

## MegaFon announces strong financial results for Q3 2014

MOSCOW, Russia (30 October 2014) - Open Joint Stock Company "MegaFon" ("MegaFon", or the "Company") (LSE: MFON), a leading Russian integrated telecommunications operator, announces its unaudited consolidated financial results<sup>1</sup> for the third quarter ended 30 September 2014.

### Key highlights of the Third Quarter 2014<sup>2</sup>

- Consolidated revenue grew by 4.5% y-o-y<sup>3</sup> to RUB 81,066 million
- OIBDA increased by 5.3% y-o-y to RUB 37,263 million
- OIBDA margin grew to 46.0% versus 45.6% in Q3 2013
- Net Profit decreased by 16.5% y-o-y to RUB 12,792 million
- CAPEX increased by 31.4% y-o-y to RUB 14,268 million
- Free Cash Flow amounted to RUB 25,415 million
- Net Debt as of 30 September 2014 was RUB 140,283 million
- The number of mobile subscribers grew by 4.7% y-o-y to 71.5 million<sup>4</sup> as of 30 September 2014

### Key highlights of the Nine Months ended 30 September 2014

- Consolidated revenue grew by 6.9% y-o-y to RUB 232,608 million
- OIBDA increased by 2% y-o-y to RUB 104,064 million
- OIBDA margin decreased to 44.7% versus 46.9% in 2013
- Net Profit decreased by 18.3% y-o-y to RUB 33,906 million
- CAPEX totaled RUB 36,017 million
- Free Cash Flow amounted to RUB 53,010 million

<sup>1</sup> Based on the IFRS interim condensed consolidated financial statements reviewed by Ernst & Young LLC

<sup>2</sup> See Schedule 1 for definitions of the terms and Schedule 2 for the reconciliation of Non-IFRS measures

<sup>3</sup> Year over year ("y-o-y") stands for the same periods in the current and previous year on either a quarterly basis or nine months 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 Third Quarter 2014

- Corporate finance developments
  - In July , MegaFon completed the previously-agreed acquisition of a 50% interest in Euroset using the Company's treasury shares, as permitted under the acquisition agreement. This transaction resulted in the extinguishing of a 0.6 billion US-dollar exposure and a reduction in future interest expense
  - Standard and Poor's affirmed MegaFon's rating at "BBB-" and upgraded the national currency outlook to "stable", recognizing the Company's robust market position and credit quality
  - In October, pursuant to a mandatory put option MegaFon re-purchased at par c. RUB 8.25 billion of its Series 05 ruble-denominated bonds, out of the total issue of RUB 10 billion, placed in 2012
- Promotion of higher mobile data usage
  - In August, MegaFon launched sales of Login 3, an upgraded version of its 3G-enabled tablet, at an attractive price of RUB 1,990. Over 430 thousand customised tablets, including Login 3, have been sold since the beginning of 2014
  - MegaFon started sales of the new iPhone 6 in its retail stores in September 2014
- Continued focus on customer excellence and higher loyalty
  - MegaFon maintained its leadership in customer satisfaction among the Big-3 mobile operators in Russia<sup>5</sup> and was named the leader in client-oriented businesses among domestic telecom companies<sup>6</sup>
  - MegaFon significantly improved the quality of its telecommunication services, and expanded coverage in Moscow and the Moscow region through the upgrade of existing base stations and the construction of additional 20% of 4G/3G new base stations during 9 months 2014
- Infrastructure development
  - MegaFon successfully deployed a comprehensive Fault Management System, an important milestone in MegaFon's Operation Support System (OSS) project. This system allows us to localize and resolve problems faster, thus improving the overall service quality

<sup>5</sup> According to the research conducted for Q3 2014 by independent agency Synovate Comcon

<sup>6</sup> According to the Association for Client Loyalty and Client Focus, Russia

- MegaFon signed a 7-year contract with Ericsson to purchase equipment and software for 2G/3G/4G network infrastructure construction and modernisation. The contract is based on the Total Cost of Ownership concept and allows the Company to optimize network rollout costs and reduce maintenance expenses

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



MegaFon's performance in Q3 2014 is in line with our full-year guidance. Compared to a year earlier, our consolidated revenue has increased by 4.5% to 81.1 billion rubles, and the Company's subscriber base has grown by 3.2 million to reach 71.5 million subscribers.

Our continuing efforts to improve cost efficiency and reduce operating expenditures resulted in our OIBDA growing by 5.3% to 37.3 billion rubles. OIBDA margin in Q3 2014 increased 0.4 percentage points, to 46%.

