



MegaFon reports financial and operating results for Q3 2018

Press-release

Moscow, Russia (20 December 2018) - PJSC “MegaFon” (“MegaFon” or the “Company” and, together with its consolidated subsidiaries, the “Group”) (MOEX: MFON), a pan-Russian operator of digital opportunities, announces its financial¹ and operating results for Q3 2018.

Key financial and operating highlights for Q3 2018²

- Revenue increased by 4.7% y-o-y³ to RUB 88,733 million
- OIBDA⁴ increased by 0.9% y-o-y to RUB 33,654 million
- OIBDA margin⁴ was 37.9% versus 39.4% in Q3 2017
- Net Profit⁵ decreased by 4.6% y-o-y to RUB 7,744 million
- CAPEX increased by 47.0% y-o-y to RUB 18,478 million
- Free Cash Flow to Shareholders increased by 31.5% y-o-y to RUB 14,226 million
- Net Debt as of 30 September 2018 was RUB 276,382 million
- The number of mobile subscribers as of 30 September 2018 decreased by 0.4% y-o-y to 76.9 million⁶

1. Based on the interim unaudited condensed consolidated financial statements for 9m 2018 reviewed by JSC KPMG. As a result of the completion on 9 June 2018 of the transaction to create a joint venture with JSC Gazprombank, LLC Financial Investments (a subsidiary of USM Holdings) and LLC RT-Business Development (a subsidiary of Rostec), the Group has ceased to consolidate the financial position and the results of operations of its subsidiary, Mail.Ru Group Limited. For all the periods presented in the interim **unaudited consolidated income statement of the Group for 9m 2018 the results of Mail.Ru are presented net under “Discontinued operations” line**. Accordingly, all financial data in this press release refers to the financial data of the Group exclusive of the Mail.Ru results. Such data was previously reported as the results of the “telecom segment” and now corresponds to results from continuing operations of the Group grossed up for the intragroup amounts between MegaFon Group and Mail.Ru Group.

2. See Schedule 1 for definitions of the terms used and Schedule 2 for the reconciliation of Non-IFRS measures. Due to rounding actual numbers and calculations for financials and KPIs may differ from those set forth in this release.

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

4. OIBDA and OIBDA margin are presented as reported, organic OIBDA and organic OIBDA margin amounted to RUB 33,139 million and 37.3%, respectively. See Schedule 1 for the definition of organic OIBDA and organic OIBDA margin and Schedule 2 for the reconciliation of organic OIBDA and organic OIBDA margin.

5. Net Profit is presented as reported Profit from continuing operations. Organic Net Profit amounted to RUB 7,332 million. See Schedule 1 for the definition of organic Net Profit and Schedule 2 for the reconciliation of organic Net Profit.

6. Subscriber data includes subscribers of the Company in Russia and the subscribers of its subsidiaries: “TT mobile” CJSC in the Republic of Tajikistan, “AQUAFON-GSM” CJSC in the Republic of Abkhazia and “OSTELEKOM” CJSC in the Republic of South Ossetia.



Gevork Vermishyan, the Group's Chief Executive Officer, commented on the financial and operating results as follows:



Financial results

In Q3 2018 we continued to work on our digital strategy implementation: we have stayed with our objectives, focusing on digital clients and developing our digital services ecosystem, which has led to positive trends in our key performance indicators. In Q3 2018 our consolidated revenue went up by 4.7% y-o-y to RUB 88.7 billion, and our total service revenue increased by 6.3% y-o-y to RUB 80.6 billion, driven by wireless revenue growth and in particular by data revenue growth which is up 11.8% y-o-y. Wireline revenue has also gone up 17.3% y-o-y – being driven both by revenues from traditional services and by revenues from digital projects which we have been completing for B2G clients under **the 'Safe City' projects of the State's Digital Economy** programme, already implemented in various regions of Russia, as well as infrastructure development for the FIFA World Cup, and other information and communication technology (ICT) projects being undertaken as part of our digital strategy. Our OIBDA increased by 0.9% y-o-y driven by revenue growth and adoption of the new IFRS standards; however, OIBDA margin declined to 37.9% by 1.5 p.p. y-o-y because of higher general and administrative expenses mainly resulting from an increase in spectrum fees.

