

## MegaFon announces financial results for Q2 and H1 2015 highlighting solid operational efficiency

MOSCOW, Russia (30 July 2015) - PJSC "MegaFon" ("MegaFon", or the "Company") (LSE: MFON), a leading Russian telecommunications operator, announces its unaudited consolidated financial results<sup>1</sup> for the second quarter and first half of 2015.

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

- Consolidated revenue decreased by 0.7% year over year ("y-o-y")<sup>3</sup> to RUB 76,141 million
- Revenue from wireless data services increased by 20.3% y-o-y to RUB 19,459 million
- OIBDA increased by 1.3% y-o-y to RUB 34,737 million
- OIBDA margin was 45.6% versus 44.7% in Q2 2014
- Net Profit decreased by 6.4% y-o-y to RUB 13,001 million
- CAPEX decreased by 6.4% y-o-y to RUB 12,536 million
- Free Cash Flow amounted to RUB 19,345 million
- Net Debt as of 30 June 2015 was RUB 113,608 million
- The number of mobile subscribers grew by 5.1% y-o-y to 73.8 million<sup>4</sup> as of 30 June 2015

### Key highlights of the First Half of 2015

- Consolidated revenue decreased by 0.9% y-o-y to RUB 150,124 million
- Revenue from wireless data services increased by 15.4% y-o-y to RUB 37,314 million
- OIBDA decreased by 0.1% y-o-y to RUB 66,701 million
- OIBDA margin grew to 44.4% versus 44.1% in 2014
- Net Profit decreased by 3.4% y-o-y to RUB 20,403 million
- CAPEX decreased by 5.1% y-o-y to RUB 20,629 million
- Free Cash Flow totaled RUB 31,091 million

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

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

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

<sup>4</sup> Consolidated data includes subscribers of the Company in Russia and the subscribers of its subsidiaries: "TT mobile" CJSC in the Republic of Tajikistan, "AQUAFON-GSM" CJSC in the Republic of Abkhazia and "OSTELEKOM" CJSC in the Republic of South Ossetia

## Key Corporate Events of the Second Quarter 2015

- Approval of dividends for 2014
  - MegaFon's Annual General Meeting of Shareholders, held on 30 June 2015, approved dividends for 2014 in the amount of RUB 10 billion, equivalent to RUB 16.13 per ordinary share (or GDR). These dividends are expected to be fully paid in August 2015
- Appointment of Chief Operation Officer
  - The Annual General Meeting of Shareholders also approved the appointment of Evgeny Chermashentsev, former Infrastructure Development Director, as the Company's Chief Operation Officer responsible for the Company's operational management
- Early repayment of RUB 15 billion bond issue
  - On 19 May 2015, MegaFon prepaid in full its exchange bonds series BO-04 for a total amount of RUB 15 billion. The early repayment was made pursuant to the terms of the bond offering, which permitted the Company to prepay the bonds at the end of the last coupon period for which a coupon rate for the bonds was set. The Company decided not to extend the bonds' maturity and incur additional interest expense in an inflationary interest rate environment
- Contract with RTITS for 2 million M2M services
  - In June MegaFon signed a contract with RT-Invest Transportation Systems for rendering M2M services. Under the contract MegaFon will provide 2 million sim-cards, which will be installed on board units of heavy vehicles and used as a mechanism for payment for use of federal highways. The contract will be implemented in several stages and realisation of this contract will make MegaFon one of the leaders in providing M2M-solutions in Russia
- B2B contract with VTB 24 bank
  - In June MegaFon concluded a three-year contract with VTB 24, one of Russia's largest commercial banks, for the creation and development of a VPN-network for 70 representative offices of the bank
- Western Union money transfers at MegaFon Retail
  - In June MegaFon and Western Union announced the launch of money transfer services at MegaFon Retail stores. This partnership will allow MegaFon to expand the range of financial services available to its customers
- New equipment financing facility
  - MegaFon signed a Finnvera-covered Facility Agreement with Unicredit Bank Austria AG in the amount of EUR 150 million. The new facility will be used to finance the purchase of fixed and wireless telecommunication equipment, software and related services from Nokia Solutions and Networks. The facility will be available for 18 months and the amount drawn shall be amortized over a term of 8.5 years.

