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To the Directors of TeliaSonera AB:

We are short the securities of TeliaSonera because we believe information that is being withheld from investors, along with the current board and management's (in)actions, will significantly impact the company's shares and credit profile.<sup>1</sup> While TeliaSonera has provided some transparency into its misdeeds in Uzbekistan, it has not made public the likelihood that the company's other Eurasian and Nepal operations suffer from similar problems, and on a massive scale. It appears that TeliaSonera made corrupt payments in Uzbekistan exceeding SEK 3.1 billion (US\$380 million).<sup>2,3</sup> Uzbekistan appears to be only the tip of the iceberg. We estimate – perhaps conservatively – that TeliaSonera could have made corrupt payments throughout its Eurasia and Nepal operations that exceed SEK 17 billion (US\$2.1 billion). In addition, TeliaSonera is potentially obligated to make additional payment to a problematic partner in Azerbaijan of up to SEK 7.6 billion (US\$934.5 million).

TeliaSonera's inability, or failure, to disclose more information to investors has at least four major implications.

- TeliaSonera's financial statements are misleading, and likely contain material misstatements. Knowingly (or with willful ignorance) continuing to make those

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<sup>1</sup> Readers should read in full our disclaimer on the last page of this letter.

<sup>2</sup> Converted from US\$ to SEK at 8.11

<sup>3</sup> [https://www.occrp.org/corruptistan/uzbekistan/gulnara\\_karimova/the-prodigal-daughter/table.php](https://www.occrp.org/corruptistan/uzbekistan/gulnara_karimova/the-prodigal-daughter/table.php)

- material misstatements could be problematic for you and the present management. Telia's continued application of certain accounting gimmicks can be interpreted as the company still having a culture where the rules do not apply.
- The company is facing three significant cash flow issues that implicate both its ability to pay the dividend and its credit profile. A) It is plausible that the disposal of the Eurasian and Nepal businesses could fetch well less than SEK 20 billion (US\$2.5 billion) in total – particularly given the dearth of credible buyers; existing contingent liabilities; issues with repatriating cash; and, the risk that host governments will either interfere with, or expropriate, these businesses (as has been done before in these countries, including to Telia's benefit). The more conservative analysts estimate that Telia will receive approximately SEK 20 billion for these businesses, but they appear not understand how widespread the problems are, including in Nepal. B) Once Telia has disposed of these businesses, we estimate it will have lost 33% of its consolidated 2013 free cash flow. C) If Telia were to take some of the write-downs we believe are mandated, the dividend would likely be curtailed.
  - TeliaSonera could have legal liability, including to the United States Department of Justice, in the tens of billions of SEK (quite possibly well in excess of US\$1.0 billion). A newspaper in Sweden recently reported that Telia might pay several billion SEK to the DOJ, which we think could be low. Regardless, Telia has made no provision for any settlements or penalties.
  - You and the new management do not appear to be capable of dealing with the significant challenges posed by TeliaSonera's corruption issues. On the contrary, the company's actions and statements demonstrate indecision and contradictory goals by juxtaposing dealing with regulatory investigations against continuing problematic – quite possibly illegal – conduct. Since you and the new management took office, Telia has alternately shown: that it's aggressively trying to get out of potentially corrupt relationships by selling back Nepal Satellite at a significant loss; yet, Telia keeps paying significant dividends through Azertel to potentially corrupt partners in Azerbaijan. Even more confusing, according to an email from a Telia spokesperson we have reviewed, Telia supposedly does not plan to honor the put option (of the same party to which it continues to pay dividends) for compliance reasons. After divesting Nepal Satellite, Telia has been unable to repatriate profits from Nepal, which could be as interpreted as punishment for selling the stake back to Zhodar Investments. And while in 2014 Telia expressed confidence it could run the Eurasia and Nepal businesses compliantly, the same day an unflattering book on the company's dealings there is announced, Telia seemingly in haste announced it is exiting those businesses. Throughout, Telia continues to present misstated and misleading financials.

Telia has shown that it is a mediocre operator in its northern European business, where net sales have declined since 2009. On this basis, we think the valuation of the stub (i.e., business remaining after the disposals) should be approximately 7.4x EV / EBITDA. Depending on how bad the aforementioned issues become, we can see the stock selling for SEK 27 to SEK 29. (See our methodology in Appendix C.) While it is impossible for anybody to predict these outcomes, you would due your investors a significant service by

being more forthcoming about Telia's problems. This way, they would have the benefit of being able to make more informed judgments.

We therefore call upon you to:

- release the full Norton Rose Fulbright report so that investors at least have a basis to determine whether the investigation was comprehensive enough, and hopefully have enough information to make good judgments about the risks and value of their Telia holdings,
- true up the company's financial statements in order to give investors a much clearer picture by a) immediately writing-down what appear to be billions of SEK in assets that disguise likely corrupt payments, b) adopting conservative accounting policies, and c) restating historical results to reflect these changes,
- hold suspected wrongdoers accountable through cooperation with the authorities and civil litigation,
- immediately cease paying dividends to parties whose UBOs are unknown, or otherwise suspect, in order to avoid antagonizing regulators and possibly increasing amounts needed to settle – note an article in which Swedish legal experts agree with this course of action,<sup>4</sup>
- adopting a firm policy that the top priorities in unwinding the legacy problems are a) ceasing all questionable activities immediately and permanently, b) providing transparency to investors, the public, and regulators, and
- encouraging wholeheartedly governments and human rights activists to campaign for the release of imprisoned Azeri investigative journalist Ms. Khadija Ismayilova, who seems to have been convicted on spurious charges as a result of exposing Telia's corrupt acts in Azerbaijan.

The bottom line is that the balancing act you are trying to perform is impossible, and this scenario is unwinnable. The long-term is best served by dealing now with the inevitable before these problems grow even bigger.

### Background

Despite TeliaSonera quite possibly holding the all-time record for corrupt payments by a western company, you and the new management have given no indication to investors that Uzbekistan was almost certainly the rule, rather than the exception, in TeliaSonera's emerging market businesses. We see TeliaSonera's failure to provide substantially more detail to investors as a passive form of a cover up.<sup>5</sup>

(We discuss several of Telia's larger undisclosed issues in Azerbaijan, Kazakhstan, Cambodia, and Nepal in Appendices A and B. Appendix A also includes a refresher on

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<sup>4</sup> <https://www.occrp.org/en/daily/3988-teliasonera-warned-not-to-pay-further-dividends-to-azeri-partners>

<sup>5</sup> Ms. Ehrling pledged during her speech at the 2015 AGM that "We must feel assured that we are sufficiently strong to continue to conduct these business operations sustainably and be able to handle the big risks that still exist in the operations. We take a stand, and when we have taken a stand, we must dare be transparent and talk about the difficult and complex challenges that we have."

Uzbekistan, which has patterns that repeat in the other countries. Appendix B lists potentially corrupt payments we have identified, which total SEK 17 billion (US\$2.1 billion), plus a contingent obligation to make a potentially corrupt additional payment of SEK 7.6 billion (US\$934.5 million). We provide a red flag matrix to help readers assess how problematic each transaction could be. Readers of those sections should be able to decide for themselves how difficult it really is for Telia to draw conclusions about the legality of its business practices.)

Ms. Ehrling, CEO Dennelind, and TeliaSonera corporate publications have greatly downplayed the extent of the company's corruption issues, including the following:

“Within TeliaSonera there has been a pattern of inadequately conducting transactions and dealings. Historically, it concerns; Substantial payments to advisers and intermediaries for, among other things, lobbying activities; lack of control of business partners; and inadequate handling of warning signs.”

When asked directly whether TeliaSonera bribed Aliyev's regime [in Azerbaijan], Dennelind told OCCRP, “We cannot prove it. But we cannot rule it out.”<sup>6</sup>

“We have been as open as we believe is possible. There are many factors we need to take into account in order to act wisely and constructively,” said Ehrling.

“Among other things, we should not obstruct the prosecutor's work, but it is also about how we deal with individuals inside and outside the company. We can't go out and accuse various people of this and that without solid proof... There are several countries that we have investigated and presented in the report that is on our website, and that anyone can read. It says that there was a pattern in how the transactions were carried out, which we would not have [given support to] today.”<sup>7</sup>

One possible reason why you have not been more realistic in your public assessments of TeliaSonera's corrupt actions is that you understand that the scale of corruption is jaw-dropping, but you have a misguided belief that the best course of action is to say as little as possible publicly (and possibly to regulators). That might make sense when dealing with a problem, but it often backfires when dealing with a crisis. Telia is in crisis.

Lord Browne, the former CEO of British Petroleum, stated in an October 7<sup>th</sup> BBC podcast (on Volkswagen's ability to manage its current crisis) that in a crisis situation such as BP's Gulf of Mexico spill (or TeliaSonera's corruption coming to light), company attorneys tend to counsel publicly disclosing as little as possible. Lord Browne said companies should be clear and truthful in their communication and avoid corporate spin. Those concerned with liability and mitigation can impede these efforts and oftentimes fail in their goal. Lord Browne counsels passing judgment as a

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<sup>6</sup> <https://www.occrp.org/en/announcements/3985-occrp-global-reporters-release-first-khadija-project-stories>

<sup>7</sup> <https://www.occrp.org/en/daily/3987-teliasonera-dismisses-demands-for-greater-transparency-amid-azerbaijan-bribe-storm>

businessperson on legal advice, rather than becoming a division of the legal department. You have hinted that you are following a willful non-disclosure strategy. Telia engaged Norton Rose Fulbright to investigate potential corruption outside of Uzbekistan. The company pledged at the outset it “would be as transparent as possible regarding the outcome of the review”.<sup>8</sup> Since the investigation wrapped up, you have rescinded that pledge, and now state that disclosure depends on counsel’s view of “how transparent we should and can be.”<sup>9</sup> Although near silence might seem attractive now, it will likely destroy value over the long-term.

In TeliaSonera’s case, Lord Browne’s advice seems particularly on-point. Press and investors continue to ensure a good deal of the problems come to light. Swedish journalist Patricia Hedelius (@PHedelius) is releasing a book tomorrow, October 16<sup>th</sup>, called “TELIA – Alliance of Government and Corruption”. The book promises to further expose the company’s corrupt dealings.<sup>10</sup> This book was announced on September 17<sup>th</sup>, the same day Telia abruptly announced it will reverse course by exiting the Eurasia and Nepal businesses.<sup>11</sup> This date was about two years after you and the current management took office, and about one and a half years since you confidently stated that Telia would continue to do business in Eurasia. (We cite this odd timing below as one example that you and the management are seemingly without a well-considered plan to deal with the company’s challenges.)

Another possible reason for your public circumspection is willful ignorance of Telia’s conduct. You’ve told investors that the NRF investigation was effectively unable to conclude anything meaningful.<sup>12</sup> Perhaps one reason for the inconclusiveness is a lack of investment in the investigation. Telia disclosed that it spent approximately SEK 60 million on the investigation.<sup>13</sup> In contrast, a mostly single country (China) fraud we exposed, Sino-Forest Corporation, spent in excess of SEK 406 million (US\$50 million) on its subsequent internal investigation.<sup>14</sup> (The investigation was almost universally discredited.) Wal-Mart expects to spend in excess of SEK 5.3 billion (US\$650 million) on FCPA-related investigations and compliance efforts after SEK 195 million (US\$24 million) in bribes in Mexico came to light in a New York Times article.<sup>15</sup> Telia’s annual audit fee is SEK 38 million. A comprehensive investigation into conduct occurring in

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<http://www.teliasonera.com/Documents/AGM/Marie%20Ehrling's%20speech%20AGM%202014%20v2.pdf>

<sup>9</sup> *id.*

<sup>10</sup> <http://massolit.se/vaar-utgivning/boecker/telia-alliansregeringen-och-korruptionen/12936>

<sup>11</sup> <http://www.teliasonera.com/en/newsroom/press-releases/2015/9/teliasonera-is-not-a-long-term-owner-in-region-eurasia/>

<sup>12</sup> e.g. Ms. Ehrling’s statement while summarizing the findings of the NRF investigation at the April 2, 2014 AGM “It cannot even be ruled out that certain conduct has been in violation of the law”, which is analogous to saying “It cannot even be ruled out that certain of Israel’s weapons are nuclear”.

