Company: **Telenor ASA**

Conference Title: **Q2 2014 Results**

Moderator: **Meera Bhatia**

Date: **Wednesday 23rd July 2014**

Meera Bhatia: Good morning and welcome to Telenor Group's Second Quarter Results Presentation. My name is Meera Bhatia and I have the pleasure to guiding you through today's presentation. Our CEO Jon Fredrik Baksaas and CFO Richard Olav will present the financial update today. There will be a Q&A session directly after the presentation firstly here from the audience and then from our phone and webcast participants. We aim to end the session at 10 o'clock. For media present there will be also the opportunity to speak to our CEO and CFO briefly after the Q&A session.

Without further ado, Fredrik, if I could ask you on stage.

Jon Fredrik Baksaas: Thank you Meera and welcome to this second quarter 2014 presentation of the Telenor Group. Let me then start to say that the results for the second quarter 2014 are characterised by continued growth both when it comes to subscribers and revenues and this also builds on the profitability side of our business. We added 4 million new subscribers this quarter and have added 10 million new subscribers so far this year and this is driven by India, Bangladesh and Pakistan. The group's organic revenue growth was 1.6% this quarter but more importantly and as in previous quarters the underlying mobile service revenue growth was 4%. The increased data consumption is now a key driver for the revenue growth in several of our markets. We are showing good progress in our Interne for All strategy with the number of active internet users now currently standing at 22% – that means 38 million customers out of the customer base of 176 million. It's vital that we are able to monetise the significant investments we are making to establish this data-ready networks and this quarter stands out as a good example in that respect. With 36% EBITDA margin and 6% organic growth in EBITDA we are also this quarter delivering profitable growth.

On the back of the performance so far this year and our estimates for the remainder of 2014, we maintain our revenue outlook for the year while raising our EBITDA margin guidance somewhat – Richard will cover this in more detail later. In Norway it's encouraging to see that Telenor delivers another quarter with solid top-line growth both within fixed and mobile. Our focus in Norway is to provide our customers with relevant services supported by superior network quality and coverage. During the second quarter we have taken necessary steps to better align our tariffs with the significant increase in mobile data usage. The 5% underlying growth in mobile service revenues in Norway this quarter follows a strong growth in data usage. The data traffic in our network has almost doubled from second quarter last year and average data consumption is now 1.2GB and the median usage which we think is a more relevant measure is now standing at 232MB which is up 90% from second quarter last year. The driver here, we see that of course being coverage and handsets. Smartphone penetration is now about 70% and one-third of the handsets now supports 4G. We continue to improve our 4G coverage and are approaching 80% population coverage in this quarter.

In the fixed market internet and TV revenues increased by 6% and this is driven by price adjustments and more premium packages and we continue to grow our fiber customer base which now stands at 94,000. While internet and TV revenues are increasing we still see pressure on fixed telephony revenues as before and the number of PSTN/ISTN subscribers is now close to 600,000. The changes in customer demand and our significant investments in new infrastructure demands continued efforts to improve efficiency and building capabilities for the future. The mobile phone growth in importance and relevance for most people and when payment solutions will be integrated to this handset later this year, we will further strengthen this.

Telenor Sweden reports another quarter with solid growth and core mobile revenues and an expanding EBITDA margin. The integration of the fiber and cable business acquired from Tele2 is well on track but dilutes the EBITDA margin by around 2 percentage points. Excluding the acquired business, the EBITDA margin increased by 2.5 percentage points. Mobile subscriber growth and handset sales has been low in Sweden this quarter resulting in lower acquisition costs. The operation is also benefiting from increased opex efficiencies following the implementation of new operating models. I also want to thank Lars-Åke Norling, the CEO of Telenor Sweden for the work that he and his team has done over the past years. As he now moves to Malaysia to head DiGi he leaves Telenor Sweden in good shape with a solid market position within both mobile and fixed; and at the same time I wish Patrik Hofbauer welcome and good luck. Patrik as you know, he headed Broadcast and he should be proud what he and his team has achieved over the last years in Telenor Broadcast including this quarter.

The operations in Denmark though are still bleak. The Danish mobile market remains challenging with intense price competition and Telenor Denmark's revenues were down 12% in local currency mainly driven by the shift towards lower price points. As a consequence of the declining top-line and costs related to the transformation programme, the EBITDA margin is under pressure and stands now at 11%. The transformation programme is expected to show results early next year.

