

# WAY2WIN IN KAZAKHSTAN

November 4<sup>th</sup>, 2015

Tele2 AB

**TELE2**

# Disclaimer

## Forward-looking statements

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# Tele2's Way2Win

## Vision

We will be champions of customer value in everything we do

## Mission

We are challengers, fast-movers and will always offer our customers what they need for less

### Where we play



Mobile access



Our current footprint



Residential and Business



M2M & IoT

### How we win



Focused Technology Choices



Value Champion



Step-Change Productivity



Winning People & Culture

## Responsible Challenger

## The Tele2 Way

# Transaction Highlights

## Key Terms

- Kazakhtelecom and Tele2 to combine in a JV their Kazakh mobile businesses, Altel and T2KZ
  - 51/49 economic ownership, 49/51 voting rights respectively
  - Tele2 will retain management control and consolidate the JV
  - Tele2 to have a put option after year 3 on its 49% stake; Kazakhtelecom to have a symmetrical call option
- Tele2 will purchase Asianet's existing 49% stake in T2KZ at closing
  - Asianet to receive an upfront payment of \$15m (SEK 128m) and a future earn out equivalent to 18% economic interest in the JV
  - Tele2 will have 31% fully diluted economic interest, taking account of Asianet's future earn out
  - Asianet to have a put option after year 3 on its 18% earn out; Tele2 to have a symmetrical call option

## Financing of the JV

- T2KZ to be contributed with c. KZT97bn (SEK 3bn) in existing shareholder loans and a small amount of pre-existing payable to Kazakhtelecom to be rolled over and maturity extended
- Altel to be contributed on a cash free, debt free basis
- Future funding for the JV will be provided via bank debt, guaranteed by Kazakhtelecom, available at closing

## Timetable

- Subject to customary conditions, including regulatory approvals
- Closing expected Q1 2016

(1) Net of corporate guarantees provided at closing and payments to Asianet

# Strategic Rationale

**Robust platform to challenge the incumbents**

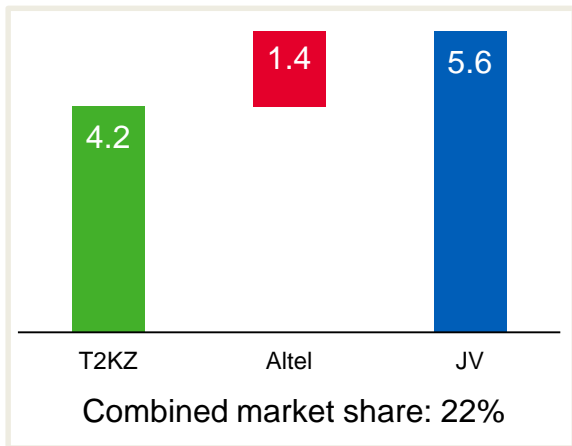
**Data monetization potential**

**Significant synergy opportunity**

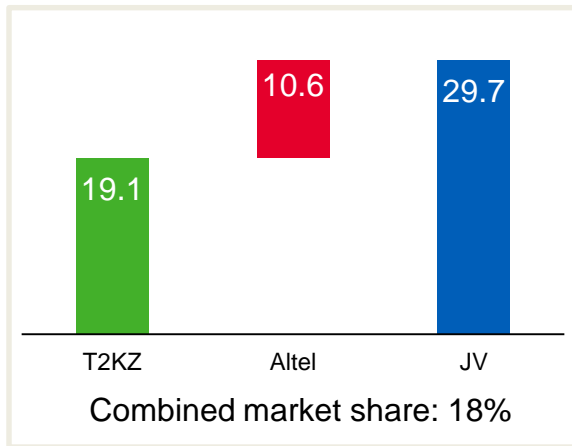
**Strong corporate governance**

# Robust platform to challenge the incumbents

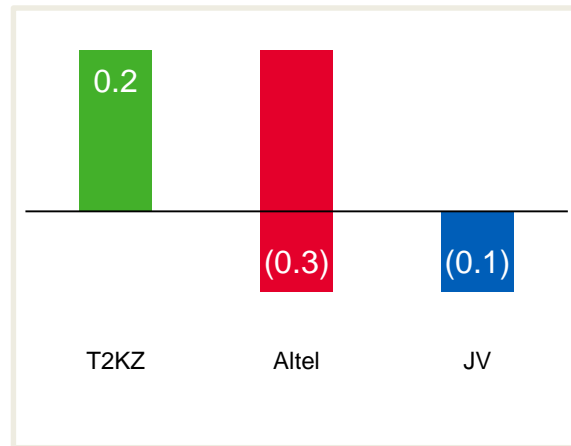
**H1 15 subscribers**  
(millions)



