

Press Release

MegaFon Announces 2010 Audited Financial Results¹

MOSCOW, Russia (March 10, 2011) - Open Joint Stock Company "MegaFon" ("MegaFon", or the "Company"), a Russian universal telecoms operator, announces its financial and operational results for the fourth quarter and twelve months ended December 31, 2010.

Key Consolidated Financial and Operational Results for the twelve months ended December 31, 2010

- Consolidated revenue grew by 18.5% to RUR 215,515 million year-on-year (y-o-y).
- The Company's OIBDA increased by 10.9% to RUR 97,774 million y-o-y.
- The OIBDA margin in 2010 was 45.4% as compared to 48.5% in 2009.
- Net income grew by 8.6% to RUR 49,172 million y-o-y.
- Free cash flow in 2010 reached RUR 23,167 million.
- Net positive cash position as of December 31, 2010 was RUR 33,300 million.
- Capital expenditures in 2010 were RUR 67,240 million.
- Revenues from Value Added Services ("VAS") in 2010 were 21.7% of total wireless revenues, versus 17.9% the year before.
- The number of the Company's active subscribers as of the end of 2010 increased by 13.0% to 57.3² million y-o-y.

¹ Based on US GAAP

² Consolidated data includes subscribers of the Company in Russia and subscribers of its subsidiaries TT Mobile in Tajikistan, AquaFon GSM in the Republic of Abkhazia and Ostelecom in the Republic of South Ossetia

Key Consolidated Financial Results for the fourth quarter ended December 31, 2010

- Consolidated revenue increased by 22.0% to RUR 58,991 million y-o-y.
- OIBDA increased by 13.5% to RUR 26,108 million y-o-y.
- The OIBDA margin in the fourth quarter of 2010 was 44.3% as compared to 47.6% in the fourth quarter of 2009.
- Net income decreased by 8.2 % to RUR 12,660 million y-o-y.
- Revenues from VAS in the fourth quarter of 2010 were 23.3% of total wireless revenues, versus 19.7% one year before.

Sergey Soldatenkov, Chief Executive Officer of MegaFon, commented on the financial and operational results: *"We are happy with the company's financial results for the fourth quarter and the whole year of 2010. The Company continues to produce excellent results; the consolidated revenue for the fourth quarter grew by 22% as compared to the same period last year and for the whole year has reached a record high of 216 billion rubles.*

At the end of last year, MegaFon for the first time ever became number two in the Russian wireless revenue sector and also took second place in the number of subscribers – today our network has over 57 million subscribers. The Company's consolidated wireless revenue grew by 15% in 2010 driven by the increase in MegaFon's subscriber base and significant growth in mobile data services usage. By our estimates, 40% of all wireless internet traffic in Russia is generated on our network.

Acquisition of the Synterra Group, a leading fixed-line operator, was the key transaction of the year and the largest deal in our history, helping us to move to the development of new businesses based on a full range of telecoms services provided through the use of cutting-edge technologies. The integration of MegaFon and Synterra is going according to the plan. The first stage of the integration has been successfully and timely completed, and I am especially glad that in the new structure of the Company we were able to retain Synterra's specialists who have unique skills and experiences for MegaFon," continued Mr. Soldatenkov.

Mr. Soldatenkov also added: *"Consolidated wireless data revenue in 2010 amounted 20 billion rubles which is 85% higher than last year's number. This was driven by a surge in USB-modem sales, active stimulation of Internet traffic usage and substantial investments in 3G network development. In 2010, we launched commercial operation of 3G networks in every region of Russia and provide 65% of the country's population with access to high-speed mobile network.*

"In 2011, we will continue to expand our 3G networks to provide superior mobile broadband Internet throughout Russia. Our commitment to invest in mobile broadband, which is among the fastest growing ICT segment today, will allow us to create continuing and sustainable competitive strategic advantage over time," concluded Mr. Soldatenkov.

