

MegaFon announces financial results for Q4 and the full year 2014 in line with guidance

MOSCOW, Russia (11 March 2015) - Open Joint Stock Company "MegaFon" ("MegaFon", or the "Company") (LSE: MFON), a leading Russian integrated telecommunications operator, announces its audited consolidated financial results¹ for Q4 and the full year 2014.

Key highlights of the Full Year 2014²

- Consolidated revenue grew by 5.9% y-o-y³ to RUB 314,795 million
- OIBDA increased by 4.5% y-o-y to RUB 138,520 million
- OIBDA margin amounted to 44.0% versus 44.6% in 2013
- Net Profit decreased by 28.8% y-o-y to RUB 36,726 million, primarily as a result of non-cash charges related to the significant depreciation of the ruble in Q4 2014
- CAPEX increased by 19.8% y-o-y to RUB 56,472 million
- Free Cash Flow amounted to RUB 70,197 million
- Net Debt as of 31 December 2014 was RUB 136,175 million
- The number of mobile subscribers grew by 3.0% y-o-y to 72.2 million⁴ as of 31 December 2014

Key highlights of the Fourth Quarter 2014

- Consolidated revenue grew by 3.1% y-o-y to RUB 82,187 million
- OIBDA increased by 12.9% y-o-y to RUB 34,456 million
- OIBDA margin increased to 41.9% versus 38.3% in Q4 2013
- Net Profit decreased by 72.0% y-o-y to RUB 2,820 million, for the reason described above
- CAPEX totaled RUB 20,455 million

¹ Based on the IFRS consolidated financial statements audited by Ernst & Young LLC

² See Schedule 1 for definitions of the terms and Schedule 2 for the reconciliation of Non-IFRS measures. Due to rounding manual calculations for financials and KPIs may differ from those displayed. Certain prior year amounts have been reclassified to conform to the presentation adopted in the current year.

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 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 Fourth Quarter 2014

- In November 2014, MegaFon signed a memorandum of understanding with Huawei to jointly create and develop the communications standards for 5G networks in Russia, aiming to have this in place in time for the 2018 World Cup which is to be held in Russia
- In December 2014, MegaFon drew down RUB 15 billion under its existing RUB 30 billion revolving credit facility agreement with VTB. The funds will be used for financing of current activities and to provide additional liquidity to mitigate foreign exchange devaluation risks relating to short-term, foreign currency denominated liabilities
- In December 2014, MegaFon signed a 7-year Term Loan Facility Agreement for USD 500 million with China Development Bank Corporation (“CDB”) under which CDB will act as the Mandated Lead Arranger. The proceeds will be used for financing the purchase of equipment and services from Huawei Technologies for the further development of the MegaFon network
- On 5 February 2015, Standard and Poor’s Ratings Services (“S&P”) took several actions on MegaFon’s credit ratings, following its downgrade of the sovereign rating on Russia. S&P affirmed the local currency rating of the Company at the BBB- level. At the same time, S&P downgraded MegaFon’s foreign currency rating to BB+, explaining that this action reflected constraints imposed by the agency’s Transfer and Convertibility assessment of Russia
- On 25 February 2015, Moody’s Investor Service (“Moody’s”) downgraded the MegaFon’s credit rating from Baa3 to Ba1. The rating action reflected the earlier downgrade by Moody’s of the Russia’s sovereign credit rating and subsequent lowering of Russia’s country rating ceilings to Ba1 levels

Ivan Tavrín, Chief Executive Officer of MegaFon, commented on the 2014 financial and operational results:



I am pleased to announce that, despite the considerable financial turmoil during the second half of 2014, MegaFon has been able to achieve results in 2014 that are fully consistent with our guidance throughout the year for both revenue and OIBDA. I would like to highlight that this guidance was not reviewed or changed throughout the year.

We have continued to enjoy an increase in the quality and size of our subscriber base, particularly in the important B2B and B2G segments, as well as steady increases in key revenue drivers such as data services. The quality of our service and affordable pricing make our offers to all of our subscriber groups the most attractive on the market today.

The decrease in net profit by 28.8% at the end of 2014 was affected by non-cash foreign exchange losses incurred primarily as a result of the considerable ruble depreciation in the fourth quarter of 2014. However, due to our long-term risk aversion strategy and a series of management decisions made throughout 2014, the effect of currency fluctuations was substantially mitigated. In particular, early payments of our US dollar obligations in respect of the Euroset and Scartel transactions in the summer of 2014 and a pro-active approach to capital management helped to minimise these losses.