## Subsequent Events

- On 29 July 2015 our Board of Directors approved acquisition of up to a 50% interest in Glanbury Investments Ltd, which owns an office building in the center of Moscow, for location of the Company's new corporate headquarters. This acquisition will enable the Company to consolidate all of its operations in Moscow in a single location. Further details of the transaction, which is still being negotiated, will be released in due course
- Also on 29 July 2015 our Board of Directors approved the acquisition of several companies in the SMARTS group which provide mobile telecommunications services in the Chuvash Republic and the Samara, Astrakhan, Yaroslavl regions of Russia. This transaction is also still being negotiated and further details will be provided in due course

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



I am pleased to announce that despite the challenging macroeconomic environment, MegaFon's performance in this quarter demonstrated solid operational efficiency. Our total revenue in this quarter declined marginally due to a shift by customers to lower-cost devices driven by constrained consumer spending. While our OIBDA margin rose to 45.6%, given the current economic conditions, our expectation for intensified competition in the telecoms sector, the likelihood of future forex losses and the many other uncertainties which we will face in the coming months, we do not expect to sustain this margin during the remainder of the year and anticipate that our OIBDA margin for the full year will be in line with our original guidance.

Nevertheless, as a result of our rigorous focus on cost efficiencies, we continue to generate robust cashflow.

And Russian subscribers continue to choose MegaFon as we provide our customers with high quality services and attractive commercial offerings. As a result, we saw a 5% growth year-over-year in our Russian mobile subscriber base and more than 8% growth year-over-year in our Russian data service user base. This enabled us to increase our core mobile revenue, reversing the slight decline in the previous quarter.

In fact, we are witnessing strong market response for data services. Our well-balanced bundled tariffs with increased data allowance, numerous 4G handsets available in our retail outlets and our state-of-the-art infrastructure differentiate our offerings in the market and enable us to provide our customers with affordable, high quality and reliable access to data services. As of today, we are offering 4G services in approximately 90% of all Russian regions and keep substantially increasing 4G coverage within each region. Our 4G users increased by 9% from the previous quarter. All of this has enabled us to maintain our momentum in data revenue generation, which demonstrated solid growth of 20% year-over-year this quarter.

In addition to our operational excellence, our strong cash position allowed us to redeem our outstanding series BO-04 exchange bonds in May for a total amount of RUB 15 billion. We also declared dividends of RUB 16.13 per ordinary share (or GDR), which will be paid in August 2015. As previously announced, the Board of Directors agreed to include in the agenda of its meeting scheduled for 28 October 2015 an item on making a recommendation to an Extraordinary General Meeting of shareholders to distribute additional dividends in 2015, so that the total amount of dividends distributed in 2015 is at least RUB 40 billion, taking into account the Company's Dividend Policy.

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

	Three Months			Six Months		
	Q2 2015	Q2 2014	Q2 2015/ Q2 2014	6m 2015	6m 2014	6m 2015/ 6m 2014
Revenue	76,141	76,666	(0.7%)	150,124	151,542	(0.9%)
Wireless Services	66,820	66,308	0.8%	130,913	131,027	(0.1%)
Including data revenue	19,459	16,171	20.3%	37,314	32,337	15.4%
Wireline Services	5,328	5,390	(1.2%)	10,827	10,684	1.3%
Sales of equipment & accessories	3,993	4,968	(19.6%)	8,384	9,831	(14.7%)
OIBDA	34,737	34,298	1.3%	66,701	66,801	(0.1%)
OIBDA Margin	45.6%	44.7%	0.9 p.p.	44.4%	44.1%	0.3 p.p.
Net Profit	13,001	13,886	(6.4%)	20,403	21,114	(3.4%)
Net Profit Margin	17.1%	18.1%	(1.0 p.p.)	13.6%	13.9%	(0.3 p.p.)
CAPEX	12,536	13,396	(6.4%)	20,629	21,749	(5.1%)
CAPEX / Revenue	16.5%	17.5%	(1.0 p.p.)	13.7%	14.4%	(0.7 p.p.)

