



Company: Telenor ASA
Conference Title: Q2 2015 Results
Presenter: Jon Fredrik Baksaas
Date: Wednesday 22nd July 2015

Meera Bhatia: Good morning and welcome to today's Second Quarter Results Presentation for Telenor Group. My name is Meera Bhatia and I have the pleasure of guiding you through today's presentation. Our CEO Jon Fredrik Baksaas and CFO Richard Aa will give the update of the Second Quarter Results. There will be as usual a Q&A session directly after the presentation, first here from the audience and then later from our online and webcast participants. There will also be the opportunity to speak to both Fredrik and Richard by media present here.

Fredrik, if I could ask you to come onstage.

Jon Fredrik Baksaas: That's better, technical fault in my 53rd quarter, thank you. Good morning also from me to this Second Quarter 2015 Results from the Telenor Group. First of all we move past the disclaimer and go to the Group results. The second quarter results reflect a continuation of the performance that we had in the first quarter. Reported revenues grew by 18% whereas the organic revenue growth was 6% and this was then backed by continued very robust mobile service revenue growth and strong handset sales. EBITDA margin was stable at 35% which is the same level as we had more or less in the first quarter. The performance in Norway continues to be a very solid one and a strong one and this is again backed by the mobile trends, whereas in Thailand we are in the midst of a turnaround and we are not that much happy with the things that we do in Thailand right now, but we are in a turnaround and I will come back to these issues later. Whereas neighbouring countries, Myanmar again shows a very strong growth and profitability at this very early stage in this project. In many of the other markets we see encouraging underlying performance as we now are entering the second half of the year; and more importantly based on the performance in this first half of the year and our expectations for the rest of the year, we maintain our financial outlook for 2015 and Richard will cover this more in detail later.



Moving then to Norway, in Norway we have a very strong mobile trend and it continues. More than 50% of our customers now have 4G enabled phones and the median data consumption increased by 125% compared to the second quarter last year. This resulted in a 6% growth in mobile service revenues. We continue to invest heavily in our mobile network to give our customers the best data experience. We now have around 90% population coverage on 4G and by the end of the year we're targeting 95% population coverage. We're also investing to expand the geographical coverage on 4G in order to give customers the same superior connectivity, not only where they live but also while on the move.

During the second quarter we have taken our roaming prices further down and simplified the offerings. This makes it more attractive and easier for customers to use while you're abroad our mobile data. We can also note that during the two first weeks of July this year, we had almost the same number of customers using data abroad as we had in the whole of July last year, so I think we can say more or less that the bill shock phenomenon now is history for Norwegian customers.

In the fixed segment, we're continuing to grow our high speed internet customer base whereas campaign offers this quarter has had a negative impact on broadband ARPU. But with the very solid mobile service revenue trends and the continuous execution on the cost efficiency agenda, we now aim to deliver a flat EBITDA versus 2014 in Norway despite the loss of the Tele2 roaming revenues which are now with NetCom 100%.

Taking then a look into the European operations, all in all in all our other European operations we show quite good execution on important strategic initiatives. In Sweden we report stable mobile service revenues and strong device sales, more than 250,000 subscribers have this year been migrated from old tariffs to data centric price plans and this contributed to ARPU growth in the consumer postpaid segment in Sweden. We've also seen a significant number of contract extensions in the consumer segment during the quarter and the migration of the acquired fixed broadband and TV customers from Tele2 was also now completed. All these mentioned activities resulted in some short-term pressure on the margin but should improve our performance in the coming quarters.



Also in Hungary, subscription and traffic revenues increased here by 3% in local currencies. This is then also driven by migration to data-centric bundles. The 4G network sharing with Magyar Telekom gained traction during the quarter whereas EBITDA margin declined primarily due to handset sales but also because of frequency...because of taxes and regulation. Let me also mention before moving to Asian operations that broadcast also has delivered stable performance in the second quarter but more importantly THOR 7 is now in place and ready to start serving customers.

As I said I would come back to Thailand, this is our major concern this quarter. In Thailand competition remains intense and profitability continues to be under pressure and this comes from a high level of subsidized smartphones sold in the prepaid segment which is only partly offset by lower regulatory costs. During the quarter this intense competition together with the impact of the ongoing prepaid registration activities led to a drop in gross adds and resulted in a net loss of 1.5 million subscribers. The deadline for the mandatory registration of the entire prepaid subscriber base is 31st July. We are on track with this process and we have now mid-July registered more than 80% of the subscribers. To improve the performance in Thailand we're going through a turnaround and this takes time. We are investing in data networks to improve the high quality of 3G and 4G coverage with an ambition of taking a leading position in urban areas. We are strengthening our sales and distribution through implementation of the cluster based operating model and the organisation structure for this is in place and reselection of distributors is going on as planned, but it takes time to train personnel and to streamline processes and to get the full effect of this. Going forward we see the need for more rationalised pricing in Thailand together with a reduction in prepaid handset subsidies. We don't believe this is sustainable longer term – we expect prepaid handset subsidies to slow down in the second half of this year as we already see lower volumes and improved handsets margins in June, July. In parallel to this the process of ensuring continued access to the investments made on the concessionary assets is continuing and we believe they are on the right track. In this dialogue we also seek to settle the outstanding disputes that we have with CAT.

