

Q3 2017 presentation

Oslo / 27 October 2017
Eirik Lunde, CEO

Today's agenda

- Q3 2017 financial results
- Tax issue update
- Key focus on B2B and structural alternatives for B2C

Q3 2017 financials in brief

CUSTOMERS
at 30 Sep

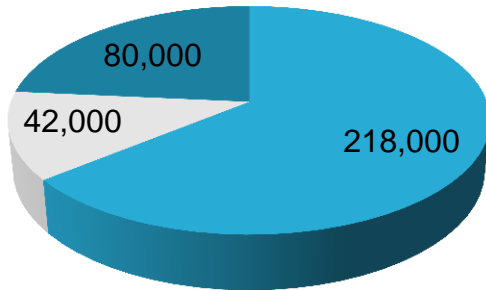
340,000

RGUs
Revenue
generating
units

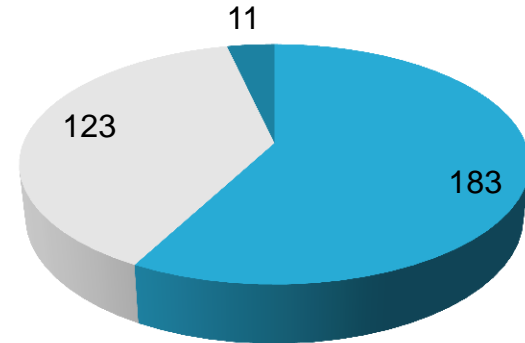
REVENUES
Q3 '17

317

NOK
MILLION



- Norway consumers
- Norway businesses
- International



Q3 2017 financials in brief

REVENUES

317.4

NOK
MILLION

CASH

24.4

NOK
MILLION

EBITDA

35.9

NOK
MILLION

EQUITY RATIO

20.0%

EBIT

-7.8

NOK
MILLION

NET DEBT
/EBITDA

1.18

Highlights Q3

CUSTOMER BASE DEVELOPMENT

- Increase in business mobile customers y-o-y
- Increase in TV customers y-o-y
- Increase in fiber access customers y-o-y
- Negative development for consumer broadband in Q3

BUSINESS SEGMENT SHOWING A POSITIVE TREND

- Impact from new contracts showing strong revenue growth for Fiber Norge (+7.5% from Q2)

COST REDUCTION

- The previously announced cost reduction plan is on track giving full impact from January 2018 (**NOK 40 million** annually)
- The VULA fiber CoGS is reduced by approximately 12% (7,700 consumer customers)

Financial results

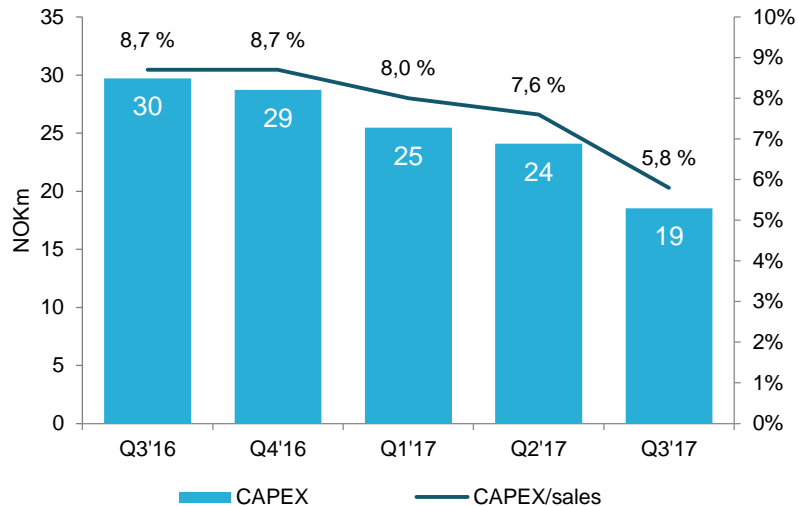
(Figures in NOKm)	Q3 2017	Q2 2017	Q3 2016
Revenues	317.4	317.2	338.9
Gross margin	41.4%	44.0%	46.6%
EBITDA (excl non-recurring items)	35.9	44.1	56.3
EBIT (excl non-recurring items)	(7.8)	(0.5)	13.2
Cash flow from operations	64.6	36.5	59.1
Free cash flow per share	2.02	0.32	1.49
Cash and cash equivalents at end of quarter	24.4	19.4	57.8