MegaFon continued to maintain its leading position in the mobile data market. In third quarter we upgraded our 4G/LTE network in St Petersburg with our flagship 4G+/LTE Advanced network and successfully launched operation of 4G/LTE networks in Smolensk, Ivanovo, Novgorod and some cities in Karelia and Mari El. This means that MegaFon's high speed mobile Internet is now available in 68 out of Russia's 85 regions. 4G/LTE roaming coverage has also been expanded to 15 countries. Our leading position in the market has allowed us to increase data revenue in Q3 2014 by 37.4%.

In striving to offer our customers the most advanced technological solutions, we continue to develop relationships with leading foreign suppliers of telecommunications equipment. As an example, in August 2014 MegaFon and Swedish Ericsson signed a seven year strategic agreement to develop and modernise our telecommunications infrastructure.

Our plan to reduce USD exposures, exemplified by our prepayment of 90% of the remaining purchase price for Scartel in June and electing to pay for the remaining 25% interest in Euroset in July, proved to be very prescient in the current volatile foreign exchange market. These transactions not only allowed us to significantly reduce foreign currency exposure in our financials, but also to eliminate further interest expense denominated in USD.

Our results for the first nine months of 2014 confirm our ability to control costs and achieve projected OIBDA growth even in difficult macroeconomic conditions.

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

	Three Months			Nine Months		
	Q3 2014	Q3 2013	Q3 2014/ Q3 2013	9m 2014	9m 2013	9m 2014/ 9m 2013
Revenue	81,066	77,543	4.5%	232,608	217,497	6.9%
Wireless Services	69,726	68,177	2.3%	200,753	191,350	4.9%
Including data revenue	17,355	12,632	37.4%	49,692	35,329	40.7%
Wireline Services	5,182	4,621	12.1%	15,866	13,816	14.8%
Sales of equipment & accessories	6,158	4,745	29.8%	15,989	12,331	29.7%
OIBDA	37,263	35,387	5.3 %	104,064	102,070	2.0 %
OIBDA Margin	46.0%	45.6%	0.4 p.p.	44.7%	46.9%	(2.2 p.p.)
Net Profit	12,792	15,321	(16.5%)	33,906	41,526	(18.3%)
Net Profit Margin	15.8%	19.8%	(4.0 p.p.)	14.6%	19.1%	(4.5 p.p.)
CAPEX	14,268	10,862	31.4%	36,017	23,291	54.6%
CAPEX / Revenue	17.6%	14.0%	3.6 p.p.	15.5%	10.7%	4.8 p.p.

## Key Financial Data in Russia (in Millions of Rubles)<sup>7</sup>

	Three Months			Nine Months		
	Q3 2014	Q3 2013	Q3 2014/ Q3 2013	9m 2014	9m 2013	9m 2014/ 9m 2013
Revenue	79,997	76,594	4.4 %	229,800	215,046	6.9%
Wireless Services	68,663	67,232	2.1 %	197,966	188,932	4.8%
Including data revenue	17,121	12,426	37.8 %	48,936	34,819	40.5%
Wireline Services	5,180	4,617	12.2 %	15,857	13,804	14.9%
Sales of equipment & accessories	6,154	4,745	29.7 %	15,977	12,310	29.8%
OIBDA	37,141	35,340	5.1 %	103,682	101,882	1.8 %
OIBDA Margin	46.4%	46.1%	0.3 p.p.	45.1%	47.4%	(2.3 p.p.)
Net Profit	13,297	15,754	(15.6%)	35,179	42,494	(17.2%)
Net Profit Margin	16.6%	20.6%	(4.0 p.p.)	15.3%	19.8%	(4.5 p.p.)

<sup>7</sup> Excluding mutual settlements with "TT mobile" CJSC, "AQUAFON-GSM" CJSC and "OSTELEKOM" CJSC

## Revenue

Our total consolidated revenue in Q3 2014 increased by 4.5% y-o-y and reached RUB 81,066 million. Russian revenue comprised 98.7% of our total consolidated revenue.

Wireless service revenues went up 2.3%, driven by new additions to our subscriber base, which reached 71.5 million subscribers as of the end of the quarter, and continued solid growth in our data revenue driven by our focus on service quality and attractive commercial offerings.

