



# Acquisition of Stake in Mail.Ru Group

December 23, 2016

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# 1. Target Overview



# Mail.Ru Group - a leading Internet company in Russia

- ✓ #1 and #2 social networks in Russia, #1 gaming platform and #1 messaging platform in Russia
- ✓ #1 in Russia by monthly users (93%+ of Russian Internet users)<sup>(1)</sup>
- ✓ #1 in Russia by daily total audience (desktop and mobile), #1 by mobile audience<sup>(2)</sup>
- ✓ #5 Internet company in the world by total pages viewed

Mail.Ru Group owns Russian mobile audience...

## Digital periphery

### Email & Portal



**100 mln**

active email accounts - the largest free email service in Russia

**35.6 mln<sup>(3)</sup>**

users – top-6 daily audience for a global mail service

**49.1 mln<sup>(3)</sup>**

monthly portal users – the most popular portal in Russia

### Search & E-commerce



**14.1 mln<sup>(3)</sup>**

active monthly users of Mail.ru

**1.4 mln**

users of Torg Mail.ru

**5 mln**

monthly users of Youla, mobile marketplace

### Social Networks



**VK  
90 mln**

active monthly users

**OK  
43.6 mln<sup>(4)</sup>**

active daily users

**My World  
12.6 mln<sup>(2)</sup>**

active monthly users

### Instant Messaging



**Agent Mail.ru  
18.8 mln**

users in the world per month

**ICQ  
11 mln**

users in the world per month

### Games



**30**  
titles

**Pixonix**

mobile games developer with popular War Robots title: 20 mln installs<sup>(5)</sup>

### Food Delivery



**4,500**  
connected restaurants

**20,000**  
orders per day

... with a leading position in 3 complementary areas valuable for MegaFon subscriber base

Source: Mail.Ru Group

4 > 1. comScore as of June 2016  
2. TNS as of September 2016  
3. TNS as of October 2016

4. LiveInternet.ru as of September 2016  
5. As of September 2016

## 2. Strategic Rationale



# Transaction rationale: MegaFon successfully executed its post IPO strategy...

## Core strategy 2012-2015...

1

Increase market share in core mobile business

- Active subscriber base growth
- Retention and development of current subscriber base
- Superior mobile data monetization on the back of a leading market position and superior network

2

Build a "second core"

- Increase corporate segment contribution
- Development of fixed BB through partnerships and M&A in the key regions
- Scale up the new businesses

3

Be more efficient in managing business than competitors

- Utilization of management's optimization and operating efficiency skills to drive up margins
- Continuous search and implementation of operational improvements
- Efficient infrastructure improvement in line with clients' needs

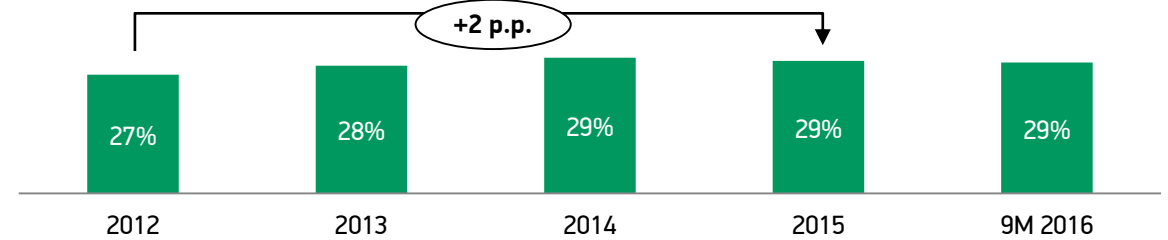
Source: Operators' official data, Company data