- Strong revenue growth in Fiber Norge from Q2
- The regulatory issue related to the VULA product from Telenor was resolved in favor of NextGenTel on 25 October. The estimated positive effect from a reduction in CoGS for the VULA product *is not included in P&L*
 - Positive effect on EBITDA/EBIT for Q3 of NOK 0.9 million
 - Positive effect as of YTD 30 Sep 2017 of NOK 3.1 million
 - Total accumulated positive effect of NOK 6.7 million (includes 2016)
- Strong free cash flow in Q3 influenced by low capex

CAPEX development

Lower capex key to improve cash flow

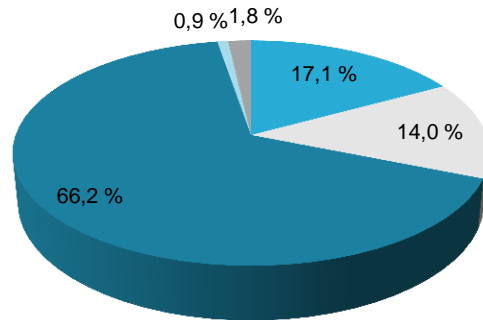
Positive trend



- Positive trend according to plan towards capex/sales of 7%

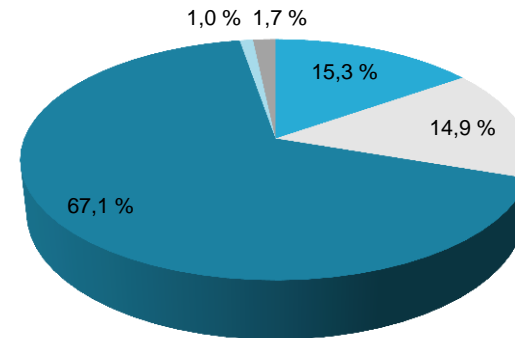
Product mix – share of revenues

Q3 2017



- VoIP/fixed
- Mobile
- Broadband (incl TV)
- Wholesale
- Other

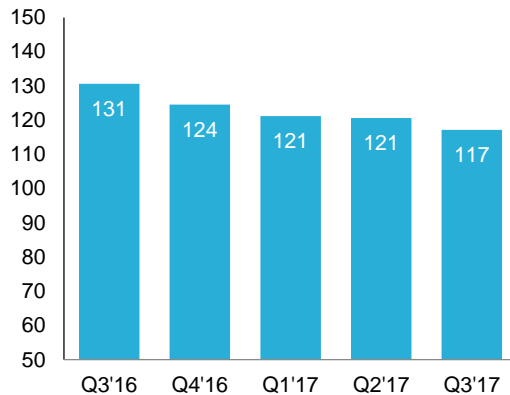
Q3 2016



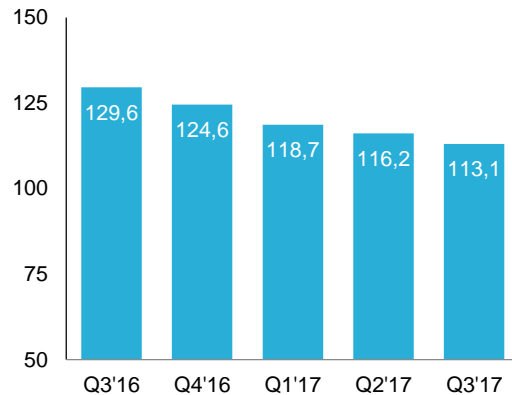
Consumer broadband

- Access independent broadband with growth opportunities within fiber (FTTH) and collective agreements (multi-dwelling units), while xDSL is declining
- Improved Vula Fiber margin supports increased sales effort
- Price increases implemented with effect from Q4

