Company: **Telenor ASA**

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Marianne Moe: Good morning, and welcome to the presentation of Telenor Group's Second Quarter Results. My name is Marianne Moe, I'm head of Investor Relations and I have the pleasure of guiding you through the session here today.

As usual, the results will be presented by CEO, Sigve Brekke and CFO, Jorgen Rostrup. I hope you all have the presentation material available. There will, as usual, be a Q&A session after the presentations and we expect to finish the whole session in about one hour from now. After that, media present here today will have the opportunity to ask questions to the CEO and the CFO in a separate media session, which we will start immediately after the presentations and the Q&A.

So without much further ado, I'll leave the floor to CEO, Sigve Brekke, who will take you through the highlights of the quarter.

Sigve Brekke: Thank you, Marianne. And good morning to a sunny summer day in Norway, and I hope that the results also will – the sun will shine with us back in the results.

I am pleased to present a set of strong results for this quarter. We are demonstrating improved revenue growth, all time high EBITDA, 4% margin and we also see a margin expansion in all our business units, and we are having a solid cash flow.

On the revenue side, we see solid revenue development across the board. The only exception is DIGI in Malaysia. We see Norway with a robust revenue development. We see data monetisation in our emerging Asia companies with Grameenphone with a special good performance. And we see DTAC in Thailand for the first quarter in three years with a revenue growth.

When we met at the Capital Markets Day in February, we talked about our strategic agenda. We talked about our cost efficiency ambitions, and these ambitions are now put into concrete targets and confirmed activities across the group.

And as you can see from the figures, we have already broken the trend of increasing OpEx and that's why we are now raising our OpEx ambition and also why we are changing our EBITDA margin outlook.

We have also in the quarter taken further step towards simplification of our portfolio with what we did in rearranging our online classified positions. And on back on proceeds from disposals, we are announcing a 2% share buyback program.

Let me start with our biggest operation, Norway, and let me start on the revenue side in Norway. As I said, I am happy to see a robust performance both on revenue and also on cost in Norway.

Revenue first, we see a 3% ARPU increase in the quarter, and that ARPU increase coming despite the inclusion now of Roam Like Home in the EU area and I want to give credit to the Norwegian team that they one year in advance, started to include free roaming in the European area in their new packages, and they have been able to continue that up-sell with our customers.

And that we also see now that our customers are very satisfied with our network. So we see a significant increase in their data usage. There is an extra 76% increase in the median data usage per customer, and we are now up to 1.3 gigabyte per month, per customer, still below Sweden, which are almost double as high, but it's a significant increase.

We are on the subscriber side, continuing to focus on the quality customer intake. We see still a decline in the prepaid segment with the standalone prepaid customers and their data subscriptions.

However, their decline is lower than what we saw in the first quarter and we see that, in this quarter, the competition is fairly stable compared with what we have seen previously.

The investments in the network, it's both in a network rollout and also in the capacity, it's starting to really pay off. We now see that our mobile data network is ranked as the fastest network in Norway by independent sources and the speed of – an average speed of 54-megabyte per second is giving us one of the fastest networks in the world.

Moving to the fixed side of the Norwegian business. We continue the fiber rollout, as we have explained before. Our high-speed broadband base is now 616,000 customers, and we believe that we'll continue to take market share in the fiber rollout.

The revenue growth within Internet and TV in the quarter was 7% and that is more than offsetting the decline in the fixed telephony and the wholesale business.

One more slide on Norway, now on the cost side. The OpEx is down 8% in the quarter and then we combine then a stable gross profit with this, we see then a quite impressive EBITDA growth of 8% and a margin expansion of 3% points.

Addressing the cost base in Norway, which the Norwegian management team had been focusing on now for several years is basically in three areas. One is workforce reduction, and we see that we are able to take down the number of employees we have in customer care, utilising then digital customer journeys instead.

And we also see that we are able to continue to streamline the fixed legacy business. These two areas are the main reason why we have been able to continue to take down our number of employees.

The second area is a more efficient sales and marketing. And one example of that is the very popular swap handset program, the instalment program, where we basically are able to reduce both commissions when we do this in our own channels, but also the handset subsidies. And during the quarter, we have also expanded that into external channels. And this is also a program which is very popular with our customers.

In the fixed value chain, which is the third area, we see that we are able to improve efficiencies and with that, also lowered the cost with a better fault handling and also with a better service delivery.

So all in all, I must say that the second quarter in our Norwegian business is showing very strong results and it's coming from a consistent effort, both on the market side and also on the efficiency side.

Moving to our neighbours, Sweden and Denmark. Solid performance also in these two markets. Sweden, first. Mobile revenues, we are able to continue our subscriber growth. We added 13,000 net subscribers in the second quarter and that subscriber growth is then offsetting an ARPU pressure we see also from including Roam Like Home and the business segment.

On the fixed side, we see an 8% revenue increase. We added 12,000 new fixed or fiber consumers in the quarter, and the base is now more than 550,000 subscribers. Out of the new adds, most of the growth comes from the open networks. We are continuing also to build our own fiber in the SDU segment. However, we see that the lead time is quite long and because of that we are focusing on the areas which give us the best payback time.

Moving to Denmark. This is the first time in – since fourth quarter in 2010 we actually see a stable revenue development in our Danish operation, and of course, we are very pleased by that. We see a plus 3% growth in the subscriber base, and that's offsetting the ARPU pressure, which remains in a very competitive market.

The cost efficiency focus is also continuing and in this quarter, we see a 71% EBITDA growth. Most of that is coming from a ramp down of the IT project, which we implemented some quarters ago. But it is also results coming from an overall cost reduction across.
We have initiated a turnaround project in our Danish operation and we hope that despite continuous market – tough market environment, that we will be able to continue our efficiency drive.