<sup>13</sup>

<http://www.teliasonera.com/Documents/AGM/Marie%20Ehrling's%20speech%20AGM%202014%20v2.pdf>

<sup>14</sup> <http://www.theglobeandmail.com/globe-investor/sino-forest-files-for-bankruptcy-protection/article4097039/>

<sup>15</sup> <http://www.fcpablog.com/blog/2015/8/19/walmart-fcpa-spending-just-topped-650-million.html>

five countries that are each less developed than China or Mexico probably could have cost a good deal more than SEK 60 million (US\$7.4 million).

Regardless of the reason, Telia's failure to accurately describe the scale of its likely involvement in corrupt activities, points to blithe hypocrisy of the company. While Ms. Ehrling has talked about Telia's ability to operate in accordance with "Nordic heritage and culture", the company has, as far as we can tell, completely failed to try to make any past employees, advisors, or counterparties accountable for actions – actions that we believe have done far more damage to TeliaSonera than investors appreciate. There are various transactions totaling in the multiple billions of SEK in which one or more people associated with Telia appear to have had roles on both sides. Such facts suggest the possibility that enormous sums of money have been embezzled from the company, yet you seem determined not to take action. As a result, you might be allowing certain individuals to get away with having unduly enriched themselves.

Yet at the same time, Ms. Khadija Ismayilova, an Azeri investigative journalist, has been rotting in a prison in Azerbaijan. Ms. Ismayilova reported that TeliaSonera's joint venture partner in Azerbaijan is closely linked to the ruling family, and that TeliaSonera knowingly assisted them in corruptly transferring one of the state's most valuable assets – its holding in Azercell – to themselves.<sup>16 17</sup> She was arrested in December 2014, and was sentenced to seven and one-half years, which she firmly believes is because she exposed these dealings with TeliaSonera.<sup>18</sup> Ms. Ismayilova repeatedly asked TeliaSonera whether the joint venture partner is connected to Azerbaijan's president, but the company refused to answer.<sup>19</sup> If TeliaSonera does not break its near-silence on Azerbaijan and Ms. Ismayilova, it is hard to see there being a strong effort by foreign governments to push for her release. We are unsure how Ms. Ismayilova's status as the only person to be prosecuted for TeliaSonera's troubled involvement in Eurasia and Nepal embodies Nordic values.

### Accounting Issues

TeliaSonera continues to file financial statements with material misstatements. In Appendix B, we list approximately SEK 25 billion (US\$3 billion) of suspicious transactions that could be corrupt payments, along with brief explanations as to why they are questionable.<sup>20</sup> Approximately 80% of the questionable, and therefore potentially corrupt, payments were booked as assets. If these were in fact corrupt payments, they should have been expensed as incurred. However, booking corrupt payments – if that's what they were – as assets likely made it easier to get away with such massive corruption because it avoided dragging down profit margins, and giving rise to questions from investors. Instead of seeing sagging profit margins, investors saw an expanding balance

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<sup>16</sup> <http://www.rferl.org/content/teliasonera-azerbaijan-aliyev-corruption-investigation-occrp/25457907.html>

<sup>17</sup> <https://www.occrp.org/corruptistan/azerbaijan/azerbaijan-telecom/offshores-close-to-president-paid-nothing-for-share-of-state-telecom.php>

<sup>18</sup> <https://www.hrw.org/news/2014/12/05/azerbaijan-investigative-journalist-arrested>

<sup>19</sup> <http://www.rferl.org/content/backgroundunderfullpage/25457824.html>

<sup>20</sup> This includes the goodwill associated with the Azerbaijan put option.

sheet, which they might have interpreted as a sign of strength. Truing up Telia's financial statements could involve write-downs of as much as SEK 20 billion (US\$2.5 billion).

Rather than rinsing the company's financials clean of its past problematic accounting, the company appears to be gradually trying to let the air out of the inflated balance sheet through incremental impairments. Because management and the board have been opaque about the Company's investigation of the numerous suspicious transactions discussed below, draping its investigation in privilege, it is difficult to know whether management and the board have culpable knowledge of these transactions. Unless you have done a comprehensive investigation of these transactions and have a sound basis to believe that these transactions are not corrupt, you are, at a minimum, acting recklessly in publishing these financial statements. It seems unlikely that any comprehensive investigation could be done given the relatively trivial amounts you have expended, as discussed above. Further, it seems unlikely that if the results of your investigation were comforting, you would be draping it in privilege.

We have issues with TeliaSonera's continuation of two previous accounting gimmicks that in 2013 and 2014 (the two years for which this board is responsible for the financials) respectively inflated reported EPS by SEK0.19 per share and SEK0.12 per share, or 5.9% and 3.8%. These amounts are small compared to the magnitude of possible write-downs from corrupt payments, but they show a continuing indifference to rules and transparency.

The first gimmick TeliaSonera uses to inflate reported EPS is to unjustifiably reduce non-controlling interests' shares of income, thereby increasing its own share of the profits. This boosted reported EPS in 2013 and 2014, respectively, by 3.7% and 4.3%. When calculating its shares of income from Azerbaijan and Nepal, TeliaSonera assumed that it owned shares that still belong to its business partners. The (highly questionable) minority shareholders of Azertel have an option to put 42.2% of the company to TeliaSonera's consolidated subsidiary, Fintur. Despite the partners receiving dividends on those shares through 2013 (the most recent year for which Fintur's annual report is available), Telia continues to count those shares as its own when calculating net income to its shareholders.<sup>21</sup> Telia's (also questionable) partner in Nepal pledged 20% of Ncell to the company as collateral on a US\$230 million loan TeliaSonera extended him to finance the purchase of said shares. According to the 2012 and 2013 financials of TeliaSonera UTA Holding B.V., the loan is still on the books, and interest is accruing. By consolidating its partners' interests when reporting net income, TeliaSonera seems to be (once again) saying the rules don't apply to it.

The second gimmick is TeliaSonera's ignorance of an accounting standard to keep a large expense off its income statement. TeliaSonera accounts for Fintur's contingent obligation to purchase its Azertel partners' stake (should the partners exercise the put option) as a liability. As of December 31, 2014, that option represented a US\$879

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<sup>21</sup> According to the Turkish Gazette, Fintur declared 2014 dividends to the put option holder of SEK US\$43.7 million (SEK 354 million).

million liability. This put option is a contingent obligation to make a massive, very possibly corrupt, payment. When TeliaSonera originally granted the put in 2008, it valued it at US\$740 million and recorded it as a liability. In part due to the suspicious nature of this arrangement, we believe that the proper treatment to balance out the liability in 2008 was to also expense the same amount on the income statement. In 2009, however, growth hungry TeliaSonera evidently did not want to reduce its reported net income by approximately US\$632 million, or 23%, so instead it balanced the liability by booking a corresponding amount of goodwill. Each year, TeliaSonera fair values the put, and most years it increases in value – i.e., the contingent liability gets larger. Under applicable accounting standards (IFRS 3/IAS 39), TeliaSonera should expense the change in fair value of the liability. Instead, TeliaSonera – even under the new board and management – continues to ignore this requirement.

This ignorance is particularly egregious because Fintur, which was also audited by Telia's then-current auditor, PwC, adheres to the standard. TeliaSonera chose to completely ignore Fintur's expensing policy – except for 2008. In 2008, the fair value of the put went down because of the financial crisis. When a financial liability decreases, it provides a gain to net income. In that one year alone, TeliaSonera adhered to IAS 39, and Fintur booked a US\$22.5 million gain. In a note describing the accounting for the put in TeliaSonera's 2008 annual report, the company wrote "Any future changes in the estimated redemption amount will be recognized in the income statement..."<sup>22</sup>

However, TeliaSonera declared a self-serving and specious accounting change the next year. Disappointingly, the "new" TeliaSonera continues this misleading policy, which in 2013, kept US\$144 million out of expenses. (Note that the accounting policy was a slight detriment in 2014, as TeliaSonera did not recognize a US\$36 million gain from a slight decrease in the value of the liability.) TeliaSonera's incorrect accounting policy has prevented it from recognizing US\$270 million in expenses since 2009. Again, the rules apparently continue not to apply to TeliaSonera.

You have stated a belief that the pursuit of growth and profits does not justify prior the board and management's conduct. Does the pursuit of reporting more robust profits, and salvaging the dividend and credit profile justify yours'?

### Cash Flow Issues

TeliaSonera investors seem not to know about three coming cash flow issues that must be apparent to you. We say this because the current share price otherwise greatly overvalues the northern Europe stub business, where net sales and ARPU have declined, and return on assets has been mediocre.

- TeliaSonera seems unlikely to receive more than SEK 20 billion (US\$2.5 billion) EBITDA for its Eurasia and Nepal businesses. Our base case assumes Telia receives net consideration of SEK 18.4 billion (US\$2.3 billion). There is substantial downside risk to that number, including host governments

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<sup>22</sup> TeliaSonera 2008 AR, p. 87.



expropriating or significantly degrading the businesses. TeliaSonera likely made its chances of receiving only fire sale valuations greater by announcing its intention to dispose of the businesses at such an early stage. (See Appendix C for our valuation calculations and scenarios.)

Now that Telia is at least partly coming into compliance, the threat of host governments expropriating or interfering with the businesses is real. Prior to Telia's entrance into Uzbekistan, other telecom companies were already experiencing trouble with government obstruction, harassment, with the intent to extort payments or interests in the corporations.

In late 2004, Skytel, a joint venture between NCI International, a US company, and state-owned Uzbektelecom, was reportedly directly approached by Karimova (the president's daughter) with a demand for a 50 percent stake in the company.<sup>23</sup> Shortly after NCI ignored the request, it found that Skytel's frequency was jammed by an Uzbek government agency. Skytel's local partner moreover was either unable or unwilling to assist, and didn't even return the company's calls. When finally able to set up a meeting with Uzbek officials, Skytel was facing the prospects of a US\$17 million loss. The senior official with whom the company met offered two options: the official "could personally guarantee that Skytel would be able to use the frequency without interference" for \$30 million or the government could buy NCI's shares at a "significantly reduced rate".<sup>24</sup> NCI declined and after failing to find another buyer, shut down.

Subsequently, MCT, another US telecom operating in Uzbekistan began having problems with the authorities in 2006. In 2007, the US ambassador concluded that MCT "continues to survive only at the pleasure of the Uzbek government. It is likely that authorities are preserving the firm until its assets may be sold to a pre-selected bidder".<sup>25</sup> The US ambassador leaves no doubt as to the source of MCT's governmental problems, mentioning Karimova's personal interest in MCT's local company, COSCOM. Karimova had told an officer of the embassy "during an impromptu meeting that she wanted COSCOM to be sold to MTS, though she said a Scandinavian buyer would also be acceptable."<sup>26</sup> The eventual buyer turned out to be TeliaSonera. It would be ironic if Telia suffered a similar fate.

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<sup>23</sup> Cables no. 284 and 572, Purnell to State Dept., January 28, 2005 and 24 February 2005 respectively, [http://www.wikileaks.org/plusd/cables/05TASHKENT284\\_a.html](http://www.wikileaks.org/plusd/cables/05TASHKENT284_a.html) and [http://www.wikileaks.org/plusd/cables/05TASHKENT572\\_a.html](http://www.wikileaks.org/plusd/cables/05TASHKENT572_a.html).

