

Press Release

MEGAFON ANNOUNCES FINANCIAL RESULTS FOR THE FIRST QUARTER OF 2013

MOSCOW, Russia (15 May 2013) - Open Joint Stock Company “MegaFon” (“MegaFon”, or the “Company”) (LSE: MFON), a leading Russian universal telecommunications operator, announces its consolidated financial results¹ for the first quarter (unaudited) ended 31 March 2013.

KEY CONSOLIDATED FINANCIAL AND OPERATIONAL RESULTS FOR THE FIRST QUARTER OF 2013

- Consolidated revenue grew by 7.6% year-on-year (y-o-y), to RUR 67,724 million.
- OIBDA increased by 26.8% y-o-y, to RUR 32,381 million.
- OIBDA margin increased to 47.8% versus 40.6% in Q1 2012.
- Net Profit increased by 36.5% y-o-y, to RUR 12,641 million.
- CAPEX amounted to RUR 4,086 million.
- Free Cash Flow totaled RUR 22,869 million.
- Net Debt as of 31 March 2013 was RUR 100,761 million.
- The number of active mobile subscribers as of 31 March 2013 was 64.8 million², an increase of 2.8% y-o-y.

¹ Based on IFRS

² This number 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 FIRST QUARTER OF 2013

- **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 by the end of Q1, covering 29 regions and 26% of population
 - Completion of technical preparations for launch of 4G for smartphones³
 - Strengthening MegaFon's retail position
 - New dealership agreement with Euroset
- **Board recommends attractive dividend** of RUR 64.51 per ordinary share or GDR, amounting to RUR 40 bn in total, subject to approval by the Annual General Meeting of Shareholders 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

³ 4G service for smartphones launched in April 2013

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

“In Q1 we continued to benefit from our strategic focus on data revenue growth and cost control, which translated into higher earnings for the quarter. A number of efficiency initiatives that we implemented last year continue to show positive effects, which have been strongly reflected in our year on year performance.

Revenue growth has been strong, not only in data services, but also in voice and in sales of equipment and accessories. Growth is set to continue, as we expect a significant increase in the number of our subscribers using data services as smartphone sales and 4G coverage expand.

In line with our policy, we are committed to returning the benefits of our growth to our shareholders. We are pleased to announce that the Board recommended a dividend of RUR 64.51 per ordinary share or GDR, representing a total payment of 40 billion rubles”.

KEY CONSOLIDATED FINANCIAL DATA (IN MILLIONS OF RUBLES)

	Q1 2013	Q1 2012	Q1 2013/ Q1 2012
Revenue	67,724	62,960	7.6%
Wireless Services	59,603	55,748	6.9%
<i>including data revenue</i>	10,513	8,582	22.5%
Wireline Services	4,522	4,427	2.1%
Sales of equipment & accessories	3,599	2,785	29.2%
OIBDA	32,381	25,535	26.8%
OIBDA Margin	47.8%	40.6%	7.2 p.p.
Net Profit	12,641	9,261	36.5%
Net Profit Margin	18.7%	14.7%	4.0 p.p.
CAPEX	4,086	9,704	(57.9%)
CAPEX / Revenue	6.0%	15.4%	(9.4 p.p.)

KEY FINANCIAL DATA IN RUSSIA (IN MILLIONS OF RUBLES)⁴

	Q1 2013	Q1 2012	Q1 2013/ Q1 2012
Revenue	66,996	62,350	7.5%
Wireless Services	58,890	55,140	6.8%
<i>including data revenue</i>	10,361	8,468	22.4%
Wireline Services	4,518	4,427	2.1%
Sales of equipment & accessories	3,588	2,783	28.9%
OIBDA	32,311	25,469	26.9%
OIBDA Margin	48.2%	40.8%	7.4 p.p.
Net Profit	12,869	9,444	36.3%
Net Profit Margin	19.2%	15.1%	4.1 p.p.

REVENUES

Total consolidated revenue in Q1 2013 reached RUR 67,724 million, a 7.6% increase y-o-y, with revenue in Russia accounting for over 98.9% of total revenue.

In Russia, total revenue in Q1 2013 increased by 7.5% y-o-y, driven primarily by the continuing mobile data expansion in our wireless business, which represented 87.9% of total Russian revenue in Q1 2013, and increased by 6.8% over the same period last year. Growth in the subscriber base resulted in the increased usage of airtime

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

not only for data but also for value added services (“VAS”), as well as growth in sales of equipment and accessories.

