

THOMSON REUTERS STRETEVENTS

EDITED TRANSCRIPT

TEL2 B.ST - Tele2 AB and Kazakhtelekom AO to Combine Mobile Operations in Kazakhstan Corporate Call

EVENT DATE/TIME: NOVEMBER 04, 2015 / 8:00AM GMT



NOVEMBER 04, 2015 / 8:00AM, TEL2 B.ST - Tele2 AB and Kazakhtelekom AO to Combine Mobile Operations in Kazakhstan Corporate Call

CORPORATE PARTICIPANTS

Louise Tjeder *Tele2 AB - Head of IR*

Allison Kirkby *Tele2 AB - CEO*

Niklas Sonkin *Tele2 AB - EVP & COO*

CONFERENCE CALL PARTICIPANTS

Sanvir Dhillon *RBC Capital Markets - Analyst*

Peter Nielsen *Kepler Cheuvreux - Analyst*

James Britton *Nomura - Analyst*

Nick Lyall *Societe Generale - Analyst*

Johanna Ahlqvist *SEB Equities - Analyst*

Lena Osterberg *Carnegie Investment Bank AB - Analyst*

Andreas Joelsson *DNB Markets - Analyst*

Erik Pers *Danske Bank - Analyst*

Dominik Klarmann *HSBC Global Research - Analyst*

PRESENTATION

Operator

Good day and welcome to Tele2 update conference call. This conference is being recorded.

At this time, I would like to turn it over to [Mr.] Louise Tjeder. Please go ahead, [sir].

Louise Tjeder - *Tele2 AB - Head of IR*

Good morning, everyone. Welcome to Tele2's analyst and investor telephone conference following our announcement on the final agreement between Kazakhtelecom and Tele2, combining their mobile business in Kazakhstan.

This is Louise Tjeder, and with me I have our President and CEO, Allison Kirkby; I have Niklas Sonkin, COO; our EVP New Growth and Strategy, Lars Torstensson; as well as Marie Baumgarts, our Head of Corporate Responsibility.

Allison will now brief you further on the topic and then we will open up for questions. Without further ado, Allison, please.

Allison Kirkby - *Tele2 AB - CEO*

Thank you, Mr. Tjeder (laughter). Good morning and welcome, everyone. We're absolutely delighted to be announcing the transaction this morning. The JV of our business with Kazakhtelecom is a major step forward, enhancing our position in Kazakhstan, and we hope you will see, through this presentation, will provide significant opportunity for our customers, our business, and our shareholders.

In keeping with Tele2's way to win ethos, we believe that this JV with Kazakhtelecom is the way to win in Kazakhstan. We will continue to be the responsible challenger that we always have been, underpinned by our unique culture, the Tele2 way, and always operating at the highest level of corporate governance.



NOVEMBER 04, 2015 / 8:00AM, TEL2 B.ST - Tele2 AB and Kazakhtelekom AO to Combine Mobile Operations in Kazakhstan Corporate Call

Let me turn to the details of the transaction. The key terms are on this page and, as follows, we will combine the Tele2 Kazakhstan business and Kazakhtelecom's Altel mobile business into the new JV. Kazakhtelecom will have 51% economic ownership, whilst we will have 49%; however, we will have 51% voting rights and Kazakhtelecom will have 49% voting rights.

Importantly to understand, Tele2 will retain management control and, therefore, consolidate the JV. Another important fact is that Tele2 will have a put option after year three on its 49% stake, with Kazakhtelecom having a symmetrical call option.

On our current agreement with Asianet, Tele2 at closing will purchase Asianet's existing 49% stake in Tele2 Kazakhstan. Asianet will, in return, receive an upfront payment of \$15 million, which is around SEK128 million, and a future earnout equivalent to 18% economic interest in the JV.

The \$15 million payment reflects the fact that Asianet will give up their existing shareholder agreement and all corresponding rights. The earnout allows Asianet to participate in future value creation, but with no shareholder rights, going forward.

As a result of that, Tele2 will have 31% fully diluted economic interest, taking account of this earnout. Asianet will have a put option after year three on its 18% earnout, and we will have a symmetrical call option. Obviously, that put option is concurrent with the put option that we have against Kazakhtelecom as well.