Key Corporate and business events of 2010

- MegaFon acquired 100% of the shares of CJSC “Synterra” from companies controlled by the PromSviazCapital Group. Konstantin Solodukhin, Deputy CEO of MegaFon for Long-Distance Domestic and International Communication, was appointed General Director of Synterra.
- MegaFon acquired 100% of the shares of CJSC Metrocom (“Metrocom”), the third largest alternative telecom operator in Saint-Petersburg. Metrocom owns a FOCL network of over 2,000 km, covering most of the Saint-Petersburg Metropolitan subway system.
- MegaFon and Rostelecom have successfully tested 4G (LTE protocol) networks at one of the main Olympic sites – the downhill ski resort “Roza Khutor” located in Krasnaya Polyana.
- MegaFon opened a “Situation Center for Mobile Communications”, the first of its kind in Russia, to operate over MegaFon’s network throughout the entire Russian Federation. The main purpose of the “Situation Center” is to permit communication with officers on duty in the Ministry of Emergencies, and with representatives of the Ministry of Telecommunications and other authorities, in case of any emergencies occurring or threatened in any region of the country.
- MegaFon opened the largest data center in Russia in Samara. This key infrastructure unit allows us to provide cutting-edge cloud computing and other information services to international and domestic customers and partners.
- MegaFon became the official mobile partner of the 2013 Students Games in Kazan. The Students Games will be held in 26 sport categories – 13 mandatory and 13 additional. Currently the Company is actively working on construction of telecommunication infrastructure for the Kazan Games.
- MegaFon was the first operator in Russia to launch a trial of mobile handset payments for subway tickets in partnership with the Saint-Petersburg Metropolitan subway system.

Key Consolidated Financial Data (In millions of Rubles)³

	Three months					Year		
	Q4 2010	Q4 2009 ⁴	Q4 2010/ Q4 2009	Q3 2010	Q4 2010/ Q3 2010	2010	2009 ⁴	2010/ 2009
Revenue	58,991	48,345	22.0%	57,566	2.5%	215,515	181,883	18.5%
Wireless business	55,596	48,139	15.5%	54,618	1.8%	207,862	181,209	14.7%
<i>including data revenue</i>	<i>6,230</i>	<i>3,436</i>	<i>81.3%</i>	<i>5,144</i>	<i>21.1%</i>	<i>19,967</i>	<i>10,794</i>	<i>85.0%</i>
Wireline business	3,395	206	—	2,948	15.2%	7,653	674	—
OIBDA	26,108	22,998	13.5%	26,538	(1.6%)	97,774	88,192	10.9%
Wireless business	25,155	—	—	25,613	(1.8%)	95,344	—	—
Wireline business	953	—	—	925	3.0%	2,430	—	—
OIBDA Margin	44.3%	47.6%	(3.3 p.p.)	46.1%	(1.8 p.p.)	45.4%	48.5%	(3.1 p.p.)
Wireless business	45.2%	—	—	46.9%	(1.7 p.p.)	45.9%	—	—
Wireline business	28.1%	—	—	31.4%	(3.3 p.p.)	31.8%	—	—
Net Income	12,660	13,789	(8.2%)	14,006	(9.6%)	49,172	45,289	8.6%

Wireless revenue grew by 15.5% y-o-y in the fourth quarter and by 14.7% for the full year, due to a significant increase in the Company's subscriber base and mobile data services usage. The relatively modest Quarter-on-Quarter (q-o-q) increase of 1.8% in mobile revenue in the fourth quarter reflects seasonal stabilization in voice traffic revenue.

Wireless data revenue increased by 85% y-o-y for the full year, reaching approximately RUR 20 billion. This significant growth was driven by a surge in USB-modem sales, active stimulation of Internet traffic usage and substantial investments in 3G network development. Q-o-q, wireless data revenue increased by 21.1% in the fourth quarter, compensating for the seasonal stabilization of voice traffic revenue, which demonstrates the significant growth potential for mobile data revenue in 2011.

OIBDA margin decreased by 3.1 p.p. y-o-y for the full year and by 1.8 p.p. q-o-q for the fourth quarter due to the expansion of MegaFon's own retail chain, whose operating margin is traditionally lower than in the mobile business.

