



MEGAFON

The Future Depends on You

**Financial results for the fourth
quarter and full year 2012**

Investor and Analyst Call, 28 February 2013

Mr. Ivan Tavrin, Chief Executive Officer

Mr. Gevork Vermishyan, Chief Financial Officer

Mr. Dmitry Kononov, Director for Investor Relations

Disclaimer

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1 Corporate and Financial Highlights

**Ivan Tavrin, CEO /
Dmitry Kononov, IR Director**

2 Financial and Operating Results

Gevork Vermishyan, CFO

3 Outlook for 2013

Gevork Vermishyan, CFO

2012 - A year of change with solid results delivered

- **New management**

- Ivan Tavrin appointed as CEO
- Sergey Soldatenkov appointed as Chairman of the Board

- **New strategy**

- Focus on operating efficiency, cost control and returns for shareholders
- Leadership in mobile data and 4G
- Euroset transaction strengthening MegaFon's retail position

- **New shareholders**

- Legacy issues resolved through changes in shareholder structure in April
- Listing of Company on the Moscow Stock Exchange and the London Stock Exchange in December resulted in clear and transparent ownership structure

- **New Corporate Governance framework and reporting**

- Board of Directors nominated with the following composition: 3 (AF Telecom) + 2 (TeliaSonera) + 2 (Independent Directors: Mr Jan Rudberg and Lord Paul Myners)
- First Social Responsibility report published

Delivered 2012 results:

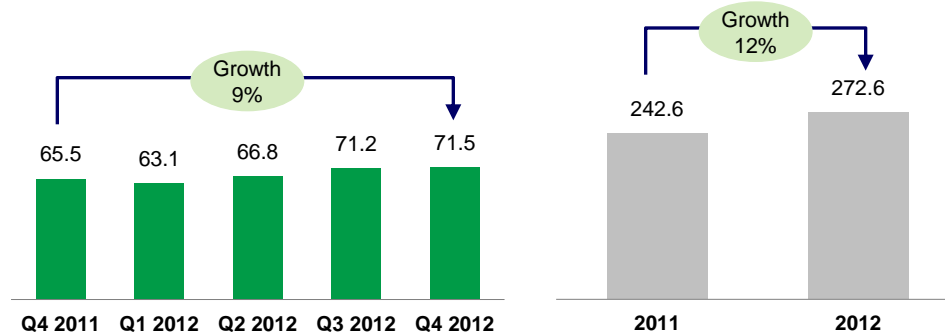
- **Strong revenue growth** (up 12% y-o-y)
- **Further improved OIBDA margin** (43.0%, up 1.4 p.p. y-o-y)
- **Declining CAPEX / Revenue ratio** (16.2%, down 13.0 p.p. y-o-y)
- **Expanded OIBDA – CAPEX** (up RUB 43.4 Bn y-o-y)
- **Solid Free Cash Flow** (up 175% y-o-y)

All financial results provided in this presentation are stated on consolidated US GAAP basis unless otherwise mentioned

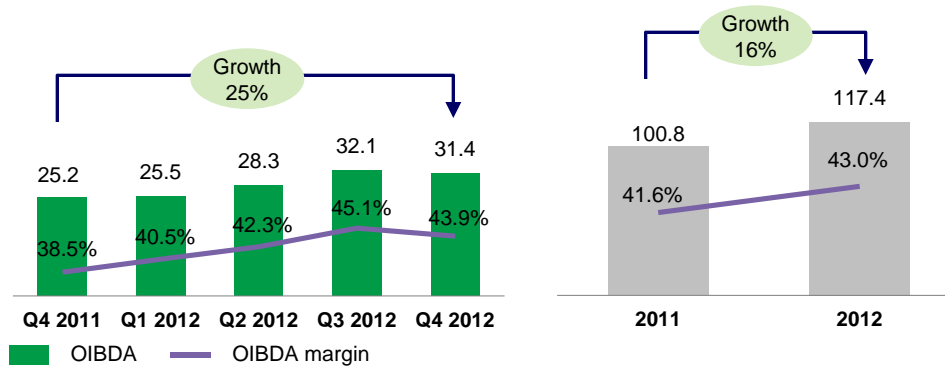
Financial highlights: Strong growth and margin expansion

Revenue, OIBDA and Net Income

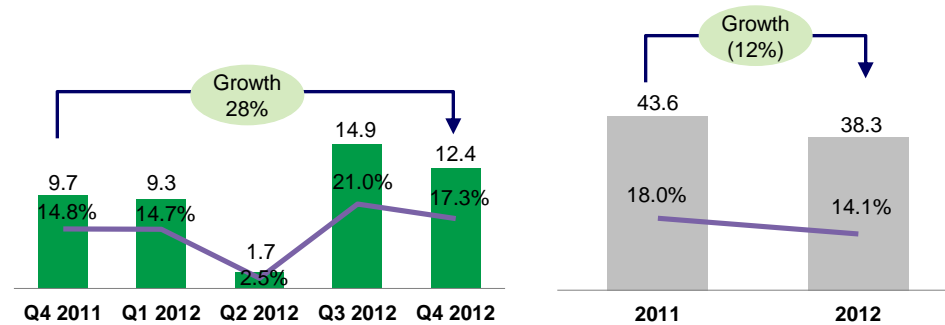
Revenue



OIBDA and OIBDA margin



Net income and Net income margin



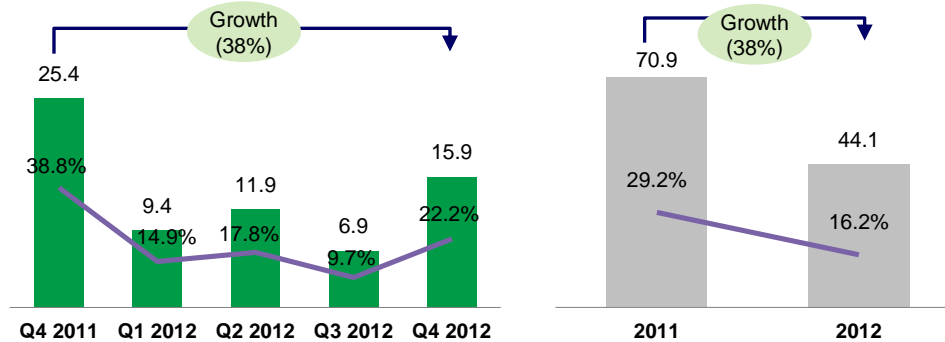
■ Quarterly data, RUB Bn ■ Annual data, RUB Bn — % of Revenue

- We continued strengthening our leadership in the core business whilst expanding into new and innovative value added services, which allowed us to achieve strong 12% growth in 2012 revenue (9% in 4Q 2012 y-o-y)
- The combination of increasing revenues and management's intense focus on operating efficiency and cost control has generated record OIBDA of RUB 117.4 Bn in 2012 (16% growth over 2011 or 25% growth in 4Q 2012 y-o-y)
- 4Q 2012 y-o-y growth in Net income was primarily driven by the positive impact from the growth in operating income
 - Marginal decrease in 2012 full year Net income is primarily a result of higher interest expense and the revaluation of foreign currency debt

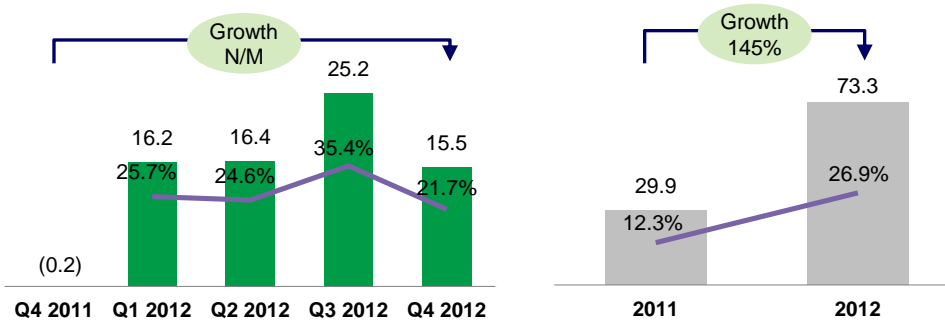
Financial highlights: CAPEX optimisation more than doubling cash flows