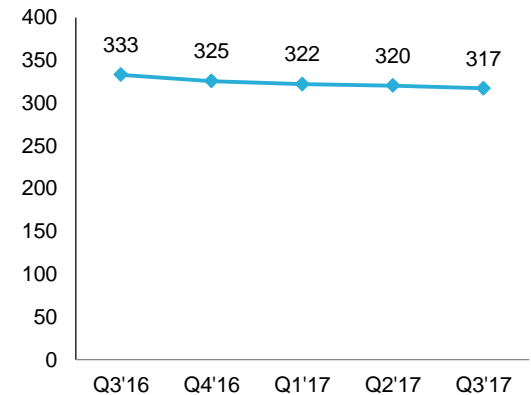
SUBSCRIPTIONS ('000)



REVENUES (MNOK)



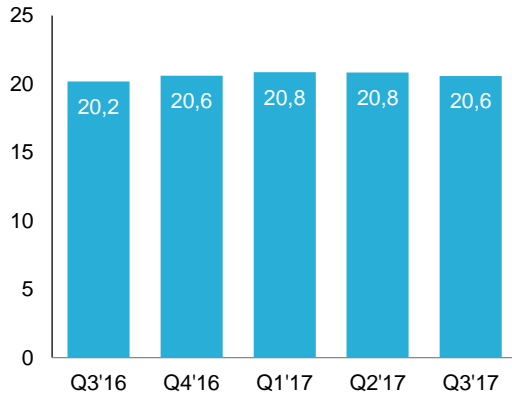
ARPU (NOK/MONTH)



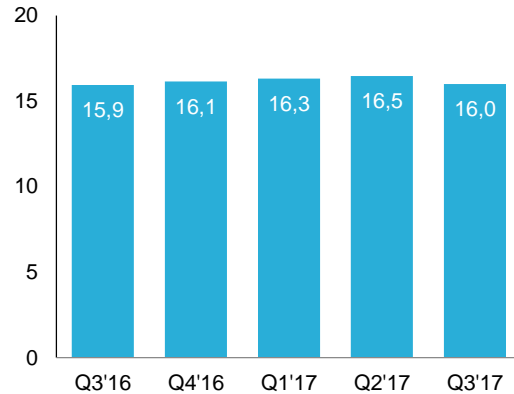
Consumer TV

- TV subscribers represent a smaller share of the broadband customer base
- Growth in high-speed broadband will facilitate upselling of TV services
- Fairly stable ARPU
- Price increases implemented with effect from Q4

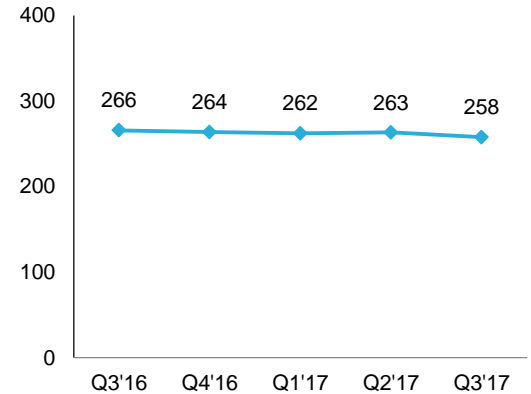
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REVENUES (MNOK)