If we then move to Myanmar, again this is quite an amazing performance. We continue to deliver another strong quarter and the growth is very strong and it's profitable. We added as much as 3.1 million subscribers this quarter and closed by 9.5 million by end of June; and even



more importantly 55% of subscribers are already active data users. In July we crossed the 10 million subscriber mark already and we believe we now are at the mid-30s by market share. We expect this to give us a current SIM market share in the mid-30s as I said. During the quarter we continued to expand our network and we have now more than 2,000 network sites on air where we connect to 113 townships which is roughly two-thirds of all townships in the country. We're still in early days in this market of course, it will probably take its time before ARPU stabilises at some level. Normalised ARPU for the current quarter remained strong although somewhat diluted by the rollout in suburban areas. As a result of strong growth in subscription and usage, the normalised EBITDA margins stood at 36% in the second quarter. This is held by the enormous demand for mobile services, but I must also say that it also reflects excellent executions of our strategy on the three pillars that we have in our strategy, so the Myanmar team and all of our colleagues are doing a fantastic job. Finally on the back of these strong consumption trends, we have recently confirmed our interest in exercising our option to buy additional spectrum in the 2.1 gigahertz frequency band which is included in the original licence conditions.

As for the other Asian operations some brief comments. In Malaysia subscription and traffic revenues grew by 2% on the back of DiGi's continued ability to monetise on increasing data usage. The migrant segment continues to be under price pressure which together with some early and hopefully also temporary hiccups from the confusion around the implementation of the 6% GST on prepaid services. This has impacted the growth somewhat, but EBITDA margin year on year remained stable. In Bangladesh we added 1.1 million subscribers this quarter, we now see a gradual recovery from the challenging previous quarter in the country where we see the daily service revenues picking up again. Grameenphone is stimulating usage through competitive offers and strengthening its network superiority. We increased the 3G population coverage from 51% to 59% during this quarter.

In Pakistan the biometric verification process was completed in May and unverified subscribers were disconnected. After this exercise the customer base stands at 31.6 million subscribers. This biometrical verification process which has taken place in Pakistan throughout this winter and spring is actually unique in the mobile industry and it places the industry phenomenally well when we think about the future of the customer ID which we in the mobile industry call mobile



connect. I think this is a feature that is important to follow going forward, but entering this third quarter we now have a fully verified customer base in the country with higher quality than before and we believe that this will become an industry asset. We estimate that the revenue growth excluding the verification effect would have been around 4%. Underlying consumption trends are encouraging and financial services continue to contribute to top line growth. In India we added 1.3 million subscribers to our expanded network. EBITDA for this quarter is positive as we saw it in March after the termination rate cut.

Coming to a close here, I want to end this presentation today by taking a touch on the Telenor strategy. This is solidly built on three pillars: Internet for All; loved by customers; and efficient operations. We developed this strategy some years ago and we're executing accordingly and this strategy stands firm. Efficient operations, that is to deliver on cost efficiency programmes and to utilise the scale through industrialisation initiatives across the group. This is very important in order to maintain profitability and at the same time give room for service development, innovation and investments. Customers and users should stand to the very centre of everything that we're doing. We work the Telenor way and our values will secure that we're able to deliver also relevance to our customers going forward.

Most importantly of all, Internet for All as we've expressed it, the impact for societies on establishing internet connectivity is very strong and of course an important growth driver for Telenor Group going forward. We've already invested significantly in data networks and we will continue to do this. The appetite for data is seen across all markets and is rapidly growing. Monetising on these investments and this strong growth is the number one concern. This also takes us deeper into Digital Services in order to stay relevant for customers and capture a larger share of the data growth in the future. The world goes digital, we enable it, this is both a challenge but also huge opportunities.

With this report I give the word to Richard who will take us through the financials.

Richard Olav Aa: Thank you Fredrik and good morning from me to all of you. I am also very proud to present a solid set of figures once again from the group, and starting with the revenues, like Fredrik said we have 18% reported revenue growth which is 4.5 billion year on year. Of course



we are helped by the weak Norwegian krone – that explains approximately 12 percentage points of the growth, but organically we grew 6 percentage points. But most importantly you see the breakdown on the right side of the chart, the main contributor to the growth is mobile service revenues: 3.7 percentage points of the growth comes from mobile service revenues. We also see devices contributing strongly to the growth, 1.6 percentage points. Half of that comes from dtac with strong handset sales this quarter which also takes its toll on the margin which I will come back to.

This slide we show every quarter, both internally in the group executive management, to the board and to the stock market. It's a very important slide to track. It shows the mobile subscription traffic revenue growth for the group. This is then only the mobile subscription and traffic and the growth on that parameter – that represents approximately two-thirds of the revenues in the group but that's the revenue that is growing and that's the revenue where we create the big margin. The trend is very clear. Quarter by quarter we're delivering 4-6% organic mobile subscription traffic revenue growth, also this quarter we come in at 5.8% which shows the diversification and the strength of our portfolio. If we break down the growth by the various regions, we see Norway delivering another strong quarter on the mobile, 6% organic service revenue growth and largely coming from ARPU growth on increased data consumption. The trends, they are very strong. I am also going to comment a little bit on the trends on the various regions into the second half now, so pay attention to this, it's important. Norway, the good trends in Norway are continuing. We see the data consumption, we also see the roaming effects that Fredrik talked about: people want data connectivity, data services wherever they are. When it comes to Asia, Asia is also up this quarter to 6% growth: that is largely contributed by Myanmar while we're all aware that Thailand has its weaknesses. Going into the second half we still see good growth momentum of course in Myanmar but it's still early days so there are uncertainties about the growth in the second half in Myanmar. In Thailand we're building stone by stone and one of the best stone-builders we have in the group, Lars-Åke Norling, is now in Thailand building stone by stone and we're absolutely confident that we're doing the right steps both on the network and the distribution in Thailand, but it still remains to be seen when we see the big effect coming out of this, but we're aware that Thailand has easier comparables in the second half.



