



# MEGAFON

The Future Depends on You

## Financial results for the first quarter 2013

Investor and Analyst Call, 15 May 2013

Mr. Ivan Tavrin, Chief Executive Officer  
Mr. Gevork Vermishyan, Chief Financial Officer  
Mr. Dmitry Kononov, Director for IR and M&A

# Disclaimer

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# Agenda

**1 Corporate and Financial Highlights**

**Ivan Tavrin, CEO**

**2 Financial and Operating Results**

**Gevork Vermishyan, CFO**

**3 Outlook for 2013**

**Gevork Vermishyan, CFO**

**4 Appendix**

# Q1 2013 – MegaFon delivers strong financial results

## Q1 2013 highlights:

- **Continued implementation of our strategy delivers strong financial results**
  - Focus on operating efficiency and cost control
  - Leadership in mobile data and 4G
    - Continued roll-out of LTE network: 81 towns reached by end of Q1, covering 29 regions and 26% of population
    - Completion of technical preparations for launch of 4G for smartphones<sup>(1)</sup>
  - Strengthening MegaFon’s retail position
    - New dealership agreement with Euroset
- **Board recommends attractive dividend** of RUR 64.51<sup>(2)</sup> per 1 ordinary share or per 1 GDR, amounting to RUR 40Bn in total, subject to approval by the Annual General Meeting of Shareholders (“AGM”) on 28 June 2013
- **Secured attractive financing source**
  - Bond Series 06 and 07 totaling RUR 20Bn placed in March to improve debt profile and fulfill refinancing targets
- **Enhanced corporate governance and reporting**
  - New Board of Directors was elected in March. The minority shareholders now represent the majority of the Board
  - Converted to IFRS to provide more consistency with Russian and International peers and align the Company with global trend of convergence of US GAAP into IFRS and the Russian government initiative to move national reporting standards closer to IFRS

*All financial results provided in this presentation are stated on consolidated IFRS basis unless otherwise mentioned*

Note:

1. 4G service for smartphones launched in April 2013
2. Dividends attributable to four consecutive quarters (from Q2 2012 to Q1 2013).

# Q1 2013 Financial and Operational Highlights

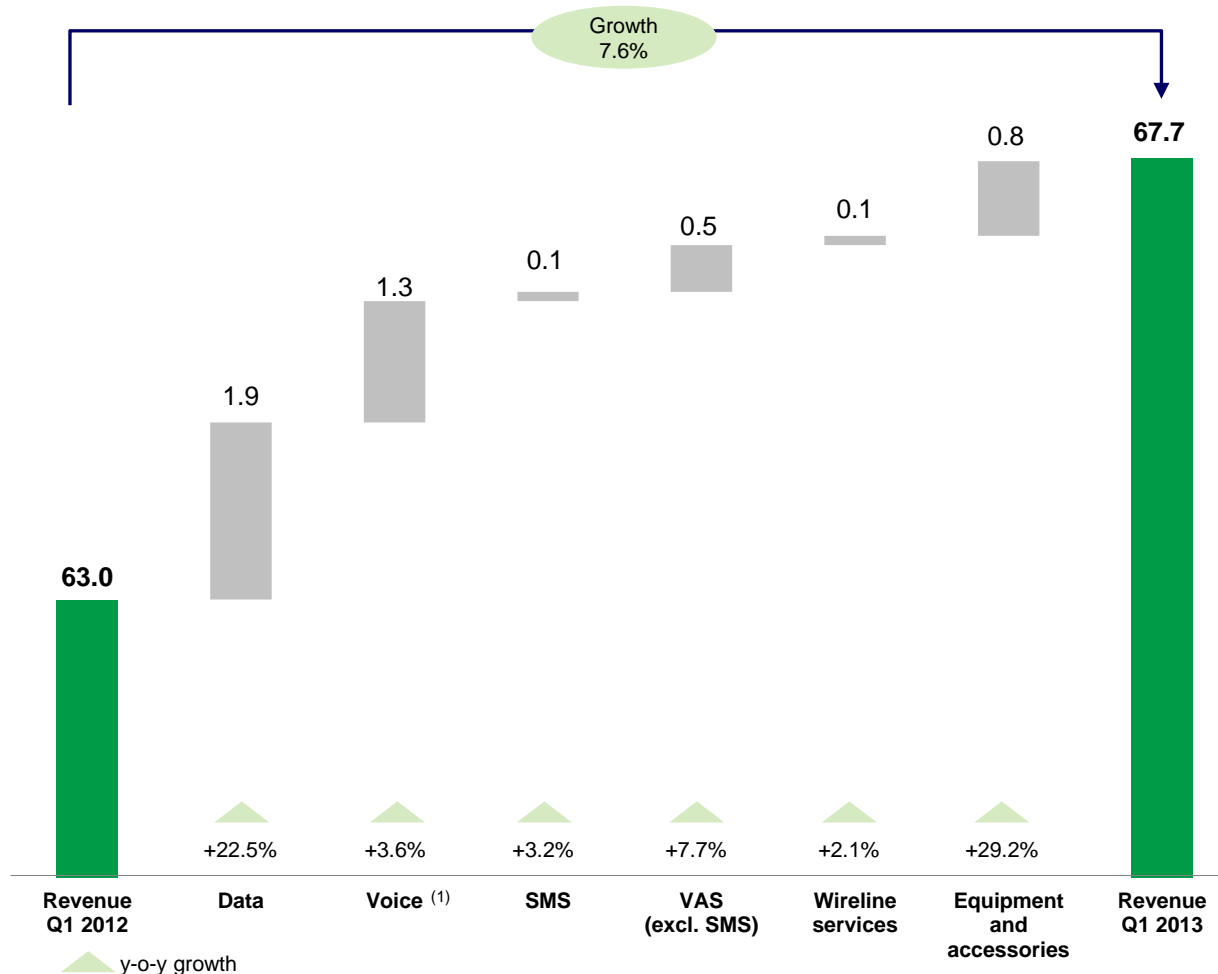
- **Consolidated revenue of RUR 67.7Bn** (up by 7.6% y-o-y)
  - All business lines have demonstrated positive growth
- **Consolidated OIBDA of RUR 32.4Bn** (up 26.8% y-o-y) **and OIBDA margin of 47.8%** (up 7.2 p.p. y-o-y)
  - OIBDA growth is primarily driven by a combination of increasing revenues and continued focus on efficiency improvement and cost control
- **Net profit of RUR 12.6Bn** (up 36.5% y-o-y) **and Net profit margin of 18.7%** (up 4.0 p.p. y-o-y)
  - Solid Net profit growth reflects strong uplift in Operating profit in Q1 2013 vs. Q1 2012
- **The number of mobile subscribers as of 31 March 2013 was 64.8 million<sup>(1)</sup>** (up 2.8% y-o-y)
  - Subscriber base continued to grow supported by on-going expansion of our network and improvement in our customer service quality

*All financial results provided in this presentation are stated on consolidated IFRS basis unless otherwise mentioned*

# Strong momentum in mobile data revenue growth continues

## Consolidated revenue growth bridge

RUR Bn



- Strong consolidated revenues growth of 7.6% y-o-y
- The strong momentum in mobile data growth seen in previous quarters continued into Q1 2013 with revenues increasing by 22.5% y-o-y
- Voice continued general trend of 2012 as the second largest growth driver in monetary terms in Q1 2013
  - Voice revenues increased by 3.6%<sup>(1)</sup> generating an additional RUR 1.3Bn
- Sales of equipment and accessories also showed substantial growth rates representing the third largest contribution to total revenue growth in Q1 2013