6 >

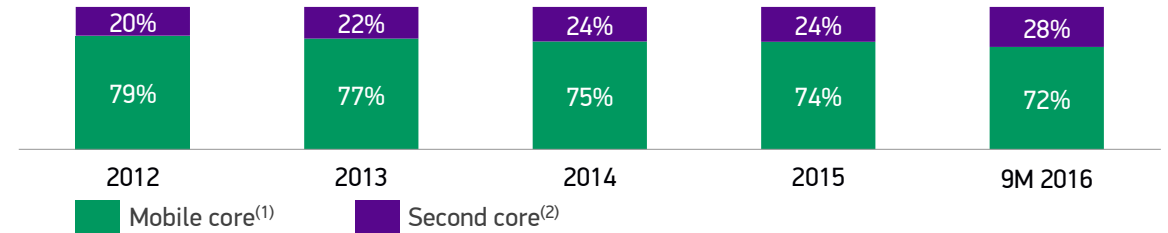
1. Mobile core represents B2C mobile revenue of MegaFon excl. MegaLabs  
2. Second core represents corporate segment, fixed BB and new initiatives

## ... balanced between market share increase and cash flow growth

MegaFon market share in Russian TelCo revenue (Top-4), %

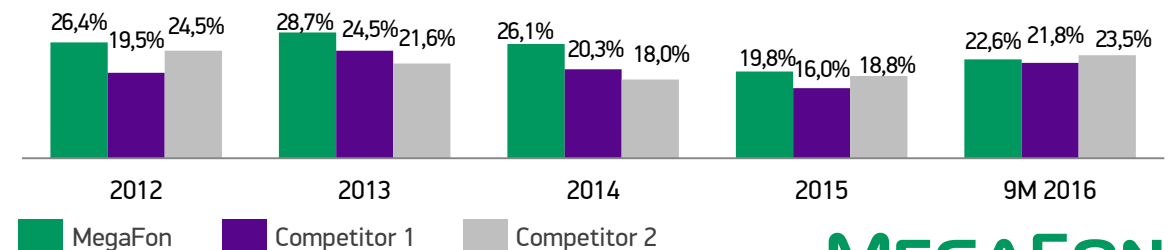


Share of "second core" revenue of MegaFon, %



## MegaFon achieved highest OIBDA-CapEx / Revenue margin among Russian TelCo in 2012-2015

(OIBDA-CapEx) / Revenue, %