For the rest of the Asian operations the reported growth this quarter is on the low side, but be aware that we have a special quarter in Pakistan with biometrical verification where the underlying growth is close to 4% when we adjust for the verification. We also have DiGi, the tax effects and also pressure on the IDD while the underlying growth where it matters on prepaid internet is still very strong in DiGi. India is reporting strong figures, strong subscriber growth in India and so all in all we expect the growth figures in Asia to pick up in the second half based on what we now see towards the end of the second quarter and into the third quarter. I didn't mention Bangladesh but there we see a steady improvement in revenues during the second quarter.

When it comes to Europe we see a slowdown in growth, close to 0% now. The main effect of the reduced growth is coming from Bulgaria where we see intensified competition but maybe more importantly as Fredrik said we see good underlying ARPU figures now in Sweden coming from the migration and strong sales and contract extensions. I'd also like to mention Hungary: that shows 3% underlying mobile service revenue growth and excludes dramatic interconnect trends. I'd also say in Europe we'll look at more encouraging trends going into the second half, but all in all a solid growth quarter from the group showing the strength of the diversified portfolio.

Then to the EBITDA, we're reporting another quarter of 10.6 billion in EBITDA, the same level as last quarter and we see the breakdown on the right hand side. The main contribution comes from Asia, a 1.3 billion improvement. Currencies are also helping us a lot on the EBITDA but the main growth driver is still the improvement in Myanmar and we also have good improvement in India coming from lower interconnect rates, good cost controls and strong subscriber uptake in India this quarter delivering the first full quarter with positive EBITDA since launch in India. dtac is on the weak side, down approximately 300 million year on year adjusted for currency so there is a mixed bag in Asia. Europe, some pressure on the margin there coming from the fixed migration in Sweden after the Tele2 acquisition, that's going very well, we went through the post calculation on that the other week and those three acquisitions we have done in Sweden on the fixed, they are coming in better than expected. This is the last part of the integration costs of those acquisitions we see here now. Norway, down, very high market spend in Norway. We are compensating the Tele2 losses on the revenue side by strong mobile growth with very high market spend both on mobile and fixed this quarter takes the EBITDA down slightly in



Norway. I would like to comment on EBITDA, we see the EBITDA margin is at 35% which is two percentage points down compared to the same quarter last year and we have a lot of costs in this quarter which are more of a one-time nature, it's not booked as other items, but I would like to mention a few of them for your information. We have the biometrical verification process in Pakistan which approximately contributes 4-5 percentage points on the margin. That we are through and we think we have executed that well compared to our competitors and Pakistan should be strong going forward. We have the Tele2 integration costs in Sweden of approximately 60 million krone as if you don't book as another item but take in the costs. We have the very high market activities in Norway and finally we have the prepaid handset subsidies in Thailand that will now cease in the second half. We still have inventory that we need to sell out but that will come gradually towards that end. So if you add up all those three effects, sorry, those four effects you can easily explain more than a percentage point drop in the margin. I think that's important to note in this quarter that we have some extra costs which are all being informed of now.

Then moving on to the capex. High capex spend this quarter, 6.6 billion. That includes the satellite THOR 7 that was paid in the first quarter but expensed now since we now transfer the risk and it's in operations. Excluding that we are at 5.1 billion in capex which is 17% capex to sale which is still a high number for the group. We have the build-out in Myanmar which is an extra 600 million as you see from the right hand chart; and we have in general high capex in Asia. You see Grameenphone is using 400 million more to really take the data network position in Bangladesh and we have the network build-out in Thailand on 3G and 4G and we expect now by the end of the year good work from the dtac organisation to have a really strong 3G, 4G network built on the concessionary frequencies towards the end of the year and that combined with the stone by stone we're now doing in the distribution, we expect a stronger Thailand going forward.

That takes me to the cash flow, 4 billion in cash flow for this quarter but bear in mind then that's 1.4 billion on the satellites. Excluding the satellites we're at 5.4. We have a strong underlying improvement in the gross margin and the EBITDA of the group. We are now running around 10.6 billion per quarter in EBITDA of the group so we are well above 40 billion in EBITDA but we're spending capex on especially the data position in Asia which we think will pay off in the



years to come, so this is fully in line with the plans we have communicated earlier, nothing abnormal here.

That takes me to the P&L. We're reporting a strong net income this quarter of 3.6 billion and earnings per share of 2.42. Some other items may be worth commenting on in the P&L, other items approximately 150 million mainly redundancy costs in Norway and Sweden; depreciation is up approximately 600 million, half of it's currencies, the rest is Myanmar and increased depreciation in Thailand as we move towards the concession period. We see a positive contribution from associates this quarter that's been a while since we had but VimpelCom has sold towers in Italy that gave a one-time effect on their P&L and we're taking in our share of that so associates contributed 450 million. Net financials, some currency losses mainly on internal debt so no cash effects but a little higher net financials negative than normal, 588; taxes 1.7 negative – be aware that this is booked taxes, paid taxes are significantly lower as we utilised our losses in India, so paid taxes this quarter is 1 billion. Discontinued operations, this is Denmark, 104 million plus but be aware that due to IFRS we cannot depreciate neither intangibles nor fixed assets in Denmark anymore. So this is pre-depreciation in Denmark, including depreciation Denmark has a small loss in Q2. Non-controlling interests, nothing abnormal there, those are the minority positions in the three Asian listed units; and taking that down we get to the net income of 3.6 which is a strong figure for the group.

On the balance sheet, the debt stays fairly stable at around 47 billion which is 1.2 net debt to EBITDA which is at the same level as we have been over the last quarters, and remember this quarter also paid out dividends: total 7 billion to Telenor shareholders and minorities; and we expect another dividend payment then of 3.50 per share in the fourth quarter. Other than that it's fairly normal explanations behind the change in net debt so I will not go into detail on that now, but just to state that this is more or less as expected and we're stable compared to where we have been.