Digital services ecosystem development

MegaFon's digital solutions are experiencing high demand from subscribers and corporate clients. Services such as mobile finance services and MegaFon.TV, our travel solutions, and our personalised tariffs are steadily becoming more popular and, as a result, are driving VAS revenue up as anticipated by our development strategy.

We are also expanding the ecosystem of services for our B2X clients. MegaFon was the first among telecom operators to offer a digital recruitment solution. We also launched a **security application for smartphones and tablets called 'MegaFon Antihack'**, upgraded our solution protecting against DDoS attacks, and launched a Business clouds solution.

In Q3 2018 we have opened a business innovations centre located in our headquarters in Moscow, where we showcased our entire digital solutions ecosystem for business – from setting up a new point of sales to personnel recruitment. In the centre, clients can learn about and test the effectiveness of the latest solutions from MegaFon.

Our infrastructure, **which is both the largest and the "best-in-kind"**, supports our development efforts. Its quality has been confirmed by our clients – according to Ookla, MegaFon internet has been rated the fastest in Russia for the second year in a row, based on 7.9 million speed checks on **users'** mobile equipment made in Q1 and Q2 2018 using the SpeedTest® application.

Partnerships with market leaders

One of the key steps in achieving our strategic goals is partnering with other telecom, IT and internet market leaders. Recently we announced an important strategic agreement with the Russian Direct Investment Fund (RDIF), Alibaba Group and Mail.Ru Group aimed at creating the largest e-commerce joint venture in Russia and the CIS. We plan to combine our respective resources to offer unprecedented benefits for retailers, consumers and internet-users and to accelerate the development of the digital economy in Russia.



We also see huge potential in dealing with Big Data and realise that for future development the market needs a set of ground rules to regulate interactions between Big Data owners. This is why we, together with other key players, have founded the Association of Big Data Market Participants, the goal of which is to enable development of Big Data technologies and products in Russia.

Successful completion of repurchase programme for ordinary shares and GDRs and delisting from LSE

As previously announced, in July 2018 the Board determined that remaining a public company is no longer a priority for us. Accordingly, we provided an opportunity to our minority shareholders to sell their ordinary shares and GDRs at a premium to the market price by way of a tender offer, which has now been successfully completed. The purchase price was set at US\$9.75 per 1 GDR/1 ordinary share (or RUB 659.26 at the rate of the Central Bank of Russia as of the date of announcement of the tender offer results). The tender offer was clearly well received by shareholders because 89.4% of them tendered their shares and, as a result of the repurchase programme the free float has gone from 20.8% to 2.2% of total number of issued shares. Effective 5 October 2018 the listing and admission to trading of **MegaFon's GDRs on London Stock Exchange** was cancelled.

On 10 December 2018 MegaFon Finance LLC, a wholly-owned subsidiary of MegaFon, cancelled all of the GDRs which were held by it, and received the corresponding number of ordinary shares. Upon the cancellation of the GDRs, MegaFon Finance LLC became the owner of 139,616,537 ordinary shares of MegaFon, which, together with the shares held by the controlling shareholder AF Telecom Holdings LLC, constitutes **78.84% of the Company's issued ordinary shares**, and according to the Federal Law **"On Joint Stock Companies"**, requires that we make a mandatory tender offer to other shareholders to acquire the ordinary shares held by them. Accordingly, on 11 December 2018 MegaFon Finance LLC submitted the documentation relating to the mandatory tender offer to the Central Bank of Russia for review.

MegaFon Finance has obtained the required corporate and regulatory approvals for carrying out the mandatory tender offer to acquire ordinary shares of MegaFon.

For the purposes of the performance by MegaFon Finance of its obligations to make the mandatory tender offer, the Company entered into a suretyship agreement with Bank GPB (JSC) for the amount of up to RUB 90 billion to secure performance of MegaFon Finance's obligations under its agreement with Bank GPB (JSC) for the issuance of a bank guarantee, required to file the mandatory tender offer.





