

Financial results for the first quarter 2014



Investor and Analyst Call, 29 May 2014

Mr. Ivan Tavrín, Chief Executive Officer

Mr. Mikhail Dubin, Executive Director, Consumer Business

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Mr. Dmitry Kononov, Director for IR and M&A

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1. Corporate and Financial Highlights

2. Financial and Operating Results

3. Outlook for 2014



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4G⁺

Corporate and Financial Highlights

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Olympics Quarter – sustained leadership in data



Key corporate events in Q1 2014

General Communications Partner for the Olympic and Paralympic Games in Sochi

- MegaFon lived up to its commitment to provide quality communications services during the XXII Winter Olympic and XI Paralympic Games in Sochi, investing in total over RUB 10Bn into the Olympic project

Undisputable 4G / LTE leadership in Russia

- MegaFon commercially launched the fastest mobile data network - LTE-Advanced. Our customers now have a unique opportunity to access record speed of mobile Internet of up to 300 Mbit/s
- A new brand name “4G+” has been developed specifically to promote mobile Internet from MegaFon
- MegaFon opened international 4G roaming

Superior customer satisfaction

- MegaFon customer satisfaction index in Q1 2014 was the highest among the Big 3 mobile operators in Russia⁽¹⁾

Agreement with Apple

- MegaFon and LLC Apple Rus (a Russian affiliate of Apple Computers Inc) signed a 3 year agreement for the distribution of various iPhone models

Recommendation of final dividends for 2013

- On 29 April 2014, based on the results for 2013, MegaFon Board of Directors recommended attractive dividends in the total amount of RUB 40Bn⁽²⁾, equivalent to RUB 64.51 per ordinary share (or GDR), subject to approval by the Annual General Meeting of Shareholders on 30 June 2014
 - Total dividend payout for 2013 of RUB 46.4Bn⁽³⁾ (RUB 74.85 per share or GDR), including the Q1 2013 interim dividend previously paid in July 2013
 - Attractive dividend payout ratio for 2013 of c.90%⁽⁴⁾
- The Company will consider switching to semi-annual dividend payments onward if the anticipated growth and results remain on track

Debt portfolio optimisation

- On 20 May 2014, MegaFon placed 10-year⁽⁵⁾ exchange bonds in the amount of RUB 15Bn at an attractive coupon rate of 9.45% per annum

Upgrade of MegaFon listing on the Moscow Exchange

- On 25 April 2014, MegaFon's ordinary share listing on the Moscow Exchange (“MOEX”) was upgraded from quotation list “B” to “A2”, allowing broader range of investors, including Russian pension funds, to invest in our ordinary shares
 - This upgrade confirms MegaFon compliance with MOEX's highest corporate standards

All financial figures provided in this presentation are presented on consolidated IFRS basis unless otherwise stated.

Note:

(1) — According to the research conducted in Feb-Mar 2014 by the independent agency Ipsos

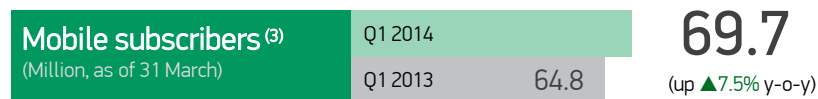
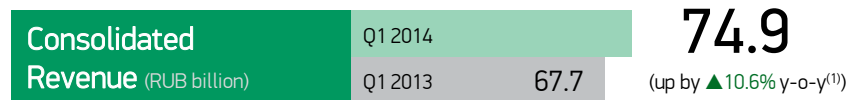
(2) — If approved, approximately RUB 3.0Bn of these dividends will have been paid to the MegaFon's (the “Comony”) wholly-owned subsidiary MegaFon Investments (Cyprus) Limited (“MICL”), which holds the Company's treasury shares

(3) — If approved, approximately RUB 3.6Bn of these dividends will have been paid to MICL, of which RUB 0.6Bn was paid July 2013 as a part of Q1 2013 interim dividends.

(4) — Total dividend for 2013 as a percentage of profit for the year attributable to equity holders of the Company in accordance with IFRS.

(5) — The coupon will be subject to re-set by the Company and the bonds will be puttable at the end of the first anniversary after the placement

Q1 2014 key financial and operational highlights



Key points

- In Q1 2014, all business revenue streams continued to demonstrate solid growth, resulting in 10.6% top-line growth y-o-y
 - Mobile data revenue was again the key growth driver, increasing by 45.2% y-o-y and representing 70.4% of total revenue uplift in monetary terms
- OIBDA remained stable, while OIBDA margin decreased by 4.4p.p. mostly due to a growing share of lower-margin sales of handsets and accessories, increase in advertising expenses related to the Olympics and growth of general and administrative expenses, such as rent and utilities and radio frequency fees, primarily attributable to Scartel consolidation since Q4 2013
- Net profit and net profit margin shrank largely due to unrealized negative foreign exchange effect related to revaluation of our dollar-nominated liabilities
- In Q1 2014, CAPEX more than doubled compared to Q1 2013 and reached RUB 8.4Bn
- Subscriber base showed strong growth due to continuous focus on subscriber acquisition in the priority regions and Scartel acquisition in Q4 2013

All financial figures provided in this presentation are presented on consolidated IFRS basis unless otherwise stated

Note:

(1) — Year over year ("y-o-y") stands for the same periods in the current and previous year, either on an annual or on a quarterly basis