2015 will likely be a challenging year for MegaFon. We will continue our efforts to rationalize expenses and improve operating efficiencies. We will continue to invest to enhance the quality of our network, which is of the utmost importance in maintaining our leading position in respect of coverage and capacity, while at the same time focusing on maintaining efficiency in our capital expenditures.

Despite the current temporary macroeconomic challenges, I remain optimistic and confident that MegaFon will overcome these challenges in 2015 and enjoy another successful year.

Key Consolidated Financial Data (in Millions of Rubles)

	Three Months			Full Year		
	Q4 2014	Q4 2013	Q4 2014/ Q4 2013	2014	2013	2014/ 2013
Revenue	82,187	79,732	3.1%	314,795	297,229	5.9%
Wireless Services	68,710	68,610	0.1%	269,463	258,980	4.0%
Including data revenue	17,489	15,058	16.1%	67,181	50,387	33.3%
Wireline Services	6,327	5,311	19.1%	22,193	20,107	10.4%
Sales of equipment & accessories	7,150	5,811	23.0%	23,139	18,142	27.5%
OIBDA	34,456	30,522	12.9%	138,520	132,592	4.5%
OIBDA Margin	41.9%	38.3%	3.6 p.p.	44.0%	44.6%	(0.6 p.p.)
Net Profit	2,820	10,082	(72.0%)	36,726	51,608	(28.8%)
Net Profit Margin	3.4%	12.6%	(9.2 p.p.)	11.7%	17.4%	(5.7 p.p.)
CAPEX	20,455	23,853	(14.2%)	56,472	47,144	19.8%
CAPEX / Revenue	24.9%	29.9%	(5.0 p.p.)	17.9%	15.9%	2.0 p.p.

Key Financial Data in Russia (in Millions of Rubles)⁵

	Three Months			Full Year		
	Q4 2014	Q4 2013	Q4 2014/ Q4 2013	2014	2013	2014/ 2013
Revenue	81,016	78,874	2.7%	310,816	293,920	5.7%
Wireless Services	67,542	67,762	(0.3%)	265,508	255,714	3.8%
Including data revenue	17,245	14,864	16.0%	66,181	49,683	33.2%
Wireline Services	6,327	5,304	19.3%	22,184	20,088	10.4%
Sales of equipment & accessories	7,147	5,808	23.1%	23,124	18,118	27.6%
OIBDA	34,506	30,504	13.1%	138,188	132,386	4.4%
OIBDA Margin	42.6%	38.7%	3.9 p.p.	44.5%	45.0%	(0.5 p.p.)
Net Profit	3,500	10,753	(67.5%)	38,679	53,247	(27.4%)
Net Profit Margin	4.3%	13.6%	(9.3 p.p.)	12.4%	18.1%	(5.7 p.p.)

⁵ Excluding mutual settlements with "TT mobile" CJSC, "AQUAFON-GSM" CJSC and "OSTELEKOM" CJSC

Revenue

Our consolidated revenue for the full year 2014 increased by RUB 17,566 million, or 5.9% y-o-y, reaching RUB 314,795 million. Consolidated revenue for Q4 2014 increased by RUB 2,455 million, or 3.1% y-o-y, to RUB 82,187 million. The Russian market remains the core business for us and revenue in Russia comprised 98.7% of our total consolidated revenue for 2014.

Wireless service revenue grew by 4.0% y-o-y for the full year 2014 to RUB 269,463 million, while in Q4 2014 it remained stable y-o-y, despite the voice revenue decreasing by 5.3% y-o-y to RUB 41,232 million in Q4 2014 due to intensified price competition, migration of our subscribers to bundled tariffs, and our decision to cease targeting seasonal guest workers.

Data revenue continued to be one of the key revenue streams, growing by 33.3% y-o-y to RUB 67,181 million for the full year 2014 and by 16.1% y-o-y in Q4 2014 on the back of the vigorous data user base expansion by 12.2% y-o-y, reaching 28.3 million users at 31 December 2014. In 2014 we continued to maintain our leadership in 4G/LTE network coverage and capacity which was greatly enhanced by our acquisition of Scartel in Q4 2013. Our active marketing efforts, stimulating the use of our 4G services and promotion of sales of data-enabled devices through our controlled retail channels, also significantly contributed to the data revenue growth.

Despite regulatory changes introduced in Q2 2014, requiring subscribers' approval for content and subscription-based products, and continued substitution of SMS-services, we managed to keep 2014 VAS revenue essentially at the level achieved in 2013.

The wireline segment demonstrated significant growth in Q4 2014 with revenues up by 19.1% y-o-y to RUB 6,327 million. For the full year 2014 wireline service revenue grew by 10.4% y-o-y to RUB 22,193 million. The main factor contributing to this growth is the successful expansion of our B2B and B2G client base.