Then finally to the guiding. Based upon the first half results, the strong first half results and the way we now see the second half with some stronger growth trends in parts of the European operations and part of the Asian operations, but still an uncertainty on Myanmar and Thailand being the two biggest uncertainties, we decided to maintain the guiding. The revenue growth is



of course the most volatile part of the guiding due to the uncertainty in Thailand and Myanmar but we feel confident that we will be within the guiding range. The margin we also have kept stable, we have good control over costs although we had a lot of extraordinary costs in the fourth quarter that I went through on handsets, on sales and marketing activities in Norway, on the biometrical verification in Pakistan and integration in Sweden and we hope with good execution that we can be in the higher end of this range in the second half, but it's still early days. On the capex to sales, we are when we adjust normalised for the satellite, we are really in the mid-point on this range and we have good control over capex in the second half, so the guiding there is quite straightforward. So all in all I think first half results and the way we see the trends into the second half makes us quite confident that this guiding is appropriate for the full year.

So by that I don't intend to go through the summary of Q2 again because I think we've covered that well in the two presentations but it can serve us a useful backdrop to keep it there for the Q&A Meera, so by that I hand it over to you again.

Meera Bhatia: Thank you Richard; Fredrik, thank you. We are now opening up for the Q&A session. We'll start with questions from the audience if there are any. There in the mid-section, thank you.

Christer Roth: Christer Roth, DnB Markets. Just quickly on Pakistan, you mentioned both that it was growing underlying about 4% year on year. In the report it says 1%. Is 4% the right number for us to sort of run by?

Richard Olav Aa: I think the difference there is that the 4% is the total revenues including financial services and the 1% is the subscription and traffic revenues on the mobile.

Christer Roth: Excellent, thanks. Secondly on Myanmar, it continues to surprise us positively and obviously there's uncertainty there as you point out. Just wondering, in terms of what kind of scope should we expect that it continues to ramp throughout the year? Right now you've done really well in terms of subscriber uptake: how should we expect that to develop over the next few quarters in comparison to your ramping plans?



Jon Fredrik Baksaas: Yes, that's a very good question and one could say that are we able to capture 3 million customers in the coming two quarter for example? I think we have to say that the go to market model in Myanmar has been working really well for us. You also see that NPT is doing a very good job, so the industry is actually delivering what the government asks, namely distribution of mobile services in a rapid way and it goes probably more rapidly than everyone expected; and even more interestingly is that new customers are coming in using internet as actively as they do, so I think the prospects for this is good but remember also there is an election period towards the end of this year which may give certain elements of reluctance to what comes out of the elections as such. But we will continue to roll and meet the obligations on footprint coverage and are obviously very positive where we stand now also for the autumn. But to be precise on it, it's difficult.

Meera Bhatia: Thank you. Any further questions? There are two in the front row. If we start with the gentleman in the middle maybe? Thank you.

Håvard Nilsson: Håvard Nilsson for Carnegie. I was wondering how do you see marketing spend in Norway going into the second half when you compare it to last year and comparing to what you expect from Ice?

Jon Fredrik Baksaas: Again a question which is difficult to be precise on but we see how Ice has started and obviously that could be expected that they would more or less start as they have done. I think we will have to anticipate that activities in the marketplace will be more visible as we go through the summer, however if I judge what is out there in the media right now over the summer, it's quite hectic between many brands I should say which comes naturally for the holiday season in Norway and with the weather probably people are sitting more inside using their digital devices than being outside enjoying the sun which is not there.

Meera Bhatia: Thank you.

Håvard Nilsson: Thanks.



Meera Bhatia: Do you want to have follow-up question?

Håvard Nilsson: Yes. In Thailand are you continuing with unlimited data plans although you said you would have some controlled mechanisms? Could you elaborate on the strategy behind that and why you're moving back?

Jon Fredrik Baksaas: It's a good question really. We started on the postpaid to introduce cheap pricing as we had for example in Norway and that is really going well for us in Thailand, the customers on these price plans, they are good customers and I think the customers on these price plan are happy, they understand you consume more, you pay more. But we see that our competitors, they have re-launched unlimited offerings in the market so we also have a product now out in the market which is not unlimited because we're tripling down after a certain consumption, but the customer can still use at a much lower speed and we hope that that can trigger an upsell. But we don't have no a firm stop on parts of our postpaid price plans in Thailand as a response to competition.

Håvard Nilsson: Thanks.

Meera Bhatia: Then there was a question from E24.

Question: Thanks. I also had a question about Thailand. You say you are going to cut back on the subsidiaries towards the end of the year and I'm wondering why you are so confident that you can do that while you're still losing revenue and customers so far this year, that your competitors will not counter that and steal more customers from you?

Jon Fredrik Baksaas: To be 100% confident on that is difficult to be at this stage and the battle about the future market shares in Thailand is on, no doubt about that. We have after the shortages that we felt that we had on the network side second half last year, we've recovered from that position but it takes time to get perception back in with customers and right now the go to market mechanism needs to tie better in with the rest of the value chain. So here we are in a challenging period but we do see that the intensity on handset subsidies now in June-July is a bit lower than what it was earlier, so let's see.



Richard Olav Aa: I'd also like to add that we don't see any big appetite for these subsidised low-end smartphones. People aren't queuing up for them anymore. We actually see a lot of our customers that bought these low end smartphones, they switch to higher-end smartphones as they require higher functionality, so we're not ordering more of these low-end smartphones for the second half, but like Fredrik is saying more mid-term, long-term what will happen on the competitive intensity in Thailand is more uncertain, but right now these low-end smartphones campaigns, we're just selling out the stock and we're not ordering new stock. So that makes us confident that that part of the margin pressure in Thailand should cease in the second half.

