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Tele2 AB (TLTZY.SE)

Q2 2017 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Good day and welcome to the Tele2 Q2 Interim Report 2017 Conference Call. Today's conference is being recorded.

At this time, I would like to turn the conference over to Erik Strandin Pers. Please go ahead.

Erik Strandin Pers

Head-Investor Relations, Tele2 AB

Thank you, operator. Welcome, everyone, to Tele2's second quarter 2017 results call. I have with me here Lars Nordmark, our CFO; and Allison Kirkby, our CEO. As usual, we'll do the management presentation, followed by Q&A. And if you haven't got the presentation already, it's available at tele2.com.

I'll start by handing over the work to Allison. Allison, please go ahead.

Allison Kirkby

President & Chief Executive Officer, Tele2 AB

Good morning, everyone and welcome to our second quarter report. So, let's get straight into the financials. Monetization of connectivity remains our key priority and as you saw, we saw strong growth in the second quarter.

On a reported basis, mobile end-user service revenue was up 18%. On a like-for-like basis, we were up 12% which is the highest mobile end-user service revenue growth we've had in many years and it's driven by strong growth across the footprint, with particularly double-digit growth in Netherlands, the Baltics and Kazakhstan.

Net sales amounted to around SEK 8 billion which is up 3% as mobile end-user service revenue growth is offset by lower fixed revenues and lower equipment sales in said markets. EBITDA on a reported basis was up 50% and 39% on a like-for-like basis, with all of our key markets contributing.

As a result of this momentum that you saw in the first quarter and again in our second quarter, we are pleased to announce that we'll upgrade our guidance, our EBITDA guidance for this year and Lars will discuss that in a bit more detail towards the end of the presentation.

So, just as a reminder, our results are always underpinned by our strategy and our purpose with enthusiasm for connectivity at the heart of everything we do to ensure we deliver on our short, our medium and our long-term value creating ambition.

With that in mind, in the quarter, we saw the following highlights. First, on our Baltic Sea Challenger businesses, we continue to grow and deliver strong result. With mobile end-user service revenue up 3% in Sweden and in the Baltics, up 18% or 13% in local currency. We also delivered double-digit EBITDA growth in both Sweden and the Baltics. And even more importantly, considering the importance of this region to our group, we saw a 20% increase in operating cash flow in the last 12 months as our mobility for our strategy continues to serve us well with outstanding cash conversion. In our investment markets, we saw an acceleration of mobile end-user service revenue.

In the Netherlands, we grew 51% or 45% in local currency, helped by the launch of our new propositions and our new brand campaign on May 2017 and we now have 91% of data usage and 50% of voice usage on our own network. In Kazakhstan, we also delivered another strong increase in mobile end-user service revenue, up 21% on a like-for-like basis, with just under 240,000 net adds in the quarter and continued positive ASPU development. These strong results were fueled by strengthening of almost all of our brands, having launched new commercial propositions in all our key markets in the quarter.

In Sweden, the Power 2 campaign is surpassing our expectations for cut through, for brand recognition and in driving unlimited uptake. And in the Netherlands, we are seeing very promising early results from our new commercial offerings, including net intake of 51,000 for the quarter with already 70,000 unlimited customers in only six weeks.

Our Challenger cost structure was strengthened in the quarter from continued TDC synergy realization, mainly from having migrated all the MVNO customers to our own network. And the integration of Altel in Kazakhstan also continues to progress well and driving the EBITDA margin further to over 22% in the quarter. And we had another strong quarter for the Challenger Program, which is well on track for the SEK 1 billion annual benefit target in 2018 with a revised estimate level of annual benefits of SEK 850 million for this year.

So, moving on to our markets in a bit more detail and first, our Baltic Sea Challenger businesses. In Sweden, we saw revenue slightly increase with mobile end-user service revenue growth, offset by lower fixed revenue. The mobile end-user service revenue growth, which increased year-on-year by 3%, was driven by strong growth in the consumer segment, but partly offset by declines at the business segment.

The growth in consumer is primarily driven by migration from prepaid to postpaid subscriptions and our customers are opting for larger data bucket to support increased data growth. This has been a great period of growth for our Swedish business. But let's not forget as we move into the summer season, we will no longer have the European roaming revenues that we had in prior years.