Full year 2014 revenue from sales of equipment and accessories grew by 27.5% y-o-y to RUB 23,139 million, and Q4 2014 revenue grew by 23% y-o-y to RUB 7,150 million, due to active promotion of MegaFon customised products through our own retail network and increased sales of heavy-data-usage Apple devices.

OIBDA and OIBDA Margin

OIBDA in Q4 2014 increased by 12.9% y-o-y to RUB 34,456 million and OIBDA margin grew by 3.6 p.p. y-o-y to 41.9% due to advertising expenses in the comparable period in Q4 2013, being higher on a one-off basis as a result of Olympics-related marketing campaigns. For the full year 2014 OIBDA increased by 4.5% y-o-y to RUB 138,520 million. OIBDA margin for the full year 2014 slightly decreased by 0.6 p.p. y-o-y to 44.0% in line with our guidance. Our margin was impacted by the growing share of lower margin wireline and retail segments and increased network related costs and radio frequency fees resulting from rapid development of our network including Scartel acquisition in Q4 2013. However, these factors were partially offset by implementing a more balanced approach to advertising spending, further reduction in dealers commissions, and control of other direct operating expenses.

Net Profit

In Q4 2014 net profit decreased by 72.0% y-o-y to RUB 2,820 million as a result of non-cash foreign exchange losses due to the significant depreciation of the ruble which occurred in the quarter. Net profit for the full year 2014 was also adversely affected by the same factor, declining by 28.8% y-o-y to RUB 36,726 million.

Free Cash Flow

Consolidated free cash flow for the full year 2014 decreased by 14.7% y-o-y from RUB 82,293 million in 2013 to RUB 70,197 million, mainly due to the substantial increase in capital expenditures, aimed at maintaining our network's premium quality and coverage.

CAPEX

Consolidated CAPEX for the full year 2014 increased by 19.8% to RUB 56,472 million, representing 17.9% of total revenue, although in Q4 2014 CAPEX decreased by 14.2% y-o-y to RUB 20,455 million due to our spreading capital expenditures more evenly throughout the year.

Net Debt

Consolidated net debt at 31 December 2014 increased by RUB 32,940 million to RUB 136,175 million from RUB 103,235 million at 31 December 2013. This was primarily attributable to refinancing the deferred consideration in respect to the 2013 Scartel acquisition, which was paid in July 2014, and an increase in net foreign currency denominated debt due to the depreciation of the ruble in 2014.

Earnings per Share

Consolidated basic EPS decreased to RUB 5 per share in Q4 2014 from RUB 18 per share y-o-y, while consolidated diluted EPS decreased to RUB 5 per share in Q4 2014 from RUB 17 per share y-o-y, reflecting the decline in net profit for the period, as discussed in the Net Profit section.

Consolidated basic and diluted EPS in the full year 2014 both decreased to RUB 63, primarily due to the decrease in net profit for 2014.

For a detailed computation and reconciliation of EPS, please refer to Note 13 of the Company's Audited Consolidated IFRS Financial Statements for the year ended 31 December 2014 available at: <http://ir.megafon.com>

Outlook / Guidance

In 2015, we expect our revenue growth to be flat. We anticipate our 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:

	Three Months			Full Year		
	Q4 2014	Q4 2013	Q4 2014/ Q4 2013	2014	2013	2014/ 2013
Number of wireless subscribers (K)	69,747	68,129	2.4%	69,747	68,129	2.4%
of which data service users (K)	27,730	25,224	9.9%	27,730	25,224	9.9%
ARPU (RUB)	324	334	(3.0%)	321	326	(1.5%)
MOU (min.)	343	346	(0.9%)	334	344	(2.9%)
ARPDU (RUB)	210	201	4.5%	209	181	15.5%
DSU (MB)	2,959	2,342	26.3%	2,603	1,586	64.1%

Wireless subscribers

Despite market saturation, our Russian wireless subscriber base increased by 2.4% y-o-y to 69.7 million as of 31 December 2014 supported by our continued marketing efforts together with the introduction of new services. The data service user base also expanded by 9.9% y-o-y and reached 27.7 million users, accounting for 39.8% of the overall subscriber base, as the Company continued its strategy of focusing on data services.

ARPU

Blended ARPU for the full year 2014 decreased by RUB 5, or 1.5% y-o-y, and for Q4 2014 blended ARPU declined by RUB 10, or 3.0% y-o-y, due to continued price competition in bundled tariffs.