Financial results⁷ (In millions of RUB, except as indicated)

| | Three Months | | | Nine Months | | |
|-------------------------------------|--------------|------------|---------------------|-------------|---------------------|---------------------|
| | Q3 2018 | Q3 2017 | Q3 2018/ Q3 2017 | 9m 2018 | 9m 2017 | 9m 2018/ 9m 2017 |
| Revenue | 88,733 | 84,720 | 4.7% | 247,137 | 237,169 | 4.2% |
| Wireless Services | 72,298 | 68,746 | 5.2% | 205,003 | 196,750 | 4.2% |
| Including data revenue | 26,110 | 23,355 | 11.8% | 74,033 | 66,204 | 11.8% |
| Wireline Services | 8,314 | 7,088 | 17.3% | 22,664 | 19,648 | 15.4% |
| Sales of equipment & accessories | 8,121 | 8,886 | (8.6%) | 19,470 | 20,771 | (6.3%) |
| OIBDA | 33,654 | 33,339 | 0.9% | 96,481 | 92,985 | 3.8% |
| OIBDA Margin | 37.9% | 39.4% | (1.5 p.p.) | 39.0% | 39.2% | (0.2 p.p.) |
| Net Profit | 7,744 | 8,121 | (4.6%) | 19,935 | 17,482 ⁸ | 14.0% |
| Net Profit Margin | 8.7% | 9.6% | (0.9 p.p.) | 8.1% | 7.4% | 0.7 p.p. |
| CAPEX | 18,478 | 12,566 | 47.0% | 43,196 | 33,852 | 27.6% |
| CAPEX / Revenue | 20.8% | 14.8% | 6.0 p.p. | 17.5% | 14.3% | 3.2 p.p. |

Financial results, Russia only⁹ (In millions of RUB, except as indicated)

| | Three Months | | | Nine Months | | |
|-------------------------------------|--------------|------------|---------------------|-------------|---------------------|---------------------|
| | Q3 2018 | Q3 2017 | Q3 2018/ Q3 2017 | 9m 2018 | 9m 2017 | 9m 2018/ 9m 2017 |
| Revenue | 87,329 | 83,529 | 4.5% | 243,434 | 233,940 | 4.1% |
| Wireless Services | 70,904 | 67,569 | 4.9% | 201,328 | 193,548 | 4.0% |
| Including data revenue | 25,556 | 22,935 | 11.4% | 72,570 | 65,115 | 11.4% |
| Wireline Services | 8,305 | 7,074 | 17.4% | 22,638 | 19,622 | 15.4% |
| Sales of equipment & accessories | 8,120 | 8,886 | (8.6%) | 19,468 | 20,770 | (6.3%) |
| OIBDA | 33,247 | 33,440 | (0.6%) | 95,470 | 93,068 | 2.6% |
| OIBDA Margin | 38.1% | 40.0% | (1.9 p.p.) | 39.2% | 39.8% | (0.6 p.p.) |
| Net Profit | 8,178 | 9,406 | (13.1%) | 21,262 | 19,963 ⁸ | 6.5% |
| Net Profit Margin | 9.4% | 11.3% | (1.9 p.p.) | 8.7% | 8.5% | 0.2 p.p. |

7. The amounts are presented as reported results from continuing operations grossed up for the intragroup amounts between MegaFon Group and Mail.Ru Group.

8. Net Profit is adjusted to exclude the non-cash impairment relating to the Euroset joint venture in the amount of RUB 15.9 billion in Q2 2017.

9. The amounts are presented as reported results from continuing operations grossed up for the intragroup amounts between MegaFon Group and Mail.Ru Group, and excluding mutual settlements with "TT mobile" CJSC, "AQUAFON-GSM" CJSC and "OSTELEKOM" CJSC.



Revenue

Total revenue in Q3 2018 increased by 4.7% y-o-y to RUB 88,733 million, while our service revenue grew by 6.3% to RUB 80,612 million. Revenue from Russia remained the major component in this segment, accounting for approximately 98.4% of total revenue.

In Q3 2018 our wireless service revenue, including data revenue, increased by 5.2% y-o-y to RUB 72,298 million driven by continued growth in mobile data revenue which increased by 11.8% y o-y to RUB 26,110 million.

