

February 15, 2012

To
The Chairman,
Telecom Regulatory Authority of India
Mahanagar Doosanchar Bhawan
Jawahar Lal Nehru Marg (Old Minto Road)
New Delhi 110002

Kind Attn: Dr J S Sarma

Sub: Telenor Group's comments on "Allocation of spectrum in 2G band in 22 Service Areas by auction"

Dear Sir,

We thank you for your valuable time and opportunity for meeting us on February 10, 2012.

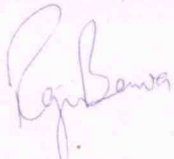
As you know, Telenor Group is the majority shareholder of Unitech Wireless (Tamilndau) Pvt Ltd (operating under brand name "Uninor") and is a large international mobile operator with over a decade of operating experience in Asia.

Please find attached the comments from Telenor Group on TRAI's pre-consultation paper on "Allocation of spectrum in 2G band in 22 Service Areas by auction".

Sir, as discussed with you during our meeting, the Telenor Group would be happy to bring any expertise in auction techniques, spectrum management etc to support TRAI through this process.

Assuring you of our best co-operation at all times,

Yours sincerely,
for **Telenor Group**



Rajiv Bawa
Chief Representative Officer
Telenor Group in India
(rajiv.bawa@telenor.com)

CC: Mr Sudhir Gupta, Pr Advisor (MS), TRAI

Encl: Telenor Group's comments on "Allocation of spectrum in 2G band in 22 Service Areas by auction"

Allocation of spectrum in 2G band in 22 Service Areas by auction

PRE-CONSULTATION SUBMISSIONS TO TRAI

Telenor Group Statements

Referring to the Telecom Regulatory Authority of India ("TRAI") pre-consultation on "Allocation of Spectrum in 2G band in 22 Service Areas by auction", dated 3rd of February 2012, and the written response submitted by Uninor, Telenor Group – as a major foreign investor in the Indian mobile market – would like to make a number of additional statements.

- Telenor has held operations in the Asian region for more than 15 years
- Telenor is a long-term responsible investor in the Asian telecom markets with high attention and standards on compliance with all laws and regulations. Furthermore, we strongly believe that free and fair competition will benefit the customers and society at large.
- Since Telenor entered into the Indian market we have invested approximately INR 14,000 crores in Uninor in terms of equity and debt which is corporate guaranteed by Telenor Group. Telenor has an equity shareholding of 67.25% in Uninor, while the Unitech Group holds the remaining 32.75%. Since the launch in December 2009 Uninor has attracted more than 38 million customers.
- Telenor is committed to further invest in the Indian market and continue our mobile operations, but to do this we need clear market regulations that safeguards our investment. The new operators are still in the investment phase and clarity will foster wise investment decisions that will be a prerequisite for maintaining competition.
- Piecemeal spectrum offering (auctioning a little spectrum at the time) would, if pre-2008 operators were allowed to participate, reduce the cost to such operators of foreclosing the market.
- It's critical that a smooth transition is ensured for those operators that will get their licenses cancelled and win new licenses in the auction. If not a lot of value could get lost in the transition period.

Telecommunications has significant potential to add value to people's lives, contribute to social and economic growth, create a positive impact in society, and help shape a sustainable future. At the Telenor Group, we focus on creating sustainable initiatives that create long-term shared value both for Telenor and society.

Huge investments at stake in India following the Supreme Court Ruling

The Hon'ble Supreme Court's judgment dated February 2, 2012 in writ petitions no. 432/2010 and 10/2010 ("**SC Judgment**") cancelling all licenses issued after 2007 and directing Government of India ("**Gol**") to issue fresh licenses and conduct new auctions for spectrum has put significant time pressure both on the holders of such cancelled licenses, the Gol and indeed possible eligible applicants for such fresh licenses.