# Continued 4G rollout strengthening leadership in mobile data

## Towns covered by LTE/4G

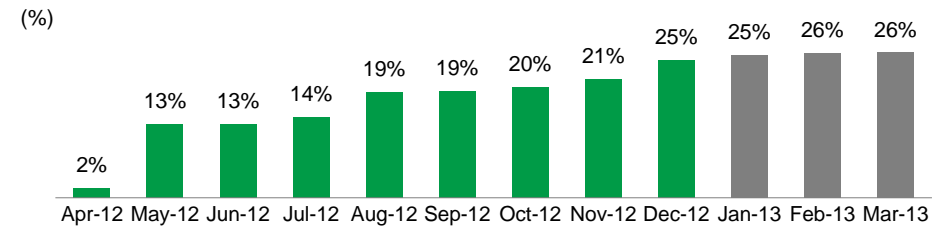


● LTE/4G on air

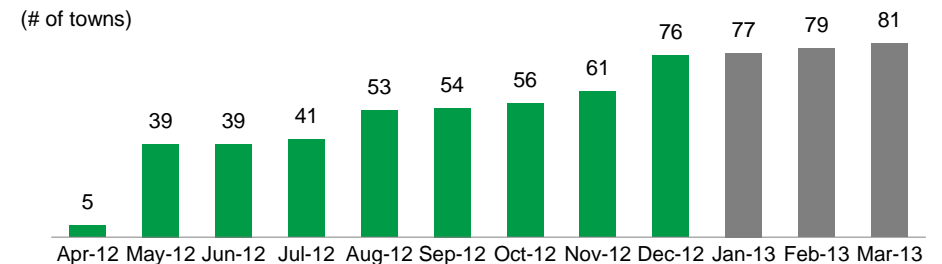
- Our leading position in 4G among major operators in Russia was strengthened further with the continued roll-out of 4G services, reaching 81 towns and cities in 29 regions of Russia by the end of Q1 2013 covering 26% of the population
  - By the end of 2013, we plan to cover at least 8 regions in line with our own 4G license requirements: Kostroma, Mordovia, Vladimir, Ryazan, Kaluga, Bryansk, Orel, Kursk regions
- c. 35% of MegaFon subscriber base is currently using data services (including 3G and 4G)
- MegaFon's 4G subscribers reached c.150k by the end of Q1 2013
  - By the end of 2013, we expect to have up to 1 million of 4G subscribers



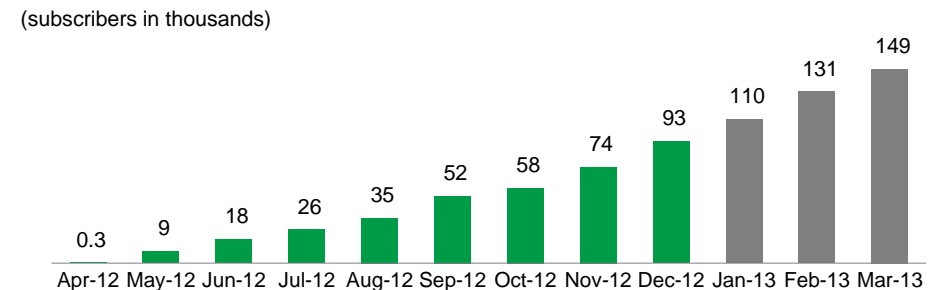
## % of population covered by LTE/4G



## Number of towns covered by LTE/4G



## Number of MegaFon's 4G subscribers



# Attractive dividends recommended



**On the back of strong financial performance in 2012 and Q1 2013...**



**...with growing Net Profit and Free Cash Flows for 2012 and Q1 2013**



**...in line with highly attractive dividend policy**

**MegaFon Board of Directors recommended a dividend of RUR 64.51 per 1 GDR (or per 1 ordinary share) for FY 2012 and Q1 2013\*, subject to AGM approval**

\*for the period of four consecutive quarters from Q2 2012 to Q1 2013



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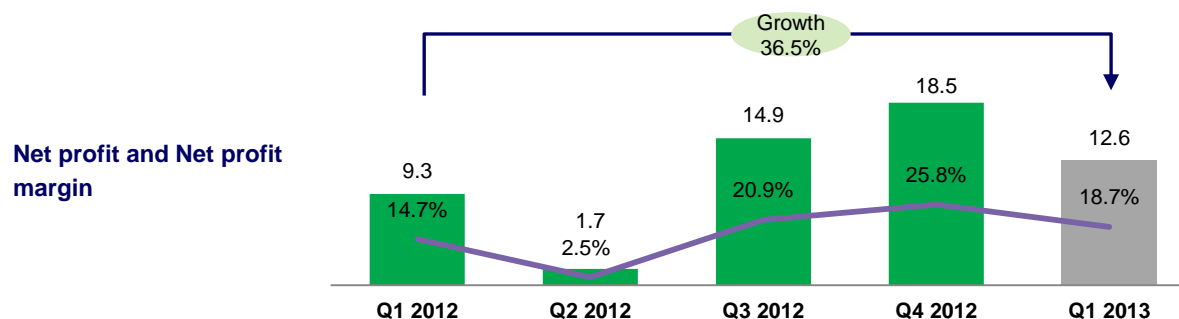
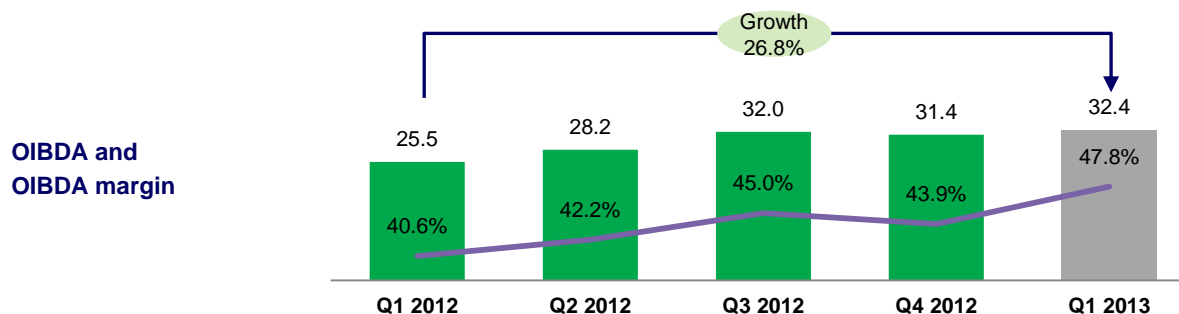
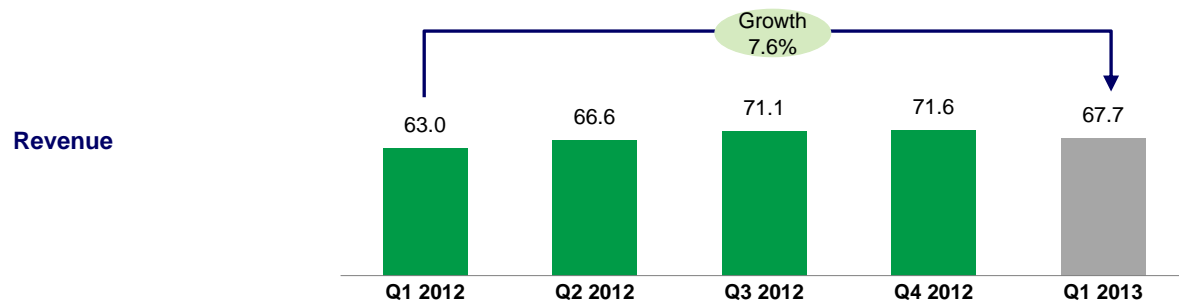
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**4 Appendix**