Wireless service revenue grew as a result of increases in both average revenue per user and data traffic consumption per user. The key driver behind the growth continued to be the tariff line **“Vklyuchaisya!” (“Connect!”)** which has been going strong since its launch a year ago in Q2 2017 coupled with certain modifications, such as introduction of a new tariff plan **“Vklyuchaisya! Smotri+” (“Connect! Watch plus”)**, as well as the tariff line for B2X clients **“Upravlyai!” (“Manage!”)** which was launched last quarter. During the FIFA World Cup the one-time surge in wireless services consumption also had a positive impact on wireless revenue.

Another significant driver of wireless revenue continued to be our VAS-revenue, including revenue from rendering digital products and services such as mobile finance services, MegaFon.TV and others - up by 29.5% y-o-y in Q3 2018. VAS revenue increased as a result of revisions to our pricing policies following a multiple-factor analysis of the market and our service portfolio values. The FIFA World Cup also had a noticeable impact on MegaFon.TV revenue as traffic was five times higher than usual during the period of the event.

In Q3 2018 wireline service revenue increased by 17.3% y-o-y to RUB 8,314 million. The key contributors to the growth were the increased revenue from the FIFA World Cup infrastructure development, supplying goods and services under the **“Safe City” projects of the State’s Digital Economy Programme**, and other ICT contracts with B2G clients.

Revenue from sales of equipment and accessories in Q3 2018 decreased by 8.6% y-o-y to RUB 8,121 million. This was mainly caused by a reduction in the number of our retail outlets in line with our strategy announced in 2017. While we experienced a boost in revenue from sales of newly launched models of Samsung, Xiaomi and Apple handsets, this was insufficient to offset the impact of the reduction in the number of our outlets.

OIBDA and OIBDA Margin

OIBDA in Q3 2018 increased by 0.9% y-o-y to RUB 33,654 million. This increase includes a positive impact from the adoption of **the new accounting standard, ‘IFRS 15 - Revenue from Contracts with Customers’**, in the amount of RUB 515 million. Organic OIBDA in Q3 2018 slightly decreased by 0.6% y-o-y to RUB 33,139 million.

The increase in total revenue of 4.7% was offset by an increase in VAS costs due to more expensive VAS-content products being included into our products portfolio, the negative impact of adverse foreign currency rates, higher advertising expenses as we promoted new marketing initiatives, a significant increase in spectrum expenses following the revision of charges by the regulator, and higher personnel expenses resulting from an increase in the number of highly skilled professionals being engaged to work on implementing our digital ecosystem strategy.

OIBDA Margin in Q3 2018 decreased by 1.5 p.p. y-o-y to 37.9%. Organic OIBDA Margin decreased by 2.1 p.p. y-o-y to 37.3%, in both cases mainly due to the increase in spectrum fees and personnel expenses mentioned above.

Net Profit

Net Profit in Q3 2018 decreased by 4.6% y-o-y to RUB 7,744 million. And after eliminating the positive IFRS 15 impact of RUB 412 million, organic Net Profit decreased by 9.7% y-o-y to RUB 7,332 million. The decreases in both cases were mainly the result of an increase in amortisation



expense due to spectrum and software acquisitions over the last year, a higher share of losses from associates and joint ventures acquired over the last year and higher financing costs resulting from the increase in corporate debt noted below, offset in part by foreign exchange gains from deposits held in foreign currencies.

CAPEX

CAPEX in Q3 2018 increased by 47.0% to RUB 18,478 million driven by the continued roll-out of LTE and LTE-Advanced networks, development of our billing platform and investment in equipment required to comply with Yarovaya (data storage) law.

Free Cash Flow to Shareholders

Free cash flow to shareholders in Q3 2018 increased by 31.5%, or by RUB 3,406 million y-o-y, to RUB 14,226 million due to an increase in operating cash flows which significantly exceeded the increased CAPEX and interest payments.

Net Debt

Net debt increased by 28.7% from RUB 214,743 million as of 30 June 2018 to RUB 276,382 million as of 30 September 2018 due to the loans drawn to finance the repurchase of ordinary shares and GDRs pursuant to the tender offer made in July 2018. As of 30 September 2018 our Net debt/OIBDA ratio was 2.2x.

