



MEGAFON

The Future Depends on You

European Media and Telecom Forum
Barclays Select Series 2013

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1 Corporate and Financial Highlights

2 Financial and Operating Results

3 Acquisition of Scartel / Yota

4 Outlook for 2013

Q2 2013 Key Corporate Events

Continue to follow long term strategy focused on efficient growth and mobile internet service development

• Key corporate events

- Company celebrated its 20th anniversary in Saint Petersburg
- Establishment of a global strategic partnership with Telefónica S.A. to exploit economies of scale in joint procurement and to exchange technological know-how
- The CEO has exercised his option under long-term incentive plan and made further purchases of the Company's shares in the market thus increasing his interest in MegaFon up to 2.55%

• Development of mobile internet service is a priority

- Launched sale of MegaFon branded smartphone - "MegaFon Login" – at RUR 1,990 (c.\$ 60) to boost mobile data consumption
- Continued pioneering of 4G/LTE to support leadership in mobile data
 - Launched 4G/LTE for smartphones and allowed intranet roaming services for 4G/LTE users in Russia
 - By the end of Q2 2013 MegaFon provided access to 4G/LTE network in 30 regions in Russia, covering c.27% of population in the country

• Further improvement of debt profile

- Concluded cross currency swap transaction to mitigate growing currency risk and to economically hedge c. 50% of MegaFon's total net open currency position

• Declared dividends of RUR 64.51⁽¹⁾ per 1 ordinary share (or per 1 GDR), amounting to RUR 40Bn⁽²⁾ in total, which were paid in July 2013

• Acquisition of Scartel / Yota to strengthen MegaFon's leading position in 4G / LTE market in Russia

- On 7 August 2013 MegaFon's Board recommended that shareholders approve acquisition of 100% interest in LLC Scartel ("Scartel")/LLC Yota ("Yota")⁽³⁾ from Garsdale Services Investment Limited ("Garsdale")
- Deal consideration: Equity Value of \$ 1,180MM for 100% of Scartel / Yota plus assumption or payoff Net Debt of up to \$ 600MM as of 30 June 2013, translating into Enterprise Value of c.\$ 1,780MM as of 30 June 2013
 - Plus assumption or payoff of potential Scartel / Yota Net Debt increase of up to \$ 20MM for each month starting from 1 July 2013 until Closing that is expected at the end of September

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

Note:

1. Dividends attributable to four consecutive quarters (from Q2 2012 to Q1 2013).
2. Approximately RUR 3Bn of dividends were paid to the Company's wholly-owned subsidiary MegaFon International Cyprus Limited, which holds the Company's treasury shares
3. MegaFon to acquire 100% interest in Maxiten Co Limited, holding 100% interest in Scartel and Yota.

Q2 2013 Financial and Operational Highlights

- **Consolidated revenue of RUR 72.2Bn in Q2 2013** (up by 8.4% y-o-y)
 - All business revenue streams have demonstrated organic growth
- **Consolidated OIBDA of RUR 34.3Bn** (up 21.8% y-o-y) **and OIBDA margin of 47.5%** (up 5.3 p.p. y-o-y)
 - OIBDA growth is primarily driven by increase in revenues and continued positive effect from implemented cost optimising initiatives
- **Net profit⁽¹⁾ of RUR 13.6Bn** (up c.8-fold y-o-y) **and Net profit margin of 18.8%** (up 16.3 p.p. y-o-y)
 - Solid net profit growth reflects strong uplift in operating profit in Q2 2013 vs. Q2 2012 and significantly lower foreign exchange losses
- **The number of mobile subscribers as of 30 June 2013 was 66.0 million⁽²⁾** (up 3.8% y-o-y)
 - Subscriber base continued to grow supported by uptake in sales of smartphones and mobile internet devices as well as further stimulation of data usage

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

Note:

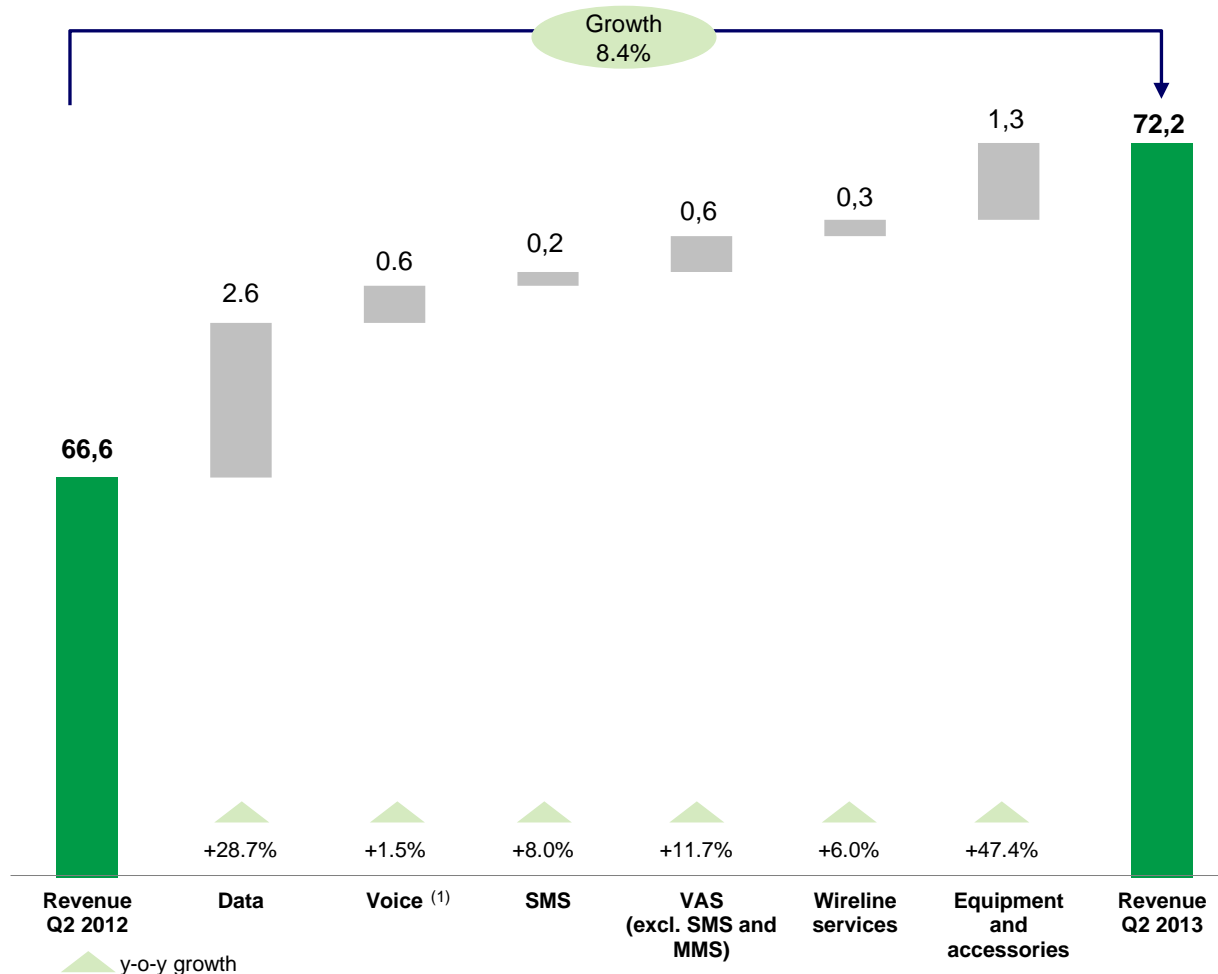
1. Net profit attributable to equity holders of the Company.