As the cancelled licenses have been permitted to operate for a period of 4 months from the date of the SC Judgment, it is imperative that the existing service provisions of such operators are maintained, competition continued and long term solutions to this issue are found urgently. In the view of Telenor Group it is therefore paramount that the interests of the consumers and the mobile industry are carefully balanced and that the process is decided upon as early as possible to ensure clarity, predictability and enough time to prepare for the auction(s) and not write off such huge investments made.

We strongly believe that the purpose of the 2008 licensing process was to facilitate increased competition and to grow mobile penetration. Any potential bidder for the proposed 2G auction will need clarity on structure and availability of spectrum in order to prepare the required business plans, finance and bid vehicle. Accordingly, we urge TRAI and Gol to place in public domain the information pertaining to the full availability of 2G spectrum, including the spectrum that would be released post cancellation of licenses pursuant to the SC Judgment.

In the following section Telenor Group will elaborate on our recommendations concerning the principles for designing an auction and how to ensure a fair and equitable process and outcome beneficial to customers, the Gol and all stakeholders.

Best practice principles for spectrum management (CONSIDER TO BE TAKEN OUT)

As a foreign investor Telenor would like to best practice principles for spectrum management being implemented in India over time as this would benefit both the Indian society and the industry:

- Spectrum licensing should be based on the principles of *flexibility, transparency* and *self-management* giving the industry higher value for the spectrum, and the government and the regulator less need to intervene in less important topics.
- Spectrum rights should facilitate *refarming*, in that licenses should be *technology neutral*. It is very important that spectrum bands over time can be used to any service or technology, and not only e.g. GSM for 1800 MHz. If the Government believes in self-management the operators should be allowed to decide which technologies and services

that best will fit to their need, regardless of how the spectrum bands have been used historically.

- Governments should perform *spectrum audits* and maintain *spectrum release plans* to increase transparency and predictability. Spectrum audits based upon assignment processes can be catalyst for improving the Indian spectrum management regime and release plans will support the long term planning for investors.
- *License renewal* procedures should be *transparent* and *predictable*, cost should be based on principles of *economic efficiency*. As licenses expire any license holder has a need for knowing Government's future procedure well in advance to be able to adapt to this.
- *Passive and active infrastructure sharing* should be encouraged as long as it does not distort competition. To secure focus on service competition and to avoid too many parallel infrastructures it should be allowed to share any component of the network between operators.

Telenor Group have extensive experience from spectrum management and spectrum assignment globally and upon request we can provide Indian authority with support and advice on the processes in issuing new licenses and allocating spectrum.

Auction principles / structure

An improperly structured auction might lead to a less competitive market

It is important to avoid a situation where the strongest operators are allowed to reduce competition by foreclosing the market via the strategic purchase of spectrum. Uninor does per the Supreme Court ruling not hold any spectrum and its continued commercial operation requires at least 2 x 6.2 MHz of spectrum in the 1800 MHz band in each relevant circle. This represents an opportunity to operators wishing to reduce the degree of competition in the Indian market. There are four main concerns:

- Timing and transparency is essential. Uncertainty with respect to timing, terms and conditions will in itself increase the risk of new operators exiting the market.
- Piecemeal spectrum offering (auctioning a little spectrum at the time) would, if pre-2008 operators were allowed to participate, reduce the cost to such operators of foreclosing the market.
- Incentives for strategic spectrum acquisitions by existing operators would remain even if all available spectrums were auctioned at once. In particular, strategically motivated bidders might substitute demand for 2G spectrum for demand for further 3G spectrum (in the 2100 MHz band) and 4G spectrum (700 MHz band). Bidding 2G prices to a level where a pan-

Indian acquisition of 2 x 6.2 MHz becomes unfeasible for the new operators would reduce competition immediately but also reduces the Incumbents' expected cost of acquiring spectrum in the future.

- Small units of spectrum for sale would similarly benefit those with an existing spectrum holding whilst creating large risks for the new operators. Being dependent on winning at least 2 x 6.2 MHz, new operators would have to bid cautiously if there were a risk that it would win only a smaller amount because prices have grown to an unfeasible level.

