corp.megafon.com/investors/stock_and_capital/analyst_coverage/).



# Directors' Responsibility Statement

The Directors are responsible for preparing annual accounts for each of the financial years of the Company, and to ensure that they present fairly, in all material respects, the assets, liabilities, financial position and profit or loss of the Company.

The Board of MegaFon confirms that to the best of its knowledge:

1. The consolidated financial statements, prepared in accordance with International Financial Reporting Standards as of 31 December 2016 and 2015, and also for the years ended on those dates, including the consolidated statements of financial position, consolidated statements of comprehensive income, cash flows, changes in equity and notes to the consolidated financial statements, present fairly, in all material respects, the state of affairs of MegaFon in accordance with International Financial Reporting Standards.
2. The Business Review contained in MegaFon's Annual Report for 2016 gives a fair view of the performance of the business, and specifically the operational results of MegaFon, of its efforts to meet its strategic objectives, and of the risks and uncertainties faced by the business, as well as other events which in the near future may have an impact on the operations of the Company.

On behalf of the Board

**VLADIMIR STRESHINSKY**  
Chairman of the Board