CAPEX, OIBDA-CAPEX, Free Cash Flow

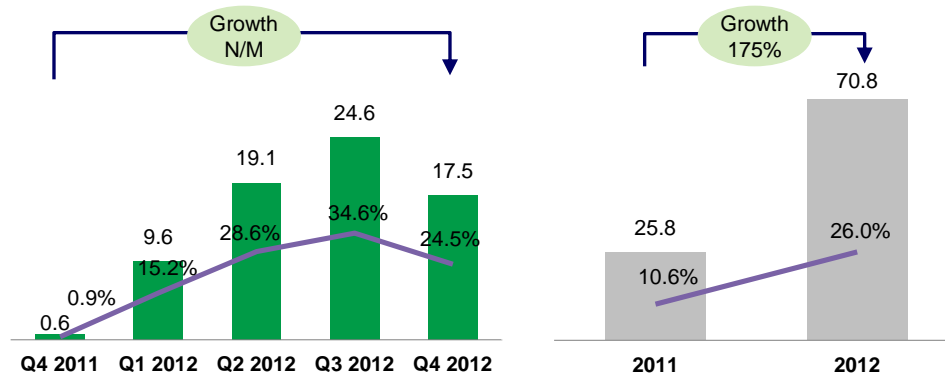
CAPEX



OIBDA-CAPEX



Free Cash Flows



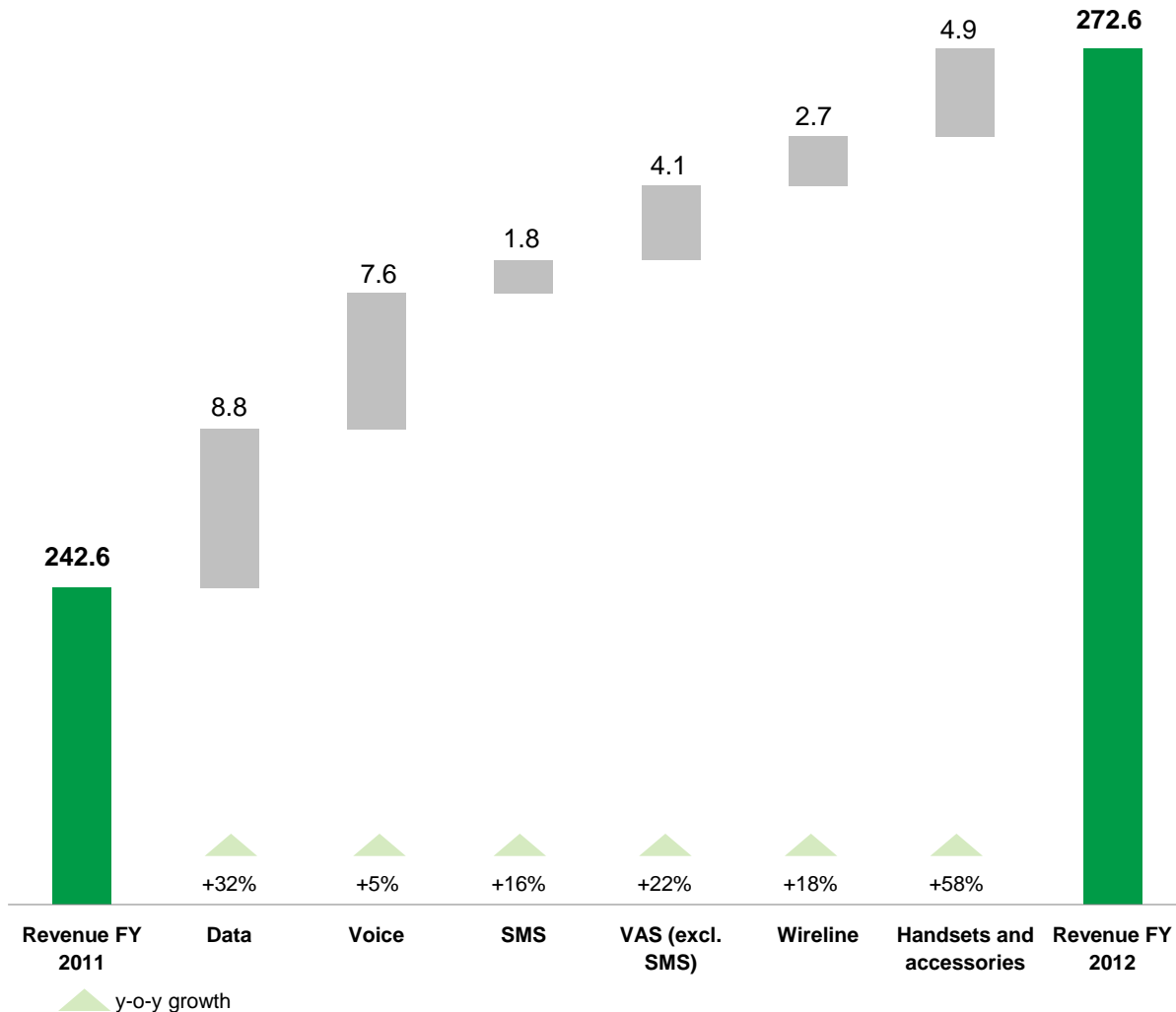
■ Quarterly data, RUB Bn ■ Annual data, RUB Bn — % of Revenue

- On the basis of significant capital investments in infrastructure conducted during prior years we were able to rationalise 2012 CAPEX which resulted in a substantial reduction by 38% vs. 2011 (38% reduction in 4Q 2012 y-o-y)
- As a result of high OIBDA growth and CAPEX reduction, OIBDA-CAPEX grew strongly by 145% in 2012 y-o-y
- Free Cash Flows increased by 175% in 2012 primarily driven by an increase in cash from operating activities and lower CAPEX