In our Central and Eastern European portfolio, we see both market development and our own performance in line with what we have seen in previous quarters. Our focus in the region is to focus on the high value customers, knowing that the prepaid competition is tough. So we are focusing on them, keeping our high-value customers, but also on an active pre to post migration.

We are also focusing on continuous expansion in the 4G network. And again, as we see in Norway and we also see here in this region that independent speed test shows us that we have the fastest mobile network in Hungary and in Bulgaria.

Cost efficiency is also important in this part of our portfolio and of course, with relatively stable revenues, we need to put more focus on operating more efficiently. And I'm happy then to see that we have EBITDA growth in all the markets, and especially in Hungary, where we see an 18% EBITDA growth in this quarter.

The CEE operations are also continuing to have a very healthy cash flow development with margins – cash flow margins about 30%, which is a positive contribution to the overall group's cash flow.

Then moving to Asia, starting with what we are grouping as the developed Asia: Thailand and Malaysia. Starting with Thailand. As I said, it's the first time in more than two years that we now have demonstrated growth in our Thailand operation. The growth comes from postpaid. We have a 16% growth in both subscribers, new additions and also revenues in the quarter and we have a stable ARPU on the postpaid side. Postpaid is now becoming almost 50% of the overall revenue base in DTAC.

And what we are basically doing or enabling us to take that postpaid growth is to do an active pre to post migration. We are changing our brand to be more a postpaid brand. We are changing our distribution and we are also then including more customer friendly data packages.

The prepaid market continues to be very competitive. We are then focusing on value and that's a reason why we are not participating in the most aggressive prepaid device discounts.

EBITDA, a 21% growth in EBITDA in this quarter, that's the best margin we have had in over a decade. And I – most of this come from regulatory savings, but also from sales and marketing and efficiency across the board. And I will say that we are able now to hopefully continue this cost development in our Thai operation. I will not say that it comes on the expense of growth opportunities.

We have also in the quarter continued to focus on our network program, and we have now moved 4G coverage from 55% to 82% coverage. In addition to that, as also announced in May, we have been chosen as the preferred partner with the TOT, Telecom Organisation of Thailand for utilising their 2.3 megahertz spectrum. And we hope that, that final deal will be closed within the fourth quarter. And of course, this will significantly strengthen our network position in Thailand.

In Malaysia, market remains being very competitive. Same as in Thailand, we also here have a postpaid focus. We grew our postpaid revenues 10% in the quarter and added 100,000 new postpaid subscribers.

On the prepaid side, we have introduced mitigating activities. We were not happy with losing 600,000 prepaid customers in the first quarter, and we now see that this new activities is helping us. We actually added 150,000 new prepaid subscribers in the second quarter and we are continuing to strengthen our Internet offers and hopefully being able then to stabilise the prepaid development going forward.

Although gross profit is under pressure in DTAC from the prepaid weakness, we have been able to reduce OpEx with 9% in the quarter, which gives us then a 44% EBITDA margin.

Lastly, from July, we have got access to technology-neutral 900 spectrum, which also significantly will help us with the 4G indoor coverage. We have a 4G population coverage now of 85% in Malaysia.

The first two we have in Asia, emerging Asia, overall, very, very solid performance across. And the solid performance in all the three markets comes from data monetisation, which is then driving this impressive revenue growth. And the data demand continues, but there is still a long way to go.

In Grameenphone and in Telenor Pakistan, we see that still only 30% of the customers have a smartphone. And as you know, the trigger for starting to utilise data is moving from a feature phone to a smartphone, and about 40% of our customers are data users. So we foresee in the coming quarters that the data demand will continue.

In Myanmar, these percentages are higher, more than 60% of our customers have a smartphone and also around 60% of our customers are utilising data.

A little bit more specific in the three different operations. Grameenphone, revenue growth of 15%. This is a combination of adding new subscribers and the real penetration in this market is probably between 50% and 60% somewhere. So there are still customers that do not even have the basic communication.

We see that we are growing on voice, and of course, with existing customers starting to use data. We grew 24% on data usage year-on-year and in the second quarter alone, we added 1.8 million new data users in Grameenphone.

Taking that – this down then to EBITDA, we have then a normalised margin of 58%, and we are continuing with OpEx initiatives across the operation, despite also a need to be focused on sales and marketing efficiencies to take the growth we see in the market.

Telenor Pakistan, 8% revenue growth and 8% subscriber growth, which means that we are able to have a flat ARPU despite tough competition in this market as well. A 14% EBITDA growth and a margin then of 48%.

But here, we have more work to do. And we see that when we now are increasing our network into more rural areas, that adds costs, and we then need to continue to make sure that we are doing that as efficient as possible, but also then take down OpEx on the other areas in the operation.

Telenor Myanmar, 10% subscriber and traffic growth, driven by data. The voice segment remains very competitive, with especially very aggressive on net promotions and of course, this put a pressure on the ARPU.

EBITDA wise 48% margin, and we are continuing here also to roll out distribution and network, which adds costs and that's why it's so important that we also are doing this as efficient as possible to secure our margins.

We recently got access to 1800 spectrum in Myanmar and this will then enable us to roll out 4G, not only in the few cities, which we are currently covering, but across the nation. And with then more than 60% of our customers having a smartphone, we see this as a growth potential.

Then in our Capital Markets Day in February, I showed you these three focus areas, and we shared our strategic ambitions going forward. And we said that we want to focus on continuous revenue growth and I think we are demonstrating that in this quarter with a 3.1% subscribers and traffic growth.

We said that we want to improve efficiency, and we said that we want to simplify our portfolio and also make sure that we are prioritising. And I am pleased now to see that we are making several steps into this direction during the first six months of the year. However, there is much more to do. I will spend a little bit time in the end to go through where we are on the efficiency and the simplification, and then Jorgen will dig more into details on what we see on the cost side – OpEx side.

