

## MegaFon announces financial results for Q1 2015 highlighting strong profitability

MOSCOW, Russia (29 April 2015) - OJSC "MegaFon" ("MegaFon", or the "Company") (LSE: MFON), a leading Russian integrated telecommunications operator, announces its unaudited consolidated financial results<sup>1</sup> for the first quarter 2015.

### Key highlights of the First Quarter 2015<sup>2</sup>

- Consolidated revenue decreased by 1.2% y-o-y<sup>3</sup> to RUB 73,983 million
- Revenue from wireless data services increased by 10.4% y-o-y to RUB 17,855 million
- OIBDA decreased by 1.7 % y-o-y to RUB 31,964 million
- OIBDA margin was 43.2% versus 43.4% in Q1 2014
- Net Profit increased by 2.4 % y-o-y to RUB 7,402 million
- CAPEX decreased by 3.1 % y-o-y to RUB 8,093 million
- Free Cash Flow amounted to RUB 12,109 million
- Net Debt as of 31 March 2015 was RUB 129,063 million
- The number of mobile subscribers grew by 3.3% y-o-y to 72 million<sup>4</sup> as of 31 March 2015

<sup>1</sup> Based on the IFRS interim condensed consolidated financial statements reviewed by JSC KPMG

<sup>2</sup> See Schedule 1 for definitions of the terms used and Schedule 2 for the reconciliation of Non-IFRS measures. Due to rounding manual calculations for financials and KPIs may differ from those displayed.

<sup>3</sup> Year over year ("y-o-y") stands for the same periods in the current and previous year on either a quarterly or yearly basis

<sup>4</sup> Consolidated 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

## Key Corporate events of the First Quarter 2015

- MegaFon reached a speed of 450 Mbit/s
  - MegaFon and Ericsson achieved a maximum speed of 450 Mbit/s in the course of LTE-Advanced trials using a combination of three bands of LTE spectrum of 20 MHz each
- Strategic partnership between MegaFon and QIWI
  - MegaFon and QIWI, a leading provider of next generation payment services, announced the creation of a strategic partnership aimed at development of high-tech solutions in electronic payments utilizing the combined business expertise of both companies. The initial project of the partnership is the launch of a co-branded product based on Visa QIWI Wallet technology. Currently this solution is unique in the Russian market
- Agreement with Nokia
  - MegaFon signed a seven year contract with Nokia Solutions and Networks to build a nationwide 4G+ network based on Single RAN (radio access network) technology
- Agreement with Svyaznoy
  - MegaFon signed a strategic partnership agreement with Svyaznoy, a national chain of mobile telecom retail outlets, for wider distribution of MegaFon services and products, including free top-up services for its subscribers, and implementation of various joint e-commerce projects
- Recommendation of dividends for 2014
  - On 28 April 2015, based on the results for 2014, the MegaFon Board of Directors decided to recommend the payment of dividends in the total amount of RUB 10 billion, equivalent to RUB 16.13 per ordinary share (or GDR), subject to approval by the Annual General Meeting of Shareholders on 30 June 2015
  - The Board of Directors also agreed to include in the agenda of its meeting scheduled for 28 October 2015 an item on making a recommendation to an Extraordinary General Meeting of shareholders to distribute additional dividends in 2015, so that the total amount of dividends distributed in 2015 is at least RUB 40 billion, taking into account the Company's Dividend Policy

## Ivan Tavrin, Chief Executive Officer of MegaFon, commented on the financial and operational results as follows:



“I am happy to announce that despite the current difficult economic environment, in Q1 2015 MegaFon produced very good results, increasing its net profit and achieving an OIBDA margin which was significantly higher than its previously announced guidance for 2015. This is the result of the strong performance of our flagship mobile data segment and well planned liabilities management and foreign currency risk strategy.

As a result of our commitment to high quality service and state of the art network and infrastructure, as well as attractive data tariff plans, we continue to maintain our leadership in mobile data. Data revenue grew more than 10%, while data users in our subscriber base in Russia increased by 5%.

MegaFon has also maintained its technological leadership in this segment: at the beginning of 2015 we successfully tested new LTE-Advanced networks, achieving a maximum speed of 450 Mbit/s.

Consolidated revenue decreased slightly as compared to the same period last year. Revenues in Q1 2014 were given a special one-time boost thanks to our exclusive rights to provide communications services at the XXII Olympic Winter Games and XI Paralympic Games in Sochi.

