

MegaFon announces growth in revenue and net profit in Q3 2015 and solid dividend recommendation

MOSCOW, Russia (29 October 2015) - PJSC "MegaFon" ("MegaFon", or the "Company") (LSE: MFON), a leading Russian telecommunications operator, announces its unaudited consolidated financial results¹ for the third quarter and the first nine months of 2015.

Key Financial and Operational Highlights of the Third Quarter 2015²

- Consolidated revenue increased by 0.3% year over year ("y-o-y")³ to RUB 81,279 million
- Revenue from wireless data services increased by 24.6% y-o-y to RUB 21,625 million
- OIBDA decreased by 3.0% y-o-y to RUB 36,145 million
- OIBDA margin decreased to 44.5% versus 46.0% in Q3 2014
- Net Profit increased by 4.0% y-o-y to RUB 13,306 million
- CAPEX increased by 81.6% y-o-y to RUB 25,908 million
- Free Cash Flow amounted to RUB 8,870 million
- Net Debt as of 30 September 2015 was RUB 122,964 million
- The number of mobile subscribers grew by 6.2% y-o-y to 75.9 million⁴ as of 30 September 2015

Key Financial Highlights for the First Nine Months of 2015

- Consolidated revenue decreased by 0.5% y-o-y to RUB 231,403 million
- Revenue from wireless data services increased by 18.6% y-o-y to RUB 58,939 million
- OIBDA decreased by 1.2% y-o-y to RUB 102,846 million
- OIBDA margin was 44.4% versus 44.7% y-o-y
- Net Profit decreased by 0.6% y-o-y to RUB 33,709 million
- CAPEX increased by 29.2% y-o-y to RUB 46,537 million
- Free Cash Flow totaled RUB 39,961 million

¹ Based on the IFRS interim condensed consolidated financial statements reviewed by JSC KPMG

² 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.

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

⁴ 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 Highlights of the Third Quarter 2015 and Subsequent Events

- Recommendation for additional dividend distribution in 2015
 - In October 2015, MegaFon's Board of Directors recommended the payment of an additional RUB 40 billion of dividends, equivalent to RUB 64.51 per ordinary share (or GDR), to the holders of record as of 22 December 2015, subject to approval by the Company's Shareholders on 11 December 2015
 - If approved by the Shareholders, the total amount of dividends distributed in 2015 will be RUB 50 billion, or RUB 80.64 per ordinary share (or GDR)
- Strategic Acquisitions
 - In August 2015, MegaFon acquired additional spectrum in the Samara, Astrakhan and Yaroslavl regions and the Chuvash Republic through the purchase of a 100% interest in four companies from the SMARTS Group ("SMARTS"), thereby improving its position in the 900/1,800 MHz spectrum bands in the Volga and North-West regions
 - In September 2015, MegaFon acquired 100% of the shares of GARS Holding Limited ("GARS"), a building local exchange carrier which provides a full range of fixed-line telecommunication services to the tenants of business centers in Moscow and Saint Petersburg. This acquisition will further enhance the Company's position in the competitive B2B fixed-line market in Moscow and Saint Petersburg
 - In October 2015, MegaFon participated in the first frequency distribution auction conducted by the Federal Service for Supervision of Communications, Information Technology, and Mass Media of the Russian Federation ("Roskomnadzor"). As a result the Company successfully bid for 1,800 MHz spectrum band in the Republic of Dagestan and the Karachay-Cherkess Republic. This additional spectrum band will allow the Company to develop both 2G and 4G networks and optimize costs
- New Corporate Headquarters
 - In October 2015, MegaFon completed the acquisition of a 49.999% interest in Glanbury Investments Ltd, which owns a class A office building at 41 Oruzheyny Pereulok in Moscow, and the re-negotiation of its existing lease for the building. This building will become MegaFon's new corporate headquarters, permitting the consolidation of the Company's operations in Moscow into a single location
- Debt Portfolio Optimization
 - In September 2015, MegaFon signed a Framework Cooperation Agreement with China Development Bank Corporation for potential new financing of up to US\$ 600 million to refinance a part of the Company's existing indebtedness and to finance the purchase of equipment and services from Huawei

- In October 2015, MegaFon successfully placed its RUB 15 billion series BO-05 exchange bonds at a coupon rate of 11.4% p.a. for a period of 2 years, establishing a new benchmark rate for transactions of this size. The bond offering attracted a substantial number of investors and was oversubscribed by more than three times

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



We have delivered good results this quarter with MegaFon's net profit going up by 4.0%, and total revenue increasing by 0.3%, reversing declines in these metrics from the ones achieved in the prior quarter. However, OIBDA declined 3.0% as a result of higher sales and marketing and G&A expenses, and OIBDA margin amounted to 44.5%.