Moving over to Asia. In Thailand the dtac revenue growth is negatively impacted by the reduced interconnect rate from July 2013. It's an intensive, competitive marketplace for the time being and there is also a weak macroeconomic environment. But at the same time the migration of customers to the new licenced network continues to be on track. Two-thirds of the customer base has now migrated to the new network and as a result of this regulatory costs continues to come down now at 22.5% of sales down from 32.1% in the second quarter of 2013. An intense competition has required more sales and marketing spend this quarter. Despite this EBITDA increased by 6% compared to the second quarter last year.

DiGi in Malaysia once again demonstrated robust performance and we believe DiGi is well on track to meet their full target of 4-6% revenue growth and EBITDA margin in line with 2013. With their modernised data network and relentless drive to deliver best customer experience, DiGi is now well positioned to capture growth from the increased data usage in Malaysia. In both Bangladesh and Pakistan I am very pleased to see healthy top-line growth and strong margins this quarter. Grameenphone reports a solid top-line growth of 10% supported by a continued subscriber growth of 12% year on year and increasing mobile data revenues following the 3G launch. Grameenphone is working actively to stimulate the data demand through awareness and relevant activities. As a consequence, Grameenphone has already close to 6 million data users. Revenue growth combined with strong execution and operational excellence resulted in a three percentage point improvements in the EBITDA margin this quarter.

Telenor Pakistan is also delivering healthy top-line growth and improved margin. Average revenue per user in Pakistan is impacted by on-net competition and subscriber growth in lower revenue generating segments, but we added 1.4 million new subscribers this quarter and the increased subscriber base is driving revenue growth to 6%. Also financial services is an important contributor to this with approximately 2 percentage of the growth coming from financial services.

An important milestone this quarter has also been reached where the commercial launch of 3G services took place in June. I want to thank Lars Christian Iuel and his team for preparing for this and again also we are seeing Michael Foley, good luck in taking over as CEO in Telenor Pakistan this summer. I am going then of course then looking forward to see both Grameenphone and Telenor Pakistan and their initiatives on delivering profitable growth based on both market growth and data growth going forward.

Moving then over to India we are working hard to strengthen our challenger position in India. We see solid growth trends continuing this quarter with 2 million new subscribers taking the customer base to 32.6 million, 46% organic revenue growth this quarter, slightly up from last quarter and 11% ARPU growth. We are improving our market position quarter by quarter and we take significantly more than our fair share of the total subscriber growth in the circles where we are present. We are opening new segments to the benefits of modern communication services by attractive and affordable services on offer. We are continuing to improve the population coverage within our six circles by redeploying equipment from the circles that we exited in 2012. The redeployment programme which now is one-third on its way comprises around 5,000 sites and is expected to be completed by the end of the third quarter this year and this will improve coverage from 42% to around 51%. Our subscriber market share is a consequence of this is also growing and stands at 10% in the circles where we have operations whereas the revenue market share stands at 6%.

Data usage is also increasing in India and it's increasing rapidly also in our customer segments. From May to June data usage increased by 15% and data consumption is already then contributing to ARPU growth in India. We see this is a strong potential for future revenue growth in our customer segments in this respect.

Looking ahead we will continue to implement efficiency initiatives across the operating units in the Telenor Group. This is basically the fuel for us to help us to keep pace with technology and market development both in the industry and in each market. Here performance management is key both within OpCo through comparisons within our OpCos in our group as well as comparisons to the industry at large. Most important though and as illustrated in our reported figures this quarter is the ability to align pricing structures with market trends and here our strategy Internet for All is at the core of realising this in the quarters to come.

With these words I hand over to Richard who will take us through the financials.

Richard Olav Aa: Thank you Fredrik and also good morning to all of you from me. I will take you through the results in more detail. I will comment on some of the key parameters on our balance sheet and give some colour to the guiding but let's start with the results. Here's a more detailed description of the revenue development of the group. We grew revenues with approximately NOK 1 billion from the second quarter last year to this quarter. That is a growth of approximately 4%. The organic revenue growth is 1.6%. The delta is acquisitions of Globul and fiber and cable networks that we bought from Tele2 last year.

Then let's take a look at the organic revenue growth which stands then at 1.6% and at the right hand chart here you see the decomposition of the organic revenue growth and if you read it from right to left you see the big impact of interconnect and this is mainly due to the interconnect rate reductions in Thailand. That has an affect 1.5 percentage points on the organic revenue growth. Excluding interconnect which is fairly neutral on our profits the organic revenue growth is slightly above 3%.