<sup>24</sup> Cables no. 284 and 572, Purnell to State Dept., January 28, 2005 and 24 February 2005 respectively, [http://www.wikileaks.org/plusd/cables/05TASHKENT284\\_a.html](http://www.wikileaks.org/plusd/cables/05TASHKENT284_a.html) and [http://www.wikileaks.org/plusd/cables/05TASHKENT572\\_a.html](http://www.wikileaks.org/plusd/cables/05TASHKENT572_a.html).

<sup>25</sup> Cable no. 265, Purnell to State Dept., 16 February 2007, [http://www.wikileaks.org/plusd/cables/07TASHKENT265\\_a.html](http://www.wikileaks.org/plusd/cables/07TASHKENT265_a.html).

<sup>26</sup> Ambassador Purnell's primary source regarding Fintur's activities seems to have been the General Manager of Coscom. Cable no. 769, Purnell to State Dept., 13 April 2007, <https://wikileaks.org/cable/2007/04/07TASHKENT769.html>.

- Based on 2013 financials, TeliaSonera would be losing 33% of its reported consolidated free cash flow.<sup>27</sup> These losses make sustaining a per share dividend anywhere near SEK 3 highly unlikely without negatively impacting the credit profile, and will likely negatively impact TeliaSonera's credit profile by requiring more borrowing. On a recent call, the company was equivocal about whether it could maintain the dividend. A more forthright explanation would indicate that it is clearly at risk.
- Per TeliaSonera's disclosures, its ability to pay dividends would likely be negatively impacted if it made some of the balance sheet adjustments we believe are necessary.

### Potential FCPA Liability

Resolving TeliaSonera's legal issues with governments could cost it in the tens of billions of Swedish Krona. The governments of Sweden, the Netherlands, and the United States are currently investigating whether the company's conduct violated anti-corruption laws.<sup>28 29</sup> Swedish media recently reported that TeliaSonera's settlement with the United States Department of Justice ("DOJ") that could be several billion Swedish Krona.<sup>30</sup> We think that number could turn out to have been optimistic. The U.S.'s Foreign Corrupt Practices Act ("FCPA") requires disgorgement of profit that resulted from corruption. We estimate TeliaSonera's net income from Eurasia and Nepal during the three years alone of 2011 through 2014 was SEK 20 billion (US\$2.5 billion).<sup>31</sup> Although we are not experts in the FCPA, we believe three factors will bear negatively for TeliaSonera on any settlement proposal the DOJ accepts.

- TeliaSonera appears to be continuing to engage in conduct that violates the FCPA – including by helping to cause the distribution of dividends to possibly problematic joint venture partners. We believe that TeliaSonera's inability to establish ultimate beneficial ownership of these partners is irrelevant. We expect the DOJ to take the position that similar to a financial institution, the company has anti-money laundering duties to know the identities of UBOs of entities to which it causes payments to be made. An email TeliaSonera purportedly circulated in May 2015 illustrates both the company's cognitive dissonance and its apparent agreement with this analysis.

The email, purportedly written by Peter Borsos (TeliaSonera's SVP and Head of Group Communications), subject "Update regarding media on TeliaSonera and Azerbaijan [sic]", explains that TeliaSonera does not know who the UBO of its

<sup>27</sup> Defined as cash flow from operations ("CFFO") minus capital expenditures.

<sup>28</sup> <http://www.ft.com/intl/cms/s/0/846663e0-5d19-11e5-97e9-7f0bf5e7177b.html#axzz3oZm0jybh>

<sup>29</sup> <http://www.dutchnews.nl/news/archives/2015/04/dutch-officials-probe-uzbekistan-telecom-bribery-focus-on-telia-sonera-vimpelcom/>

<sup>30</sup> <http://www.svd.se/usa-hotar-telia-med-skadestand-pa-miljardier/om/mutmisstankarna-mot-telia>

<sup>31</sup> Operating income was approximately SEK 25 billion, which we reduced by 20% to account for interest and income taxes.

minority shareholder in Azerbaijan is, but that it will continue paying dividends to said unknown party in order to avoid the "...risk of lawsuits from a number of parties in a number of geographies". However, the email also states that TeliaSonera will not honor this minority shareholder's put option, which is shown as a SEK 8.4 billion liability as of December 31, 2014, because "...we today never make transactions with parties unknown to us". We have not confirmed the authenticity of this email, so we invite you to comment on whether it is authentic, and whether our quotations are accurate in substance.

- The size of TeliaSonera's corrupt payments could be staggering, which might have bearing on the size of an accepted settlement proposal. We believe the amount of transactions and dividends that might be seen as corrupt payments SEK 17 billion (US\$2.1 billion). In addition, TeliaSonera is potentially obligated to make additional payment to a problematic partner in Azerbaijan of up to SEK 7.6 billion (US\$934.5 million). We would not be surprised if the DOJ sought some minimum proportion as a penalty. Note that Siemens' settlement of at least US\$1.6 billion was a multiple of its corrupt payments of US\$1.36 billion. The fines would have been much higher if company leadership had not been so forthright about its misdoings during the investigation.<sup>32</sup> (We note Telia's contrasting defiant behavior of continuing to pay dividends to its minority partner in Azertel.) Alstom's settlement of US\$772 million was a 10x multiple of its corrupt payments.
- TeliaSonera's circumspection with investors about its past conduct includes such statements as:

"We have had a thorough discussion within the Board and Management and of course with our legal advisors regarding how transparent we should and can be."

"It's not the Board's role to assess whether what has happened is illegal. That is to be done by the courts. The Board can as of today, not exclude that some actions have been criminal."

If the company has been nearly this circumspect with the DOJ, we do not think their attorneys working on the matter will be amused.

### Telia's Board and Management do not seem up to the Challenges

We do not see that TeliaSonera's board and management are up to the challenge of addressing the company's corruption-related issues. While many of Ms. Ehrling and Mr.

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<sup>32</sup> Siemens paid the U.S. Department of Justice and Securities and Exchange Commission \$900 million. Per the New York Times, "it was far below the estimated \$2.7 billion that might have been levied under Justice Department guidelines. Federal authorities said in court papers that they were impressed by the company's efforts to identify wrongdoing and prevent new occurrences through an internal monitor and other measures." [http://www.nytimes.com/2008/12/16/business/worldbusiness/16siemens.html?\\_r=0](http://www.nytimes.com/2008/12/16/business/worldbusiness/16siemens.html?_r=0)

Dennelind's statements portray a calm demeanor, we interpret certain actions as meaning the board and management are indecisive and struggling to steer the company through its problems.

- When TeliaSonera sold back Nepal Satellite to Zhodar Investment (at a loss of SEK 389 million) in September 2013, it might have seemed to be an auspicious start to Mr. Dennelind's tenure as CEO, and a sign that the new board and management are capable of dealing with corruption issues. However, we wonder whether TeliaSonera's subsequent inability to repatriate cash from Nepal is a consequence of this transaction. Ironically, Norton Rose Fulbright advised TeliaSonera on this sale.<sup>33</sup> Did any of the people involved on the TeliaSonera side perhaps suffer from hubris?
- You seem repeatedly surprised by adverse events, and are exhibiting knee jerk reactions. The timing of Telia's announcement it is reversing course and exiting Eurasia and Nepal gives the appearance that you were prodded to act by the upcoming book. Our impression from the conference call is that at the time of the announcement, the company still did not understand fully the accounting implications of the disposals.
- You seem unable to decide on whether your priority is to be compliant and think long-term, or maximize short-term financial performance.

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<sup>33</sup> <http://www.teliasonera.com/en/newsroom/press-releases/2013/9/teliasonera-exits-nepal-satellite-focuses-on-ncell-in-nepal/>

## **Appendix A**

### Discussion of TeliaSonera's Widespread Problems

#### **Uzbekistan**

Gulnara Karimova, the daughter of Uzbek President Islam Karimova, was at the center of the bribery and corruption scandal in Uzbekistan's telecommunications sector that triggered investigations into bribery, corruption, extortion, corporate raiding, theft of state assets, expropriation of foreign assets, involving TeliaSonera, as well as other Nordic and Russian telecoms and their local partners across Eurasia.<sup>1</sup> The total quantifiable payments (not including Karimova's expansive list of "consulting" services and "charitable" causes) made by Telia to Karimova fronts appears to exceed US \$380 million,<sup>34</sup> plus her 6% stake in TeliaSonera's Uzbek subsidiary which as of September 2015 remains held by Takilant Limited, and for which TeliaSonera.<sup>35</sup>

Uzbekistan has by far the greatest amount of information in the public domain about Telia's corrupt activities. Accusations emerged after a Swedish investigative report broke the story on TeliaSonera's bribes and payoffs to Karimova through a web of front companies and Swiss authorities detained Karimova's associates.<sup>36</sup> The story has been widely reported in Western media. By 2014, having embarrassed her father and his Uzbek nation, she lost his protection and support, and was put under house arrest.<sup>37</sup>

In brief, Telia acquired the vast majority of its Uzbek telecom assets through its dealings with Gulnara Karimova. Most of these assets were "raided" from other investors or the Uzbek government with Karimova's assistance.<sup>38</sup> In addition to acquiring "raided" assets, Telia and its competitors seemingly could not conduct any transactions with the Uzbek government without first paying Karimova. Karimova required ongoing payments for "services", "investments", and "consulting" in exchange for "managing" relationships with various organs of the Uzbek government. The Mannheimer Swartling report on Telia in Uzbekistan found that some of the foreign-owned telecom companies operating there could not convert earnings into foreign currency and could not repatriate these profits without Karimova's assistance.<sup>39</sup>

Most of the transactions TeliaSonera conducted with Uzbekistan utilized the facilitation services of Gibraltar-based company Takilant Limited. cursory due diligence on Takilant would have have thrown up red flags. The company had no offices, operational history, or telecommunication assets.<sup>40</sup> Takilant's director and sole shareholder was a

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<sup>34</sup> [https://www.occrp.org/corruptistan/uzbekistan/gulnara\\_karimova/the-prodigal-daughter/table.php](https://www.occrp.org/corruptistan/uzbekistan/gulnara_karimova/the-prodigal-daughter/table.php)

<sup>35</sup> <http://www.teliasonera.com/en/investors/ownership-structure-in-eurasia/>, per September 2015 update

<sup>36</sup> <http://www.wsj.com/articles/u-s-seeks-to-seize-1-billion-in-telecom-probe-1439497898>

<sup>37</sup> <http://www.wsj.com/articles/u-s-seeks-to-seize-1-billion-in-telecom-probe-1439497898>

<sup>38</sup> [https://www.occrp.org/corruptistan/uzbekistan/gulnara\\_karimova/the-prodigal-daughter/how-the-presidents-daughter-controlled-the-telecom-industry.php](https://www.occrp.org/corruptistan/uzbekistan/gulnara_karimova/the-prodigal-daughter/how-the-presidents-daughter-controlled-the-telecom-industry.php)

<sup>39</sup> <http://www.wsj.com/articles/u-s-seeks-to-seize-1-billion-in-telecom-probe-1439497898>

<sup>40</sup> <https://www.occrp.org/en/investigations/1765-swedish-telecom-took-shortcut-in-central-asia>

young woman, Gayane Avakyan, who was known to be close to Karimova.<sup>41 42</sup> There is substantial evidence that Takilant was a front for Karimova.

In June 2007, TeliaSonera announced its purchase of MCT, creating TeliaSonera Uzbek Telecom Holding B.V. TeliaSonera controlled 96% of the Uzbek subsidiary, with the remaining 6% being held by Takilant Limited.