We continue to maintain our leadership position in the wireless data services segment. Wireless data revenue grew by 24.6% y-o-y on the back of increased sales of affordable smartphones and higher roaming services revenue. Our state of the art infrastructure, which includes around 110,000 base stations, continues to enable us to support our customers' increasing demand for high quality and high-speed data transfer. The growth in data and VAS-services revenue fully compensated for the weakness in revenues from traditional voice services, which supports our client and data-centric strategy.

We also completed a number of important deals. Our acquisition of four companies from the SMARTS Group and of GARS Telecom will strengthen our technological advantage and further enhance our market leadership. The purchase of an interest in a landmark building in Moscow will consolidate our operations in Moscow into a single location and allow us to optimize the Company's operating expenses. In October 2015 our efforts resulted in a successful bid for 1,800 MHz band of frequencies. These frequencies will allow us to further enhance our network quality and service, as well as help us to minimize capital expenditures in expanding capacities of our networks in the Republic of Dagestan and the Karachay-Cherkess Republic.

At the same time, the macroeconomic conditions remain challenging, and we continue to anticipate that constraints in consumer spending, as well as intensified competition in the telecoms industry, will exert downward pressure on our OIBDA and OIBDA margin, which we intend to endeavor to mitigate by careful management of all of our costs.

However, we have solid balance sheet ratios, together with strong cash position and solid operational results, and these positive conditions have allowed the Board of Directors to recommend to our Shareholders that they approve the payment of an additional RUB 40 billion in dividends in 2015, exceeding the minimum target given earlier this year. If approved, the full amount of dividends distributed in 2015 will total a record RUB 50 billion.

Key Consolidated Financial Data (in Millions of Rubles)

	Three Months			Nine Months		
	Q3 2015	Q3 2014	Q3 2015/ Q3 2014	9m 2015	9m 2014	9m 2015/ 9m 2014
Revenue	81,279	81,066	0.3%	231,403	232,608	(0.5%)
Wireless Services	70,649	69,726	1.3%	201,562	200,753	0.4%
Including data revenue	21,625	17,355	24.6%	58,939	49,692	18.6%
Wireline Services	5,673	5,182	9.5%	16,500	15,866	4.0%
Sales of equipment & accessories	4,957	6,158	(19.5%)	13,341	15,989	(16.6%)
OIBDA	36,145	37,263	(3.0%)	102,846	104,064	(1.2%)
OIBDA Margin	44.5%	46.0%	(1.5 p.p.)	44.4%	44.7%	(0.3 p.p.)
Net Profit	13,306	12,792	4.0 %	33,709	33,906	(0.6%)
Net Profit Margin	16.4%	15.8%	0.6 p.p.	14.6%	14.6%	-
CAPEX	25,908	14,268	81.6%	46,537	36,017	29.2%
CAPEX / Revenue	31.9%	17.6%	14.3 p.p.	20.1%	15.5%	4.6 p.p.

Key Financial Data in Russia (in Millions of Rubles)⁵

	Three Months			Nine Months		
	Q3 2015	Q3 2014	Q3 2015/ Q3 2014	9m 2015	9m 2014	9m 2015/ 9m 2014
Revenue	79,958	79,997	0.0%	227,777	229,800	(0.9%)
Wireless Services	69,344	68,663	1.0%	197,976	197,966	0.0%
Including data revenue	21,296	17,121	24.4%	58,031	48,936	18.6%
Wireline Services	5,664	5,180	9.3%	16,473	15,857	3.9%
Sales of equipment & accessories	4,950	6,154	(19.6%)	13,328	15,977	(16.6%)
OIBDA	36,177	37,141	(2.6%)	102,644	103,682	(1.0%)
OIBDA Margin	45.2%	46.4%	(1.2 p.p.)	45.1%	45.1%	-
Net Profit	14,430	13,297	8.5%	36,555	35,179	3.9%
Net Profit Margin	18.0%	16.6%	1.4 p.p.	16.0%	15.3%	0.7 p.p.