The two next boxes reading from right to left of other revenues and fixed voice are more or less compensating each other. The other revenues are mainly Internet and TV revenues and they are growing faster than the decline in fixed voice which is the plain old telephony revenues. But bear in mind that the fixed voice comes with a higher gross margin than TV revenues due to the content cost. So this quarter these effects more or less outweigh each other on the profits. But then most important is the bar to the left which is the mobile service revenues that are growing close to 3% and these are the core revenue that generates gross profits and value creation for the group. As you see the voice there is net zero this quarter. The 2.9% mobile service revenue growth – that is measured on the total revenue base. If we measure it on the service revenue base, it's an underlying growth of 4% which also Frederick mentioned in the start of his presentation. This is probably the most important to curve we use internally to track our performance on a top-down level when it comes to development in the core revenues which drives then the core profits. The blue line here is then the underlying mobile service revenue growth for the group in total. As you see it’s been remarkably stable for the last few years between 4% and 6% and also this quarter we come in at approximately 4%. But what you see underlying this is a big variation between the regions. While Asia has had remarkably strong performance the last year, it slid off somewhat this quarter due to the drop in Thailand. Very strong growth in Malaysia, India, Pakistan and Bangladesh but offset by the weakness in Thailand. So growth in Asia this quarter was around 6%. But the very strong performance in Norway which delivered mobile service revenue growth, close to 6% this quarter, pulls in the other direction. Obviously Europe slightly more struggling, still good growth rates in Sweden but at a lower growth than previously and then the weak situation in Denmark takes it down to close to zero for the European region. But the main message is the stability of the underlying mobile service revenue growth of the group. Then this translates then into growth also in the EBITDA. We have 6% organic growth in the EBITDA this quarter and that translates in money terms into approximately NOK 750 million in growth in EBITDA which now stands at NOK 9.6 billion in this quarter and a margin of 36% which is 1.5-2% higher than we had in the similar period last year. Most of the units are contributing to the strong growth in EBITDA. The only significant exception is Denmark and you see the reconciliation on the right of the chart where you see Grameenphone and Norway being the single two most strong contributors while also good contributions from most of the other units. Also here included Globul and Myanmar together to show what the new units contribute together.

Then moving on to the cash flow, how does this good growth in EBITDA translate then into cash flow and the cash flow stands this quarter at NOK 5.6 billion which is up NOK 250 million from the similar quarter last year. Also here to the right we've tried to reconcile this in a slightly different way than we have done in the past showing the importance of growing the core revenues with the mobile service revenue growth. Our second quarter last year was around NOK 5.4 billion, then we have close to NOK 600 million effect from the increase in gross profit and that comes from the growth in mobile service revenues. Then on the opex, the opex programmes are delivering as expected so we are able to compensate inflation, salary adjustment, growth insights, growth in customer base by the cost programme that is NOK 5 billion for the years 2012 to 2015 through keeping opex flat in the core business. So it's a very good operational leverage. We are translating the growth in mobile core service revenues which has a high gross margin due to a lot of it coming from data with high profitability and we get operational leverage due to our cost programmes as in not increasing our opex despite a massive increase in number of customers, a massive increase in number of sites and salary and inflation. But we are investing more, NOK 209 million higher capex this quarter mainly driven by increased investments in dtac but also to some extent in the 3G network in Bangladesh. While then Globul and Myanmar combined, if you recall the last slide, they had a positive contribution in EBITDA while we are investing a lot of capex in Myanmar and also starting to invest in a network swap in Globul so that the new units, they contribute negatively with NOK 150 million this quarter on the cash flow. So that reconciled the development in the cash flow up to NOK 5.6 billion, an improvement of NOK 250 million year on year.

So then going through the full net income, we've been through the revenues and the development in EBITDA. In other items we have close to NOK 200 million in costs this quarter – that's mainly related to redundancy cost in Telenor Norway and also global shared services where we're moving a lot of services from Norway into Bangladesh where we're building up a shared service centre altogether with a partner.

Depreciation and amortisation is up, that's due to the including of Globul, the depreciation of Globul that has been increased. Associated companies deserves a comment and there are three factors there that needs explanations. First it's VimpelCom contributing negatively this quarter with NOK 321 million. The direct contribution from VimpelCom's ordinary results were around

NOK 100 million+, but we had more losses connected to the settlement in Algeria this quarter that was not fully disclosed in the first stock exchange release from VimpelCom that came in their annual filing of around 250 million that hit our P&L. In addition there has been reclassification of capex to opex in VimpelCom's operation in Uzbekistan that has impacted another 180 million, so the net of all this is around a negative of 321 million from VimpelCom this quarter. Then we settled all outstanding issues with our partner Bonnier related to the content company C More and that had a net effect of NOK 78 million this quarter.

