



PJSC MegaFon: Proposed Reorganization

July 2016

MEGAFON



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Resolutions of the Board of Directors

On 26 July 2016 the Board of Directors (the “Board”) approved the following agenda for the Company’s Extraordinary General Meeting of Shareholders (“EGM”) to be held on 16 September 2016:

1. On the reorganization of the Company in the form of a spin-off (“Spin-off”) of Joint-Stock Company “First Tower Company” (“FTC”).
2. On the reorganization of the Company in the form of a merger (“Merger”) into it of Joint-Stock Company “Mobicom Volga” (“Mobicom Volga”) and Joint-Stock Company “Yaroslavl-GSM” (“Yaroslavl-GSM”), both of which are wholly owned subsidiaries of the Company, and the respective merger agreement (the “Merger Agreement”),

the Spin-off and the Merger are jointly referred to as the “Reorganizations”.
3. Approval of interrelated party transactions: agreements on lease and/or use of telecom facilities (or parts of telecom facilities) and other property (or parts) between the Company (as Customer) and FTC (as Contractor) (the “Lease Agreements”).

Under the terms of the Spin-off, FTC will be a wholly-owned subsidiary of the Company.

Under the Russian Federal Law on Joint Stock Companies, the Company’s shareholders who vote against approval of any of the Reorganizations or the Lease Agreements, or do not participate in voting on any of these matters, will have the right to request full or partial redemption by the Company of their ordinary shares, subject to applicable Russian law.

Materials on the proposed Reorganizations, details of the procedure for share redemption and other materials related to the EGM will be made available on or before 16 August 2016, including posted at:
http://corp.megafon.com/investors/stock_and_capital/reorganization.



Global trend in telecom sector: Operators spin-off infrastructure from the core business

- ✓ Towers are a source of additional benefits for mobile operators
- ✓ Spin-off of passive infrastructure from the core business as a source of incremental premium

Change in strategic thinking / Rationale

- Mobile operators (MNO) throughout the world have become more confident that towers no longer provide a significant competitive advantage, while sharing brings operational benefits
 - sharing of expenses, network efficiency/scale, faster deployment, tax benefits
- In some European countries MNO have spun-off part of their infrastructure into standalone companies
 - Telefonica - Telxius (2016), LifeCells –UkrTowers (2016), O2 Czech Republic – CETIN (2015)

Attractive tool for improved efficiency

Towers spin-off will allow the Company to:

- Focus on core competences, including customer care and marketing
- Focus on tower portfolio management and reduce OPEX and CAPEX
- Seek incremental gains in premium from active involvement in fast growing market of towers leasing

Flexibility in future decisions

Towers spin-off into a standalone company (“TowerCo”) is seen as the first step towards new opportunities:

- Consolidation of MNO’s infrastructure under TowerCo, including possible acquisition of independent players and achieving economies of scale
- Proceeds from a future sale of shares in TowerCo, if implemented, could be paid as special dividend and/or reinvested into projects with higher return
- Potential establishment of NetCo for end-to-end management of active and passive infrastructure



Creation of portfolio of First Tower Company

- MegaFon proposes a spin-off of its tower portfolio and certain other infrastructure into a 100% owned TowerCo – JSC First Tower Company.
- Portfolio of towers and infrastructure to be transferred to TowerCo will include:
 - ✓ Portfolio of over 15,000 MegaFon's towers, including those under construction
 - ✓ Auxiliary equipment: signaling lights of masts and fences
 - ✓ Related land plots
 - ✓ Associated liabilities and assets, including accounts receivable, accounts payable, deferred tax liabilities
 - ✓ Other infrastructure – related assets and liabilities
- The amount of property and liabilities to be transferred will not exceed 10% of the book value of MegaFon's assets as of 30 June 2016¹, or RUB 47.2bn¹ (calculated in accordance with Russian accounting standards)
- MegaFon will keep the TowerCo as part of its business and focus on core competences, including customer care and marketing
- TowerCo will focus on management, planning and construction of tower infrastructure, including for other operators in the market
- MegaFon and TowerCo will enter into a Lease Agreement or several Lease Agreements to operate telecom facilities and other assets that are needed for the delivery of telecom services by MegaFon

