



MTS Pays Premium to Uzbek 'Princess'

By [Simon Ostrovsky](#) | Jul. 19 2004 00:00

Moscow-based Mobile TeleSystems on Friday agreed to pay as much as \$159 million for a cellphone company owned by the controversial daughter of authoritarian Uzbek President Islam Karimov -- or roughly 33 times what the company valued itself at just two years ago.

MTS, the largest cellular provider in Eastern Europe, said it agreed to pay \$121 million for 74 percent of Uzbek provider Uzdunrobota, which is controlled by Karimov's daughter Gulnara Karimova, and signed an option to buy the remaining 26 percent for \$37.7 million sometime in the next three years.

While the deal adds impetus to President Vladimir Putin's drive to further integrate the economies of the former Soviet Union, it also raises questions about the nature of doing business in a country widely condemned for human rights abuses and ruthless intolerance of pluralism.

MTS said the deal, which would be the largest direct investment ever in Uzbekistan by a Russian company, still needs the approval of both governments.

But little opposition is expected, given Putin's stated desire to increase Russia's presence in Central Asia's most populous nation and the unmatched influence Gulnara Karimova -- known as the "Uzbek Princess" -- enjoys in Tashkent.

"We have the general support of the Uzbek authorities," said MTS spokesman Andrei Braginsky. "This is not a political issue. ... We believe Uzbekistan is attractive for Russian companies, [and that the deal is] good for Uzbekistan and its people."

Vasily Sidorov, the CEO of MTS, which already operates in Ukraine and Belarus, said in a statement: "By buying Uzdunrobota we are developing our strategy of ... strengthening our position as the leading mobile-telephone operator in the Commonwealth of Independent States."

MTS said Uzdunrobota has 51 percent of the Uzbek market by virtue of its 210,000 subscribers, although Karimova's former financial adviser disputes that figure.

Some analysts, including Yelena Bazhenova at Aton Capital, criticized MTS for paying what they said was an exorbitant premium for the Uzbek firm.

If the subscriber figure is taken at face value it means that MTS is paying about \$750 per Uzdunrobota user, or roughly three times what it paid last year for each customer of UMC, Ukraine's largest provider, Bazhenova told Bloomberg.

The Uzdunrobota deal "is expensive," given the political risks in Uzbekistan and the low average income, she said.

At best, MTS is paying double what Uzdunrobota is currently worth, said Yevgeny Golossnoi of Troika Dialog. He added, however, that MTS is not really buying the company, "it's buying the market."

Braginsky admitted that the sum is indeed hefty, but he said the growth potential of a nascent market of 25 million people was worth it. "Uzbekistan has a mobile-phone penetration of only 1.5 percent, which means that there is a lot of room for growth," he said.

New York-listed MTS, which is controlled by the City Hall-connected conglomerate Sistema and part-owned by Deutsche Telekom, is widely regarded as one of Russia's most transparent companies. With more than 23 million subscribers and a first-quarter profit of \$207.8 million, it is also one of Russia's most successful.

But MTS could find itself in the middle of a geopolitical firestorm for paying top dollar for a company that the controversial, Harvard-educated Karimova mysteriously acquired.

Neither MTS nor its financial consultant on the deal, Renaissance Capital, would comment on the ownership structure of Uzdunrobota, or say whether they negotiated directly with Karimova or her father. They would only say that they struck the deal with two private companies that "were ready to exit this project."

Several companies from Russia, Europe and Asia were interested in the stake, but "MTS offered the best conditions," Renaissance Capital managing director Dmitry Ankudinov said.

Just days before Uzbekistan declared its independence from the Soviet Union in 1991, a U.S.-registered company set up by several entrepreneurs from a small town in Georgia created Uzdunrobota as a joint venture with Karimov's government.

Their company, International Communications Group, originally had 45 percent of the operator, leaving Tashkent with the rest.

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The company steadily grew and by 1996 The Wall Street Journal quoted ICG executives as saying they expected revenues to top \$50 million that year for the first time.

By 2001, however, Karimov's then 28-year-old daughter was starting to build a business empire of her own and wanted a cut of what she saw as a promising venture, according to Karimova's former financial adviser, Farkhod Inagambayev.

Inagambayev said by telephone from New York, where he fled with family last year to avoid being dragged into what he called Karimova's "racketeering" activities, that Karimova approached Uzdurobita's owners in early 2002, when the company was still on an analog standard, and gave them a choice: "She said she would help them get a GSM license if they gave her a stake, but threatened to destroy them if they did not."

By that time ICG had 51 percent of Uzdurobita and the government had 49, which Karimova said she wanted for herself, Inagambayev said. Using threats and coercion, she got ICG to hand over a 20 percent stake in the company to her own holding called Revi, shrinking ICG's stake to 31 percent, he said.

Inagambayev's version of events appears to be confirmed by the official minutes of an Uzdurobita shareholders meeting in May 2002, a copy of which was obtained by Global Witness, a British-based corruption watchdog, and seen by The Moscow Times.

At that meeting, the company gives itself a value of just \$4.7 million, of which Revi Holding's stake is worth just under \$1 million.

By the end of 2002, according to "confidential" Uzdurobita documents seen by The Moscow Times, Revi's stake had risen to 51.4 percent, the government's had shrunk to 7.6 percent, while ICG held the remaining 41 percent, although the mechanisms for how that happened were not clear.

Also obtained were March 2002 faxes of invoices between Uzdurobita and Revi for "consulting services" worth a total of \$250,000, with instructions to wire the sum to Revi's Dubai Citibank account. In other words, Uzdurobita was paying its own shareholder hundreds of thousands of dollars for ill-defined consulting services, Inagambayev said.

Karimova siphoned some \$20 million out of Uzdurobita using such fraudulent invoices, he said, adding that she embezzled another \$80 million from other companies she controlled in the three years he worked for her.

"The amazing thing is that nothing was paid for this stake," said Inagambayev, who is listed in the minutes as a representative of Revi Holdings.

Inagambayev said Gulnara changed the name of her offshore holding companies after he quit, and Revi was renamed Uning. "This takes five minutes to do in the Dubai special economic zone," he said.

In January, Karimova, now officially listed as an aide at the Uzbek Embassy in Moscow, told the British newspaper The Independent that not only was she the majority owner of Uzdurobita, she personally built its subscriber base up to 150,000.

But according to Inagambayev, even these figures are inflated. In 2003, when he still had access to the company's documents, he said Uzdurobita had no more than 60,000 subscribers.

Inagambayev let out a whistle when learned from a reporter how much MTS had agreed to pay for Uzdurobita.

"Even I didn't expect it would be that much," he said.

Uzdurobita's general director did not return phone calls requesting comment Friday.

Karimova could not be reached for comment either. "She is away on a business trip," an Uzbek Embassy spokesman said.

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