Then finally our joint venture with Schibsted, we're investing in market positions particularly in Brazil and South East Asia and that had a cost for Telenor this quarter of NOK 220 million, so the total of net associates was a loss of NOK 562 million.

Net financials, not any peculiarities in that in this quarter, very normal trends there, the same with accounted taxes of around NOK 1.6 billion. Non-controlling interests are up, that is due to the fact that we have stronger results in DiGi and Grameenphone and dtac, so there is a higher part of the profit that goes to the minority shareholders in the group. Net income to Telenor stands this quarter at NOK 2.3 billion.

Then on the balance sheet, the net debt to EBITDA ratio stands at 1.1 this quarter – that means that the net debt compared to the last 12 months EBITDA is 10% higher. Net debt now stands at NOK 44.4 billion which is up NOK 7.2 billion from the end of the first quarter 2014. The main reason for this increase is quite planned. It's the dividend payment to Telenor's shareholders of around NOK 10 billion. In addition we don't get any dividends from VimpelCom this quarter and not for the next quarters as well until VimpelCom has deleveraged further.

I didn't intend to go through all the reconciliation of the net debt in this quarter because there are not really that many changes in the underlying structures. Maybe little note on the income taxes, they are lower than normal due to that they have a very low tax payable in Norway. The increase in net debt in conclusion is that it's seasonally driven by the increased dividend payment and it's well below our ceiling of net debt to EBITDA of 2, so there are really no worries even if the debt increases by NOK 7 billion.

Then to the outlook. We are guiding on three parameters: organic revenue growth, margin and capex to sales. On the organic revenue growth we are at 1.6 percentage points year to date and as you recall from the first slide approximately 1.5 percentage points negatively impacted by the interconnection rates in Thailand. Excluding that it would have been more than 3% and that effect will not be there in the second half. So everything else being equal we should have higher growth in the second half than the first half. So we find it prudent to keep the organic revenue growth guiding at low single digits.

Then on the EBITDA margin as earlier explained we have a margin which is significantly better than last year year to date. We are at 35.8. The full year last year was at 34.5 and year to date 2013 also 34.2, so it's up 1.6 percentage points year to date. So we find it prudent now to guide that the EBITDA margin will be above last year’s level and that’s up with the previously in line with 2013. Bear in mind this guidance is excluding Myanmar as it’s still early days in Myanmar and we’d like to have more visibility on the ramp-up in Myanmar before we include Myanmar in the guiding.

Then finally capex to sales, we’re also changing the guidance there. That’s more of a technical adjustment. As the launch of the THOR 7 satellite is now delayed from the fourth quarter of this year until expected now first quarter next year and that has an effect of around 1.5 percentage points on the capex to sales, so where we previously guided around 16%, we are now reducing the capex to sales guidance to between 14-15% which is really the mid-point on the satellite.

So there’s not any big changes in the guiding with the exception that we are now adjusting up the EBITDA margin on the backdrop of strong margin development so far this year and what we expect for the remainder of the year.

Then finally to sum up, we believe we had a strong quarter but most encouraging is really that a lot of our growth in the past was coming from adding voice customers in Asia. What we see this quarter is that we now start to monetise data growth through mobile service revenue growth and it’s particularly visible in Telenor Norway, Telenor Sweden and DiGi in Malaysia. But also the underlying figures in dtac on data growth are very strong. It's really the voice revenues in dtac that has taken a tough beating this quarter. We see very solid data trends in the Thai market still and going forward. This is really what's driven our Internet for All strategy, to continue to work on this across the group and we see encouraging trends like Fredrik mentioned in both Bangladesh and also India and Pakistan now when they launched the 3G.

Also then combined with the good cost control that we are able to keep the opex flat and get like I said operational from this means that we are able to delivery improved growth in EBITDA, higher than the growth in mobile service revenues and then also increased margins so far this year and also guiding for next years. So the priorities going forward is clear, to continue to work on the efficiency programmes and also capturing the Internet for All position, but there’s a lot of work to be done and in particular we need to see better trends in Thailand going forward, hopefully a better macro picture there going forward and also the situation in Denmark, the trend there has to has to be turned.

So by that I end the presentation Meera and we can take the Q&A..