Mobile data and mobile voice - key drivers of revenue growth

Contribution of each business line into consolidated revenue growth bridge

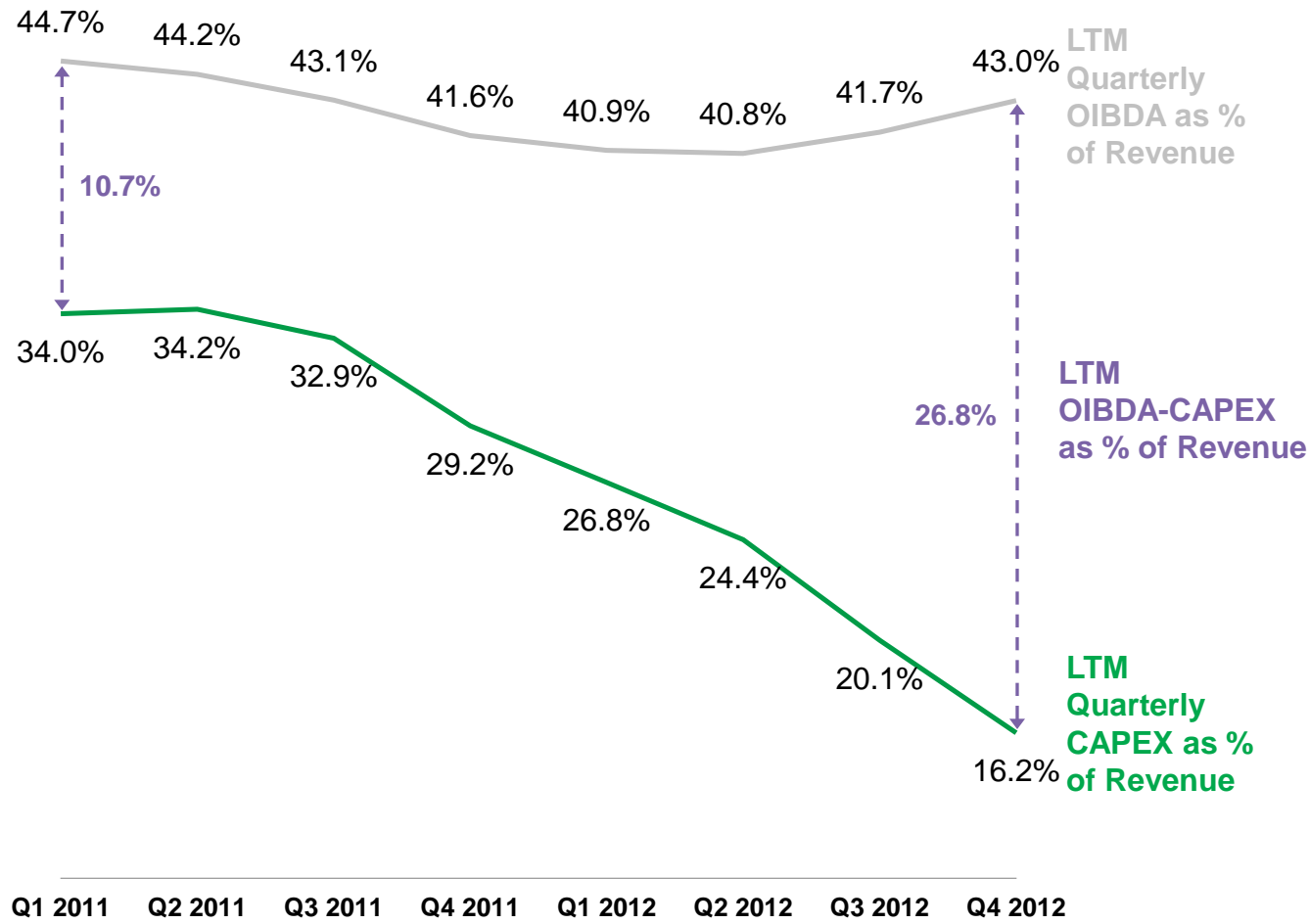
RUB Bn



- Mobile data was the key driver for the growth of the total revenues in 2012
 - Mobile data revenues increased by 32% adding RUB 8.8 Bn to 2012 results
- Voice continued to grow in 2012 representing the second largest growth driver
 - Voice revenues increased by 5% generating an additional RUB 7.6 Bn
- Retail and VAS (excl. SMS) also demonstrated substantial growth rates representing 3rd and 4th largest contributions to total revenue in 2012

Cost and CAPEX optimisation translating into growing cash flows

Quarterly development of OIBDA margin, CAPEX as % of Revenue and OIBDA-CAPEX margin on an LTM basis



- As a result of the new “smart growth” strategy we have been focused on profitability and cash flow generation
 - Solid cash flow generation in 2012 due to growing OIBDA margin and reduction of CAPEX as % of Revenue
 - In absolute terms cash conversion from revenues has increased by RUB 43.4 Bn since 2011

4G rollout strengthening leadership in mobile data

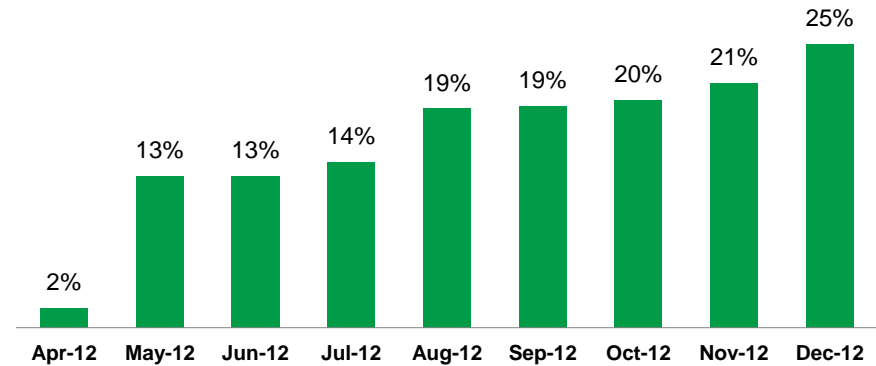
Map of towns covered by LTE/4G



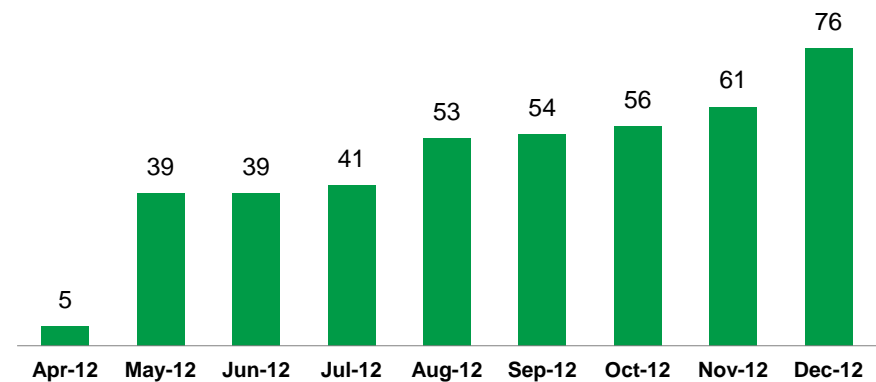
● LTE/4G on air

- In line with our track record of pioneering new telecom services in Russia, we became the first major operator to offer 4G services
- The roll-out of our 4G coverage is moving ahead strongly, reaching 76 towns and cities by the end of 2012 covering 25% of Russian population
- About 33% of MegaFon subscriber base currently is using data services (including 3G and 4G)