We are trying to create a leaner Telenor through a more efficient Telenor. When customer changes to digital behaviour and digital demand, of course, we see that as a challenge, as all other telecoms operators do. But at the same time, it gives us big opportunities – opportunity to digitalise the customer journeys, and especially in the customer care area, and that's where we see some of the reduction in manpower coming through.

We also see that a more digital communication with our customers gives us more data and enable us to utilise analytical tools to drive the operation more efficiently, but also provide more segmented solutions for the customers. And we see that digital technical solutions like software, scalable software cloud-based platforms makes us able to have more efficient network deployment.

We started the year with an ambition of breaking the OpEx trend. And I think what we communicated in the Capital Markets Day was that the OpEx should flatten out this year.

However, we are doing better than that, and we see now that we will be able to demonstrate a real decline of OpEx this year rather than just flattening it out. And so we are ahead of the plan. Because of that, we are raising the bar, targeting NOK 1 billion OpEx reduction this year and at the same time continuing with the guiding we have had of 1% to 3% OpEx reduction in the year to come. So this is a good start, and we are quite confident then that we now have concrete plans and targets on how to deliver on this revised guiding.

We also said in the Capital Markets Day that we want to create a leaner Telenor through a more prioritised and simplified Telenor.

In the first six months, we have taken steps in that direction. We have introduced the cluster model, the four clusters, and we have just started to see potential synergy effects coming out from looking at how can they [inaudible] first work more closer together. We have now [inaudible] exit. We are still waiting for the remaining approvals. And – but so far, things goes as planned and we hope to close this in – during Q1 2018.

We rearranged over online, so that's five portfolio exited in Latin America and then focused on creating our ownership in the Asian markets. We have sold off some non-strategic like start trading the portal and we have further sold down in our shareholdings in the bill[?].

These transactions have resulted in a net cash proceed of 4.7 billion in the second quarter. And if I take the full four months, we have received about NOK18 billion from this disposable and this is why we, today, also are launching a shares buyback programme.

We will continue to focus on our efforts on the core areas where we can create value. And we are going to be pragmatic when we review our portfolio, pragmatic to look at assets with less strategic importance and assets that may have a better home with others than with Telenor. And, well, on this, we make rules on that, you will be the first one to know.

So with that, again, I'm very satisfied with our overall performance in the second quarter and I will now leave it to Jørgen to explain some more on the financial defaults and also go more into just on the post-programme. Thank you.

Jørgen Rostrup:Thank you, Sigve.

As Sigve highlighted, we are reporting a set of results for second quarter, which are quite solid, we believe, improved revenue growth and search[?] and traffic growth, all-time high EBITDA and EBITDA margin and a very strong cash flow.

We also, as Sigve is alluding, making progress on our cost agenda and we are stepping our ambitions. I will refer to that later in my presentation.

On the back of the proceeds of recent disposals and a very healthy balance sheet, we are then also announcing a 2% share buyback programme today. I will also refer to that. But let me first take you briefly through the financials for the second quarter.

Reported revenues for the quarter was 31.5 billion, growing around 2% both on an operating but also on a reported basis. This is an improvement from what we have seen in recent quarters. And in our view, the growth is also, in a way, solid, it's quality in the growth since it is driven by a 3% growth in mobile subscription and traffic on one side, and also fibre revenues increased in Norway and Sweden.

Looking more to detail at the revenue development, the main positive contribution to reported revenues, once again, coming from emerging Asia with [inaudible] leading the pack.

In Thailand and Malaysia, total reported revenue is down 200 million. That is fully explained by the revenue in pressure in DG[?]. As D-Tech[?] was able in this quarter to give us positive service revenue growth, both Scandinavian – finally, both Scandinavian and Central Eastern Europe operations also has small positive contribution to reported revenues this quarter.

Then cost efficiency is high on our agenda, and I can promise you, it will continue to be so. We are quite pleased to see that our efforts now are starting to yield results. In the quarter, we had OpEx down 5% or NOK0.6 billion. And then it's – that number is helped by approximately 2 billion in more one-time FX. Still, the underlying development is supported by improvement in several areas.

If we look at development per cost area, we see lower cost in all main categories, but then especially in sales and marketing which was down around 0.3 billion in the quarter.

Also, personnel cost decreased in the quarter supported by FTE reduction of approximately 1,100 in the first half of the year. In addition, cost reductions were seen in almost all the business units this quarter. That is, of course, also quite comforting for us with this programme.

The previous savings is coming out of Norway, Denmark, Thailand but also DG and Malaysia contributed significantly. And then later on in the presentation, we will come back to our ambition for cost savings going further.

So if we then look at the EBITDA, it came in at 12.7 billion this quarter, which is 13% higher than Q2 last year. And EBITDA margin was 40% which is four percentage points higher than Q2 last year. Both numbers are, what we regard, all-time high.

Interesting enough, the strong EBITDA was driven by a combination of growth in service revenues which translate into gross profit at least of 0.8 billion and OpEx of deferred 0.6 billion.

And, again, it's very comforting to see, as also Sigve was pointing to, that all business units were – some although marginal, but all business units were able to increase their EBITDA margin in the quarter.

In Norwegian kroner reported terms, the biggest EBITDA contributions came from our operations in Bangladesh, Thailand, Norway and Pakistan.

CapEx in the quarter was 4.4 billion, continuing to decrease somewhat from the very high level since at – over the last couple of years. The key reason for lower capital intensity year-on-year versus same quarter last year is lower network investments in Myanmar, with approximately NOK 600 million.

As we saw last quarter, investments in Norway and Thailand constitutes approximately 50% of total investments also this quarter. In Norway, fiber and 4G rollout are the most important CapEx areas.