MegaFon tower portfolio by type of tower

Object	Towers, '000 psc
Built Towers	
Towers	6.9
Masts	1.5
Concrete posts	4.1
Iron Posts	2.3
Towers in construction in 2016	
New build	0.8

(1) The last reporting date preceding the date of resolution on the Company's reorganization, if approved at the EGM. The book value of MegaFon's assets as at 30 June 2016 in accordance with Russian accounting standards amounts to RUB 471.8bln.



Merger of SMARTS assets

Background

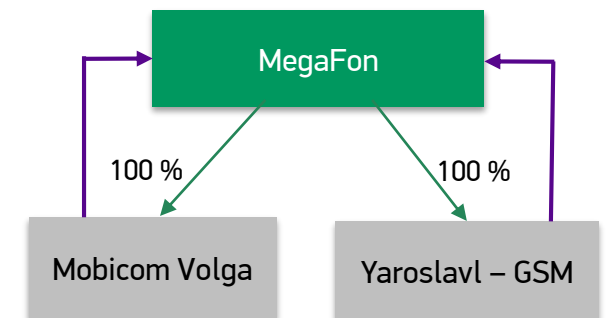
- In 2014 and 2015, MegaFon acquired 5 companies in Volga region from SMARTS to enhance its positions in 900/1800 MHz spectrum
- In 2016, companies in Samara, Astrakhan, Volgograd regions and Republic of Chuvashia were merged into a single company - JSC Mobicom Volga, which facilitated the post-deal integration process
- The Board of MegaFon proposed to the shareholders to approve the merger of Mobicom Volga and Yaroslavl-GSM with and into MegaFon to enhance the synergies of network operations

Rationale and key advantages

- Administrative: Group structure simplification and cost optimization
- Commercial: Transfer of subscribers and numeration resource to MegaFon
- Infrastructure: Synergies in network operations
 - ✓ no need to maintain networks of Mobicom Volga and Yaroslavl-GSM for fulfilling license requirements
 - ✓ improvement in radio frequencies usage in the range of 900/1800 MHz to support incremental data services revenue
 - ✓ reduction of network maintenance expenses

Merger process

- All property, privileges and claims owned by Mobicom Volga and Yaroslavl-GSM2016, incl. licenses, permissions for the use of radio frequencies, numbering resources will be transferred to the Company at book value
- All liabilities of Mobicom Volga and Yaroslavl-GSM will be transferred to MegaFon under the principle of universal legal succession
- As a result of the Merger, the shares of Mobicom Volga and Yaroslavl-GSM will be cancelled and will not be subject to conversion into MegaFon's shares



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Mandatory redemption of shares

- MegaFon will be required to redeem the shares requested to be redeemed by the shareholders who vote against any of the Reorganizations or the approval of the Lease Agreements or do not participate in voting on these matters
 - ✓ Redemption price approved by the Board of Directors amounts to RUB 557, *based on:*
 - Appraisal of the market value of one ordinary share of the Company performed by Deloitte and Touche CIS as of 12 July 2016
 - ✓ Redemption amount cannot exceed 10% of MegaFon's net assets as of the date of the EGM
 - If requests for redemptions exceed this amount, shares will be redeemed on a pro rata basis
- GDR holders wishing to be able to request that the shares represented by their GDRs be redeemed should note that:
 - ✓ GDR holders must cancel their GDRs and receive ordinary shares represented by such GDRs in order to be able to participate in the share redemption
 - ✓ Cancellation of GDRs must be completed and ordinary shares represented by the GDRs must be delivered to the GDR holders **by close of trading on the record date for the EGM (i.e. 15 August 2016)**
 - ✓ Only shareholders who held shares as of the record date and vote against or do not participate in voting on any of the above listed matters will be entitled to request that their shares be redeemed

Timeline of the redemption process:

