

TELIASONERA/TELENOR

Participants: TeliaSonera CFO Christian Luiga and Telenor Group CFO Richard Aa

Moderator: Meera Bhatia, Telenor Group Communications

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Meera Bhatia: Good morning, and welcome to today's presentation on TeliaSonera's and Telenor combining forces in Denmark. You will hopefully have, by this time, seen the press release and the presentation available on each Company's Web sites.

My name is Meera Bhatia from Telenor and I have the pleasure of guiding you through today's presentation. TeliaSonera's CFO, Christian Luiga, and Telenor's CFO, Richard Aa, will present today's update and there will be a Q&A session directly after the presentation.

I will now leave the floor and hand over to TeliaSonera's CFO. Christian?

Christian Luiga: Thank you very much. Good morning, everyone. Christian Luiga, CFO, TeliaSonera here. I'm here with Richard and we will try to give you a brief presentation of the transaction and the agreement we have made between ourselves with regard to our operations in Denmark.

I will start already with the first slide and give you the first part of the presentation and then hand over to Richard in a while.

As you know all of you, there has been a lot of discussion about what will happen in the Danish market. There's been a lot of discussion if it's sustainable and I will come back a little bit about the market situation. For us, this has been a very natural and necessary move with these conditions present

and we have then decided to join forces in a JV and made an agreement on that.

As you already may know, we already have a network partnership, so we have been working together for a while and got to know each other a little bit more.

I will then go for the next slide; the strategic rationale behind this deal.

We are two leading operators, Telenor and TeliaSonera. We have a similar footprint where we actually both strive to be number 1 or leading position in our markets. We are not leading in Denmark and we have tried to figure out how to solve that.

One of the issues with this is that we cannot develop our customers and the customer experience and quality in our network good enough if we don't lead, and this is something that is very important for us.

With this deal, we do get the robust operator with significant efficiency gains. This will give us an opportunity to improve the customer experience and establish future investment potential for this JV, and that is very important for us, as I said. And this goes both for fixed and mobile.

If we look a little bit on the market development, to have that in mind, the Danish market on the mobile side is one of the lowest when it comes to gigabyte prices in Europe. ARPUs have been declining relatively to very low numbers in the last years. It's been quite a substantial price erosion.

We have, despite work on consolidating our networks, and despite doing very hard work in trying to bring efficiency to our operations, struggled to get to satisfactory margins; we've been hovering around 13 percent to 15 percent. And that is not good enough if you want to be a leading player and developer of the customer experience and invest in the capacity and coverage. And that is the rationale behind this deal.

So it's a very, very tough market and this is shown very easily in the pricing in this region.

When we look then what this means, it has been reflected in the Danish investments in networks over the last five years. This picture shows you the Danish telecom sector's investments and it's been declining since 2008. With this deal, we will bring back the conditions to invest. We have the willingness to invest and it will support both the customers and the society in Denmark.

Then finally, if we look at the total position of the subscription in this market, today TDC has 41 percent and Telenor and TeliaSonera will, together in the new JV, have around 40 percent. Three is also in the market with a decent market share and is a very strong player in the market. And, on top of that, we have around 40 MVNOs that is challenging and pushing hard also in the market and covers 7 percent of the market share today.

That is pretty much it that I will talk about a little bit the background and now I leave it to Richard, please.

Richard Olav Aa: Thank you very much, Christian. And also a very good morning to all of you from me. It's a good morning.

I'll just start with saying after the Q2 presentation from Telenor we said we would now started looking all options in Denmark and I think Christian and I have. We have found what, at least we think, is the best option very firmly in Denmark to join forces and build further on our network cooperation.

I'm going to take you through the valuation, the governance and the synergies. let's just start with the valuations.

As you see from the slide deck on page 7, we are approximately the same size when it comes to revenues in Denmark. Telia is larger than Telenor on the fixed side, and Telenor is larger than Telia on the mobile side, but combined it evens out.