% of population covered by LTE/4G



Number of towns covered by LTE/4G



Agenda

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Gevork Vermishyan, CFO

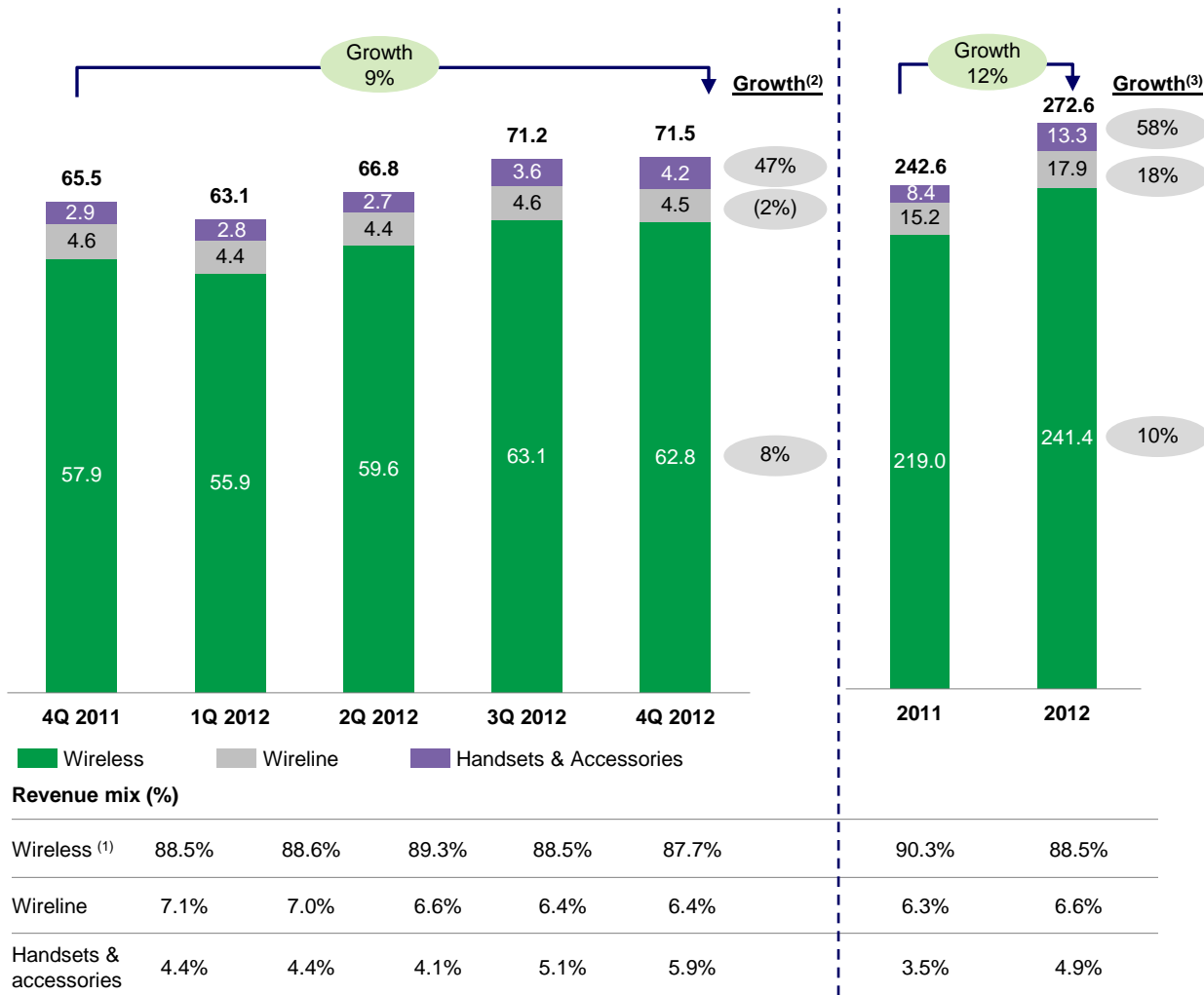
3 Outlook for 2013

Gevork Vermishyan, CFO

Breakdown of consolidated revenue

Wireless, Wireline and Handsets & Accessories revenues

RUB Bn



Note: Due to rounding, manual calculations for financials and KPIs may differ from those displayed

1. Wireless revenue includes monthly fees, airtime revenues, own subscriber roaming, connection fees, data revenue, VAS revenue, wireless interconnection revenues, roaming charges to other wireless operators and other wireless revenues

2. YoY growth: 4Q/2012 vs. 4Q/2011

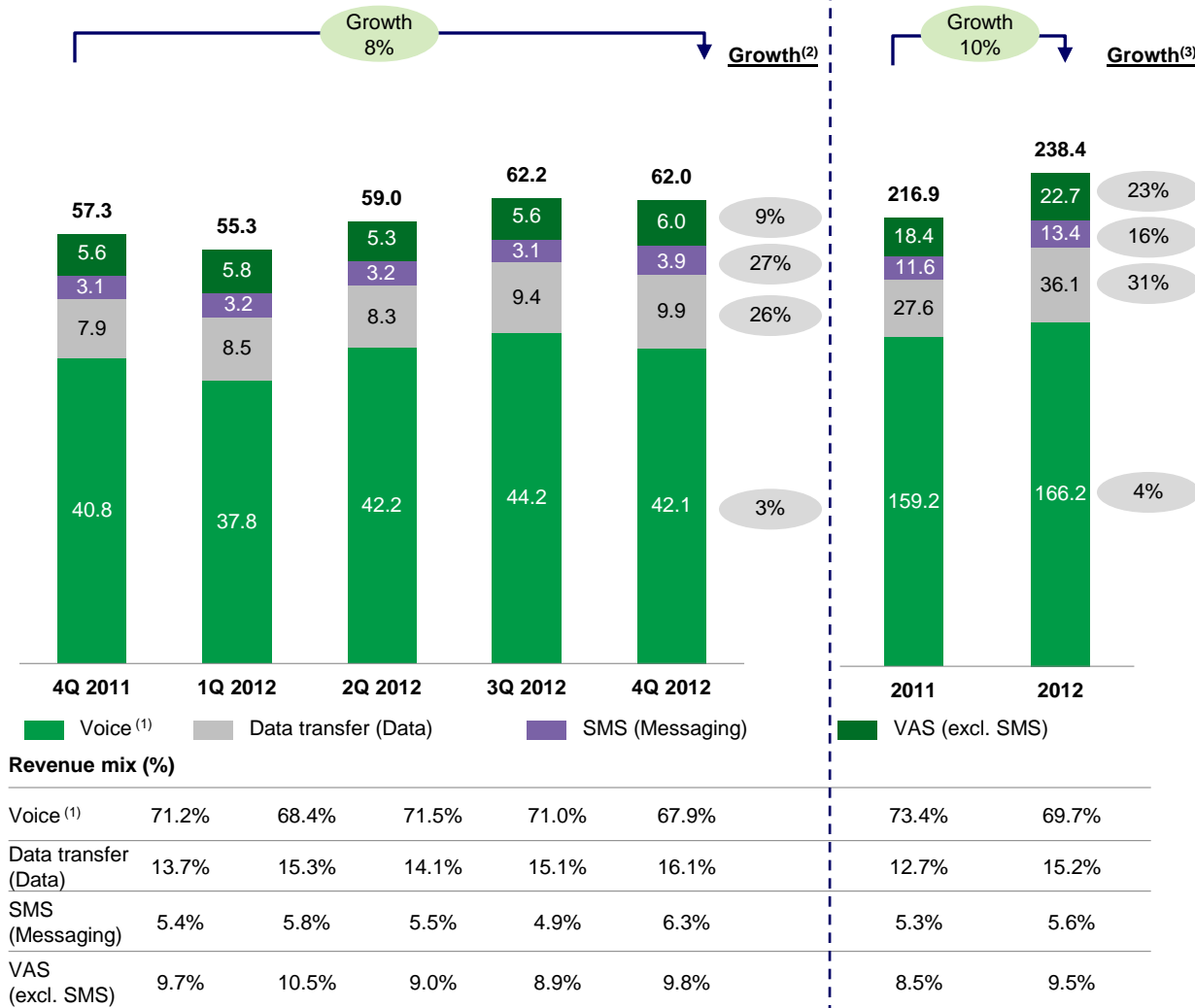
3. YoY growth: 2012 vs. 2011

- Strong consolidated revenue growth of 12% in 2012 driven by an increase in subscriber base, strong demand for airtime, growth in data, VAS and sales of handsets and accessories
 - 4Q 2012 q-o-q revenue was broadly flat because of lower wireless revenue due to seasonality, off-set by higher handset sales
- Sales of handsets and accessories increased primarily due to a growth in the number of own retail stores as well as an increase of the average price of devices
- Full year growth in wireline was primarily due to the acquisitions made in the 4Q 2011; however the slight decrease in the 4Q 2012 y-o-y of 2% was due to reduced exposure to capital intensive B2O business

Breakdown of Russia wireless revenues

Voice, Data, SMS and VAS revenues in Russia

RUB Bn



Note: Due to rounding, manual calculations for financials and KPIs may differ from those displayed

1. Voice includes revenues from: local subscribers which includes monthly fees, airtime revenues, own subscriber roaming and connection fees; wireless interconnection revenues; roaming charges to other wireless operators; and other wireless revenues