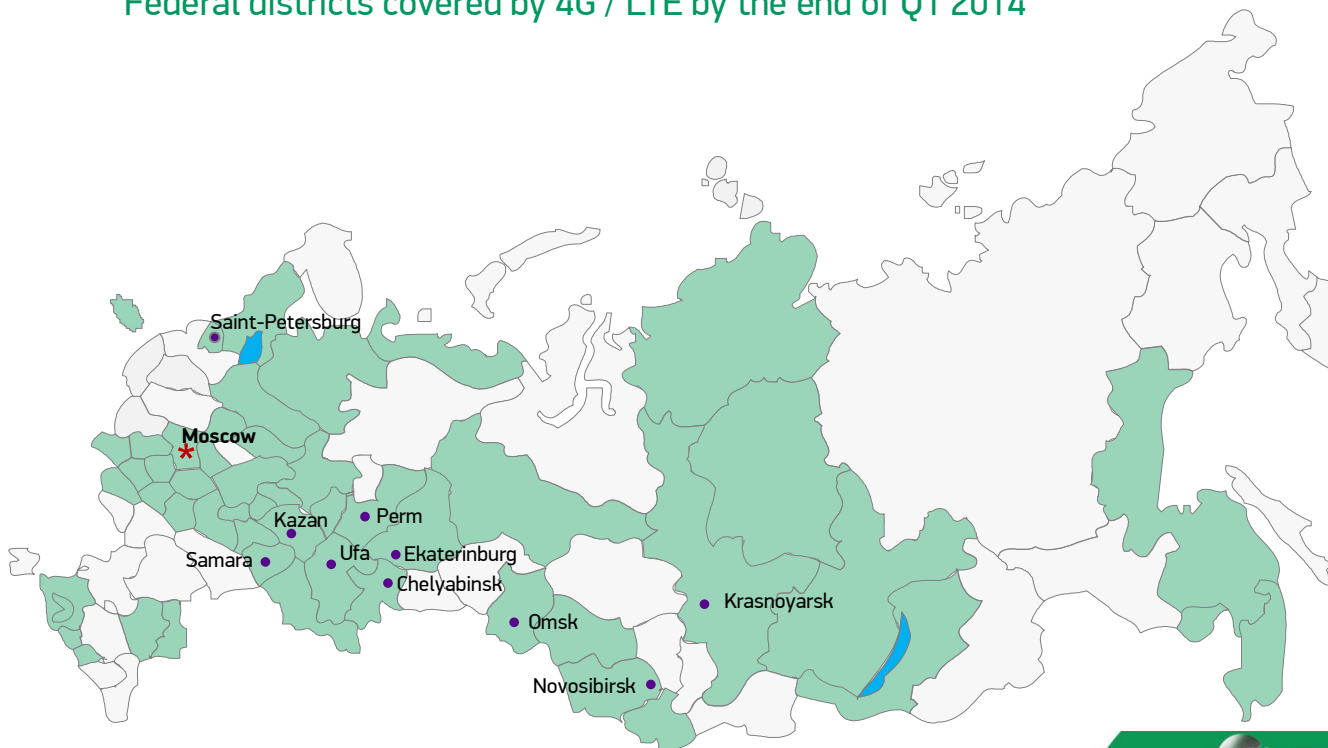
(2) — Profit for the year attributable to equity holders of the Company.

(3) — Data includes subscribers of the Company in Russia and 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

Further 4G / LTE rollout - the key factor driving data revenue growth



Federal districts covered by 4G / LTE by the end of Q1 2014



Key statistics of 4G / LTE coverage

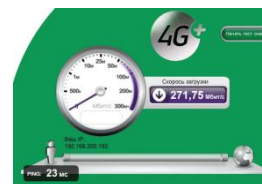
As of 31 Mar 2014

Population covered by 4G	53.4MM
% of total population in Russia	37.3% ⁽¹⁾
# of federal districts covered	50
# of cities and towns covered	200
# of 4G subscribers	1.9MM
4G traffic in Q1 2014	36.7% of total traffic

Launch of LTE-Advanced

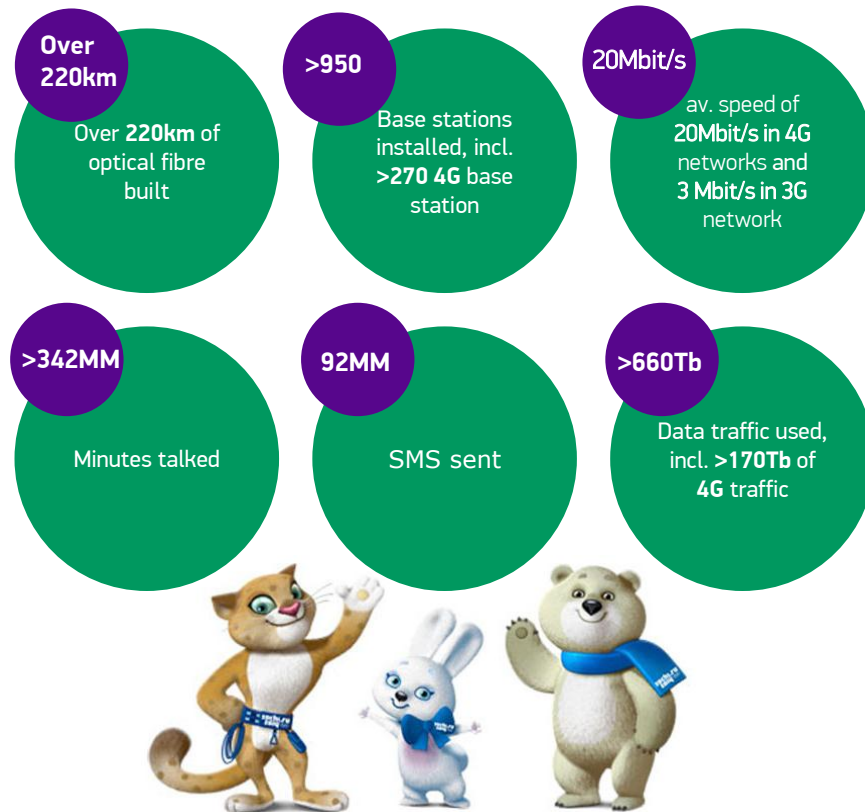


- In February 2014, MegaFon commercially launched the **fastest mobile data network - LTE-Advanced** – the newest standard of mobile Internet services
- A new brand name **4G+**, has been developed specifically to promote MegaFon mobile Internet – the fastest mobile Internet in Russia
- MegaFon can now provide its customers with record speed of up to **300 Mbit/s**, allowing to download **1.5Gb file for less than 1 minute**
 - During the Olympics we have registered the fastest speed of **271.75 Mbit/s**



MegaFon cemented its leadership in data during the XXII Winter Olympic Games and XI Paralympic Games in Sochi

- **Superior MegaFon network performance** provided great communication service quality and highest data speeds to all our subscribers and visitors of the Games
- **1st Olympics with 4G technology** - 15% of guests were using 4G-enabled devices at the Opening Ceremony
- **Record amount of minutes talked** (over 342MM), **messages sent** (92MM) and **data traffic used** (over 660Tb) by MegaFon subscribers and visitors from over 70 counties
- **Over 2MM downloads** of MegaFon-developed mobile applications, including c.600ths of **"SMOTRI+"** online broadcasting applications. "SMOTRI+" users watched the competitions downloading over 700Tb of traffic
- MegaFon was **ranked #1** in the "Top-of-the-mind" awareness of Olympics sponsorship
- The largest hospitality program was run by MegaFon