When it comes to the margin, Telenor has slightly better margins in Denmark than Telia and from that perspective, you could maybe argue that exchange rate deal should be a little bit in Telenor's favor. That is compensated by Telia contributing a large tax asset into the JV, and based on this and the

negotiations, we have landed that a 50/50 owner share is a fair deal for both parties.

Moving on to the governance. This will be a 50/50 joint venture. It will be operated independently and that is quite important on two fronts. One is that the Danish market is extremely tough with a high (share) and intense competition and the Company needs to be very agile in the market and make the necessary moves all the time to adjust to that kind of competitive market force.

The other is that we as owners want the Company to be absolutely free to use systems, tools, methods that they think suit the Company best in that tough competition. So they are free to procure from the owners, services and systems and so on, and they are also free to go in the open market to maximize the success probability in the Danish market.

We have also included clauses that will cater for future changes in strategy from the two companies and also customary conflict resolution mechanisms. Maybe most importantly to note is that there is an option for both owners to exit after two years through a put mechanism.

When it comes to the top governance structure of the new JV, it will be a seven seat Board. It will be three Board members from each of the owners and one independent Chairman that we have to select together.

That same go with the CEO. We have to select a CEO together. The recruitment process of the new CEO will commence in due course.

Then finally on the synergies. Both Telenor and Telia, we are now subscale in the Danish market and by combining forces, we create sufficient scale to compete effectively in all the business areas we're in.

There are also significant overlaps between the two companies, both on the system sides, on the distribution sides, and still also some on the network side, despite that most of the networks have been optimized already in the JV.

Based on that, we're targeting about DKK800 million in annual efficiency gains. We expect that to come in gradually after the closing of the deal with full effect in 2019.

It will be a costly process to take out the synergies and we have estimated total integration cost of approximately DKK800 million also in the period from now until 2017.

Wrapping up before the Q&A, yes, we now have signed an agreement this morning, Christian and myself, to merge the two operations, so again, it's a very happy morning. Ownership and governance is 50/50 based on the valuation we just went through and we're going to run it as a 50/50 independent company.

Creating scale and synergies is the key rationale for this transaction and targeting at least DKK800 million in annual efficiency gains.

We are now entering a phase where we will discuss the deal with the European Commission authorities and we expect those discussions to end in a way so we can close the deal within next year.

So by that, Meera, I end my presentation.

Meera Bhatia: Thank you, Richard. Thank you, Christian. We will now open up to the Q&A session.

Given that it's a call and not a webcast, both Christian and Richard will clearly identify who is answering the questions, so there is no confusion.

If I can now ask the operator to open up for the first question please.

Operator: Thank you. As a reminder, if you have a question, you need to press star and one on your telephone keypad. The first question today comes from the line of Andrew Lee.

Andrew Lee: A couple of questions. The first question is to Telia, which is just, I wonder if you could explain why you believe this transaction is more attractive and

value accretive to you than acquiring TDC in totality, which also would have brought you the Norwegian fixed assets as well?

And then secondly, I just wondered if you could both give me your thoughts on the top-line growth opportunities available in Danish mobile now, given this deal may make the conditions for MVNOs less attractive but you still face a subscale and aggressive competitor in Three. Thank you.

Christian Luiga: I'll start with the first question then; why Telenor and not TDC. This is the natural and the most favorable deal for us.

I can't go into details on how we look at other constellations. But an agreement comes from two parties finding each other and that both parties find it most valuable to do that deal, so that's how it came out in this situation. And we're very happy for that.

Richard Olav Aa: Yes, good morning, Andrew. It's Richard here. When it comes to the top line, the Danish market is a very, very competitive market and the key rationale for this deal is to improve the scale and take out synergies to be able to compete in that market.

Meera Bhatia: Thank you. Next question please?

Operator: The next question is from the line of Peter Nielsen.