Meera Bhatia: Thank you Richard. Could I ask Fredrik please back on stage and we are now opening up to the Q&A session. We will start with the audience present. Are there any questions from the audience?

Espen Torgersen: Hi, it’s Espen Torgersen, Carnegie. Two questions, first one in Norway, very encouraging to see the performance in Norway and especially the subscriber migration trends and ARPU trends. How do you see this trending the remaining part of the year and how important is new handsets, i.e. more handset sales to drive the migration from here on? The second question is Denmark – what's next? Obviously the results are not anywhere close to what you would expect. Do you think it's possible to revise the trends organically or do you think we need to see in-market consolidation for that to happen?

Jon Fredrik Baksaas: I think Norway right now is not in lack of handsets as such, a new iPhone would of course spur activities in the market in general but the handset stock in Norway is quite modern. In Sweden though we have been waiting for so to speak a new iPhone to come because that market has a higher iPhone penetration rate than what is the case is Norway. It’s more differentiated here with Samsung having a stronger position. So where we are right now is 70%

handsets on smartphones, then of course it's the 4G generation that will further assist the data growth to happen and I think if we look around us we see that the 4G basically brings a higher intensity on data usage in general and of course the 4G penetration stands fairly low compared to the overall smartphone position in Norway. So we are in a situation where the market really asks for more data growth, more capacity and more coverage and despite us having the very good coverage position that we have, I have also this summer experienced that there are pockets in the geography that people are really seeking to get the coverage and as we have seen in previous generations this question hangs around – when do we get a complete coverage picture? But we are very strong reaching 80%. Denmark is definitely a more challenging one and the consolidation question is hanging in that market, in particular after the two events that took place in Ireland in Germany where the regulators came out with certain remedies for the consolidation to happen and I think these are in a way interesting dimensions to the question also for the Danish market.

Meera Bhatia: Next question please from the audience.

Christer Roth: Yes, hi. Christer Roth from DnB Markets. Just quickly could you tell us how much you're going to take the cost cutting exercise in Norway this year and how much you expect the residual effect to be in the second half of the year? And secondly could you also update us on in terms of the operational free cash flow targets for next year of 28-30 billion adjusted obviously for the postponed satellite investment? Thank you.

Richard Olav Aa: Yes, on the cost-cutting programme in Norway we laid out a programme of NOK 2 billion for the three-year period with a slight increase in the third year, 2015. So it's approximately a little less than one-third this year and we're right on track on that programme so far this year. Then on the 2015 cash flow ambition like you say, yes we have to adjust for the satellite and we also need to see quick changes in the revenue growth in Thailand in order for that target to be realistic.

Meera Bhatia: Any further questions from the audience? No, then we will open up the conference call line please.

Operator: We will now take our first question from Mr. Jakob Bluestone, Credit Suisse.

Jakob Bluestone: Hi, good morning. I had a question on Norwegian mobile, you talked about the strong growth that you're seeing in data traffic and I was wondering if you could maybe share with us how you're doing from a network utilisation point of view? Is this leading to any network congestion or do you still have a lot of spare capacity in your network with the doubling of data traffic? Thank you.

Jon Fredrik Baksaas: In general we are quite ok on the capacity side of what is happening right now. Of course if there is a big accumulation of people around a big event the overall capacity for video is limited but that we consider special events but the general side of it, we are ok on capacities. Then people of course will say at the base stations now and then the base station runs full or you don't get the speed that you could have expected and those kind of issues are there, but the general picture of it is that we are ok on capacities, but you have to monitor it and build them. Throughout this year we have brought fiber capacity to up to 90% of our base stations in Norway roughly and of course that is a needed way to go when big amounts of data are going to be going through the base stations.

Jakob Bluestone: Can I ask a follow-up? Your revenue trends are significantly better than your peers. Would you put that down to some sort of network advantage or is there anything else you would particularly highlight why you're out-indexing so much?

Jon Fredrik Baksaas: I think we have to see this over a period of time and longer than just this quarter. In 2012 Telenor Norway did very good price structure adjustments at that point in time and 2012 came out as a very strong growth year for Telenor in Norway. If we compare it to what happened in Sweden in that year, Sweden was weak. Then came 2013 and the pricing structures changed primarily into data-oriented packages. At that point in time we struggled to monetise the data growth in a proper way and we started the data phase of our pricing structure with two rich packages which was a problem last year in Norway but which was not a problem in Sweden which had a better go at that kind of question throughout 2013 and we spoke a lot about this when we reported in the third and fourth quarter 2013 with the need to really align the pricing structures with the consumption patterns that we saw on the developments and the higher demand for more data. The pricing structures that we then revised, I think it was around April this year, basically gave us much a much better pricing structure combined with the fact that we focused our sales to the higher end of the scale throughout in particular the fourth quarter and the first quarter which now gives results having a bigger portion of our customer base at the better price points. The price competition in Norway has intensified over the summer where price points in the lower end has been more intense in competitive terms and of course to what we did in our pricing revisions when we did this in April, we have to see how this moves out and this quarter it moves well for us.