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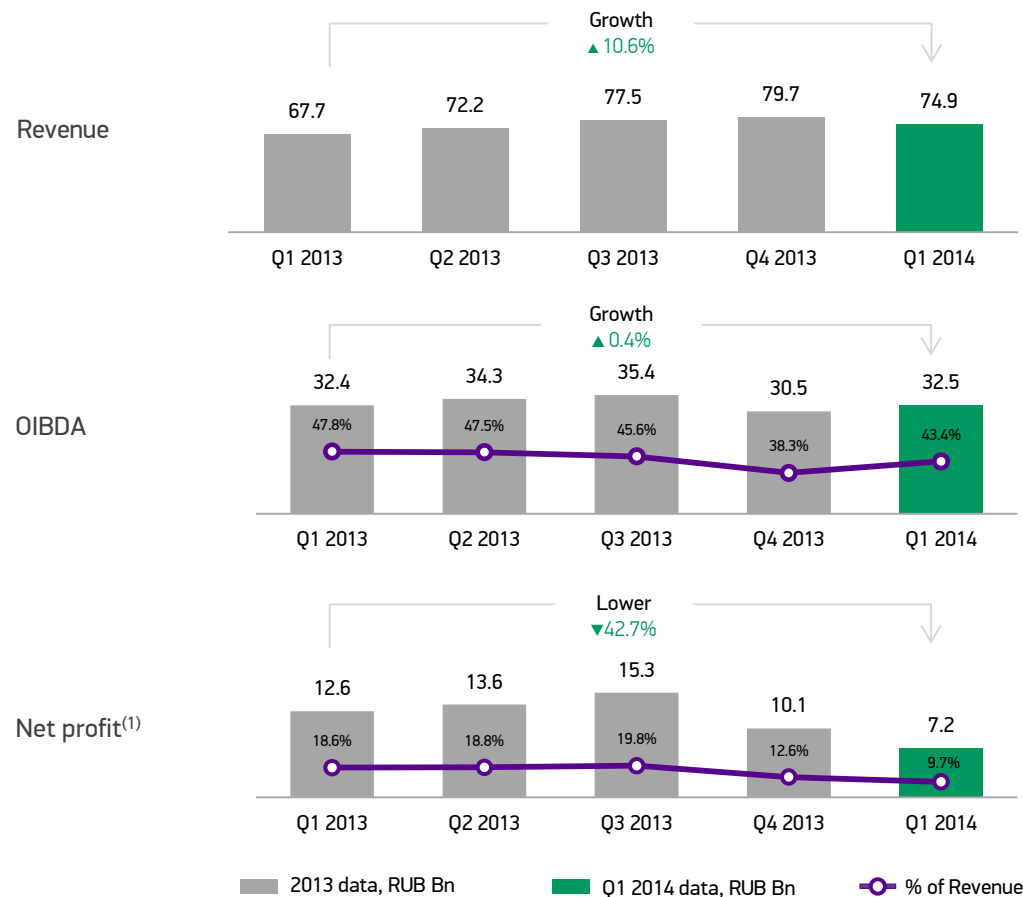


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Financial and Operating Results

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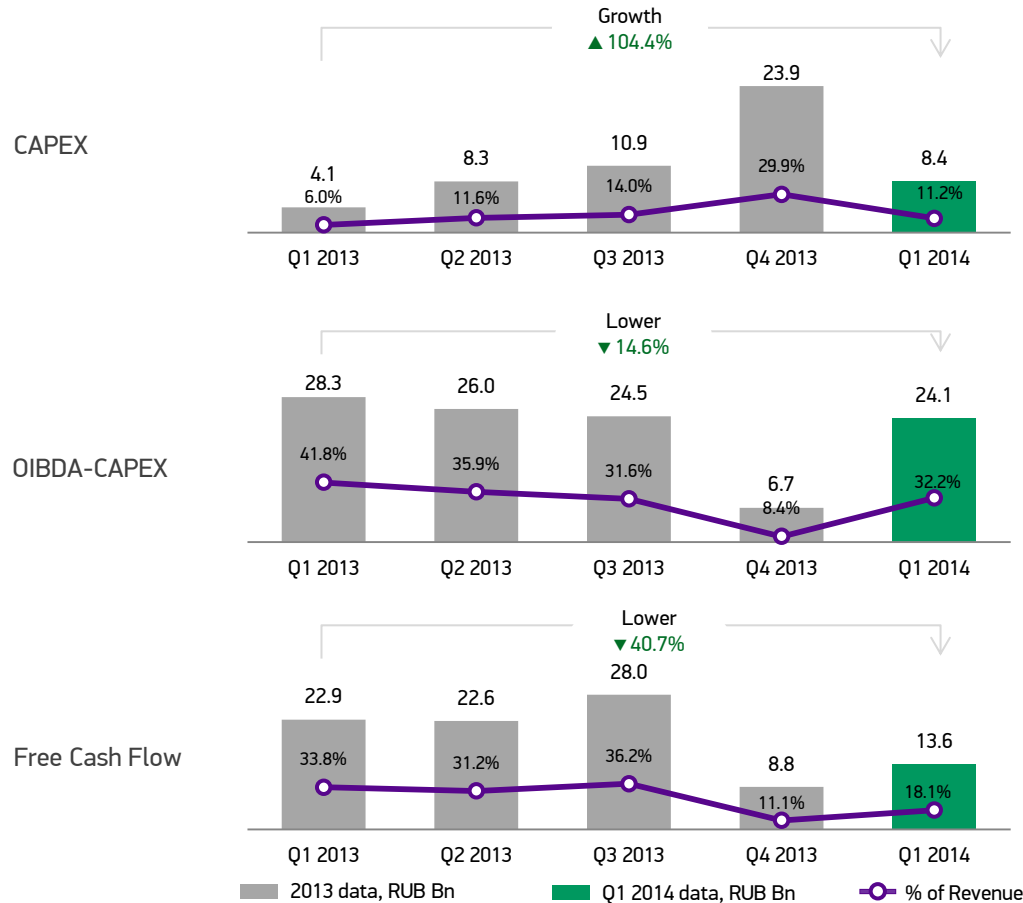
Key highlights: Strong Revenue growth and stable OIBDA