Meera Bhatia: Thank you. If there are no further questions from the audience then we'll open up for the phonecall participants please.

Operator: The first question comes from Peter Nielsen from Kepler Cheuvreux. Please go ahead.

Peter Kurt-Nielsen: Thank you. A question on Sweden and one Denmark please if I may? Firstly on Sweden, you seem to have reignited momentum on the fiber side in Sweden. I was just wondering what's behind this? Is this mainly a conversion of internal DSL customers or are you gaining new fiber customers in the market and if so what's behind this please, if you could elaborate a bit? Secondly on Denmark, you continue to be fairly aggressive: the high handset subsidies, new fixed broadband offers based on lower wholesale prices and you're very competitive on the corporate side in Denmark. Are you happy with the return you're generating from these efforts in terms of new contracts and if you could comment of the profitability of the new contracts you're generating? Thank you.

Jon Fredrik Baksaas: Let me then start in Denmark. The Danish figures are not reported in the same details as others. I can say this much: that we are okay on how Telenor performs in Denmark and it follows previous figures reported, more or less. So I think we can say that we're quite okay compared to previous on what we're doing in Denmark right now.

Richard Olav Aa: On the Swedish side, the customer numbers, we really would like to take offline with the people that are interested because we are in the middle of the integration and we're



switching from the cable subs of Tele2 over to Bredbandsbolaget, there are different customer definitions and so on but in general we're doing quite well on the fixed side in Sweden but the actual breakdown on the customer numbers and the details there, it takes too long to go into full explanation here now so that we can take offline for those who are interested.

Meera Bhatia: Thank you Richard. If we move on to the next question please?

Operator: The next question comes from Ulrich Rathe from Jefferies. Please go ahead.

Ulrich Rathe: Yes, thank you very much. I have two questions: one on Thailand and one on Myanmar.

The one on Thailand, the turnaround sort of ties into an earlier question; the turnaround that you're anticipating now for the second half of the year of course has an element here of steps that you are taking yourself but as mentioned earlier there is of course a competitive backdrop here, so I'm just wondering, if you take a step back and look at the plan, do you think or do you need a significant improvement in the competitive backdrop in order for your plan to work out or is the majority of the business plan as you have it in your group guidance now in Thailand essentially achievable just by the internal measures that you're taking in terms of processes and the other things you described? That would be my first question. The second question is in Myanmar in an earlier quarter you said that the margin would start to go down maybe when you start pushing into the rural areas because there would be ARPU dilution. Could you describe where you are with this and then what timescale this push into the rural areas would happen that would make us probably look a bit more cautiously at the margin forecast in the near term? Thank you.

Jon Fredrik Baksaas: Let's start on Myanmar. You could say that 70% of the population in Myanmar is considered rural, however the city definition is in this sense very local and then we said that we are in 213 city-like communities which is one-third that means that there is still 100 plus left of this kind of geography left, but then we really started rural after that. The first users from rural areas, experiences from other companies, Bangladesh in particular is that the first users are actually heavy users and then when penetration reaches higher, you reach into more marginal customers, so I think we might see that rural...the initial customers at the countryside will probably lift ARPU until you get a greater volume of customers there, but in any country rural



when it's penetrated has taken ARPU down – that has happened all over the place so we have to bear that in mind also for Myanmar. Thailand, are we dependent on others doing their stuff? Well, in every game you have to make sure that you're well-dressed yourself, so the guiding here is more dependent on ourselves being okay on what we're doing and for the time being there is a lot of things to be done, in particular on the distribution and go to market activities which we feel that is moving in the right direction but has not reached the efficiency level that we need in this competitive game in Thailand.

Ulrich Rathe: Thank you very much, very clear. Thank you.

Meera Bhatia: Next question please.

Operator: The next question comes from Georgios Ierodionou from Citi. Please go ahead.

Georgios Ierodionou: Hi, thank you for taking my questions, I have two please. The first one is on the fixed line side in Norway. It appears to be a bit of deceleration in trend both in the retail revenues but also in wholesale and I'd be interested to hear from you whether it's high margin wholesale revenues are offset or low margin ones, but regarding retail also we were hearing from some of your competitors that the market is benign, pricing is quite good, so I'm a bit surprised by the negative trend on the retail revenue side. I was wondering if you could give us a bit of colour on that? My second question is on Thailand and more around the spectrum auction. I think there was some news over the last couple of weeks regarding the process later in the year and also the relationship with your concession partner and how that evolved. Could you comment on that? Thank you.

Jon Fredrik Baksaas: On wholesale I think that's pretty easy to explain: the reduction in wholesale revenues in Telenor Norway is solely due to the fact that the Tele2 volume is now moved over to the main competitor after it was acquired by NetCom, so this is a pretty simple explanation. However we are able to compensate the loss of those wholesale revenues on the retail side. You've mentioned that the retail side seems a little bit weak, I would say on the contrary...

Richard Olav Aa: On the fixed side...



Jon Fredrik Baksaas: Oh, was that related in the fixed?

Georgios Ierodionou: Yes.

Jon Fredrik Baksaas: Ok. That has an explanation to the fact that the campaign efforts throughout this quarter has been associated with some discounts that takes the revenue, the ARPU on average down in this quarter. Then on Thailand, the spectrum auction is expected to come later this year, we haven't got the final date for that, it's not confirmed. Is there a likelihood that it will be postponed? Well, time will show. We anticipate that in the event of this auction coming through we will of course participate in that. Spectrum is what we all need in order to move forward; and in the process also then with CAT where we're trying to sort out the dispute with us and find an operating model to the concessionary assets in such a way that our business can move forward undisturbed.