While these are challenging times and there is some uncertainty as to our future results, we will remain true to our core objectives: identifying and developing new products and services to provide maximum value to our subscribers as well as increasing our revenues, while at the same time growing margins and profitability through efficient management of our operations.

The board of directors of the Company has recommended paying a dividend for 2014 in the amount of 10 billion rubles, subject to the approval of our shareholders in June, and has decided to address in October the convening of a further meeting of shareholders to resolve upon the declaration of an additional dividend, so that the total amount of dividends distributed in 2015 is at least 40 billion rubles. In acting in this manner, the Board took into account the need to manage cash and forex risks in a prudent fashion.”

## Key Consolidated Financial Data (in Millions of Rubles)

	Q1 2015	Q1 2014	Q1 2015/ Q1 2014
Revenue	73,983	74,876	(1.2%)
Wireless Services	64,093	64,719	(1.0%)
Including data revenue	17,855	16,166	10.4%
Wireline Services	5,499	5,294	3.9%
Sales of equipment & accessories	4,391	4,863	(9.7%)
OIBDA	31,964	32,503	(1.7%)
OIBDA Margin	43.2%	43.4%	(0.2 p.p.)
Net Profit	7,402	7,228	2.4%
Net Profit Margin	10.0%	9.7%	0.3 p.p.
CAPEX	8,093	8,353	(3.1%)
CAPEX / Revenue	10.9%	11.2%	(0.3 p.p.)

## Key Financial Data in Russia (in Millions of Rubles)<sup>5</sup>

	Q1 2015	Q1 2014	Q1 2015/ Q1 2014
Revenue	72,722	74,035	(1.8%)
Wireless Services	62,840	63,887	(1.6%)
Including data revenue	17,538	15,935	10.1%
Wireline Services	5,495	5,290	3.9%
Sales of equipment & accessories	4,387	4,858	(9.7%)
OIBDA	31,790	32,387	(1.8%)
OIBDA Margin	43.7%	43.7%	–
Net Profit	8,107	7,523	7.8%
Net Profit Margin	11.1%	10.2%	0.9 p.p.

<sup>5</sup> Excluding mutual settlements with "TT mobile" CJSC, "AQUAFON-GSM" CJSC and "OSTELEKOM" CJSC

## Revenue

Our total consolidated revenue in Q1 2015 declined by 1.2% y-o-y to RUB 73,983 million. Revenue in the comparable period in 2014 benefitted from the one-off effect of the 2014 Winter Olympics, although revenue in Q1 2015 was also negatively impacted by declines in equipment sales caused by the current macro-economic situation. Revenue from Russia remained the major component, accounting for over 98.3% of total revenue.

Wireless service revenue decreased by 1.0% y-o-y to 64,093, also reflecting the special impact of the Olympics in Q1 2014.

Wireless data revenue demonstrated a strong 10.4% increase y-o-y, reaching RUB 17,855 million, and currently represents 27.9% of Q1 2015 wireless revenues as compared to 25.0% in Q1 2014. Our 3G and 4G network expansion programme continued to progress well, resulting in increases in data volume and average monthly usage per customer. This increase was also supported by our subscribers' usage of heavier data-consuming products; 4G enabled devices registered in our network in Q1 2015 increased by 55.6% as compared to Q1 2014 and our 4G traffic increased by 42.1% over the comparable period in 2014.

Wireline service revenues increased by 3.9% y-o-y to RUB 5,499 million supported by strong growth in enterprise sales and residential broadband usage, as well as good performance in provision of carrier services.

Revenue from sales of equipment and accessories decreased by 9.7% y-o-y to RUB 4,391 million, reflecting the overall reduction in consumer spending in the current environment.

## OIBDA and OIBDA Margin

OIBDA declined by 1.7% y-o-y to RUB 31,964 million in Q1 2015 principally due to increases in our international interconnection charges as a result of the depreciation of the Ruble. However, as a result of our operating efficiencies as well as a decrease in advertising expenses as compared to Q1 2014 (whose numbers were Olympics affected), we managed to keep the OIBDA margin at the level of 43.2%, higher than our guidance for 2015.

## Net Profit

Although OIBDA declined by RUB 539 million, net profit in Q1 2015 increased by 2.4% y-o-y to RUB 7,402 million, mostly due to an increase in interest income resulting from active management of the deposit portfolio.

## Free Cash Flow

Consolidated free cash flow decreased by 10.6% y-o-y to RUB 12,109 million mostly due to a decrease in cash flows from operating activities.