Revenue, OIBDA and Net profit

- In Q1 2014 MegaFon delivered solid financial results
- Revenue demonstrated strong growth of 10.6% y-o-y largely due to rapidly growing data revenue, VAS revenue increase, growth of sales of equipment and accessories and wireline services
- OIBDA remained stable in Q1 2014 at RUB 32.5Bn vs. RUB 32.4Bn in Q1 2013, while OIBDA margin declined by 4.4p.p. to 43.4% largely due to additional advertising expenses related to Sochi Olympics and Scartel consolidation since Q4 2013 with a lower OIBDA margin
- Q1 2014 net profit⁽¹⁾ decreased by 42.7% to RUB 7.2Bn largely due to unrealized negative foreign exchange effect of RUB 4.9Bn related to revaluation of our dollar-nominated liabilities and increased depreciation and amortisation from Scartel consolidation

Key highlights: Resilient Free Cash Flow generation, despite CAPEX growth



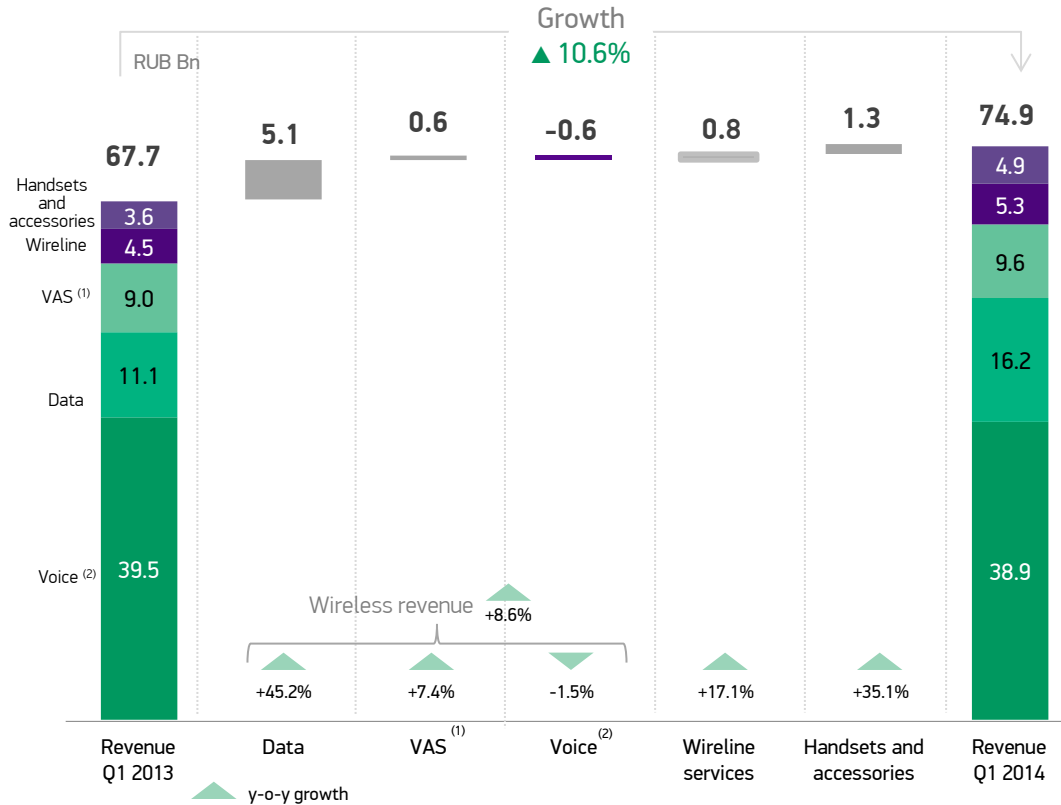
CAPEX⁽¹⁾, OIBDA-CAPEX, Free Cash Flow

- CAPEX grew by 104.4% to RUB 8.4Bn, compared to the lower base in Q1 2013. In Q1 2014, we continued our 4G network rollout and modernisation of 2G and 3G networks according to previously announced CAPEX plans for 2014
- OIBDA-CAPEX decreased by 14.6% y-o-y due to CAPEX increase in Q1 2014 vs. Q1 2013
- Free Cash Flow decreased by 40.7% y-o-y due to a slight decrease in cash flows from operating activities affected by Olympic-related expenses, as well as the higher CAPEX spending in Q1 2014

Strong momentum in mobile data revenue continues



Consolidated revenue demonstrated strong growth of 10.6% y-o-y in Q1 2014



- **Wireless revenue** grew by 8.6%, primarily driven by significant additions to the subscriber base of 7.5% y-o-y, reaching 69.7MM subscribers by the end of Q1 2014, and continued outperformance of our data revenue and VAS revenue
 - **Mobile data** was the key growth driver and represented 25.0% of the total wireless revenue in Q1 2014 (vs. 18.7% in Q1 2013), increasing by 45.2% y-o-y due to
 - active promotion of data services and growing popularity of heavier data-consuming products (i.e. mobile games, video), fueled by fast development of MegaFon 4G/LTE network
 - stimulation of sales of smartphones and tablets leading to higher data usage. In Q1 2014, share of data-enabled devices⁽³⁾ on MegaFon network reached 36.1%
 - Scartel acquisition in Q4 2013
 - **VAS revenue** grew by 7.4% y-o-y due to increase in consumption of high-margin content and financial services
 - **Voice revenue** decreased by 1.5% mostly due to our subscribers' shift to bundled tariffs and growing price competition in the bundled tariff plans
- **Wireline service revenues** increased by 17.1% y-o-y largely due to expansion of our B2G segment and launch of the high-speed data transit project "DREAM" (Diverse Route for European and Asian Markets) in Q3 2013
- **Sales of handsets and accessories** increased by 35.1% y-o-y, driven by stimulation of equipment sales through our controlled distribution channels and further expansion of affordable MegaFon branded devices