That being said, our Swedish team have built a highly resilient business as this quarter yet again proved with EBITDA growing well ahead of the top line, up plus 12% due to Challenger Program and TDC synergy benefits, as well as the higher service revenue.

Looking at the Swedish consumer mobile business, trends were again strong in the quarter. We're seeing positive early indicators that the Tele2 Power 2 campaign is increasing recognition for the Tele2 brands, especially when it comes to uptake of Unlimited. Additionally, we recorded the highest Q2 growth intake of Comviq postpaid in its history, driving growth and mobile end-user service revenue up 8% or 5% adjusted for the non-recurring item in Q2 last year.

Our Value Champion strategy continues to attract higher value customers to larger data bucket with two-thirds of sales in both Tele2 and Comviq now on bucket of more than 3 gig. And our increased network coverage and our focus on satisfying our customers are keeping customer satisfaction for both Comviq and Tele2 stable at very high level.

Looking into B2B, we have now returned the SME business to growth. But our Large Enterprise business was down in the quarter admittedly compared to a seasonally high Q2 last year. The Large Enterprise segment in Sweden is experiencing somewhat increased price competition and we also lost appeal from large contracts that we had one in prior quarter and that would expect it to compensate for churning customers.

As the nature of this business is long sale cycles with large contracts going in and out of the revenue base, so we'll probably take a few quarters to repair this trend. However, we are ahead of expectations on the TDC integration plan, and therefore ahead of the synergy plan with an important driver being the now completed migration of around 200,000 TDC mobile customers onto Tele2's network.

And we remain excited about the ability of the Tele2 and TDC combined platform to create value in the Large Enterprise market over time and delighted that towards the end of the quarter, we signed [ph] seven (07:45) large contracts including three municipalities in the Skåne region, WSP Sweden (sic) [WSP Sverige] (07:48) and Postnord Sweden (sic) [Postnord Sverige] (07:52).

Moving to the Baltics, commercialization and monetization of our 4G investments just continue to drive quite a stellar top and bottom line development. Net sales growth of 21% was very strong, thanks to an ever-increasing demand for data and premium handset. Mobile end-user service revenue growth was up 18% or 30% in local currency, largely driven by higher data consumption and growth in mobile broadband. And EBITDA increased 23% or 18% in local currency, driven by the healthy revenue growth and benefits from the Challenger Program as we continue to consolidate certain tasks and skills into our shared operation organization.

Looking at the Baltics in a bit more detail, we saw strong ASPU development of 13% as the transition from prepaid to postpaid subscriptions continued, smartphone penetration increased and customers traded up to larger data buckets, very much encouraged by our new propositions, which we launched to support Roam Like at Home.

Additionally, the Baltics investment into mobile broadband has fueled a revenue increase of more than 50%, albeit from a low base but is now establishing Tele2 as the liberator of connectivity both in the home and on-the-go in those parts of the Baltics, where home broadband speeds lag that of the speed in our excellent 4G network. In general, we are very proud and excited about the continued growth opportunities in our Baltic business unit.

[indiscernible] (09:29) we commence our investment market. And first, our Dutch operation is now aggressively accelerating its growth. Net sales were up 3% due to strong mobile momentum, offset by fixed broadband, telephony declines and lower handset sales following the BFT regulation earlier this year.

More importantly, mobile end-user service revenue was up 51% or 45% in local currency, as the mobile customer base increased by more than 19% and ASPU grew by more than 20%. Our mobile network economic continue to improve rapidly, providing a strong foundation for continued price leadership. This and the mobile end-user service revenue growth contributed to EBITDA being slightly positive in the quarter, despite a SEK 64 million provision related to a legal dispute regarding historical copper line rental fees which we plan to challenge and to appeal.

On May 17, we successfully launched our new commercial propositions, taking advantage of our unique 4G-only network which has now reached at par with its competitors, only 18 months since its commercial launch. We saw increasing net intake growth to 51,000 and have quickly redoubled on market share of new SIM-only subscribers, because prior to that launch, we were only taking around 8% of the SIM-only market.