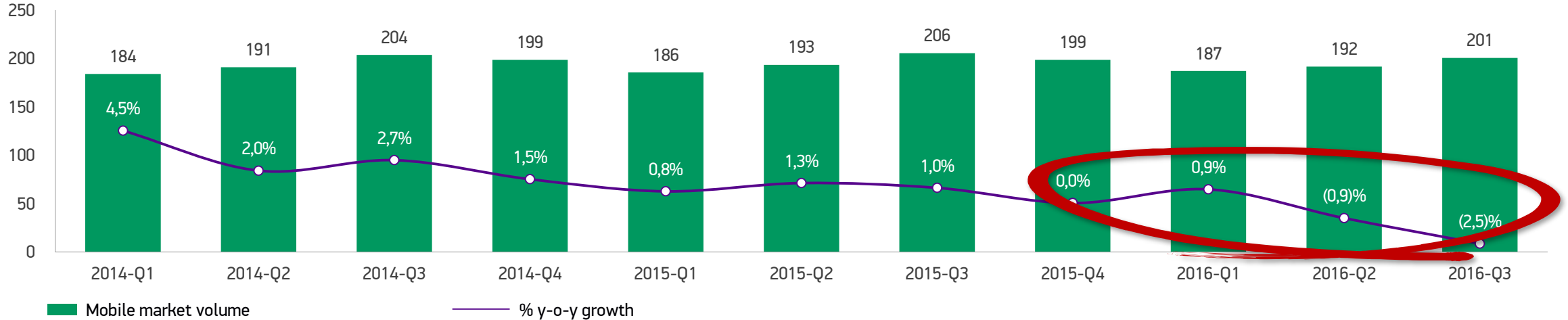
MEGAFON



# ... However, traditional mobile market in Russia has faced a period of no growth ...

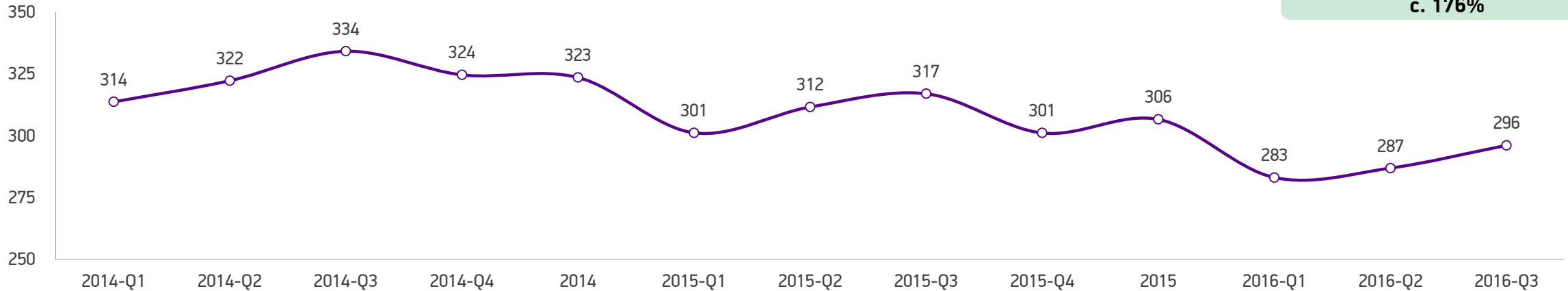
## Traditional mobile market in Russia has faced a period of no growth ...

Russian mobile market quarterly dynamics (Big-3 operators), RUB bn



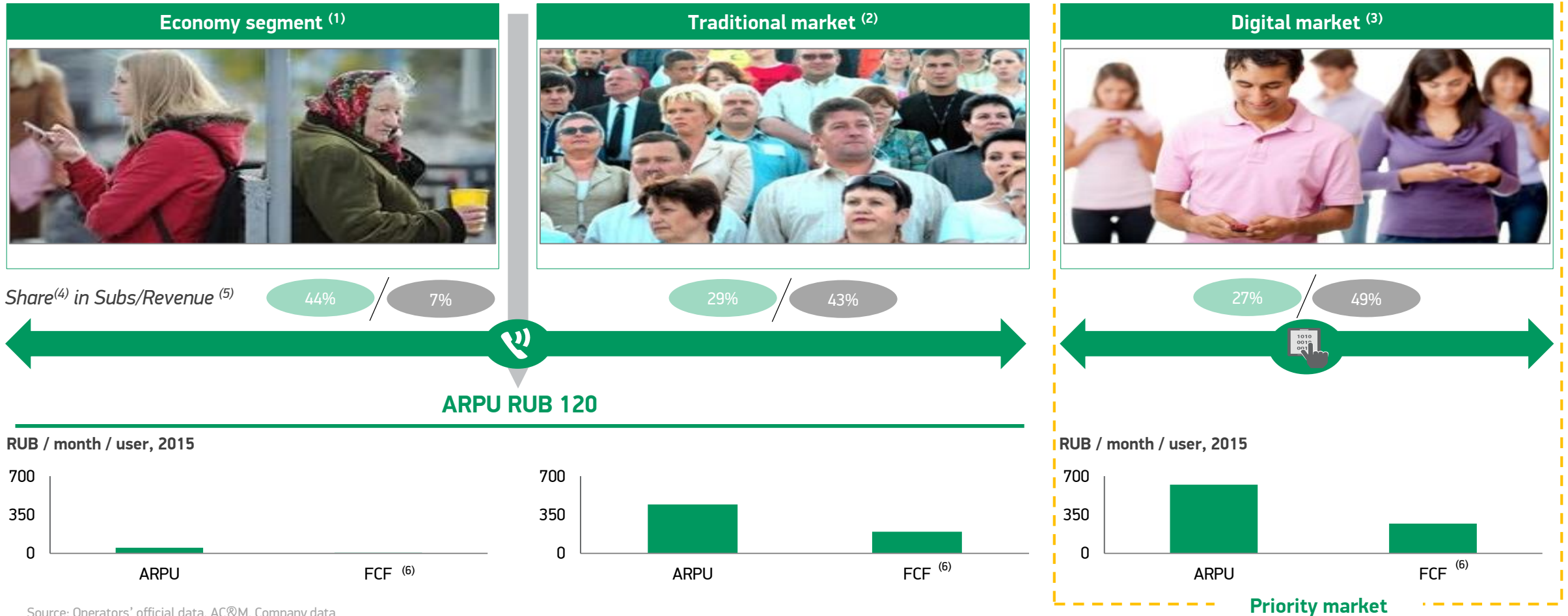
## ... with fully penetrated market, decreasing ARPUs and increased competition for high-quality subscribers