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# Financial highlights: Strong revenue growth and significant margin expansion

## Revenue, OIBDA and Net profit



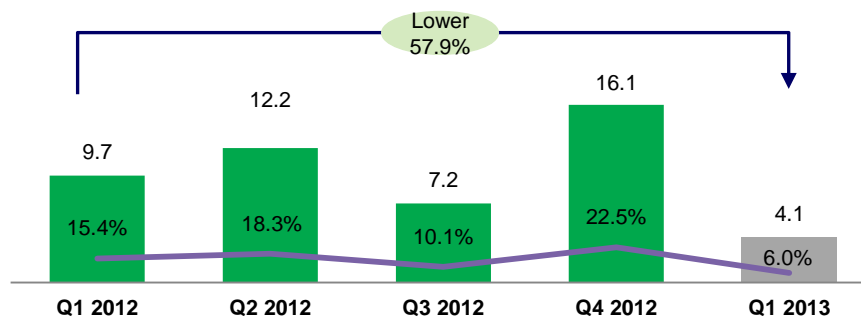
- We continued to focus on our core business in Russia, which resulted in strong 7.6% topline growth y-o-y, driven by an increase in wireless services revenue
- Our continuous focus on operating efficiency initiatives together with strong revenues growth resulted in an OIBDA margin of 47.8% (+7.2pp y-o-y)
- Net profit in Q1 2013 grew 36.5% y-o-y driven by strong growth of operating income outweighing higher interest expense

## Financial highlights:

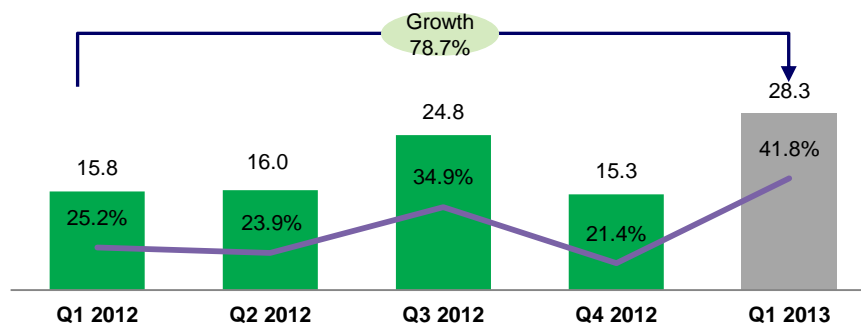
## Cash flow growth driven by high margins and lower CAPEX

## CAPEX, OIBDA-CAPEX, Free Cash Flow

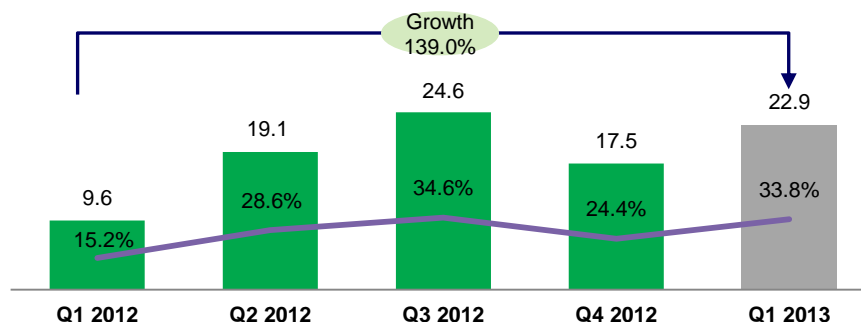
## CAPEX



## OIBDA-CAPEX



## Free Cash Flows

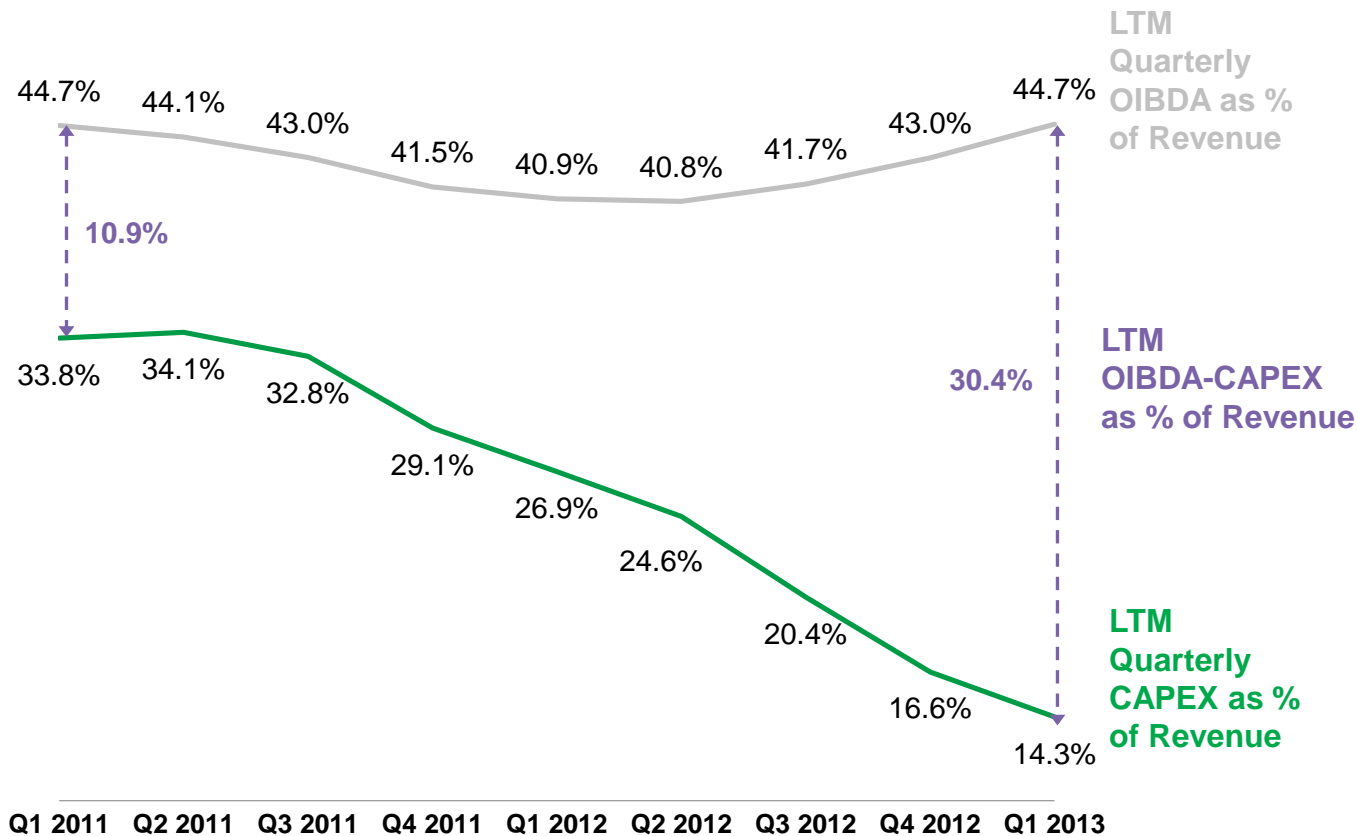


■ 2012 data, RUR Bn    ■ Q1 2013 data, RUR Bn    — % of Revenue

- CAPEX for Q1 2013 amounted to RUR 4.1Bn
- OIBDA-CAPEX increased by 78.7% in Q1 2013 y-o-y
- Free Cash Flows grew by 139.0% in Q1 2013 primarily driven by an increase in cash flow from operating activities and lower CAPEX