2. Consolidated 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

Strong momentum in mobile data revenue growth continues

Consolidated revenue growth bridge

RUR Bn



- Solid consolidated revenue growth of 8.4% y-o-y
- Strong mobile data growth seen in previous quarters has accelerated in Q2 2013 with revenues increasing by 28.7% y-o-y
- Sales of equipment and accessories demonstrated significant increase becoming the second largest growth driver in monetary terms in Q2 2013
 - Revenues grew by 47.4% generating an additional RUR 1.3Bn
- Voice represented the third largest contribution to total revenue growth in Q2 2013, adding RUR 0.6Bn to the total revenues

Acquisition of Scartel / Yota to Strengthen MegaFon's Leading Position in 4G / LTE market in Russia

- **On 7 August 2013 MegaFon's Board of Directors recommended that shareholders approve the acquisition of 100% interest in Scartel / Yota from Garsdale, the controlling shareholder of MegaFon**

- Scartel owns 2x30 MHz nationwide 4G / LTE spectrum in the 2.5-2.6 GHz frequency band and a 4G / LTE network covering over 30 regions in Russia or 27% of the Russian population (as of June 2013)
- Yota provides 4G / LTE mobile internet services to 605k B2C and 43k B2B retail customers using Scartel's network (as of June 2013)
- Morgan Stanley advised MegaFon on the transaction and provided a Financial Opinion to the members of MegaFon's Board of Directors, representing non-controlling shareholders

- **Compelling acquisition rationale**

- Significant increase in network capacity and quality, that will strengthen MegaFon's leadership position in the fast growing mobile data market through enhanced overall service offering and customer experience
- Ability to carry out 4G / LTE rollout with reduced capex and opex per Mbps of data transmission capacity because of enhanced spectrum position
- Considerable cash flow savings in network rollout and maintenance driven principally by elimination of significant current and future operating costs

- **Total consideration of \$ 1.78 Bn on an Enterprise Value basis as of 30 June 2013**

- Equity Consideration of \$ 1,180MM, paid on a deferred basis as follows: 50% of the consideration (\$ 590MM) plus interest at 6% p.a. from closing until payment date will be paid on the 1st anniversary of closing while the remaining consideration (\$ 590MM) plus interest at 6% p.a. from closing until payment date will be paid on the 2nd anniversary of closing
- Net Debt of the Target capped at \$ 600MM as at 30 June 2013 plus increase of \$ 20MM per month from 1 July 2013 until closing

- **Impact on MegaFon's financial profile**

- No change on 2013 guidance on revenue growth, OIBDA margin or capex
- No change in dividend policy

- **Transaction is subject to MegaFon "non-interested shareholders" vote, scheduled for 12th of September**

- MegaFon's controlling shareholder will not vote
- FAS approval received

Agenda

1 Corporate and Financial Highlights

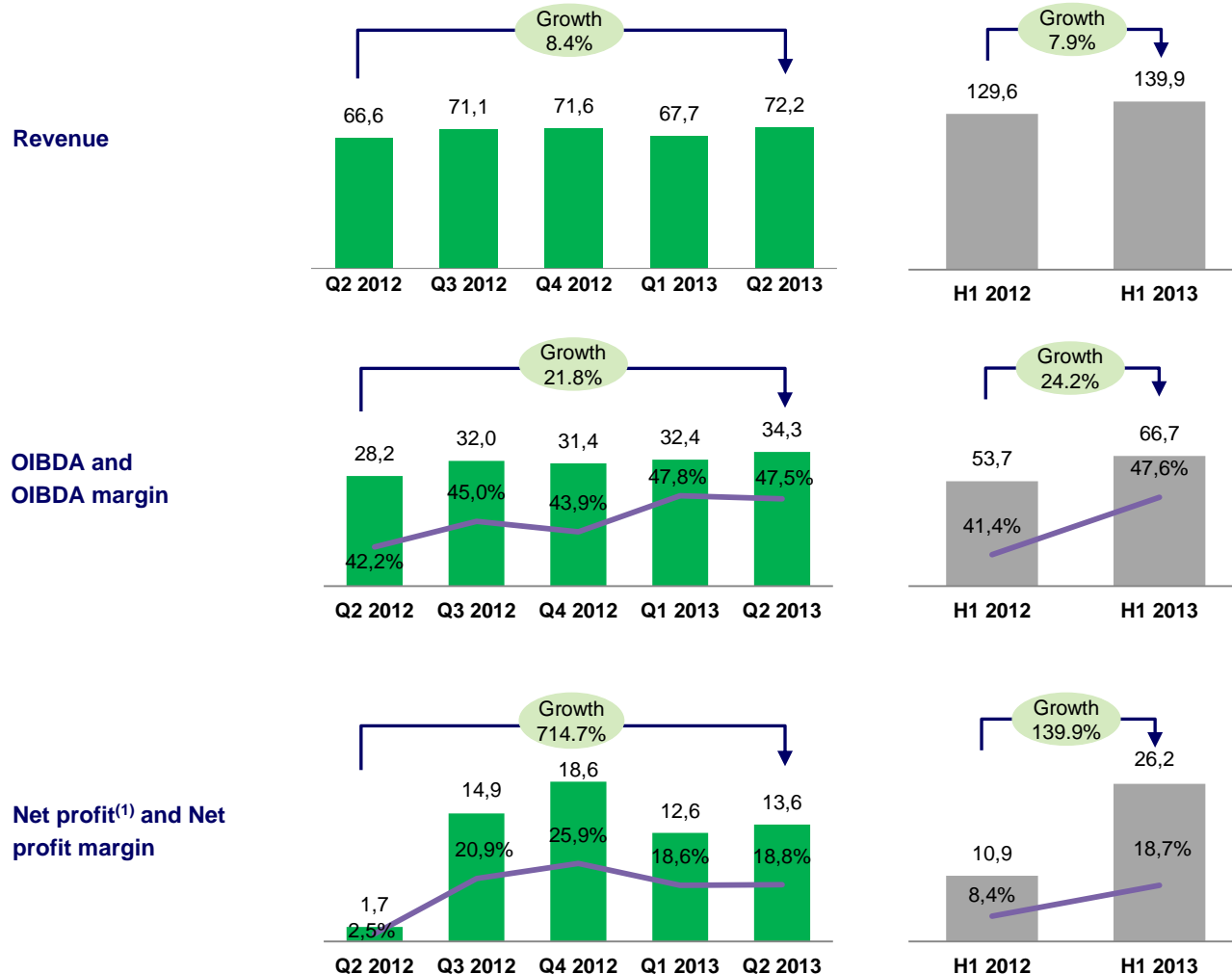
2 Financial and Operating Results

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4 Outlook for 2013

Key highlights: Strong revenue growth and further margin expansion

Revenue, OIBDA and Net profit

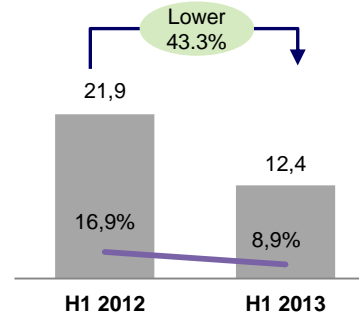
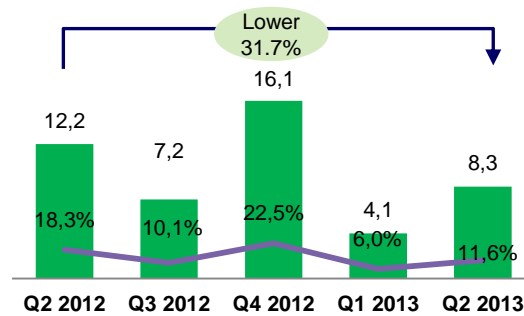


- Our strong Q2 2013 performance derived from 8.4% y-o-y topline growth in revenue from the core business, including 28.7% growth in data revenue, and 47.4% growth in revenue from sales of handset and accessories
- Our continuous focus on operating efficiency initiatives together with strong revenue growth resulted in an OIBDA margin of 47.5% in Q2 2013 growing by +5.3pp y-o-y
- Net profit⁽¹⁾ grew by more than 8-fold y-o-y in Q2 2013 driven by the solid growth in operating income and improved foreign exchange position: RUR 2.2Bn of forex losses in Q2 2013 vs. RUR 9.9Bn in Q2 2012

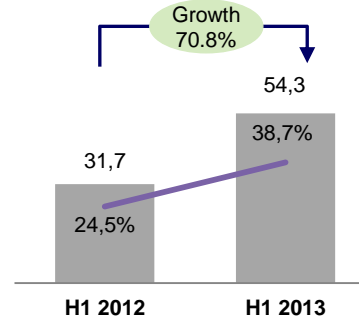
Key highlights: Continued cash flow growth driven by high margins and lower CAPEX