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

	Three Months			Six Months		
	Q2 2015	Q2 2014	Q2 2015/ Q2 2014	6m 2015	6m 2014	6m 2015/ 6m 2014
Revenue	75,097	75,768	(0.9%)	147,819	149,803	(1.3%)
Wireless Services	65,792	65,416	0.6%	128,632	129,303	(0.5%)
Including data revenue	19,197	15,880	20.9%	36,735	31,815	15.5%
Wireline Services	5,314	5,387	(1.4%)	10,809	10,677	1.2%
Sales of equipment & accessories	3,991	4,965	(19.6%)	8,378	9,823	(14.7%)
OIBDA	34,677	34,154	1.5%	66,467	66,541	(0.1%)
OIBDA Margin	46.2%	45.1%	1.1 p.p.	45.0%	44.4%	0.6 p.p.
Net Profit	14,018	14,359	(2.4%)	22,125	21,882	1.1%
Net Profit Margin	18.7%	19.0%	(0.3 p.p.)	15.0%	14.6%	0.4 p.p.

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

## Revenue

Our total consolidated revenue in Q2 2015 declined by 0.7% y-o-y to RUB 76,141 million principally due to lower handset revenue as a result of a decrease in consumer spending driven by the weak macroeconomic environment. Russian revenue remained the major component, accounting for over 98.6% of total consolidated revenue.

Meanwhile our core business segment demonstrated growth and our wireless service revenue increased by 0.8% y-o-y to RUB 66,820 million driven by solid growth in our subscriber base, which increased by 5.1% and reached 73.8 million subscribers as of the end of Q2 2015, and by continued strong increase in data revenue.

Wireless data revenue demonstrated a robust 20.3% growth y-o-y, reaching RUB 19,459 million. Expansion of our data user base by 8.3% as well as growth in data usage resulting from attractive tariff offerings and further increase of our 4G coverage footprint contributed to this increase.

Wireline service revenues decreased slightly by 1.2% y-o-y to RUB 5,328 million.

Revenue from sales of equipment and accessories decreased by 19.6% y-o-y to RUB 3,993 million as a result of reduced consumer purchasing power, which caused a shift by customers to lower-cost devices.

## OIBDA and OIBDA Margin

Our Q2 2015 OIBDA increased by 1.3% y-o-y, or RUB 439 million, to RUB 34,737 million mainly due to a decrease in the total cost of revenues. In addition, general and administrative expenses decreased by RUB 563 million, or 3.0% y-o-y, as a result of continued efficiencies in network maintenance costs and modernisation initiatives following the launch of our General Network Operational Centre (or GNOC) and a decline in stock-based compensation expense. OIBDA margin in Q2 2015 improved to 45.6% y-o-y compared to 44.7% in Q2 2014.

## Net Profit

Consolidated net profit decreased by 6.4% y-o-y to RUB 13,001 million compared to RUB 13,886 million in Q2 2014. Net profit in Q2 2014 benefited from a significant one-time FX gain resulting from the ruble revaluation of the deferred consideration due in respect of the Scartel and Euroset transactions, which was repaid later in 2014.

## Free Cash Flow

Our free cash flow increased by 35.3% y-o-y from RUB 14,294 million for Q2 2014 to RUB 19,345 million for Q2 2015 due to an increase in operating cash flows as a result of working capital improvements.

## CAPEX

CAPEX decreased by 6.4% y-o-y to RUB 12,536 million compared to RUB 13,396 million in Q2 2014. Our CAPEX spending is driven by the timetable for the LTE infrastructure rollout as part of our integrated network strategy and creation of a unified billing system.

## Net Debt

Our net debt decreased from RUB 129,063 million as of 31 March 2015 to RUB 113,608 million as of 30 June 2015 due to strong free cash flow generation. The Company repaid RUB 25,778 million in debt in Q2 2015, which included the RUB 15 billion redemption of the series BO-04 Ruble bonds in May.

## Earnings per Share

Both basic and diluted EPS for three months ended 30 June 2015 decreased from RUB 24 to RUB 22 due to lower net income described above.

## Outlook/Guidance

We reiterate our previously announced guidance that we expect our revenue in 2015 to be flat, and OIBDA margin to be at or above 40%. We anticipate that our CAPEX in 2015 will not exceed RUB 65 billion.

## Key Operational Highlights

### Wireless Business in Russia

	Three Months			Six Months		
	Q2 2015	Q2 2014	Q2 2015/ Q2 2014	6m 2015	6m 2014	6m 2015/ 6m 2014
Number of wireless subscribers (K)	71,400	67,991	5.0%	71,400	67,991	5.0%
of which data service users (K)	28,339	26,149	8.4%	28,339	26,149	8.4%
ARPDU (RUB)	228	204	11.8%	222	206	7.8%
DSU (MB)	3,074	2,428	26.6%	3,123	2,458	27.1%

### Wireless subscribers

Our Russian wireless subscriber base continued to grow, increasing by 5.0% y-o-y to 71.4 million as of 30 June 2015. Our new dealership agreement with Svyaznoy, active marketing efforts and our customer-oriented offerings all contributed to this growth. The data service user base expanded by 8.4% y-o-y to 28.3 million users, accounting for 39.7% of the overall subscriber base.