The strong momentum in mobile data growth seen in previous quarters continued into the first quarter with revenues in Russia increasing by 22.4% y-o-y and this is continuing to be one of the fastest growing revenue segments. The total number of cities connected to 4G services as of 31 March 2013 was 81 across 29 regions with approximately 149,000 subscribers, reinforcing further our established market leadership position and stimulating even higher data usage among our customers. In addition, in March the Company initiated 4G coverage in Tskhinval, South Ossetia. We have also completed all required technical preparations in readiness for the launch of 4G service for smartphones which is expected to stimulate further growth of data revenues.

Revenue from VAS in Russia increased by 5.9% y-o-y in Q1 2013, primarily due to increased usage of content and other VAS services.

Revenue from sales of equipment and accessories in Russia increased by 28.9% y-o-y in Q1 2013. This growth was primarily due to an increase in the number of our retail stores as well as our discontinued subsidies for 3G USB modems and increase in sales of MegaFon’s customized equipment through franchisees channels.

OIBDA AND OIBDA MARGIN

The continuing drive for operating efficiency and cost control coupled with revenue growth led to another strong improvement in operating profits and margins with consolidated OIBDA reaching RUR 32,381 million in Q1, a growth of 26.8% y-o-y.

In Russia OIBDA in Q1 grew by 26.9% y-o-y. In addition to the increase in revenues, the principal driver of OIBDA growth for the quarter was the reduction in subscriber acquisition costs as a result of the Company’s switching its dealer compensation arrangements to revenue-sharing. Somewhat offsetting this was the growth in salary expense, rent and utilities resulting from the expansion of the network and retail infrastructures.

Consolidated OIBDA margin for the first quarter reached 47.8% versus 40.6% in 2012. In Russia, OIBDA margin for the first quarter grew to 48.2%, an increase of 7.4 p.p. y-o-y.

NET PROFIT

On a consolidated basis, Net Profit for the first quarter of 2013 grew by 36.5% y-o-y.

Strong growth in operating profit in Russia compensated for higher interest expense charges arising from the additional borrowings made by the Company in connection with our special dividend payment and shareholder restructuring that took place in April 2012, and resulted in a net profit of RUR 12,869 million in Russia in Q1 2013, an increase of 36.3% y-o-y.

CASH FLOW FROM OPERATIONS

Consolidated net cash generated from operating activities increased by 21.1%, from RUR 22,775 million for Q1 2012 to RUR 27,586 million for Q1 2013. This improvement was primarily attributable to an increase in operating profit as a result of revenue growth and successful implementation of various cost-cutting initiatives.

FREE CASH FLOW

Consolidated free cash flow increased by 139.0 %, from RUR 9,570 million for Q1 2012 to RUR 22,869 million for Q1 2013. This increase was driven by an increase in cash from operating activities and lower capital expenditures.

CAPEX

Consolidated CAPEX for Q1 2013 amounted to RUR 4,086 million, a decrease of 57.9% y-o-y. 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.

As a result of the reduced CAPEX, our CAPEX to Revenue ratio in Q1 2013 fell to 6.0%.

NET DEBT

Consolidated net debt decreased from RUR 120,600 million as of 31 December 2012 to RUR 100,761 million as of 31 March 2013, which is attributable to strong free cash flow generation.

As part of our refinancing programme and debt portfolio optimization, in March 2013 the Company placed on MICEX a total of RUR 20bn of its Series 06 and 07 Ruble bonds, which allowed us to extend debt maturities and reduce the average cost of borrowings.

EARNINGS PER SHARE

Consolidated basic and diluted EPS increased by RUR 7 per share to RUR 22 or 46.7% y-o-y Q1 2013, reflecting the growth in net profit for the period.

DIVIDENDS

On 14 May 2013, in line with the Company's dividend policy the Board of Directors recommended a total dividend payment of RUR 40bn, representing RUR 64.51 per ordinary share or GDR for FY 2012 and Q1 2013⁵. The dividend is subject to shareholder approval at the AGM. The record date will be 21 May 2013.

The Annual General Meeting of Shareholders is scheduled for 28 June 2013.

Outlook / Guidance

In 2013 we continue to expect high single digit revenue growth, and we now anticipate an OIBDA margin of 42.5% – 44.0%, an upward revision from prior guidance. In addition, we expect to spend RUR 55-60 billion on CAPEX.

⁵ For the period of four consecutive quarters from Q2 2012 to Q1 2013

KEY OPERATIONAL HIGHLIGHTS

Wireless Services in Russia:

	Q1 2013	Q1 2012	Q1 2013/ Q1 2012
Number of wireless subscribers (K)	62,675	61,630	1.7%
of which data services users (K)	21,946	19,494	12.6%
ARPU (RUR.)	314	298	5.4%
MOU (min.)	294	284	3.5%
ARPDU (RUR.)	157	148	6.1%
DSU (mgb.)	1,301	987	31.8%

Wireless subscribers

Despite increasing market saturation, the number of the Company's wireless subscribers continued to grow, reaching 62.7 million as of 31 March 2013, representing a 1.7% increase y-o-y. Wireless data services users accounted for 35.0% and 31.6% of the Company's total subscriber base as at 31 March 2013 and 31 March 2012, respectively. The Company's efforts aimed at increasing the quality of services, continuing expansion in capacity and coverage of the 3G network, and rollout of 4G/LTE services contributed to the growth in the Company's wireless data services user base.