The stability of the diversified subscriber base in the wireline segment was demonstrated by the 15.2% q-o-q increase in revenue and the 3.0% q-o-q increase in OIBDA in the fourth quarter. However, consolidation of

³ The company consolidated the financial results of the Synterra Group starting from June 2010, and of Metrocom starting from November 2010

⁴ Certain amounts for previous periods were reclassified in order to present information in the format of the reporting period

Metrocom's results in November 2010 caused a q-o-q decrease in OIBDA margin of 3.3. p.p. in the fourth quarter.

Net income grew by 8.6% y-o-y for the full year up to RUR 49,172 million due to increases in operating income and net interest income, and a decrease in foreign currency loss. Net income decreased by 9.6% and 8.2% q-o-q and y-o-y in the fourth quarter, respectively, due to an increase in depreciation charges resulting from the increased level of capital expenditures in 2010.

In 2010, MegaFon repaid debt in the amount of RUR 20,105 million, which included the complete restructuring of the acquired debt of Synterra totaling RUR 11,993 million. The Company's aggregate debt as of December 31, 2010 was RUR 32,921 million, while cash and short-term investments totaled RUR 66,221 million. Thus, the net cash position as of December 31, 2010 was RUR 33,300 million, the same as at the end of 2009.

Capital expenditures grew by 28.1%. y-o-y for the full year to RUR 67,240 million.

Key Operational Highlights of Wireless Business in Russia

	Three months				Year			
	Q4 2010	Q4 2009 ⁵	Q4 2010/ Q4 2009	Q3 2010	Q4 2010/ Q3 2010	2010	2009 ⁵	2010/ 2009
Number of active subscribers (K)	56,607	50,222	12.7%	55,856	1.3%	56,607	50,222	12.7%
Market share by subscribers ⁶	25.8%	24.2%	1.6 p.p.	25.8%	0.0 p.p.	25.8%	24.2%	1.6 p.p.
MOU (min.)	293	285	2.8%	285	2.8%	285	276	3.3%
ARPU (RUR)	314	316	(0.6%)	321	(2.2%)	312	320	(2.5%)

MOU increased 3.3% y-o-y for the full year due to the positive effect of the Russian economic recovery on the usage of telecommunication services.

The significant increase in the subscriber base and stimulation of on-net calls have driven the growth of on-net traffic, causing a decrease in ARPU of 2.5% y-o-y for the full year.

The q-o-q growth in MOU and a slight decrease in ARPU in the fourth quarter were due to a seasonal decline both in roaming and long-distance calls and in the growth of traffic in the pan-Russian MegaFon network.

Data traffic grew seven times and voice traffic grew by 21% y-o-y for the full year. Data traffic and voice traffic increased by 57% and 5%, q-o-q in the fourth quarter.

⁵ Certain amounts for previous periods were reclassified in order to present information in the format of the reporting period

⁶ Source – AC&M Consulting

Reference

OJSC MegaFon is a Russian universal telecommunication service provider, operating in all segments of the telecommunications markets in Russia. MegaFon was established in May 2002 and became the first (and still is the only) 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. As a result of its acquisition of the Synterra Group, one of the leading Russian backbone operator, in June 2010, MegaFon entered the fixed-line B2B and B2G businesses, as well as the markets for fixed broadband. The combined infrastructure of MegaFon and Synterra covers all regions in Russia, providing a platform for the provision of GSM 900/1800, 3G, VSAT, IP/MPLS, NLD/ILD networks, and data and call centers, to all potential customers for telecommunication services. In 2009, MegaFon became the Mobile General Partner of the XXII Winter Olympic Games and XI Paralympic Games to be held in Sochi in 2014. As of February 4, 2011, the principal shareholders of MegaFon are companies in the AF Telecom group, the TeliaSonera group and the Altimo telecommunications group.

For additional information

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Schedule 1: Definitions

ARPU (Average Revenue Per User) is calculated by dividing the total revenue for the period, excluding wireline revenue, revenue from sales of handsets, accessories and other revenues, by the average number of mobile subscribers for the period and then by the number of months in the period.