Peter Nielsen: A couple of questions please. Firstly, have you agreed on an operational and a market strategy for the Danish business already?

You've obviously followed different network strategies and different market strategies in Denmark, so I would be interested if this is something which you have already sorted out more or less.

And secondly, please could you talk a bit about the exit mechanism which you briefly touched upon with put options on both sides? If you could give us a bit more detail here on what this involves.

And obviously, in a longer-term perspective, you could say such a structure, a 50/50 owned venture doesn't really fit in with TeliaSonera or Telenor's

strategy as is today. You normally go for, obviously, majority-owned operations. So how you look on this in a longer-term perspective.

And also, thirdly, if I could just ask, have you decided on branding in Denmark?

And if I may stretch it and take a fourth one. What are your considerations in terms of potential remedies here? Would you expect you would have to offer or give up some spectrum, particularly low-band spectrum? Thank you very much.

Richard Olav Aa: It's Richard. I can start and hand over to Christian as we go. On the operational strategy, I think it's very important that the new company and the new management are the ones that lay out that strategy in close cooperation with employees of the two organizations so that there's a solid anchored strategy.

Having said that, and also looking at the two businesses, I think they, in a way, complement each other and create a much better (stage) and platform for being able to succeed in the Danish market.

When it comes to the exit mechanisms, we felt it was important to disclose that there exists a mechanism where both shareholders can put their shares after two years but, at this stage, we have decided together not to disclose any further mechanisms on how that is going to be executed if it comes to that stage.

So maybe I could hand over to you, Christian, on the branding and the remedy side?

Christian Luiga: Well, yes, I can follow up. First, I think you had five questions. The third question was why 50/50, you usually go for a wholly owned company.

But on that, let's say, sometimes it needs to be the first time and in this case in Denmark, there was no other option. This was the viable option. This was the natural option and that's why it came out this way.

And on the branding, it's really, of course, difficult to remain with one of the core Telenor or Telia brands but it will be up to the new company and the new management to develop the brand, the strategy, and put that in place in the market.

Remedies. This is a decision from the European Union Commission and their authority. We are starting the dialog now with them and before we come back to you we will, of course, listen to them and listen in to what the process will be and then have a dialog with them. That's what I can say right now.

Peter Nielsen: OK. Thank you very much.

Meera Bhatia: Thank you. Next question please? And could we try to limit ourselves to about two questions. Thank you.

Operator: The next question is from the line of Georgios Ierodiconou.

Georgios Ierodiconou: I just have two questions, please. The first one is around the savings from the network JV, which you had already established.

Is it possible to give us some indications of what additional CapEx savings and maybe OpEx savings you expect to deliver from that agreement in itself? And any indication on timing would be very useful.

The second question is to Christian. When we look at the OpEx target for this transaction, it's more than 10 percent of the combined OpEx is the savings target. If I would compare it with targets you've set for Norway, which are 11 percent and 10 percent, even though there are significant network savings from roaming payments.

Can you give us an idea why the savings could be so much higher in Denmark versus Norway on what appears to be a quite similar transaction? Thank you.

Christian Luiga: Let's start with the network savings and we have a joint venture that started a couple of years ago and we have not finalized all the consolidation effects from that yet but we are in the midst of that and have probably a year to go.

But most of those synergies on that joint venture is taken out. But of course, we have other production areas outside this and that is part of the at least DKK800 million that Richard explained about before. So those will come on top of that.

Specifically, there will be, of course, a small administrative saving also to put these together when we can do that over time. But it's not material in the total picture.

On your question why it's different in Denmark and in Norway. Well, it's two totally different kind of transaction and totally different how we will handle both the customer side and the network side. So I don't want to go in and try to compare those two transactions at this point. Just make a point that they are very different, both from the transaction point of view and what is following in the transaction.

Meera Bhatia: Thank you, Christian. Next question, please.

Operator: The next question is from the line of Jakob Bluestone.

