

MEGAFON ANNOUNCES FINANCIAL RESULTS FOR THE THIRD QUARTER OF 2013

MOSCOW, Russia (13 November 2013) - Open Joint Stock Company “MegaFon” (“MegaFon”, or the “Company”) (LSE: MFON), a leading Russian universal telecommunications operator, announces its (unaudited) consolidated financial results¹ for the third quarter ended 30 September 2013.

Key Consolidated Financial and Operational Results for the Third Quarter of 2013

- Consolidated revenue grew by 9.0% year-on-year (y-o-y), to RUR 77,543 million
- OIBDA increased by 10.5% y-o-y, to RUR 35,387 million
- OIBDA margin increased to 45.6% versus 45.0% in Q3 2012
- Net Profit of RUR 15,321 million was up 2.9% y-o-y
- CAPEX amounted to RUR 10,862 million
- Free Cash Flow totaled RUR 28,037 million, a 13.9% increase y-o-y.
- The number of active mobile subscribers as of 30 September 2013 was 68.3 million², an increase of 5.4% y-o-y

Key Consolidated Financial and Operational Results for the first 9 months of 2013

- Consolidated revenue grew by 8.3% y-o-y, to RUR 217,497 million
- OIBDA increased by 19.1% y-o-y, to RUR 102,070 million
- OIBDA margin increased to 46.9% versus 42.7% in 2012
- Net Profit increased by 60.8% y-o-y, to RUR 41,526 million
- CAPEX amounted to RUR 23,291 million
- Free Cash Flow totaled RUR 73,469 million, representing 37.9% growth y-o-y
- Net Debt as of 30 September 2013 was RUR 90,808 million

¹ Based on IFRS

² 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

Corporate Highlights for the Third Quarter of 2013

Key corporate events

- On 1 October 2013 we completed the previously announced acquisition from our shareholder Garsdale Services Investment Limited of a 100% interest in Scartel/ Yota³, thereby strengthening our leading position in the 4G/LTE market in Russia. The transaction was approved in a vote by the disinterested shareholders at an extraordinary general meeting held on 12 September 2013
- A new MegaFon's Board of Directors was elected in September
 - TeliaSonera representatives were replaced by two new members
- We started installing our own payment terminals in our outlets allowing customers to top-up their accounts and pay bills commission-free
- In July we launched our new "Mobile Ticket" service, which allows our subscribers to use their mobile phones as a payment system for public transport
- We continued pioneering 4G/LTE to maintain our leadership in mobile data
 - We significantly expanded our equipment product line, currently offering the widest range of 4G/LTE enabled devices
 - More than 20 models of smartphones, tablets, modems and routers presented in our retail stores
 - We launched a new branded 4G/LTE smartphone "MegaFon 4G Turbo", the most affordable branded 4G smartphone in Russia
 - By the end of Q3 2013 we had provided access to our 4G/LTE network in 31 regions in Russia, covering c. 30% of population in the country
- As the General Partner and Official Telecom Provider for the 2013 XXVII Summer Universiade Games in Kazan the Company provided the Games with high-speed 4G Internet and channels for TV and Internet transmission of the events

³ MegaFon acquired 100% interest in Maxiten Co Limited, which holds a 100% interest in Scartel and Yota

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



We have continued to make progress on our strategic objectives in the course of the third quarter 2013. Our consolidated revenue grew by 9.0% y-o-y, reaching RUR 77.5 billion, with OIBDA rising by 10.5% y-o-y to RUR 35.4 billion.

Traditionally the third quarter is a good period for us, and we are pleased to see the growth achieved in all our business segments. The steady increase in our customer base, strong growth in data and value-added services, remain key drivers of our revenue increase. Our data revenue, which grew 24.2% y-o-y, was a particular stand out in the third quarter. The data revenue increase was driven by increased smartphone sales, as well as further expansion of our 4G/LTE network, thereby justifying our commitment to these particular initiatives.

Finally, we completed the previously announced acquisition of Scartel/Yota on 1 October 2013 and are confident this transaction will further strengthen our position as mobile data leader in Russia.