Meera Bhatia: Thank you. Next question please.

Operator: The next question comes from San Dhillon from RBC.

San Dhillon: Hey guys, just a couple of questions if I may. Firstly on Myanmar, could you just outline how your strategy is different to that of your competitor Ooredoo because they clearly aren't having the same success you are in the market, so that would be good to understand? Secondly on Norway, you mentioned a larger spend in 2Q, is there any way you can quantify the increase in that spend so we can have an idea of how much of that can come off in 2H in order for you to hit your flat EBITDA target? Thank you.

Jon Fredrik Baksaas: In Myanmar I think the main difference is that the two of us chose a different way of utilising the spectrum that we got in the auction last year. We have decided to move on both 2G and 3G whereas their offerings have been 3G only which is of course a kind of an approach which has different consequences when it comes to market response. In Norway Richard?



Richard Olav Aa: I think if you look at market spend compared to Q2 last year it's up quite a bit and if you look at market spend for Q1 this last year it's up a bit, so that can maybe give you an indication of those two data comps on how extraordinary the second quarter on the market spend was.

San Dhillon: Ok, thanks guys.

Meera Bhatia: Thank you. Next question please.

Operator: The next question comes from Maurice Patrick from Barclays.

Maurice Patrick: Yes, hi guys, it's Maurice. So just on India, the growth's slowing slightly, some of that of course termination rate led, but some of the other Indian telcos are talking about strong data and 3G products driving data; you still don't have that...do you see any disadvantages in the current strategy? Do you see a need to change that at all? How's that going for you?

Jon Fredrik Baksaas: Of course data is on industry player's lips in India as it is in all other markets, ours as well, and we're giving an offer on 2G only which is a data protocol which is slow in the longer run, but for the customers that have their initial taste of data it works and we know that from all other markets. So we are actually broadening the market but we're also educating the market for later and broader usage. So our position on this is that we don't have sufficient spectrum for a complete data offering down the line. It's okay now in 2016-2017 maybe, but in the longer run it needs to be complemented with spectrum that can offer better bandwidths.

Maurice Patrick: That makes sense. Thank you.

Meera Bhatia: Thank you. Next question please.

Operator: The next question comes from Nick Lyall from Société Générale. Please go ahead.

Nick Lyall: Yes, morning, it's Nick from SocGen. Can I just ask a couple of things? Back to the fixed business in Norway, I was a bit confused by the answer on why fixed was fluid, it looked more



like there was a bit of an ARPU problem on fixed, just basic fixed voice customers and also the wholesale side of the fixed business weak as well. Was that linked to Tele2 in any way where there was maybe more revenue than we thought was booked for the fixed business like leased lines or backhaul or something? Could you explain that please? And also in Q2 the non-mobile, the other mobile revenues was very, very high in Norway too. Is that just handsets? Was there maybe something I missed on handset timing? Then secondly on the cost side in Norway, your opex looks very solid this quarter. Does it include the latest wage demands of the unions? Finally what are you thinking about spending into H2? I didn't quite get your point about Ice and maybe Get coming into the market. Do you anticipate in that guidance of flat EBITDA that your opex is going to be more sharply up on marketing campaigns you need to shift in H2 as well please? Thank you.

Jon Fredrik Baksaas: That was quite a number of questions but when it comes to the wage settlement with unions, yes, it's included from the date it was applicable, 1st April, so that was at least one which is a clear and simple answer. Should we take more clarification on the fixed side Richard?

Richard Olav Aa: On fixed revenues in total is down 4% and the main driver is of course still the fixed voice, that is declining due to the number of lost lines, but it's really campaigns on the full range of high speed internet access from VDSL to fiber that's taking a toll on the ARPU and driving down the revenues on the fixed broadband side. When it comes to the guiding on the flat EBITDA for 2014, you must take into account by that ambition we compensate more than 500 million in Tele2 wholesale revenues, so that is actually quite a good performance. Obviously we have uncertainty about the growth rates in the second half and we also have uncertainty of how much market spend we need to do given the competitive situation, but taking that into account we think we could achieve to compensate that fully. I'd also like to mention that on the mobile revenues your questions on the wholesale, we have some other wholesale revenues and also quite hefty development on machine-to-machine, that's also helping to compensate on the wholesale part to Tele2.

Nick Lyall: Was that the reason why the non-mobile was so strong now or was it just purely handsets? Was there a big push on certain handsets in the quarter?



Richard Olav Aa: No, the main driver on mobile Norway then we have to clarify that very precisely, the main driver on mobile Norway is ARPU growth on the consumers based on a very strong increasing consumption. The median consumer increased his consumption or her consumption with 125% year over year resulting in a 6% ARPU growth while the subscriber numbers on mobile are quite stable and that results in 6% mobile service revenue growth in Norway. So that is the main driver, everything else we talked on the mobile is fairly detailed with exclusion of the wholesale to Tele2.

Nick Lyall: Great, thank you.

Meera Bhatia: Thank you Richard for clarifying this. Next question please.

Operator: The next question comes from Roman Arbuzov from UBS.

Roman Arbuzov: Hello, thank you for taking my questions, all of them are on Myanmar actually. So firstly on ARPU, you've mentioned a couple of times that the ARPU is getting diluted as you move into the suburban areas but then could you just comment quickly please on the existing user ARPU? How is that trending? Is it perhaps slightly down or maybe it's actually going up because you're adding more sites into the big cities still? Then secondly on costs, if we look at your sites on air quarter on quarter, that's up roughly about 50% and then if we look at your opex, that's expanding only modestly, so in terms of opex can you contain that from increasing going forward and do you have any tips on how to best look at Myanmar costs? Then just finally very quickly, in terms of the rollout, in terms of the 500 to 600 sites that you do in Myanmar per quarter, could you just tell us roughly please, how much are you still adding into your existing townships where you're already present, in the capital Yangon for example and how much of that is going into new areas for expansion? Thank you.