2. YoY growth: 4Q/2012 vs. 4Q/2011

3. YoY growth: 2012 vs. 2011

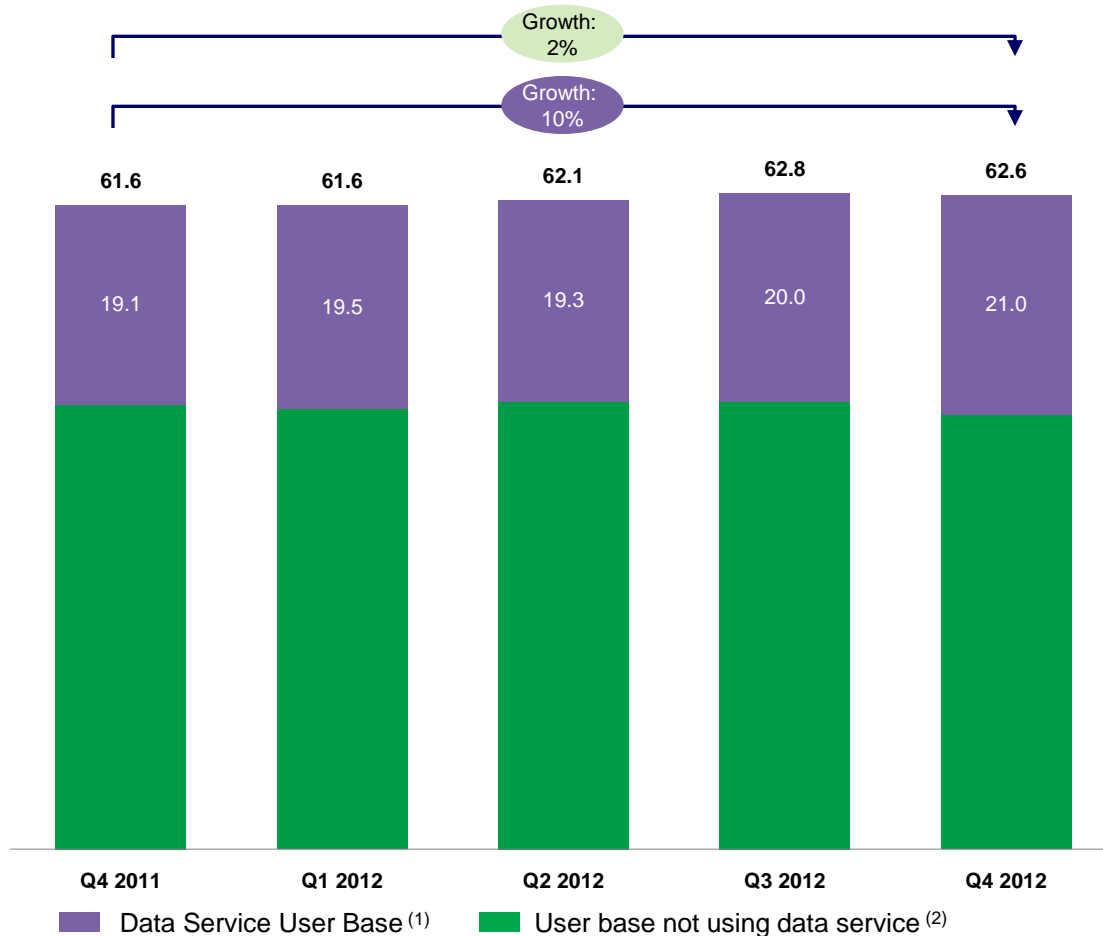
Results provided on this page cover only the Russian business

- Russia wireless revenue grew by 10% in 2012 to RUB 238.4 Bn, exceeding the growth in subscriber base
- Strong growth in data by 31% with data revenues increasing share in total revenues from 12.7% to 15.2%
 - Rollout of 4G services progressed as planned and we aim to reinforce our market leadership through further coverage and high quality services provided through the leading data network, thus stimulating even higher data usage among customers.
- 4Q 2012 revenue growth of 8% y-o-y
 - Share of voice revenue declined in 4Q due to growth in other revenue streams including data and VAS (excl. SMS)

Drivers of Russia total wireless revenues: wireless subscribers

Total Russia wireless subscribers including breakdown of data service users

(m)

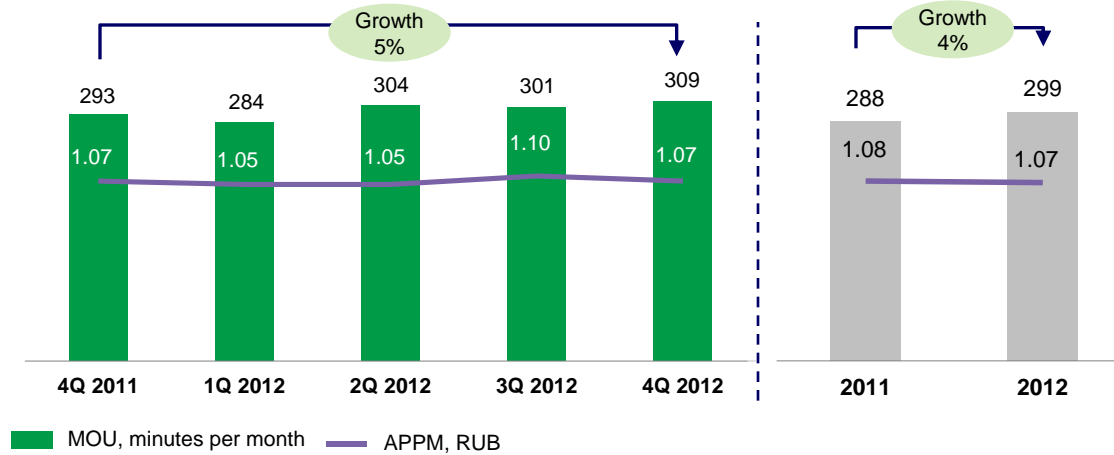


Results provided on this page cover only the Russian business

- High quality services, continued expansion in capacity and coverage of our network as well as 4G rollout contributed to the broadening of our user base
- Strong 4Q y-o-y growth of data subscriber base of 10%
 - As of 4Q 2012, 33.6% of our total subscribers were also data services users, versus 31.0% in 4Q 2011
- We expect our wireless data subscribers to continue to grow with increasing smartphone penetration and availability of LTE/4G
- We are improving quality of new subscriptions and, thus, we faced a predicted marginal 0.3% q-o-q decline in 4Q 2012 subscriber base, which is compensated by significant acquisition savings and higher ARPU

Drivers of Russia total wireless revenues: MoU and APPM

MOU ⁽²⁾ & APPM ⁽¹⁾

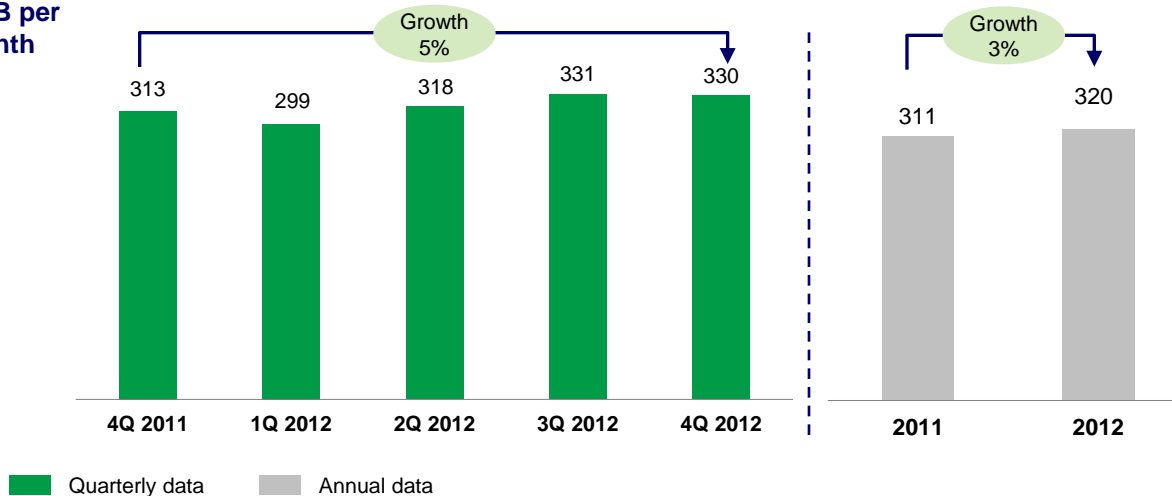


Results provided on this page cover only the Russian business

- MOU increased by 11 minutes in 2012 primarily due to the launch of new regional tariffs aimed at stimulating traffic between users on our network
- ARPU growth was primarily driven by increased use of VAS and data traffic by our subscribers

ARPU ⁽³⁾

RUB per month



Note: Due to rounding, manual calculations for financials and KPIs may differ from those displayed