In Thailand, investments are still mainly going into the network densification program on 2.1 gigahertz, as we have talked about previously, and then also, DTAC's large 4G network expansion. This gives a CapEx to sales ratio for the group of 14% in the quarter, compared to 17% for the full year 2016.

And then, as Sigve were alluding to, in addition to this, we successfully secured spectrum in Norway of 900 megahertz band and, in Myanmar, 1800 megahertz band. This quarter, including these investments, we had a ratio of 18%.

Before I'm moving over to the profit and loss statement, I just want to quickly remind about two transactions that happened in Q2 as part of our simplification journey: the continued sell down of the VEON shares and then our VEON position, and our online classified transactions.

Combined, these 2 transactions gave Telenor a net cash of around NOK 4.7 billion. We have earlier flagged the expected P&L impact of these two transactions. They are still as we have communicated, but let us still recap it briefly.

In the P&L, there are reclassification effects coming out of currency translation effects following the sell-down of VEON since we no longer will treat this as an associated company. The net loss from this change was around 7.5 billion, and then the cash proceed was NOK 2.2 billion, as previously announced.

In the quarter, we also completed then the online classified transaction with Schibstead and Singapore Press Holdings, whereby we exited the Latin America markets and increased our ownership in Asia to 100% in Malaysia, Myanmar and Vietnam. This gives us a net gain of approximately NOK 3 billion on the income statement, cash proceeds of around NOK 2.5 billion.

Then P&L. We have then talked about the revenues and EBITDA before other items. I think the only thing we need to discuss on reported EBITDA then is the positive effect under other items for a lease contract in the broadcast division of 0.4 billion. We disclosed this item in the Q1 report, but the accounting effects are now in the second quarter.

Below the operating profit line, we have then some larger effects that we have discussed before, primarily from VEON in this quarter. The associated company line of minus NOK 5.7 billion includes the effect of negative NOK 9.1 billion following the reclassification of VEON from associated company to financial investment. And then, on the other hand, the positive sales gain from online classified of gross 3.4 billion.

This again is all in line from – with what we have communicated earlier. Going forward, VEON will not impact the associated company's line, it is now a financial investment.

We have a positive net financials of 0.8 billion in this quarter, primarily explained by dividends of 0.7 billion from VEON. Then on the tax line, the VEON reclassification gives a positive effect of 1.1 billion related to hedging instruments, partly then offset by a provision of negative 0.5 billion on a disputed sales gain tax.

The reported net income, hence, to Telenor equity holders is then at minus NOK 0.2 billion. If you remove the effects of VEON and online classified, this gives an underlying net income of 3.9 billion, as stated in the headline of the graph – of the slide, and then this is equalling an earning per share of around NOK 2.60 or NOK 2.6.

We see strong free cash flow to equity this quarter of NOK 10 billion. The main reason for this strong cash flow are then, obviously, operational performance, relatively low CapEx and, obviously, the close to 5 billion in proceeds from disposals, which then are VEON shares, online classified, the cash effect from Startsiden sale in first quarter and some other minor elements added to that.

As we have stressed several times lately, cash flow is very important to us. We will obviously continue to strive for improved cash flow from our operations.

Then a solid balance sheet and attractive shareholder remuneration are very important elements for us in our approach to capital allocation. We talked about this at Capital Markets Day. We addressed it first quarter, we are addressing it again.

During the second quarter, the net debt decreased by 2 – close to NOK 2 billion. This is despite the payout of the first tranche of the 2016 dividend, which amounted to 6.5 billion.

This gives a net debt to EBITDA ratio of 1.1, which is solid and well below our ceiling of two. So we continue to have a strong solid balance sheet.

Then as we communicated at the Capital Markets Day, the year-on-year growth in ordinary dividend is our commitment to the shareholder and is also by far the key source of direct cash return.

However, we also added that buybacks or special dividend should be considered on a case-by-case basis, pending a solid balance sheet. So on the back of proceeds from recent disposals, that also Sigve mentioned, and the group's solid balance sheet, the board has decided to launch a 2% share buyback program. In total, we aim to buy back approximately 30 million shares at the current share price, this implies a cash return to shareholders of approximately 4.3 billion.

As for previous buyback programs, the repurchase under the current program will be done partly in the market and partly from the Norwegian State in such a way that the Norwegian state's ownership stake remains unchanged at approximately 54%.

We aim to complete the buybacks in the market by the end of the year, but obviously, this will depend on market conditions going forward. For efficient execution, we intend to place the buyback mandate by a broker, which means that purchases are made on an arm length distance and hence, can continue also during silent periods for the group.

As usual, the buyback of the proportionate amount from the Norwegian state and then the subsequent cancellation of all the repurchased shares will happen after AGM General Meeting Annual next year.

As Sigve talked about, we believe that revenue growth, improved cost efficiency, simplifications are key value drivers for Telenor going forward. As part of this framework, we presented our financial ambitions for improved cost efficiency at Capital Markets Day in February.

We have then now spend the last couple of months firming up the targets, the initiatives across the group and we feel the time is right to address this a little bit closer.

In recent years, Telenor OpEx base has increased by around 3% per year. At Capital Markets Day, we said that the ambition for 2017 was to break the trend and to stabilise the OpEx base, and for 2018 to 2020, reduce the OpEx by 1% to 3% yearly.

Our cost initiatives are starting to pay off, and we are ahead of the plan for the first phase of our cost cutting. As a consequence of this, we are stepping up the ambition for 2017 and are now targeting OpEx reduction of 1 billion on a currency adjusted basis.

In the first half, Telenor reduced reported OpEx with close to NOK 1 billion, but this was helped with what we regard as positive currency effects of approximately 0.4 billion.

So then in order to deliver on our new ambition for 2017, the underlying cost reduction have to continue into the second half of the year. As it looks right now, the majority of the second half savings will come in the fourth quarter.