ARPU

ARPU in Q1 grew by 16 rubles, or 5.4% y-o-y, driven by increased use of VAS and data traffic by subscribers.

MOU

MOU in Q1 increased by 10 minutes, or 3.5% y-o-y, primarily due to the launch of new regional tariffs aimed at stimulating traffic between users on the Company's network, including intercity calls.

ARPDU

ARPDU in Q1 grew by 9 rubles, or 6.1% y-o-y, due to growth in data traffic resulting from the factors referred to above.

DSU

DSU for Q1 increased by 314 megabytes, or 31.8% y-o-y, as a result of the increase in demand for data services driven by the continuing expansion in capacity and coverage of the 3G and 4G networks nationwide, accelerating sales of USB modems and tariff initiatives designed to stimulate demand for data transfer services.

CONFERENCE CALL

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

Time: .10 (New York time), 15.00 (London time), 18.00 (Moscow time)

Dial-in details

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Standard International Access +44 (0) 20 3003 2666

UK Toll Free 0808 109 0700

USA Toll Free 1 866 966 5335

Access Code: 9017397

Password: MegaFon

Audiocast and slide presentation

<http://english.corp.megafon.ru>

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

Replay facilities

+44 (0) 208196 1998 followed by Access Pin 9017397

Russia - Moscow Local Moscow 8 499 270 6352

Russia Toll Free 8 10 8002 4832044

Standard International Access +44 (0) 20 8196 1998

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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. MegaFon was incorporated in June 1993 as CJSC “Northwest GSM” and renamed OJSC “MegaFon” in 2002. MegaFon was the first operator with a network covering all regions of Russia. The Company and its subsidiaries have licenses 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 June 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, through its MVNO arrangement with Yota, has already started providing these services in 81 towns and cities in 29 different regions by the end of March 2013. 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 November 2012 MegaFon successfully completed an initial public offering on the Moscow Stock Exchange and the London Stock Exchange. As of 31 March 2013, 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 Tavrin (1.25%) and by a wholly owned subsidiary of the Company (8.82%, of which Mr. Tavrin has the right to acquire up to 3.75% at various times prior to 2017), while the public float represents approximately 14.75% 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 available for download on the Company’s website at: <http://english.corp.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 Amortization) 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, amortization 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.

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, principal amount of deposits and (b) principal amount of loans and borrowings less unamortized 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)

	Q1 2012	Q2 2012	Q3 2012	Q4 2012	Q1 2013
Operating profit	12,851	14,927	18,364	17,740	19,611
Depreciation	11,143	11,412	11,441	11,512	11,287
Amortization	1,347	1,276	1,917	1,506	1,346
Loss from disposal of long-lived assets	194	541	315	663	137
OIBDA	25,535	28,156	32,037	31,421	32,381

OIBDA Margin as percentage of Revenue

	Q1 2012	Q2 2012	Q3 2012	Q4 2012	Q1 2013
Operating profit	20.5%	22.4%	25.8%	24.8%	28.9%
Depreciation	17.7%	17.1%	16.1%	16.1%	16.7%
Amortization	2.1%	1.9%	2.7%	2.1%	2.0%
Loss from disposal of long-lived assets	0.3%	0.8%	0.4%	0.9%	0.2%
OIBDA margin	40.6%	42.2%	45.0%	43.9%	47.8%

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

	31 Mar 2012	30 Jun 2012	30 Sep 2012	31 Dec 2012	31 Mar 2013
Cash and cash equivalents	8,314	15,421	17,012	2,387	3,119
Short-term deposits	86,124	1,218	2,213	22,246	41,033
Long-term deposits	4	3	2	1	1
Loans and borrowings, less unamortized debt issuance fees	(40,015)	(171,427)	(157,859)	(145,234)	(144,914)
Net cash/ (Net debt) position	54,427	(154,785)	(138,632)	(120,600)	(100,761)

Free Cash Flow (In millions of Rubles)

	3 months ended 31 Mar 2012	3 months ended 31 Mar 2013
Cash from operating activities	22,775	27,586
Purchase of property, equipment and intangible assets	(13,288)	(7,270)
Proceeds from sale of property, plant and equipment	61	70
Interest paid	22	2,483
Free cash flow	9,570	22,869