# Growing cashflow continues to be supported by Cost and CAPEX optimisation

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



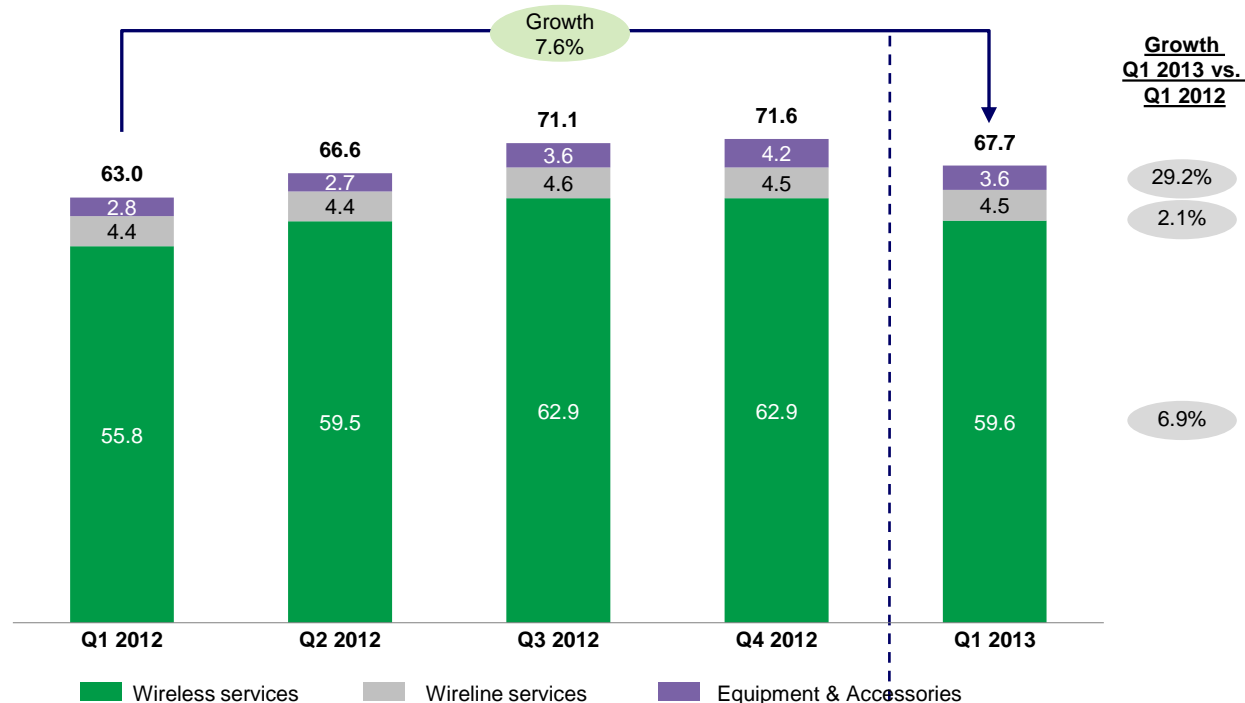
- Continuous implementation of the “smart growth” strategy has resulted in further profitability growth and stronger cash flow generation
  - Strong cash flow generation in Q1 2013 due to growing OIBDA margin and lower CAPEX as % of Revenue
  - In absolute terms cash conversion from revenues<sup>(1)</sup> in Q1 2013 has increased by RUR 12.5Bn since Q1 2012

Note: Due to rounding, manual calculations for financials and KPIs may differ from those displayed  
 1. Q1'2013 OIBDA-CAPEX minus Q1'2012 OIBDA-CAPEX.

# Breakdown of consolidated revenue

## Wireless services, Wireline services and Equipment & Accessories revenues

RUR Bn



### Revenue mix (%)

	Q1 2012	Q2 2012	Q3 2012	Q4 2012	Q1 2013
Wireless services <sup>(1)</sup>	88.6%	89.3%	88.5%	87.8%	88.0%
Wireline services	7.0%	6.6%	6.4%	6.3%	6.7%
Equipment & accessories	4.4%	4.1%	5.1%	5.9%	5.3%

- Consolidated revenue grew by 7.6% in Q1 2013 driven by data revenue expansion, an increase in subscriber base, strong demand for airtime and sales of equipment and accessories
- Sales of equipment and accessories increased by 29.2% primarily due to a growth in the number of own retail stores, as well as discontinued subsidies for 3G USB modems and increase in sales of MegaFon's customized equipment through franchisees channels in Q1 2013

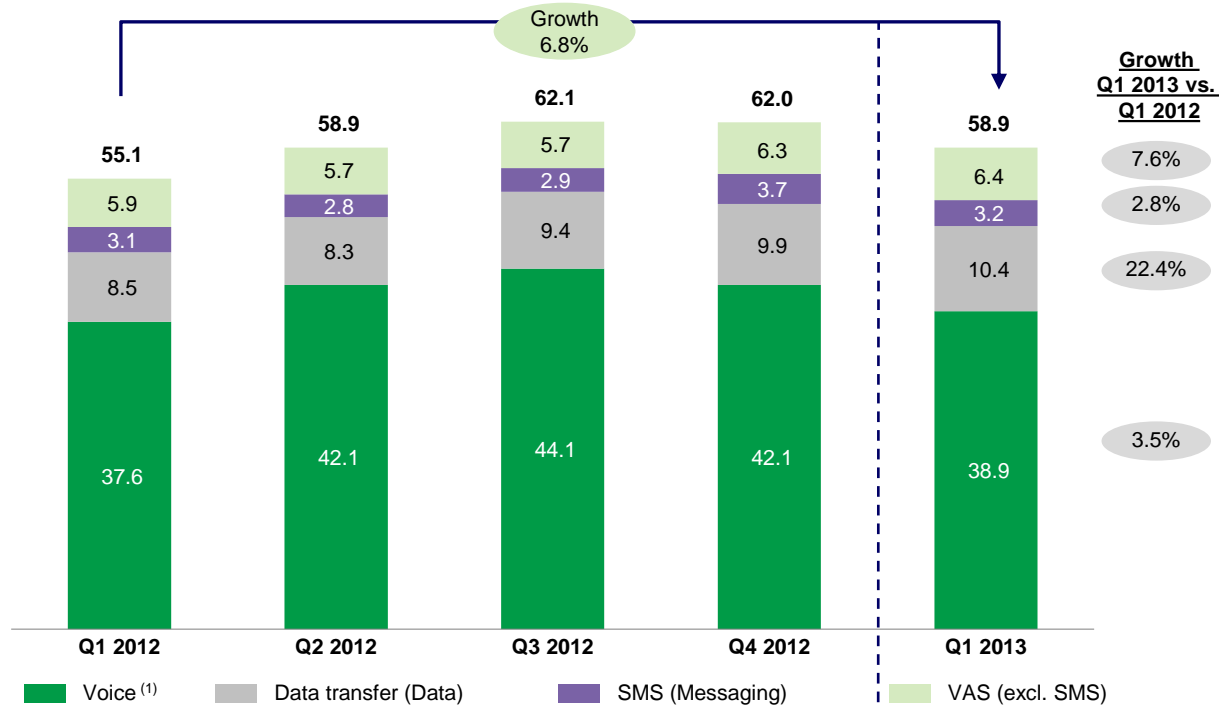
Note: Due to rounding, manual calculations for financials and KPIs may differ from those displayed

1. Wireless services revenue includes monthly fees, airtime revenues, own subscriber roaming, connection fees, data revenue, value added service ("VAS") revenue, wireless interconnection revenues, roaming charges to other wireless operators and other wireless services revenues