So fourth quarter is where we think we will see the next significant step and to a much lesser degree in third quarter, the way we see it now.

And then as Sigve was saying, our mid-term ambition to reduce net OpEx from 1% to 3% per year in '18 to '20 is maintained. Overall, we don't believe there is a silver bullet to reduce cost and deliver on our cost targets. We need to see savings with all – within all functional areas.

This is about scrutinising all cost areas and it's about securing a cultural mindset and common focus, both in the organisation at large, but obviously, most important, in core management teams in order to make sure that our ambitions are backed with plans, activities and execution.

It's about solid cost control and strict prioritisation in terms of everyday spend, in combination with long-term activities to gain sustainable, efficient improvements.

However, personnel costs and sales and marketing are the largest cost area, representing 50% of total OpEx base. It goes without saying that these are areas where we expect to see largest cost reductions.

This is predominantly because the customer are shifting its preferences and not because it is important[?] itself to take down number of employees or reduce spend. New technology, customer preferences are opening for these opportunities and we need to stay competitive and relevant.

We will also reduce cost at our headquarter. We are targeting to reduce support function cost with more than 25% in 2018, with full effect in 2019. Support functions will also be addressed group wide in the years to come.

Simplification, rightsizing and move towards digital interactions have already resulted in workforce reduction of around 1,100 full time employees in the last six months. This is a run rate that we expect to continue in the coming years.

Within sales and marketing, we see significant opportunity to increase efficiency. Benchmarking of mark-up spend across our business units has revealed interesting potentials to reduce cost without putting the top line and market positions at risk.

So we feel we now have reasonably good visibility on the savings for '17 and '18, with activities being initiated this year, continuing with increased momentum into next year.

For '17, the majority of the savings will come from sales and marketing and lower regulatory cost in Thailand. Personnel costs might actually increase slightly this year, but should start to come down from next year.

For 2018, net reductions are expected within all cost areas. We will continue to advance the way that we do our business, focusing more on what is most important and perhaps we already see those effects in the Q2 performance 2017.

Then a couple of words about the outlook for the year. On the back of the performance in the first half of the year, including the encouraging progress on the cost agenda, we are lifting the EBITDA margin outlook for the year to 38% to 39%. The rest of the outlook is kept unchanged, which means that we continue to expect 1% to 2% organic revenue growth and 15% to 16% CapEx to sales ratio, excluding spectrum licenses.

So to summarise. We are pleased to report strong set of numbers, improved revenue, all-time high EBITDA and EBITDA margin, as well as very solid free cash flow. We continue to execute on the strategic direction that we set out at Capital Markets Day, with revenue growth, cost efficiency and simplification as key value drivers. And we are in a still early phase, but we believe that these activities in total will contribute to taking us in the right direction and shape the future of Telenor.

Perhaps we should do a Q&A.

Marianne Moe: Thank you, Jorgen. We definitely should do a Q&A now, yes. So as usual, we will start the Q&A with taking questions from the participants present here at Fornebu before we open up for questions from the participants on the conference call.

Any questions from the guys here in the audience? I can see at least one hand waving.

Havard Nilsson: Hi. Havard Nilsson from Carnegie.

First of all, congratulations on great results, obviously, underpinned by impressive OpEx reductions as well. Could you help us give some more color to how this is done? How you are able to make the marketing more effective and also, perhaps, some comments on how confident you are that this will not impact your competitive position?

Sigve Brekke: Yes, can give some few comments on that. I think if you look at the second quarter, about half of the OpEx saving is within sales and marketing, another half is in other areas. And we do not see that the half that is in sales and marketing, in any way, it's hampering the growth initiatives that we have.

The way it's done is that we basically break down what Jorgen showed here, also the various OpEx items, we break it down BU by BU. We compare across the BUs, and we see how can we make operations basically more efficient within each and one of the areas. And then this is powered by the digitisation work, as I explained.

So we are pushing quite hard on the digitalising customer journeys, being on the distribution side or being on the customer care side. And we are also doing the same on trying to take IT infrastructure legacy business into more scalable software platforms.

So we are doing it partly BU by BU, but also in what we call the transformational programs. We have six transformational programs that goes across. So what you have seen now, I think it's the start of what we're trying to do.

There are also several areas where we have not taken out any synergies – cost synergies so far because we have to invest before we can do that, and that is what you are going to see coming out in '18 and '19. And that's why we also are quite confident when we say that we want to continue this with the 1% to 3% reduction in the years to come.

Marianne Moe: Thank you, Sigve. I see we have at least one more questions here from the audience at Fornebu.

Christer Roth: Excellent. Thank you. Chris Roth from DNB.

First one – one question of housekeeping. In the report, you say that you expect to close the India transaction within 12 months, which is the same wording as you had in the past or in the last quarterly report. So I guess it's just a copy paste, more than that, it's been pushed out another three months?

Sigve Brekke: Yes, that's correct. We said when we announced it that it will happen within Q1, also Q1 '18, and that is still the target. And so far, we have got the couple of approval processes already, as expected, so there is nothing in what we see now which makes us believe that this will go beyond the first quarter '18.

Christer Roth: Excellent. And then secondly, organic growth this quarter was more positive than in quite some time. And you didn't do anything with respect to growth guidance, but are you becoming underlying more positive with respect to your growth trajectory?

Sigve Brekke: No. We keep the growth guideline and – because in our markets, all our markets are fairly competitive, and I am very happy to see that we now are starting to get some result of the investments we have done in Thailand. That has been a real turnaround process.

Now I am much – we are much clearer on what we want to be in that market when it comes to more postpaid type of bundled packages rather than the typical prepaid, very intense competition. I am also happy to see that we are really demonstrating the data monetisation of the investments we have done in the other Asian markets.