Wireless voice revenue decreased by 5.4% y-o-y to RUB 43,510 million due to intensified price competition, migration of our subscribers to more attractive bundled tariffs and our decision to cease targeting seasonal guest workers. Data revenue demonstrated a robust 37.4% growth y-o-y, reaching RUB 17,355 million. We continued to strengthen our leading 4G/LTE network coverage and capacity building on the boost that our infrastructure received as a result of the acquisition of Scartel in Q4 2013. In addition to the expansion of our network and steady growth in our data subscriber base, data revenue growth was also driven by higher smartphone and tablet penetration, resulting in more data usage.

VAS revenue decreased by 7.0% y-o-y to RUB 8,861 million, impacted by regulatory changes adopted in Q2 2014, which now require all operators to obtain subscriber approval for any paid content and subscription-based products, as well as due to a decrease in peer-to-peer SMS traffic.

The wireline segment showed continued growth in Q3 2014 with revenues up by 12.1% y-o-y to RUB 5,182 million, mainly due to the successful expansion of our B2B and B2G client base.

In Q3 2014, revenue from sales of equipment and accessories increased by 29.8% y-o-y, reaching RUB 6,158 million. The growth is primarily attributable to increased sales of Apple products and continued enhancement and promotion of MegaFon's customised products.

## OIBDA and OIBDA Margin

Continued strong cost control and operational efficiency contributed positively to the growth of OIBDA in Q3 2014, which increased by 5.3% y-o-y to RUB 37,263 million. OIBDA margin increased by 0.4 p.p. y-o-y to 46.0%, largely as a result of decreased sales and marketing expenses through balanced approach to advertising spend throughout the year, reduction in dealers commissions and lower general and administrative expenses as percentage of revenue.

## Net Profit

High OIBDA in Q3 2014 was offset mostly by non-cash foreign exchange losses due to the significant Ruble devaluation which occurred over this period, as well as by increased depreciation and amortisation charges due to network rollout and the Scartel acquisition. As a result, Q3 2014 net profit decreased by 16.5% y-o-y to RUB 12,792 million.

## Free Cash Flow

Consolidated free cash flow decreased by 9.4% y-o-y to RUB 25,415 million for Q3 2014 mostly due to the substantial increase in capital expenditures in Q3 2014.

## CAPEX

Consolidated CAPEX for Q3 2014 amounted to RUB 14,268 million, up 31.4% y-o-y. As previously discussed, during 2014 we have been actively investing in our 4G network rollout to maintain our leadership in data services quality and speed, and in the modernisation of our 2G and 3G networks.

## Net Debt

Consolidated net debt at 30 September 2014 increased by RUB 21,473 million to RUB 140,283 million from RUB 118,810 million at 30 June 2014, mainly due to dividend payout of RUB 39,995 million<sup>8</sup> in July 2014.

## Earnings per Share

Consolidated basic EPS in Q3 2014 decreased to RUB 22 per share from RUB 27 per share y-o-y, while consolidated diluted EPS in Q3 2014 decreased to RUB 22 per share from RUB 26 per share y-o-y, reflecting the decline in net profit for the period, as discussed in the Net Profit section.

## Outlook / Guidance

We reconfirm our guidance for 2014 revenue growth of 6% to 8% and anticipate it to be at the lower end of the range.

We still expect an OIBDA margin of at least 44.0%; and we are expecting to make total 2014 CAPEX investments in the range of RUB 55 billion to RUB 58 billion.

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<sup>8</sup> RUB 1,567 million of these dividends were paid to the Company's wholly-owned subsidiary MegaFon Investments (Cyprus) Limited, which holds the Company's treasury shares

## Key Operational Highlights

### Wireless Business in Russia:

	Three Months			Nine Months		
	Q3 2014	Q3 2013	Q3 2014/ Q3 2013	9m 2014	9m 2013	9m 2014/ 9m 2013
Number of wireless subscribers (K)	69,073	66,318	4.2 %	69,073	66,318	4.2 %
of which data service users (K)	26,849	23,152	16.0 %	26,849	23,152	16.0 %
ARPU (RUB)	334	343	(2.6%)	320	330	(3.0%)
MOU (min.)	337	349	(3.4%)	331	349	(5.2%)
ARPDU (RUB)	213	181	17.7 %	208	176	18.2 %
DSU (MB)	2,529	1,346	87.9 %	2,482	1,324	87.5 %

### Wireless subscribers

Our Russian wireless subscriber base increased by 4.2% y-o-y to 69.1 million as of 30 September 2014. The data service user base increased by 16.0% y-o-y, consistent with the Company's current strategy of focusing on data services, exemplified by the acquisition of Scartel. Wireless data service users accounted for 38.9% of the total subscriber base as of 30 September 2014, which is 4.0 p.p higher than as of 30 September 2013.