EPS

Basic and diluted EPS for Q3 2018 increased y-o-y from RUB 13 per share for Q3 2017 to RUB 14 per share for Q3 2018 due to a reduction in the weighted average number of shares outstanding following the repurchase of ordinary shares and GDRs pursuant to the tender offer made in July 2018.

New accounting standards

Starting from 1 January 2018 we adopted the new accounting standards IFRS 15 'Revenue from contracts with customers' and IFRS 9 'Financial Instruments'. The adoption of IFRS 9 did not have a material impact on our financial statements. The key impact for us of the adoption of IFRS 15 was the capitalisation of costs incurred to acquire new customer contracts, which increased our Net Profit by RUB 412 million in Q3 2018, net of tax of RUB 103 million (the effect on Net Profit for the first 9 months of 2018 amounted to RUB 1,244 million, net of tax of RUB 311 million). We adopted IFRS 15 using the modified retrospective method, and this increased our deferred costs assets by RUB 1,707 million and our opening retained earnings by RUB 1,366 million, net of tax effect.

Outlook/Guidance

Taking into account the Company's performance, we are upgrading our guidance on service revenue for 2018 to grow by mid-single digits y-o-y. We reiterate our guidance for OIBDA to stay flat and capital expenditures for 2018 to be in the range of RUB 75 – 80 billion. The guidance is presented excluding the impact of IFRS 15 adoption.



Wireless subscribers in Russia as of

| | 30 September 2018 | 30 September 2017 | Change |
|------------------------------------|----------------------|----------------------|----------|
| Number of wireless subscribers (K) | 75,234 | 75,601 | (0.5%) |
| of which data service users (K) | 32,185 | 31,110 | 3.5% |
| Share of data service users | 42.8% | 41.2% | 1.6 p.p. |

Our Russian wireless subscriber base slightly decreased by 0.5% y-o-y to 75.2 million as of 30 September 2018. Our data service user base in Russia went up by 3.5% y-o-y to 32.2 million as of 30 September 2018 and reached 42.8% of the overall subscriber base in Russia. We believe that our continued focus on our data service revenues, which has resulted in a steady growth in our data services portfolio, contributed materially to this growth in data subscribers.

Data operating indicators

| | Q3 2018 | Q3 2017 | Q3 2018/ Q3 2017 | 9m 2018 | 9m 2017 | 9m 2018/ 9m 2017 |
|-------------|---------|---------|---------------------|---------|---------|---------------------|
| ARPDU (RUB) | 265 | 246 | 7.7% | 256 | 234 | 9.4% |
| DSU (MB) | 9,232 | 6,679 | 38.2% | 8,855 | 6,145 | 44.1% |

ARPDU increased in Q3 2018 by 7.7% y-o-y to RUB 265 which we believe is a direct response to our efforts to encourage data usage by our subscribers as we continue to introduce data-service-centered products such as “**Vklyuchaisya!**” (“**Connect!**”), “**Upravlyai!**” (“**Manage!**”), roaming options for data users, etc.

DSU increased in Q3 2018 by 2.6 gigabytes, or 38.2% y-o-y, to 9.2 gigabytes, as a result of the initiatives mentioned above, and supported by the market trends of consumer digitalisation, resulting in improved smartphone penetration (currently, penetration of smartphones represents 68.8%), while the overall number of hi-end 4G-enabled devices registered on **MegaFon’s network** went up by 36.8% y-o-y- to 26.7 million devices. Data usage also increased in Q3 due to the one-off effect of the FIFA World Cup.



For more information

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Notes to editors

MegaFon is a pan-Russian operator of digital opportunities, operating in all segments of the telecommunications markets in Russia, and in the Republics of Abkhazia, South Ossetia and Tajikistan. MegaFon is a recognised market leader in the provision of mobile data services, was the first operator in Russia to launch commercial operation of a third generation (3G) network and was the first operator in the world to launch commercial operation of an LTE -Advanced (4G) data network. MegaFon is traded on the Moscow Exchange under the symbol MFON. Additional information about MegaFon and the products and services provided by the Group can be found at <http://www.megafon.ru>.