## CAPEX

Consolidated CAPEX in Q1 2015 decreased by 3.1% y-o-y to RUB 8,093 million. However, this still represented approximately 11% of revenue, which is in line with Q1 2014.

## Net Debt

Consolidated net debt as of 31 March 2015 decreased by RUB 7,112 million to RUB 129,063 million from RUB 136,175 million as of 31 December 2014 due to our strong cash generation and proactive debt management practices.

## Earnings per Share

Consolidated basic EPS in Q1 2015 decreased y-o-y from RUB 13 per share to RUB 12 per share due to an increase in the weighted average number of shares outstanding after the settlement of the Euroset obligation using treasury shares in July 2014. Diluted EPS remained the same at RUB 12 per share.

## Dividends

The Board of Directors at their meeting on 28 April 2015 determined to propose to the Annual General Meeting of Shareholders to be held on 30 June 2015 a resolution for the declaration of dividends in respect of 2014 in the amount of RUB 10 billion. At the same time the Board of Directors also resolved to include in the agenda for its meeting scheduled for 28 October 2015 an item to consider convening a further meeting of shareholders to resolve upon the payment in 2015 of additional dividends, so that the total amount of dividends distributed in 2015 is at least RUB 40 billion. The decision to recommend such additional dividends will be made in accordance with the Company's declared Dividend Policy.

## Outlook/Guidance

We maintain our previously announced guidance and reiterate that we expect our revenue growth in 2015 to be flat, the OIBDA margin to be at or above 40%, and our CAPEX to be in line with the guidance announced during the Company's IPO, at which time we projected cumulative capital expenditures for 2013 to 2015 to be in the range of RUB 165 billion to RUB 180 billion.

## Key Operational Highlights

### Wireless Business in Russia:

	Q1 2015	Q1 2014	Q1 2015/ Q1 2014
Number of wireless subscribers (K)	69,517	67,627	2.8%
of which data service users (K)	27,263	25,958	5.0%
ARPDU (RUB)	216	207	4.3%
DSU (MB)	3,188	2,489	28.1%

### Wireless subscribers

Our Russian wireless subscriber base continued to grow and increased by 2.8% y-o-y to 69.5 million as of 31 March 2015. Our marketing efforts, customer oriented approach and continuous focus on data services contributed to this growth. The data service user base expanded by 5.0% y-o-y to 27.3 million users, accounting for 39.2% of the overall subscriber base.

### ARPDU

ARPDU in Q1 2015 increased by 4.3% y-o-y to RUB 216 due to further promotion of specific tariff initiatives and higher data usage.

### DSU

DSU in Q1 2015 increased by 28.1% y-o-y to 3,188 MB, due to the continued development of our 4G/LTE network, the growing share of 4G/LTE enabled devices using our network, and marketing initiatives aimed at promoting higher data usage devices.

## Conference Call

MegaFon will be hosting an analyst and investors conference call today with a simultaneous audiocast to discuss its Q1 2015 results.

Time: 11.00 (New York time), 16.00 (London time), 18.00 (Moscow time)

Dial-in details:

Local - Moscow, Russia:	+7 495 213 0978
National free phone - Russian Federation:	+8 800 500 9312
Local - London, United Kingdom:	+44(0)20 3427 1910
National free phone - United Kingdom:	0 800 279 4992
Local - New York, United States of America:	+1 646 254 3365
National free phone - United States of America:	+1 877 280 1254
Access confirmation code:	1726575
Password:	MegaFon

## Audiocast and slide presentation

<http://ir.megafon.com/>

The presentation file in PDF format will be available for download at least one hour before the event starts

Replay facilities

(will be available for 7 days)

Replay password	1726575 followed by #
Russia Toll Free	+8 10 800 2870 1012
UK Toll Free	0 800 358 7735
USA Toll Free	+1 866 932 5017
Local - London, United Kingdom:	+44(0)20 3427 0598
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## For More Information

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## Notes to Editors

**MegaFon OJSC** is a leading Russian integrated telecommunication service provider, operating in all segments of the telecommunications markets in Russia, and in the Republics of Abkhazia, South Ossetia and Tajikistan. MegaFon is a recognized 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 Stock Exchange and the London Stock Exchange under the symbol MFON. Additional information about MegaFon and the products and services provided by MegaFon can be found at <http://www.megafon.ru>

### Disclaimer/ Forward Looking Statements

The above discussion and analysis should be read in conjunction with the Company's Consolidated Financial Statements which are available for download on the Company's website at: <http://ir.megafon.com>

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

**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.

**Data services user** is defined as a subscriber who has used any of the Company's data transfer services within the preceding three months.