In terms of financing of the JV, Tele2 Kazakhstan will be contributed into the new JV with KZT97 billion of debt, that's around SEK3 billion, in existing shareholder loans, and a small amount of preexisting payable to Kazakhtelecom to be rolled over and maturity extended.

Altel will be contributed on a cash free and debt free basis, and future funding for the JV will be provided via bank debt guaranteed by Kazakhtelecom which will be made available at closing. So basically, the JV will be fully funded at closing.

In terms of timing, obviously this is all subject to regular customary conditions, including regulatory approvals, but we do expect closing to [expect] sometime during Q1, 2016.

What is the strategic rationale for the deal? It's threefold. First, it gives us a robust platform to challenge the incumbents; second, it gives us significant potential to monetize data; and third, there is significant synergy opportunity.

All of that is underpinned by our knowledge of operating in Kazakhstan for the last six years, and our strong culture of corporate governance, which will be further reinforced by this transaction, as I will show you later.

Taking each of those in turn; in terms of the platform to challenge the incumbents, the JV will result in a total subscriber base of 5.6 million customers, and a combined market share of 22%, further strengthening our competitive position to be a really strong number three operator.

In terms of service revenues at just under [KZT30 billion], we'll have an 18% market share. In terms of EBITDA, the position, given the levels of investment, would have been broadly flat on a pro forma basis in the first half of this year. But the key to our combined platform will be in leveraging the LTE opportunity that this JV brings, and maximizing the first mover advantage that we will have in the market.

Moving on to monetization; it's very clear that is a primary focus for us as a Group and we have built strong capabilities in data monetization. So this page speaks for the significant opportunity that we have within Kazakhstan, where we will have a 76% data volume market share as a result of the combined JV.

Kazak consumers love our networks, and there is so much demand we really believe there is lots of potential for further data monetization upside in the future.

That leads me on to synergies. Obviously, I've explained that there's revenue upside; there are significant synergies from cost savings as well.



NOVEMBER 04, 2015 / 8:00AM, TEL2 B.ST - Tele2 AB and Kazakhtelekom AO to Combine Mobile Operations in Kazakhstan Corporate Call

In terms of OpEx synergies, it will be worth around 4% to 6% of combined costs, and they will be realized over the next two years. They come from de-duplication of IT systems, a reduction in SG&A costs, particularly in head office costs, and in the obvious rationalization and de-duplication of processes.

In terms of CapEx, we expect around 17% to 20% of the combined spend to come through in synergies over the course of the next three years, more likely to be back ended than the OpEx synergies.

They come from consolidation and rationalization of radio networks, the rollout of common 2G, 3G, and LTE networks to extend our network coverage, consolidation of backbone, backhaul and core network, and merged IT and billing systems.

Finally, there will, of course, be some integration costs which we anticipate to be in the SEK130 million to SEK170 million range in year one -- sorry I meant million, yes, not billion; apologies for that.

So moving on now to our strong corporate governance; one of the key pillars to this transaction will be emphasizing that governance even further, to allow us to maximize the opportunity that the JV provides, but in a responsible manner.

I mentioned management control earlier, and this is some of the detail behind that. Our existing CEO will become the JV CEO. Kazakhtelecom have the right to nominate the CFO, but Tele2 will nominate all other management roles.

We will keep operational control within Tele2, and as I said earlier, we'll consolidate the JV, and the JV will be operated on an arm's length basis by the partners.

The Board will comprise 50/50 appointments, and Tele2 will appoint the Chairman, or Chairwoman, who will hold any casting vote required.

Our code of conduct is the basis of the agreement, and as you would expect, consistent with our six years in Kazakhstan, zero tolerance for corruption will be continued into the future in that JV. And that was a key pillar of some of the discussions that we had with Kazakhtelecom as we entered into this deal.

So just moving further into the corporate governance area; we have been doing business in Kazakhstan for six years already, and we intend to maintain and strengthen the strong corporate governance heritage we have already today.

You will see, as a result of this transaction, that we'll put even greater resource and commitment, and will continue to do business in Kazakhstan in a responsible manner.

There's a lot on this page, and we're very happy to go through this in more detail in the coming days and weeks, but I'd like to highlight just a few points.

First and foremost, we have the ability to exit the JV if our code of conduct is breached by Kazakhtelecom. On the ownership structure we have done a very thorough due diligence, and have warranties from major minority shareholders as part of the SPA.

