

## **LETTER FOR THE ANNUAL GENERAL SHAREHOLDERS MEETING**

Dear Shareholders and Investors!

On the occasion of MegaFon's first Annual General Meeting as an internationally listed company, we look back on an outstanding record of achievement in 2012, which in so many ways has laid the foundations for the successes we have continued to see in 2013.

The entire history of MegaFon has been a story of leadership and innovation. We have maintained that record through 2012 and until now, as MegaFon became the first of Russia's major mobile operators to launch 4G/LTE services for its subscribers in Novosibirsk in April 2012. Just within 12 months we have increased our 4G coverage to include another 85 cities, reaching 165,000 subscribers in 30 regions.

We have retained our leadership in the mobile data segment, the fastest-growing part of the market, increasing our data revenues by over 30% in 2012. We see further significant scope for growth in this segment as 4G rolls out and smartphone penetration increases.

We have strengthened our capabilities in the development of new services through the acquisition of the VAS Media group of companies in September. By integrating VAS Media with MegaLabs, our existing R&D subsidiary, we have created an enhanced platform for staying ahead of the latest trends in the market.

We agreed the acquisition of a significant stake in Euroset, Russia's largest mobile equipment retailer in December. We now hold a 25% stake in the retailer and will acquire another 25% within the next three years. Through our reinforced physical presence and our new dealership agreement we will improve further our retail interactions with our customers and enhance the subscriber acquisition process.

On the strategic level in 2012 we implemented the transition from extensive capital investment and a revenue focused growth model to a new phase of operating efficiency, profitability and cash generation. We declared our first ever dividend in April last year and subsequently committed ourselves to returning the benefits of our growth to all our shareholders, through a dividend policy that sets the payout at the higher of 50% of net income or 70% of free cash flow.

Our forthcoming AGM is the first to which our new shareholders have been invited. Last year was important for the Company in the restructuring of our shareholder base, giving us a stable shareholder structure for the long-term. We successfully completed the largest IPO on the London Stock Exchange in 2012, giving us a free float of 14.75%, and the market has responded very positively to our performance since then.

As well as welcoming our new shareholders, we will also have the chance to introduce our two independent members of the Board of Directors, Lord Paul Myners and Jan Rudberg, who are already making a valuable contribution to the governance of the Company. Shareholders other than our controlling shareholder now hold a majority of the positions on our Board.

The strength of our performance in 2012 is reflected in our financial results. We achieved record revenues of RUR 272.6 billion, an increase of 12.4% over 2011. At the same time we commenced a rigorous review of our costs and expenditure plans, which already began to show an impact during the year, as we increased our OIBDA margin for the full year to 43.0%, from 41.6% in 2011. Our extensive programme of capital expenditures in recent years has positioned us ahead of the market as to the extent and quality of our network, while at the same time enabling us to reduce our investment needs in the immediate future. So, for example, our capital expenditures in 2012 fell by 37.8%, contributing to a 174.8% increase in free cash flow, which rose to RUR 121.8 billion.

On this basis our Board of Directors has recommended a dividend for the last three quarters of 2012 and the first quarter of 2013 of RUR64.51 per GDR or share, amounting to RUR40 billion in total.

Much hard work was undertaken in 2012 and excellent results were achieved. MegaFon and its management can say clearly to shareholders that this work is continuing and we will do our utmost to deliver an outstanding performance once more in 2013.

*Best regards,*

*Ivan Tavrín, CEO of "MegaFon"*