These are issues that should be clarified in the consultation document from TRAI being issued over the next 2 weeks.

Best practice principles to safeguard competition exist and should be used in the forthcoming auction

- **Explicit or implicit spectrum caps** could ensure that at least some operators in addition to the pre-2008 operators win sufficient spectrum to prevent a reduction of competition in any circle. Such competitive safeguards have frequently been used internationally. A notable example is the UK 3G auction in 2000, and the recent Indian 3G auction also contained provisions of this kind.
- The government should **maximize the available spectrum**, in particular if pre-2008 operators are allowed to participate. A clear roadmap for assignment of further spectrum, in particular in the 700 MHz (LTE) and 2100 MHz (3G) bands would provide operators with more predictability whilst at the same time put spectrum caps and competitive safeguards into perspective.
- **Realistic reserve prices** would safeguard against unsold spectrum. The marginal value of spectrum will decrease as spectrum scarcity is gradually and successfully decreased and the sector becomes increasingly competitive. Extrapolating e.g. 3G prices could inflate revenue expectations in the public domain and lead to unsold spectrum. Spectrum prices should be determined in a fair, appropriately structured auction and reflect bidders' non-strategic marginal valuation, given spectrum availability in India.
- **Licenses /frequency blocks reserved for new operators (as in UK 3G auction 2000, or large frequency blocks**, would reduce the risk faced by those that enter the auction without an existing spectrum portfolio.

About Telenor Group

- Strong footprint in Central and Eastern Europe and Asia
- Leading Nordic position in mobile, broadband and TV services

- Substantial activities in subsidiaries and joint venture operations
- One of the top 500 global companies by market value *
- Among the top performers on Dow Jones Sustainability Indexes
- 30,000 employees worldwide
- Revenues 2011: NOK 98.5 billion

Telenor started out as a public company in 1855 and builds on more than 155 years of telecom experience.

The Telenor Group is one of the largest mobile operators in Asia and we have strong and growing operations in all our markets (Thailand, Malaysia, Bangladesh, Pakistan and India). In February 2011, we passed 100 million subscriptions in Asia. Our success is built on combining our global telecoms expertise with regional knowledge transfer and local market insight to create value for different segments. We have achieved significant and rapid subscriber growth in all markets.

We consider good corporate governance to be a prerequisite for value creation and trustworthiness and for access to capital.

Governance principles

In order to secure strong and sustainable corporate governance, it is important that we ensure good and healthy business practices, reliable financial reporting and an environment of compliance with legislation and regulations across the Telenor Group.

The Telenor Group has governance documents setting out principles for how business should be conducted. These apply to all Telenor units. The Telenor Governance regime is approved by the Board of Directors in Telenor ASA.

Trust and transparency

We believe good corporate governance involves openness and trustful cooperation between all parties involved in the Group: the owners, the Corporate Assembly, the Board and Group Executive Management, employees, customers, suppliers, creditors, public authorities and society in general. When submitting reports, Telenor provides both financial and non-financial information, emphasising transparency so that interested parties may be able to make informed decisions.

Applying values to create value

Good corporate governance principles are reflected in our values – Make it easy. Keep promises. Be respectful. Be inspiring. By applying our values in what we do as an organisation, we create value and maintain a healthy corporate culture.

Compliance with rules and regulations

The Telenor Group has developed a set of principal documents, for example the Codes of conduct, as well as policies and complimentary procedures, to ensure good and efficient controls. Internal rules are adapted and implemented at international subsidiaries in which the Telenor Group has operational control.

The Telenor Group works continuously to ensure that policies, procedures, training and control mechanisms are current and adequate. They should meet our own requirements as well as the justified expectations of other interested parties. Telenor works systematically to ensure compliance with rules and regulations.

Socially responsible business conduct

Our efforts to ensure socially responsible business conduct involve more than just good business ethics at all levels. They concern the manner in which we treat our employees, our relationship to nature and our surrounding environment, our efforts to ensure safe products, as well as a number of other factors.