Key Consolidated Financial Data (in Millions of Rubles)

	Three Months			Nine Months		
	Q3 2013	Q3 2012	Q3 2013 / Q3 2012	9m 2013	9m 2012	9m 2013 / 9m 2012
Revenue	77,543	71,138	9.0%	217,497	200,746	8.3%
Wireless Services	68,177	62,971	8.3%	191,350	178,256	7.3%
Including data revenue	12,632	10,168	24.2%	35,329	28,343	24.6%
Wireline Services	4,621	4,560	1.3%	13,816	13,394	3.2%
Sales of equipment & accessories	4,745	3,607	31.5%	12,331	9,096	35.6%
OIBDA	35,387	32,037	10.5%	102,070	85,728	19.1%
OIBDA Margin	45.6%	45.0%	0.6 p.p.	46.9%	42.7%	4.2 p.p.
Net Profit	15,321	14,893	2.9%	41,526	25,818	60.8%
Net Profit Margin	19.8%	20.9%	(1.1 p.p.)	19.1%	12.9%	6.2 p.p.
CAPEX	10,862	7,172	51.5%	23,291	29,091	(19.9%)
CAPEX / Revenue	14.0%	10.1%	3.9 p.p.	10.7%	14.5%	(3.8 p.p.)

Key Financial Data in Russia (in Millions of Rubles)⁴

	Three Months			Nine Months		
	Q3 2013	Q3 2012	Q3 2013 / Q3 2012	9m 2013	9m 2012	9m 2013 / 9m 2012
Revenue	76,594	70,257	9.0%	215,046	198,597	8.3%
Wireless Services	67,232	62,103	8.3%	188,932	176,136	7.3%
Including data revenue	12,426	10,048	23.7%	34,819	28,029	24.2%
Wireline Services	4,617	4,557	1.3%	13,804	13,389	3.1%
Sales of equipment & accessories	4,745	3,597	31.9%	12,310	9,072	35.7%
OIBDA	35,340	31,944	10.6%	101,882	85,668	18.9%
OIBDA Margin	46.1%	45.5%	0.6 p.p.	47.4%	43.1%	4.3 p.p.
Net Profit	15,754	15,085	4.4%	42,494	26,570	59.9%
Net Profit Margin	20.5%	21.5%	(1.0 p.p.)	19.8%	13.4%	6.4 p.p.

⁴ Excluding mutual settlements with "TT mobile" CJSC, "AQUAFON-GSM" CJSC and "OSTELEKOM" CJSC

Revenues

Supported by growth in all business segments, our consolidated revenue in Q3 2013 reached RUR 77,543 million, a 9.0% increase y-o-y. Russian revenue comprised 98.8% of consolidated revenue.

Consolidated data revenue increased to RUR 12,632 million, a 24.2% growth y-o-y, and continued to be a key driver for wireless revenue expansion. Uplift in the subscriber base, higher usage of our services by our customers and further increases in the number of smartphones and mobile internet devices sold all contributed to mobile data revenue growth.

In Russia, total revenue demonstrated 9.0% growth y-o-y, with wireless services increasing by 8.3% y-o-y. Mobile data revenues exhibited a significant increase of 23.7% y-o-y, continuing to be the primary growth driver of our total revenue. Sales of equipment and accessories increased by 31.9% in Q3 2013 vs. Q3 2012, driven by stimulation of equipment sales through our own retail network, expansion of product lines, and a significant increase in the number of MegaFon customized smartphones and mobile internet devices sold, including our branded smartphones, “MegaFon Login” and “MegaFon 4G Turbo”.

OIBDA and OIBDA Margin

Our on-going efforts to achieve operating efficiencies, together with revenue growth and an increasing share of high margin data revenues, resulted in another improvement in operating profits and margins, with consolidated OIBDA growing 10.5% y-o-y and reaching RUR 35,387 million in Q3 2013.

In Russia OIBDA grew by 10.6% y-o-y and amounted to RUR 35,340 million in Q3 2013, as a result of the increase in revenues and continued efforts to contain sales and marketing expenses and other general and administrative expenses.

Net Profit

On a consolidated basis, net profit for Q3 2013 grew 2.9% y-o-y, to RUR 15,321 million. In Russia, net profit for Q3 2013 reached RUR 15,754 million, reflecting a 4.4% increase y-o-y. This increase was driven by the solid growth in operating profit in Q3 2013.

Free Cash Flow

Consolidated free cash flow increased by 13.9%, from RUR 24,614 million for Q3 2012 to RUR 28,037 million for Q3 2013. The uplift reflects an increase in cash flow from operating activities.