Jakob Bluestone: Two questions as well, please. Firstly, just on commercial strategy. Could you comment whether you expect the DKK99 mobile office to remain in place post deal or not?

And then, secondly, just on the tax assets you mentioned as a sort of equalizer between the values of Telia Denmark and Telenor Denmark. Could you maybe just give a little bit more detail there and also, is there any other tax angle that we need to be aware of? Thank you.

Richard Olav Aa: It's Richard. Maybe I could take the commercial strategy and maybe Christian could take the tax.

On the commercial strategy, it's not prudent for us to state anything about the commercial strategy for the new JV. Those two entities of Telenor and TeliaSonera, they have to continue now to compete fully independently in the market until we potentially close the business and then it will be up to the new

company, fully independently of the owners, to set their marketing strategies. That's a very important principle going forward.

Christian Luiga: On the tax assets, we have decided not to reveal any details. But let me put it this way; we have a tax loss that we will be able to bring into the JV and depending on how we succeed, as always, on our results going forward, this will give an impact in the positive side on cash flow, of course. And it has a value that compensates in the other discussion.

Jakob Bluestone: Thank you very much.

Meera Bhatia: Thank you, Christian. Next question, please.

Operator: The next question is from the line of Stefan Gauffin.

Stefan Gauffin: Most questions have been answered. I have a question around the portfolio of assets. You are now becoming on par with TDC on the mobile side, but you still have quite a small scale on the fixed broadband side, and especially TeliaSonera have talked a lot about convergence strategy.

So I wonder if – how you feel about your asset portfolio in Denmark, if that needs to be complemented with some fixed broadband assets?

Richard Olav Aa: It's Richard here. Yes, you're absolutely right.

We're strengthening ourselves on the mobile side and we're still a fairly large – sorry, fairly small player on the fixed side. I think the new company and management, they will have to evaluate what kind of business development options they foresee going forward.

So at this stage, it's not correct to kind of lay out any strategies on that nature other than this Company now has a much better starting point of investing more into also the fixed area if the new company and management find that that can create good returns for the Company.

Stefan Gauffin: OK. Thank you.

Meera Bhatia: Thank you, Richard. Next question, please.

Operator: The next question is from the line of Ulrich Rathe.

Ulrich Rathe: I wanted to return to market structure post deal and then potential remedies. I understand that you obviously don't want to comment in detail on this, but there is a pretty glaring issue here in that the combined entity, together with TDC, would really be the major forces in the market and absolutely marginalize Three.

I was wondering how you think about that and whether you think that is really the structure that this deal will end up in, even after remedies, or whether you think ultimately remedies will really have a major part in terms of equalizing the share situation a bit. Or whether you think that's simply not an issue and two strong players and one big player is sort of a natural outcome of such a deal. Thank you.

Christian Luiga: Thank you, Ulrich. Christian here. You're absolutely right that it is a market where that will change and you're also absolutely right we cannot talk about anything about the remedies that we believe and before we have had a dialog with the European Union and had that dialog with them.

I have not so much to say, actually, on this item rather than that from – if you look from a market perspective, the Danish market is a very down-priced market with a lot of pressure and it's a specific market with 40 MVNOs fighting and they have an opportunity to fight. And Three is a very strong player and do a decent job.

So from that perspective, I think this – we think this is necessary to be able to invest both in customer experience, the network and in the society. And this is the rationale why we have gone ahead and done this deal. And I think that is the main thinking and what you should look at rather than anything else when you try to figure out rationale for the transaction.

Ulrich Rathe: Thanks very much.

Meera Bhatia: Thank you. Next question, please.

Operator: The next question is from the line of Dominik Klarmann.

Dominik Klarmann: OK, thank you. Just two questions left really. One for you, Richard. I think in the past you signaled you would be open to exiting the Danish market as one option. Can you say anything on potential discussions you had with Hutchison and why that wasn't a good option?