⁵ Excluding mutual settlements with "TT mobile" CJSC, "AQUAFON-GSM" CJSC and "OSTELEKOM" CJSC

Revenue

Our consolidated revenue for Q3 2015 increased by 0.3% y-o-y to RUB 81,279 million reversing the decline in revenue we have experienced since the beginning of the year. Our total consolidated revenue for the first nine months of 2015 reached RUB 231,403 million, or 0.5% lower than the total consolidated revenue for the same period last year. Russian revenue remained the major component, accounting for over 98.4% of total consolidated revenue.

Our core business segment of mobile services continued to grow. Our wireless service revenue in Q3 2015 increased by 1.3% y-o-y to RUB 70,649 million. The impact of the weakness in voice revenue was fully offset by a robust increase in our data revenue together with revenue growth from our VAS-services. One of the items that contributed to the growth in our wireless revenue was increased revenue from roaming services. This increase was driven by specially tailored tariff plans intended to make data usage more affordable for our subscribers travelling in Russia, while foreign currency movements resulted in an increase in our visitor roaming revenue.

Wireline service revenues increased by 9.5% y-o-y to RUB 5,673 million. Robust expansion of our B2B and B2G segments and our high-speed data transit project "DREAM" (Diverse Route for European and Asian Markets), which continues to attract support from foreign operators, all contributed to this growth.

Revenue from sales of equipment and accessories decreased by 19.5% y-o-y to RUB 4,957 million. This reflects the trend by our customers of switching from expensive data-enabled devices to affordable smartphones, some of which have been exclusively introduced to the Russian market by MegaFon. Despite the decrease in actual revenue from sales of equipment and accessories, the number of our smartphones sold in Q3 increased by 21% y-o-y and we also managed to double the profitability of our vendor equipment sales in Q3.

OIBDA and OIBDA Margin

In Q3 2015 our OIBDA decreased by 3.0% y-o-y to RUB 36,145 million mainly due to increased advertising expenses related to a new company positioning campaign, higher rent and utilities due to network expansion and an increase in operating taxes. OIBDA margin in Q3 2015 decreased by 1.5 p.p. to 44.5% y-o-y compared to 46.0% in Q3 2014.

Net Profit

Consolidated net profit increased by 4.0% y-o-y to RUB 13,306 million, as compared to RUB 12,792 million in Q3 2014, due to lower foreign exchange losses and gains in derivative financial instruments resulting from our efficient foreign exchange management.

CAPEX

CAPEX increased by 81.6% y-o-y to RUB 25,908 million compared to RUB 14,268 million in Q3 2014. The increase includes RUB 5,745 million related to the purchase of the SMARTS

spectrum as well as high spending on 4G/LTE network roll-out and modernization of the current network.

Free Cash Flow

Our free cash flow decreased y-o-y by 65.1%, from RUB 25,451 million for Q3 2014 to RUB 8,870 million for Q3 2015 due to an increase in capital expenditures mostly driven by the purchase of additional spectrum through the acquisition of the SMARTS subsidiaries and as a result of decreased operational cash flows mostly due to higher taxes paid as compared to Q3 2014.

Net Debt

Our net debt increased from RUB 113,608 million as of 30 June 2015 to RUB 122,964 million as of 30 September 2015 due to the acquisitions of the SMARTS subsidiaries and GARS and also due to the payment of dividends in August 2015.

Earnings per Share

Consolidated basic and diluted EPS for Q3 2015 remained the same as in Q3 2014, at RUB 22 per share.

Outlook/Guidance

We reiterate our previously announced guidance on revenue for 2015 to be flat. On the back of our strong results we revise the guidance for OIBDA margin to be at or above 41.5%, taking into account uncertainties regarding the negative effects of foreign exchange rates. We anticipate that our CAPEX in 2015, excluding acquisitions, will not exceed RUB 65 billion.