CAPEX

Consolidated CAPEX for Q3 2013 amounted to RUR 10,862 million and, cumulatively for the first 9 months of 2013, reached RUR 23,291 million. Our CAPEX grew substantially compared to the prior six months largely due to acceleration of our capital spending programme. As earlier announced, we completed a tender for a multi-year procurement programme covering our future 3G and 4G network rollout and modernization of our 2G and 3G network, and this is now being implemented. We expect our total CAPEX for 2013 will amount to RUR 50-55 Billion.

Net Debt

Consolidated net debt increased from RUR 76,667 million as of 30 June 2013 to RUR 90,808 million as of 30 September 2013, following the RUR 40,000 million⁵ dividend payout in July 2013. Our strong cash flow generation in the first 9 months of 2013 allowed us to maintain a stable liquidity position with a cash position of RUR 57,747 million as of 30 September 2013. We continued to optimise our debt portfolio by hedging USD 107 million of outstanding USD denominated debt, through a currency swap at an attractive effective Ruble rate of approximately 7% p.a., further reducing our debt portfolio's exposure to volatile foreign currency exchange rates.

Earnings per Share

Consolidated basic and diluted EPS decreased by RUR 1 to RUR 27, and by RUR 2 per share to RUR 26, respectively, as a result of the increase in the number of outstanding shares following the completion of the IPO in November 2012.

Outlook / Guidance

We reiterate the earlier provided guidance for revenues in 2013, and continue to expect high single digit growth. As a result of the strong operating results for the first 9 months of 2013, we are revising upwards our OIBDA margin guidance to $\geq 44.0\%$ for the full 2013. At the same time we currently anticipate our capital spending for 2013 to be in the range of RUR 50-55 billion, a downwards revision of RUR 5 billion.

⁵ Approximately RUR 3,000 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 2013	Q3 2012	Q3 2013/ Q3 2012	9m 2013	9m 2012	9m 2013 / 9m 2012
Number of wireless subscribers (K)	66,318	62,805	5.6%	66,318	62,805	5.6%
of which data services users (K)	23,152	19,972	15.9%	23,152	19,972	15.9%
ARPU (RUR)	343	331	3.6%	330	316	4.4%
MOU (min.)	300	301	(0.3%)	301	294	2.4%
ARPDU (RUR)	181	168	7.7%	176	161	9.3%
DSU (mgb.)	1,346	1,035	30.0%	1,324	1,006	31.6%

Wireless subscribers

Our continuous focus on customer service improvement and churn rate reduction, including improved loyalty programmes and revised dealer remuneration schemes designed to attract high-quality subscribers, resulted in the steady growth in our wireless subscribers to 66.3 million as of 30 September 2013, representing a 5.6% increase y-o-y. Wireless data service users grew faster than our overall subscriber base due to our effective strategy of promoting data services, including 4G/LTE, and accounted for 34.9% of the Company's total subscriber base as at 30 September 2013 (versus 31.8% as at 30 September 2012), representing a growth of 15.9% y-o-y.

ARPU

Our blended ARPU reached 343 RUR per month, a y-o-y increase of 3.6%, mainly due to the growing popularity of our value-added and data services, but also reflecting the seasonal effect of higher roaming revenues during the summer holidays.

MOU

MOU (blended) in Q3 2013 decreased by 1 minute, or 0.3% y-o-y, largely due to faster growth in the number of data subscribers vs. the total number of all subscribers.

ARPDU

ARPDU in Q3 2013 grew by 13 rubles, or 7.7% y-o-y, driven by the Company's efforts to re-focus subscribers on higher margin and more cost-effective smartphones and tablets, and an overall increase in subscriber data usage.

DSU

DSU in Q3 2013 increased by 311 megabytes, or 30.0% y-o-y, resulting from increased subscriber data usage, which in turn was driven by continuing expansion of the Company's high speed data network and the marketing of smartphones and tablets, both of which initiatives had the effect of stimulating data usage.

Conference Call

MegaFon will be hosting an analyst and investors conference call today with a simultaneous audiocast to discuss its 2013 third quarter performance.

Time: 09.00 (New York time), 14.00 (London time), 18.00 (Moscow time)

Dial-in details:

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:	4837918
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	4837918
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	020 8196 1480
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Notes to Editors

MegaFon OJSC is a leading Russian universal telecommunication service provider, operating in all segments of the telecommunications markets in Russia. The Company and its subsidiaries have licences to operate in all of the Russian regions and in the Republics of Abkhazia, South Ossetia and Tajikistan. The Company was the first in Russia to launch 3G for commercial operations and is currently in the number one position among all operators in the provision of mobile Internet, and in the number two position as to the number of active subscribers in Russia.