# Breakdown of Russia wireless services revenues

## Voice, Data, SMS and other VAS revenues in Russia

RUR Bn



Results provided on this page cover only the Russian business

- Russia wireless services revenue grew by 6.8% in Q1 2013 to RUR 58.9Bn, exceeding the growth in subscriber base (+1.7% y-o-y)
- The strong momentum in mobile data growth seen in previous quarters continued into Q1 2013 with revenues increasing by 22.4% y-o-y and comprising almost 17.7% of total Russian wireless services revenues (vs. 15.4% in Q1 2012)
- Revenue from VAS (excluding SMS) increased by 7.6% y-o-y in Q1 2013 primarily due to increased usage of content and other VAS services

### Revenue mix (%)

	Q1 2012	Q2 2012	Q3 2012	Q4 2012	Q1 2013
Voice (1)	68.3%	71.4%	71.0%	67.9%	66.2%
Data transfer (Data)	15.4%	14.1%	15.1%	16.0%	17.7%
SMS (Messaging)	5.6%	4.8%	4.7%	6.0%	5.4%
VAS (excl. SMS)	10.7%	9.7%	9.2%	10.1%	10.7%

# Drivers of Russia total wireless services revenues: wireless subscribers

## Total Russia wireless subscribers including breakdown of data service users

(m)

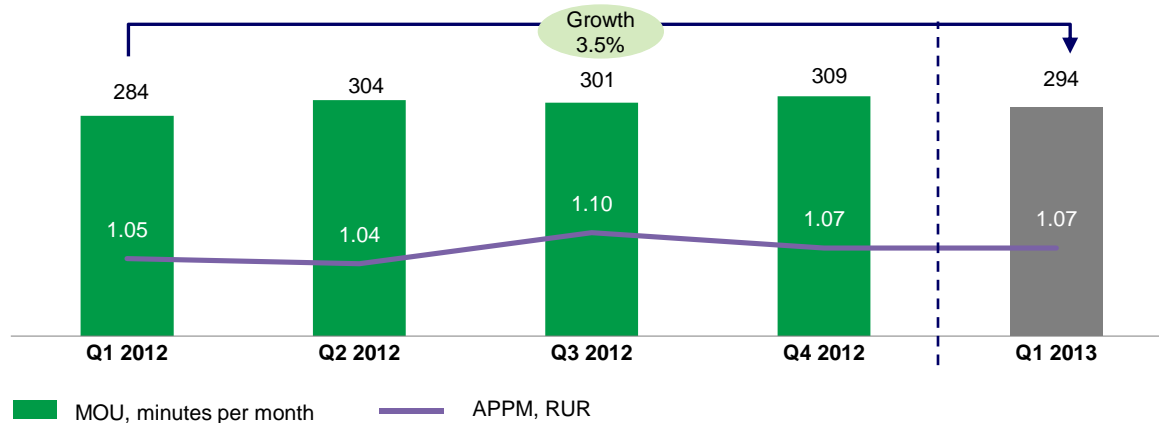


*Results provided on this page cover only the Russian business*

- Our subscriber base continued to grow in Q1 supported by the ongoing expansion of our network and improvement in our customer service quality
  - Despite increasing market saturation, the number of our wireless subscribers in Russia grew by 1.7% y-o-y, reaching 62.7 MM as of 31 March 2013
- Strong Q1 y-o-y growth of data subscriber base of 12.6%
  - Wireless data services users accounted for 35.0% of the Company's total subscriber base as at 31 March 2013 vs. 31.6% as at 31 March 2012
- We expect our wireless data subscribers to continue to grow with increasing smartphone penetration and availability of LTE/4G

# Drivers of Russia total wireless services revenues: MoU and APPM

## Blended MOU (1) & Blended APPM (2)



Results provided on this page cover only the Russian business

- Blended MOU increased by 10 minutes in Q1 2013 y-o-y primarily due to the launch of new regional tariffs aimed at stimulating traffic between users on our network
- Blended APPM increased by 1.9% in Q1 2013 vs. Q1 2012 and remained at the same level as in Q4 2012
- Blended ARPU grew by 5.4% in Q1 2013 vs. Q1 2012 primarily driven by increased usage of VAS and data traffic by our subscribers

## Blended ARPU (3)



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

1. 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

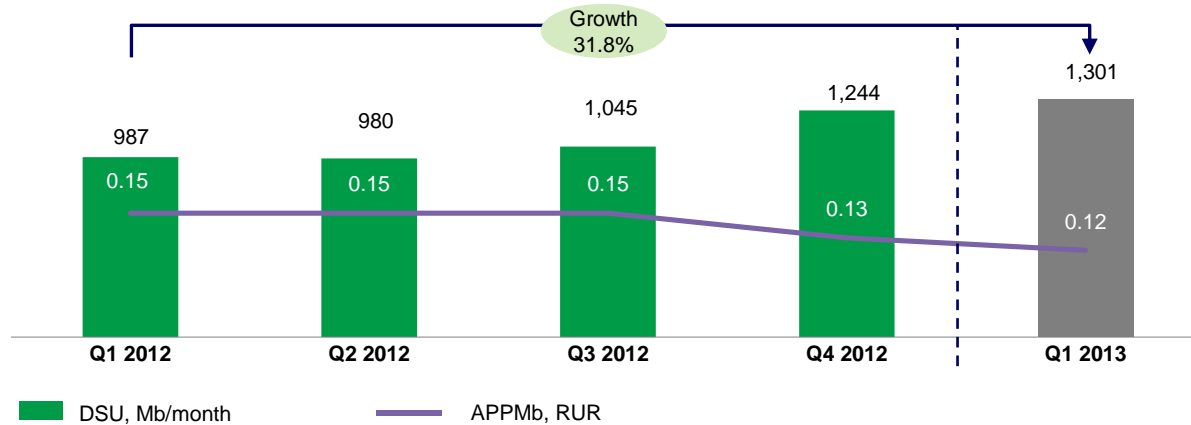
2. ARPU for a given period divided by MOU in such period

3. Total wireless services 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

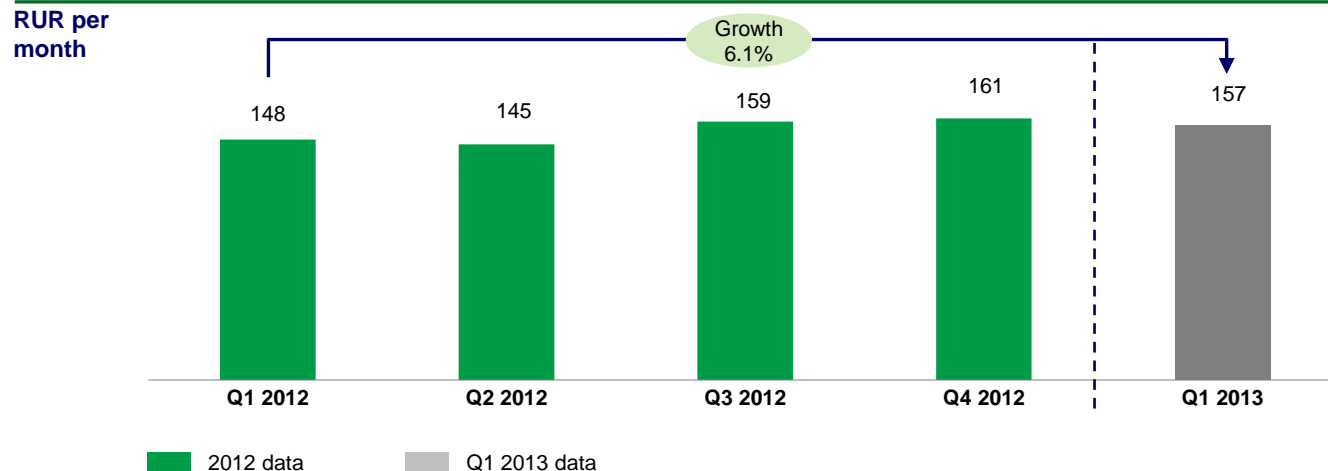
## DSU <sup>(1)</sup> & APPMb <sup>(2)</sup>