Jakob Bluestone: Thank you very much.

Meera Bhatia: Next question please?

Operator: Our next question is from Mr. Andrew Lee, Goldman Sachs.

Andrew Lee: Yes good morning everyone. Thanks for taking my question. Firstly a question on Norway. Your execution has improved materially over the last couple of quarters so I just wondered how confident you are in the sustainability of the current higher end up-selling tactic over the next year or so and do you expect reduced competition in the near term given the ownership changes in Norwegian mobile? Then secondly on Denmark, you've suggested you might not need to own a consumer business in Denmark. On Tele2's call management mentioned that they are taking a strategic review of their asset ownership as they believe they probably cannot turn the business profitable enough on their own. So they could be buyers or sellers to consolidate the Danish mobile market. The question is: do you think you'd be a more willing buyer or seller in Denmark? Thank you.

Jon Fredrik Baksaas: Consolidation effects in Norway, I think it's difficult to in a way be very precise on what is going to happen in that respect. There is a process with the competition authorities until we have a conclusion on this and I think we have to wait that out and rather concentrate on being on top of what is going on in the market in the second half as the number one priority. The potential consolidation that is on the table is a result of Tele2 not getting spectrum in the spectrum auction that took place in the fourth quarter and as a consequence without having that spectrum you're out of business basically. With spectrum you can entertain the customer base of Tele2 which obviously TeliaSonera has seen as an opportunity. It's not strange that such a thing happens after an auction result in the way it was. Then for Denmark I think we are of the same opinion as we've said before on the issue that you mentioned in your question; and from our side I think we should have all options available when it comes to what we will be doing in Denmark also in respect to the question of consolidation. But on the other hand in the meantime we are concentrating on the transformation process that we are in the midst of with Telenor Denmark and need to show progress on that agenda.

Meera Bhatia: Thank you. Next question please?

Jon Fredrik Baksaas: A follow-up?

Meera Bhatia: Yes, follow-up is still possible.

Andrew Lee: Yes, I did have – yes, thank you – just a follow-up on Norway. The first part of the question on Norway is how confident you are in the sustainability of the focus on upselling customers to the higher end tariffs that you have? Is that kind of a medium to long term opportunity to drive growth? Thank you.

Jon Fredrik Baksaas: In my view this is fairly simple. There is a big demand out there. The world goes digital. People in general, the median customer is growing his consumption, his and her consumption dramatically these days. For people want to use it more and for people to be able to use this more, the industry need to deploy quite significant investments in order to realise the capacities and coverage issues in a long stretch country like Norway to see this happen. And in that, we have also in Norway a real disposable income growth year on year and in such a climate we should have the ambition also to grow revenues along with increased amounts and strong investments. This is what we are doing this year and I will argue that this is necessary for the industry in order to be able to renew itself and further both build further capacities as well as be sufficiently innovative in order to bring new services to the market.

Meera Bhatia: Thank you. Next question please?

Operator: Our next question is from Mr. Maurice Patrick, Barclays.

Maurice Patrick: Hi, there, yes, Maurice here from Barclays. So a quick question on India please. You've seen operating cash flow turning more negative as you've redeployed the sites which you said you would do, you say it will be completed in the 3Q. I'm surprised the EBITDA perhaps wasn't stronger given the strong revenue momentum you've had, so perhaps if you could talk a little bit around what's happening to gross margins? When should we expect the inflection to take place in the EBITDA or in the free cash flow? That would be very helpful. Thank you.

Richard Olav Aa: Yes, good morning Maurice. Yes, there is a small one-off also in the EBITDA in India this quarter, so there are really two effects, the small one-off and there's also the fact that the new sites we're deploying, they are hampering also the EBITDA before they fill up with traffic because you have to pay tower rent and energy on the sites, so we don't expect to see a contribution from those sites before well into the third quarter and into the fourth quarter. It takes some months before you get a positive contribution.

Maurice Patrick: Ok, thanks.