**ARPDU (Average Monthly Revenue Per Data Services User)** is calculated for a given period by dividing the Company'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.

**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.

**OIBDA (Operating Income Before Depreciation and Amortisation)** is a financial measure which should be considered as supplementary, but not as an alternative to the information provided in the financial statements of the Company. OIBDA margin means OIBDA as a percentage of revenue. The Company believes that OIBDA provides a better measure of the Company's actual operational results including our ability to finance capital expenditures, acquisitions and other investments and our ability to incur and service debt. While it does not take into account depreciation of property and equipment, amortisation of intangible assets and gain/(loss) from disposal of non-current assets, which are considered as operating expenses in IFRS, these expenses primarily represent non-cash charges related to long-lived assets acquired or constructed in prior periods. OIBDA is 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. A reconciliation of OIBDA to operating profit is provided in Schedule 2.

**Net Profit** is profit for the period attributable to equity holders of the Company.

**EPS (Earnings per Share)** means an amount of the Company'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.

**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.

**Capital Expenditures (CAPEX)** comprises the cost of purchases of new equipment, new construction, acquisition of new or upgrades to software 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.

**Free Cash Flow** means cash from operating activities, less cash paid for purchases of property, equipment and intangible assets, increased by proceeds from sales of property and equipment and interest paid. It is a financial measure which should be considered as supplementary but not as an alternative to the information provided in the Company's financial statements. This metric measures the Company's ability to generate cash after accruals required to maintain and expand the Company's assets. A reconciliation of free cash flow and cash from operating activities is provided in Schedule 2.

**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 Company's financial statements. The Company believes that this metric provides useful information as to the liquidity position of the Company after debt repayments. A description of how the metric is calculated is provided in Schedule 2.

## Schedule 2: Reconciliations of Non-IFRS Financial Measures (Unaudited Data)

### OIBDA (In millions of Rubles)

	Q1 2014	Q2 2014	Q3 2014	Q4 2014	Q1 2015
Operating profit	18,398	20,170	23,346	19,911	17,946
Depreciation	11,917	11,809	11,852	11,853	12,134
Amortisation	2,046	1,972	1,865	1,944	1,800
Loss from disposal of long-lived assets	142	347	200	748	84
<b>OIBDA</b>	<b>32,503</b>	<b>34,298</b>	<b>37,263</b>	<b>34,456</b>	<b>31,964</b>

### OIBDA Margin as percentage of Revenue

	Q1 2014	Q2 2014	Q3 2014	Q4 2014	Q1 2015
Operating profit	24.6%	26.3%	28.8%	24.2%	24.3%
Depreciation	15.9%	15.4%	14.6%	14.4%	16.4%
Amortisation	2.7%	2.6%	2.3%	2.4%	2.4%
Loss on disposal of non-current assets	0.2%	0.4%	0.3%	0.9%	0.1%
<b>OIBDA margin</b>	<b>43.4%</b>	<b>44.7%</b>	<b>46.0%</b>	<b>41.9%</b>	<b>43.2%</b>

### Net debt (In millions of Rubles)

	31 Mar 2014	30 Jun 2014	30 Sep 2014	31 Dec 2014	31 Mar 2015
Cash and cash equivalents	63,214	47,038	23,358	22,223	38,394
Bank deposits (principal amount)	1,110	3,012	11,880	47,916	44,697
Loans and borrowings (principal amount), less unamortised fees and discounts	(155,680)	(168,860)	(175,521)	(206,314)	(212,154)
<b>Net debt</b>	<b>(91,356)</b>	<b>(118,810)</b>	<b>(140,283)</b>	<b>(136,175)</b>	<b>(129,063)</b>

## Free cash flow (In millions of Rubles)

	Q1 2014	Q2 2014	Q3 2014	Q4 2014	Q1 2015
Net cash flows from operating activities	26,056	21,798	36,042	30,717	19,019
Purchase of property, equipment and intangible assets	(15,445)	(11,984)	(13,472)	(17,245)	(10,196)
Proceeds from sale of property and equipment	450	76	44	181	83
Interest paid	2,491	4,153	2,801	3,534	3,203
<b>Free cash flow</b>	<b>13,552</b>	<b>14,043</b>	<b>25,415</b>	<b>17,187</b>	<b>12,109</b>