All employees, as it stands today in Tele2, will be required to sign a code of conduct annually, and we will have the authority to dismiss for any material breach, and we will also appoint a CR officer. We will also be very transparent and provide both annual CR reports, and access to ESG investors.

And finally, we will continue to strive for complete transparency around privacy and integrity in the market. We have been in Kazakhstan since 2010 and we've always taken a very strong stance on better privacy and integrity for the individuals. Now, with our stronger position, we are in an even better position to pursue the position we take there.



NOVEMBER 04, 2015 / 8:00AM, TEL2 B.ST - Tele2 AB and Kazakhtelekom AO to Combine Mobile Operations in Kazakhstan Corporate Call

So in summary, this end market consolidation opportunity offers synergies, it offers scale, and it offers data monetization opportunity in a market we understand, and we know well.

This will be supported by strong corporate governance, and a very strong management team, and will allow us to maximize both the opportunity in Kazakhstan and create value for our investors, moving forward.

Thank you. Myself, Niklas, Lars and Marie will be very happy to take any questions that you might have.

Louise Tjeder - Tele2 AB - Head of IR

Thank you, Allison. Operator, do we have the first question, please?

QUESTIONS AND ANSWERS

Operator

(Operator Instructions). Sanvir Dhillon, Royal Bank of Canada.

Sanvir Dhillon - RBC Capital Markets - Analyst

Just two questions, if I may? How will the value of the relative put and call options, and when and if exercised, be determined?

And secondly, what are the actual NPV of synergies that you're calculating? Thank you.

Allison Kirkby - Tele2 AB - CEO

The put and call option will be calculated on a fair market value basis with up to three independent valuations.

Louise Tjeder - Tele2 AB - Head of IR

Thank you, Allison. Sanvir, could you repeat the second question?

Sanvir Dhillon - RBC Capital Markets - Analyst

It was just the NPV of synergies that you've calculated on the deal, the OpEx and CapEx that you mentioned?

Allison Kirkby - Tele2 AB - CEO

We're not disclosing those at this stage.

Sanvir Dhillon - RBC Capital Markets - Analyst

Okay. Cheers, guys.



NOVEMBER 04, 2015 / 8:00AM, TEL2 B.ST - Tele2 AB and Kazakhtelekom AO to Combine Mobile Operations in Kazakhstan Corporate Call

Operator

Peter Nielsen, Kepler Cheuvreux.

Peter Nielsen - *Kepler Cheuvreux - Analyst*

Do you have any new targets for market share for the new JV you would care to share with us?

And also, from where you see, on a combined basis, you'll be able to take your margins in Kazakhstan in the medium term? Thank you.

Louise Tjeder - *Tele2 AB - Head of IR*

Thank you. First question market share of the new JV, Allison?

Allison Kirkby - *Tele2 AB - CEO*

Yes, well, obviously our medium-term objective has always been to get to a number two position in the Kazakhstan market. That is still our objective, and this JV gives us an even better chance of achieving that in the medium term.

Louise Tjeder - *Tele2 AB - Head of IR*

And then on the margin development in the medium term [maybe a bit more].

Allison Kirkby - *Tele2 AB - CEO*

Again we have, over the medium term, we're not disclosing anything in the short term at the moment, we'll be giving much more guidance with our January release. But in terms of the medium term, we would be aiming for 30-plus-% EBITDA margins in that market, just as we do in all of our mobile markets.

Peter Nielsen - *Kepler Cheuvreux - Analyst*

Okay. Thank you.

Operator

James Britton, Nomura.

James Britton - *Nomura - Analyst*

I've got a handful of questions, if that's okay? Firstly, what's the latest intelligence from the timing of 4G spectrum being released, so how long do we have this 4G advantage?

And can you just give us some sense of the extent of Altel's infrastructure; how many radio sites do they bring, and does their relationship with the incumbent bring any advantage in terms of the location of those sites?

And then finally, what are the respective EVs that were calculated to arrive at the 51%/49% split? Thanks.

NOVEMBER 04, 2015 / 8:00AM, TEL2 B.ST - Tele2 AB and Kazakhtelekom AO to Combine Mobile Operations in Kazakhstan Corporate Call

Louise Tjeder - Tele2 AB - Head of IR

Thank you, James. I will hand over the word to Niklas on the first two questions, so regarding the 4G spectrum option, and also on Altel's infrastructure [as well].