Meera Bhatia: Thank you. Next question please?

Operator: Our next question is from Mr. Thomas Heath, Handelsbanken.

Thomas Heath: Thank you. Two questions if I may. Firstly again on Denmark, given that the market is what it is now with competition, when would you expect to see improvement on the basis of your own initiatives with transformation and the network sharing with TeliaSonera. In the peers we see a quite heavy down trading of business ARPU but relatively stable consumer ARPU. Then secondly on Thailand, do you see this deterioration and hike in competition as a temporary issue that we should expect to see improving next year or is this the new level of competition we should expect given the re-regulation in Thailand? Thank you.

Jon Fredrik Baksaas: Our own initiatives on the transformation agenda in Denmark will start to show results beginning in 2015. However, the competitive intensity in Denmark is anticipated to remain the same and that raises the question on the robustness of the four player market in Denmark in the longer run. I think we have to address that question seriously. Thailand, will it continue? The macroeconomic situation in Thailand right now is at best neutral, probably negative. The NTT 3G and the new license regime in Thailand, we've seen a lot of activities among the three operators. This high activity level comes after a waiting period for the whole market waiting for 3G, as you remember it took a two year prolongation basically or delay to get the frequencies into play. With this very high activity level in Thailand, we are then seeing a very high competitive intensity among the three players, at the same time as we see a macroeconomic constraint and consumer reluctance on consumer spending. So, what does it take to turn this around? I would anticipate that the government is really working hard at establishing an investment friendly platform for investments to happen and wants to secure that and in particular also to secure the tourist flow in and out of Thailand. So I think it's important to follow the overall macro signals for Thailand and when we see signs of this moving in the right direction I think we will see an immediate boost also in consumer spending in the country.

Thomas Heath: Thank you. That's very helpful.

Meera Bhatia: Sorry, do you have a follow-up question?

Thomas Heath: No, thank you. That's very helpful.

Meera Bhatia: Ok, thank you. Next question please.

Operator: Our next question is from Mr. Georgios Ierodiaconou, Citi.

Georgios Ierodiaconou: Yes good morning from my side and thank you for taking the questions. Apologies for going back to the same topics as some of the previous ones. Firstly around Denmark, I believe earlier you used the word 'interesting' to describe the remedies in Ireland and Germany and I was wondering if you could be a bit more directional with you description, do you think they are encouraging or would you be worried given the MVNO history of the Danish market with on-phone in signing after such a type of remedy? And secondly on Norway, around the ARPU dynamics, is it possible to give us an indication of the ARPU accretion you are seeing on the customers who migrate into the new type of tariffs and whether the migration benefit has accelerated since May when you launched the new product portfolio? Thank you.

Jon Fredrik Baksaas: When I used the word interesting in Denmark, I was pointing to the fact that when Telenor and Telia made their network joint venture we were also then tied in with some statements on the go to market side on both brands and basically the two rulings in Ireland and Germany puts that into a new perspective, so one could in a way argue that the consolidation question in European telecoms basically stands differently today compared to the point in time when Telenor and Telia did our…when we did our joint venture on the network operations. If it hadn’t been for the network operations that both Telenor and Telia entered into, we would have seen probably very much more negative figures particularly on the capex side for the two entities, so that was my sort of reference to why I used the word interesting. As to Norway I think that the main contributor to this quarter’s growth result in Norway is two-fold. People are really asking for more data on that and they are getting it and when you get more you usually pay a little bit more than when you use less. That’s number one. Number two, we have focused our sales efforts beginning third quarter last year as I said on bringing a better tailored service offering from Telenor to the customer in respect to how much the customer consumes and in that respect we are probably, we are at least aiming for having the best and the right offer in the enhancement to the consumer consumption at the individual level. As an example of that I was surprised yesterday to receive a SMS from Berit Svendsen’s customer service team on my daughter’s subscription and my daughter is currently in Denmark and obviously over the last half year she has not been using that subscription that very much and I was offered a cheaper offer from Telenor in order to save some kroner on that which shows that we are actually following the consumer consumption at an individual level and issue offers in that respect. I think this way of interaction with our customers and the customers’ needs is something that we need to follow-up on later on.

Meera Bhatia: Thank you. Next question please.

Operator: Our next question is from Barry Zeitoune, Berenberg.