Key Operational Highlights

Wireless Business in Russia

	Three Months			Nine Months		
	Q3 2015	Q3 2014	Q3 2015/ Q3 2014	9m 2015	9m 2014	9m 2015/ 9m 2014
Number of wireless subscribers (K)	73,903	69,073	7.0%	73,903	69,073	7.0%
of which data service users (K)	28,539	26,849	6.3%	28,539	26,849	6.3%
ARPDU (RUB)	244	213	14.6%	230	208	10.6%
DSU (MB)	3,186	2,529	26.0%	3,145	2,482	26.7%

Wireless subscribers

Our Russian wireless subscriber base continued to grow, increasing by 7.0% y-o-y to 73.9 million as of 30 September 2015. Our partnership with Svyaznoy and our customer-oriented approach were important factors in this growth. The data service user base expanded by 6.3% y-o-y to 28.5 million users, accounting for 38.6% of the overall subscriber base.

ARPDU

ARPDU in Q3 2015 increased by 14.6% y-o-y to RUB 244 due to growing data traffic usage and increased consumption of mobile data services in roaming due to attractive roaming data tariff options.

DSU

DSU in Q3 2015 grew by 657 MB, or 26.0% y-o-y to 3,186 MB/Months/User, as a result of active marketing initiatives aimed at stimulating higher data usage, growing penetration of smartphones and data-enabled devices and our increasing share of 4G/LTE traffic, which now generates around 40% of our total traffic.

Conference Call

MegaFon will be hosting an analyst and investors conference call today with a simultaneous audiocast to discuss its Q3 2015 results.

Time: 11.00 (New York time), 15.00 (London time), 18.00 (Moscow time)

Dial-in details:

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National free phone - Russian Federation:	+8 800 500 9311
Local - London, United Kingdom:	+44(0)20 3427 0503
National free phone - United Kingdom:	0 800 279 4977
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National free phone - United States of America:	+1 877 280 2296
Access confirmation code:	8407512
Password:	MegaFon

Audiocast and slide presentation

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

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

Replay facilities

(will be available for 7 days)

Replay password	8407512 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
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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, acquisition of spectrum 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)

	Q3 2014	Q4 2014	Q1 2015	Q2 2015	Q3 2015
Operating profit	23,346	19,911	17,946	20,762	21,792
Depreciation	11,852	11,853	12,134	11,981	12,283
Amortisation	1,865	1,944	1,800	1,845	1,845
Loss from disposal of long-lived assets	200	748	84	149	225
OIBDA	37,263	34,456	31,964	34,737	36,145

OIBDA Margin as percentage of Revenue

	Q3 2014	Q4 2014	Q1 2015	Q2 2015	Q3 2015
Operating profit	28.8%	24.2%	24.3%	27.3%	26.8%
Depreciation	14.6%	14.4%	16.4%	15.7%	15.1%
Amortisation	2.3%	2.4%	2.4%	2.4%	2.3%
Loss on disposal of non-current assets	0.3%	0.9%	0.1%	0.2%	0.3%
OIBDA margin	46.0%	41.9%	43.2%	45.6%	44.5%

Net debt (In millions of Rubles)

	30 Sep 2014	31 Dec 2014	31 Mar 2015	30 Jun 2015	30 Sep 2015
Cash and cash equivalents	23,358	22,223	38,394	61,965	70,782
Bank deposits (principal amount)	11,880	47,916	44,697	14,930	3,838
Loans and borrowings (principal amount), less unamortised fees and discounts	(175,521)	(206,314)	(212,154)	(190,503)	(197,584)
Net debt	(140,283)	(136,175)	(129,063)	(113,608)	(122,964)

Free cash flow (In millions of Rubles)

	Q3 2014	Q4 2014	Q1 2015	Q2 2015	Q3 2015
Net cash flows from operating activities	35,980	30,595	18,570	26,746	29,422
Purchase of property, equipment and intangible assets	(13,472)	(17,245)	(10,196)	(11,750)	(23,818)
Proceeds from sale of property and equipment	44	181	83	103	76
Interest paid	2,899	3,825	3,289	4,246	3,190
Free cash flow	25,451	17,356	11,746	19,345	8,870