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

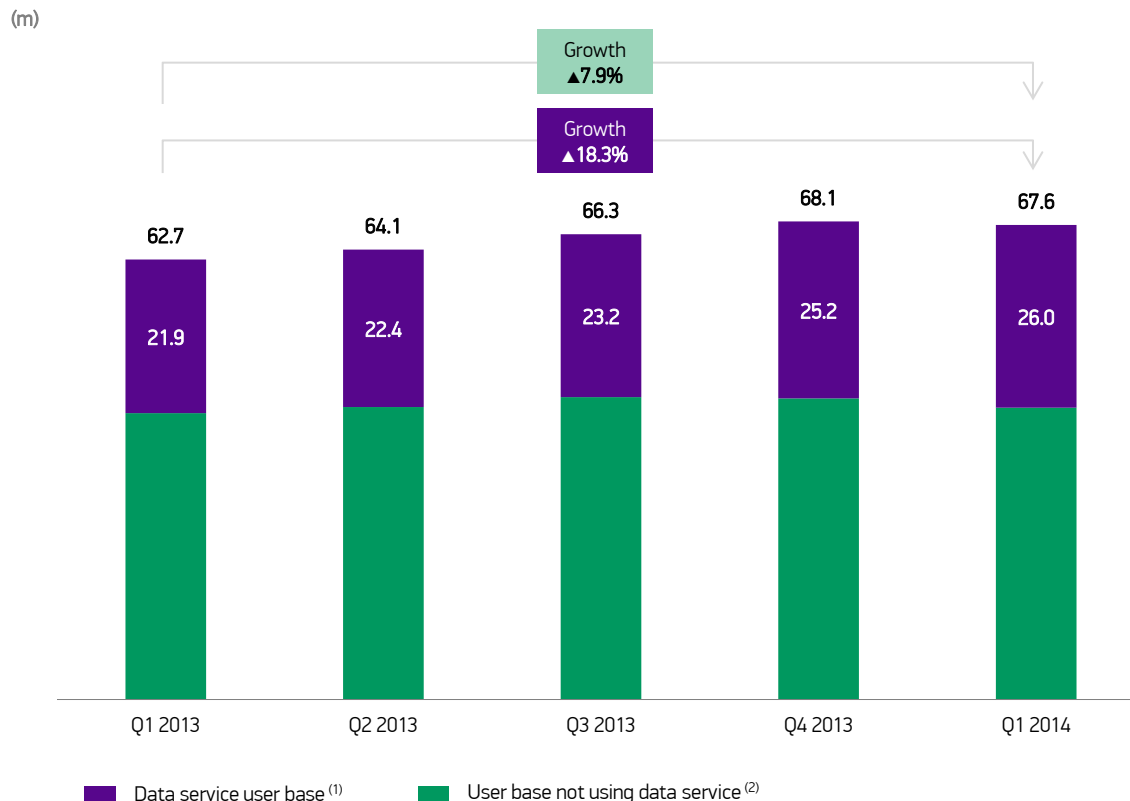
Note:

- (1) — Whereas previously MegaFon broke out SMS and other Value Added Service ("VAS") statistics separately, in order to be comparable with its peers, MegaFon will henceforth combine SMS and other VAS under the single heading "VAS"
- (2) — 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
- (3) — Include smartphones, tablets, dongles and routers, and other data-enabled devices

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Drivers of Russia total wireless services revenues: Wireless subscribers

Results provided on this page cover only the Russian business



Total Russia wireless subscribers including data service users

- Further development of the “Customer satisfaction” programme focused on customer service improvement and continuous marketing activities in the area of subscriber acquisition resulted in strong growth of our subscriber base in Russia
 - MegaFon customer satisfaction index in Russia in Q1 2014 was the highest among Big 3⁽³⁾
- Data service user base grew by 18.3% y-o-y, much faster than the overall subscriber base growth, largely due to marketing campaigns focusing on promotion of data driven services and introduction of new mobile applications
 - Wireless data service users accounted for 38.4% of the Company’s total subscriber base as of 31 March 2014, which is 3.4p.p. higher than a year before

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

(1) — Data Service User is defined as a Subscriber who has used any of our data transfer services within the preceding three months

(2) — Active subscribers that do not fall within the definition of Data Service User Base

(3) — According to the research conducted in Feb-Mar 2014 by independent agency Ipsos

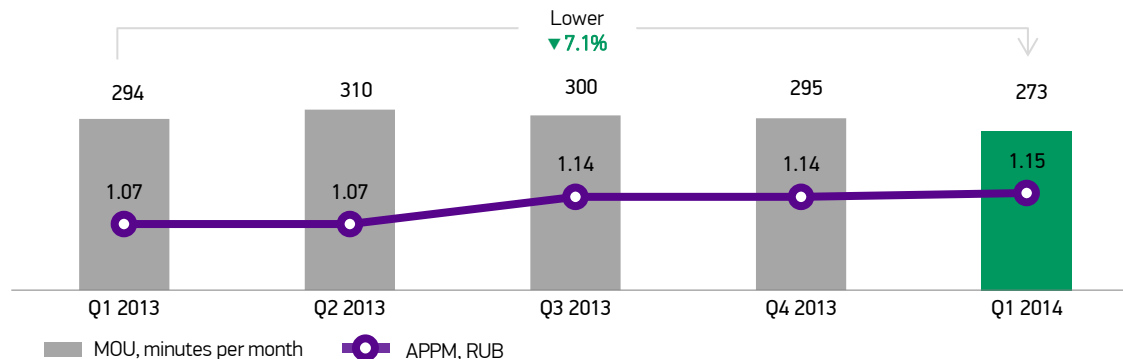
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Breakdown of Russia wireless services revenues: MOU and APPM

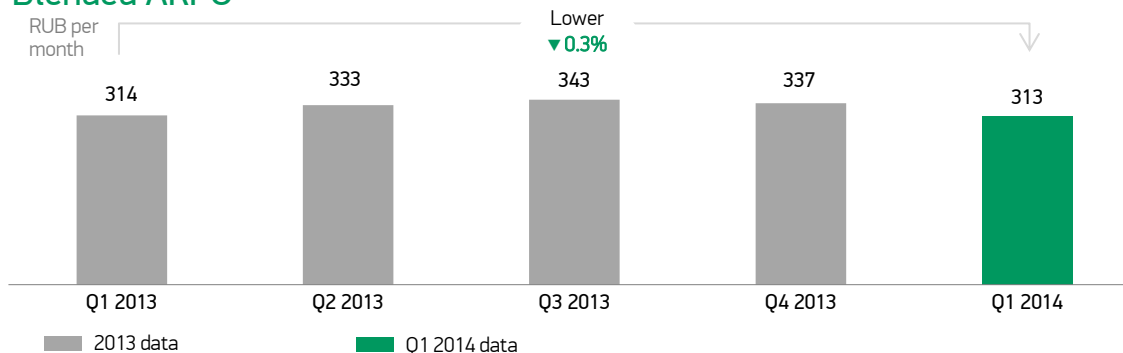
Results provided on this page cover only the Russian business