As I mentioned before, we're also delighted to see the quick uptake of the new unlimited proposition with nearly 70,000 customers taking it in the first six weeks, from a combination of new intake and upgrading our existing customers.

Consideration has continued to progress on the back of the new campaign, and we won further marketing awards in the quarter including an AMMA award for Media Advertiser of the Year, and a [ph] Spree Award (11:22) for one of the most impactful and creative campaigns, and then [ph] Spin Award (11:27) for the Best Digital Concept.

Data on-loading reached 91% by the end of the quarter. And we now have almost 500,000 active VoLTE users resulting in 50% of the voice traffic now on our own network. On the network side, we continue to expand our excellent LTE advanced 4G network, which is now at 99.6% outdoor population coverage and 91.7% indoor population coverage. As earlier communicated, we expect the rollout to be completed by the middle of next year. So, looking forward, we will continue to invest in growing our subscriber base in the coming quarters. And we do, however, expect a slightly softer growth due to the impact of Roam Like at Home in the immediate Q3 quarter. However, we remain very excited about what we can achieve in the Dutch market now that data and voice is increasingly on our own network and with our unique Challenger brand that is obviously resonating well with Dutch consumers.

We have a fairly empty network and the opportunity to know [indiscernible] (12:34), and then ASPU stays well below [indiscernible] (12:37) in the market, but increasingly higher than what we have in our base. So we continue to believe that our disciplined investment strategy will deliver as we further establish ourselves as the pre-eminent challenger in the Dutch market.

And then moving on to Kazakhstan, our other investment market where net sales were up 35% year-on-year, and we continued our strong momentum in mobile end-user service revenue going by 39% or 21% in local currency. This momentum was built as a result of strong customer growth reaching 6.7 million customers and increasingly larger data bucket.

EBITDA more than trebled year-on-year as we reap the benefits of higher ASPU, improved scale and from JV integration synergies. So now you can see that our JV is delivering on what we promised, enabling a stronger and more sustainable platform for growth and value creation to build from in the future.

Looking at the Kazakh results in a bit more detail, our customer base grew by 5% year-on-year to reach more than 6.7 million customers, and ASPU was up 16% as we focus on selling higher [ph] ARPU (13:51) at higher margin propositions while staying true to our price leadership position in the market. In April, we relaunched the Altel brand to strengthen its premium position. And we're happy with the initial response from the Kazakh population to this new, more premium look and feel to the brand.

And, finally, integration is progressing according to plan. It's a little more than 1,400 sites merged of roughly 1,700 that we intend to migrate and integrate. And the work to complete the integration will continue throughout the rest of this year, and it will be an enabler to further margin expansion in the months ahead. And just before I pass on to Lars, a quick update on the Challenger Program. We're now moving into the final stretch of the program and it very much remains on track and delivering benefits slightly ahead of our own expectations. In fact, we now expect to have achieved around SEK 850 million in annual benefit by the end of this year.

One of the key drivers of our strong momentum recently has been a result of the focus that was put into operational efficiency and productivity over the course of the last two years. The Challenger Program and our Challenger cost position continue to be a top priority for us and will continue to be so even when the Challenger Program ends in 2018.

So, on that note, I'll now pass over to Lars to take you through the financials in a bit more detail.

Per Lars Nordmark

Executive Vice President and Group Chief Financial Officer, Tele2 AB

Thank you, Allison. So, let's take a look at what this sums up to on a group level. We start with mobile end user service revenues, which shares much of our business momentum where we had exceptionally strong growth at 12% in local currencies. In addition, we had some currency tailwind this quarter. So as you can see, the growth was 18% in Swedish krona this quarter and landed at SEK 3.9 billion, an increase of around SEK 600 million.

The unique combination of both strong customer growth and strong ASPU growth in the Netherlands made this market the best contributor this quarter, but also Sweden, Kazakhstan and the Baltics made significant contributions.