And then looking at Berit, I'm also very happy to see that Norway actually are able to compensate for the effect of Roam Like Home, which is having quite a significant effect to our revenues. The rollover effect that we saw in the first quarter, but also the ARPU affect of the popular handset program, I talked about that. That's a good OpEx reduction, but it's also actually a reduction on the ARPU. Despite all that, we are growing 3%.

So I think we have found a good balance between investing in the networks, giving the customers more data, and at the same time monetising it. But however, this goes ups and downs. So the main headache we have now, it's Malaysia. Hopefully, we will be able also to turn around the Malaysian operation into a more stable revenue development, but that is yet to come.

Marianne Moe: Okay. Any further questions here from Fornebu? One guy at the left there.

Maurice Lawrenson: Maurice Lawrenson[?] from E24. I was wondering if you could clarify the OpEx reduction because you write that there was a contribution of one-time effects of NOK 200 million and currency effects of NOK 400 million to make up those NOK 600 million?

Jorgen Rostrup: No, no, sorry, then I was a little bit unclear. The NOK 400 million is if you start at a NOK 1 billion. If you look at the bars, and there is an indication that we're coming down from the run rate in '16 to the run rate now of NOK 1 billion.

And then I – we are taking out NOK 400 million in that kind of discussion because that is the – that is a currency effect more than anything else. So it's NOK 600 million. And out of that, you might say that up to NOK 200 million are one-time effects, but it's still fixed cost, so I take it regardless[?].

Maurice Lawrenson: But could you expand on what those one-effects are?

Sigve Brekke: Now there are various. It's a sum of a lot of effects. I think that is what we will say about it. And we will see that. From one quarter, you will see some hitting and going up and some going down. That's the way it is in running this kind of portfolio.

Marianne Moe: The one-time effects of close to NOK 200 million this quarter is related to Grameenphone and DIGI, approximately half of that each, and that it what's disclosed during the -- their local presentations last week.

The currency effects you talked about was all related to second – to first quarter this year when the majority – all savings more or less came from currency. This quarter, the NOK 600 million is more or less equal, both on organic and revenue and reported basis.

Any further questions here? If not, then I will ask the operator to open up for questions from the conference call participants.

Operator: Thank you. We take first question from Ulrich Rathe from Jefferies London. Please go ahead. Your line is open.

Ulrich Rathe: Hello. Thank you. I've two questions, please. The first one is on Roam Like Home. You sort of mentioned it already you have a high percentage early on new tariffs in Norway. So I think this means that in the second half, you won't see much of a revenue – incremental revenue impact.

But could you comment on customer usage elasticity of demand, in particular the cost implications, could you just make this – I mean, I suppose it's all in your guidance, but could you, sort of, just comment on that separately as a cost item?

And if I may, a second question. On the OpEx reduction, I mean – obviously, amazing figures here. The one thing sort of I'm wondering, I mean, how does this fit together with the Telenor that we have known over the last 15 years?

Is there something that went fundamentally wrong in the last couple of years and you're correcting now and you're sort of getting within two quarters 8% over six months in Norway and Malaysia and these sorts of things or is there something extraordinary happening this quarter and the rate at which these costs go down sort of – fundamentally change again? Is it bit of a good quarter or – can you comment, you know, on the historical sort of context for this? Thank you.

Sigve Brekke: Yes, I can take the first one. I think the roaming – Roam Like Home revenue effect for Norway in the first quarter was around NOK 30 million. So significantly down from what we saw in the previous quarters. And despite that, we grew the ARPU 3%. So you are right when it comes to less and less effect on the top line from – including the roaming in all packages.

On the cost side, we increased – we see that the roamers are increasing their usage with approximately 300%. Fortunately, we have very good termination agreements with the European operators. So we haven't seen the cost increasing despite that 300% increase of usage.

So I'm not worried about the gross margin effect on the costs here when people start roaming outside Norway. The second question is basically, that you can also because you were not a part of the history.

Jorgen Rostrup: Exactly. So I was thinking, should I answer a question asking about the history of Telenor. But let me try to address it. I don't think we should look at this as something hasn't been done historically. I think a lot of things were done historically, but the focus were a little bit different.

There were a very successful journey on rolling out new business units and participating in a tremendous growth in telecom. And then, as we have addressed, things are changing a little bit. So we are a collective management and are very concerned about these task and we also think there is a vast potential, not because it hasn't been done before, but after such development in the company, there are many pockets, big and small that you can gain taking out efficiency and concentrating the effort more clearly.

Yes, it came in high in second quarter. We've got a little bit feedback perhaps in first quarter that it didn't come in enough at that time. These times are changing from quarter to quarters. Its complex businesses and there is a big task we are set out to do.

But we are – the most important thing is that we have a stretched target. It's a tough target for the next few years, but we are collectively very convinced we can do it if we do the right things. And we also see that it has then added benefit.

So the cost is one side, but the advantage of being much clearer on what we want to prioritise and what we should prioritise less is that we get down the activity level a little bit and concentrate more on being very good at what we are giving priority.

And as we were alluding to in the presentation, I think that is also what we see this quarter. We have a lot of quality elements in the earnings. And to me, and now to Sigve, this is as awarding as the cost reduction number in itself. We are having higher concentration on doing the things right, the things that we need to do.

And if we can keep that balance, still stimulate growth and we think we can, and taking out some of the activities which are not absolutely necessary to do, and be more efficient and follow the customer preferences on where they want to meet us and how they want to interact with us, this can be quite good.

Sigve Brekke: Let me just add one comment in addition to what Jorgen is saying, and that is that the reason why we now are taking up the EBITDA guiding, it's actually that we now have ambitions into activities.

And I think we are fairly happy with the level where we are, where targets are not concrete, they are committed and we know what the necessary activities are, both in end of the – the rest of this year, but also going into '18.