And then just a general question, I guess, on the comparison with EE as the other big joint venture in Europe and the shaky start, I would say, that EE has in the first years. Any lessons learned from that and anything you – did you look at the experience there? Thanks.

Richard Olav Aa: Thank you, Dominik. Yes, it's correct that we, after the Q2 results, said that the profitability in Denmark was now at such a level that we need to look at all options and we did not exclude anything, including an exit.

When it comes to any discussions we have on the M&A side, we never comment on that, so I cannot really possibly comment whether or not we had discussions with Hutchison or not. That's our policy.

Your second question on Everything Everywhere is a very good one. We have actually done a lot of studies on other types of mergers, and one of the lessons was really that you have to let the company be run independently to be agile in the marketplace, and also take out cost independently of the owners. It's very easy in these kinds of transactions that one of the owners has a preference for this way of doing it or so on and the whole process stalls.

Here we have tried to create a vehicle where the company can be agile and the company can decide their own solutions to best succeed in the market. Of course, we cannot kind of benchmark it directly to Everything Everywhere, but this is what we have emphasized from what we have seen as issues around other JVs that maybe have had a struggling start.

So hopefully what we have done here can be rather a boost than a troublesome start of the JV.

Meera Bhatia: Thank you, Richard. Next question please.

Operator: The next question is from the line of Michael Hill.

Lawrence Sugarman: Actually it's Lawrence Sugarman, UBS. It's just one question; it relates to the regulatory issues again. I understand obviously that this will be heard by the E.U., but I was wondering whether you have had any discussions with the Danish regulator on this issue and whether you have a sense for his position?

And whether you think there is any prospect of him intervening in any other way as a result of the outcome at the E.U.?

Christian Luiga: Christian here. We don't have any comments to that really. We start now by contacting the European Commission, because that's where this journey starts.

And we will talk to them and I will assume that we will also, in some way, have contacts with the Danish authorities and we will have that with them, as we have said before, before we talk to you about anything.

Lawrence Sugarman: OK, thank you.

Meera Bhatia: Thank you, Christian. Next question please.

Operator: The next question is from the line of Andreas Joelsson.

Andreas Joelsson: Two questions. You have, as you said, realized quite some synergies from the network sharing, but it hasn't really shown in the profitability. Do you see that to continue also for the new venture that the savings is used to finance market share protection?

And then secondly on CapEx. If you look at the Danish market, how important is it to have a good quality in the network? Is that something that the consumer looks at or is price the most important factor in the Danish market? Thanks.

Richard Olav Aa: Yes, it's Richard here. I will try to answer. When it comes to the network JV, I think that's been a success. And if you look to CapEx to sales ratios for Telia and Telenor, despite a very low-priced market we run that CapEx to

(save) benchmarks at lower-class levels and still have a very good network experience that's second-to-none in the Danish market.

But in a way, the top-line deterioration has created meagre profitability. What we are doing here now – the large synergies here now is obviously on the – more on the operational expenses side and we're really targeting that to – those savings to lift the margins for the new company.

We haven't disclosed any target ranges for the margins this part of the deal and I will not do it on this call either, but that's absolutely the ambition to get this Company back to a better margin position than Telia and Telenor has by itself.

Christian Luiga: Christian here. Just to follow up, Andreas, on your last part to CapEx on quality and pricing. As Richard said, we have had a interest both of us, and that's why we have a JV, to have a network that is best in class in the Danish market. And that is something, of course, we foresee in the future as well.

But to make this a sustainable vehicle to continue to invest in customer experience and in both capacity, quality and coverage as well as in the society, this is necessary to form this agreement.

Meera Bhatia: Thank you to both of you. Next question please.

Operator: The next question is from the line of John Davies.

John Davies: I think almost everything's been covered, but one very small thing. Do you have any dividend policy in the very long term in your agreements? Thank you.