Moving on to EBITDA, we had a 50% increase in reported currencies with 11 percentage points coming from FX and M&A and 39% being the underlying growth in local currencies. Sweden was the strongest contributor here and posted an increase of SEK 194 million with a little less than half of that being the acquired EBITDA from TDC. Sweden was also somewhat helped by non-recurring items in 2016. In addition, the Netherlands, Kazakhstan, and the Baltics made significant organic bottom line contribution driven by solid top line development.

If we look at the CapEx for the quarter and indeed for the first half of the year, we can see that the CapEx investments have been low recently. Sweden increased its CapEx versus last Q2. And is expected to increase spending further in the rest of the year and the same is true for Kazakhstan. And as you know, we continued the network rollout in the Netherlands until mid-2018. So, all in all, we expect a clearly elevated CapEx level in the second half of the year. Please note that the cash CapEx for the first half has been at SEK 1.7 billion, whereas the balance sheet CapEx was at SEK 1.4 billion.

That takes us to free cash flow, we had a good cash flow contribution this quarter driven largely by higher EBITDA, but also significant improvement from working capital. Much thanks to Sweden, which improved its working capital position meaningfully this quarter. We have a focused effort to reduce our working capital in the group and see several opportunities to do so.

Keeping in mind, however, that last year we implemented the handset financing in Sweden, which had a significant positive effect on working capital which will not repeat itself this year. Overall, we would expect working capital changes to be approximately neutral for the full-year 2017. To give you a longer-term overview of the evolution of the group's cash flow, we turn to slide 22, showing the operating cash flow defined as EBITDA less CapEx on a rolling 12-month basis.

The blue bar shows the contribution from our mature businesses in Sweden, Baltics, Germany, Austria, as well as headquarter costs. We are pleased to see that the operating cash flow has risen from a level of around SEK 3.5 billion to a little more than SEK 4.1 billion. This is driven partly by lower CapEx, which will be higher in Q3 and Q4, but also by significant increase in EBITDA.

The gray bar show operating cash flow in our investment markets Kazakhstan, the Netherlands, and Croatia. And as you can see, the net investment we are doing in terms of cash flow has declined significantly in recent quarters. This is driven primarily by the gradually improved scale that we are realizing within these growth geographies. While we expect the negative operating cash come from investment market to diminish and turn positive over time, we do expect the contribution in both investment markets and our established markets to take a step down in the second half of the year as we increase our CapEx levels.

Slide 23 shows our net debt position which, as you can see, has risen somewhat after the dividend in the second quarter, but remains well under control in relation to our growing EBITDA. I'd like to conclude this section by talking about our financial guidance for the full year.

We maintain our guidance for net sales of SEK 31 billion to SEK 32 billion as well as for mid-single digit growth in mobile end-user service revenues for the group. While we have been executing above this level in the first half, the effects of Roam Like at Home and tougher comps will slow us down in the second half.

When it comes to EBITDA, we can conclude now that we have been delivering ahead of our expectations in the first two quarters of the year, and we are upgrading our full-year guidance to SEK 6.2 billion to SEK 6.5 billion, driven mainly by strong performance in Kazakhstan and the Baltics and reflecting the Challenger Program being ahead of previous expectations. Please note that in regards to Roam Like at Home, we have included an impact of SEK 200 million to SEK 300 million in our guidance. Also, we will expect expansion cost in Sweden and the Netherlands to be elevated in the second half when you compare it to the first half of this year.

CapEx will, as we said, most likely increase in the second half, but due to timing effects should be somewhat lower than we expected at the beginning of the year, which is why we update the guidance to SEK 3.6 billion to SEK 3.9 billion for the full year.

And with those words, I'd like to hand back the word to Allison to summarize the quarter.

Allison Kirkby

President & Chief Executive Officer, Tele2 AB

So, thank you, Lars. So, in summary the quarter is very much built on the priorities that we've had for quite some time now. And they're to be the customer champion and enthusiast of connectivity, liberating our customer to live a more connected life. As a result, we will continue to monetize data despite the headwinds ahead from Roam Like at Home. And we believe that this strategy and focus will enable us to sustain our unique Baltic Sea Challenger status and strength, and we do expect the significant growth opportunity in the Baltics to continue.