In back-to-back deals completed in December 2007, TeliaSonera “bought” 3G frequencies from someone acting as a representative for Karimova’s Takilant Limited for US \$80 million.<sup>43</sup>

In December of 2007, TeliaSonera sold Takilant a 26 percent interest in TeliaSonera Uzbek Telecom Holding B.V. for US \$50 million including a put option that would be exercised just over two years later. Karimova is believed to have netted \$30 million for selling government licenses.<sup>44</sup>

In September 2008, TeliaSonera bought “numbering blocks” and a network code (i.e., blocks of phone numbers) from Takilant for \$9.2m.<sup>45</sup>

In February 2010, Takilant sold 20 percent out its 26 percent stake in TeliaSonera Uzbek Telecom Holding back to TeliaSonera for \$220m.<sup>46</sup>

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<sup>41</sup> <http://www.automatedtrader.net/real-time-dow-jones/114180/prosecutor-demands-freeze-on-teliasonera039s-uzbek-partner039s-assets>

<sup>42</sup> Karimova and Avakyan were also seen together at various fashion shows in Paris and elsewhere. <http://www.wsj.com/articles/u-s-seeks-to-seize-1-billion-in-telecom-probe-1439497898>

<sup>43</sup> As noted by Swedish prosecutor Berndt Berger:

On 4 July 2007 an agreement on cooperation was entered into between TeliaSonera's subsidiary Sonera Hungary Holding B.V. and Bekhzod Akhmedov (case appendix 32, page 7). In this agreement of cooperation, the guidelines for the deal regarding the 3G license were outlined. In September and October 2007 there were further negotiations between TeliaSonera and the group in Uzbekistan. During the same time period TeliaSonera realized that Bekhzod Akhmedov represented Takilant Ltd and that the 3G license with its associated frequencies was placed in the Uzbekistan company Teleson Mobile. As early as Spring 2007 Bekhzod Akhmedov was able to promise a 3G license, despite the fact that the license with its associated frequencies was not owned by Teleson Mobile until 27 September 2007. Thus, prior to this point in time, the 3G license was not owned by the group. It can be seen from an excerpt of the register of companies in Uzbekistan (translated into Swedish on page 13 of case appendix 32) that Teleson Mobile was first registered as a company on 10 September 2007. It can be seen from the license documents for the 3G license (case appendix 32, page 14) that the license was issued to Teleson Mobile on 27 September 2007, i.e. just over two weeks after the company had been registered. Stockholms TR B 14304-12 aktbil 47

<sup>44</sup> This can be found in Swedish court documents: Stockholms TR B 14304-12 aktbil 32, pp. 7–12. Also, Mannheimer Swartling report, pp. 36–8.

<sup>45</sup> For a copy of the 2008 number block agreement and subsequent waiver letter to UzACI, see Stockholms TR B 14304-12 aktbil 32, pp. 114–37. See also Mannheimer Swartling report, pp. 59–63 [130131]. Berger points out the similarities between deals in Stockholms TR B 14304-12 aktbil 47, p. 6.

<sup>46</sup> From the Mannheimer Swartling report, pp. 63–4:

Swedish: “När priset fastställdes till USD 220 miljoner innebar detta dock ett högre pris än vad som skulle gällt enbart enligt prismodellen i Aktieägaravtalet. Enligt uppgift uppfattades prismodellen mer som en referenspunkt när transaktionen förhandlades ... Den framtida värdeutvecklingen på Coscom bedömdes också vara mycket positiv. Det högre priset jämfört med en tillämpning av prismodellen i Aktieägaravtalet motiverades också av att Takilant inte var tvingat att sälja aktierna samtidigt som TeliaSonera, mot

In November 2010, TeliaSonera paid Takilant \$55m for a 4G license and “assistance” for acquiring a lease of fiber optic lines from the Uzbek government.<sup>47</sup>

In July 2012, TeliaSonera apparently agreed to pay Takilant \$5m for “customer expansion” at the same time it was in negotiations with her for ongoing “consulting” services that were to be paid on a quarterly basis.<sup>48</sup>

### **Numerous Red Flags: TeliaSonera’s Dealings in Kazakhstan, Nepal, and Cambodia**

TeliaSonera’s dealings in Kazakhstan, Nepal and Cambodia are bereft with potentially problematic transactions, raising red flags. The total value of these transactions may exceed SEK 8.11 billion (\$1 billion)<sup>49</sup>. The transactions in question are:

- Over SEK 219 million (\$27 million) in 2007 and 2008 for two Kazakh private companies holding WiMax frequencies with unknown beneficial owners. Both companies were categorized as dormant.<sup>50</sup> That TeliaSonera would purchase

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*bakgrund av en övergripande strategi att öka sina innehav i partnerbolag där så var möjligt, önskade öka sin ägarandel ... Vidare motiverades det högre priset av betydelsen av att ha en fortsatt god relation till den lokala partnern. Enligt Återköpsavtalet ska Takilant även tillhandahålla vissa tjänster, bl.a. att assistera i valutaväxling – något som hade visat sig vara ett praktiskt problem – och att förnya licenser. Av Återköpsavtalet och styrelseunderlaget framgår att detta då skulle ske utan ytterligare kostnad.”*

Translation: “When the price was set at U.S. \$220 million this meant, however, a higher price than would be applied under the pricing model in the shareholders’ agreement. The pricing model was reportedly perceived more as a reference point when the transaction was negotiated ... The future value of Coscom was deemed to be very positive. The higher price compared to an application of the pricing model in the shareholders’ agreement was motivated by the fact that Takilant were not forced to sell the shares while TeliaSonera, given a comprehensive strategy to increase their holdings in partner companies where possible, desired increase its interest ... Furthermore, the higher price was motivated by the importance of having a continued good relationship with the local partner. According to the repurchase agreement, Takilant was also provide certain services, including to assist in currency exchange—something that had proven to be a practical problem”.

<sup>47</sup> A copy of the agreement is at Stockholms TR B 14304-12 aktil 32, pp. 138–51 [121207].

<sup>48</sup> For background to the leak, see transcript of Swedish program at [http://blogg.svt.se/kommungranskarna/files/2013/05/FINAL\\_20130522\\_TeliaSonera-and-the-courier-from-Moscow\\_ENG\\_draft.pdf](http://blogg.svt.se/kommungranskarna/files/2013/05/FINAL_20130522_TeliaSonera-and-the-courier-from-Moscow_ENG_draft.pdf) The timing and content of this leak in early 2013, referencing events in July and August 2012, and the fact that it apparently came via a Russian courier suggests that MTS and Yevtushenkov may have been behind it.

<http://www.rferl.org/content/sweden-teliasonera-uzbekistan-karimova/24993135.html>.

For Russian speculation along these lines, see <http://johnhelmer.net/?p=9087>.

<sup>49</sup> We use an exchange rate of SEK 8.11 per USD 1 throughout this document.

<sup>50</sup> In June 2007 and August 2008 TeliaSonera purchased two companies, AR-Telecom and KT-Telecom, both described as dormant, which held WiMAX licenses. Total consideration paid was approximately \$27.5m. See page 18 (for consideration in Kazakh tenge).

[http://www.kase.kz/files/emitters/KCEL/kcel9\\_2012\\_eng.pdf](http://www.kase.kz/files/emitters/KCEL/kcel9_2012_eng.pdf)

“Information on long-term investments in the capital of other organizations, on composition of securities portfolio including date of acquisition, other investments:

AR-Telecom – KZT 677 778 thousand, 100%, acquired in 2007.

KT-Telecom – KZT 2 640 000 thousand, 100%, acquired in 2008.”

Re AR-Telecom’s dormancy, see Fintur 2007 Financial Statements, page 11: “On 20 June 2007, Kcell entered into an agreement to acquire 100% in a company in Kazakhstan, AR-Telecom LLP (“AR-

frequencies from private companies classified as dormant, rather than from the Kazakh government, appears highly unusual.

- In August 2008, TeliaSonera advanced to an undisclosed party SEK 215 million (\$26.5 million) in connection with a letter agreement, defined as a “Frequency Letter”.<sup>51</sup> A search of associated corporate documents later revealed that the loan was made to Visor Group.<sup>52</sup> Structuring the acquisition of new frequencies or spectrum as a loan as opposed to an outright purchase and opting to leave their counterparty undisclosed is unusual and appears suspect.
- In September 2008, TeliaSonera purchased from Visor Group a 100% stake in Cambodian telecommunications firm Applifone and a controlling stake in Spice Nepal (now NCell) for a total cash consideration of approximately SEK 3.925 billion (\$484 million).<sup>53</sup>
- TeliaSonera fully divested Applifone in December 2010 and took a 25% stake in another Cambodian operator, Latelz.<sup>54</sup> Then in 2012, TeliaSonera fully divested Latelz for an undisclosed amount to an undisclosed third party. These events lead one to wonder what due diligence was ever conducted or whether TeliaSonera ever intended to compete in the Cambodian market.
- In 2011, TeliaSonera, through its subsidiary holding company TeliaSonera Finland Oyj, provided an undisclosed SEK 405.5 million (\$50 million) loan to a Seychelles shell company controlled by potentially problematic parties.<sup>55</sup> While this loan appears to have been non-performing<sup>56</sup>, it was repaid in full in April 2012 when TeliaSonera executed another large undisclosed deal where TeliaSonera took an increased stake in NCell.<sup>57</sup>

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Telecom”), which had been dormant since establishment in 2003. The purpose of the acquisition was to get a WiMAX license held by AR-Telecom that provides a right to organise wireless radio-access networks over 3.5 MHz spectrum (Note 10).

AR-Telecom consideration in dollars, see page 42: As disclosed in Note I, in 2007 Kcell acquired AR-Telecom holding WiMAX and other related telecom licenses. The acquisition of AR-Telecom was accounted for as an acquisition of group of assets (licenses) rather than a business. The acquired licenses are included in category “other” within intangible assets. Total consideration paid for the licenses amounted to USD 5,587. The acquired licenses will enable Kcell to offer broadband services (WiMAX) in Kazakhstan. WiMAX is a wireless technology to provide residential and corporate customers with high speed Internet access.

For KT-Telecom dormancy, see Fintur 2009 Financial Statements, page 8:

“KCell acquired KT-Telecom LLP (‘KT-Telecom’) in 2008, which was dormant at acquisition date.”

<sup>51</sup> TeliaSonera UTA Equitable Charge.

<sup>52</sup> TeliaSonera UTA Holding B.V. 2008 Annual Report, page 3 and BVI Records for Portofino Associates. Equitable charge dated 2 September 2008.

<sup>53</sup> 26 September 2008. TeliaSonera enters new high growth emerging markets.

<https://www.teliaSonera.com/en/newsroom/press-releases/2008/9/teliaSonera-enters-new-high-growth-emerging-markets/>

<sup>54</sup> TeliaSonera 2010 Annual Report. Page 18.

[http://www.teliaSonera.com/Global/Reports/2010/financial/AnnualReport\\_en.pdf](http://www.teliaSonera.com/Global/Reports/2010/financial/AnnualReport_en.pdf)

<sup>55</sup> TeliaSonera Finland Oyj 2011 Annual Report. Page 1.

*TeliaSonera Finland Oyj myönsi tammikuussa 2011 Allstar Holding Limited nimiselle TeliaSonerakonsernin ulkopuoliselle yhtiölle 50 MUSD lainan kolmen vuoden laina-ajalla.*

<sup>56</sup> Although the loan was made in January 2011, as of 31 December 2011, Allstar still owed \$50m in principal, suggesting that the loan was not made on customary commercial terms. TeliaSonera Finland Oyj 2011 AR. Page 24.

<sup>57</sup> TeliaSonera Finland Oyj 2012 Annual Report, page 26 of pdf.