CAPEX, OIBDA-CAPEX, Free Cash Flow

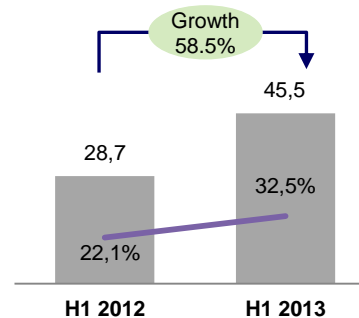
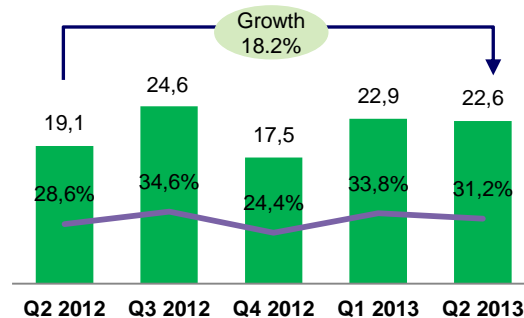
CAPEX



OIBDA-CAPEX



Free Cash Flow

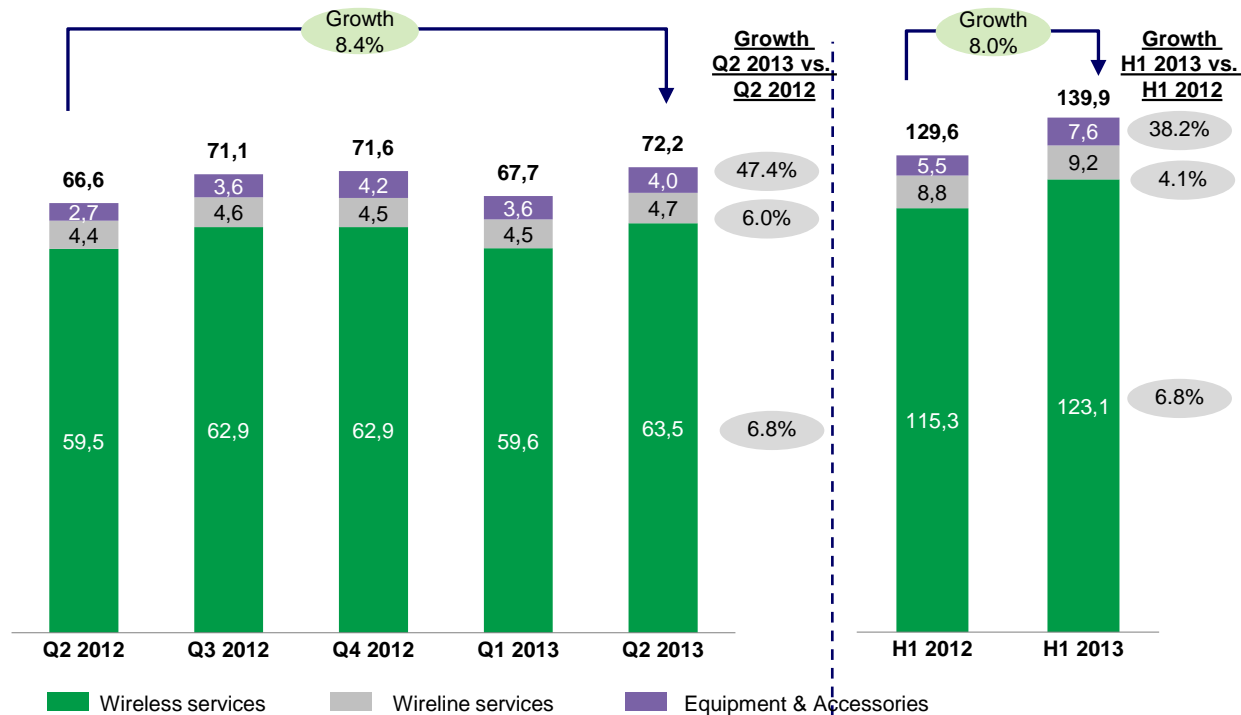


- CAPEX for Q2 2013 amounted to RUR 8.3Bn
- OIBDA-CAPEX increased by 62.8% y-o-y in Q2 2013
- Free Cash Flow grew by 18.2% y-o-y in Q2 2013, primarily driven by an increase in cash flow from operating activities and lower CAPEX

Breakdown of consolidated revenue

Wireless services, Wireline services and Equipment & Accessories revenues

RUR Bn



Revenue mix (%)

Wireless services (1)	89.3%	88.5%	87.8%	88.0%	88.0%	89.0%	88.0%
Wireline services	6.6%	6.4%	6.3%	6.7%	6.5%	6.8%	6.6%
Equipment & accessories	4.1%	5.1%	5.9%	5.3%	5.5%	4.2%	5.4%

- Consolidated revenue grew by 8.4% in Q2 2013 driven by data revenue expansion, an increase in subscriber base, strong demand for airtime and sales of equipment and accessories
- Sales of equipment and accessories increased by 47.4% in Q2 2013 vs. Q2 2012, driven by expansion of our retail network, and significant increase in Q2 2013 in the number of MegaFon customized smartphones and mobile internet devices sold, including branded smartphones (“MegaFon Login”)

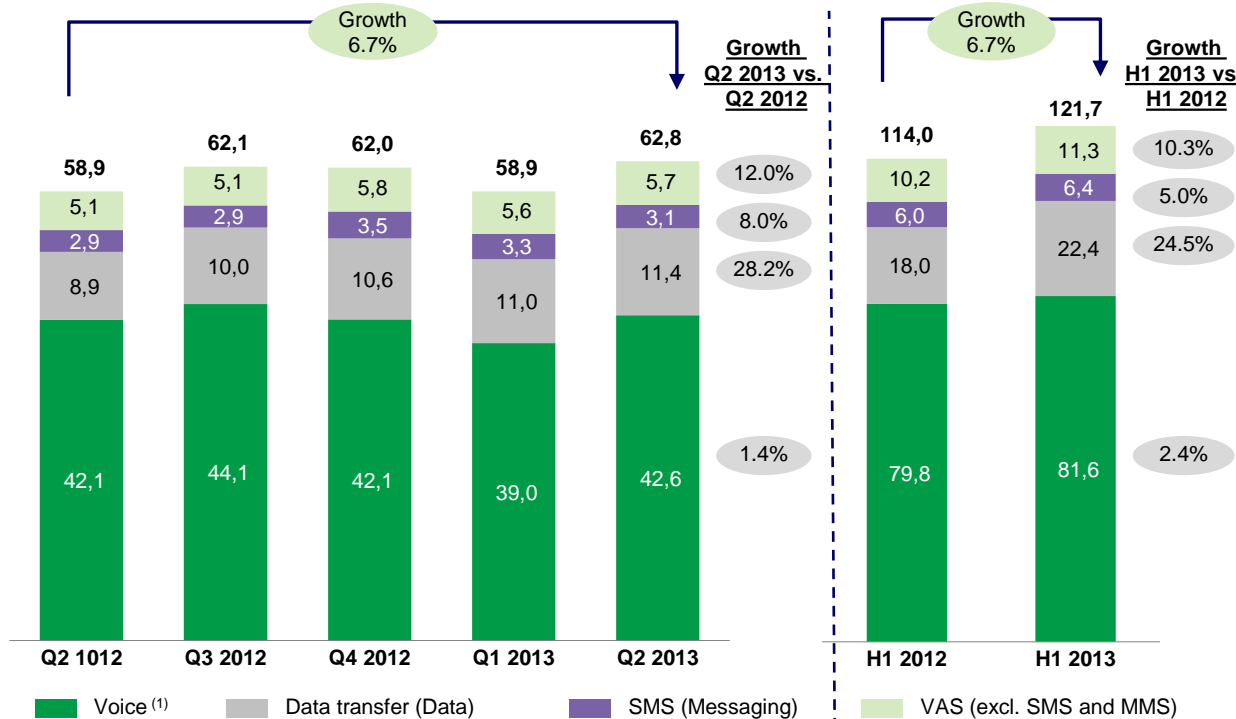
Note: Due to rounding, manual calculations for financials and KPIs may differ from those displayed

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

Breakdown of Russia wireless services revenues

Voice, Data, SMS and other VAS revenues in Russia

RUR Bn



Revenue mix (%)

	Q2 2012	Q3 2012	Q4 2012	Q1 2013	Q2 2013	H1 2012	H1 2013
Voice ⁽¹⁾	71.4%	70.9%	67.9%	66.3%	67.8%	69.9%	67.0%
Data transfer (Data)	15.1%	16.2%	17.1%	18.6%	18.2%	15.8%	18.4%
SMS (Messaging)	4.8%	4.7%	6.0%	5.4%	5.1%	5.2%	5.3%
VAS (excl. SMS and MMS)	8.7%	8.2%	9.0%	9.7%	8.9%	9.1%	9.3%