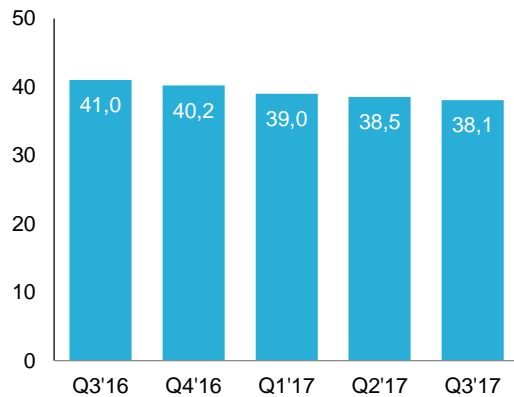
ARPU (NOK/MONTH)



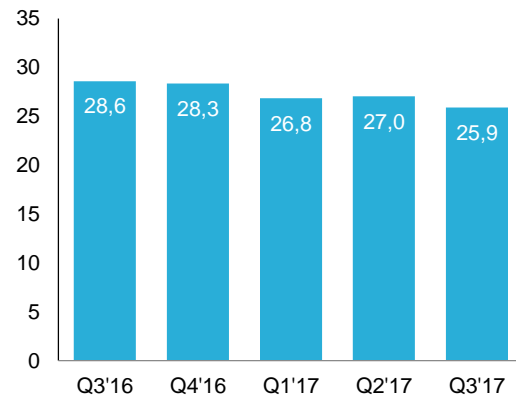
Consumer mobile

- Strong competition among operators to attract consumers
- Stable customer base

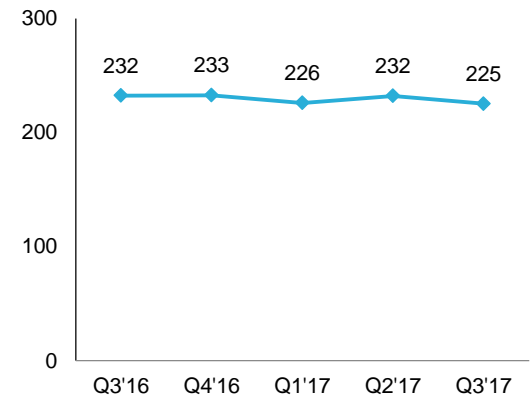
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REVENUES (MNOK)



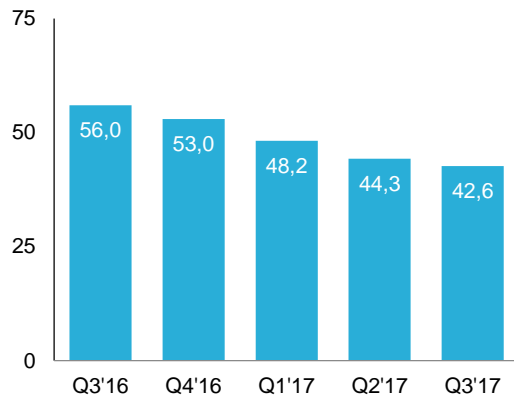
ARPU (NOK/MONTH)



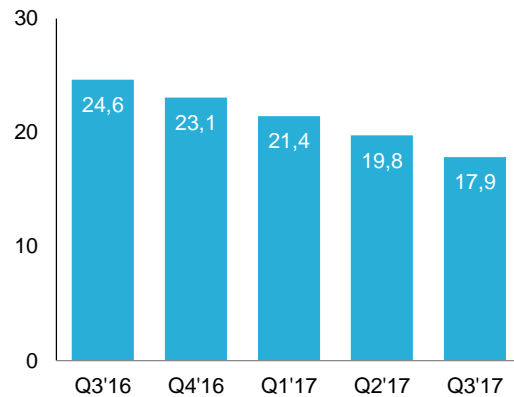
Consumer VoIP

- Subscriber base following the long term trend of VoIP being replaced by mobile
- Stable ARPU