MegaFon blended ARPU dynamics, RUB



Q-2 2016 market penetration:  
c. 176%

# ... Putting more emphasis on acquiring digital subscribers with higher ARPU and cash flows



Source: Operators' official data, AC@M, Company data

1. Customers who use limited package of voice services / no data enabled devices
2. Customers use more voice services vs economy segment, and use limited package of technical traffic and web services
3. Customers very actively use voice services, technical traffic and web services, social networks, messengers, video streaming and cloud services
4. MegaFon internal analysis
5. B2C voice clients, not including dongles and tablets
6. Monthly FCF per subscriber



# Acquisition of stake in Mail.Ru Group is intended to create a unique digital player on Russian market with the largest audience

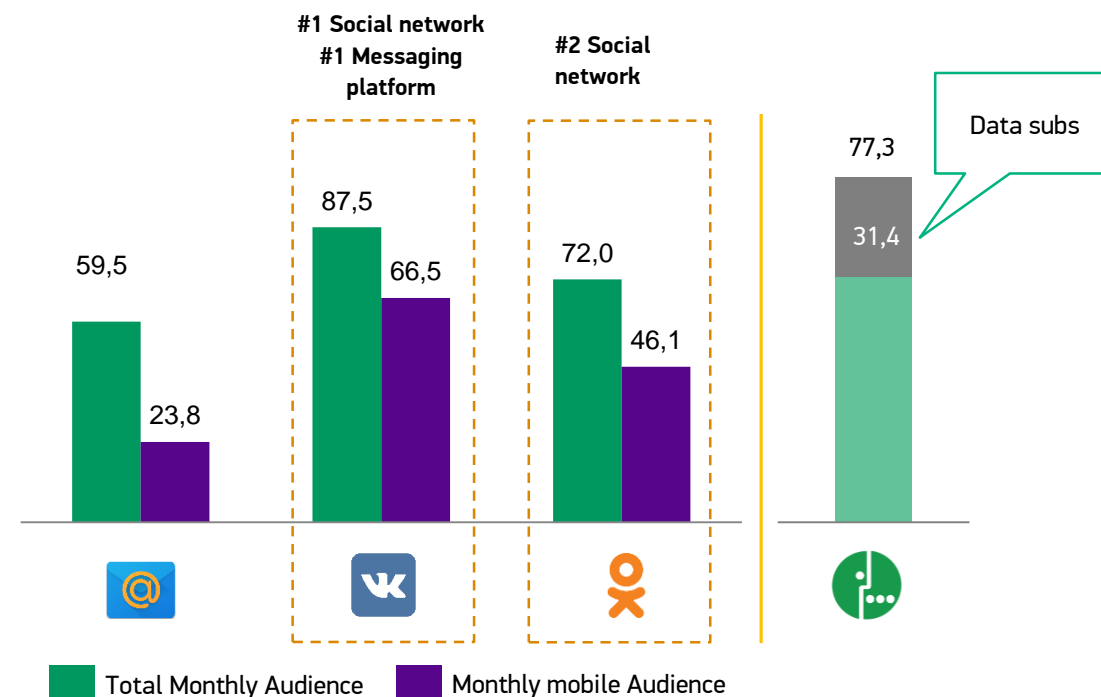


Mail.Ru Group is a natural fit to MegaFon to reinforce its strategy focused on “Digital” trend, mobile data monetization and new product offerings

- ✓ Outreach to the largest fully “digitalized” audience of Mail.Ru Group
  - Next generation of MegaFon high ARPU digital subscribers
- ✓ Improved digital customer experience
  - Seamless communication with customer through integrated digital channels of Mail.Ru Group and MegaFon
- ✓ Access to a wide range of content through Mail.Ru Group platforms
- ✓ Enhanced platform for joint development of innovative products and services
- ✓ Enhanced potential for development of mobile offerings of the combined company driven by MegaFon advantage in LTE spectrum frequencies

Transaction intended to create a unique player...

MegaFon and Mail.Ru Group audience reach <sup>(1)</sup>, mln



...having largest Russian audience

Despite challenging macro, the acquisition is expected to return MegaFon to a sustainable growth with winning in “Digital”

# 3. Synergies Considerations



# Transaction allows to ensure execution of joint commercial projects, achieving visible and significant potential synergies for both companies and their shareholders

1

## VKmobile

- ✓ Launch of special VKmobile offering for young and digital audience of VK and help to ensure better customer experience from an additional VAS
- ✓ VK's strong network of digital natives and natural strengths presents a key asset in the hunt for sophisticated, high ARPU subscribers

2

## Improvement of segmentation of clients

- ✓ Combining capabilities in targeting MegaFon and Mail.Ru Group clients, creation of a competitive advantage for both companies and improve quality of interaction with digital subscribers
- ✓ Using predictive analytics for customers analysis and segmentation
- ✓ Development of targeted advertising

3

## Other potential synergies

- ✓ Launch of special offering for OK audience by MegaFon
- ✓ Future initiatives in content and other services

**MegaFon and Mail.ru Group management have a common vision on areas and approach to execution of synergy projects  
Agreements intended to realise synergies between MegaFon and Mail.Ru Group are already in place**

Source: Company data

# 4. Transaction Structure



# Transaction structure

## KEY TRANSACTION TERMS

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- Under the terms of the proposed transaction, MegaFon will acquire 11.5 mln Class A shares and 21.9 mln ordinary shares representing approximately 63.8% voting stake in Mail.Ru from New Media and Technology Investment LP (“NMT”), New Media Technologies Capital Partners Limited and Ardoe Finance Limited, subsidiaries of USM Holdings
- Consideration of \$640 mln on completion plus an unconditional deferred payment of \$100 mln due in one year post completion, paid in cash to the sellers, expected to be funded by a combination of accumulated hard currency cash deposits and RUB-denominated debt
- Following the transaction, Mail.Ru Group will continue to operate as a standalone listed entity. Transaction is not subject to a mandatory takeover offer

## FINANCIAL IMPACTS OF THE TRANSACTION

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- Following the proposed transaction, MegaFon will fully consolidate Mail.Ru Group in MegaFon’s financial statements
- MegaFon's ability to pay dividends will not be affected
- Transaction expected to be supportive for long-term deleveraging profile



# Transaction structure (cont'd)

## CORPORATE GOVERNANCE CONSIDERATIONS

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- Following the transaction, MegaFon is envisaged to step into NMT's rights in Mail.Ru Group's corporate governance structure
  - MegaFon to nominate 5 out of 10 Directors of Mail.Ru Group's Board
- MegaFon to step in NMT's position with respect to Investor Rights Agreement between Naspers, Tencent and NMT
- All commercial transactions between MegaFon and Mail.Ru Group will continue to be conducted on an arms-length basis, or will be subject to required related party approvals
- Following the completion of the proposed transaction, dedicated management teams will be set up to facilitate implementation of the joint projects and execution of synergies, under the supervision of MegaFon Board of Directors based on pre-defined set of KPIs



# Expected benefits of corporate control

## Stronger competitive position

- ✓ Transaction is key to implementing MegaFon's digital strategy to attract and retain high value digital subscribers as well as develop a complementary products and services portfolio
- ✓ Provides MegaFon with a unique competitive advantage by providing a premium and differentiated offering to its digital subscribers and accelerated execution of a broad range of common projects with a leading company in the Russian-speaking Internet markets

## Greater control over execution of identified synergy plans

- ✓ Acquisition of control allows MegaFon and Mail.Ru Group to have strategic alignment and ensures focus on execution of the identified and potential new synergy areas

## Long-term value protection

- ✓ Transaction provides with MegaFon with long-term value protection over the created synergies, mitigating the risk of unilateral termination by the counterparty
- ✓ MegaFon to keep full control over VKmobile subscribers' value chain reducing cannibalization to core subscriber base

## Flexibility to develop future cooperation areas

- ✓ Ability to enter into new mutually beneficial synergy projects on arms' length basis, leveraging strong customer and technology base of two companies

# 5. Transaction Approvals





# Transaction Approvals

## CORPORATE APPROVAL CONSIDERATIONS

- The potential transaction was recommended for approval by the Special Committee of MegaFon Board of Directors, consisting of the MegaFon Board members with no USM Holdings representatives, on the basis of a Fairness Opinion prepared by the financial advisor and legal advice prepared by the legal advisor to the Special Committee of MegaFon
- The completion of the transaction is subject to a number of factors, including regulatory and shareholder approvals and additional conditions, fulfilment of which is outwith MegaFon’s control
- The closing is expected in 1Q 2017 following the receipt of the approvals

### ANTICIPATED TRANSACTION TIMELINE



## ADVISORS INVOLVEMENT

- Morgan Stanley is acting as financial advisor to MegaFon
- Cleary Gottlieb Steen & Hamilton is acting as legal advisor to MegaFon
- Bank of America Merrill Lynch is acting as financial advisor to the Special Committee of MegaFon
- White & Case is acting as legal advisor to the Special Committee of MegaFon

Morgan Stanley

CLEARY  
GOTTLIEB

Bank of America  
Merrill Lynch

WHITE & CASE

MEGAFON



## Conclusion

- Subject to approvals, MegaFon is acquiring 11.5 mln Class A shares and 21.9 million ordinary shares in Mail.Ru Group, a leading Russian Internet company, currently held by New Media and Technology Investment LP, New Media Technologies Capital Partners Limited and Ardoe Finance Limited (subsidiaries of USM Holdings), representing an approximately 63.8% voting stake in the company
- The transaction is aimed at achieving significant competitive advantage for MegaFon by improving company's ability to attract and retain high value digital subscribers
- Closer cooperation between MegaFon and Mail.Ru Group allows to realise significant synergies, including, enhancement of MegaFon's digital offering and its distribution, launch of special VKmobile offering for users of VK social network
- Following the transaction, Mail.Ru Group will continue to operate as a standalone listed entity. MegaFon is not subject to a mandatory takeover offer requirement
- Consideration of \$640 mln on completion plus an unconditional deferred payment of \$100 mln due in one year post completion, paid in cash to the sellers, expected to be financed by combination of accumulated hard currency cash deposits and RUB-denominated debt
  - Consideration represents a premium of 24% to the Mail.Ru Group share price as of 22 December 2016
- The transaction creates significant long-term value to MegaFon shareholders and achieves a new milestone in the company development



# Appendix



# Mail.Ru Group shareholder structure

## Pre-Transaction

Ths shares

	Class A shares	Ordinary shares	Economic interest	Voting power
Naspers		60 636	27,6%	12,5%
USM	11 500	21 940	15,2%	63,8%
Tencent		16 228	7,4%	3,3%
ML employee benefit trust		10 978	5,0%	0,0%
Free float and other		98 800	44,9%	20,4%
<b>TOTAL</b>	<b>11 500</b>	<b>208 582</b>	<b>100,0%</b>	<b>100,0%</b>

## Post-Transaction

Ths shares

	Class A shares	Ordinary shares	Economic interest	Voting power
Naspers		60 636	27,6%	12,5%
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