Results provided on this page cover only the Russian business

- Russian wireless services revenue grew by 6.7% in Q2 2013 to RUR 62.8Bn, a faster rate than the growth in subscriber base (3.2% y-o-y)
- Mobile data remains the fastest growing revenue stream as demonstrated by its significant growth of 28.2% y-o-y and comprises almost 18.2% of total Russian wireless services revenues (vs. 15.1% in Q2 2012)
- Revenue from VAS (excluding SMS and MMS) increased by 12.0% y-o-y in Q2 2013 primarily due to increased usage of content and other VAS services
- Revenue from SMS increased by 8.0% due to active promotion of tariff plans encouraging higher usage of SMS

Drivers of Russia total wireless services revenues: wireless subscribers

Total Russia wireless subscribers including breakdown of data service users

Results provided on this page cover only the Russian business

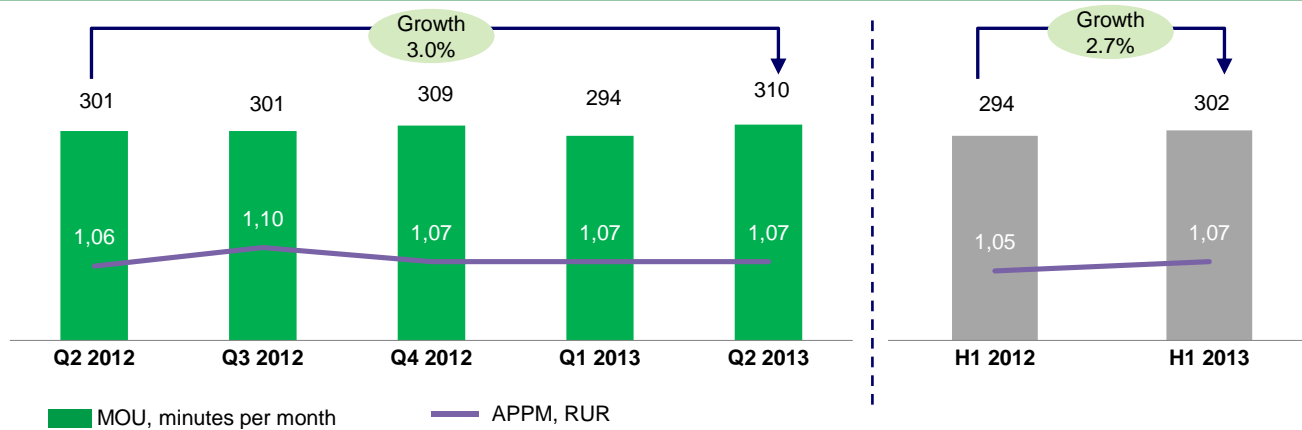
(m)



- Our continuous focus on improving customer service and reducing churn rates via new revenue-share programmes with dealers contributed to the steady growth in our subscriber base by c.3.2% y-o-y
- Data service user base grew by 16.3% y-o-y due to effective strategy of promoting data services, including 4G/LTE
 - Wireless data services users accounted for 35.0% of the Company's total subscriber base as at 30 June 2013 vs. 31.0% as at 30 June 2012

Drivers of Russia total wireless services revenues: MoU and APPM

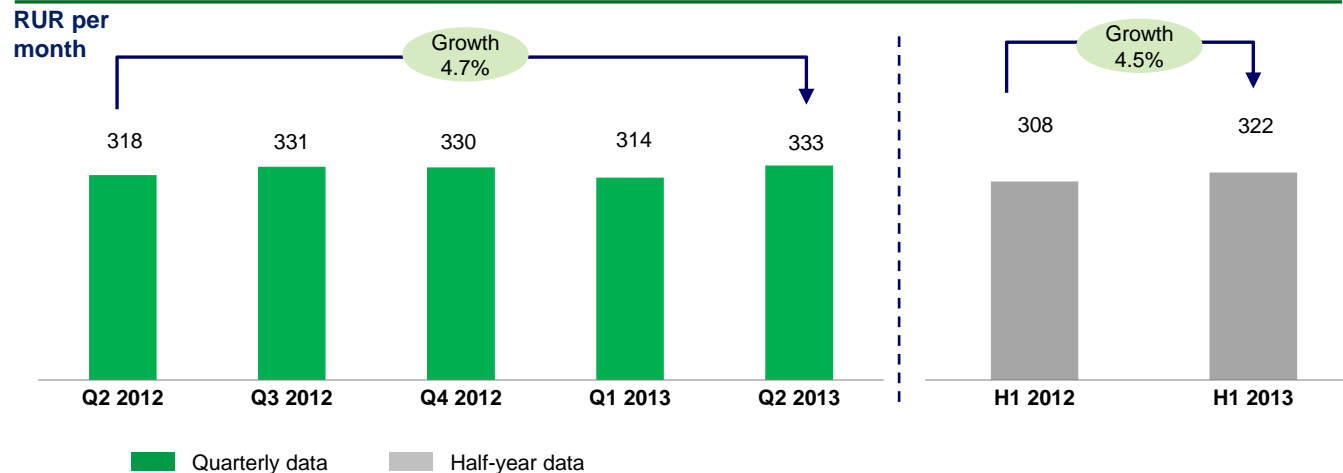
Blended MOU (1) & Blended APPM (2)



Results provided on this page cover only the Russian business

- Blended MOU increased by 9 minutes in Q2 2013 y-o-y largely due to launch of national tariff plan “Switch to Zero” stimulating on-net traffic
- Continued effort of switching to federal tariffs in order to optimise product development and tariff management
- Blended APPM grew slightly y-o-y and stabilised at RUR 1.07 level similar to the past two quarters
- Blended ARPU grew by 4.7% in Q2 2013 vs. Q2 2012 primarily driven by increased smartphone penetration boosting usage of VAS

Blended ARPU (3)



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

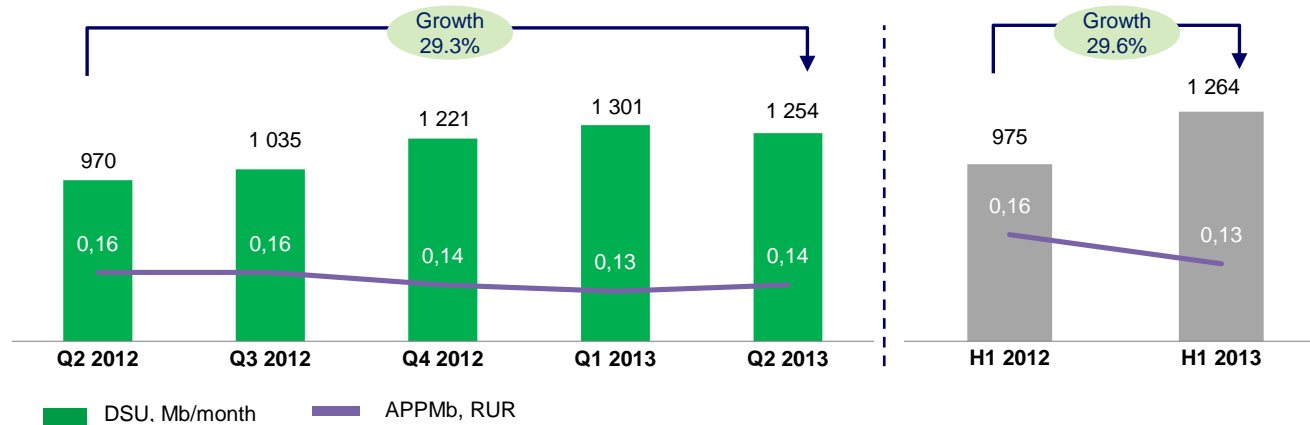
1. Total number of minutes in a given period divided by average number of subscribers in such period, divided by number of months in such period