Blended MOU ⁽¹⁾ & Blended APPM ⁽²⁾



Blended ARPU ⁽³⁾



- While overall voice traffic grew by 0.9% y-o-y in Q1 2014, blended MOU decreased by 7.1% y-o-y in Q1 2014 largely due to a faster growth in the number of data service users (including addition of “pure” data users of Scartel) as a percentage of total number of subscribers used for MOU calculation
- Blended APPM increased by 7.5% y-o-y due to our continuous effort to promote special bundled tariffs
- Blended ARPU remained relatively intact, despite significant increase in the number of our data service users

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) — APPM for a given period divided by MOU in such period;

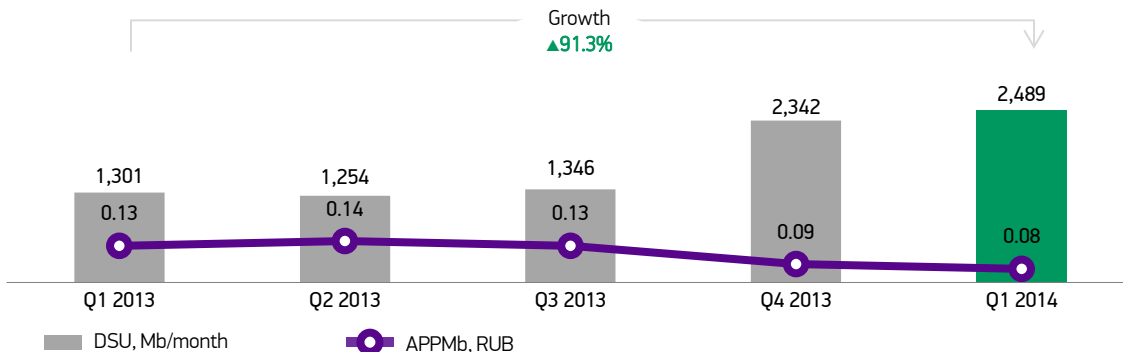
(3) — Total wireless services revenues (including interconnection and roaming charges but excluding connection revenues) for a given period divided by average number of wireless subscribers in such period, divided by number of months in such period

Breakdown of Russia wireless services revenues: DSU and APPMb

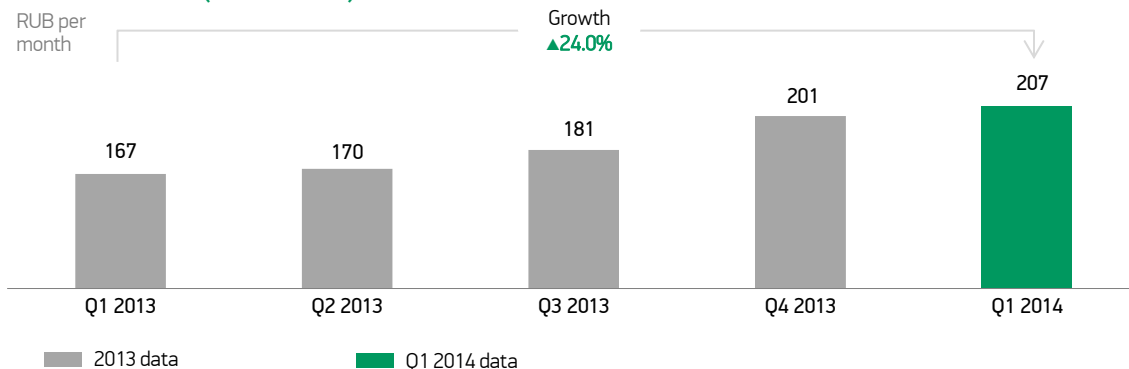
Results provided on this page cover only the Russian business



DSU⁽¹⁾ & APPMb⁽²⁾



DATA ARPU (ARPDU⁽³⁾)



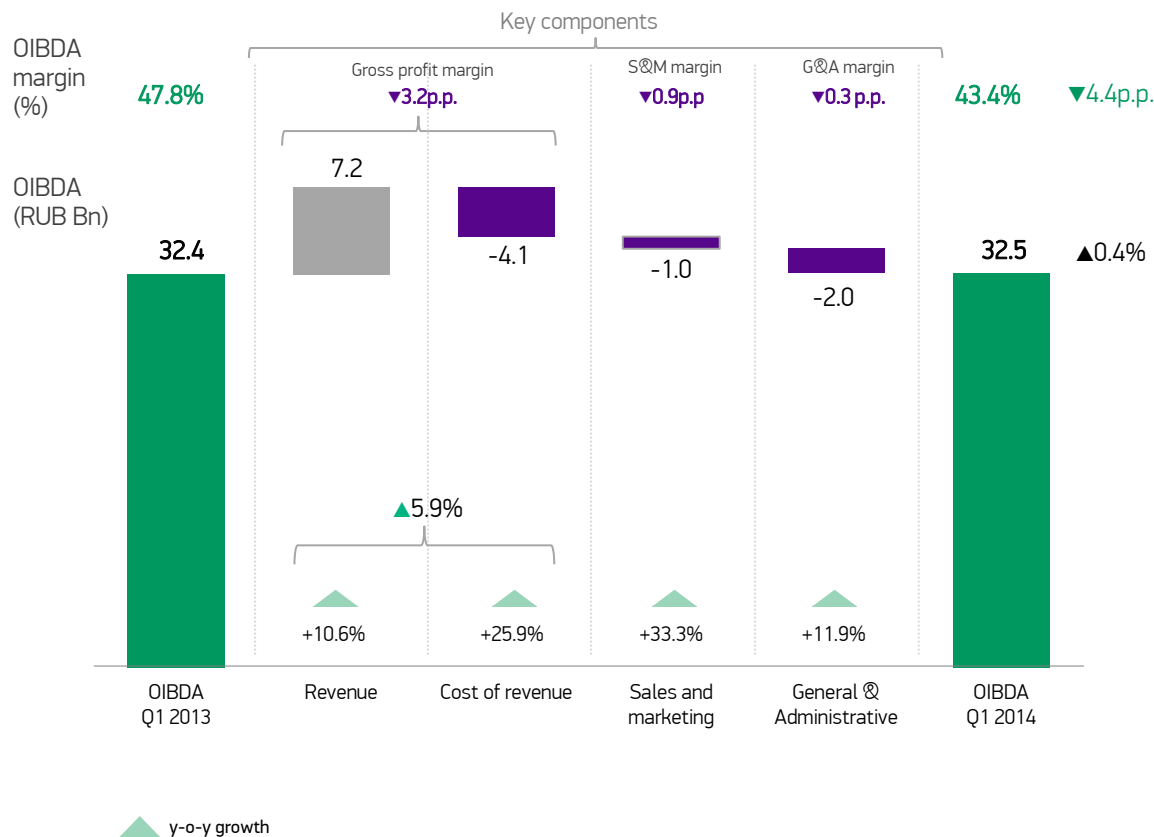
- Mobile data services were the key driver of overall revenue growth, contributing 70.4% to the total revenue growth in Russia in Q1 2014
 - Acquisition of Scartel has affected dynamics in all data-related KPIs⁽⁴⁾ since Q4 2013, due to higher data usage by Scartel subscribers
- DSU increased by 91.3% y-o-y in Q1 2014 due to active 4G/LTE rollout and promotion of attractive tariffs for this technology, as well as continued growth of data-enabled devices penetration on MegaFon network to 36.1% in Q1 2014 and active data services promotion during the Olympics
 - Organic DSU (without Scartel) also demonstrated strong growth of 37.1% y-o-y
- APPMb decreased by 0.05 RUB/Mb/month y-o-y in Q1 2014 largely due to the impact of Scartel subscribers, while organic APPMb y-o-y followed the general trend of 2013, decreasing by 0.02 RUB/Mb/month y-o-y
- ARPDU increased by 24.0% in Q1 2014 y-o-y due to faster growth of data users and DSU, offsetting decrease in APPMb