Richard Olav Aa: It's Richard here. I think the Company here is set up to, as I said, have the best possible chance of succeeding in the Danish market and they also need to invest in the Danish market. But any other liquidity than that will of course be distributed back to the owners as promptly as possible.

There is a clear agreement between both Telenor and Telia that the Company will have a dividend policy that will distribute excess liquidity as soon as possible.

Meera Bhatia: Thank you. Next question please.

Operator: The next question is from the line of Erik Pers.

Erik Pers: I have one question left on my list. It's actually regarding IT systems. You said in the presentation that you will migrate into one set of IT systems, and considering Telenor has been putting in, in particular Telenor, I guess, has been putting in a great effort to build a brand new IT system in Denmark, I was just wondering about the future in that.

Will this be the system that will handle both or the combined entity now, (the new innovation) or will there be another solution do you think? And if so, who owns that absolute? Is it the Telenor Group that will then deliver this to the JV or will it be owned by the JV, that new system? Thanks.

Richard Olav Aa: Thank you. Good morning, Eric. I will answer that. It's Richard.

It will be the new JV that will decide what kind of a BSS system it will deploy to be maximum agile in the market and also take out costs. And the system we are building today could be an option, but that's not up to Telia and Telenor's owners to decide, it's the new company and the management and the Board for there to decide. So it could be one option.

Having said that, today, the system investment is taken in a company outside Telenor Denmark, it's called Telenor IT Systems, and the solution is meant to be a European solution with Denmark and Hungary as the first companies coming onto the solutions and potentially other countries down the line.

And then if the JV selects this system as their BSS system, they will pay a fee to the Telenor company that has developed the system, but that's too early to conclude.

Meera Bhatia: Thank you, Richard. We have time for two more questions. Next question please?

Operator: The next question is from the line of Akhil Dattani.

Hannes Wittig: It's actually Hannes Wittig; good morning. I just wanted to ask whether, in terms of your commercial strategy, that you don't want to, of course, talk too much about it at this point, whether you would be looking at the Hutchison Austria example, where the brands have been quickly unified.

Or whether you'd look more at the EE, Everything Everywhere experience, where the brands were kept alive for many years and then unified at a much later date. Do you have any thoughts on this at this stage?

Christian Luiga: Christian here. I'd like to return to the earlier question on learning from the others and also on the governance of this Company. It has been very important for us then to find a JV that can work independently from its owner and take decisions.

Of course, there will be a need for a branding strategy and also how to approach the customers, but that has to be taken independently and worked out by the new management and by that management team. So we'll have to come back on that.

Meera Bhatia: Thank you. We will take the last question now please. Next question please?

Operator: The next question is from the line of Thomas Heath.

Thomas Heath: Two questions if I may. Just to clarify. In your DKK800 million synergies, do you calculate any market repair in ARPU? Is that purely on the cost side?

And then secondly, a lot of the problem in Danish mobile has been the down-trading of corporate ARPU to consumer levels as price transparency is very high. Do you see the merger changing this phenomenon in any tangible manner? Thank you.

Christian Luiga: I'll start with the first question. Christian here. The synergies that we have reported is on the cost side and the CapEx side. We don't have any market repair in our expectations.

Richard Olav Aa: Richard here. On the second question, I think both of us, like we've said many times on this call, knows not to be subscale in the Danish market; and the corporate market in Denmark, this serves really a better player that is able to invest in future solutions for efficiently some improved communication.

We have not built any ARPU effects. Like Christian said, this is purely synergies and costs, but we have clearly an ambition to be a stronger player in the enterprise market; invest more to be able to give the enterprise customers in Denmark better and really good long-term solutions going forward.

Meera Bhatia: Thank you, Richard and Christian. This concludes our call today. Thank you very much for your participation. Should you have any other follow-up questions, please don't hesitate to contact the IR teams in each company. Thank you very much. Have a good day.

Operator: That does conclude the call for today. Thank you all for your participation. You may now disconnect your lines.

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