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

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

Drivers of Russia wireless data revenues: DSU and APPMb

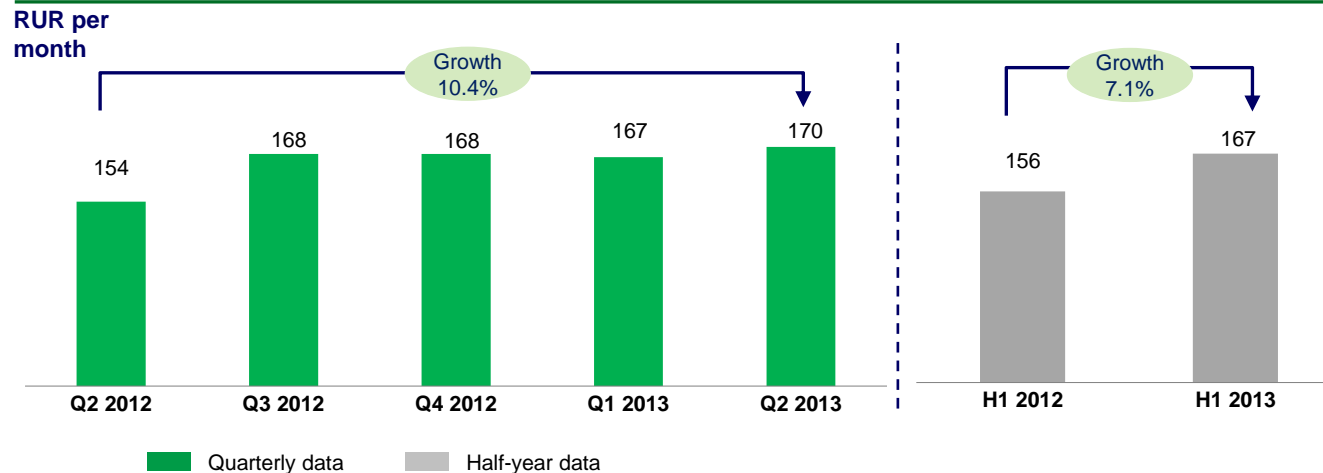
DSU (1) & APPMb (2)



Results provided on this page cover only the Russian business

- Significant DSU growth was driven by continued 4G/LTE rollout and launch of attractive tariffs for this technology, along with the growth of smartphone and tablet penetration
 - DSU increased by 284 Mb or by 29.3% y-o-y
- We managed to stop the decline of APPMb, which was driven by the switch of the focus from high traffic-consuming dongles to more cost-effective smartphones and tablets
- All these efforts resulted in 10.4% ARPDU growth y-o-y

Data ARPU (ARPDU (3))



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

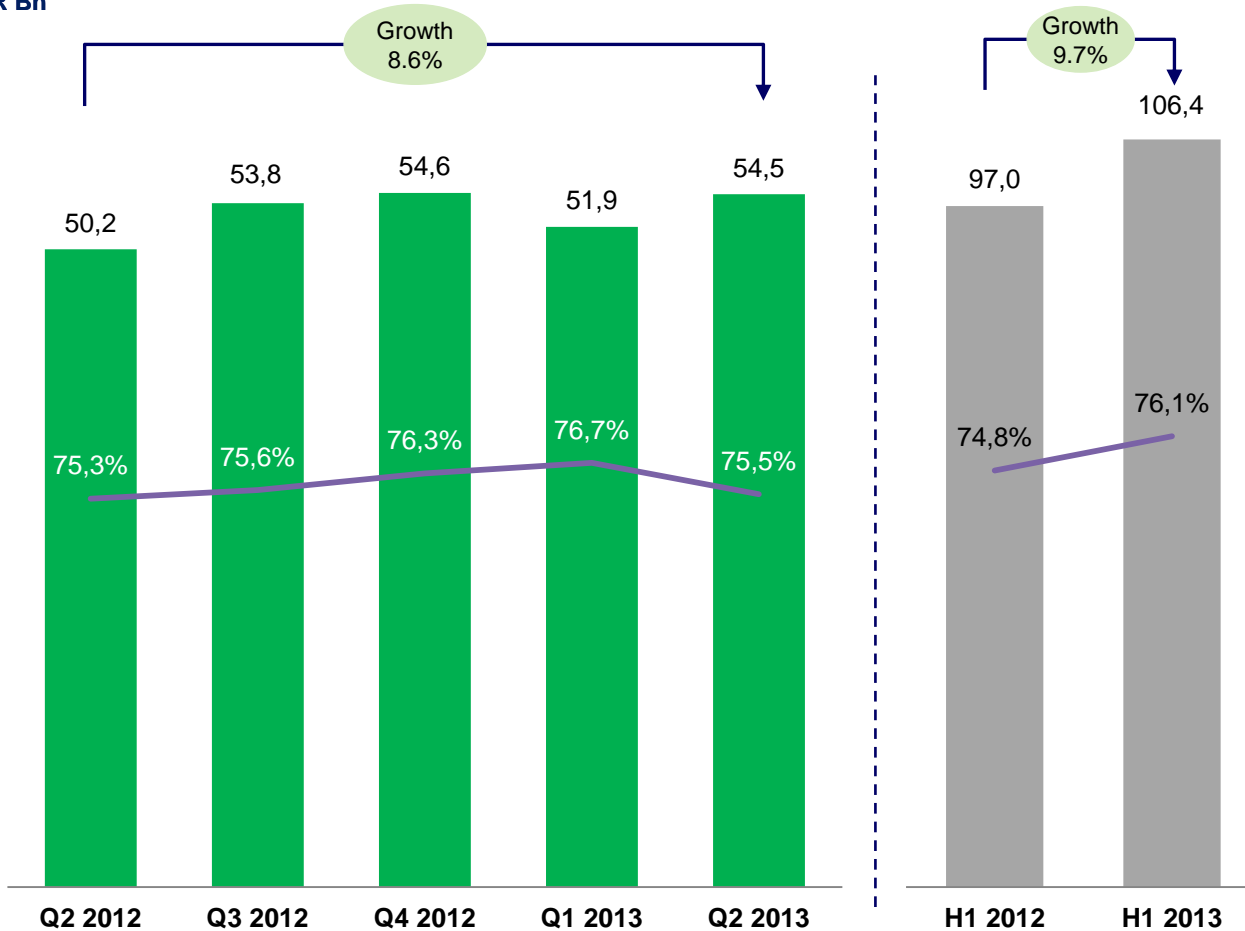
2. ARPDU for a given period divided by DSU in such period

