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4-11-2015

Responsible Challenger

Corporate Responsibility in the new Joint Venture between Tele2 and Kazakhtelecom in Kazakhstan

November 2015

The logo for Tele2, featuring the word "TELE2" in a bold, black, sans-serif font. The letter "E" is stylized with a vertical line through its center.

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Introduction

After six successful years of responsible business operations in Kazakhstan, Tele2 is now strengthening its competitive position in the Kazakh telecom market by combining its operations in Kazakhstan with those of Altel, Kazakhstan's fourth largest mobile business and the operator of Kazakhstan's only 4G network.

Tele2 entered Kazakhstan at the beginning of 2010 through the acquisition, in an auction process, of a 51 percent interest in the Kazakh mobile operator Mobile Telecom-Service (MT-S) from Kazakhtelecom. The remaining 49 percent of the interest in MT-S is currently owned by Asianet. MT-S is a limited liability partnership formerly known under the brand 'NEO', which is one of MT-S's registered trademarks. MT-S is also recognized as Tele2 Kazakhstan.

Kazakhtelecom is a joint stock company that has been listed on the Kazakhstan Stock Exchange since 1997. The largest owner is Samruk-Kazyna, the state-owned sovereign wealth fund of Kazakhstan, which currently holds approximately 51 percent of the shares in Kazakhtelecom.

Tele2 has now entered into agreements to buy out Asianet's interest in Tele2 Kazakhstan and to form a Joint Venture by combining Tele2 Kazakhstan with Altel, Kazakhtelecom's mobile business. Tele2 will hold shares representing 49 percent of the share capital and 51 percent of the voting rights in the holding company that will own and control the Joint Venture.

By combining our operations with those of Altel, Tele2 will be building on its six years of successful operations in Kazakhstan. During this period of time, Tele2 Kazakhstan has steadily increased its customer base and market share by assuming the role of a price leader; pushing down customer prices by more than fifty per cent, rolling out new quality mobile networks, and through the unveiling of numerous new points of sale.

Our ambition in Kazakhstan is to become a stronger player. Teaming up with one of the leading telecom operators in Kazakhstan supports that ambition and generates value for both our shareholders and our customers. By pooling our resources with Altel, we are creating a much stronger entity. Through this Joint Venture, our customers will gain access to Altel's 4G network and will be able to benefit from its accelerated rollout across Kazakhstan. Our shareholders will benefit from the synergy effects created by the Joint Venture. Altel's current owner, Kazakhtelecom, will benefit from our extensive know-how in telecom and also from our experience in management, governance and corporate responsibility.

We are confident that the new Joint Venture will serve as a vehicle for development in Kazakhstan. This will be achieved, first and foremost, by growing the combined business and improving the availability and quality of telecommunication services in Kazakhstan.

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Corporate responsibility is part of our challenger spirit

Tele2's dedication to corporate responsibility is closely linked to its challenger spirit. That challenger spirit is deeply rooted in Tele2's DNA. It empowers Tele2 to continuously push limits and break new ground in the telecom sector and in the countries in which it operates. It makes Tele2 unique and sets it apart from its competitors.

Tele2 is continuously reviewing its operations to ensure that it is acting in accordance with the Tele2 Code of Conduct. Tele2's Code of Conduct is based on the United Nations Global Compact's ten principles in the areas of human rights, labor rights, environment and anti-corruption.

During the negotiations and prior to signing the Joint Venture Agreement with Kazakhtelecom, Tele2 conducted a thorough due diligence and analysis, not only focusing on commercial and legal aspects of the Agreement, but also on Human Rights and Corporate Responsibility. The due diligence encompassed the transaction itself and those parties involved in the Agreement.

The due diligence was performed to ensure that the transaction and the new business are aligned to the ethical standards of Tele2's Code of Conduct (CoC) and the United Nations Guiding Principles on Human Rights (UNGPs). Around ten reports were authored and presented to Tele2. As these reports contain sensitive business-information, they cannot be publically released.

This document addresses the key potential challenges Tele2 has identified from a corporate responsibility point of view associated with this Agreement and Tele2's continued operations in Kazakhstan, as well as the actions taken by Tele2 to address these potential challenges.