In 2009, MegaFon was selected as the Mobile General Partner of the XXII Winter Olympic Games and XI Paralympic Games to be held in Sochi in 2014.

As a result of its acquisition of the Synterra Group, one of the leading Russian backbone operators, in September 2010, MegaFon substantially increased its fixed-line B2B and B2G businesses, as well as its provision of fixed broadband services. In July 2012 MegaFon was awarded one of four ten-year licenses for the provision of 4G/LTE services throughout the entire Russian Federation and has already started providing these services in more than 30 different regions. In September 2012 the Company acquired the VAS Media group of companies, which are now being integrated with MegaLabs, its R&D subsidiary. In December 2012 the Company acquired a 25% interest in the Euroset retail chain, the largest chain in Russia providing telecommunications goods and services, and is committed to acquire a further 25% within the next three years. In October 2013 MegaFon completed the acquisition of a 100% interest in Scartel/Yota, which hold significant 4G/LTE licenses, from Garsdale Services Investment Limited, its shareholder and a member of the AF Telecom group (see below).

In November 2012 MegaFon successfully completed an initial public offering on the Moscow Stock Exchange and the London Stock Exchange. MegaFon has two principal shareholders, companies in the AF Telecom group (approximately 50.01%) and the TeliaSonera group (approximately 25.17%). Additional shares are held by its CEO, Ivan Tavrín (approximately 2.54%) and by a wholly owned subsidiary of the Company (7.57%, of which Mr. Tavrín has the right to acquire up to 2.5% at various times up to 2017), while the public float represents approximately 14.71% of the outstanding shares.

Disclaimer/ Forward Looking Statements

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

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 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, 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 connected to the network and is “active”, that is, that 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 of usage (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, plant and equipment and intangible assets, increased by proceeds from sales of property, plant 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 cash / 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 2012	Q4 2012	Q1 2013	Q2 2013	Q3 2013
Operating profit	18,364	17,740	19,611	21,748	22,737
Depreciation	11,441	11,512	11,287	11,068	11,113
Amortisation	1,917	1,506	1,346	1,378	1,391
Loss from disposal of long-lived assets	315	663	137	108	146
OIBDA	32,037	31,421	32,381	34,302	35,387

OIBDA Margin as percentage of Revenue

	Q3 2012	Q4 2012	Q1 2013	Q2 2013	Q3 2013
Operating profit	25.8%	24.8%	28.9%	30.1%	29.3%
Depreciation	16.1%	16.1%	16.7%	15.3%	14.3%
Amortisation	2.7%	2.1%	2.0%	1.9%	1.8%
Loss from disposal of long-lived assets	0.4%	0.9%	0.2%	0.2%	0.2%
OIBDA margin	45.0%	43.9%	47.8%	47.5%	45.6%

Net cash/ (Net debt) position (In millions of Rubles)

	30 Sep 2012	31 Dec 2012	31 Mar 2013	30 Jun 2013	30 Sep 2013
Cash and cash equivalents	17,012	2,387	3,119	24,920	18,945
Short-term deposits (principal amount)	2,213	22,246	41,033	47,832	38,802
Long-term deposits	2	1	1	0	0
Loans and borrowings (principal amount), less unamortised debt issuance fees	(157,859)	(145,234)	(144,914)	(149,419)	(148,555)
Net debt position	(138,632)	(120,600)	(100,761)	(76,667)	(90,808)

Free Cash Flow (In millions of Rubles)

	Q3 2012	Q4 2012	Q1 2013	Q2 2013	Q3 2013
Cash from operating activities	30,641	27,240	27,586	27,106	34,858
Purchase of property, equipment and intangible assets	(8,721)	(13,085)	(7,270)	(7,103)	(9,461)
Proceeds from sale of property and equipment	88	227	70	47	11 ⁶
Interest paid	2,606	3,114	2,483	2,513	2,629
Free cash flow	24,614	17,496	22,869	22,563	28,037

⁶ The amount is adjusted for the cash proceeds under the settlement in relation to the sale and purchase agreement for CJSC "Synterra"