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

Strong Gross profit and Gross profit margin improvement

Gross Profit⁽¹⁾ and Gross Profit margin

RUR Bn

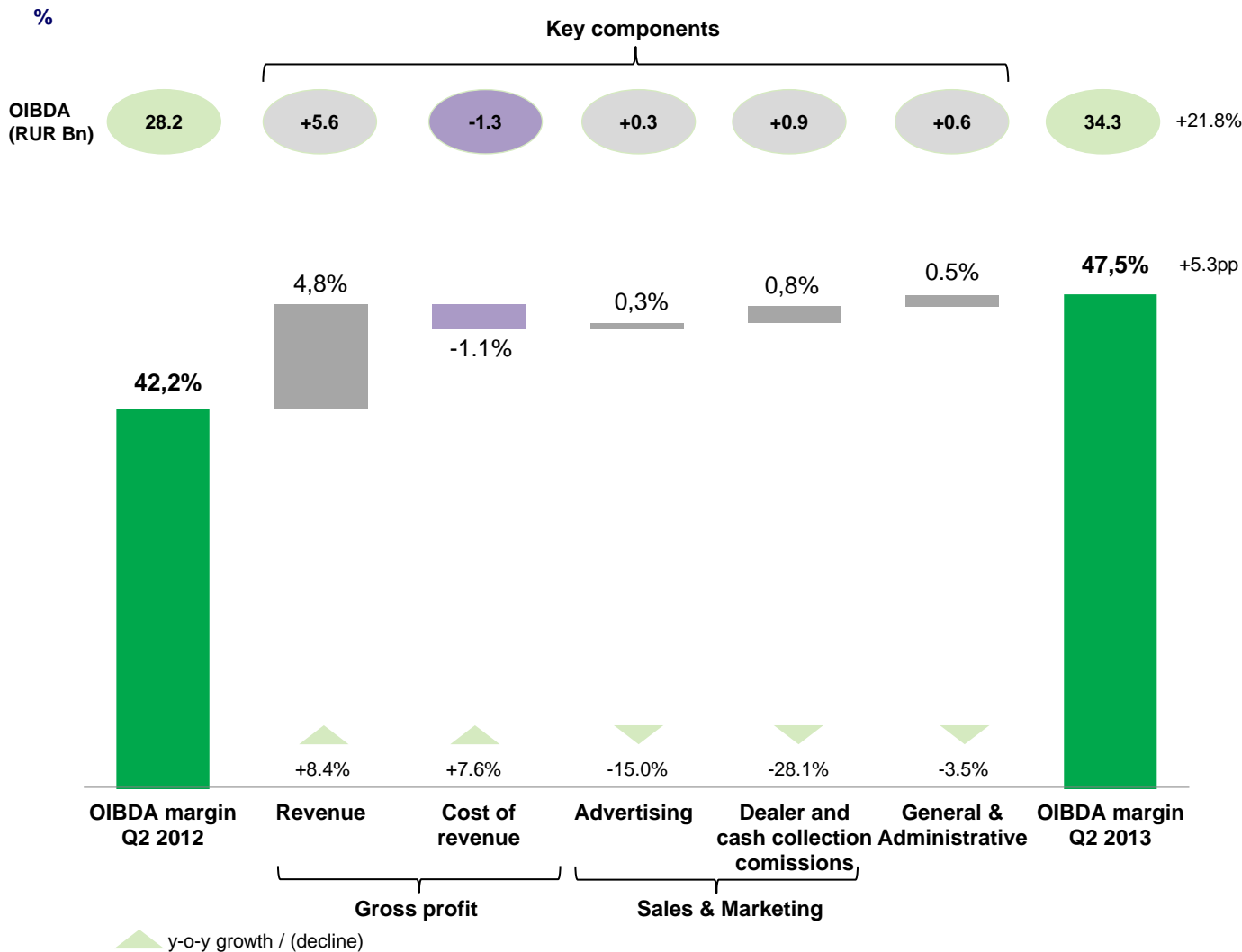


- Gross profit grew by 8.6% in Q2 2013 y-o-y (exceeding the 8.4% y-o-y growth in Revenue) as a result of:
 - Revenue from wireless and wireline revenues increased by c.6.6%, while corresponding cost of services and SIM-cards sold increased by only 0.4%, partially explained by positive effect from VAS Media acquisition

■ Quarterly data
 ■ Half-year data
 — % of Revenue

Key drivers of strong OIBDA margin improvement

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

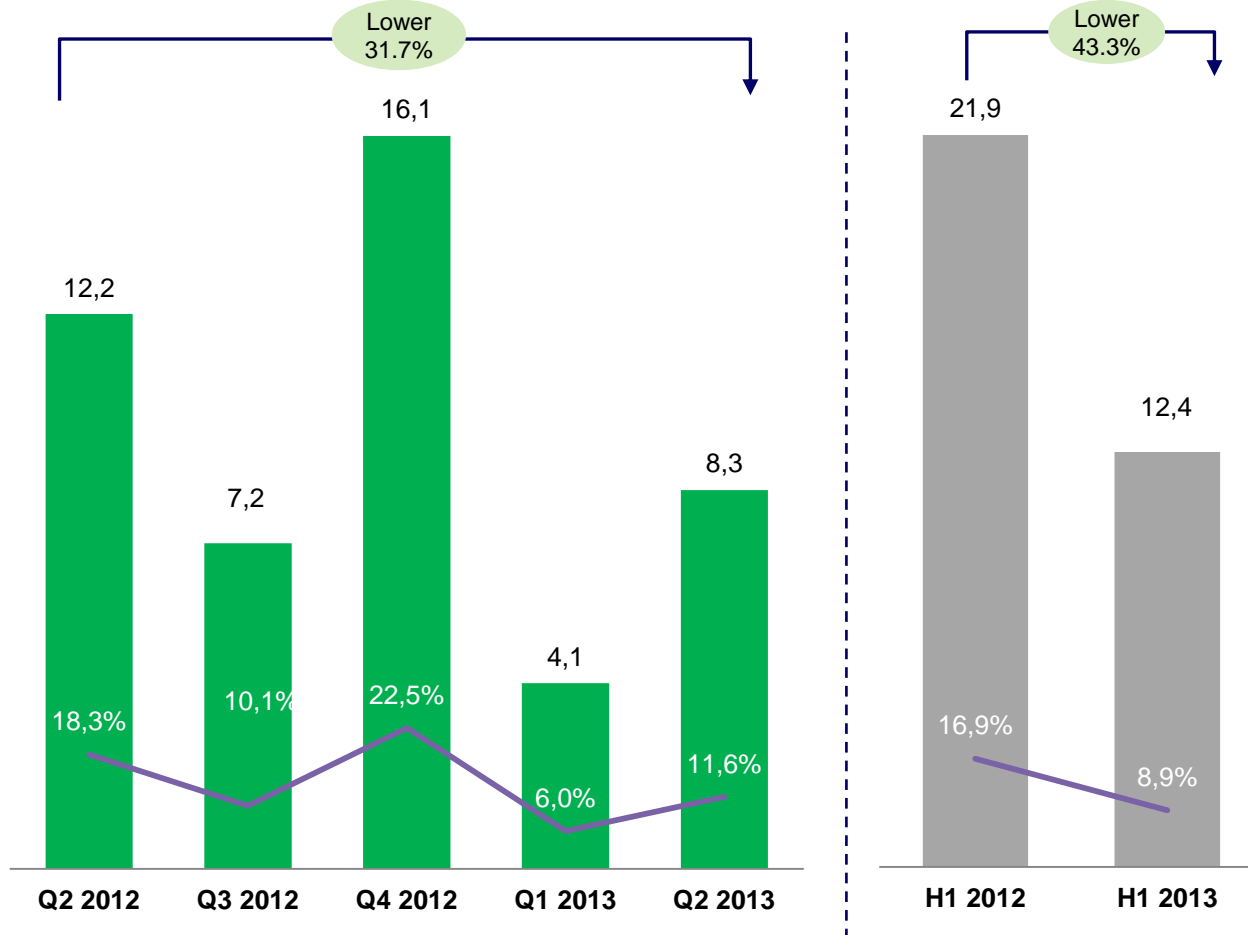


- OIBDA increased by 21.8% in Q2 2013 y-o-y (from RUR 28.2Bn to RUR 34.3Bn) and OIBDA margin increased by 5.3 pp (from 42.2% to 47.5%)
 - The key drivers of the growth were the continuing increase in revenue and streamlining of operating expenses, such as advertising, dealer commissions, personnel costs and other general and administrative expenses