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Overview – Corporate Governance: How we do business in Kazakhstan

Focus areas	Example tools
Corruption	<ul style="list-style-type: none"> • Zero tolerance on corruption - Code of Conduct (CoC) and Business Partner CoC • Exit clause • Fairness opinion confirms fair market price • Transparency regarding bank accounts • Warranty on the use of proceeds
Ownership structure	<ul style="list-style-type: none"> • Thorough due diligence process • Ultimate Beneficial Owner (UBO) warranties as part of the SPA
Code of Conduct (CoC) enforcement	<ul style="list-style-type: none"> • Management control and voting control in the Joint Venture • Tele2 has the right to appoint all of the Management Board (except CFO) • Tele2 appoints half of the Board of Directors and the Chairman • Tele2 educates all employees on CoC and Whistle-blower Policy • All employees are required to sign the CoC annually • A CR Officer is to be appointed in the Joint Venture
Transparency	<ul style="list-style-type: none"> • Annual reports on operations in Kazakhstan with a particular focus on Corporate Responsibility • Structured access for ESG investors with a focus on Corporate Responsibility
Privacy and Integrity	<ul style="list-style-type: none"> • Stringent Tele2 process to manage government requests on historical traffic data and network shutdowns • Tele2 is working for increased transparency in the usage of SORM, inter alia through pressing for dialogue with the supervisory authority

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Focus areas

Based on the due diligence reports and analyses, Tele2 identified five focus areas with regard to Corporate Responsibility that require Tele2's attention in Kazakhstan: Corruption, ownership structure, Code of Conduct enforcement, transparency and privacy and integrity. Further detail on each area is provided below.

Corruption

Tele2 has operated in a sustainable and ethically correct way since entering the Kazakhstan market six years ago.

Tele2 will continue to promote its values and corporate responsibility practices in Kazakhstan. The Joint Venture will allow Tele2 to increase these efforts. Kazakhtelecom has agreed to comply with the Tele2 Business Partner Code of Conduct and the Agreement between Tele2 and Kazakhtelecom includes remedies in the event the Code is broken. Tele2 has management control of the Joint Venture. As a last resort, **the agreement includes a – potentially unique – clause that allows Tele2 to exit its involvement should Kazakhtelecom be in material breach of the Business Partner Code of Conduct.**

In the Joint Venture, Tele2 will **also enforce the Tele2 Code of Conduct across the new, merged operations and educate all existing and new employees** on the CoC, the Whistle-blower policy and the UN Guiding Principles on Business and Human Rights. All employees in the new Joint Venture will be required to read and sign the CoC annually as a condition of employment.

In order to ensure that Tele2 purchased Asianet's 49 percent share in Tele2 Kazakhstan at a fair market value, Tele2 Group **sought and received two separate fairness opinions from internationally recognised independent firms** that confirm the consideration paid to Asianet as part of the overall transaction is fair from a financial point of view so far as Tele2 is concerned.

Asianet has also signed a warranty that serves as a guarantee that the money being transferred from Tele2 to Asianet is not being used for purposes of money laundering or bribes.

The bank account, owned by Asianet, that Tele2 is transferring money to, is with reputable bank in the Netherlands.

Q & A

Q: Is it at all possible for Tele2 to do business in Kazakhstan without being complicit in corruption and irregularities?

A: Yes, and we have been able to do so for six years. As with all aspects of our business operations, Tele2 strives for the highest possible standards of transparency and to ensure that both our staff and our business partners comply with our Code of Conduct. Based on our experiences, we are well aware of the environment and the challenges that many businesses face in Kazakhstan. In addition, it is worth noting that both the EU and the Government of Sweden are encouraging European and Swedish companies and investors to increase trade with Kazakhstan.

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Q: How does Tele2 view its Joint Venture partner?

A: We feel comfortable and confident about doing business with Kazakhtelecom, and Asianet. We have conducted extensive analysis and due diligence on the parties involved in the transaction and have not found anything that prevents us from proceeding with the Joint Venture Agreement.

Q: What would have to occur or what breaches of your Code of Conduct would have to occur for Tele2 to exercise its right to exit the Joint Venture?

A: We cannot speculate on what events might or might not occur in the future, but under the terms of the Agreement, Tele2 has the right to exit the Joint Venture should Kazakhtelecom be in material breach of the Code of Conduct. Tele2 takes the enforcement of its Code of Conduct very seriously.

Ownership structure

During the negotiations and prior to signing the agreement, **Tele2 conducted a thorough due diligence and analysis, focusing not only on commercial and legal aspects, but also on Human Rights and Corporate Responsibility.** The due diligence encompassed the transaction itself as well as the parties involved in the agreement. The due diligence was performed to ensure that the transaction and the new business are aligned with the ethical standards of the Tele2 Code of Conduct and the United Nations Guiding Principles on Human Rights. In total, **around ten reports were authored and presented to Tele2.**

Tele2 has made all reasonable endeavors to establish the ultimate beneficial owners of the assets involved in this transaction. Tele2 has conducted extensive due diligence and dealt directly with Aigul Nuriyeva regarding her ownership of Asianet. Aigul Nuriyeva has signed a legal document, a **UBO warranty, with remedies if broken**, confirming that she is the ultimate beneficial owner of both Asianet (that currently holds a 49 percent stake in Tele2 Kazakhstan) and Kauz Services (a large minority owner of Kazakhtelecom).