Jon Fredrik Baksaas: Now you're pretty detailed on some things here but let's give it a try. The ARPU trends, I think you mentioned the factors yourself. There will of course be new customers also coming in the footprint that are we already covered. Some of these customers or the bulk of these customers would probably be lower ARPU generators than the existing customers, when



they get to become customers in the first round, but this is what this industry is about, it's to get everyone on board, to increase the network effect. So the better penetration, the better impact in the society at large. Where we have started on ARPU levels in Myanmar, I think this is very promising. As to the cost side, of course there will be more costs when you increase as rapidly as we do here, but we also improve the overall margin from Q1 to Q2, so there is a positive effect here as well. The scaling effect here is what we say is positive for the organisation as such and of course we expect that to continue, that there will be competitive pressure here over and beyond what we see right now is also part of the future equation here. Customers in the cities that are still coming in, it's utterly important that we really manage to stay close in distribution and get to understand how this market moves. We've done this well in other markets in Asia, we stumbled a little bit in Thailand right now but we will get these things right in that country as well. So there is a lot to offer. Myanmar goes digital, we're there to do it and the potential is strong as we see it.

Roman Arbuzov: Thank you.

Meera Bhatia: Thank you. Next question please.

Operator: The next question comes from Dominik Klarmann from HSBC.

Dominik Klarmann: Yes, thank you. Just on potential outlook beyond 2015, just wondering how you think about capex beyond '15 at the moment, how important is it to get this old famous 28 billion operating cash flow target quickly? So what's your current thinking there? Then is there any update on the fourth licence in Myanmar at all? I've seen some press reports but nothing concrete, can you update us there? Thanks.

Jon Fredrik Baksaas: Let me take the last part first, the fourth licence, we see the same press reports as you do, we've seen them for quite a period of time and it's yet to be seen any activities at the ground around it.

Richard Olav Aa: And on the capex side this year is of course a very high capex here both due to the satellite and the rollout in Myanmar. We don't expect to do a new satellite next year and



the capex in Myanmar will be lower next year. Other than that we foresee that we also next year will have to maintain a quite high capex level in the other Asian operations to position ourselves well for the data growth, but we wouldn't do any precise guiding on that now, but also make a note, that also is on a high level this year, in particular the network improvements we're doing in Thailand is a record high level for us in Thailand this year.

Dominik Klarmann: And in Norway?

Richard Olav Aa: In Norway we're investing now on 4G and that's really paying off. Like Fredrik said we're targeting 95% population coverage by the end of the year. With geographical coverage we're much lower and we need to continue to build out geographically on 4G in Norway and also we see good opportunities on the fixed side going forward. I don't expect big changes either up and down in Norway but that we will have to come back to and I would say that is more in line with Norway put out in the Investor Day in London on fixed and mobile.

Dominik Klarmann: Ok, thank you.

Meera Bhatia: Next question please.

Operator: The next question comes from James Britton from Nomura.

James Britton: Thanks very much, good morning. A question on Pakistan please. Do you expect margins in this market to recover back to the 40% level pretty quickly or will they now settle at a lower level following the SIM tax coming in? Thank you.

Jon Fredrik Baksaas: It would be good to get it back in the 40s of course but we're also seeing that taxes to the industry has been a constant topic, so it's our target to get it back in the 40s. The price tag for biometric verification will not be with us in the periods to come, so I think there should be possibilities. The underlying economic activity in the country is quite good so I hope that we can move in that direction.

Meera Bhatia: Thank you. Next question please.



Operator: The next question comes from Thomas Heath from Handelsbanken. Please go ahead.

Thomas Heath: Thank you, Thomas Heath here, just two questions if I may. Firstly on more marketing costs and market activity in Norway, what would you say is the chief underlying driver there? Is it new entrants coming in or also what's your thinking there? Then secondly on the satellite, I believe before you mentioned that it's part replacement but part new business. Should we expect any profit to accrue from this satellite launch going ahead? Thank you.

Richard Olav Aa: On the market spend in Norway I think we have been quite active in front of the summer season both on fixed and mobile and the thinking has been to give customers good reasons to use Telenor and hopefully that will pay off in even better growth figures in the second half. On the satellite I think when we planned the satellite back in 2009 and 2010 it was largely meant for a broadcasting activities in CE, but as we now see data communication at sea exploding in demand, more and more of the capacity of 2007 were diverted to mobile communications capacity and this satellite will actually take a big part of the total capacity over the Atlantic and the North Sea and the Mediterranean on capacity and we see strong demand for that capacity now but we are in the testing phase and we will start to sell in the fourth quarter.

Thomas Heath: That's very helpful, thank you.

Meera Bhatia: Thank you. Next question please.

Operator: The next question comes from Erik Pers Berglund from Danske Bank.

Erik Pers Berglund: Thank you, I have a couple of questions. On India you're seeing an ARPU drop because of lower voice usage you wrote in the report. Can you describe where do you sort of stand on your product? How can you turn that round? What can you do and what is the current price gap versus competition and what's the trend in that? Also how much time do you think you have to secure a new spectrum in order to stay competitive in that market? You indicated



this current spectrum would be enough for '16 and '17 if I understood it correctly, but isn't that too long a timeframe given you're already seeing some pressure I think?