Ulrich Rathe: Thank you.

Marianne Moe; We have many things to talk about today, and we have many callers waiting to ask the question. So I guess we will have to continue another 10 to 15 minutes with the Q&A. May I have the next caller, please?

Operator: Next question comes from Peter Nielsen from ABG. Please go ahead caller. Your line is open.

Peter Nielsen: Thank you. I'll take two quick ones, please. Firstly, thank you for your elaborate comments on the OpEx reductions. I've found that very helpful. Can I just ask you on when you say that most of the reduction in the second half will appear in the – in the fourth quarter, is that for the very symbol and obvious reason that this is where most of the handset equipment sales are? Is that the main reason?

And just – my second comment's perhaps mostly to Sigve. You're less gazing about the Danish[?] marketing, your comments this time, Sigve. Are you turning slightly more positive on the Danish market and your persons given revenue stability and given the significant improvements in your profitability? Thank you.

Sigve Brekke: Yeah, that is part of the reason but the reason is, of course, several elements and it is the bottom-up analysis that indicates this for us. We have some new initiatives, some new things we want to do in the third quarter, so that is lifting cost a little bit.

Peter Nielsen: Okay.

Sigve Brekke: So it's the sum of everything. And when we see – when we believe we will get the effects out of the next batch of implementation on things. But again, this also implicit, a little bit warning or us not to be followed-up in millimetre terms on every quarter on this. We hope that we can be able to kind of communicate around the programme, create a confidence around that programme in the market and then make sure we are delivering on that. So that's how we see it today and we'll see how it turns out when we are in October.

When it comes to the Danish market, no. I'm not more optimistic about the Danish market. That remains being very, very competitive. However, we cannot sit here and just complain. We need to do something with it, and that's what we are trying to do. And knowing now that consolidation is probably very difficult to see a case for, then we'd rather spend our efforts focusing on our operations.

And that's why, as I said, we have had triggered a turnaround programme in which we can lead – operate differently in this very competitive market. Can we be more focused in what we're doing to our customers? But can we also do that much more efficient?

And I'm happy to see that that's paying off and that's what you see in the second quarter. So what we're trying to do is basically to create value through operating differently in a low competitive market. And then we will – what the future will give us then the future will not.

Operator: Next question –

Peter Nielsen: Okay, thank you.

Operator: Next question comes from Maurice Patrick from Barclays. Please go ahead, your line is open.

Maurice Patrick: Yeah, good morning, guys. Just a follow-up on the cost reduction you saw in the quarter. You talked at the capital market stay a lot about sort of digitalising customer journey and how to – you would drive a lot of that and link it there into the Tapad acquisition. Just curious though how much of the cost cutting really come from this new sort of paradigm, if you like, of cost around how Tapad could help reduce structural cost and to reduce that you are really kind of moving towards digitalising it? Thank you.

Sigve Brekke: We don't have your number on that but just to give you one good example. I think [inaudible] customer care. Year-on-year, there are around 15% reduction in call volumes through the customer care in Norway. And that 15% reduction is because people are then finding their needs to [inaudible] rather than making a call. And that's why we have the thing what we called the Telenor App which is the [inaudible] communication tool we have with our customers. So – and for that, of course, we can reduce our manpower in our call centres 15%. That's just one example of that and there are several other examples of that.

And on the technology side, we have – we are having – we are trying to build that. From the [inaudible], we have an IT share service platform we are building in the Nordics. And, again, trying to get a Cloud base for [inaudible] base platforms rather than having quite expensive IT legacy system in our operation. But that's just two examples of it. We don't have any number.

Maurice Patrick: Okay, thank you guys.

Operator: We take the next question –

Marianne Moe: Next question, please.

Operator: – from Stefan Gauffin from Nordea Bank. Please go ahead, your line is open.

Stefan Gauffin: Yes, hello, can you hear me? Hello?

Marianne Moe: Yes, we can.

Stefan Gauffin: Yes?

Marianne Moe: We can hear you loud and clear.

Stefan Gauffin: Yes, okay. I have a couple of questions. First of all, you mentioned that this reduction in sales and marketing and that it should not any impact. I'm just looking at Thailand. There's quite a big reduction in sales and marketing cost this quarter and that there's also a big reduction in net tabs especially on the prepaid side. So just comment on if you believe that this level of sales and marketing is sustainable in this market.

Secondly, there's an exceptional growth in Bangladesh in subscription and traffic and just to make it clear that it's not any one-offs included in this?

Marianne Moe: Just to answer your last questions, Stefan, there are no exceptional – no one-off in the top line of [inaudible].

Sigve Brekke: No, I can –

Stefan Gauffin: That's – okay.

Sigve Brekke: – and also Thailand, one – each goes ups and downs. Of course, we want to stay competitive. But some examples, so why you – we haven't got an uptake for the reduction in Thailand. We are benefitting our [inaudible] in this regulatory repayment. We are focusing them on post-paid and I'm not spending a lot of money on subsidising [inaudible]. We are reducing the traditional TV commercial type of marketing because we see that the total[?] marketing is more efficient. So these are a couple of examples where we are reducing sales and marketing generally but still staying very competitive in what we see as the future markets, and that's the post-paid market in Thailand.

Stefan Gauffin: Okay, thank you, very clear.

Marianne Moe: Next caller, please?

Operator: We take the next question from Irina Idrissova from RBC Capital Markets. Please go ahead, your line is open.

Irina Idrissova: Hi, thank you. Just a follow-up on OpEx. Are you able to quantify for us how much of the sales and marketing expense reduction was specifically to the – due to the handset swap programme in Norway? Can we assume that the problem was the vast majority of the sales and marketing OpEx reduction?