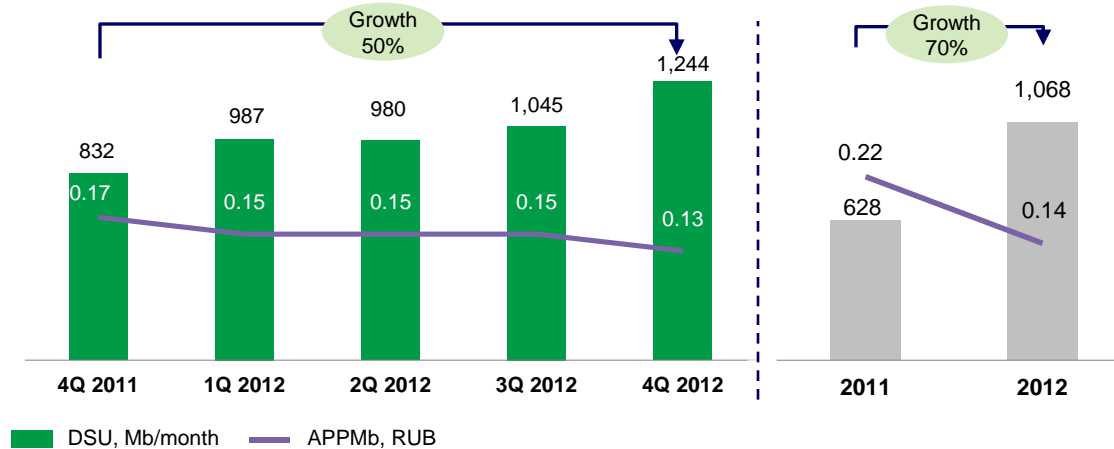
1. ARPU for a given period divided by MOU in such period

2. Total number of minutes in a given period divided by average number of subscribers in such period, divided by number of months in such period

3. Total wireless revenues (including interconnection and roaming charges but excluding connection revenues) for a given period divided by average number of wireless subscribers in such period, divided by number of months in such period

Drivers of Russia wireless data revenues: DSU and APPMb

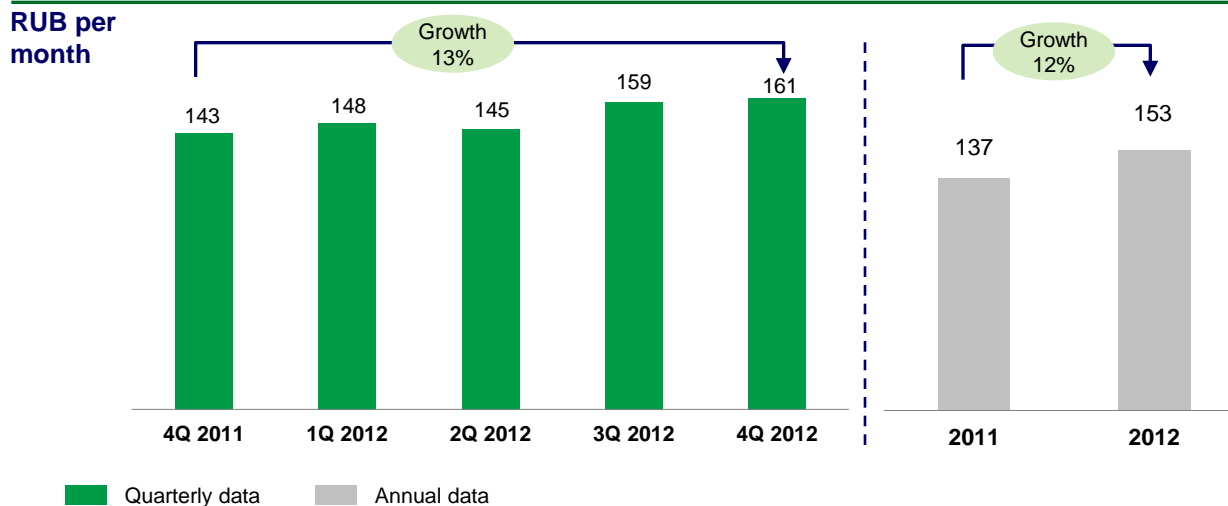
DSU⁽²⁾ & APPMb⁽¹⁾



Results provided on this page cover only the Russian business

- DSU growth was driven by the continuing expansion in capacity and coverage of our 3G / 4G networks, accelerating sales of USB modems and tariff initiatives
- In 2012, approximately 2/3 of data traffic was accounted for by USB modem usage by our subscribers
- Smartphone penetration on MegaFon's network reached 20.6%
- ARPDU growth resulted from an increase in data traffic from tariff initiatives

Data ARPU (ARPDU⁽³⁾)



Note: Due to rounding, manual calculations for financials and KPIs may differ from those displayed

1. ARPDU for a given period divided by DSU in such period

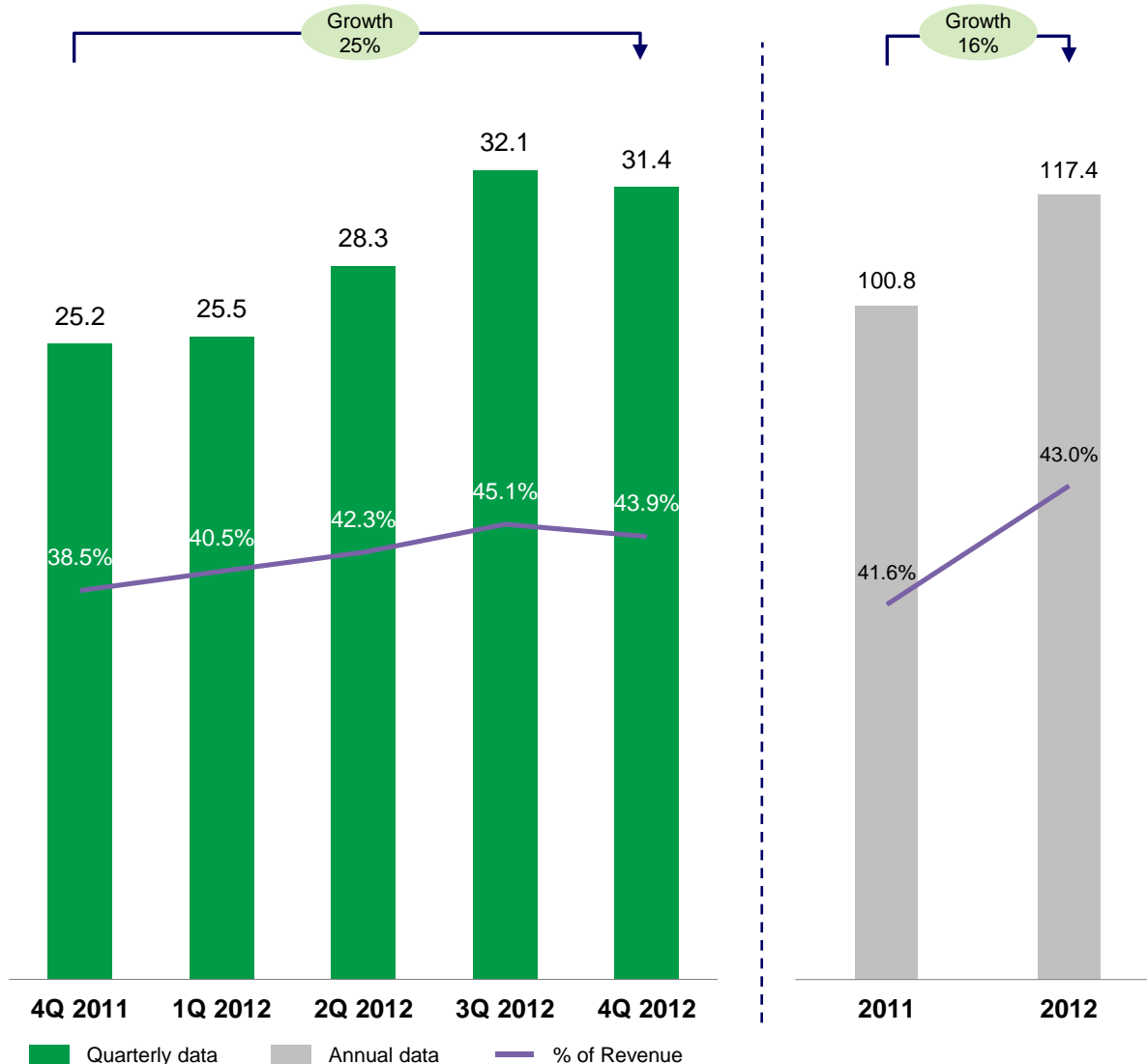
2. Total number of megabytes transferred during a given period divided by average number of data subscribers during such period, divided by number of months in such period