### ARPDU

ARPDU in Q2 2015 increased by 11.8% y-o-y to RUB 228 due to the increasing share of heavier data package offerings and growing demand for data consumption.

### DSU

DSU in Q2 2015 grew by 646 megabytes, or 26.6% y-o-y, as a result of active marketing initiatives aimed at stimulating higher data usage by including more traffic in the tariff plans, growing penetration of smartphones and data-enabled devices and increases in the levels of 4G/LTE traffic.



## Conference Call

MegaFon will be hosting an analyst and investors conference call today with a simultaneous audiocast to discuss its Q2 2015 results.

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

### Dial-in details:

Local - Moscow, Russia	+7 495 213 0978
National free phone - Russian Federation	+8 800 500 9311
Local - London, United Kingdom	+44(0)20 3427 1914
National free phone - United Kingdom	0 800 279 4841
Local - New York, United States of America	+1 646 254 3363
National free phone - United States of America	+1 877 280 2296
Access confirmation code:	<b>8579036</b>
Password:	<b>MegaFon</b>

### Audiocast and slide presentation

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

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

Replay facilities

(will be available for 7 days)

Replay password	8579036 followed by #
Russia Toll Free	+8 10 800 2870 1012
UK Toll Free	0 800 358 7735
USA Toll Free	+1 866 932 5017
Local – Moscow, Russia	+ 495 705 9453
Local - London, United Kingdom	+44(0)20 3427 0598
Local - New York, United States of America	+1 347 366 9565

### For More Information

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## Notes to Editors

**MegaFon PJSC** is a leading Russian integrated telecommunication service provider, operating in all segments of the telecommunications markets in Russia, and in the Republics of Abkhazia, South Ossetia and Tajikistan. MegaFon is a recognized market leader in the provision of mobile data services, was the first operator in Russia to launch commercial operation of a third generation (3G) network and was the first operator in the world to launch commercial operation of an LTE-Advanced (4G) data network. MegaFon is traded on the Moscow Stock Exchange and the London Stock Exchange under the symbol MFON. Additional information about MegaFon and the products and services provided by MegaFon can be found at <http://www.megafon.ru>

### Disclaimer/ Forward Looking Statements

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

Certain statements and/or other information included in this document may not be historical facts and may constitute "forward looking statements" within the meaning of Section 27A of the U.S. Securities Act of 1933 and Section 2(1)(e) of the U.S. Securities Exchange Act of 1934, as amended. The words "believe", "expect", "anticipate", "intend", "estimate", "plans", "forecast", "project", "will", "may", "should" and similar expressions may identify forward looking statements but are not the exclusive means of identifying such statements. Forward looking statements include statements concerning our plans, expectations, projections, objectives, targets, goals, strategies, future events, future revenues, operations or performance, capital expenditures, financing needs, our plans or intentions relating to the expansion or contraction of our business as well as specific acquisitions and dispositions, our competitive strengths and weaknesses, the risks we face in our business and our response to them, our plans or goals relating to forecasted production, reserves, financial position and future operations and development, our business strategy and the trends we anticipate in the industry and the political, economic, social and legal environment in which we operate, and other information that is not historical information, together with the assumptions underlying these forward looking statements. By their very nature, forward looking statements involve inherent risks, uncertainties and other important factors that could cause our actual results, performance or achievements to be materially different from results, performance or achievements expressed or implied by such forward-looking statements. Such forward-looking statements are based on numerous assumptions regarding our present and future business strategies and the political, economic, social and legal environment in which we will operate in the future. We do not make any representation, warranty or prediction that the results anticipated by such forward-looking statements will be achieved, and such forward-looking statements represent, in each case, only one of many possible scenarios and should not be viewed as the most likely or standard scenario. We expressly disclaim any obligation or undertaking to update any forward-looking statements to reflect actual results, changes in assumptions or in any other factors affecting such statements.