Consolidated CAPEX

CAPEX and CAPEX as % of Revenue ⁽¹⁾

RUR Bn

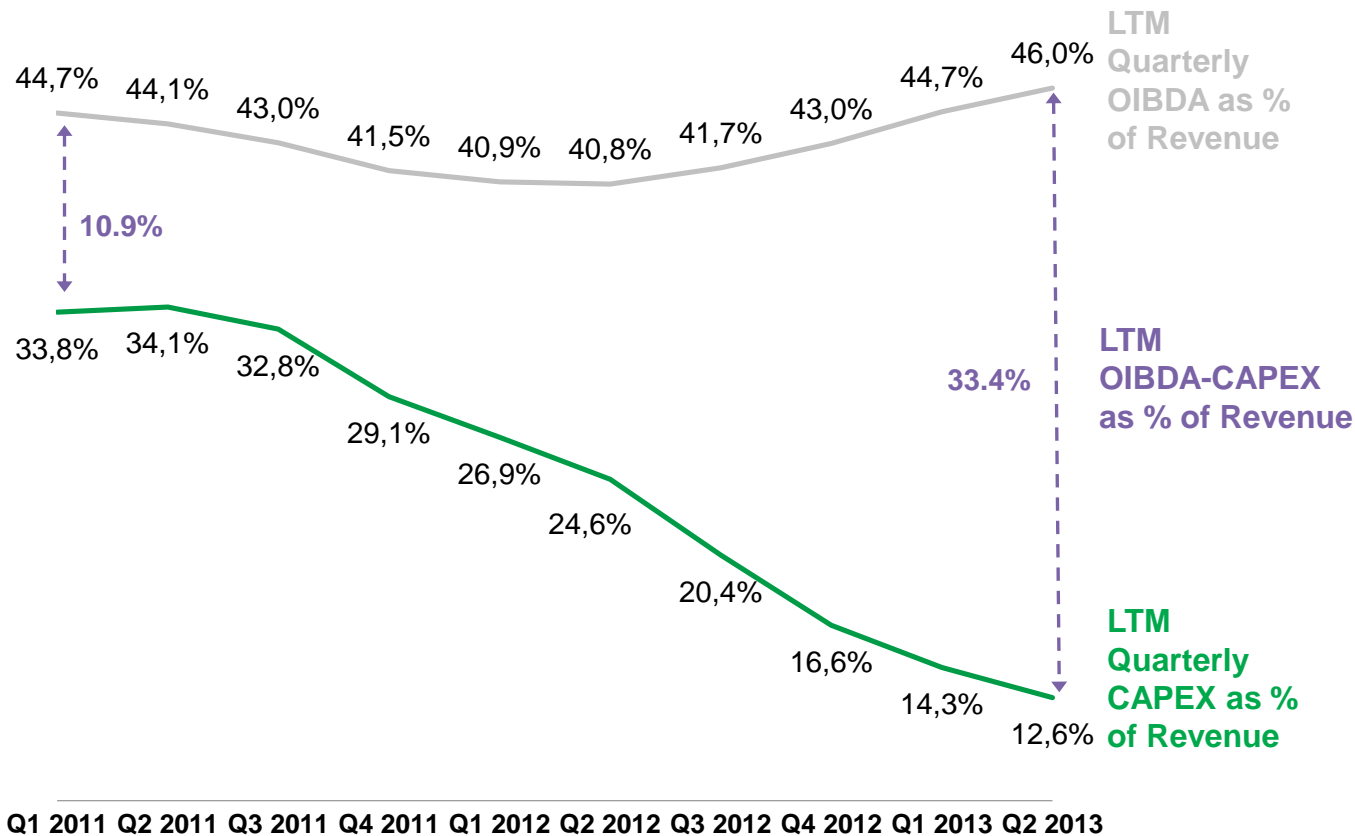


- CAPEX for Q2 2013 amounted to RUR 8.3Bn and for H1 2013 – RUR 12.4Bn
- Our relatively low CAPEX in H1 2013 was due to several factors:
 - As part of our plan to reduce CAPEX, we have been working intensively with various international vendors on achieving best terms for our future 3G and 4G network rollout and modernization of 2G and 3G network, that would allow us to optimise our medium term investment programme and realize significant savings. The tenders were completed in July 2013
 - We expect acceleration of our CAPEX in H2 2013, once all terms of the agreements and tender documents are finalized

■ Quarterly data
 ■ Half-year data
 — % of Revenue

Growing cashflow continues to be supported by Cost and CAPEX optimisation

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



- Cash flow continued to grow impressively in Q2 2013 as a result of successful implementation of various initiatives aimed at improving profits and optimising CAPEX

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

Consolidated balance sheet and leverage

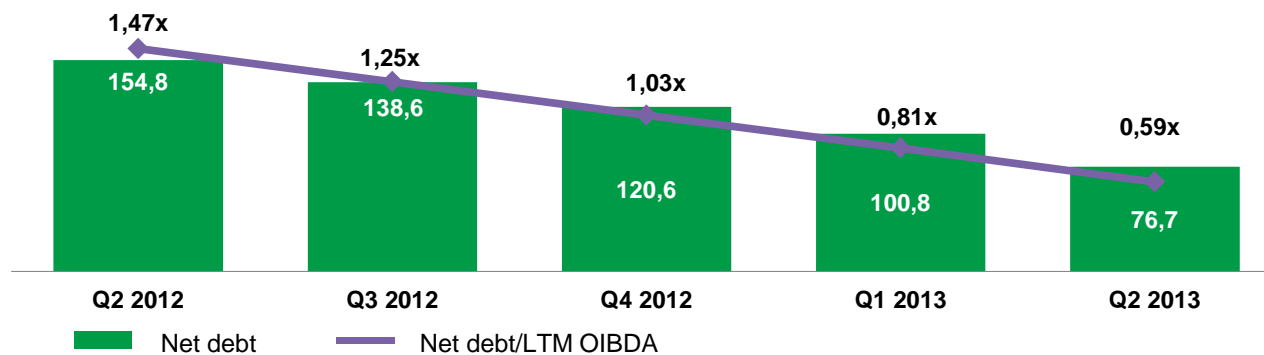
Key Balance Sheet Items

RUR Bn

Balance sheet	As at 31 Dec 2012	As at 30 June 2013
Cash and cash equivalents	2.4	24.9
Short-term investments	22.2	47.8
Total debt	145.2	149.4
Long-term debt	126.5	140.2
Short-term debt	19.9	10.3
Deferred financial cost	(1.2)	(1.1)
Net debt ⁽¹⁾	120.6	76.7
Shareholders' equity ⁽²⁾	117.9	112.8
Total assets	351.4	386.2

Net debt and Net debt / LTM OIBDA ⁽¹⁾

RUR Bn / (x)



- Liquidity sufficient to distribute excess cash to shareholders while maintaining substantial cash position
 - RUB 40Bn dividends approved by Annual General Meeting on 28 June 2013 and paid in July 2013; c.RUR 3Bn of dividends were paid to the Company's wholly-owned subsidiary MegaFon International Cyprus Limited, which holds the Company's treasury shares
- Continued deleverage in Q2 2013 on the back of strong cash generation
 - Net debt/LTM OIBDA ratio was 0.59x in Q2 2013 compared to 1.03x in Q4 2012 or 0.81x in Q1 2013

Debt profile

Debt portfolio structure

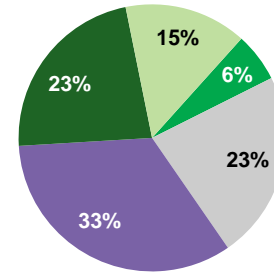
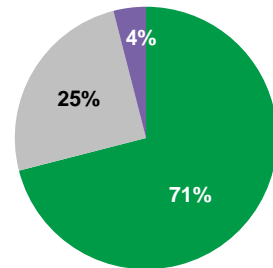
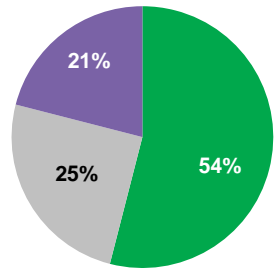
% of Total

By instrument

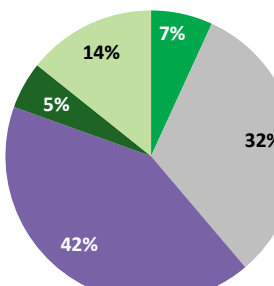
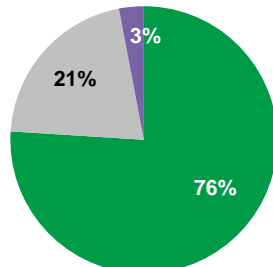
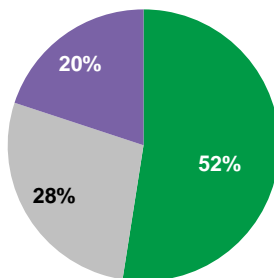
By currency

By maturity

31-Mar-2013



30-Jun-2013



■ Bonds ■ Bank Loans
■ Equipment financing

■ RUB ■ USD ■ EUR

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

- Comfortable level of debt preserved throughout the 2nd quarter 2013:
 - No short-term refinancing risk
 - Diversified lending base and financing instruments
- Further debt portfolio optimisation
 - Approximately 50% of total net foreign currency position were economically hedged by entering into a structured cross-currency swap for USD denominated debt, which allowed us to mitigate our exposure to rising currency risks
 - Increased RUB portion of the debt portfolio to c.76%
- RUB 60Bn Exchange Bond program registered with MICEX:
 - An important potential pool of liquidity and an opportunity to further diversify financing sources

Agenda

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The only operator in Russia with an up-and-running multicity 4G / LTE network

Scartel / Yota overview

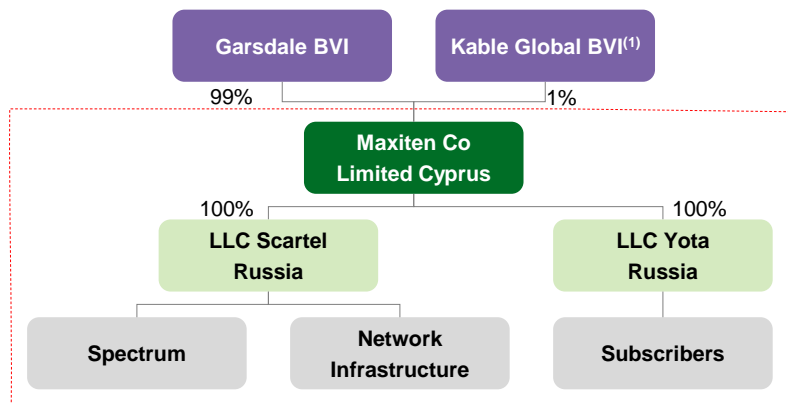
Key assets

- 2x30 MHz nationwide spectrum in the 2,500-2,530 MHz / 2,620-2,650 MHz frequency band
 - No embedded coverage or investment obligations
 - License is to be automatically prolonged in 10 years time since grant
- Network infrastructure covering over 30 regions in Russia or 27% of the Russian population as of 30 June 2013