As highlighted by Tele2 in a white paper that was released in December 2014, there is no hard evidence suggesting that Aigul Nuriyeva is acting as a trusted representative on behalf of members of the political establishment. The UBO warranty that she has signed is a legal undertaking. Should the UBO warranty be breached, Tele2 would **take legal action and sue for damages.**

Tele2 asked a business risk management firm to conduct a due diligence report on Aigul Nuriyeva. The firm identified no specific allegations of corruption, or other irregularities, relating to her or her business activities during the course of their investigation.

Q & A

Q: Is Tele2 certain the owners of Kazakhtelecom do not act on behalf of government officials?

A: Tele2 engaged a number of independent legal, business intelligence and business risk management firms to perform thorough due diligence and analysis regarding the individuals and companies involved in this agreement. The reports prompted questions regarding the ownership of Asianet and Kazakhtelecom. As a result, Tele2 approached the individuals asking them to sign warranties confirming that they are Ultimate Beneficial Owners and not acting as representatives of government officials. Having performed the thorough due diligence and having the individuals

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sign the warranties, Tele2 felt confident to proceed with combining our operations in Kazakhstan with those of Altel. As part of this process, Tele2 also viewed corporate documents from relevant authorities confirming these individuals' status as UBOs.

Q: What do the Ultimate Beneficial Owner warranties entail?

A: In the unlikely event the UBO warranty is breached, Tele2 is able to take legal action and sue for damages.

Q: Aigul Nuriyeva has been surrounded by rumors that she acts as a trusted representative of the Kazakh Prime Minister. Is this a concern to Tele2?

A: We have made all reasonable endeavors to ascertain Aigul Nuriyeva's ownership of Asianet, including our own due diligence processes and seeking assurances from Aigul Nuriyeva herself that she is the ultimate beneficial owner of Asianet. We have been presented with documents confirming the fact that she is the Ultimate Beneficial Owner. Moreover, she has signed a UBO warranty, with remedies if broken. This warranty is a legal document in which Aigul Nuriyeva certifies that she is the owner of Asianet. In the unlikely event that evidence emerges proving that Aigul Nuriyeva is not the owner, the warranty enables Tele2 to take legal action.

Q: Isn't dealing with Kazakhtelecom the same thing as dealing with President Nazarbayev since the majority-owner, Samruk-Kazyna, is the Kazakhstan Sovereign Wealth Fund?

A: No, it is not. Kazakhtelecom is a company listed on the Kazakhstan Stock Exchange with an independent governance structure. Kazakhtelecom has independent directors on its Board of Directors and takes decisions in accordance with Kazakhstan law and its corporate governance code. Ongoing improvements in Kazakhtelecom's governance and management practices have been noted by, amongst others, S&P which recently upgraded its governance rating on Kazakhtelecom whilst recognizing Kazakhtelecom as a Government Related Entity.

Code of Conduct enforcement

Tele2 will **enforce the Tele2 Code of Conduct in the new Joint Venture**. Kazakhtelecom has signed the **Tele2 Business Partner Code of Conduct**. In the unlikely event that the code is breached in a material way, Tele2 has the possibility to **exit the partnership**.

Tele2 has the right to appoint all of the Management Board (except the CFO) and will appoint half of the Board of Directors, including the Chairman, who will have a casting vote. This means that Tele2 has **management control** and **voting control** in the Joint Venture. In addition, Tele2 will be able to dismiss any employee. Tele2 will **continue its policy of zero tolerance on corruption**.

Tele2 will **educate all employees** in the Joint Venture on the Code of Conduct and the Whistle-blower policy. Tele2 Kazakhstan is already educating its current employees but will extend these efforts further. **All employees in the new Joint Venture will be required to read and sign the CoC annually – this will be a condition of employment**.

A **Corporate Responsibility Officer will be appointed** to the Joint Venture in order to ensure employees and management abide by the Code of Conduct.

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Q & A

Q: How can Tele2 ensure that Kazakhtelecom abides by Tele2's Code of Conduct (CoC)?

A: Tele2 will continue to promote our values and corporate responsibility practices in Kazakhstan. This agreement will allow us to increase our efforts. In addition, Kazakhtelecom has signed the Tele2 Business Partner Code of Conduct. It is also worth pointing out that Tele2 has management control of the Joint Venture. In addition, as a last resort, the agreement includes an exit clause that allows Tele2 to exit its involvement should Kazakhtelecom be in material breach of the Code of Conduct.