Results provided on this page cover only the Russian business

- DSU growth was driven by an increase in demand for data services, expansion in capacity and coverage of our 3G / 4G networks, as well as tariff initiatives, designed to stimulate demand for data transfer services
  - DSU increased by 314 Mb or by 31.8% y-o-y
- ARPDU growth resulted from (i) an increase in data usage by our subscribers and (ii) an increase in smartphone penetration

## Data ARPU (ARPDU <sup>(3)</sup>)



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

1. 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

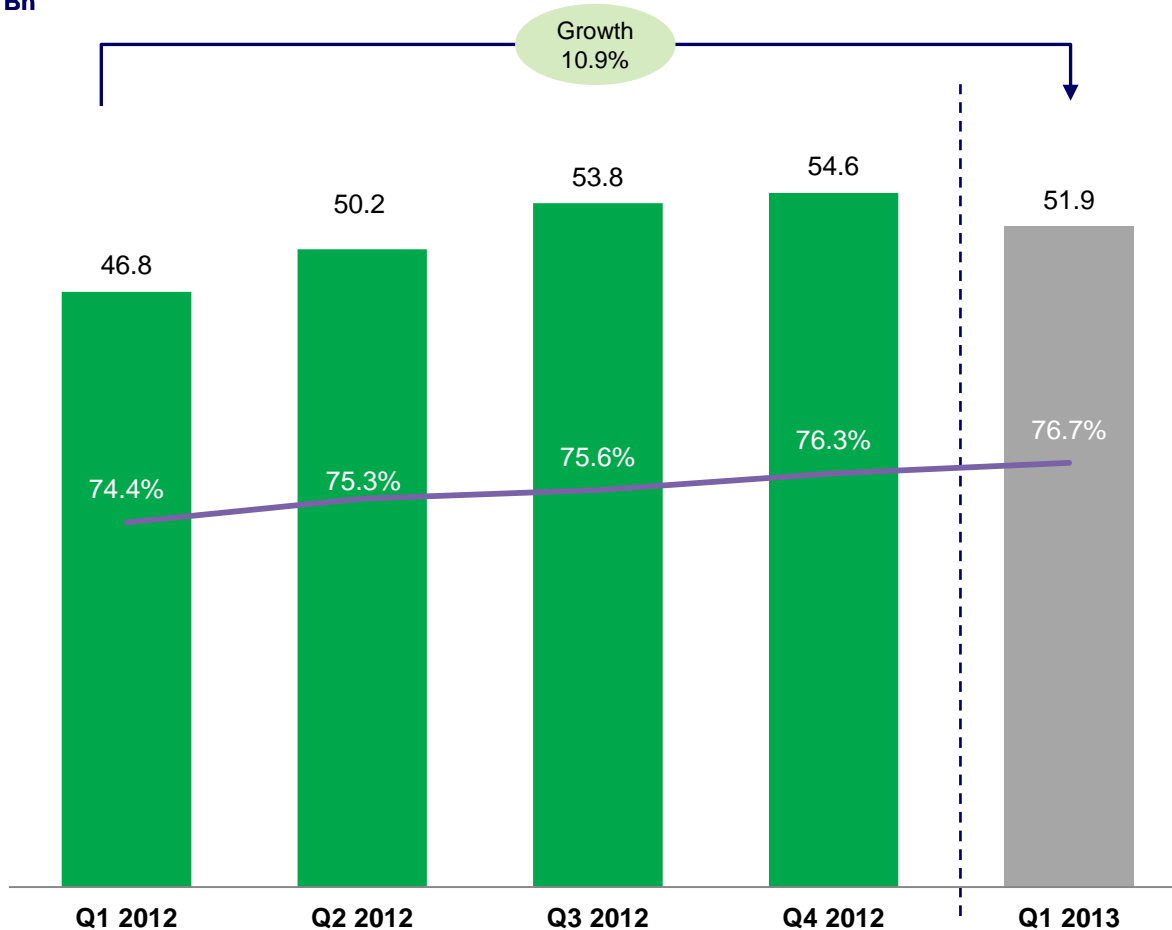
2. ARPDU for a given period divided by DSU in such period

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

# Solid Gross profit and Gross profit margin improvement

## Gross Profit<sup>(1)</sup> and Gross Profit margin

RUR Bn



- In line with our strategy focused on operating efficiency, cost control and returns for shareholders we achieved significant improvement in Gross Profit margin in Q1 2013
- Gross profit grew by 10.9% in Q1 2013 y-o-y (exceeding the 7.6% y-o-y growth in Revenue) as a result of:
  - Positive effect from VAS Media acquisition
  - Decline in the cost of services by 6.0% y-o-y mainly driven by stimulating on-net traffic and lower interconnection fees
  - Improved gross profit margins on sales of equipment and accessories