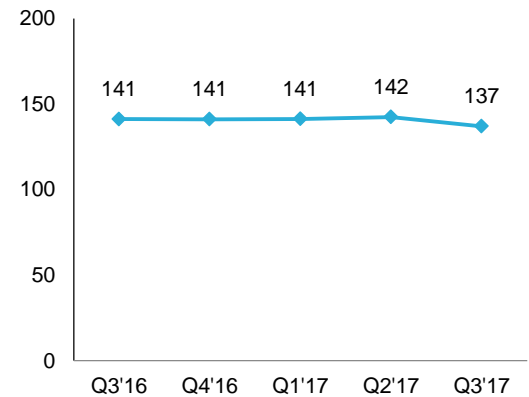
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REVENUES (MNOK)



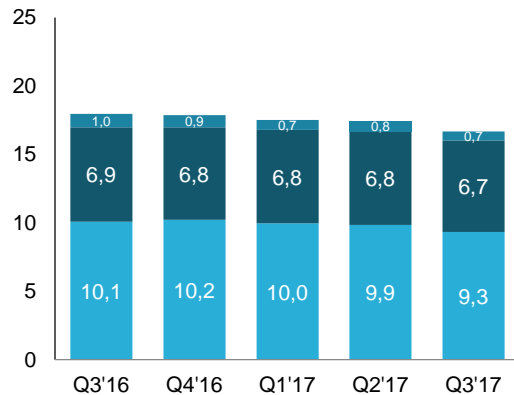
ARPU (NOK/MONTH)



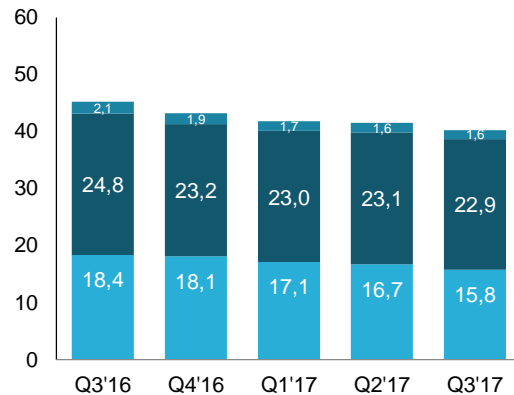
Business datacom

- Within the SMB segment, customers of Internet access over xDSL churn in favor of fiber or mobile broadband. Within Retail, xDSL is still the preferred access technology
- Fairly stable ARPU

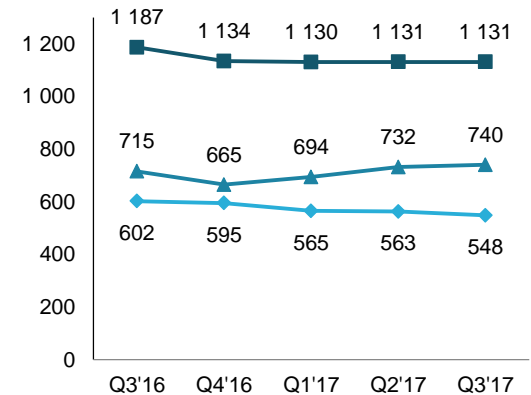
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REVENUES (MNOK)



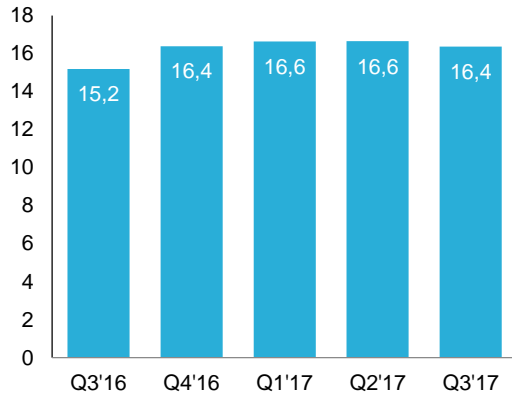
ARPU (NOK/MONTH)



