

TeliaSonera AB (publ)
TAKEOVER REPORT
for the takeover of the shares of AS Eesti Telekom

16 October 2009

On the date of this report TeliaSonera AB (publ) (“**TeliaSonera**“) has submitted an application to management board of Aktsiaselts Eesti Telekom (“**Eesti Telekom**“) in connection with the takeover of the shares of Eesti Telekom that TeliaSonera group does not currently own from minority shareholders (“**Minority Shareholders**“) against the payment of fair compensation in accordance with § 182¹ of the Securities Market Act (“**SMA**“).

TeliaSonera AB (publ) is a company incorporated pursuant to the laws of Sweden, with the registration number 556103-4249 and registered address TeliaSonera AB (publ), Stureplan 8, SE-106 63 Stockholm, Sweden. TeliaSonera AB (publ) is the ultimate parent company of the TeliaSonera group (“**TeliaSonera Group**“).

AS Eesti Telekom is a company incorporated pursuant to the laws of Estonia, with the registry code 10234957 and registered address Valge 16, Tallinn 19095, Estonia.

TeliaSonera has set the amount of the fair compensation to be paid to Minority Shareholders for the takeover of the shares at **93.00 Estonian kroons per share** (“**Compensation**“).

The purpose of this report is to describe the terms and conditions of the takeover of shares owned by Minority Shareholders and the basis of determining the Compensation to be paid for these shares.

1. TERMS AND CONDITIONS OF THE TAKEOVER OF SHARES

1.1 Background of the takeover

On 9 September 2009 TeliaSonera launched a takeover bid to acquire all shares of Eesti Telekom which were not already owned by TeliaSonera Group at that time, being 53,840,289 shares representing 39.03% of all shares of Eesti Telekom (“**Takeover Bid**“). The term for the acceptance of Takeover Bid ended on 9 October 2009.

In the course of Takeover Bid, the shareholders sold a total of 50,495,710 shares of Eesti Telekom to TeliaSonera, amounting to 36.60 per cent of all shares of Eesti Telekom and 93.79 per cent of the shares which were the object of the bid. In addition, TeliaSonera acquired a total of 5,000 shares from the market.

After acquiring the said shares, TeliaSonera owned directly and indirectly a total of 134,614,949 shares of Eesti Telekom, which represented 97.58 per cent of the shares of Eesti Telekom and the votes represented by these shares.

Considering the results of Takeover Bid, TeliaSonera has decided to initiate the takeover of the shares owned by the remaining Minority Shareholders for the fair compensation in accordance with § 182¹ of the SMA.

1.2 Terms and conditions

The takeover of shares owned by Minority Shareholders is regulated by § 182¹ of the SMA.

§ 182¹ of the SMA stipulates that if the offeror (in this case TeliaSonera) has as a result of the takeover bid acquired at least 9/10 of the share capital representing votes in the target issuer (in this case Eesti Telekom), the general meeting of shareholders of the target issuer may upon the offeror's request decide the takeover of shares owned by the remaining target persons for fair compensation.

On the basis of the above, TeliaSonera has submitted a request to the Management Board of Eesti Telekom to convene an extraordinary general meeting of shareholders in order to decide the takeover of shares owned by Minority Shareholders for fair compensation.

According to § 182¹(2) of the SMA, the decision of the general meeting of shareholders on the takeover of shares owned by Minority Shareholders shall be deemed adopted if at least 9/10 of shares represented by votes have been given in favour.

Within one month as of the approval of the takeover by the general meeting of shareholders, the Management Board of Eesti Telekom shall submit an application to the registrar of the Estonian Central Securities Depository ("ECSD") to transfer the shares held by Minority Shareholders to TeliaSonera. ECSD shall thereafter inform Eesti Telekom of the terms of the transfer of shares and payment of Compensation. TeliaSonera shall thereafter transfer the total amount of Compensation payable to Minority Shareholders to ECSD account specified by ECSD and ECSD shall transfer the shares owned by Minority Shareholders to TeliaSonera and the Compensation to the respective Minority Shareholders.

Once the takeover has been approved by the general meeting of shareholders, no further actions are required to be taken by Minority Shareholders in connection with the takeover of their shares.

2. DETERMINATION OF THE AMOUNT OF COMPENSATION

TeliaSonera has set the amount of Compensation at **93.00 Estonian kroons per share**, which was the offer price in the Takeover Bid.

According to law, TeliaSonera has the right to fix the amount of Compensation, subject to the following legal requirements set forth in §182¹ of the SMA:

- 1) the compensation must be fair (§182¹(1) of the SMA);
- 2) the compensation may not be lower than the offer price in the takeover bid (§182¹(3) of the SMA).

As Eesti Telekom shares are publicly traded on the Tallinn Stock Exchange, the most adequate method to determine the fair compensation for the shares is to rely on

- 1) stock exchange prices of Eesti Telekom shares before the announcement of the Takeover Bid and
- 2) the offer price in the Takeover Bid.

The determination of fair compensation on the basis of stock exchange prices is fully supported by § 2 of the Rules of Takeover Bids which sets forth the criteria for the calculation of fair price in the mandatory takeover bid.

TeliaSonera has compared the amount of Compensation to the pricing tests set out in § 2 of the Rules of Takeover Bids. In line with the Rules of Takeover Bids and the views of the Estonian Financial Supervision Authority¹ (“EFSA”), these tests were applied to prices prior to the initial announcement of the Takeover Bid, as these prices did not include fluctuations caused by the announcement itself.