Niklas Sonkin - Tele2 AB - EVP & COO

Yes, thank you for the question. So Altel already is rolling out 4G and they are doing that in 1,800 band, and we will then continue to use that band in the JV. The government is now planning to sell additional frequencies in 800 and 1,800 bands, but there are no firm decisions from the government side yet. So we will comment on that once the government is clear with their plans.

Allison Kirkby - Tele2 AB - CEO

And in terms of your final question, given that the JV is a merger and no cash will be exchanged, the relative value between the two companies was negotiated, and debt was used to equalize that economic ownership. That's why we are contributing \$350 million of debt.

We are not disclosing what those relative valuations were, but based on the debt that we are putting in there, you can probably try to work out what kind of relative valuations exist.

James Britton - Nomura - Analyst

Can I just follow up on the number of cell sites that Altel currently has?

Niklas Sonkin - Tele2 AB - EVP & COO

We are not giving those details at this point of time.

James Britton - Nomura - Analyst

Okay. Thanks.

Operator

Nick Lyall, Societe Generale.

Nick Lyall - Societe Generale - Analyst

It was a couple of questions, please. Altel's been focused on data markets before, so what do you think you'll see in terms of repairing just general pricing in the Kazak market? Do you think this is enough to repair the voice side of pricing and bundle pricing too?

And then, secondly, a little bit like James's question on Kazakhtel, does this give you any access to better fixed backhaul as well as the 4G spectrum? Thanks.



NOVEMBER 04, 2015 / 8:00AM, TEL2 B.ST - Tele2 AB and Kazakhtelekom AO to Combine Mobile Operations in Kazakhstan Corporate Call

Louise Tjeder - Tele2 AB - Head of IR

Thank you, Nick. So on the repairing pricing in the market, Allison, please.

Allison Kirkby - Tele2 AB - CEO

Hi, good morning, Nick. You can see how much demand there is for both Altel and Tele2 data in the market today, the fact that we almost have 80% of the data market share. And you're right, Kazakhstan is one of the lowest priced markets on the planet at only \$0.25 per gig.

That being said, it's not just through market repair that we will create value out of this deal. But definitely, there is a lot of demand for our data services, and with that, we believe there is data monetization potential, moving forward.

Louise Tjeder - Tele2 AB - Head of IR

Thank you, Allison. And question number two on the access of backhaul, Niklas, maybe you could elaborate?

Niklas Sonkin - Tele2 AB - EVP & COO

Yes. Kazakhtelecom, of course, has very good infrastructure in Kazakhstan in transmission and fiber, in different ways, backhaul and [of actual] backbone, and we will naturally use that. Tele2 also has currently own fiber inside the city areas, so it will be a combination of multiple providers.

Nick Lyall - Societe Generale - Analyst

Thank you. Can I maybe just come back? Does that give you a relatively better position, do you think? Could you give us an idea of your position relative to Beeline or Kcell in terms of the backhaul as well? Are you leapfrogging both of them now?

Niklas Sonkin - Tele2 AB - EVP & COO

Well, Kazakhtelecom, having been the incumbent, they, of course has the best transmission infrastructure in that country. There will be additional companies and the competition is increasing in that front, which is good for the market in general. But it is true that we will get quite good access to that type of infrastructure, which is very much needed in this data world.

Nick Lyall - Societe Generale - Analyst

That's great. Thank you.

Operator

Johanna Ahlqvist, SEB.

Johanna Ahlqvist - SEB Equities - Analyst

Two questions, if I may? First of all, if you can say something on the future earnout and the terms for it. As I understand, your current partner will keep 18% of the economic interest.



NOVEMBER 04, 2015 / 8:00AM, TEL2 B.ST - Tele2 AB and Kazakhtelekom AO to Combine Mobile Operations in Kazakhstan Corporate Call

And then the second part is, what do you see your current dividend policy being challenged by this deal, or do you remain committed to the payments you will make the coming three years ahead? Thank you.

Louise Tjeder - Tele2 AB - Head of IR

Thank you, Johanna. So Allison, if you could clarify on the future earnout of 18%, and also take the second question on our current dividend policy?