MOU (Monthly Average Minutes of Use per User) is calculated by dividing total minutes used during the period by the average number of mobile subscribers for the period and then by the number of months in the period.

OIBDA (Operating Income Before Depreciation and Amortization) is a non-US GAAP financial measure; it 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 the Company's ability to incur and service debt. While it does not take into account depreciation of property, plant and equipment and amortization of intangible assets, which are considered as operating expenses in US GAAP, 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 income, the most directly comparable US GAAP measure, is provided in Schedule 3.

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 at 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. It is a non-US GAAP financial measure and 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, as the most directly comparable US GAAP measure, is provided in Schedule 3.

Net positive cash position means the difference between (a) cash, cash equivalents and short-term investments and (b) loans payable. It is a non-US GAAP financial measure and 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 loan repayments. A description of how the metric is calculated is provided in Schedule 3 below.

Schedule 2: Consolidated Financial Statements

MegaFon Consolidated Statements of Operations (In millions of Rubles)

	Year ended December 31	
	2009	2010
Revenue	181,883	215,515
Cost of services	36,865	48,060
Gross margin	145,018	167,455
Sales and marketing expenses	17,361	19,471
Operating expenses	39,465	50,210
Depreciation	28,269	35,035
Amortization	3,075	3,839
Operating income	56,848	58,900
Other (expense)/income:		
Interest expense	(1,657)	(837)
Interest income	3,255	4,008
Other (loss)/gain, net	(89)	18
Loss on derivatives, net	(300)	(203)
Foreign currency exchange loss, net	(2,192)	(700)
Total other (expense)/income, net	(983)	2,286
Income before income taxes and noncontrolling interests	55,865	61,186
Provision for income taxes	10,565	11,962
Net income	45,300	49,224
Less: Net income attributable to noncontrolling interests	(11)	(52)
Net income attributable to MegaFon	45,289	49,172

MegaFon
Consolidated Balance Sheets
(In millions of Rubles)

	December 31, 2009	December 31, 2010
Assets		
Current assets:		
Cash and cash equivalents	12,550	2,667
Short-term investments	49,114	63,554
Accounts receivable, net of allowance for doubtful accounts	4,050	6,859
Accounts receivable, related parties	35	95
Inventory	1,219	3,081
VAT receivable	2,037	2,562
Deferred tax assets	772	1,166
Prepaid expenses and other current assets	10,373	14,089
Total current assets	80,150	94,073
Property, plant and equipment, net	147,231	194,872
Goodwill	498	7,041
Intangible assets, net	16,869	19,245
Deferred tax assets, less current portion	210	506
Other non-current assets	1,222	1,730
Total assets	246,180	317,467

MegaFon
Consolidated Balance Sheets (continued)
 (In millions of Rubles)

	December 31, 2009	December 31, 2010
Liabilities:		
Current liabilities:		
Accounts payable	4,530	6,521
Accounts payable to equipment suppliers	6,864	10,308
Accounts payable, related parties	502	404
Current portion of liability for marketing related licenses	287	382
Current portion of liability for deferred and contingent consideration	—	1,450
Accrued compensation and social contributions	3,435	3,028
Subscribers' prepayments	7,083	7,303
Taxes payable	1,880	1,516
VAT payable	1,240	1,294
Deferred revenue	358	552
Current portion of long-term debt	7,811	12,171
Other current liabilities	645	845
Total current liabilities	34,635	45,774
Debt, less current portion	19,335	20,750
Deferred tax liabilities	2,070	8,256
Asset retirement obligations	3,303	4,304
Liability for marketing related licenses, less current portion	1,054	893
Liability for deferred and contingent consideration, less current portion	—	1,731
Deferred revenue, less current portion	1,568	1,968
Other non-current liabilities	301	665
Total liabilities	62,266	84,341
Equity		
MegaFon shareholders' equity:		
Common stock (par value of 10 Rubles, 6,200,002 shares authorized, issued and outstanding)	581	581
Reserve fund	17	17
Additional paid-in capital	13,870	13,855
Retained earnings	169,199	218,371
Accumulated other comprehensive loss	(255)	(261)
Total MegaFon shareholders' equity	183,412	232,563
Noncontrolling interests	502	563
Total equity	183,914	233,126
Total liabilities and equity	246,180	317,467