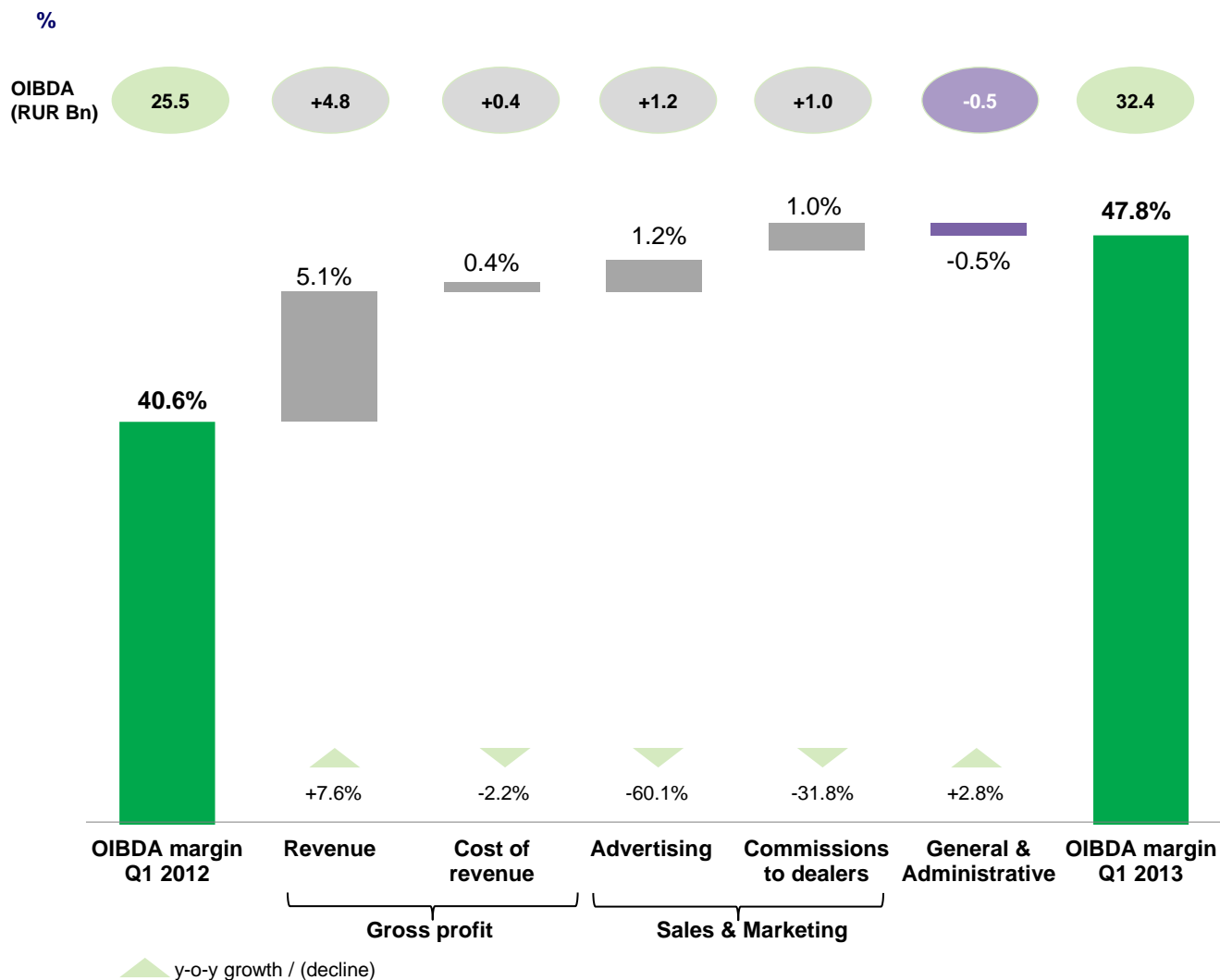
■ 2012 data

■ Q1 2013 data

— % of Revenue

# Key drivers of strong OIBDA margin improvement

## Key factors influencing significant OIBDA margin improvement y-o-y

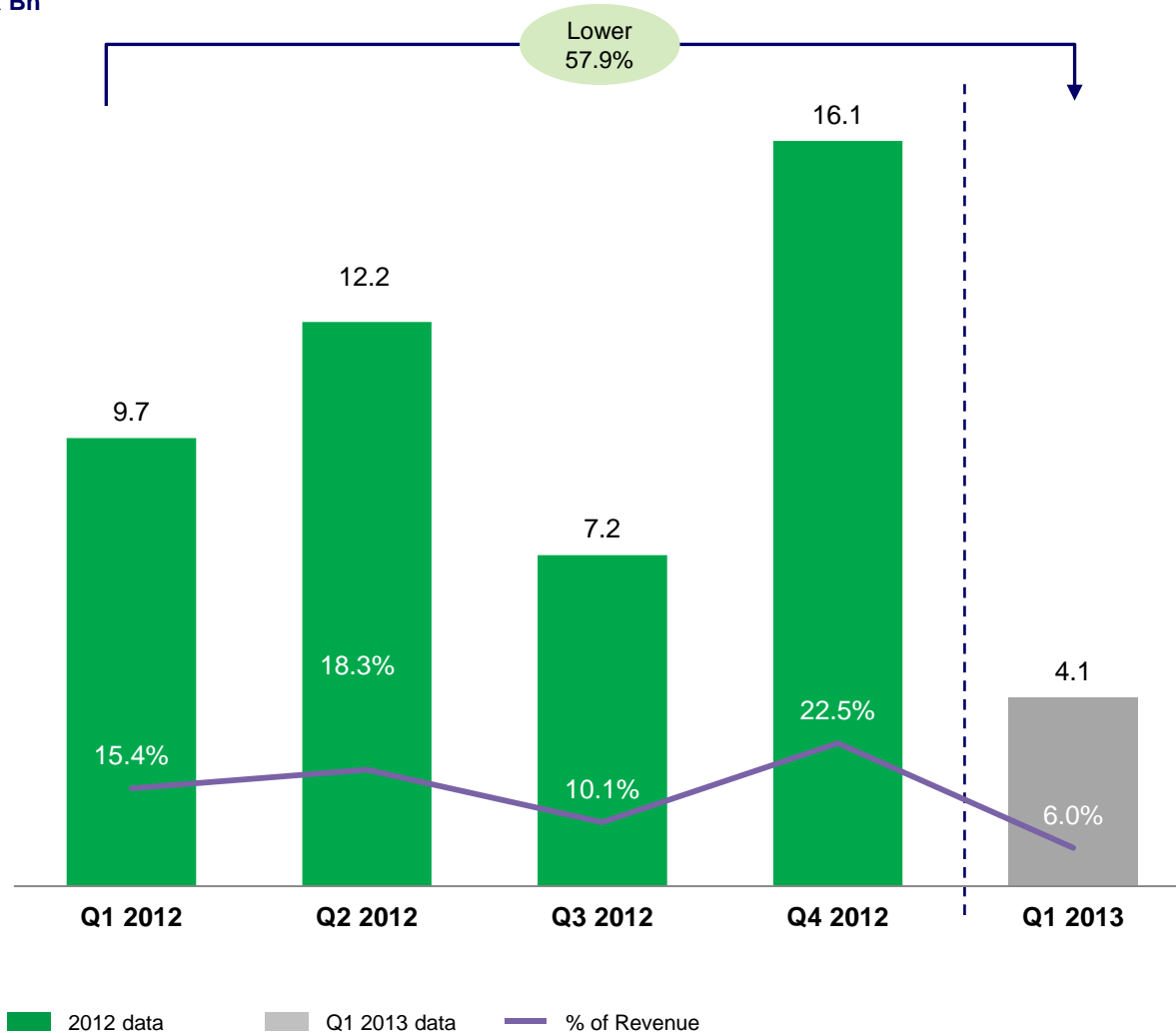


- OIBDA grew by 26.8% in Q1 2013 y-o-y (from RUR 25.5Bn to RUR 32.4Bn) and OIBDA margin grew by 7.2pp (from 40.6% to 47.8%) as a result of solid revenue growth and rationalisation of operating expenses
- Significant reduction in sales and marketing expenses by 42.8% y-o-y is attributable to:
  - Switch to revenue sharing scheme with dealers for connecting new subscribers
  - Rationalisation of advertising expenses
- Marginal growth in G&A was driven mainly by salaries, rent and utilities and operating taxes

# Consolidated CAPEX

## CAPEX and CAPEX as % of Revenue <sup>(1)</sup>

RUR Bn



- CAPEX for Q1 2013 amounted to RUR 4.1Bn
- Our relatively low CAPEX in Q1 2013 was due to a combination of several factors:
  - As part of our plan to reduce our CAPEX following a prolonged period of significant investment, we are currently finalizing tenders for 2G, 3G and 4G network rollout and modernization with international vendors that would allow us to optimize our medium term investment programme and achieve significant savings. The contract is expected to be signed in Q2 2013
  - Additionally, prolonged severe winter weather in most parts of Russia limited network construction in certain regions and resulted in the postponement of our CAPEX plans for Q1 2013