- Also in 2011, TeliaSonera paid \$30 million for Nepal Satellite, a small telecom company with less than one percent market share.<sup>58</sup><sup>59</sup> In 2012, TeliaSonera increased its stake in Nepal Satellite to 75% with SEK 365 million (\$45 million) cash upfront and another SEK 684.8 million (\$80 million) due in 2013.<sup>61</sup> The company booked SEK 1.27 billion (\$157 million) in goodwill.<sup>62</sup> One of CEO Dennelind's first actions was to dispose of Nepal Satellite to Zhodar Investments at a loss of SEK 389 million (\$48 million)<sup>63</sup>, with the assistance of Norton Rose Fulbright.<sup>64</sup> Dennelind apparently recognized the lack of commercial rationale for this acquisition in the first place, but we wonder if this hasty divestiture is related to the company's difficulties repatriating cash from Nepal. Furthermore, the ultimate beneficial ownership of Zhodar Investments was never disclosed.
- In December 2011, TeliaSonera appears to have overpaid for Kazakhtelecom's 49% interest in mobile services provider Kcell at SEK 9.3419 billion (\$1.1519 billion).<sup>65</sup> The purchase price represented a 50% premium to Kcell's IPO of SEK 4.258 billion (\$525 million) price months later.
- In 2012, TeliaSonera UTA provided a SEK 1.865 billion (\$230 million) loan to Nepali businessman Niraj Govinda Shrestha<sup>66</sup> to purchase his 20% stake in NCell.<sup>67</sup><sup>68</sup> As of 2013, Shrestha's loan was non-performing, judging from

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Stating that the Allstar loan was repaid on 4 April 2012. On 5 April 2012 TeliaSonera announced various deals in Nepal and Cambodia. TeliaSonera makes further restructuring in Business Area Eurasia. 5 April 2012.

<https://www.teliaasonera.com/en/newsroom/press-releases/2012/4/teliaasonera-makes-further-restructuring-in-business-area-eurasia/>

<sup>58</sup> The date of the purchase can be established by TeliaSonera's entry in the Airbell Services Limited share register.

<sup>59</sup> TeliaSonera Asia Holding 2011 Annual Report, page 3.

<sup>60</sup> Report of Nepal Telecommunications Authority. July 2011. Page 2 <http://new.nta.gov.np/en/2012-06-01-11-33-01/mis-archives/mis-reports/nta-mis-52/download>

<sup>61</sup> TeliaSonera only disclosed the consideration paid in Swedish kronor. Although the Eurasian subsidiaries use the US dollar as their functional currency, TeliaSonera does not disclose what exchange rate is used in its reporting. Looking at page 14 of the annual report of TeliaSonera Norway Nepal Holdings AS (the subsidiary that ended up owning the 75% indirect stake in Nepal Satellite), at end-2012, it owed TeliaSonera UTA Holdings \$46.5m at end-2012 related to the purchase of the additional stake in Airbell. According to pages 3 and 19 of TeliaSonera Norway Nepal Holdings 2013 Annual Report, contingent consideration due in respect of Nepal Satellite was \$80m.

<sup>62</sup> TeliaSonera Annual Report 2012, p. 102.

<sup>63</sup> TeliaSonera Annual Report 2013, p. 27.

<sup>64</sup> <http://annualreports.teliaasonera.com/en/2013/annual-report/board-of-directors-report/acquisitions-and-divestitures/>

<sup>65</sup> TeliaSonera increases its ownership in Kcell and prepares for IPO. 22 December 2011.

<http://www.teliaasonera.com/en/newsroom/press-releases/2011/12/teliaasonera-increases-its-ownership-in-kcell-and-prepares-for-ipo/>

<sup>66</sup> TeliaSonera UTA Holding B.V. Annual Report for the financial year ended 31 December 2013, p. 10.

<sup>67</sup> <http://www.dn.se/ekonomi/affarsman-i-nepal-fick-miljardlan/>

<sup>68</sup> Evidence of the loan may be found in TeliaSonera UTA Holding B.V. 2012 and 2013 Annual Reports (pages 9 and 10, respectively). The purpose of the loan was confirmed by TeliaSonera in a December 2013 Swedish press report. Affärsman i Nepal fick miljardlån. *Dagens Nyheter*. 9 December 2013.

<http://www.dn.se/ekonomi/affarsman-i-nepal-fick-miljardlan/>

*Vi har finansierat hans köp av de 20 procenten.*

Translation: We have financed his [Shrestha's] purchase of 20 percent.

- TeliaSonera UTA's 2013 Annual Report.<sup>69</sup> Shrestha's collateral for the loan was his ownership stake in NCell, which TeliaSonera cannot own according to Nepalese law.
- TeliaSonera acquired several Kazakh WiMAX service providers in 2012 and 2013 from potentially problematic parties for over SEK 1.703 billion (\$210 million).<sup>70</sup> By late 2013 TeliaSonera's new management had written off most of the "WiMAX operation in Kazakhstan" ostensibly "based on the view that it will take longer than expected to achieve full use of the acquired frequencies due to the current lack of a 4G license."<sup>72</sup> TeliaSonera completed the second part of an incremental impairment by writing off the business entirely in 2014.<sup>73</sup>
  - Also in 2012, TeliaSonera teamed with Visor Group to acquire KazTransCom, a Kazakh fiber optic network operator also owned by potentially problematic partners.<sup>74</sup> TeliaSonera funded Visor's purchase with a SEK 182.5 (\$22.5 million) loan<sup>75</sup>, which was undisclosed in press releases and other corporate filings. It was, however, referenced in Kcell's prospectus and could be confirmed through the annual reports of a Visor Group affiliate. The loan appears to be non-performing<sup>76</sup>, a disturbingly frequent occurrence among TeliaSonera's counterparties in Eurasia and Nepal.

## Azerbaijan

<sup>69</sup> TeliaSonera UTA Holding B.V. Annual Report for the financial year ended 31 December 2013, p. 10.

<sup>70</sup> Kcell Prospectus, page 58.

[https://static.kcell.kz/files/investors/Kcell\\_JSC\\_Prospectus\\_en.pdf](https://static.kcell.kz/files/investors/Kcell_JSC_Prospectus_en.pdf)

"As a condition precedent to Sonera's purchase of the participatory interests in KazNet, KazNet will acquire two limited liability partnerships in Kazakhstan, namely Aksoran LLP ("Aksoran") and Instaphone LLP ("Instaphone"). Aksoran and Instaphone each holds certain radio frequency permits that are capable of being deployed for the operation of a WIMAX business in Kazakhstan. Once formed, the KazNet group will own and operate a WIMAX business in Kazakhstan..."

<sup>71</sup> TeliaSonera prepares for mobile data growth in Kazakhstan. 14 August 2012.

<http://www.teliasonera.com/en/newsroom/press-releases/2012/10993/teliasonera-prepares-for-mobile-data-growth-in-kazakhstan/>

Regarding KazTransCom's fiber optic network, see pages 29 and F-72 of the Kcell Prospectus.

[https://static.kcell.kz/files/investors/Kcell\\_JSC\\_Prospectus\\_en.pdf](https://static.kcell.kz/files/investors/Kcell_JSC_Prospectus_en.pdf)

<sup>72</sup> TeliaSonera 2013 Annual Report, page 79.

<http://feed.ne.cision.com/wpyfs/00/00/00/00/00/24/7E/FA/wkr0006.pdf>

<sup>73</sup> TeliaSonera 2014 Annual Report, page 117.

<http://feed.ne.cision.com/wpyfs/00/00/00/00/00/2C/00/91/wkr0006.pdf>

<sup>74</sup> Kcell Prospectus. Page 57.

[https://static.kcell.kz/files/investors/Kcell\\_JSC\\_Prospectus\\_en.pdf](https://static.kcell.kz/files/investors/Kcell_JSC_Prospectus_en.pdf)

<sup>75</sup> TeliaSonera omitted the existence of this transaction from all of its press releases and other disclosures. It was, however, referenced in Kcell's prospectus and can also be confirmed through the annual reports of Lovou B.V. Kcell Prospectus, page 57.

[https://static.kcell.kz/files/investors/Kcell\\_JSC\\_Prospectus\\_en.pdf](https://static.kcell.kz/files/investors/Kcell_JSC_Prospectus_en.pdf)

<sup>76</sup> Lovou B.V. 2014 Annual Report (filed 2 September 2015). Page 6.

Azerbaijan is one of TeliaSonera's top performing Eurasian assets. In FY 2014 it produced SEK1.916 billion in EBITDA with an EBITDA margin of 50.7%.<sup>77</sup> In Azerbaijan, as with Uzbekistan and other Eurasian markets, the Company appears to have been content to feign ignorance of corruption in its business dealings with its local business partners until scandal broke and forced its hand. In May of 2015, OCCRP journalists published a detailed report alleging Telia was a knowing participant in a series of transactions that included misappropriation of state assets, massive kick-backs, and illicit payments to a network of companies and proxies whose ultimate beneficial owners appear to be the daughters of President Aliyev's family as well as other advisors and front men.<sup>78</sup> Our tally of payments Telia made to suspect counterparties in Azerbaijan in often commercially questionable transactions is SEK 9.1 billion (US\$1.1 billion).

Both the scandals in Uzbekistan and Azerbaijan were triggered by investigative journalism. However, the Azerbaijan scandal came to light nearly two years after Uzbekistan, and exemplifies the degree to which the Company has yet to publicly come to terms with the depth and breadth of problems in its Eurasia businesses. As of September 17<sup>th</sup> of this year, the Company maintains that it "still does not know the UBO", the ultimate beneficial owner of its local partners in both Uzbekistan and Azerbaijan.<sup>79</sup>

Azeri investigative reporter, Khadija Ismayilova, reported that the ultimate beneficial owners of Telia's "Local Partner" in Azerbaijan are likely President Aliyev's daughters Arzu and Leyla Aliyev.<sup>80</sup> In July 2014 Ismayilova published evidence that convincingly links Telia; its new "local partners" in Azertel, a Turkish company called Cenay Iletishim; and Panamanian holding companies likely belonging to the Aliyevs. Accompanying her report was a separate site listing and linking key source material made available for public review.<sup>81</sup>

TeliaSonera was not ignorant of her efforts. As can be seen in the copies of her emails and letters posted in her "reports notes,"<sup>82</sup> Ismayilova made multiple attempts to contact the Company and its partners. Between April 11 and April 15 of 2014 she was engaged with correspondence with Salom Bekele, TeliaSonera's Head of External Communication, regarding questions about the Azericell privatization and Cenay Iletism's connection to President Aliyev's family. Mr. Bekele responded by referring her back to Telia's Eurasia Factbook and the Chairman Ehrling's speech at the 2014 AGM.<sup>83</sup> She also specifically queried about Oliver Mestelan, who could be a proxy for the first family, in his capacity as both a board member of Azertel and corporate secretary

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<sup>77</sup> TeliaSonera Financial Operational data 2014 Q4

<sup>78</sup> <https://www.occrp.org/corruptistan/azerbaijan/azerbaijan-telecom/offshores-close-to-president-paid-nothing-for-share-of-state-telecom.php>

<sup>79</sup> TeliaSonera Special Conference Call, Sept. 17, 2015

<sup>80</sup> TeliaSonera's Behind-The-Scenes Connection To Azerbaijani President's Daughters. *Radio Free Europe/Radio Liberty*. 15 July 2014.

<http://www.rferl.org/content/teliasonera-azerbaijan-aliyev-corruption-investigation-occrp/25457907.html>

<sup>81</sup> Reporter's Notes To 'TeliaSonera's Behind-The-Scenes Connection To Azerbaijani President's

<sup>82</sup> Reporter's Notes To 'TeliaSonera's Behind-The-Scenes Connection To Azerbaijani President's Daughters'<http://www.rferl.org/content/backgroundunderfullpage/25457824.html>

<sup>83</sup> <http://docs.rferl.org/az-AZ-Latn/2014/07/13/b038943b-bf58-4817-b527-6137364b7caf.pdf>

for several Aliyev family owned Panamanian companies including those holding Cenay Illetism about.<sup>84,85</sup>

- the ownership behind the companies owning Cenay Illetism, namely Dilsan Investments and Colville Group, and whether these were Aliyev family owned
- the apparent low valuation of the privatization price
- possible price fixing and collusion between Azercell and Azerfon, (both of which appeared to her to be Aliyev invested or controlled companies).

In December of 2014, Azerbaijani authorities were no longer willing to tolerate her inquiries, reports, and allegations into and took her into custody.<sup>86</sup> She was convicted for embezzlement and tax evasion and sentenced to seven and one half year sentence.<sup>87 88</sup>

Despite her publication of information relating to the Aliyevs' alleged corrupt privatizations of state assets such as Azercell and the illegal licensing of restricted 3G telecom spectrum to their own company, Azerfon, it was not until the release of the subsequent May 27 2015, OCCRP report based on her research and the efforts of other activists that finally pushed TeliaSonera to begin to respond to the problem of the Azerbaijan and its local partners in Azercell.<sup>89 90 91 92</sup>

### **TeliaSonera's Transactional History in Azerbaijan**

Beginning in 2004, the Azerbaijani government embarked on the privatization of its interest in Azercel. As detailed below, this was unusually structured and could have been devised to enable the theft of state assets, facilitate illegal and highly suspect payments to entities owned or controlled by the Aliyev family, and provide for an ongoing corrupt revenue source in the form dividends and a put option. The summary below highlights key aspects of this arrangement. The bullet points that follow provide greater details and citations for reference. The Ismayilova publications and the OCCRP report cited above also provide additional detail.

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<sup>84</sup> <http://docs.rferl.org/az-AZ-Latn/2014/07/13/b038943b-bf58-4817-b527-6137364b7caf.pdf>

<sup>85</sup> [http://www.rferl.org/content/azerbaijan\\_president\\_aliyev\\_daughters\\_tied\\_to\\_telecoms\\_firm/24248340.html](http://www.rferl.org/content/azerbaijan_president_aliyev_daughters_tied_to_telecoms_firm/24248340.html)

<sup>86</sup> <http://freekhadija.org/#about>

US-backed Radio Liberty was also shut down shortly thereafter.

<http://www.rawstory.com/rs/2014/12/us-funded-radio-azadliq-raided-and-shut-down-in-azerbaijan/>

<sup>87</sup> A letter from an Azerbaijani prison. *Washington Post*. 18 February 2015.

[http://www.washingtonpost.com/opinions/letter-from-an-azerbaijani-prison/2015/02/17/2a2d6cb0-b3d3-11e4-886b-c22184f27c35\\_story.html](http://www.washingtonpost.com/opinions/letter-from-an-azerbaijani-prison/2015/02/17/2a2d6cb0-b3d3-11e4-886b-c22184f27c35_story.html)

<sup>88</sup> <http://www.bbc.com/news/world-europe-34116812>

<sup>89</sup> Aliyev's Azerbaijani Empire Grows, As Daughter Joins The Game

<http://www.rferl.org/articleprintview/2127137.html>

<sup>90</sup> <http://www.balkanicaucaso.org/eng/Regions-and-countries/Azerbaijan/Corruption-and-oil-in-Azerbaijan-109421>

<sup>91</sup> "Azerbaijani President's Daughters Tied to Fast-Rising Telecoms Firm",

[http://www.rferl.org/content/azerbaijan\\_president\\_aliyev\\_daughters\\_tied\\_to\\_telecoms\\_firm/24248340.html](http://www.rferl.org/content/azerbaijan_president_aliyev_daughters_tied_to_telecoms_firm/24248340.html)

<sup>92</sup> <https://www.occrp.org/corruptistan/azerbaijan/azerbaijan-telecom/offshores-close-to-president-paid-nothing-for-share-of-state-telecom.php>

## Privatization Aliyev Style: Headlocks, Deadlocks, Vouchers, and Dividends

According to research by Ismayilova and detailed in the OCCRP report,<sup>93</sup> TeliaSonera's CEO Durukan was informed by the Azerbaijan Minister of Economic Development of a plan to privatize the state's shares in Azercell in 2004. TeliaSonera entered negotiations with the government, but apparently soon after learned the Azerbaijan government sought additional terms and conditions, namely that only Cenay Insaat and a new government selected "local partner" would acquire the government's shares, including board representation, and would do so without any "out of pocket" investment via a USD \$100 million loan from one of the Company's subsidiaries to be repaid through the future dividends of Azercell. The upside to TeliaSonera apparently would be the ability of the new "local partner" to fast track regulatory approvals and secure licenses. TeliaSonera and the Azerbaijan government did not come to terms and Azercell found itself coming under increased scrutiny by authorities and the subject of an in depth tax audit. In short, it appears that Azercell found itself in a regulatory headlock, where the government could apply additional pressure at will to make Azercell's foreign owners more receptive to the proposed terms.<sup>94</sup>

This tactic appears to have been effective, as the final deal-structure includes these as well as other atypical terms. Not only the extortion-like tactics employed preceding the privatization, but also the highly unusual deal structure should have been significant red flags for TeliaSonera's board at the time, and for the current board's investigations subsequent to the corruption allegations that emerged from Uzbekistan. Major red flags indicating a very high probability of corrupt dealings requiring government approvals at the highest levels include: a very low valuation; unwillingness to put any capital into the purchase; requirement of partial payment to a group of "unrelated" investors; the emergence of a new partner, a Panamanian holding company managed by someone with connections to the Aliyev family; and ultimately a put option theoretically intended to resolve board deadlock, which would enable the minority shareholders to force a buyout at almost any time they might see fit.

Valuation: USD \$180 million

- According to Fintur's own discounted cash flow model, as of April 2008 the government's 35.7 percent stake in Azercell sold to Azertel was worth USD \$2.2 billion,<sup>95</sup> thereby valuing the state's interest, as derived from Fintur's own figures at \$782.6m, not the \$180m paid by Azertel.<sup>96</sup>

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<sup>93</sup> <https://www.occrp.org/corruptistan/azerbaijan/azerbaijan-telecom/offshores-close-to-president-paid-nothing-for-share-of-state-telecom.php>

<sup>94</sup> <https://www.occrp.org/corruptistan/azerbaijan/azerbaijan-telecom/offshores-close-to-president-paid-nothing-for-share-of-state-telecom.php>

<sup>95</sup> The more precise value of Azercell as of April 2008 inferred from the detailed option accounting on page 45 of Fintur's 2008 financial statements is \$2,192,146,919.

<sup>96</sup> 35.7% of \$2,192,146,919 is \$782,596,450.

- TeliaSonera defended its valuation stating it had “conducted a completely correct business deal at fair market value” adding that “The price was determined by the state of Azerbaijan as part of the privatization process and a fairness opinion was obtained from an independent international accountancy firm.”<sup>97</sup>

#### Financed Payments and Payments Through Vouchers

- None of this \$180 million due to the government was payable upfront. Fintur’s 2008 financial statements discloses short-term and long-term payable to the Government of the Republic of Azerbaijan for the sale of 35.7% shares in Azercell scheduled in equal installments over three years beginning in 2009.<sup>98</sup>
- An undisclosed portion of the USD \$180 million was to go to unidentified voucher holders.<sup>99</sup> Telia has also still not yet identified who the holders of the coupons were, claiming only that they are parties with whom they have not had past business relations.<sup>100 101</sup>

Note: The use of the vouchers should have constituted another major red flag. Azerbaijan state privatization vouchers have a sordid history. Originally issued by the Government in 1995 for the purpose of distributing the states assets to its citizens, they were at the center of a prominent bribery scandal involving foreign investors; the former President of Azerbaijan, Heydar Aliyev (father to the current President); and an attempt to privatize SOCAR, the state oil company. The scandal ultimately resulted in a conviction under FCPA for the foreign investor, wherein it was concluded that the guilt was “predicated not on any payment of bribes by him, but on his knowing investment in a corrupt scheme in Azerbaijan.”<sup>102</sup>

#### Emergence of a New Partner

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<sup>97</sup> Statement regarding Azercell privatization. 25 October 2012.

<http://www.teliasonera.com/en/newsroom/news/2012/statement-regarding-azercell-privatisation/>

<sup>98</sup> With regard to scheduled payments, Fintur’s 2008 financial statements (page 45) read: “Long-term payable to the Government of the Republic of Azerbaijan for the sale of 35.7% shares in Azercell in the amount of USD 124 million has been accounted under other non-current liabilities; whereas amount due within the next 12 months, amounting to USD 62 million, has been accounted under other current liabilities (Note 14). The payable is due in three equal installments in 3 years.” Fintur’s 2010 financial statements show that this debt, while not technically due until 2011, was paid in full in 2010

<sup>99</sup> Statement regarding Azercell privatization. 25 October 2012.

<http://www.teliasonera.com/en/newsroom/news/2012/statement-regarding-azercell-privatisation/>

<sup>100</sup> TeliaSonera Uses Post-Soviet Coupons in Azeri Deal. *Bloomberg News*. 17 November 2009.

<http://www.bloomberg.com/apps/news?pid=newsarchive&sid=aKkpRdkEvUUs>

<sup>101</sup> Statement regarding Azercell privatization. 25 October 2012.

<http://www.teliasonera.com/en/newsroom/news/2012/statement-regarding-azercell-privatisation/>

<sup>102</sup> <http://www.internationallawoffice.com/Newsletters/White-Collar-Crime/U...le-Conviction-Should-Bolster-Foreign-Corrupt-Practices-Act-Enforcement>

- A new local “partner” Cenay Iletisim, was created by Cenay Insaat to appear to be an affiliate of the Cenay Group.<sup>103</sup> In 2005, the Cenay Group sold its interest in Cenay Iletisim to Dilsan Investment and Colville Group, two Panamanian shell companies linked to Oliver Mestelan, the registered corporate secretary of the offshore entities, and board member of state owned Azertel.<sup>104105</sup>
- In 2008, when the minority partners Cenay Iletisim and Cenay Insaat increased their effective ownership of Azercell from 13% to 48.7%;<sup>106</sup> however, only one shareholder, Cenay Iletisim, saw its interest in Azercell change.
- Cenay Iletisim indirect interest in Azercell came to equal to the stake sold by the government.

Azercell - Effective Ownership Interests: Before and After Privatization

Shareholder	Before	After	Difference
Fintur	51.3%	51.3%	0.0%
Cenay Iletisim	6.5%	42.2%	<b>35.7%</b>
Cenay Insaat	6.5%	6.5%	0.0%
Government	35.7%	0.0%	<b>-35.7%</b>

Self-dilution

- To effect this transaction, TeliaSonera’s subsidiary Fintur would have to forgo its rights to participate in the capital increase on a pro rata basis, willingly diluting its Azertel holding from 79.8% to 51.3%, and allow Cenay Iletisim’s shareholding to increase from 10.1 percent to 42.2 percent.<sup>107</sup>

<sup>103</sup> <https://www.occrp.org/corruptistan/azerbaijan/azerbaijan-telecom/offshores-close-to-president-paid-nothing-for-share-of-state-telecom.php>

<sup>104</sup> See extracts of the Panamanian commercial register for Dilsan and Colville.

The Panamanian records may be accessed by establishing an account through this website:

<https://www.registro-publico.gob.pa/index.php/es/> (Click on *Ingresar* and then, *Crear una cuenta*). Note that as of 27 March 2015 the “new” register still does not seem to be functioning, but one can still access the records through the old register (*antiguas consultas registrales hasta Octubre 2014*) which contains data as of October 2014.

<sup>105</sup> Turkish Gazette, Volume 6454, Page 365, Volume 8360, Page 1266

<sup>106</sup> TeliaSonera 2008 Annual Report, page 36.

<https://www.teliaSonera.com/Documents/Reports/2008/AnnualReports/TeliaSonera-Annual-Report-2008-EN.pdf?epslanguage=en>

<sup>107</sup>

Also, beyond the language contained in the Azertel articles, both Fintur and TeliaSonera’s financial statements show that Cenay Iletisim had to eventually make payments to Fintur for the sale of certain preemption rights. As the wording is so vague, it is not clear if Fintur sold its rights to participate in the Azertel capital increase or Azertel, in an undisclosed back-to-back deal, sold to Cenay Iletisim Azertel’s preemptive rights to buy the state’s interest in Azercell. Regardless, the amount eventually received from

## Deadlocks & Puts

- TeliaSonera's 2008 annual report disclosed that the "largest minority shareholder was also granted a put option, giving the shareholder the right to sell its 42 percent stake to TeliaSonera at fair value in certain deadlock situations"<sup>108</sup> giving the minority shareholder (allegedly the Aliyev family) the right to force TeliaSonera to buy back its interest at an market value simply by creating a deadlock (or perhaps a new headlock).
- Per the TeliaSonera 2014 annual report, the year-end closing balance for Azertel's 2008 Azercell put option was recorded as SEK 6,814 million or approximately USD \$879 million.<sup>109</sup>

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Cenay Iletisim (after it had already gained the shares and consequently significant dividend payments) pales in comparison to the put option liability incurred by Fintur.

According to TeliaSonera's annual reports (no consideration was reported for 2008):

- 2009 Annual Report, page 63: "Sales consideration for other divestitures in 2009 included SEK 724 million for certain pre-emptive rights sold in connection with the privatization of Azercell Telekom B.M. in Azerbaijan." The average dollar/krona exchange rate for 2009 was approximately 7.75, making SEK 724m worth approximately \$93.4m.
  - 2010 Annual Report, page 78: "Sales consideration for other divestitures included SEK 152 million in 2010 and SEK 724 million in 2009 for certain pre-emptive rights sold in connection with the privatization of Azercell Telekom B.M. " The average dollar/krona exchange rate for 2010 was approximately 7.2, making SEK 152m worth approximately \$21.1m.
  - 2011 Annual Report, page 87: "In 2011 and 2010, sales consideration for other divestitures included SEK 87 million and SEK 152 million, respectively, for certain pre-emptive rights sold in connection with the privatization of Azercell Telekom B.M. " The average dollar/krona exchange rate for 2011 was approximately 6.5, making SEK 87m worth approximately \$13.4m.
- This suggests that approximately \$127.9m was paid by Cenay Iletisim for the sale of the preemptive rights, which again pales in comparison to both Fintur's put option liability (last calculated at \$934m) and its forgone dividend payments.

The amounts payable by Cenay Iletisim according to Fintur's financial statements appear to be a bit lower:

- 2008 Financial Statements, page 33: "At 31 December 2008, due from Cenay Iletisim is composed of USD 42,612 for the sale of preemptive rights of Azertel to succeed in 49% shareholding of minority interest in Azertel (Note 10) and USD 39,238 for capital commitment to Azertel."
- 2009 Financial Statements, page 35: "At 31 December 2009, due from Cenay Iletisim is composed of USD 21,283 (31 December 2008: USD 99,400) for the sale of pre-emptive rights of Azertel to succeed in the 42.2% shareholding of the minority interest in Azertel and USD 20,686 (31 December 2008: USD 51,804) for the capital commitment to Azertel." (Note that the underlined numbers are both different from and significantly higher than those disclosed in the same company's 2008 financial statements, and no explanation for this significant difference was provided.)
- 2010 Financial Statements, page 42: "No receivable from Cenay Iletisim is due as of 31 December 2010. "(Note that TeliaSonera's 2011 Annual Report reflects sales consideration received in 2011 although according to the Fintur statements, no debt was owed as of 31 December 2010.)

<sup>108</sup> *Id.*

<sup>109</sup> TeliaSonera 2014 annual report, p. 132



Despite the exceptional value proposition TeliaSonera and Fintur might have seen in the low \$180 million sale price, the additional conditions and deal structure, the requirement to finance the deal, the expensive put option, associated risk with making payments on vouchers formerly associated with official corruption, and the extortion like events preceding the event, it is difficult to believe that Telia's current board is so equivocal about whether Telia engaged in large scale corruption in Azerbaijan.

**Appendix B**  
Questionable and Potentially Corrupt Transactions and Payments

<u>Country</u>	<u>Transaction</u>	<u>US\$ Amount</u>	<u>SEK (at 8.11)</u>	<u>Red flags</u>
<b>Uzbekistan</b>	Sale of shares to in TS Uzbek Holding allegedly to problematic party	\$(50,000,000)	-405,500,000 kr	Possibly not a bona fide purchase and sale, but rather a means to transfer interest to problematic party who might be said to have no financial risk (purchase price offset by simultaneous purchase of 3G frequencies; business funded solely by TeliaSonera)
	Purchase of 3G Frequencies	\$80,000,000	648,800,000 kr	Possibly entered into an agreement with problematic party for a 3G license which it did not at the time own, but then procured from the Uzbek government
	Purchase of number blocks	\$9,200,000	74,612,000 kr	Purchase of government property possibly not from government, but from problematic party.
	Purchase of shares allegedly from problematic party	\$220,000,000	1,784,200,000 kr	Possibly not a bona fide option, but rather purposely structured to transfer \$220m to problematic party who might be said to have never taken financial risk.
	"Consulting" re 4G license, lease	\$55,000,000	446,050,000 kr	Rather than buy licenses from problematic party, TeliaSonera likely structured it as a substance-less "consulting contract"
	2012 "customer expansion"	\$5,000,000	40,550,000 kr	Internal problematic party documents suggest that TeliaSonera paid it \$5m for "customer expansion" in advance of its shutting down competitor's business resulting in their customers flocking to TeliaSonera.
<b>Azerbaijan</b>	Potentially Problematic Party "Purchase" of Cenay Iletisim	\$(6,433,065)	-52,172,157 kr	Interest in joint venture was "sold" to a company owned by a problematic party; purchase price appears to be significantly undervalued; purchase occurred right before the government issued a telecom license.
	2006 Dividends	\$3,522,181	28,564,888 kr	See <a href="https://www.occrp.org/en/daily/3988-teliasonera-warned-not-to-pay-further-dividends-to-azeri-partners">https://www.occrp.org/en/daily/3988-teliasonera-warned-not-to-pay-further-dividends-to-azeri-partners</a>
	Azertel Capital Increase	\$(77,977,928)	-632,400,996 kr	This "capital increase" seems more to be a cover that allowed the companies tied the problematic party to obtain the government's interest in the joint venture at a massive discount.

	Purchase of Preemptive Rights from Fintur	\$(99,400,000)	-806,134,000 kr	This "purchase of preemptive rights" seems more to be a cover that allowed the companies tied the problematic party to obtain the government's interest in the joint venture at a massive discount.
	2008 Dividends to Potentially Problematic Party	\$94,790,000	768,746,900 kr	See above-linked article. Notably, based on the Turkish Gazettes, it appears that TeliaSonera has stopped paying the dividends. That is, despite their claim that they were going to distribute the dividends, there has been no company resolution authorizing their distribution.
	2009 Dividends to Potentially Problematic Party	\$52,468,000	425,515,480 kr	See above.
	2010 Dividends to Potentially Problematic Party	\$48,295,000	391,672,450 kr	See above.
	2011 Capital Increase	\$(10,950,000)	-88,804,500 kr	Unclear purpose of this capital increase. It is mainly included so that the amount of dividends paid to the problematic party is not overstated.
	2011 Dividends to Potentially Problematic Party	\$30,877,000	250,412,470 kr	See above explanations for 2006 and 2008 dividends.
	2012 Capital Decrease	\$23,808,000	193,082,880 kr	See above explanations for 2006 and 2008 dividends.
	2012 Dividends to Potentially Problematic Party	\$41,500,000	336,565,000 kr	See above explanations for 2006 and 2008 dividends.
	2013 Dividends to Potentially Problematic Party	\$49,316,000	399,952,760 kr	See above explanations for 2006 and 2008 dividends.
	2013 Market Value of Potentially Problematic Party's Interest (taken from TS's put option liability)	\$934,501,000	7,578,803,110 kr	Under the put option, TeliaSonera has the obligation to purchase the state's former interest in Azercell at market value. This stake appears to have been misappropriated with TeliaSonera's assistance. There is evidence TeliaSonera has claimed that they will not honor this option (despite continuing to pay dividends to the problematic party). Regardless, the value of this property might not have been obtained by the problematic party without TeliaSonera's assistance.
	2014 Dividends to Potentially Problematic Party (based on Turkish Gazette)	\$43,732,699	354,672,185 kr	See above explanations for 2006 and 2008 dividends.
	Payments to Beneficial Owners of Vouchers	Undisclosed	N/A	According to US criminal proceedings, privatization vouchers were last seen in the hands of shell companies owned by government officials.

<b>Kazakhstan /Nepal/ Cambodia</b>	2007 Payment for AR-Telecom	\$5,587,000	45,310,570 kr	Instead of acquiring frequencies from the government, TeliaSonera again bought a private company that appears to be a shell holding frequencies. The company had been categorized as dormant. Although the beneficial owner is unknown, it is similar to the pattern in Uzbekistan.
	2008 Payment for KT-Telecom	\$21,939,666	177,930,691 kr	See above.
	2008 letter agreement re "frequencies" with potentially problematic parties	\$26,500,000	214,915,000 kr	A slight variation of the above. TeliaSonera entered into an undisclosed letter agreement defined as the "Frequency Letter" with a problematic counterparty. A party to that Frequency Letter was defined as the "acquiror", strongly suggesting in that context that acquiror was to acquire frequencies.
	September 2008 Payment to Kazakh potentially problematic parties for Nepal Assets	\$376,603,211	3,054,252,039 kr	Counterparty was problematic; the evidence suggests that TeliaSonera massively overpaid for the asset; valuation was apparently based on management's projections; weeks after the deal closed, people associated with the counterparty took over key governmental positions relevant to Telia's investment in Kazakhstan.
	September 2008 Payment to Kazakh potentially problematic parties for Cambodia Assets	\$108,018,000	876,025,980 kr	See above.
	2010 Payment to Kazakh potentially problematic parties for Nepal/Cambodia Assets	\$160,000,000	1,297,600,000 kr	See above. Purchase also came right before Telia's Kcell was issued a permanent 3G license in Kazakhstan.
	2010 "Dilution"/"sale" of Cambodian asset to potentially problematic parties	\$90,000,000	729,900,000 kr	Re the dilution, it seems that Telia had the more valuable part of the business (better license, more subscribers) but significantly diluted itself when it "merged", the counterparties could be problematic parties associated with Telia in Nepal (undisclosed); furthermore, Telia appears to have kept funding the counterparty with an undisclosed loan. Later, when Telia "sold" its interest in the merged company, it did not record receiving any consideration.
	2011 "loan" to potentially problematic parties	\$50,000,000	405,500,000 kr	See above.