And then another question is on Thailand. Could you talk about the progress of the potential JV agreement with CAT for the continued use of the infrastructure there? And if this agreement transpires, how should we think about the cost associated with that and how would that impact potentially your 1% to 3% per year OpEx savings target? Thank you.

Sigve Brekke: On the first one, I don't have any figures on that but you are basically saving commission when we do this handset for a programme in our own channel. But, of course, when [inaudible], I rolled it out in external channels, we pick on it. And then you are also then reducing the upfront the device discount but I don't have any numbers on them.

Jørgen Rostrup: I believe it was around 40 million.

Sigve Brekke: Okay.

Jørgen Rostrup: Yeah, year-on-year.

Sigve Brekke: Okay. Your second question was Thailand. We had agreed with the IT on how to potentially work together both on the fibre and on the data work structure. However, this agreement is still subject to government approval. And how – when that will happen or if that will happen, that is on [inaudible].

Marianne Moe: Next question, please?

Operator: We take the next question from Terence Tsui from Morgan Stanley. Please go ahead, your line is open.

Terence Tsui: Yeah, good morning everyone. I have a question about the portfolio rationalisation of the Telenor Group. Can you share with us your latest thinking around the Veon disposal? And then secondly, maybe can you clarify some of the comments you made with the press regarding the outlook in the future of the Central and Eastern European operations? Thank you.

Sigve Brekke: Yeah.

Marianne Moe; Can you please repeat that? I'm not sure if we – the line was a bit – when you asked your questions. It was about portfolio simplification and I also heard Central and Eastern Europe. Is that correct?

Terence Tsui: Yup, yup. So it's just an update on Veon and Central and Easter Europe and the comments in the press, I think, a couple of weeks ago talking about the future and whether these businesses in Central and Eastern Europe will be potentially sold off? Thank you.

Sigve Brekke: Yeah, I can comment on the last one. We are not commenting on speculations or rumours, and, obviously, we are not going to disclose either what we are planning to do. So we are satisfied with our provisions throughout the operations. But as I said also in my introduction, we are reviewing our assets in a way where we are putting the focus on that since it adds most value [inaudible]. I don't want to comment more on that.

Jørgen Rostrup:On Veon, we reclassified our assets this quarter as a sort of a financial investment. We have a clear statement and strategy on divesting our position and that remains. And then when we do, we'll let you know, but we do it when we the find time right. We are in no rush but we do it when find that the time is proper.

Terence Tsui: Great, thank you.

Marianne Moe: That's good. We have – we have three callers still waiting to ask for questions. I ask you to be a bit quick. In that case, we will be able to manage all three callers. May I have the next question, please?

Operator: Next question comes from Robert Slorach from Handelsbanken. Please go ahead, your line is open.

Robert Slorach: Thank you very much. And, quickly, high speed internet net debts in Norway was only 7,000 this quarter. You know, what I assume will be a pretty strong seasonal quarter for fibre rollout is lower than in the previous quarters. Could you comment on that perhaps? And also Myanmar losing 41,000 subscribers, was that organic or was it clean up in that number? Thank you.

Sigve Brekke: Yeah. On fibre, I don't want to give you any numbers on that. We are continuing full force on rolling out fibre and we see that's still a very good business case. And we have re-ramped up our rollout capabilities here. And we believe that we are continuing to take market share. But I don't – I really don't want to say anything more on that.

On Myanmar, yeah, that was – you can call it a clean-up. What's happening in the market is that people are reducing a bit in number of in-cost[?] that they have, staying more to a primary SIM. And on top of that, you also had the implementation of the civil registration programme, which, in all the market, we have done that in Pakistan and in Bangladesh as well, often result in people registering their primary SIMs and don't bother to register the additional things that they have. So that's the main reason, obviously, just [inaudible] this customer base.

Robert Slorach: All right, thank you very much.

Operator: We take the next question from Sunil Patel from Bank of America. Please go ahead, your line is open.

Sunil Patel: Yes, thank you. So one of my questions was answered on Myanmar. But the second question I had is just on the revenue growth. You're guiding still towards 0.2% revenue growth. But when I look at, you know, the trend you showed in Bangladesh, the turnaround in Thailand, stability in Norway, are you confident that'll you'll be at the upper end of that range and do you think, you know, subject to that sort of momentum, continuing in the second half, you can even exceed the 2%? Thank you.

Sigve Brekke: No. As, I think, we already said, we are confident with that range, that's why we have the range. However, we are restless in the way we work in all our markets [inaudible] to capital growth. So you have something –

Jørgen Rostrup: No.

Sigve Brekke: No?

Sunil Patel: Thank you.

Marianne Moe: Okay, and then to the final caller of the day?

Operator: The last question comes from Usman Ghazi from Berenberg. Please go ahead, your line is open.

Usman Ghazi: Hello gentlemen. I had a quick question on the TOT agreement. I think in the local press, you know, we know roughly what the costs are going to be for the [inaudible]. Is there any visibility on whether it will be booked in OpEx and how does that – I mean, are your cost-saving targets excluding the cost for this agreement or including? Thank you.

Jørgen Rostrup: Right now, we are only concerned about – or we are 95% concerned about getting the agreement concluded, signed, and through the various approvals, and that is what we are concentrating on. And then we'll obviously get back to you with the – with all the details on how we plan to book it when we are ready to do so. But right now, it's first things first.

Usman Ghazi: Okay, thank you.

Marianne Moe: That was the final caller and that ends the session here today. Thank you Sigve and Jørgen. I thank you all for participating on the conference call.

If you – for those of you having additional questions, please don't hesitate to contact the relations team. And as I indicated, at the beginning of this session, for media presently at [inaudible], there will now be an opportunity to ask questions to Sigve and Jørgen in a separate media session that will take place in a room next to the auditorium, and [inaudible] will lead you to that session.

Thank you all and have a great summer vacation.