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
- (4) — Key performance indicators ("KPIs")

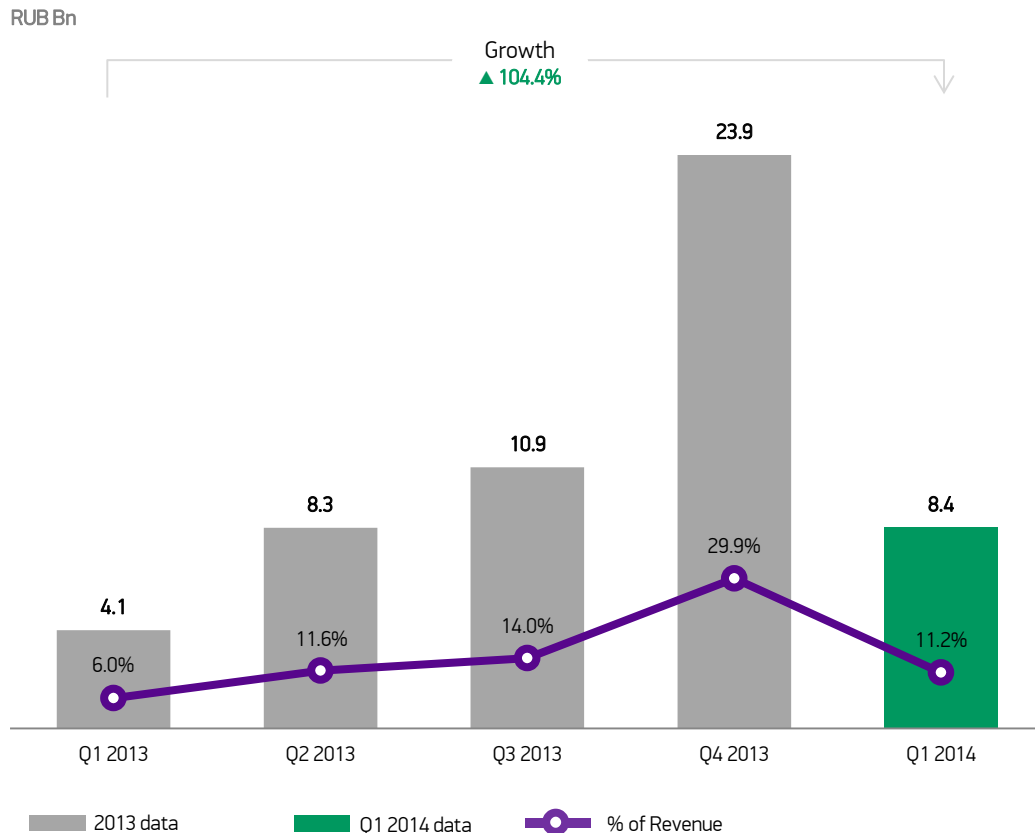
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Key drivers of strong OIBDA margin



Key factors influencing OIBDA margin

- In Q1 2014 OIBDA remained stable in absolute terms, compared to Q1 2013, while OIBDA margin dropped by 4.4p.p.
- Gross profit grew by 5.9% in Q1 2014 y-o-y, while gross profit margin decreased by 3.2p.p. down to 73.5% vs. 76.7% y-o-y largely due to
 - growing share of lower margin sale of handsets and accessories, related to various promotional options stimulating sales of data-enabled devices; decrease in gross profit margin on “end-of-life” devices, as well as general market pressure on handset margins
 - decreased profitability of services due to higher international interconnect termination rates, affected by Rouble depreciation in Q1 2014, and growing share of lower margin wireline revenues
- Another factor affecting OIBDA margin was significant increase in sales and marketing expenses of 33.3% y-o-y in Q1 2014, largely related to the Sochi Olympics
- General and administrative expenses increased by 11.9% y-o-y due to growth in rent and utilities and radio frequency fees, primarily attributable to Scartel consolidation since Q4 2013



CAPEX and CAPEX margin⁽¹⁾

- CAPEX increased from RUB 4.1Bn in Q1 2013 to RUB 8.4Bn in Q1 2014
 - According to previously announced CAPEX plans for 2014, we have continued 4G network rollout and modernization of our 2G and 3G networks, staying focused on the quality of our services