# Consolidated balance sheet and leverage

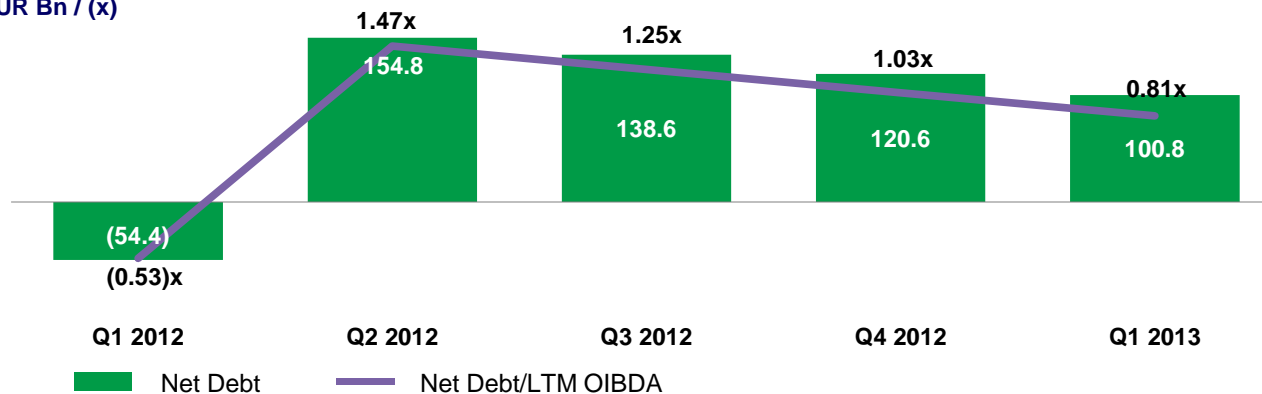
## Key Balance Sheet Items

RUR Bn

Balance sheet	As at 31 Dec 2012	As at 31 Mar 2013
Cash and cash equivalents	2.4	3.1
Short-term investments	22.2	41.0
<b>Total debt</b>	<b>145.2</b>	<b>144.9</b>
Long-term debt	126.5	137.0
Short-term debt	19.9	9.0
Deferred financial cost	(1.2)	(1.1)
<b>Net debt <sup>(1)</sup></b>	<b>120.6</b>	<b>100.8</b>
Shareholders' equity	117.4	130.4
<b>Total assets</b>	<b>351.4</b>	<b>363.1</b>

## Net debt and Net debt / LTM OIBDA <sup>(1)</sup>

RUR Bn / (x)



- Further reduction of leverage primarily due to strong cash flow generation in Q1 2013
  - Net Debt / LTM OIBDA ratio was 0.81x in 1Q 2013 compared to 1.03x in 4Q 2012

# Debt profile

## Debt portfolio structure

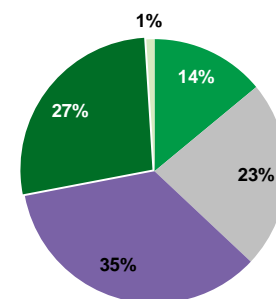
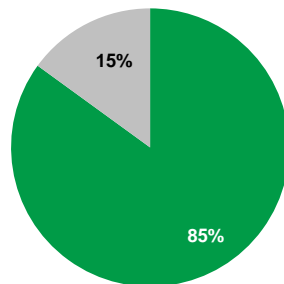
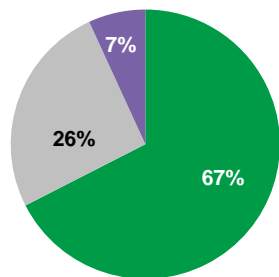
% of Total

By instrument

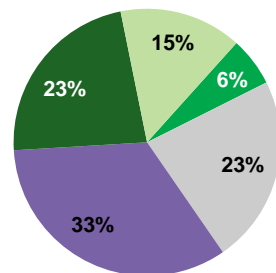
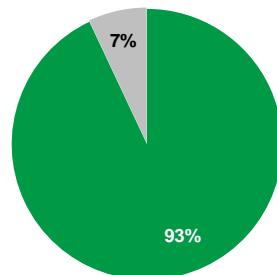
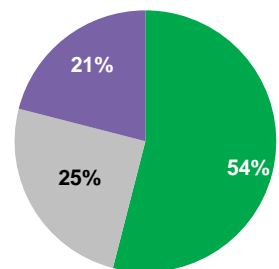
By rate type

By maturity

31-Dec-2012



31-Mar-2013



■ Bonds ■ Bank Loans  
■ Equipment financing

■ Fixed ■ Floating

■ 1 year ■ 2 years  
■ 3 years ■ 4 years  
■ 5 years and longer

- Most of 2013 refinancing needs were covered by placement of Series 06 and 07 ruble bonds for RUR 20Bn leading to:
  - Diversification of the lending base and financing instruments
  - Extension of average debt maturity by c.0.4 year
  - Reduction of the portion of debt with floating rates and locking-up an attractive cost of borrowing
  - No 12-month refinancing risk
- Over 70% of the portfolio is RUR denominated
  - A natural hedge against currency fluctuations
  - Foreign-currency (USD and EUR) denominated loans are linked to purchases of equipment and offset with cash deposits in the same currencies

# Agenda

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- |          |   |                               |
|----------|---|-------------------------------|
| <b>1</b> | <b>Corporate and Financial Highlights</b> | <b>Ivan Tavrin, CEO</b>       |
| <b>2</b> | <b>Financial and Operating Results</b>    | <b>Gevork Vermishyan, CFO</b> |
| <b>3</b> | <b>Outlook for 2013</b>                   | <b>Gevork Vermishyan, CFO</b> |
| <b>4</b> | <b>Appendix</b>                           |                               |
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# Outlook for 2013

## Revenue growth

- High single digit revenue growth

✓ Reiterated

## OIBDA margin

- 42.5-44.0%

✓ Revised upwards

## CAPEX

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

✓ Reiterated



# Agenda

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- |          |   |                               |
|----------|---|-------------------------------|
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| <b>3</b> | <b>Outlook for 2013</b>                   | <b>Gevork Vermishyan, CFO</b> |
| <b>4</b> | <b>Appendix</b>                           |                               |
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# Appendix

## Switch from US GAAP to IFRS reporting

- On May 8, 2013 we announced conversion of our reporting standards from US GAAP to IFRS to provide more consistency with Russian and International peers and align the Company with global trend of convergence of US GAAP into IFRS and the Russian government initiative to move national reporting standards closer to IFRS

### Summary of key differences in consolidated financials for FY 2012 according to US GAAP and IFRS

RUR Bn

	US GAAP 2012	IFRS 2012	Diff.	
Revenue	272.6	<b>272.3</b>	(0.3)	<ul style="list-style-type: none"> <li>Reflect the different treatment of the award credits granted to MegaFon Bonus (our loyalty programme) subscribers</li> <li>Under IFRS, they are required to be deferred until the unused award credits are redeemed or expire.</li> </ul>
OIBDA	117.4	<b>117.2</b>	(0.2)	
<i>OIBDA Margin</i>	<i>43.0%</i>	<b><i>43.0%</i></b>	-	<ul style="list-style-type: none"> <li>The difference is primarily due to the fact that under IFRS an IPO-related put option (agreed by our shareholders in April 2012) had to be revalued until its expiration, resulting in a nonmonetary gain of RUR 6.1Bn</li> </ul>
Net profit	38.3	<b>44.4</b>	6.1	
CAPEX	44.1	<b>45.2</b>	1.2	<ul style="list-style-type: none"> <li>The difference in accrued CAPEX is primarily due to the different method of calculating decommissioning provision in accordance with IFRS</li> <li>Cash CAPEX remained the same under IFRS and US GAAP</li> </ul>
CAPEX/Revenue	16.2%	<b>16.6%</b>	0.4 pp	
Net Debt	121.8	<b>120.6</b>	1.2	<ul style="list-style-type: none"> <li>The difference is due to Impact of reduced financial liabilities due to offsetting deferred issuance fees against loans payable under IFRS</li> </ul>

Note: For a more detailed reconciliation of the major differences between US GAAP and IFRS, please refer to Note 5 of the IFRS audited consolidated financial statements as of and for the year ended 31 December 2012 which, as noted above, are available for download on the Company's website at: <http://english.corp.megafon.ru/>

# Q&A

## **Contact Information:**

MegaFon Investor Relations  
IR@megafon.ru  
[www.megafon.com](http://www.megafon.com)