## Schedule 1: Definitions

**Wireless Subscriber** is defined as each SIM card that is activated in our billing system or has had at least one chargeable traffic event (that is, use of voice, VAS or data transfer services) within the preceding three months, whether chargeable to the subscriber or to a third party (for example, interconnection charges payable by other operators). Where an individual person holds more than one SIM card, each SIM card is included as a separate subscriber.

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

**ARPDU (Average Monthly Revenue Per Data Services User)** is calculated for a given period by dividing the Company's data services revenues for a given period by the average number of its data services users during that period, and further dividing the result by the number of months in that period.

**DSU (Monthly Average Data Services Usage per User)** is calculated by dividing the total number of megabytes transferred by our network during a given period by the average number of data services users during such period and dividing the result by the number of months in such period.

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

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

**EPS (Earnings per Share)** means an amount of the Company's profit allocated to one share of its stock, and is calculated by dividing Net Profit for a reporting period by the weighted average number of shares outstanding during the period. No earnings are allocated to treasury shares.

**Diluted EPS** is calculated by adjusting both numerator and denominator in the EPS calculation so as to reflect the effect of including the additional shares that would have been outstanding if all options and other rights to acquire shares had been converted into actual shares.

**Capital Expenditures (CAPEX)** comprises the cost of purchases of new equipment, new construction, acquisition of new or upgrades to software and other intangible assets, and purchases of other long-term assets, together with related costs incurred prior to the intended use of the applicable assets, all accounted for as of the earliest time of payment or delivery. Long-term assets obtained through business combinations are not included in the calculation of capital expenditures.

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

**Net debt position** means the difference between (a) cash, cash equivalents, and principal amount of deposits and (b) principal amount of loans and borrowings less unamortised debt issuance fees. It is a financial measure which should be considered as supplementary but not as an alternative to the information provided in the Company's financial statements. The Company believes that this metric provides useful information as to the liquidity position of the Company after debt repayments. A description of how the metric is calculated is provided in Schedule 2.

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

### OIBDA (In millions of Rubles)

	Q2 2014	Q3 2014	Q4 2014	Q1 2015	Q2 2015
Operating profit	20,170	23,346	19,911	17,946	20,762
Depreciation	11,809	11,852	11,853	12,134	11,981
Amortisation	1,972	1,865	1,944	1,800	1,845
Loss from disposal of long-lived assets	347	200	748	84	149
<b>OIBDA</b>	<b>34,298</b>	<b>37,263</b>	<b>34,456</b>	<b>31,964</b>	<b>34,737</b>

### OIBDA Margin as percentage of Revenue

	Q2 2014	Q3 2014	Q4 2014	Q1 2015	Q2 2015
Operating profit	26.3%	28.8%	24.2%	24.3%	27.3%
Depreciation	15.4%	14.6%	14.4%	16.4%	15.7%
Amortisation	2.6%	2.3%	2.4%	2.4%	2.4%
Loss on disposal of non-current assets	0.4%	0.3%	0.9%	0.1%	0.2%
<b>OIBDA margin</b>	<b>44.7%</b>	<b>46.0%</b>	<b>41.9%</b>	<b>43.2%</b>	<b>45.6%</b>

### Net debt (In millions of Rubles)

	30 Jun 2014	30 Sep 2014	31 Dec 2014	31 Mar 2015	30 Jun 2015
Cash and cash equivalents	47,038	23,358	22,223	38,394	61,965
Bank deposits (principal amount)	3,012	11,880	47,916	44,697	14,930
Loans and borrowings (principal amount), less unamortised fees and discounts	(168,860)	(175,521)	(206,314)	(212,154)	(190,503)
<b>Net debt</b>	<b>(118,810)</b>	<b>(140,283)</b>	<b>(136,175)</b>	<b>(129,063)</b>	<b>(113,608)</b>

## Free cash flow (In millions of Rubles)

	Q2 2014	Q3 2014	Q4 2014	Q1 2015	Q2 2015
Net cash flows from operating activities	21,729	35,980	30,595	18,570	26,746
Purchase of property, equipment and intangible assets	(11,984)	(13,472)	(17,245)	(10,196)	(11,750)
Proceeds from sale of property and equipment	76	44	181	83	103
Interest paid	4,473	2,899	3,825	3,289	4,246
<b>Free cash flow</b>	<b>14,294</b>	<b>25,451</b>	<b>17,356</b>	<b>11,746</b>	<b>19,345</b>