We will also continue to leverage our Challenger strategy in the Netherlands and Kazakhstan as we accelerate towards cash flow breakeven in those markets, and take significant market share [ph] through any (21:09) financially-disciplined manner. Recognizing that our market positions require excellence and financial discipline and operational execution, we will continue to execute on our Challenger Program and our synergy programs, so that our top line momentum continues to flow down to bottom line momentum and improved cash generation.

Our upgraded guidance reflects all of this, but most importantly the confidence we have that our focus on monetization of connectivity will deliver long-term value for our shareholder, our customers and our employees. So that brings us to the end of the presentation and Lars, and Erik and I would be very happy to take your questions.

Operator: Thank you.

Erik Strandin Pers

Head-Investor Relations, Tele2 AB

Thank you, Allison and Lars. Operator, we are now ready for questions.

QUESTION AND ANSWER SECTION

Operator: [Operator Instructions] We will now take our first question from San Dhillon from Exane. Please go ahead.

San Dhillon

Analyst, Exane Ltd.

Q

Hi, guys. So my first question is on Swedish B2B and specifically your commentary on Large Enterprise. Who is being incrementally more aggressive in this segment and do you expect the B2B to remain in negative growth territory for the year, for the remainder of the year?

Secondly, on roaming, I think you had previously guided to a drag of around SEK 200 million for the year. So it appears you have increased by up to SEK 100 million. Does that suggest your early experience of Roam Like At Home has been that you've seen a higher roaming demand from your customers than previously thought?

And finally on the Netherlands, you've done about SEK 230 million of positive EBITDA adjusting for this quarter's one-off. Do you still believe you will be EBITDA breakeven for the year? Thank you.

Allison Kirkby

President & Chief Executive Officer, Tele2 AB

A

Thank you, San. So, taking each of those in turn. Swedish B2B, yes, there was no – we did have a very strong Q2 last year, and that was seasonally strong. But that being said, we are seeing more price pressure in the market as the market we were in particular has tried to retain some of its large contracts, but in lower price.

And so, with that and some contracts unfortunately we lost to [ph] our peers (23:34), we are expecting trends to be fairly muted in the second half of the year because, as you know, this business has longer sales cycles. So does that – what's that – and that is built into our guidance for the year. So slightly softer than we would have wanted, but we are very confident that as the two organizations have now come together and we'll have a combined product portfolio later in the year, that we will build the business opportunity that we expected as a result of merging with TDC. And as I mentioned, we've already won some great new customers just toward the end of the quarter.

Moving on to roaming, as we assessed the great momentum we've had in the first half of the year and look forward into the second half of the year, in early days on roaming, certainly, consumption, and the cost of that consumption, is coming in line with our previous forecast and expectations. But as we were taking the guidance up, we decided to give ourselves a bit more room in that guidance for roaming to be even higher than the original SEK 200 million. And so, in our guidance, we have allowed for up to SEK 300 million just in case consumers consume even more than what we're seeing today. But what we're seeing at the moment is very much in line with our original forecasted expectations.

And then, in the Netherlands, we've had a strong start to the year. Some of it has been driven by one-off. Don't forget we had a SEK 95 million positive one-off in the first quarter. And some of it has been fairly much lower investment in the handset sales, and some of it were just getting much improved network economics.

In our guidance, we are still assuming breakeven for the Netherlands for the year because we want to hold back the potential to continue to invest behind the great momentum that we now have, and it's still a very competitive

marketplace. So, in our guidance, we're still assuming Netherlands will revert to around about breakeven for the year.

San Dhillon

Analyst, Exane Ltd.

Q

Okay. Thank you very much.

Operator: We will now take our next question from Lena Österberg from Carnegie. Please go ahead.

Lena Österberg

Analyst, Carnegie Investment Bank AB

Q

Yes. Good morning. Some questions on TDC, first of all, in Sweden. You say that you had an accumulated effect of SEK 72 million by the end of the quarter, so I was wondering, in Q1, you provided what the actual impact was in the quarter. Could you say how much benefit you had for the full quarter in Q2 so we can see how much sort of – if there is a spill-over effect into Q3?