	2011 purchase of 25% interest in Nepal Satellite	\$30,000,000	243,300,000 kr	Nepal Satellite was an insignificant company - less than one percent of the market, had outdated technology, operated mainly in rural parts of Nepal. TeliaSonera had 40% of the market. There seems to be little commercial reason to buy the company, let alone a minority stake. The majority owner could be a problematic party. Telia's new management quickly unwound the deal.
	2012 Overpayment for Kazakhtelecom's interest in Kcell - Purchase price versus IPO price	\$129,752,000	1,052,288,720 kr	Kazakhtelecom had politically connected shareholders, and whether one looks at Kazakhtelecom's market cap or the IPO price, it appears that Telia overpaid. The entire market cap of Kcell is worth less than what Telia paid for Kazakhtelecom's stake.
	2012 financing of "buyout" of Nepal partners (net of \$50m loan)	\$180,000,000	1,459,800,000 kr	This was not accurately disclosed by Telia - possibly material omissions. Telia made an undisclosed \$230m to an individual. The individual then bought interests of the existing local partners (who were also involved in some of the Cambodian transactions above). This individual could be a close associate of one of the existing local partners, calling into question whether this was a bona fide transaction. Furthermore, the loan is non-performing. Telia's only collateral are the individual's shares in Ncell, which, Telia cannot own under Nepali law.
	2012 purchase of 50% of Nepal Satellite	\$45,000,000	364,950,000 kr	See above description of acquisition of first part of Nepal Satellite.
	2012 "loan" to Visor	\$22,500,000	182,475,000 kr	Unusual structure that suggests (among other possibilities) Telia could have had internal problems directly buying more than a certain percent or there might have been a Kazakh regulatory issue. Regardless, Telia loaned \$22.5m to Visor to buy the shares. Telia's collateral is the shares. According to Visor's financials, three years later, \$24.5m is due to Telia, strongly suggesting that the loan is non-performing, and Telia has not foreclosed on the collateral, suggesting that the deal might not have been entered into on normal commercial terms and that the beneficiary, incidentally, could have been a problematic party.
	2013 purchase of shares in KazTransCom from potentially problematic party	\$22,000,000	178,420,000 kr	See above, but Telia directly purchased this stake. Seems strange for Telia to purchase interest in a very minor Kazakh company. The UBO might be a problematic party.
	2013 KazTransCom "option payment" to potentially problematic party	\$15,000,000	121,650,000 kr	Company is of questionable value, option is of very questionable value and the seller might be a problematic party.

	2013 Purchase of KazNet Media from potentially problematic party	\$170,000,000	1,378,700,000 kr	According to Telia's new management, which completely wrote off this acquisition between 2013 and 2014, the assets were worthless.
<b>Georgia</b>	2008 Buyout of "local partners"	\$33,000,000	267,630,000 kr	Telia might have purchased an asset misappropriated from the government.
<b>Russia</b>	Purchase of interest in First National Holding S.A. from potentially problematic party	\$80,000,000	648,800,000 kr	An arbitration award states this asset was bought from a problematic party.
<b>Total</b>		<b>\$3,013,148,763</b>		

**TeliaSonera Eurasian Transactions:**  
**Red Flag Matrix**

<u>Countr y</u>	<u>Transaction</u>	<u>Amount</u>	Telia's counter party possibly problem atic	Apparent over payment for assets or services	Purchase of state licensed resources (such as frequenci es or numberin g blocks) from private parties	Possible false commerci al cover (e.g., "loan", "option", "consultin g agreemen t", "dilution" ) that could misrepres ent the nature of the transactio n	Possible misappro priation of state owned assets or assets possibly misappro priated from private parties by Telia's counter party	Apparent lack of services or lack of financial contribution or risk taken by counterpa rty (carried interest or seemingly otherwise funded by TeliaSone ra)	Omissions or misrepres entations in Telia's public disclosures	Possible undisclose d related- party transactio n	Questions about whether counterpa rty is arms length from TeliaSone ra	Transacti on that resulted in Telia losing money to its counter party.
<b>Uzbekis tan</b>	Sale of shares to in TS Uzbek Holding allegedly to problematic party; Purchase of 3G Frequencies	\$30,000,000	X		X	X	X	X	X			
	Purchase of number blocks	\$9,200,000	X	X	X		X	X	X			
	Purchase of shares allegedly from problematic party	\$220,000,000	X	X		X		X	X			
	"Consulting" re 4G license, lease	\$55,000,000	X	X		X		X				
	2012 "customer expansion"	\$5,000,000	X			X	X	X	X			
<b>Azerbai jan</b>	Various transactions with potentially problematic parties in Azerbaijan through which counterparties obtained 1) interests in TeliaSonera's joint venture company Azertel and 2) possibly misappropriated the government's 35.7% interest in the local joint venture company, Azercell, with TeliaSonera's assistance	\$1,128,048,887	X			X	X	X	X			X

	Payments to Beneficial Owners of Vouchers	Undisclosed	X			X	X		X			
<b>Kazakhstan</b>	2007 Payment for "dormant" AR-Telecom	\$5,587,000		X	X			X	X			X
	2008 Payment for KT-Telecom	\$21,939,666		X	X			X	X			
	2008 letter agreement re "frequencies" with potentially problematic parties	\$26,500,000	X		X	X			X			
	September 2008 Payment to Kazakh potentially problematic parties for Nepal Assets	\$376,603,211	X	X			X	X	X	X		
	September 2008 Payment to Kazakh potentially problematic parties for Cambodia Assets	\$108,018,000	X	X				X	X	X		X
	2010 Payment to Kazakh potentially problematic parties for Nepal/Cambodia Assets	\$160,000,000	X	X				X	X	X		
	2012 Apparent overpayment for Kazakhtelecom's interest in Kcell - Purchase price versus IPO price (26.48% corresponding ownership interest held by a possibly problematic party)	\$129,752,000	X	X			X		X			
	2012 "loan" to Kazakh possibly problematic party	\$22,500,000	X	X		X	X		X	X		X
	2013 purchase of shares in KazTransCom from Kazakh possibly problematic party	\$22,000,000	X	X			X		X	X		X
	2013 KazTransCom "option payment" to Kazakh possibly problematic party	\$15,000,000	X	X		X	X		X	X		X
<b>Nepal and Cambodia</b>	2013 Purchase of KazNet Media from Kazakh possibly problematic party	\$170,000,000	X	X				X	X	X		X
	2010 "Dilution"/"sale" of Cambodian asset to Nepal partners	\$90,000,000	X			X		X	X	X	X	X
	2011 and 2012 purchases of 75% interest in Nepal Satellite from possibly problematic party	\$75,000,000	X	X					X	X	X	X
	2011 - "loan" to and 2012 financing of "buyout" of Nepal	\$230,000,000	X			X		X	X	X	X	X



	partners											
<b>Georgia</b>	2008 Buyout of "local partners"	\$33,000,000	X	X			X		X			
<b>Russia</b>	Purchase of interest in First National Holding S.A. from possibly problematic party	\$80,000,000	X				X		X			
<b>Total</b>		<b>\$3,013,148,763</b>										

## Appendix C

### Valuation Methodology

Our base case values TeliaSonera at 29.2 SEK per share, and our downside case (which assumes that disposals are significantly more problematic) values TeliaSonera at 27.4 SEK.

	Base Case	Downside Case
<b>Eurasia Sale</b>		
exit multiple	3.5	3.5
Eurasia EV est	40,570	29,114
cash proceeds	18,355	12,180
<b>Fine</b>	-12,492	-12,492
<b>Pro-Forma #s</b>		
Net Debt	43,227	49,402
Minority Interest	1,344	1,344
EV	232,064	238,239
Ebitda	23,102	23,102
EV/ Ebitda	10.0	10.3
<b>Valuation Post Sale</b>		
market telco multiple	7.40	7.40
est EV	170,957	170,957
est equity	126,386	120,211
Shares outstanding	4,330	4,330
Price per share	29.2	27.8

Our base case assumes pro forma net debt of SEK 55.7 billion. We have netted off current cash balance of SEK19.6 billion, equity stakes in Turkcell, and Megafon valued at SEK 41 billion and assumed cash proceeds of SEK18.4 billion from the sale of the Eurasia businesses.

We assume that TeliaSonera pay fines and penalties of SEK12.5 billion, which would be comparable to Siemens, which seemed to have less extensive FCPA violations and was more contrite.

Our base case assumes that each of the Eurasia and Nepal assets is sold at an EV multiple of 3.5x 2015E EBITDA. We use a distressed sale multiple for Nepal, which was closely linked to the Kazakhstan business and seems to have significant issues (including a suspicious US\$230 million undisclosed loan to “buyout” local partners at Ncell). Our downside case is based on the assumption that TeliaSonera may be unable to sell some of the Eurasia assets (most likely Uzbekistan), and would have to walk away completely from the business. Although impossible to accurately forecast, we believe it is plausible that TeliaSonera is forced to walk away from one or more of the Eurasian assets and the trapped cash.

Net sales SEK in millions	2013 FY	2014 FY	2015 FY	Growth	Currency move Q3		EV	Est Net Debt	Proceeds to Telia
Eurasia	20,414	20,458	21,912				29,114	6,259	12,180
Kazakhstan	8,111	7,248	6,346	9.9%	-44.7%		-	1,259	(678.60)
Azerbaijan	3,824	3,778	3,652	-8.2%			7,121	(1,525)	2,594
Uzbekistan	3,118	3,613	4,526	23.6%			8,438	5,600	2,668
Tajikistan	932	857	773	-13.7%			839		504
Georgia	915	874	841	-6.0%			1,021		598
Moldova	512	497	597	22.5%			517		303
Nepal	3,023	3,593	5,160	43.2%			11,177	925	6,192.19
Eliminations & other	-21	-2	16						
<b>EBITDA excluding non-recurring items SEK in millions</b>	<b>2013 FY</b>	<b>2014 FY</b>	<b>2015 FY</b>	<b>H1 Margin</b>	<b>H2 Est</b>				
Eurasia	10,804	10,859	11,534	52.6%		6,971.07	24,398.75	18,139.75	
Kazakhstan	4,481	4,032	3,273	52.6%	50.0%	1,764.22	6,174.75		
Azerbaijan	1,912	2,042	2,035	55.7%	55.7%	610.39	2,136.36		
Uzbekistan	1,680	1,944	2,411	53.3%	53.3%	2,266.24	7,931.83		
Tajikistan	472	364	240	31.0%	31.0%	143.89	503.62		
Georgia	385	355	292	34.7%	34.7%	170.91	598.19		
Moldova	185	131	148	24.7%	24.7%	86.60	303.10		
Nepal	1,803	2,155	3,193	61.9%	61.9%	1,928.83	6,750.89		
Eliminations & other	-114	-163							
Other operations	513	282							
International Carrier	368	371							
Eliminations & other	144	-89							
Eliminations & other	13	0							
<b>The Group</b>	<b>35,583</b>	<b>35,223</b>							
<i>Growth in local currencies excl. acquisitions &amp; disposals (%)</i>									

We use a 3.5x 2015E EV/EBITDA multiple because there are limited bidders (possibly only one) for the Eurasia and Nepal assets and TeliaSonera has signaled it is a willing seller. Even if a public company that operates telecom assets in the “Stans” were to join the bidding, they too trade at distressed multiples and are unlikely to make acquisitions that are non-accretive. By signaling their intention to leave Eurasia, TeliaSonera may also encounter an increasingly harsh operating environment. This could further depress earnings if the sale process becomes drawn out.

We use a 7.4x 2015e EV/EBITDA multiple to value the stub business because the closest comp, Tele2 AB trades at that valuation. Tele2 AB derives a significant portion of its revenue from mobile and has a similar geographic coverage to TeliaSonera. Telenor also operates in both Sweden and Norway however we feel it deserves to trade at a premium as it has consistently demonstrated higher revenue growth and ROA than TeliaSonera’s stub business. Telenor is also recording stronger EBITDA growth. Both TeliaSonera and Tele2 AB have experienced flat to negative EBITDA growth for over four years.

<b>Telenor ASA</b>	<b>2012 FY</b>	<b>2013 FY</b>	<b>2014 FY</b>
Revenue	102,061	99,472	106,899
EBITDA	31,140	33,388	36,290
Return on Assets %	6.9%	7.8%	7.6%
Return on Capital %	9.3%	10.4%	10.5%
 <b>TeliaSonera</b>	 <b>2012 FY</b>	 <b>2013 FY</b>	 <b>2014 FY</b>
Revenue	104,898	101,870	101,060
EBITDA	35,588	34,088	33,291
Return on Assets %	5.6%	5.3%	4.8%
Return on Capital %	7.0%	6.6%	6.0%
 <b>Tele2AB</b>	 <b>2012 FY</b>	 <b>2013 FY</b>	 <b>2014 FY</b>
Revenue	30,742	25,757	25,955
EBITDA	6,984	6,635	6,361
Return on Assets %	3.0%	4.3%	5.1%
Return on Capital %	3.9%	5.7%	6.6%

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