**H1 15 service revenue**  
(KZT billion)



**H1 15 EBITDA**  
(KZT billion)

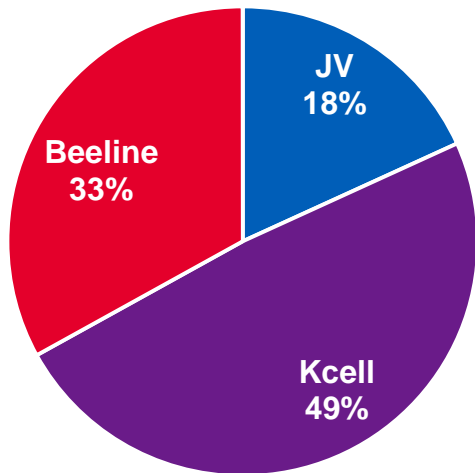


- Stronger competitive position as #3 operator
- Improved scale with ~22% subscriber market share
- Leading data franchise in Kazakhstan
- First mover LTE advantage

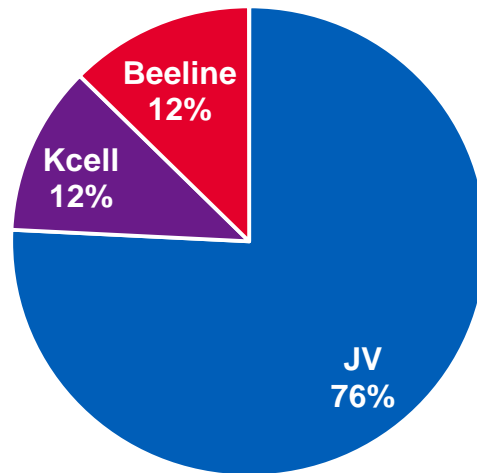
Source: Company data.  
Note: Subscribers based on T2KZ definition

# Data monetization potential

H1 15 service revenue market share



H1 15 data volume market share



**Significant opportunity to leverage data leadership**

# Significant synergy opportunity

## Opex synergies

- Migration of IT systems to common platforms
- Reduction in SG&A costs
- Rationalisation of processes

- ~4-6% of combined costs
- 1-2 years

## Capex synergies

- Consolidation and rationalisation of existing radio networks
- Rollout of common 2G / 3G / LTE network to extend network coverage
- Consolidation of backbone, backhaul and core network
- Merged IT and billing systems

- >17-20% of combined spend
- 3 years

## Integration costs

- Network, IT and billing integration opex
- Decommissioning of redundant sites

- ~SEK130-170m
- First year of operations



# Strong Corporate Governance

## Tele2 management control

- T2KZ existing CEO will become JV CEO
  - Kazakhtelecom to nominate CFO
  - Tele2 to nominate all other management roles
- Operational control to remain with Tele2
- Tele2 to consolidate the JV
- JV operated on an arms-length basis by the partners

## Board composition

- Both JV partners to appoint half of the Board
- Tele2 to appoint the Chairman (who will have a casting vote)

## Tele2 code of conduct

- JV to implement Tele2's corporate governance standards, procedures and T2 codes of conduct
- Zero tolerance to any corruption acts

# Strong Corporate Governance

## Corruption

- Zero tolerance on corruption - Code of Conduct (CoC) and Business Partner CoC
- Ability to exit if there is a material breach of the CoC
- Fairness opinion confirms fair market price
- Transparency regarding bank accounts
- Warranty on use of proceeds

## Ownership structure

- Thorough due diligence process
- Ultimate Beneficial Owner (UBO) warranties as part of the SPA

## CoC enforcement

- Management control and voting control in the Joint Venture
- Tele2 has the right to appoint all of the Management Board (except CFO)
- Tele2 appoints half of the board of directors and the Chairman
- Tele2 educates all employees on CoC and Whistle-blower policy
- All employees are required to sign the CoC annually
- A CR Officer to be appointed in the Joint Venture