And then, also if you could please elaborate a little bit, I know you said it's still early days, but so we understand what has the consumer behavior been for Roam at Home. Did you have an sort of uptick? Do you think some of the extra uptick you saw this quarter was ahead of Roam at Home that you may have some benefit now already on revenues, but maybe not the cost, just so we understand how consumers have [ph] accepted (26:55) in Q1 and what you see early in Q3?

Allison Kirkby

President & Chief Executive Officer, Tele2 AB

A

Okay. So, on the first question, yes, Lena, you're right. It was SEK 90 million in Q1 and the incremental amount in Q2 was SEK 53 million. So that will be more like a standard run rate going forward will be the SEK 53 million per quarter, because the vast majority were transitioned during Q2. Yeah.

On roaming, it was – we've only had 15 days in the quarter and, obviously, we're looking at the early behavioral pattern these first couple of weeks of July. We have seen significant uptake. I think our Swedish team are seeing about five times increase, but that is pretty much in line with what we were forecasting.

In the quarter, there is a little bit of an impact from that, where – but it's not material to [ph] put out (27:56), but there is a small impact. And so, at this stage, it's very much in line with our forecast, but as I said on the previous answer, as a result of the strong momentum in the first half of the year, we've accommodated for a little bit more roaming impact now in the second half in the guidance that we've given just in case.

Lena Österberg

Analyst, Carnegie Investment Bank AB

Q

Thank you.

Allison Kirkby

President & Chief Executive Officer, Tele2 AB

A

Thank you, Lena.

Operator: We will now take our next question from Thomas Heath from Danske Bank. Please go ahead.

Thomas Heath

Analyst, Danske Bank A/S (Sweden)

Q

Thank you. A few questions, if I may. Firstly, on unlimited in Sweden, you mentioned brand recognition. Is there any actual intake? And in that case, is the new customers or customers up trading, and sort of how it's just performing compared to what you expected?

And then, secondly, I believe there was a tax case issue you press released earlier this summer. I believe it's already taken a provision on the P&L. I just wonder if there is any cash impact on that, unless you win in an appeal. Thank you.

Allison Kirkby

President & Chief Executive Officer, Tele2 AB

A

Thank you, Thomas. So on unlimited in Sweden, as I said, it's SEK 500. So, it's a big bucket. And the early indicators are that it is both selling, and so both new intake and up-sell within our existing base is ahead of plan. So, very happy with the early indicators and how that [ph] all the whole (29:34) unlimited positioning is really re-establishing ourselves again as the challenger in the market, being the first one to launch that. And it's really helping drive the messaging of Power 2 and the Tele2 brand in general.

In terms of the tax case, I'm going to pass that over to Lars.

Per Lars Nordmark

Executive Vice President and Group Chief Financial Officer, Tele2 AB

A

Yes. Hi, Thomas. So, you're right. We have provided for it, and not just the period that is indicated that we lost, but also up until the point of the report. And we plan to appeal the case to the next instance. If we would lose, it would have a cash impact, it's too early to say when that would be, but we would expect the appeal to take at least a year.

Thomas Heath

Analyst, Danske Bank A/S (Sweden)

Q

That's very helpful. Thank you.

Allison Kirkby

President & Chief Executive Officer, Tele2 AB

A

Thanks, Thomas.

Operator: We will now take our next question from Johanna Ahlqvist from SEB. Please go ahead.

Johanna Ahlqvist

Analyst, Skandinaviska Enskilda Banken AB

Q

Yes. First of all, you mentioned the – that the expansion cost will increase in Sweden in second half, and I'm just wondering sort of if you can give any flavor of the magnitude of that increase.

And then Kazakhstan, I know this was a very, very strong quarter and you see no reason to sort of expect these strong trends to continue. And what do you – are you more confident now in – that you will have an equity value in the end from Kazakhstan?

And then maybe thirdly as well, just on Dutch intake, around 50,000 subscribers this quarter. So, do you expect this intake to be sort of the run rate going forward or are you more optimistic given what you see now with the traction from the unlimited offer? Thank you.