Disclaimers, statement regarding inside information and forward looking statements

The above discussion and analysis should be read in conjunction with the Group's consolidated financial statements which are available for download on the Group's website at: <http://corp.megafon.com/investors/>

Certain statements and/or other information included in this document may not be historical facts and may constitute "forward looking statements" within the meaning of Section 27A of the U.S. Securities Act of 1933 and Section 2(1)(e) of the U.S. Securities Exchange Act of 1934, as amended. The words "believe", "expect", "anticipate", "intend", "estimate", "plans", "forecast", "project", "will", "may", "should" and similar expressions may identify forward looking statements but are not the exclusive means of identifying such statements. Forward looking statements include statements concerning our plans, expectations, projections, objectives, targets, goals, strategies, future events, future revenues, operations or performance, capital expenditures, financing needs, our plans or intentions relating to the expansion or contraction of our business as well as specific acquisitions and dispositions, our competitive strengths and weaknesses, the risks we face in our business and our response to them, our plans or goals relating to forecasted production, reserves, financial position and future operations and development, our business strategy and the trends we anticipate in the industry and the political, economic, social and legal environment in which we operate, and other information that is not historical information, together with the assumptions underlying these forward looking statements. By their very nature, forward looking statements involve inherent risks, uncertainties and other important factors that could cause our actual results, performance or achievements to be materially different from results, performance or achievements expressed or implied by such forward-looking statements. Such forward-looking statements are based on numerous assumptions regarding our present and future business strategies and the political, economic, social and legal environment in which we will operate in the future. We do not make any representation, warranty or prediction that the results anticipated by such forward-looking statements will be achieved, and such forward-looking statements represent, in each case, only one of many possible scenarios and should not be viewed as the most likely or standard scenario. We expressly disclaim any obligation or undertaking to update any forward-looking statements to reflect actual results, changes in assumptions or in any other factors affecting such statements.



Schedule 1: Definitions

ARPDU (Average Monthly Revenue Per Data Services User) is calculated for a given period by **dividing the Group's data services revenues for a given period** by the average number of its data services users during that period, and further dividing the result by the number of months in that period.

Capital Expenditures (CAPEX) comprises the cost of purchases of new equipment, new construction, acquisition of new or upgrades to software, acquisition of spectrum and other intangible assets, and purchases of other long-term assets, together with related costs incurred prior to the intended use of the applicable assets, all accounted for as of the earliest time of payment or delivery. Long-term assets obtained through business combinations are not included in the calculation of capital expenditures.

Data service user is defined as a subscriber who has consumed any amount of data traffic within preceding month.

Diluted EPS is calculated by adjusting both numerator and denominator in the EPS calculation so as to reflect the effect of including the additional shares that would have been outstanding if all options and other rights to acquire shares had been converted into actual shares.

DSU (Monthly Average Data Services Usage per User) is calculated by dividing the total number of megabytes transferred by our network during a given period by the average number of data services users during such period and dividing the result by the number of months in such period.

EPS (Earnings per Share) **means an amount of the Group's profit allocated to one share of its stock**, and is calculated by dividing Net Profit for a reporting period by the weighted average number of shares outstanding during the period. No earnings are allocated to treasury shares.

Free Cash Flow to Shareholders means cash from operating activities, less cash paid for purchases of property, equipment and intangible assets and interest paid, increased by proceeds from sales of property and equipment and interest received. It is a financial measure which should be considered as supplementary but not as an alternative to the information provided in **the Group's financial statements**. A reconciliation of free cash flow and cash from operating activities is provided in Schedule 2.

Group means PJSC "MegaFon" together with its consolidated subsidiaries. Previously, the Group had consolidated the financial position and the results of operations of its subsidiary, Mail.Ru Group Limited ("Mail.Ru"), from the beginning of 2017. As of June 2018, the Group concluded that it no longer had the ability to direct relevant activities of Mail.Ru, and therefore no longer had control over that company. Accordingly, the Group ceased to consolidate the financial position and the results of operations of Mail.Ru, with effect from the end of Q2 2018. Information relating solely to Mail.Ru can be found at <https://corp.mail.ru/en/investors/>.

LTV means lifetime value of a subscriber, i.e. the present value of the future cash flows attributed to the subscriber during his/her entire relationship with the Group.