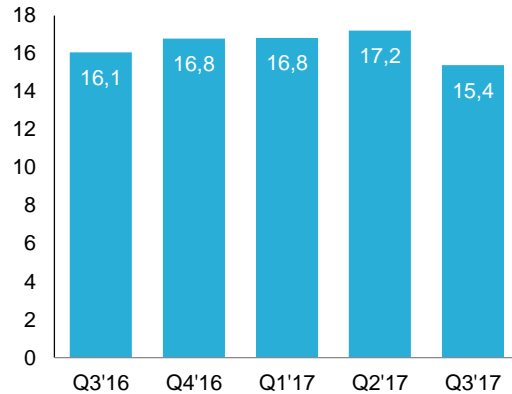
Business mobile

- Stable customer base
- Negative ARPU development in Q3 after EU regulation and data rollover
- Price increases to be implemented

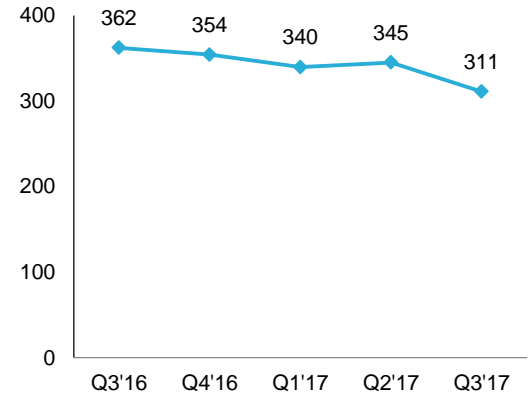
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REVENUES (MNOK)



ARPU (NOK/MONTH)



Cost reduction

- As announced in August, the board has approved a cost reduction plan which implies a reduction of operating expenses by additional **NOK 40 million** annually
- The company is progressing according to plan with full impact from January 2018
- In addition, the VULA fiber CoGS is reduced by approximately 12% (7,700 consumer customers)



Transformation of operations

Automation and digitalization

- The deployment of new business support systems during the past months represents opportunities to introduce robotics to increase effectiveness in processes and routines
- The first five processes that use robotics are in production already and represent cost savings. Within December two more processes will be taken over by robotics with additional cost savings.
- So far the robotics has processed 400 hours of production
- The robotics team has qualified more than 60 processes and will continue its work to reduce the operational costs i 2018.



Better customer experience
Additional cost savings

Tax issue update

- Reference is made to previous announcements related to the tax issue regarding the taxation of dividends from Switzerland (stock exchange notice and Q1 2017 report)
- The company has received a final report from the tax authorities implying a total tax claim of NOK 27.5 million excl interest. The total tax claim reflects a partial deduction of taxes paid in Switzerland
- It is still the company's view that no additional tax should be imposed and the company will file a complaint to the tax appeal board ("Skatteklagenemnda") within the 6 weeks deadline

Status on modernization of the copper network

- During the discussions in the copper forum, Telenor has reduced the initial scope of the copper modernization significantly and presented a scope where they would only modernize the copper network in areas where households are scattered around (basically the outskirts of the copper network) and they would only use vectorized VDSL technology (thus less distributed modernization, longer last mile and lower available speed compared with more modern G-Fast technology)
- The copper forum has not been able to reach an agreement about modernization of the network because Telenor wanted one set of rules to apply for their modernization and a separate set of rules for other vendors. An effect of an agreement that complies with Telenor demands would be that Telenor could modernize the network where they want and effectively stop modernization any place else reducing the competition with their alternative own access roll out strategy. For NextGenTel, the result is that the number of customers that would get a better service has been reduced significantly
- The work in the broadband forum has given the Norwegian authorities unique insights and it is expected that the authorities will introduce a new regulation of the copper market in 2017. Reference:
<https://www.nkom.no/aktuelt/nyheter/nkom-tar-moderniseringen-av-kobbernett-og-i-reguleringsspor>