Allison Kirkby - Tele2 AB - CEO

Yes. So the earnout, basically, allows Asianet to participate in future value creation. At the end of a three-year period, they have a right to put on us, but that will be concurrent at the same time as we can put on Kazakhtelecom. So if we put on Kazakhtelecom at the same time as they put on us, basically, we will not be out of pocket. And that cash will just flow from the proceeds that come from Kazakhtelecom to us. And basically, they will get 18% of any of the equity that is in the entity at the point of in three years' time.

In terms of dividend, no, this makes no difference to our dividend commitment. We're still very much committed to our dividend policy, which will be increasing at a rate of 10% per year for the next three years.

In fact, this probably strengthens overall our cash position as a result of this JV being fully funded from day one. And Kazakhtelecom having the responsibility to provide the initial financing through their corporate guaranteed debt, we will have no need, in the foreseeable future, to put any more cash into the Kazakhstan operation.

Johanna Ahlqvist - SEB Equities - Analyst

Thank you.

Operator

Lena Osterberg, Carnegie.

Lena Osterberg - Carnegie Investment Bank AB - Analyst

Just to clarify on Kazakhtelecom, their funding guarantee, how much do they have to contribute to reach the 51%/49% ownership? And for how long is that funding period?

And also, if the JV, for some reason, has not reached cash flow break-even by then, how do you fund the venture, going forward?

Allison Kirkby - Tele2 AB - CEO

Okay, so it will take them some time. There is lots of capacity for them to get to their 51% responsibility. The JV will only require around \$100 million of financing in the foreseeable future. And so during the three-year period there is lots of room for Kazakhtelecom to still move towards that 51%/49% that they need to get to.

Lena Osterberg - Carnegie Investment Bank AB - Analyst

So they will reach that by contributing the \$100 million.

NOVEMBER 04, 2015 / 8:00AM, TEL2 B.ST - Tele2 AB and Kazakhtelekom AO to Combine Mobile Operations in Kazakhstan Corporate Call

Allison Kirkby - Tele2 AB - CEO

No. They won't reach the 51% by just first \$100 million. There is still lots of capacity.

Lena Osterberg - Carnegie Investment Bank AB - Analyst

Can you say how much they will have to contribute to get to 51%?

Allison Kirkby - Tele2 AB - CEO

We're putting in \$350 million, and if you call that 49% then there is lots of room between \$100 million and \$350 million for them to get to anyway near 51%.

Lena Osterberg - Carnegie Investment Bank AB - Analyst

But if the JV does not require more funding, how will you get to the 51% then? Will they pay down your shareholder loan, or how is the structure?

Allison Kirkby - Tele2 AB - CEO

If, during the next few years, the JV becomes cash flow positive, and it makes sense for the JV to start paying down its debt, then it will start paying down the debt in the shareholder loan due to us.

Lena Osterberg - Carnegie Investment Bank AB - Analyst

Okay. Thank you.

Operator

Andreas Joelsson, DNB.

Andreas Joelsson - DNB Markets - Analyst

I think Lena stole my question, so I'm fine.

Operator

Erik Pers, Danske Bank.

Erik Pers - Danske Bank - Analyst

I was curious on a line in your corporate governance slide saying that there is an ultimate beneficiary owner of warranties as a part of the SPA, which is good, I guess. I'm just curious; to what extent does this reduce, in your view, the risk of future [FCPA] consequences in the unlikely event, I guess -- I know you've done a lot of homework on this, but in the unlikely event that the existing partnership would be seen as unsound by US authorities. In that context, what would the warranty part contribute?



NOVEMBER 04, 2015 / 8:00AM, TEL2 B.ST - Tele2 AB and Kazakhtelekom AO to Combine Mobile Operations in Kazakhstan Corporate Call

And secondly, just to clarify what you just spoke about the shareholder loans, will the strategy or will the financing work like this, that you pay down your debt and to what extent before you start handing out dividends in the JV? Thank you.

Louise Tjeder - Tele2 AB - Head of IR

Okay, thank you, Erik. Both questions to Allison regarding the corporate governance and how we look at this UBO signing and how this reduces the risk. That's the first question, if you could start with that, please.

Allison Kirkby - Tele2 AB - CEO

So we believe we're breaking new ground here in what we've done as a part of this deal. We've done an extremely thorough job on understanding who the UBOs are of the key minority shareholders in Kazakhtelecom, just as we did a very thorough job on understanding the UBO of Asianet.