3. Total data revenues in a given period divided by average number of data service subscribers during such period, divided by number of months in such period

Consolidated OIBDA

OIBDA and OIBDA margin

RUB Bn

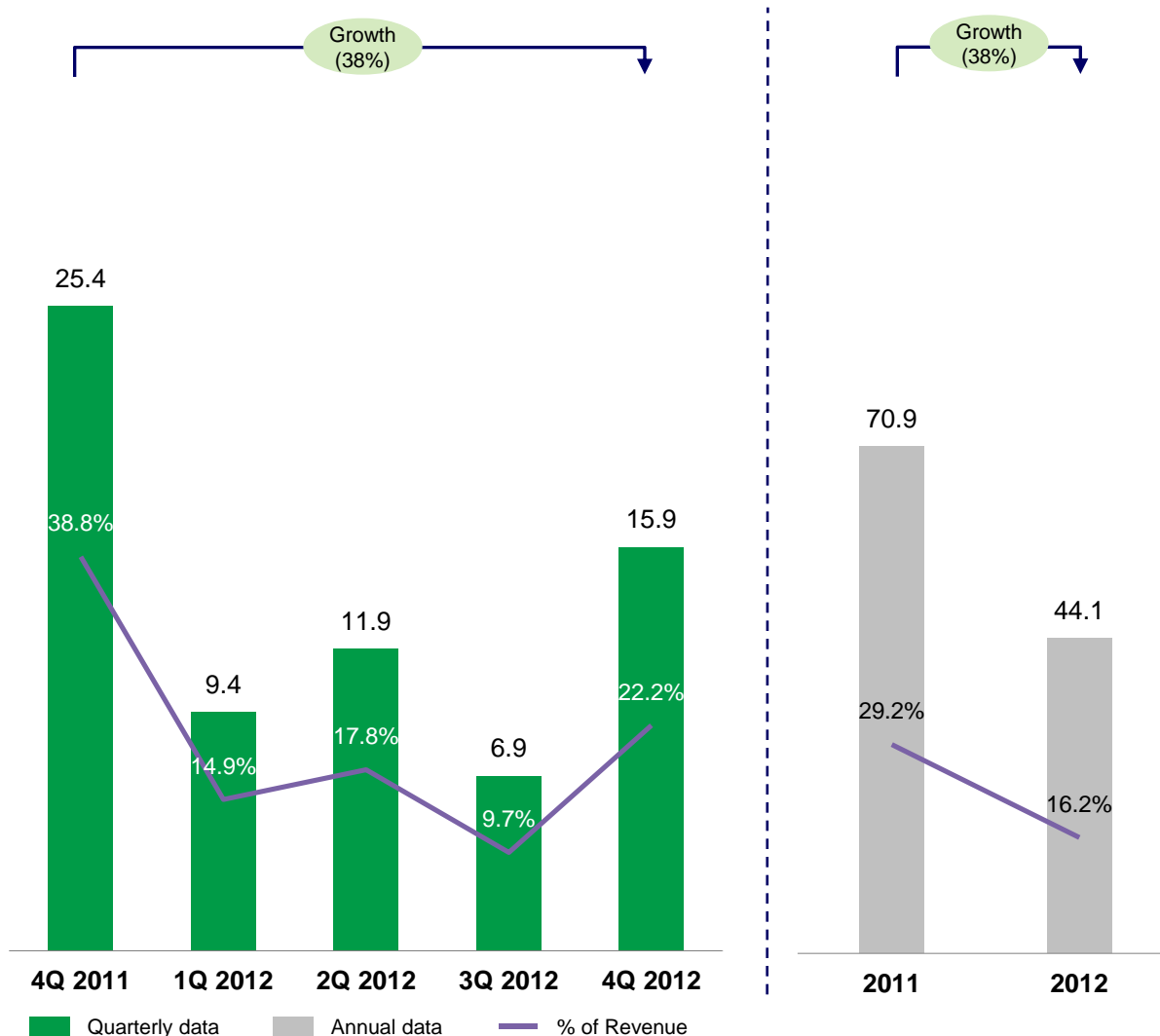


- In line with the new strategy focused on operating efficiency, cost control and returns for shareholders we achieved significant improvement in OIBDA margin in 2012
- OIBDA grew by 16% in 2012 and by 25% in 4Q 2012 y-o-y (exceeding the growth in Revenue) as a result of revenue growth and reduction in subscriber acquisition costs
- 3Q 2012 OIBDA was slightly higher than 4Q 2012 mostly as a result of seasonality

