



Infringement of the Rule of Law in Uzbekistan: Case of Mobile TeleSystems (MTS)

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Ilya Kolesnikov,
Director of Department for Corporate Transactions and Investments Protection, MTS Group



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MTS Uzbekistan: Overview

About MTS

- Largest telecommunications provider in Russia and Central Asia
- Wireless and fixed-line telecommunications services to over 100 million customers throughout the region in six different countries
- Since 2000 listed at the New York Stock Exchange

Success in the region

- MTS entered Uzbekistan in 2004 acquiring FE LLC “Uzdunrobita”
- For the past eight years: the leading provider of mobile communications and Internet access to more than 9.5 million people
- Invested over \$1.1 billion to build the region’s largest, and most capable telecommunications networks
- A third of the country’s population used MTS’ services
- A leader in the mobile market: approximately 38% of market share
- Employed more than 1,400 personnel
- Responsible corporate citizen

- As a company publicly traded on the New York Stock Exchange, MTS observes the highest global standards of transparency and corporate governance
- MTS complies with the regulations of the countries where it operates and certain US legislation:
 - Sarbanes-Oxley Act (SOX)
 - US Foreign Corrupt Practices Act (FCPA)
 - Security laws and regulations.
- MTS has always complied with laws and regulations in Uzbekistan
 - Compliance with licensing requirements, communications laws, tax and currency laws has been confirmed by regular audits conducted by various Uzbek government bodies.
 - Most recent audit was completed in February 2012 and revealed certain very minor transgressions including certain minor tax dues which were promptly settled by the Company .



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Chronology of events since June 2012

- **June 2012:** Different regulatory bodies are conducting synchronous audits financial and operating activities of Uzdunrobita in areas related to tax, currency control, construction, sanitary-epidemiological control, as well as antitrust activity
- **Late June 2012:** General Prosecutor's Office accuses Uzdunrobita officials of tax evasion, fraud, concealing foreign currency, wrongful cash withdrawal, violating trade rules and unlicensed activities as part of a "criminal group". By mid-July 2012 five Uzdunrobita officials are detained based on unfounded accusations of personal financial impropriety in the amount exceeding \$520 million:
 - Radik Dautov, Acting CEO
 - Temirmalik Alimov, 1st Deputy CEO for Finance
 - Azizillo Mirzamoidinov, Director for Corporate Development
 - Alisher Mukhamedov, Director of the Security Department
 - Aziz Rakhimov, Deputy CEO for IT
- **July 17, 2012:** MTS Uzbekistan is required to suspend communication services for 10 days in accordance with the order of the Uzbekistan Agency for Communication and Information Technologies
- **Early August 2012:** Acting CEO Radik Dautov, a Russian citizen, is released and returned to Russia after the intervention of Russian MFA
- **August 13, 2012:** Uzbek court granted regulator's petition to withdraw MTS' license
- **August 2012:** Based on additional tax audits conducted in June – August, tax authorities charge Company with fines ultimately of approximately \$700 million. Uzbek law enforcement bodies arrested all property of Uzdunrobita and evaluated it at circa \$700 million.
- **September 17, 2012:** Alimov, Mirzamoydinov, Muhamedov and Rahimov are convicted, fined and barred for 2.5 years from assuming management roles or running their own business and obliged to pay 30% of their salaries to the state budget. Court rules to confiscate ALL Uzdunrobita's assets in connection with a criminal case against employees.

Types of Violations

Examples

- **Human rights violations**

- Employees denied right to freedom of movement when not being allowed to leave the country, their passports are confiscated
- During questioning, psychological pressure was applied
- Detained employees subjected to undue emotional suffering
- No proper access to advocates, interrogation held without present of counsel and often at night time.
- Accused employees have received only very limited information about the charges and accusations brought against them.
- Parading detailed employees in handcuffs before other questioned employees to pressure them into signing confessions
- Press-campaign calling employees “an organized criminal group” and “persons in a criminal conspiracy”.

Types of Violations

- **Procedural & criminal code violations**

Examples

- Unscheduled audits of Uzdunrobita started in the absence of a criminal case
- Documents were seized from offices in violation of procedural requirement to give proper statement or a copy of the record
- During audits, papers confirming right to conduct audits weren't provided, audits impeded activities of the Company, no records were made in the audit registration book
- MTS has not been informed in advance about the date of the hearings, not given time to prepare for hearings and determine our legal position
- MTS was denied right to participate to participate in the criminal process against its employees while assets of the Company were confiscated to compensate for the damages allegedly caused by its employees
- Employees arrested and detained without proper evidence
- Employees were forced to make self-incriminatory testimonies
- Employees were forced to prepare statements that misrepresented Company activities



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Cautionary Tale

- MTS has become a target of unlawful systematic expropriation campaign
- MTS's experience demonstrates gross infringements upon rule of law in Uzbekistan
- MTS –Uzbekistan employees were subjected to egregious human rights violations
- MTS's experience shows that rule of law doesn't provide protection for foreign investors in Uzbekistan