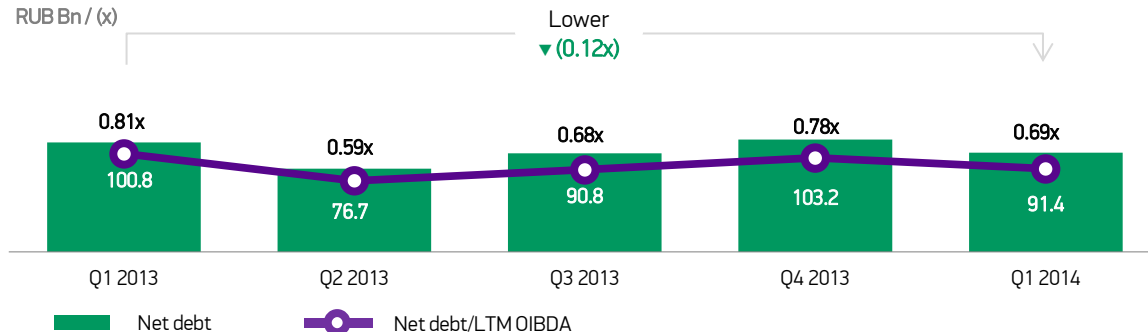
Consolidated balance sheet and leverage



Balance sheet	As of 31 Dec 2013	As of 31 Mar 2014
Cash and cash equivalents	9.9	63.2
Short-term investments	37.9	1.1
Total debt	151.0	155.7
Long-term debt	131.7	135.3
Short-term debt	20.5	21.4
Deferred financial cost	(1.0)	(1.0)
Net debt ⁽¹⁾	103.2	91.4
Shareholders' equity ⁽²⁾	138.3	145.7
Total assets	430.6	445.2

Net debt⁽¹⁾ and Net debt/LTM OIBDA

RUB Bn / (x)



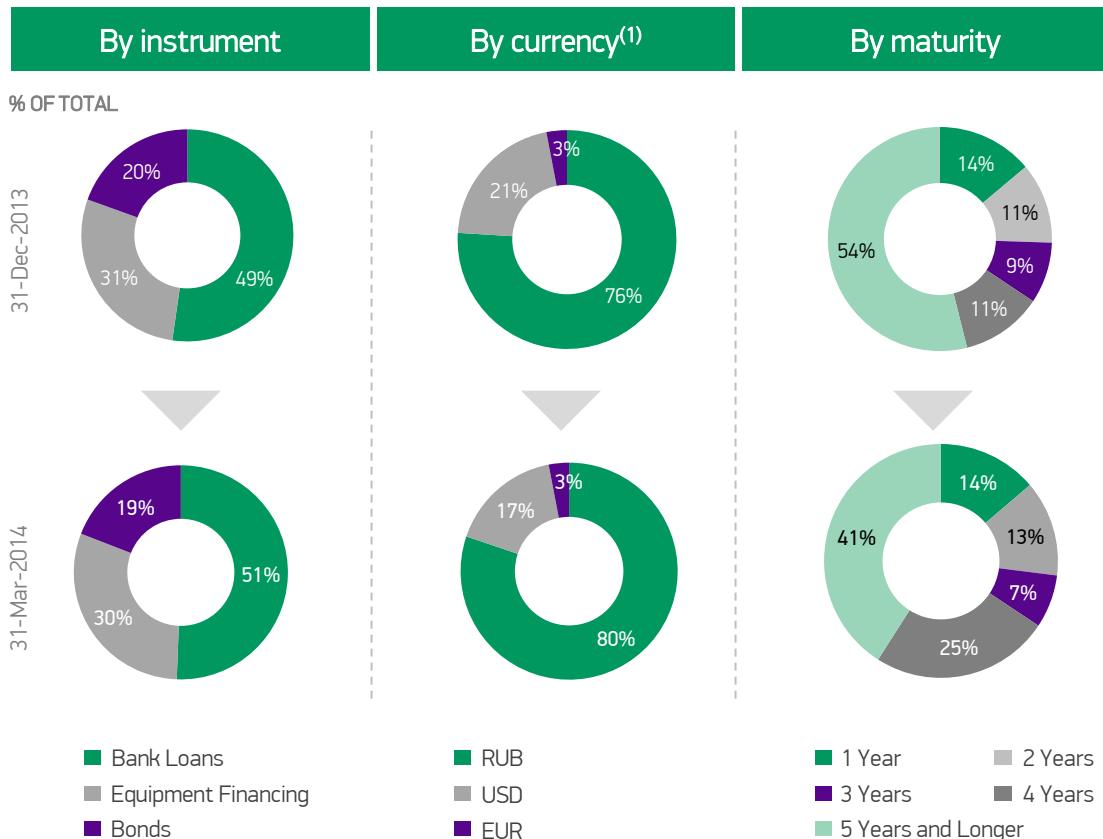
- Continuous deleveraging on the back of strong cash generation
 - Net debt/LTM OIBDA ratio decreased to 0.69x in Q1 2014 vs. 0.81x in Q1 2013 and 0.79x in Q4 2013
- Actions taken for cash position protection
 - MegaFon formed a substantial cash position in HKD and EUR in Q1 2014 to diversify currency exposure
 - Cash placed on short-term deposits with a limited number of reputable Russian and international banks

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

(1) — Net debt is calculated as the difference between (a) principal amount of loans and borrowings less unamortized debt issuance fees and (b) cash, cash equivalents, and principal amount of deposits.

(2) — Including non-controlling interests.

Debt portfolio structure



- Financing secured for further network development
 - MegaFon signed a 8,5-year Export Credit Agency facility for the total amount of USD 150MM to finance future purchases of equipment
- Debt portfolio optimization to reduce the foreign exchange exposure
 - USD 243MM of outstanding USD denominated debt was hedged through a currency swap at an attractive effective Rouble rate of c. 8% p.a.



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Outlook for 2014

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Outlook for 2014



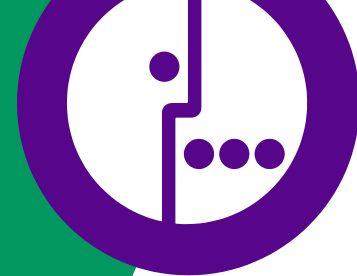
Revenue growth	6.0-8.0% growth y-o-y	✓ Reiterate
OIBDA margin	≥44.0%	✓ Reiterate
CAPEX	Expected capital expenditures in the range of RUB 58-64Bn	✓ Reiterate



Questions and Answers

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