MOU

MOU for the full year 2014 decreased by 10 minutes, or 2.9% y-o-y, largely due to faster growth in the number of data service users, including those resulting from the Scartel acquisition in Q4 2013. In Q4 2014 MOU declined insignificantly, by 0.9% y-o-y.

ARPDU

ARPDU for the full year 2014 grew by 15.5% y-o-y to RUB 209, due to growing data traffic usage as well as the Scartel acquisition in Q4 2013. In Q4 2014 ARPDU increased by 4.5% y-o-y to RUB 210 due to specific tariff initiatives.

DSU

DSU for the full year 2014 increased by 1,017 megabytes, or 64.1% y-o-y, and by 26.3% y-o-y in Q4 2014, due to higher penetration of 4G/LTE enabled devices, further rollout of our 4G/LTE network, marketing initiatives designed to stimulate demand for data services, and the 2013 Scartel acquisition.

Conference Call

MegaFon will be hosting an analyst and investors conference call today with a simultaneous audiocast to discuss its Q4 2014 and the full year 2014 performance.

Time: 11.00 (New York time), 15.00 (London time), 18.00 (Moscow time)

Dial-in details:

Russia — Local Moscow	+8 495 249 9843
Russia Toll Free	+8 10 800 2490 2044
Standard International Access	+44 (0) 20 3003 2666
UK Toll Free	0 808 109 0700
USA Toll Free	+1 866 966 5335
New York	+1 646 843 4608
Access Code:	7908487
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)

Access Pin	7908487 followed by #
Russia — Local Moscow	+8 495 249 9840
Russia Toll Free	+8 10 800 2483 2044
Standard International Access	+44 (0) 20 3350 6902
UK Toll Free	0 800 640 1726
USA Toll Free	+1 866 583 1035

For More Information

OJSC MegaFon

Media: Peter Lidov

Tel: + 7 926 200 6699

plidov@megafon.ru

Investors: Dmitry Kononov

Tel: + 7 926 200 6490

dkononov@megafon.ru

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.

ARPU (Average Monthly Revenue Per User) is calculated for a given period by dividing the aggregate of the Company's wireless services revenues from local subscribers, revenues from data transfer services and from VAS, revenues from interconnection charges and revenues from roaming charges to other operators for the same period by the average number of its subscribers during that period, and further dividing the result by the number of months in that period.

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.

MOU (Monthly Average Minutes of Use per User) is calculated by dividing the total number of minutes charged per the tariff plan of a subscriber (including both outgoing and incoming calls) during a given period by the average number of all voice, VAS and data subscribers during such period and dividing the result by the number of months in such 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)

	Q4 2013	Q1 2014	Q2 2014	Q3 2014	Q4 2014
Operating profit	16,314	18,398	20,170	23,346	19,911
Depreciation	11,383	11,917	11,809	11,852	11,853
Amortisation	2,016	2,046	1,972	1,865	1,944
Loss from disposal of long-lived assets	809	142	347	200	748
OIBDA	30,522	32,503	34,298	37,263	34,456

OIBDA Margin as percentage of Revenue

	Q4 2013	Q1 2014	Q2 2014	Q3 2014	Q4 2014
Operating profit	20.5%	24.6%	26.3%	28.8%	24.2%
Depreciation	14.3%	15.9%	15.4%	14.6%	14.4%
Amortisation	2.5%	2.7%	2.6%	2.3%	2.4%
Loss on disposal of non-current assets	1.0%	0.2%	0.4%	0.3%	0.9%
OIBDA margin	38.3%	43.4%	44.7%	46.0%	41.9%

Net debt position (In millions of Rubles)

	31 Dec 2013	31 Mar 2014	30 Jun 2014	30 Sep 2014	31 Dec 2014
Cash and cash equivalents	9,939	63,214	47,038	23,358	22,223
Bank deposits (principal amount)	37,863	1,110	3,012	11,880	47,916
Loans and borrowings (principal amount), less unamortised fees and discounts	(151,037)	(155,680)	(168,860)	(175,521)	(206,314)
Net debt position	(103,235)	(91,356)	(118,810)	(140,283)	(136,175)

Free Cash Flow (In millions of Rubles)

	Q4 2013	Q1 2014	Q2 2014	Q3 2014	Q4 2014
Net cash flows from operating activities	25,143	26,056	21,798	36,042	30,717
Purchase of property, equipment and intangible assets	(19,188)	(15,445)	(11,984)	(13,472)	(17,245)
Proceeds from sale of property and equipment	87	450	76	44	181
Interest paid	2,782	2,491	4,153	2,801	3,534
Free cash flow	8,824	13,552	14,043	25,415	17,187