Barry Zeitoune: Hi, good morning. I've just got two questions please. The first is also on Denmark. Not really thinking about it from a consolidation standpoint but thinking about how the transformation programme might impact numbers, I believe that you had about NOK 80 million of cost in your EBITDA this quarter which would have been about 10 percentage points of margin. And then I assume you are expecting some margin benefit going into next year from the programme itself, so, how should we think about margins after this year in Denmark? When I look a smaller competitor of yours in 3, they've done a 26% margin this quarter. So is that the kind of margin aspiration you have for the Danish entity as a standalone business as it is today? Then my second question is on Thailand and really we've seen a step-up in sales and marketing expense as a result of the increased competition and I was just wondering, do you think, do you look at that step-up as a temporary step-up and something that's solely related to the migration of subscribers away from concession; or do you think we've moved into a new phase of sales and marketing in Thailand and that this is a step change that will partly offset some of the benefits from the move away from concession? Thank you.

Jon Fredrik Baksaas: Since we have been talking that much about Denmark I will start with Thailand on this one, maybe Richard can will you in on the Danish question. Temporary or not in Thailand, I think that is as good a speculation from your side as from our side. I believe that the transition to the new licence setup really spurred a lot of activities for all three players because it gave all three players the possibility to dig into with different means the neighbouring customer stock and when the migration has happened more or less, then hopefully the loyalty factor between the operator and the customer base starts to establish itself a little bit more than what we see in this transition phase. There are a lot of arguments against that, but at least I can raise that kind of argument on this question. dtac is well positioned. We have a good track record for moving over from the one to the other setup here. We have come a long way but the long tail here is more challenging to take over to the new licence because of the handset situation where handsets also for the long tail probably also need to be renewed at customer level.

Richard Olav Aa: Then on the Denmark results, we were down approximately NOK 100 million year on year on EBITDA and about 60% of that comes from reduced gross profit and 40% from increased opex and the main part of the opex is related to the transformation programme. So when should we expect margins to improve? We are fairly confident that we will see good cost effects from the transformation programme going into 2015 and in particular then accelerating into 2016, but what is concerning is that the gross profit is continuing to slide another close to NOK 60 million this quarter. That's driven by a lower customer base. We lost customers last year in an attempt to try to be more rational in the pricing in Denmark – that did not succeed. We lost a lot of customers and the customers who are getting in now comes in with a lower ARPU and they cost more to acquire. We are back in Denmark in a subsidy model which is clearly not very profitable for each operator given that they only have a six month commitment period in the business, but we felt that we had no choice other than to moving back to subsidies as the customer losses were too massive and we all know without revenue and market share, what happens to an operator in a market, so we just had to fight back and then work hard on the costs in an attempt to kind of restore margins. This is very hard to predict if we are able to restore the margins, if there's a continued drop in pricing continues then the opex saving is just compensating.

Barry Zeitoune: From a competitive perspective, what needs to happen to reduce the subsidies again in Denmark or remove the subsidies again in Denmark?

Richard Olav Aa: That's of course a very good question. At least we felt other choice when the other operators are subsidising.

Meera Bhatia: Thank you. We have time for one more question before ending the session today.

Operator: We will now take our last question from Mr. Terence Tsui, Morgan Stanley.

Terence Tsui: Yes, good morning everyone. Thanks for taking my question. I've just got a clarification on the EBITDA margin guidance. You are now saying that you are targeting a higher level than in 2013. I was just wondering if you can be a bit more specific. I noticed that the H1 margins were up over a 100 and I think are at 130 basis points year over year versus H1 2013. Should we expect a similar amount in H2? Just secondly a follow-up on Norway. I just wondered if you had any new developments about target data, I'm just wondering what you are basing in into your estimates in terms of launch and the level of aggression? Thank you.

Jon Fredrik Baksaas: On guiding, I think we have needs to be said. Second half normally has a little bit more intensity in it if you take the whole portfolio. We have said above last year. I think what has been said, what needs to be said has been said. Then on your last question it's very difficult in a way make…we have no insights on how others will be thinking on that issue so I think we just have to wait and see basically on how this will evolve.

Having said that and by concluding this presentation I think we have very strong momentum in the Telenor Group in general. Asia is still a very strong growth engine for us. Thailand is showing what we hope is temporary when it comes to not being able to have the same speed as the other markets in Asia and we're very glad that the efforts on the go-to-market initiatives in Norway are working the way they are which is highly needed in relation to the fact that we are putting more than NOK 4 billion annually into investments in both coverage and capacity in this country.

With those words I wish you a continued good summer. Thank you.

Meera Bhatia: Thank you Richard and Fredrik. This concludes our session.