Services provided

- Mobile internet services to 605k B2C and 43k B2B customers as of 30 June 2013 (c.82% of total revenues), as well as other telecom operators on an MVNO basis (c.6% of total revenues)
 - Currently, MegaFon is the only operator with an MVNO agreement in place with Scartel
- Sales of user devices (65% USB dongles, 35% of Wi-Fi routers) through its own retail network consisting of 69 points of sales (c.10% of total revenues)

Current Group Structure



Transaction perimeter

Note:

Preliminary unaudited KPIs as of June 2013 or for H1 2013, unless otherwise stated.

(1) 100% owned by Garsdale BVI

(2) Source: Financial due diligence report on Scartel / Yota, MegaFon analysis.

Key financials⁽²⁾

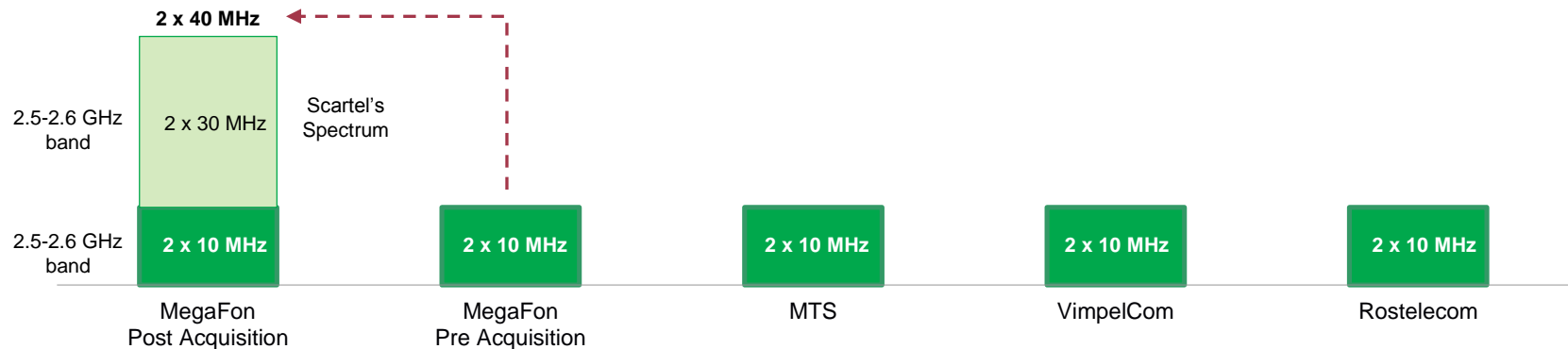
RUB MM	2012
Total Revenue	3,970
Gross Profit	1,980
Margin (%)	49.9%
EBITDA Adj.	(1,469)
Margin (%)	(37.0%)
Capex	10,428
% of Sales	262.7%
PP&E	13,925

Top 10 cities where service is live as of June 2013

#	City	Population	% of Russia
1	Moscow	11.5 MM	8.1%
2	St. Petersburg	4.9 MM	3.4%
3	Novosibirsk	1.5 MM	1.0%
4	Samara	1.2 MM	0.8%
5	Kazan	1.1 MM	0.8%
6	Ufa	1.1 MM	0.7%
7	Krasnoyarsk	1.0 MM	0.7%
8	Krasnodar	0.7 MM	0.5%
9	Vladivostok	0.6 MM	0.4%
10	Khabarovsk	0.6 MM	0.4%
	Other	11.7 MM	8.2%
	Total	38.7 MM	27.0%

Compelling acquisition rationale – unique spectrum position (1/2)

Provides
MegaFon
with a
unique
spectrum
position



Not taking into account 2 x 7.5 MHz in 800 MHz spectrum band that each operator has

- Results in MegaFon's unique spectrum position
 - MegaFon's 2.5-2.6 GHz band is adjacent to Scartel's spectrum thus providing MegaFon with immediate significant increase in network capacity
- Potential introduction of tech neutrality in the future is not expected to change the current dynamics meaningfully, given that voice services on 2G and 3G networks must be maintained in the near future

Compelling acquisition rationale - best product in the market (2/2)

Strengthens MegaFon's leadership position in the fast growing mobile data market

- Best product in the market: enhanced overall service offering and customer experience through superior data transmission quality (higher speeds, wider coverage, improvement of 3G performance through offloading of data to 4G/LTE)
- Positions MegaFon as the leading 4G/LTE operator in Russia, consistent with its data leadership strategy
- 4G/LTE is expected to be the key driver of mobile data market in the next 24-36 months as affordable 4G/LTE handsets become available in Russia
- Time to market advantage
 - Scartel's spectrum is largely ready to be used for 4G/LTE services

Considerable cash flow savings

- Considerable cash flow savings in network rollout and maintenance driven principally by elimination of significant current and future operating costs
- Reduced capex and opex per Mbps of data transmission capacity because of enhanced spectrum position
- Increase in market share and revenues
 - High density areas: Ability to serve more customers / offer more bandwidth per customer than competitors, due to MegaFon's superior spectrum position
 - Rural areas: Ability to provide services in more rural areas that competitors with inferior spectrum position will find uneconomic to serve

Illustration of capex efficiency of owning 2 x 40 MHz vs. 2 x 10 MHz in the 2.5-2.6 GHz frequency band

	Current situation	Proforma for acquisition
Amount of spectrum owned	2 x 10 MHz	2 x 40 MHz
Capacity provided by one base station	9 Mbps	36 Mbps
Capex incurred per 1Mbps of Capacity		
– Co-located base station	c.\$3.4k/Mbps	c.\$1.2k/Mbps
– Greenfield base station	c.\$8.0k/Mbps	c.\$1.8k/Mbps
Capex efficiency multiple of owning 2 x 40 MHz vs. 2 x 10 MHz of spectrum		
– Co-located base station		2.9x
– Greenfield base station		4.5x

Attractive transaction structure

Key Terms

- At Closing the full ownership of the Target will be transferred from Garsdale to MegaFon

Consideration:

- (i) Equity Consideration of \$ 1,180MM, paid in two deferred installments: 50% of the consideration (\$ 590MM) will be paid on the 1st anniversary of closing and the remaining consideration (\$ 590MM) on the 2nd anniversary of closing
 - Both payments will accrue interest at 6% p.a. from closing until payment date
- (ii) Assumption or payoff of up to \$ 600MM of Net Debt (including c.\$ 400MM held by selling shareholder group) translating into Enterprise Value of c.\$ 1,780MM as of 30 June 2013
 - Plus assumption or payoff of potential Net Debt increase of up to \$ 20MM for each month starting from 1 July 2013 until Closing that is expected at the end of September 2013
- The potential Transaction will be financed from MegaFon's operating cash flow, no new financing required

Attractive transaction structure for MegaFon

- Deferred payment of Equity Consideration
- Allows MegaFon to maintain its attractive dividend policy

Conclusion

- **Unique opportunity to acquire a stronghold in the 4G/LTE segment:
“We buy the future, not the past”**
- **Enhanced spectrum position provides MegaFon with long-term sustainable competitive advantage and best product offering for consumers**
- **Acquisition is consistent with MegaFon’s data leadership strategy**
- **Significant cash flow improvement that MegaFon can capitalise on going forward**
- **Attractive transaction structure**
- **No impact on MegaFon’s attractive dividend policy**

Agenda

1 Corporate and Financial Highlights

2 Financial and Operating Results

3 Acquisition of Scartel / Yota

4 Outlook for 2013

Outlook for 2013

Revenue growth

- High single digit revenue growth

✓ Reiterated

OIBDA margin

- 42.5-44.0%

✓ Reiterated

CAPEX

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

✓ Reiterated

Q&A

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