MegaFon
Consolidated Statements of Cash Flows
(In millions of Rubles)

	For year ended December 31	
	2009	2010
Cash flows from operating activities:		
Net income attributable to MegaFon	45,289	49,172
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	28,269	35,035
Amortization	3,075	3,839
Loss on derivatives	300	203
Net foreign exchange loss	2,192	700
Net income attributable to noncontrolling interests	11	52
Bad debt expense	1,122	1,182
Provision for deferred income taxes	10	3,240
Amortization of deferred finance charges	617	180
Changes in assets and liabilities:		
Accounts receivable	484	(1,927)
Inventory	1,156	(1,606)
Prepayments and other current assets	(4,770)	(3,555)
Accounts payable and accrued expenses	1,335	119
Deferred revenue	(4)	151
Subscribers' prepayments	609	18
VAT, net	(345)	(519)
Net cash provided by operating activities	79,350	86,284
Cash flows from investing activities:		
Purchases of property, plant and equipment and intangible assets	(46,443)	(63,860)
Proceeds from sale of property, plant and equipment	639	743
Acquisitions of subsidiaries, net of cash acquired	(833)	(10,418)
Increase in short-term investments	(14,073)	(14,970)
Other investing activities	—	(416)
Net cash used in investing activities	(60,710)	(88,921)
Cash flows from financing activities:		
Proceeds from long-term debt	9,856	13,728
Repayments of long-term debt	(19,640)	(20,105)
Deferred finance charges paid	(333)	(208)
Dividends paid to noncontrolling interests	(59)	(147)
Net cash used in financing activities	(10,176)	(6,732)
Effect of exchange rate changes on cash and cash equivalents	(2,379)	(514)
Net increase/(decrease) in cash and cash equivalents	6,085	(9,883)
Cash and cash equivalents at beginning of year	6,465	12,550
Cash and cash equivalents at end of year	12,550	2,667
Supplemental cash flow information:		
Cash paid during the year for income taxes	10,897	11,858
Cash paid during the year for interest	2,636	957
Non-cash activities:		
Revenue from in-kind services	18	71

Schedule 3: Reconciliations of non-US GAAP financial measures (unaudited data)

OIBDA (In millions of Rubles)

	Q4 2009	Q1 2010	Q2 2010	Q3 2010	Q4 2010
Operating income	15,149	12,786	14,524	16,589	15,001
Depreciation and amortization	7,849	8,636	9,182	9,949	11,107
OIBDA	22,998	21,422	23,706	26,538	26,108

OIBDA margin as percentage of Revenue

	Q4 2009	Q1 2010	Q2 2010	Q3 2010	Q4 2010
Operating income	31.3%	27.3%	27.8%	28.8%	25.4%
Depreciation and amortization	16.3%	18.5%	17.6%	17.3%	18.9%
OIBDA margin	47.6%	45.8%	45.4%	46.1%	44.3%

Positive Net Cash Position (In millions of Rubles)

	Dec 31, 2009	Mar 31, 2010	Jun 30, 2010	Sep 30, 2010	Dec 31, 2010
Cash and cash equivalents	12,550	9,742	8,464	3,414	2,667
Short term financial investments	49,114	61,071	61,652	73,399	63,554
Loans and borrowings	(27,146)	(24,462)	(35,410)	(35,484)	(32,921)
Positive net cash position	34,518	46,351	34,706	41,329	33,300

Free Cash Flow (In millions of Rubles)

	12 months of 2009	12 months of 2010
Cash from operating activities	79,350	86,284
Purchase of property, plant and equipment and intangible assets	(46,443)	(63,860)
Proceeds from sale of property, plant and equipment	639	743
Free cash flow	33,546	23,167