And a result of that work, and the confidence we built during that process, we pushed the boundaries further by asking two of the major minority shareholders to provide us with UBO warranties that, should the event happen that those UBO warranties were not what they said they were, we would have the right to sue for damages.

So we're very confident that we've done everything we possibly could here and that we have now the warrants that protect us from any risk in the future, although we're very confident that they will not be required, based on everything that we have seen.

Louise Tjeder - Tele2 AB - Head of IR

Thank you, Allison. The second question was regarding the shareholder loan and financing once the debt has been paid down, and what that would mean for the [Company here].

Allison Kirkby - Tele2 AB - CEO

Obviously, the JV would need to decide what is the best use of its capital at that point in time. For the foreseeable future, we're very much focused on completing the rollout of the 4G network and investing for success in the Kazakhstan market.

Erik Pers - Danske Bank - Analyst

That's helpful, thanks.

Operator

(Operator Instructions). Dominik Klarmann, HSBC.

Dominik Klarmann - HSBC Global Research - Analyst

Just one question left on the regulatory front. I guess the regulator probably enjoyed the competition sparked by you, and more recently Altel, and it's not that long ago that Altel really had an impact on the market. So what gives you confidence you can get approval? And do you expect any remedies involved? Thanks.



NOVEMBER 04, 2015 / 8:00AM, TEL2 B.ST - Tele2 AB and Kazakhtelekom AO to Combine Mobile Operations in Kazakhstan Corporate Call

Louise Tjeder - Tele2 AB - Head of IR

Thank you, Dominik. The question goes, I guess, to Allison again and your view on the regulator approval and if there would be any remedies there for this.

Allison Kirkby - Tele2 AB - CEO

Based on the market share of the combined entity, relative to the other two players in the market, we are not expecting the dialog with the regulator to put up any difficulties in terms of letting this deal proceed.

And, in fact, today our general counsel is already in a meeting in Astana with the head of the competition authority already starting that dialog.

Dominik Klarmann - HSBC Global Research - Analyst

Thank you.

Operator

There are no more questions at this time.

Louise Tjeder - Tele2 AB - Head of IR

Okay. Thank you very much for listening in, and thank you from all of us and we wish you a very nice day. Thank you.

Operator

Thank you, and that will conclude today's conference call. Thank you for your participation, ladies and gentlemen. You may now disconnect.

DISCLAIMER

Thomson Reuters reserves the right to make changes to documents, content, or other information on this web site without obligation to notify any person of such changes.

In the conference calls upon which Event Transcripts are based, companies may make projections or other forward-looking statements regarding a variety of items. Such forward-looking statements are based upon current expectations and involve risks and uncertainties. Actual results may differ materially from those stated in any forward-looking statement based on a number of important factors and risks, which are more specifically identified in the companies' most recent SEC filings. Although the companies may indicate and believe that the assumptions underlying the forward-looking statements are reasonable, any of the assumptions could prove inaccurate or incorrect and, therefore, there can be no assurance that the results contemplated in the forward-looking statements will be realized.

THE INFORMATION CONTAINED IN EVENT TRANSCRIPTS IS A TEXTUAL REPRESENTATION OF THE APPLICABLE COMPANY'S CONFERENCE CALL AND WHILE EFFORTS ARE MADE TO PROVIDE AN ACCURATE TRANSCRIPTION, THERE MAY BE MATERIAL ERRORS, OMISSIONS, OR INACCURACIES IN THE REPORTING OF THE SUBSTANCE OF THE CONFERENCE CALLS. IN NO WAY DOES THOMSON REUTERS OR THE APPLICABLE COMPANY ASSUME ANY RESPONSIBILITY FOR ANY INVESTMENT OR OTHER DECISIONS MADE BASED UPON THE INFORMATION PROVIDED ON THIS WEB SITE OR IN ANY EVENT TRANSCRIPT. USERS ARE ADVISED TO REVIEW THE APPLICABLE COMPANY'S CONFERENCE CALL ITSELF AND THE APPLICABLE COMPANY'S SEC FILINGS BEFORE MAKING ANY INVESTMENT OR OTHER DECISIONS.

©2015, Thomson Reuters. All Rights Reserved.