Net debt position means the difference between (a) cash, cash equivalents, and principal amount of deposits and (b) principal amount of loans and borrowings less unamortised debt issuance fees. It is a financial measure which should be considered as supplementary but not as **an alternative to the information provided in the Group's financial statements**. A description of how the metric is calculated is provided in Schedule 2.

Net Profit is profit for the period from continuing operations attributable to equity holders of the Group grossed up for intragroup amounts between MegaFon Group and Mail.Ru Group.

Organic Net Profit is Net Profit excluding the impact of new IFRS standards. Starting from 1 January 2018, MegaFon has adopted new IFRS standards, namely: IFRS 9 "Financial instruments" and IFRS 15 "Revenue from Contracts with Customers". For convenience of comparison with prior periods, with respect to the financial year 2018, MegaFon shall be presenting its financial results



as reported, i.e. including the impact of IFRS 9 and IFRS 15, and organically, i.e. excluding the impact of adoption of the mentioned standards.

OIBDA (Operating Income Before Depreciation and Amortisation) is a financial measure not defined by IFRS, should be considered as supplementary and not as an alternative to the information provided in the financial statements of the Group. OIBDA margin means OIBDA as a percentage of revenue. OIBDA and OIBDA margin are widely used by investors, analysts and rating agencies as a measure to evaluate and compare current and future operating performance and to determine the value of companies within the telecommunications industry. However, the **Group's definition of OIBDA and OIBDA margin may not be directly comparable to similarly** named financial measures and disclosures by other companies. A reconciliation of OIBDA to operating profit is provided in Schedule 2.

Organic OIBDA is OIBDA, and organic OIBDA margin is OIBDA margin, in each case net of the impact of IFRS 15 adoption. The adoption of IFRS 9 did not have a material impact on our financial statements.

Wireless Subscriber is defined as each SIM card that is activated in our billing system or has had at least one chargeable traffic event (that is, use of voice, VAS or data transfer services) within the preceding three months, whether chargeable to the subscriber or to a third party (for example, interconnection charges payable by other operators). Where an individual person holds more than one SIM card, each SIM card is included as a separate subscriber.



Schedule 2: Reconciliations of Non-IFRS financial measures¹⁰ (In millions of RUB, except as indicated)

OIBDA

| | Q3 2017 | Q4 2017 | Q1 2018 | Q2 2018 | Q3 2018 |
|---|---------|---------|---------|---------|---------|
| Operating profit | 17,369 | 12,517 | 14,790 | 15,973 | 16,988 |
| Depreciation | 13,786 | 14,086 | 12,227 | 12,229 | 12,473 |
| Amortisation | 2,070 | 2,020 | 3,658 | 3,914 | 4,017 |
| Loss/(gain) on disposal of non-current assets | 114 | 242 | (109) | 145 | 176 |
| OIBDA | 33,339 | 28,865 | 30,566 | 32,261 | 33,654 |
| IFRS 15 effect | — | — | (562) | (478) | (515) |
| Organic OIBDA | — | — | 30,004 | 31,783 | 33,139 |

OIBDA margin as percentage of revenue

| | Q3 2017 | Q4 2017 | Q1 2018 | Q2 2018 | Q3 2018 |
|---|---------|---------|---------|---------|---------|
| Operating profit | 20.5% | 14.8% | 19.3% | 19.5% | 19.1% |
| Depreciation | 16.3% | 16.6% | 16.0% | 14.9% | 14.1% |
| Amortisation | 2.5% | 2.4% | 4.8% | 4.8% | 4.5% |
| Loss/(gain) on disposal of non-current assets | 0.1% | 0.3% | (0.1%) | 0.2% | 0.2% |
| OIBDA Margin | 39.4% | 34.1% | 40.0% | 39.4% | 37.9% |
| IFRS 15 effect | — | — | (0.8%) | (0.6%) | (0.6%) |
| Organic OIBDA Margin | 39.4% | 34.1% | 39.2% | 38.8% | 37.3% |

Net Profit and Net Profit margin

| | Q3 2017 | Q4 2017 | Q1 2018 | Q2 2018 | Q3 2018 |
|---------------------------|---------|---------|---------|---------|---------|
| Net Profit | 8,121 | 3,037 | 6,037 | 6,154 | 7,744 |
| IFRS 15 effect | — | — | (450) | (382) | (412) |
| Organic Net Profit | 8,121 | 3,037 | 5,587 | 5,772 | 7,332 |
| Net Profit Margin | 9.6% | 3.6% | 7.9% | 7.5% | 8.7% |
| IFRS 15 effect Margin | — | — | (0.6%) | (0.5%) | (0.5%) |
| Organic Net Profit Margin | 9.6% | 3.6% | 7.3% | 7.0% | 8.2% |

10. The amounts are presented as reported results from continuing operations grossed up for the intragroup amounts between MegaFon Group and Mail.Ru Group.