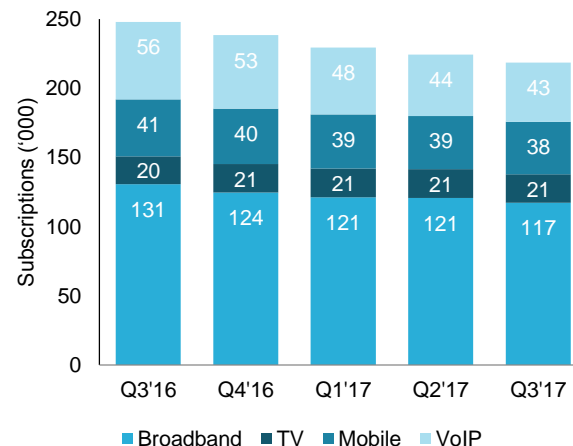
Key focus on B2B and structural alternatives for B2C

- The two new units, NextGenTel AS (B2C) and Fiber Norge (B2B), presented in the Q2 report will be managed as separate operational units under NextGenTel Holding from 1 November
- The process has identified even more growth potential within B2B than previously envisaged and the Board of Directors has concluded to invest more resources to accelerate our B2B offering
 - Demonstrated with several new project wins
 - Strong demand and pipeline
- The B2C business has a strong position within its market, but operates in mature market segments. The Board of Directors has concluded to explore structural alternatives for the B2C operation and has initiated a review that may result in a separate listing of the consumer segment on Oslo Børs in 2018

Pro forma financial results NextGenTel (B2C)

(Figures in NOKm)	Q3 2017	YTD 2017
Revenues	190	589
Gross margin	40.2%	44.9%
EBITDA	21	74

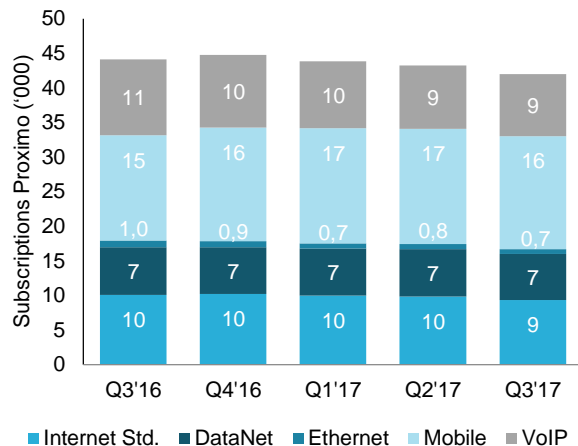
Pro forma figures are based on certain assumptions and may vary from future actual figures after completion of the demerger



Pro forma financial results Fiber Norge (B2B)

(Figures in NOKm)	Q3 2017	YTD 2017
Revenues	129	370
Gross margin	40.3%	44.2%
EBITDA	11	41

Pro forma figures are based on certain assumptions and may vary from future actual figures after completion of the demerger



In addition comes approximately 6,000 RGUs in Kvintel as of Q3'17

Break-down pro forma EBITDA

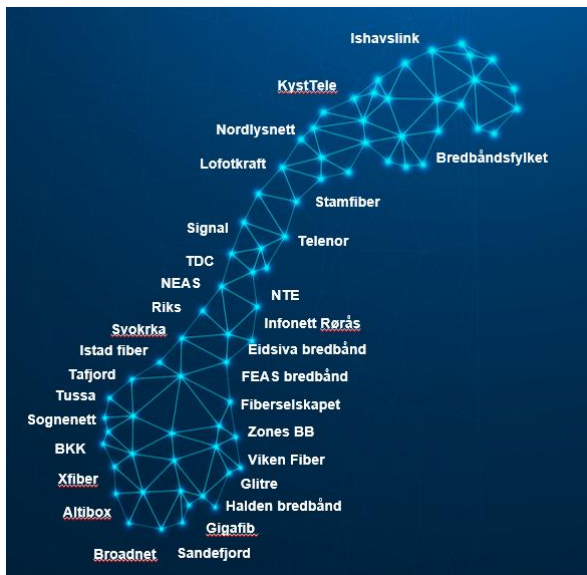
(Figures in NOKm)	Q3 2017	YTD 2017
Fiber Norge (B2B)	11	41
NextGenTel (B2C)	21	74
Int'l markets	6	18
Eliminations	(2)	(7)
EBITDA Group	36	126