### ARPU

Blended ARPU decreased by RUB 9, or 2.6%, y-o-y in Q3 2014 due to a significant increase in the number of "pure" data service users, as well as price competition in bundled tariffs and a decline in VAS revenue.

### MOU

Overall voice traffic<sup>9</sup> grew by 1.3% y-o-y in Q3 2014; however, consistent with the trend in previous periods, MOU declined by 3.4%, y-o-y in Q3 2014, largely due to the faster growth in the number of data service users, including those resulting from the Scartel acquisition, as a percentage of the total number of subscribers used for the MOU calculation as well as discontinued active targeting of seasonal guest workers.

<sup>9</sup> Number of minutes of incoming and outgoing voice services during such period, including visitors' minutes



## ARPDU

ARPDU grew by 17.7% y-o-y in Q3 2014 to RUB 213, due to data usage growth.

## DSU

DSU increased by 87.9% y-o-y in Q3 2014 on the back of our unrivaled spectrum advantage as well as active stimulation of bundled offerings, expansion of our 4G/LTE network, stimulation of higher data usage through attractive tariff options, and the growing availability of LTE-enabled devices.

## Conference Call

MegaFon will be hosting an analyst and investors conference call today with a simultaneous audiocast to discuss its Q3 2014 performance.

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

Dial-in details:

Russia — Local Moscow	+8 499 272 4337
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
Access Code:	3098421
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) +44 (0) 20 8196 1998, followed by

Access Pin	3098421
Russia — Local Moscow	+8 499 270 6352
Russia Toll Free	+8 10 800 2483 2044
Standard International Access	+44 (0) 20 8196 1998
UK Local	+44 (0) 20 8196 1480
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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 in Russia to launch commercial operations of third generation (3G) network and was the first 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 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)

	Q3 2013	Q4 2013	Q1 2014	Q2 2014	Q3 2014
Operating profit	22,737	16,314	18,398	20,170	23,346
Depreciation	11,113	11,383	11,917	11,809	11,852
Amortisation	1,391	2,016	2,046	1,972	1,865
Loss from disposal of long-lived assets	146	809	142	347	200
<b>OIBDA</b>	<b>35,387</b>	<b>30,522</b>	<b>32,503</b>	<b>34,298</b>	<b>37,263</b>

### OIBDA Margin as percentage of Revenue

	Q3 2013	Q4 2013	Q1 2014	Q2 2014	Q3 2014
Operating profit	29.3%	20.5%	24.6%	26.3%	28.8%
Depreciation	14.3%	14.3%	15.9%	15.4%	14.6%
Amortisation	1.8%	2.5%	2.7%	2.6%	2.3%
Loss on disposal of non-current assets	0.2%	1.0%	0.2%	0.4%	0.3%
<b>OIBDA margin</b>	<b>45.6%</b>	<b>38.3%</b>	<b>43.4%</b>	<b>44.7%</b>	<b>46.0%</b>

### Net debt position (In millions of Rubles)

	30 Sep 2013	31 Dec 2013	31 Mar 2014	30 Jun 2014	30 Sep 2014
Cash and cash equivalents	18,945	9,939	63,214	47,038	23,358
Bank deposits (principal amount)	38,802	37,863	1,110	3,012	11,880
Loans and borrowings (principal amount), less unamortised fees and discounts	(148,555)	(151,037)	(155,680)	(168,860)	(175,521)
<b>Net debt position</b>	<b>(90,808)</b>	<b>(103,235)</b>	<b>(91,356)</b>	<b>(118,810)</b>	<b>(140,283)</b>

## Free Cash Flow (In millions of Rubles)

	Q3 2013	Q4 2013	Q1 2014	Q2 2014	Q3 2014
Net cash flows from operating activities	34,858	25,143	26,056	21,798	36,042
Purchase of property, equipment and intangible assets	(9,461)	(19,188)	(15,445)	(11,984)	(13,472)
Proceeds from sale of property and equipment	11	87	450	76	44
Interest paid	2,629	2,782	2,491	4,153	2,801
<b>Free cash flow</b>	<b>28,037</b>	<b>8,824</b>	<b>13,552</b>	<b>14,043</b>	<b>25,415</b>