Net debt as of

| | 30 Sep 2017 | 31 Dec 2017 | 31 Mar 2018 | 30 Jun 2018 | 30 Sep 2018 |
|---|----------------|----------------|----------------|----------------|----------------|
| Cash and cash equivalents | 13,653 | 20,776 | 24,345 | 14,553 | 36,916 |
| Bank deposits (principal amount) | 15,797 | 7,553 | 4,125 | 21,912 | 4,119 |
| Loans and borrowings (principal amount) less unamortised fees and discounts | (262,562) | (262,846) | (260,260) | (251,208) | (317,417) |
| Net debt | (233,112) | (234,517) | (231,790) | (214,743) | (276,382) |

Free cash flow to shareholders

| | Q3 2017 | Q4 2017 | Q1 2018 | Q2 2018 | Q3 2018 |
|---|----------|----------|----------|----------|----------|
| Net cash flows from operating activities | 30,240 | 31,403 | 24,213 | 25,363 | 34,842 |
| Purchase of property, equipment and intangible assets | (14,187) | (12,599) | (19,426) | (11,522) | (15,187) |
| Proceeds from sale of property and equipment | 35 | 250 | 373 | 341 | 7 |
| Interest received | 382 | 667 | 235 | 209 | 434 |
| Interest paid | (5,650) | (6,722) | (5,548) | (6,524) | (5,870) |
| Free cash flow to shareholders | 10,820 | 12,999 | (153) | 7,867 | 14,226 |



Schedule 3: Summarised 9 months financial information of the Group

(In millions of RUB, except as indicated)

Summarised income statement of the Group

| | 9m 2018 | 9m 2017 |
|--|-------------------------|-----------|
| Revenue | 247,129 ¹¹ | 237,161 |
| Operating expenses | (199,263) ¹¹ | (191,630) |
| Operating profit | 47,866 ¹¹ | 45,531 |
| Non-Operating loss | (21,630) | (38,185) |
| Profit before tax from continuing operations | 26,236 ¹¹ | 7,346 |
| Income tax expense | (6,192) | (5,590) |
| Profit from continuing operations, net of tax | 20,044 ¹¹ | 1,756 |
| Profit from discontinued operations, net of tax | 11,584 | 1,924 |
| Profit for the period | 31,628 | 3,680 |
| Profit for the period attributable to equity holders of the Group | 34,037 | 1,877 |
| Basic and diluted, earnings per share for the period attributable to equity holders of the Group | 59 | 3 |

Summarised financial position of the Group as of

| | 30 Sep 2018 | 31 Dec 2017 |
|------------------------------|----------------|----------------|
| Non-current assets | 401,460 | 462,602 |
| Current assets | 95,615 | 99,125 |
| Total assets | 497,075 | 561,727 |
| Total equity | 69,769 | 165,309 |
| Non-current liabilities | 319,263 | 259,988 |
| Current liabilities | 108,043 | 136,430 |
| Total liabilities | 427,306 | 396,418 |
| Total equity and liabilities | 497,075 | 561,727 |

Summarised cash flow information of the Group

| | 9m 2018 | 9m 2017 |
|---|----------|----------|
| Net cash flows from operating activities | 89,243 | 96,032 |
| Net cash flows used in investing activities | (45,883) | (92,904) |
| Net cash flows used in financing activities | (46,322) | (10,289) |
| Net change in cash and cash equivalents | (2,962) | (7,161) |

11. Amounts in the interim unaudited condensed financial statements of the Group are shown net of intragroup amounts between MegaFon Group and Mail.Ru Group, while financial results discussed in this press-release include intragroup amounts.