Consolidated CAPEX

CAPEX and CAPEX as % of Revenue ⁽¹⁾

RUB Bn

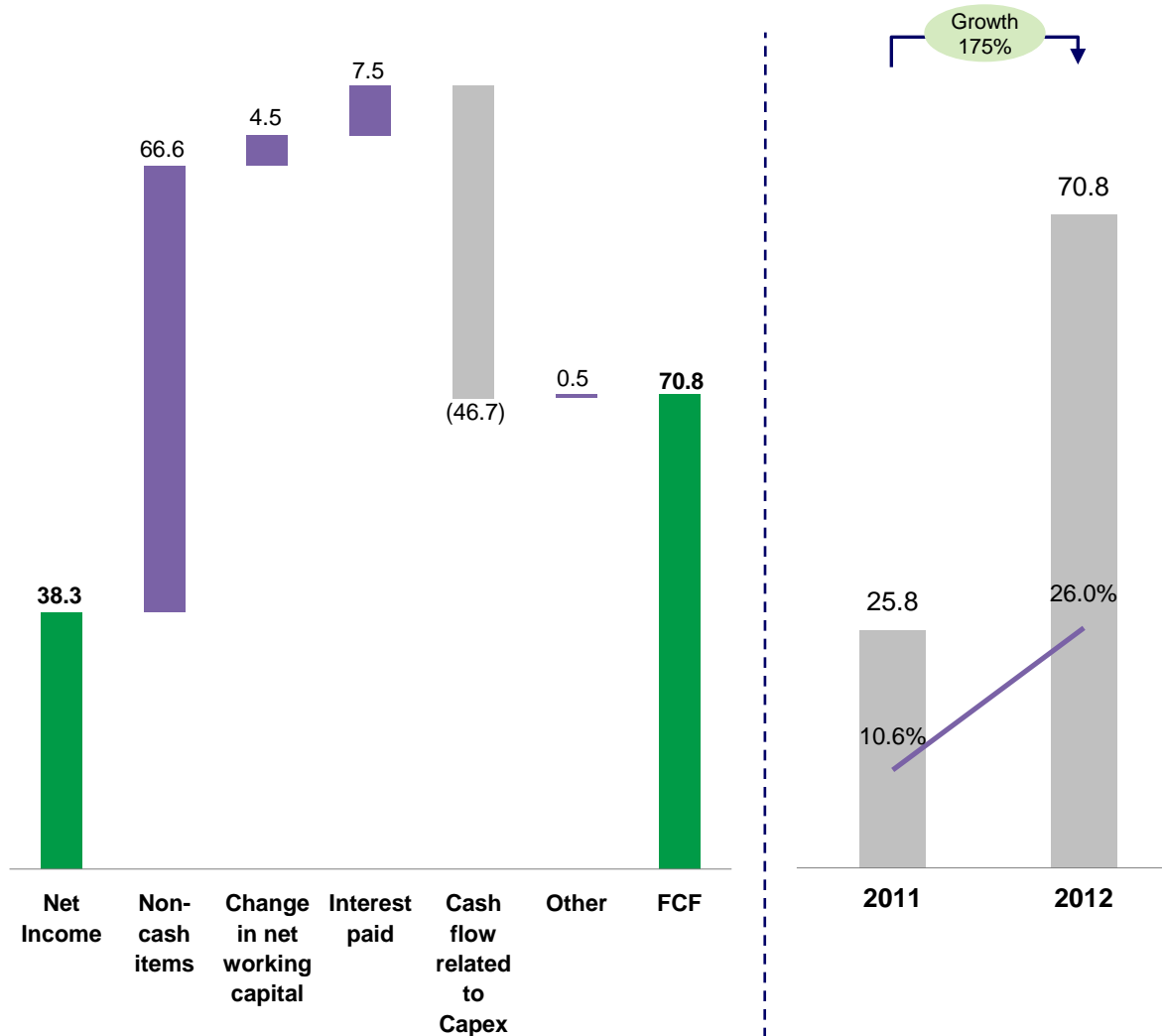


- CAPEX for 2012 decreased by 38% in line with the company's objective to reduce capital expenditure following a prolonged period of significant investment in the development of new and technologically advanced infrastructure
- Traditionally 4Q CAPEX is substantially higher than for the rest of the year, but in 2012 and as a result of our focus on smart investment, 4Q CAPEX was more in line with the other quarters in 2012

Consolidated cash flow

Components of free cash flow and comparison of performance in 2012 vs. 2011

RUB Bn



- Free cash flow increased by 175% due to MegaFon's focus on operating efficiency, cost control and returns for shareholders
 - The increase was primarily achieved through higher OIBDA and CAPEX reduction

Consolidated balance sheet and leverage

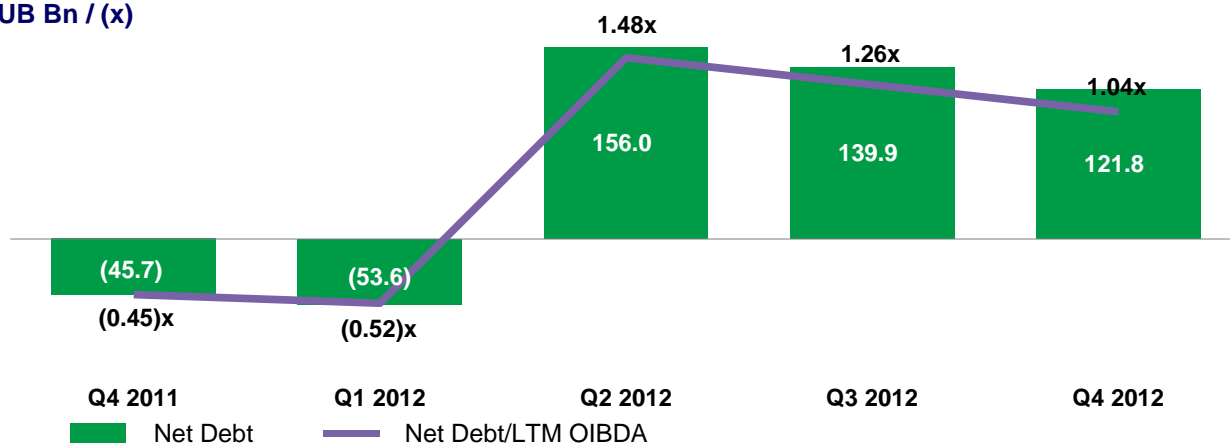
Key Balance Sheet Items

RUB Bn

Balance sheet	As of 31 Dec 2011	As of 31 Dec 2012
Cash and cash equivalents	2.9	2.4
Short-term investments	84.5	22.2
Long-term deposits	2.0	0.0
Total debt	43.7	146.4
Long-term debt	36.3	126.5
Short-term debt	7.4	19.9
Net debt ⁽¹⁾	(45.7)	121.8
Shareholders' equity	276.1	119.7
Total assets	383.5	350.6

Net debt and Net debt / LTM OIBDA ⁽¹⁾

RUB Bn / (x)



Note: Due to rounding, manual calculations for financials and KPIs may differ from those displayed
 1. Net debt calculated as the difference of total debt and cash+ short and long term investments
 2. Calculated as defined in our dividend policy

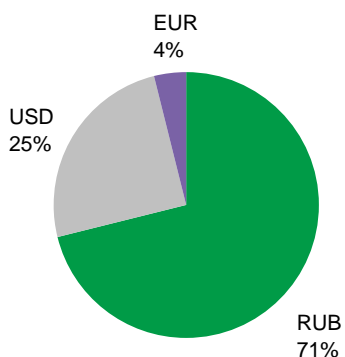
- Net debt substantially increased in 2Q 2012 primarily reflecting the increase in our borrowings as a result of the shareholder restructuring and dividend payments in April 2012
- Strong free cash flow generation contributed to leverage normalization
 - Net Debt / OIBDA ratio was reduced to 1.04x in 4Q 2012 vs. 1.26x in 3Q 2012
- c.RUB 10 Bn of debt repaid in 4Q 2012 through application of IPO proceeds
- MegaFon's sustainable debt position has been reflected in the rating agencies' assessments: both Standard & Poor's and Moody's reaffirmed their ratings of MegaFon in 2012:
 - S&P: BBB-
 - Moody's: Baa3
- Net Debt/ Adj. OIBDA ratio⁽²⁾ amounted 1.29x as of the end of 2012

Debt profile

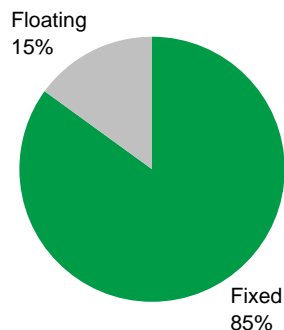
Debt portfolio structure (31-Dec-2012)

% of Total

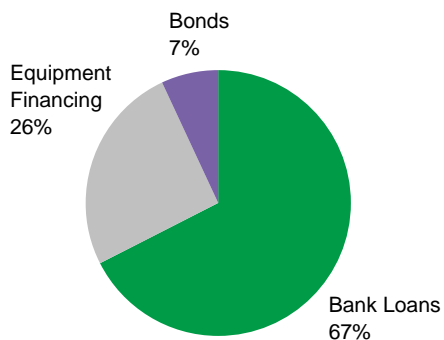
By currency



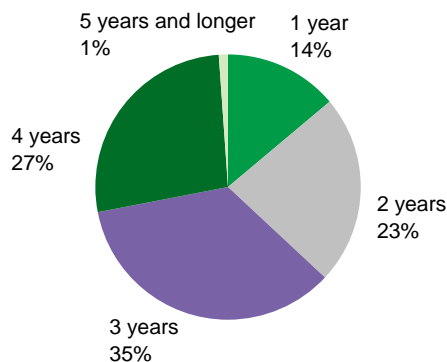
By rate type



By instrument



By maturity



- Over 70% of the portfolio is RUB denominated
 - A natural hedge against currency volatility
 - Significant part of USD denominated liabilities are hedged via USD bank deposits
- USD/EUR debt is linked to equipment purchases
- Reliance on fixed-rate credit facilities limits exposure to turbulent money markets
- An ongoing commitment to diversifying the portfolio:
 - A successful return to public capital markets with MegaFon Finance Series 05 Ruble bond placed in October 2012
 - Minimal portion of the portfolio is short-term, fully mitigating any refinancing risk

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Outlook for 2013

Revenue growth

- High single digit revenue growth

OIBDA margin

- OIBDA margin is expected to stay between the levels achieved in the years 2011 and 2012

CAPEX

- Expected capital expenditures in the range of RUB 55-60 Bn

Q&A

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