Pro forma figures are based on certain assumptions and may vary from future actual figures after completion of the demerger

A leading Datacom provider

Best national fiber footprint

Tight collaboration with more than 70 fiber network owners



- Full nationwide coverage of fiber and xDLS network services
- Fiber Norge has tight collaboration with all the relevant local network operators, giving access to existing fiber-based infrastructure across the country
- Fiber Norge offers flexible and tailored communication solutions to the customers – infrastructure access creates the foundation for Fiber Norge’s service offering

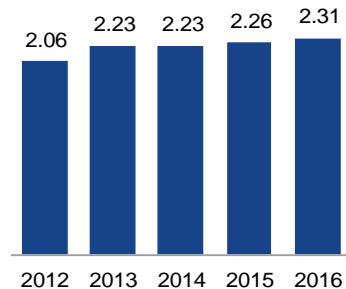
TRACK

Proprietary management and processing software, offered to customers as part of the Datacom service

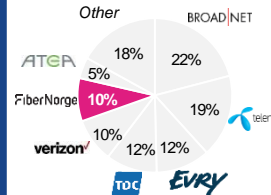
Provides customers with full control of the infrastructure value chain

Large and growing market

Data communication revenue, NOKbn



Market share



The traditional delivery model for communication solutions



Network operators

- Capital intensive operation based on own infrastructure
- Standardized products
- Limited degree of value added services
- Low personnel intensity

EBITDA-margin
~25 - 50%



System integrators

- Integrates network- and communication solutions with corporates
- Historically personnel intensive on-site solutions with a complex mix of hardware, software and Datacom
- Trend moving towards cloud-based solutions

EBITDA-margin
~2 - 8%



Customer solutions

- Delivered by consortium of operators and system integrators
- Requires extra systems, integration and monitoring from the customers IT departments

Product offering

Data communication

62%⁴

Internet Access

- Provides enterprises with internet access through both fiber and xDSL technologies
- Offers best in class fiber coverage secured through tight collaboration with various fiber owners across Norway



IP VPN¹

- Fiber Norge offers businesses reliable networks for efficient and secure communication,
- Affordability for widespread corporate use with secure and remote access for users anywhere, anytime
- Seamlessly integrated with VoIP services



Ethernet

- Ethernet access offers control and flexibility for customers to admin their own networks
- Ethernet services offer customers higher quality, less delay and higher bandwidth than comparable technologies



Voice

35%⁴

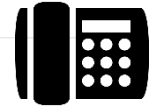
Mobile

- FiberNorge is a MVNO² that provides a broad range of mobile communication services to its customers
- Mobile communication services is fully integrated into other voice and datacom services



Other voice

- Offers fully managed VoIP alongside a broad range of more complex solutions, such as switchboard and datacom integration
- Voice services are integrated into datacom services and offers enhanced control for the end user



TRACK – An unique value chain analytics tool

Subscription control

Process control

Invoice control

Operational control

Collaboration

- In-house developed OSS/BSS³ system, critical for Fiber Norge's success in the market, integrating all the customer- and technical data in one system
- The customer get full control of all its infrastructure in one interface despite that the underlying infrastructure is sources from various suppliers

Already several wins including a Nordic deal with Nordic Choice Hotels



- Strong interest from the business market
- New integrated solution delivered this week to

Adecco

Financial calendar 2018

Q4 2017

Thursday 15 February 2018 at 09:00



Thank you!

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