These tests show that the amount of Compensation is significantly higher than the price which would have been considered a “fair price” in a mandatory takeover bid under the Rules of Takeover Bids:

- 1) The Compensation represents 28.5% premium to the weighted average of prices paid for the shares of Eesti Telekom in transactions on the Tallinn Stock Exchange during the period from 22 February 2009 until 21 August 2009 (i.e. six months preceding the date of submission of the notice and prospectus of the Takeover Bid to EFSA) which was **EEK 72.36** (§ 2(2)(1) of the Rules of Takeover Bids).
- 2) The Compensation represents 43.6% premium to the weighted average of prices paid for the shares of Eesti Telekom in transactions on the Tallinn Stock Exchange during the period from 7 August 2009 until 21 August 2009 (i.e. ten trading days immediately preceding the date of the submission of the notice and prospectus of the Takeover Bid to EFSA) (EEK 71.95), reduced by 10% in accordance with § 2(2)(4) of the Rules of Takeover Bids. Such calculation gives a price of **EEK 64.75** per share (§ 2(2)(4) of the Rules of Takeover Bids).
- 3) The Compensation represents 298,3% premium to the book value of the share of Eesti Telekom as at 30 June 2009 which was **EEK 23.35** (§ 2(2)(5) of the Rules of Takeover Bids).
- 4) The pricing tests set out in § 2(2)(2) and 2(2)(3) are not applicable, because during the period from 22 February 2009 until 21 August 2009 (i.e. six months preceding the date of submission of the notice and prospectus of the Takeover Bid to Estonian Financial Supervision Authority) TeliaSonera Group did not purchase any Eesti Telekom shares.

In addition, the Compensation represents 24.3% premium to the closing price of Eesti Telekom share on the Tallinn Stock Exchange as at 21 August 2009 which was **EEK 74.79**.

After 21 August 2009, TeliaSonera Group has not acquired any shares of Eesti Telekom with the price higher than EEK 93.00.

In the determination of the fair compensation TeliaSonera has also considered that Eesti Telekom will distribute to the shareholders, including those who have accepted the Takeover Bid, extra dividend in the total amount of 964,302 thousand Estonian kroons (i.e. 6.99 Estonian kroons per share) pursuant to the resolution of extraordinary general meeting of shareholders of 1 October 2009. This reduces significantly the book value of the shares of Eesti Telekom.

Since the Compensation meets all the pricing tests set out in the Rules of Takeover Bid and, in fact, is significantly higher than the fair price calculated under these Rules, TeliaSonera is

¹ In its communication „Börsiemitentide tegevuse õiguslik raamistik. Küsimused ja vastused 31.12.2008“ EFSA has stated that the fair price in the mandatory takeover bid shall be calculated on the basis of the relevant indicators prior to the launch of the takeover bid and fluctuations in the price occurred after the initial announcement of the offer shall not be taken into consideration (Section 8).

convinced that the Compensation constitutes a fair compensation within the meaning of §182¹(1) of the SMA.

TeliaSonera's view is supported by the EU Directive on takeover bids² which serves as the legal basis for the squeeze-out regulation set out in § 182¹ of SMA. According to Article 15(5) of this Directive, the consideration offered in the mandatory takeover bid shall be presumed to be fair also in the squeeze-out executed after the takeover bid. It follows from the above that if the price offered in the voluntary takeover bid meets the requirements established for the price in the mandatory bid, such price shall be presumed to be fair also in the squeeze-out executed after the takeover bid.

In addition to "fair price tests" set out in the Rules of Takeover Bids, TeliaSonera has based the determination of the fair compensation on the price applied in the Takeover Bid.

Fixing the Compensation at the level of the price of the Takeover Bid is supported by the views of the Estonian Financial Supervision Authority. In its communication³, EFSA has stated that the squeeze-out executed under § 182¹ of the SMA after the acquisition of 90% of the share capital in a voluntary takeover bid shall be subject to the same terms and conditions (including the price) which was applied in the voluntary takeover bid.

Furthermore, according to EU Directive on takeover bids, the consideration offered in the voluntary takeover bid shall be presumed to be fair in the squeeze-out following such bid where, through acceptance of the bid, the offeror has acquired securities representing not less than 90 % of the capital carrying voting rights comprised in the bid (Article 15(5) of the Directive).

Out of the total 53,840,289 shares and corresponding capital carrying votes targeted in the Takeover Bid, TeliaSonera acquired, through the acceptance of the Takeover Bid, 50,495,710 shares, representing 93.79 per cent of the capital carrying voting rights comprised in the Takeover Bid. Therefore, as more than 90% of the shares targeted were acquired as a result of the Takeover Bid, the price of the Takeover Bid is considered fair compensation in the squeeze-out also in light of the EU Directive on takeover bids.

Based on the above, TeliaSonera is convinced that the Compensation offered to the Minority Shareholders constitutes a fair compensation in accordance with the requirements of § 182¹ of SMA.

Per-Arne Blomquist
TeliaSonera AB

Jan Henrik Ahrnell
TeliaSonera AB

² EU Directive 2004/25/EC of the European Parliament and of the Council of 21 April 2004 on takeover bids.

³ EFSA's communication „Börsiemitentide tegevuse õiguslik raamistik. Küsimused ja vastused 31.12.2008“ (Section 7).