Q: Why is Kazakhtelecom appointing the CFO?

A: As part of the Shareholders' Agreement, Tele2 will have management control and appoint both the CEO and the Chairman. Kazakhtelecom will appoint the CFO. Tele2 can, however, have the CFO removed if there are Code of Conduct or other issues with the person appointed to the role.

Q: Is Tele2 acting in accordance with the United Nations Guiding Principles on Human Rights and the Swedish Government's Action Plan (NAP) for Human Rights?

A: Yes. According to the UNGP, businesses should take action when there is a risk that their actions may have negative impacts, but also where businesses contribute – directly or indirectly – to adverse impacts. As a final test within the UNGP, companies should avoid being linked to irregularities. In the first two cases, companies should take appropriate measures to stop or withdraw from the activity causing the negative impact. In the event that a company is linked to irregularities, it should make use of its leverage, or increase its leverage, something Tele2 is now doing with this transaction. Tele2 has followed the recommendations of UNGP when conducting thorough due diligence, identifying potential challenges, and then taking action to address these challenges. Regarding the Swedish Government's National Action Plan for Human Rights, Tele2 was an active participant in the dialogue that developed the action plan.

Transparency

Tele2 will present an **annual report on matters pertaining to Corporate Responsibility in Kazakhstan**. The report will provide an update on what the Joint Venture is doing to promote the enforcement of its Code of Conduct and on how it is promoting sustainable business practices in Kazakhstan.

Tele2 will continue to offer **investors, analysts and journalists structured access to its operations in Kazakhstan**. Since entering the Kazakhstan market, Tele2 has organized visits to Kazakhstan focusing on Corporate Responsibility. These efforts will continue in the new Joint Venture.

Tele2 continuously assesses its investments, operations and partnerships in those markets where it has a presence. Tele2 intends to continue its practice of arranging regular round table meetings with investors and analysts to share relevant information on issues relating to Corporate Responsibility and Tele2's operations in Kazakhstan.

Q & A

Q: You have had third parties perform extensive due diligence. Why doesn't Tele2 release these reports publically?

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A: The due diligence and analysis reports are commercial-in-confidence. They contain sensitive business information that cannot be released.

Privacy and Integrity

In the course of its operations, Tele2 has access to customer data for processing and storing. When handling data, Tele2 takes into account its customers' rights to maintain personal integrity and privacy.

Tele2 complies with all applicable laws and regulations on the right to privacy and personal integrity, as well as on customer data retention. Tele2 strives to prevent any unauthorized access to personal information. **Tele2 does not process customers' personal data other than as permitted by law or by customer approvals in standard terms and conditions.**

Tele2 has joined the **Global e-Sustainability Initiative (GeSI)** to share experiences with other ICT and telecommunication companies. The main purpose of joining GeSI was to learn about how we can collaborate with other telecommunications companies on Corporate Responsibility, particularly on matters concerning the System for Operative Investigative Activities (SORM), which is a government surveillance system present in many CIS (Commonwealth of Independent States) countries.

Through the Joint Venture, **Tele2 will seek a closer dialogue with the supervisory authority** on privacy, integrity and transparency. Internally, Tele2 will continue to have **processes in place for Customer Data Retention (CDRs) and network shutdowns.**

Tele2 also has an **established a stringent process for handling government requests on historical data and network shutdown.**

Q & A

Q: Surveillance is a concern in Kazakhstan, especially the SORM systems and laws that enable the Kazakh government to listen in on the private conversations of individuals opposing the government. How does Tele2 address these concerns?

A: The fact that surveillance systems, such as SORM, are being used is not the main reason for concern, even though it is a challenge. The foremost concern is that operators are not allowed to see the warrants issued under SORM. This means that the operator cannot know if the ruling is lawful and that there is a warrant behind each and every case (e.g. the system is not overused or misused). We believe that the Joint Venture Agreement with Kazakhtelecom will enable us to engage in a closer dialogue with the General Prosecutors Office, the supervisory authority, on these issues.

Q: The Kazakh Government has the right to request data and network shutdowns. Does this make Tele2 complicit in illegal monitoring of Kazakh citizens?

A: Tele2 has a group-wide process with clearly defined roles and responsibilities for managing issues regarding government data requests and network shutdowns. In regards to privacy and integrity, and the freedom of expression, Tele2 complies with local and national laws as well as the UNGP and other international standards. In practice this means that Tele2 does not provide information or material to any authorities unless there is a legally valid warrant. Tele2 does not shut down its networks unless the request is assessed to be lawful according to national laws.