## Transparency

- Annual reports on operations in Kazakhstan with a particular focus on Corporate Responsibility
- Structured access for ESG investors with a focus on Corporate Responsibility

## Privacy and integrity

- Stringent Tele2 process to manage government requests on historical data and network shutdowns
- Tele2 is working for increased transparency in the usage of SORM, inter alia through pressing for dialogue with the supervisory authority

# Summary

## **In-market consolidation offers attractive opportunity**

- Synergy benefits
- Improved scale
- Data monetization

## **Balanced partnership between Tele2 and Kazakhtelecom**

- Strong corporate governance
- JV operated on an arms length basis
- Put/call in year 3

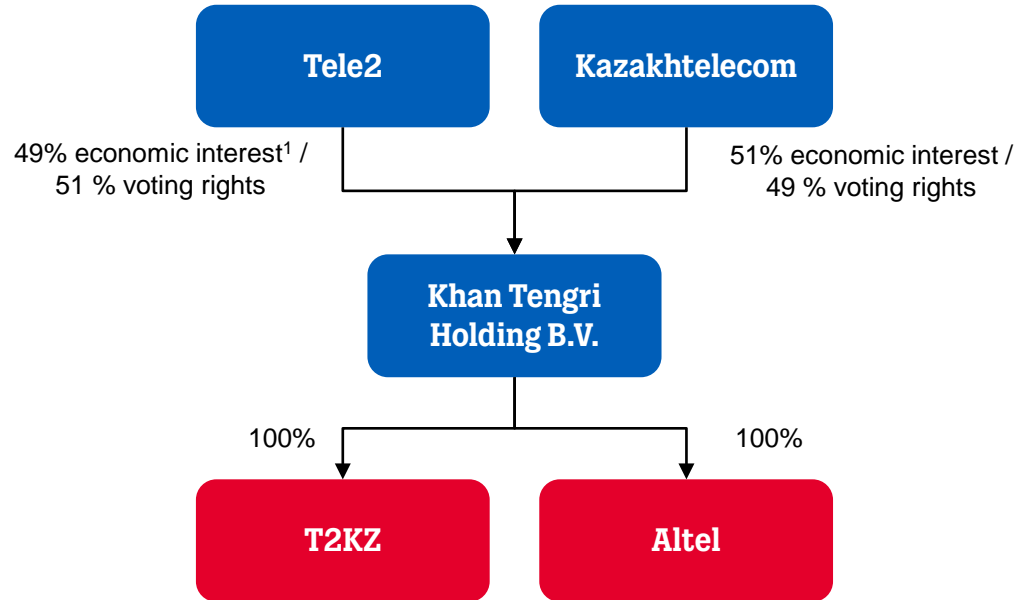
## **Fully funded JV**

- Future funding via bank debt guaranteed by Kazakhtelecom

## **Closing Q1 2016**

# Appendix

# Transaction structure



1) 31% economic interest on a fully diluted basis (taking account of Asianet's future 18% earn out)

# Financial profile of the JV

		FY14	Q1 15	Q2 15
<b>Subscribers (million)</b>	T2KZ	3.3	3.7	4.2
	Altel	0.9	1.2	1.4
	<b>Pro Forma</b>	<b>4.2</b>	<b>5.0</b>	<b>5.6</b>
<b>Revenue (KZT billion)</b>	T2KZ	34.8	8.8	10.5
	Altel	19.8	7.4	9.7
	<b>Pro Forma</b>	<b>54.7</b>	<b>16.2</b>	<b>20.2</b>
<b>EBITDA (KZT billion)</b>	T2KZ	1.1	0.0	0.2
	Altel	(3.5)	0.6	(0.8)
	<b>Pro Forma</b>	<b>(2.4)</b>	<b>0.7</b>	<b>(0.8)</b>
<b>Capex (KZT billion)</b>	T2KZ	9.7	1.9	4.7
	Altel	10.6	0.5	2.9
	<b>Pro Forma</b>	<b>20.3</b>	<b>2.3</b>	<b>7.6</b>

Note: Pro forma unaudited figures  
Subscribers based on T2KZ definition

# THE BEGINNING

TELE2