Jon Fredrik Baksaas: In India the best on price has been the feature to which we go to market and the response on the customer numbers on that offering has been good, but we've also taken more or less now the fourth position in the circles in which we operate which means that there are others that are below us on the list that urging on price competition so we don't have the same price advantage, the price differential to our own service offering up against the ones that are below us on list. So price differential is still significant for us up against the 2-3 leading players in our circles; and you're absolutely right that the speed of data adoption in the Indian market gradually gives us more vulnerability on how we resolve the data offerings. We're exploring the idea of splitting our frequency base into one data part and one voice part. You think 4G on existing spectrum on a slice of that spectrum which can be sort of a bridge into the future but not sufficient in the long run.

Meera Bhatia: Thank you. We have time for two more callers so could I kindly ask you to limit yourself to one question. Next question please.

Operator: The next question comes from Jakob Bluestone from Credit Suisse.

Jakob Bluestone: Hi, good morning, I've just got a follow-up just on the guidance, I just wanted clarification. You cut guidance for Thailand but obviously left it unchanged at the group level. Could you maybe just talk through which were the bits where you're a bit more bullish than you were three months ago in the other parts? Is it basically just you were positively surprised by the beat in Myanmar and perhaps a little bit more relaxed about the outlook for Norway after you saw Ice's tariffs? Thanks.

Richard Olav Aa: I think you are pointing to some of the key reasons, yes, Thailand is weaker in Q2 than we would like it to be and also like you pointed out dtac cut their own guiding but we see very strong development in Myanmar, also very strong sentiment on the mobile side in Norway. The growth rates are continuing at the very strong pace and that was more of an uncertainty a quarter ago. We see the execution in Sweden on our biggest operations, this is



really paying off and we're growing the underlying ARPU. We see like I said the trends in Grameenphone now picking up again. We are behind the biometric verification in Pakistan which was a big uncertainty which Pakistan executed very well, posing for better growth rates in Pakistan, so I think we have removed execution uncertainty in a lot of our operations during the second quarter and of course that has taken some costs and some toll on our EBITDA margin in the second quarter but that also gives us strong confidence that our margin guidance is intact despite that we are in the midst of the turnaround process in Thailand.

Meera Bhatia: Thank you Richard. Time for one final question please.

Operator: The final question comes from Andrew Lee from Goldman Sachs.

Andrew Lee: Yes, good morning everyone. I had just a follow-up question around Norwegian fixed. Firstly, on the broadband performance, I know you've explained it by increased promotional activity on your behalf, so I just wanted to clarify that, those are six months' promotions, should we see a reverse of that hit and a return to growth for Norwegian fixed into Q4? Then just on the capex in Norway, you're saying it's neither going to be materially up or down next year but could you just give us an update on your ability to reduce capex in offering ultra-fast broadband through using other technologies other than fiber to the home? At your Capital Markets Day you mentioned vectoring, so I wondered if that's an opportunity to lower your capex still going forward there? Thank you.

Richard Olav Aa: Good question. I think just one clarity and it's been a question that's been several times touched upon on the wholesale revenue on the fixed that's a reclassification from fixed to mobile of 59 million, so you have to kind of look at that as a non-event, it's just a reclassification. There is not any reduction in fixed wholesale revenue, so you have a little bit reported lower on fixed and higher on mobile. So that should be just clear, so no drop in fixed revenues on the wholesale. So the main point is what you're saying is that the fixed revenues on broadband are down by the campaign activities both on VDSL, fiber and cable. The main thing is that we are pushing quite good on the VDSL which is a very efficient way to deliver high speed broadband where the capex is a lot, lot lower and the customer experience as Birgit and her team explained to you all in London is quite good these days by using some of the technology



that you are mentioning. So we have good customer uptake in converting ADSL to VDSL but we're using campaigns, three and six months periods on that. When it comes to the TV and fiber and cable, we still expect good underlying ARPU trends in that base midterm but we also have campaigns there now in the second quarter.

Meera Bhatia: Thank you Richard. That concludes the Q&A session for today. I will now hand over to Fredrik for some closing remarks.

Jon Fredrik Baksaas: Yes, this is my final quarter actually. After this little hiccup on the microphone when we started, good to know that the microphone is still working. This is my 53rd quarter actually, we did the count this morning, I think the first quarter was my second quarter 2002 was my first quarter as CEO. But we also said that I have been associated with this since the Group was incorporated in 1995 so we can add some quarters before then maybe. But what I say is that we've tried to be in long term, we've tried to be over and beyond the first quarter horizon on what we're doing and we have tried to build stone by stone and to develop the Telenor culture to become competitive and robust and sustainable. We have rebranded Telenor under this period, created this brand which is now visible for 1.2 billion people on a daily basis which is quite unique with a starting point in Norway. We were ranked as the fourth most valuable brand in Scandinavia after IKEA, Hennes & Mauritz and Ericsson, so if you buy a little bit less from Ericson in a couple of quarters to come it maybe an adjustment to that – Mr. Vestberg didn't like that comment by the way. But having said that we try to be long term. We have moved into new countries, established presence, created values. We have great impact with modern communication services to societies in rapid development and that's to the core of what we're doing. To bring everyone on board we articulate that as Internet for All for the time being.

Now it's Sigve Brekke his team that is going to stand here for the coming quarters, I wish them very good luck. I am very glad that there is a continued strategic base that will be taken into the next level here. The world goes digital. It's full of challenges but also a lot of opportunities and I'm sure that the Telenor culture will be both impactful in that and take positions and be visible in that.



So I wish them good luck and I thank all of you for both support, patience but also for your comments up through all these 53 quarters. Thank you.

Meera Bhatia: From my side it has been a great pleasure working with you and still is until August 17th, so that concludes our session today and there will be room for some media interviews now. Thank you Fredrik.