Allison Kirkby

President & Chief Executive Officer, Tele2 AB

A

Hi, Johanna. I'll take them from the last first, and then Lars can finish off with the expansion costs. So, Netherlands intake, so the new propositions were just launched on the 17th of May, so we've only got about five, six weeks of the impact of that in the quarter, but helped accelerate us back about 50,000 in the quarter. I think, our aim is to be consistently taking around 20% of the available market, which is around 50,000 to 60,000 net intake per quarter. And that is what we are continuing to aim for in the balance of the year. So we're not revising that estimate at this point in time.

In terms of Kazakhstan, yes, it's been – it was a strong first quarter. It was an even stronger second quarter. Really happy with what the Kazakh team are doing down there in terms of integration and the commercial funds as we really drive the dual brand strategy.

And as I've said before, we was built towards the 30% market share business and a 30% EBITDA margin business around about the time that we will have the opportunity to serve our put option. And that would, of course, enable further growth in the equity value. And in fact, it was seen in the quarter, we have again reserved an increase in the earn-out due to our partner because we're recognizing that the equity value has again increased on the back of the great trends in the quarter.

And Lars, on Swedish expansion costs?

Per Lars Nordmark

Executive Vice President and Group Chief Financial Officer, Tele2 AB

A

Yeah. [indiscernible] (32:58) on the Swedish expansion costs, we would expect it to be elevated in the second half versus the first half this year. As you know, Q1 was slightly down compared also to Q1 in 2016.

So just to give you a little bit of indication going forward and also coming back to in relation to the guidance, we're not going to give you an exact number there, but we would expect a slight increase in order to continue to queue the very good momentum we've got on the Power 2 campaign.

Allison Kirkby

President & Chief Executive Officer, Tele2 AB

A

And, remember, Q3, last year, and Sweden was fairly low from an expansion cost point of view and then it spiked up in Q4. So, think about that if you're doing your quarterly estimate.

Johanna Ahlqvist

Analyst, Skandinaviska Enskilda Banken AB

Q

Perfect. Thanks a lot.

Allison Kirkby

President & Chief Executive Officer, Tele2 AB

A

Thank you, Johanna.

Operator: We will now take our next question from Maurice Patrick from Barclays. Please go ahead.

Maurice Patrick

Analyst, Barclays Capital Securities Ltd.

Q

Hey, morning, guys, Maurice here. Couple of quick ones from me. First one, Netherlands NPS stats, I think, you gave some numbers for the first quarter showing your NPS versus KPN. Just wonder where that's tracking in the second quarter.

Second question, can you share with us, please, the mobile data usage in Netherlands and Sweden as you often do? Thank you for that.

And then, just a third question, I see your share of SIM only in the Netherlands is now 15%. It was 10% a year ago. Do you think it can grow up beyond 15%, is that realistic? Thank you.

Allison Kirkby

President & Chief Executive Officer, Tele2 AB

A

Thank you, Maurice. I don't have the latest on NPS in the Netherlands, but that is something that I'm looking at Erik if he has it. If he doesn't, then we will get it over to you after the call, Maurice. Of course, we updated that early June, so we [ph] might not have an (34:45) update yet. But we will get back to you.

Mobile data usage in Sweden, Tele2 brand is now, on average price point, 4 gig per month, up from [ph] 4 gig (34:59) in the same period last year. Netherlands is now 2.1 gig per month, up from just under 1 gig in the same period last year. So still very low, but increasingly showing that with the right pricing and great accessibility to great network, we can start to drive Dutch consumers away from Wi-Fi and on to 4G networks that we can monetize.

And then share of SIM-only in the Netherlands, we've seen great momentum to 15%. That 15% was the average for the month of May. And so, only reflects two weeks of the new proposition. So it is our ambition to get to around 20% of the intake of both SIM-only and handset, although we're still well ahead of 20% on headsets at the moment. So we think we can build it furthermore.

Maurice Patrick

Analyst, Barclays Capital Securities Ltd.

Q

Thank you.

Allison Kirkby

President & Chief Executive Officer, Tele2 AB

A

Welcome.

Per Lars Nordmark

Executive Vice President and Group Chief Financial Officer, Tele2 AB

A

Maurice, [ph] if I can add (35:58) perhaps that on your first question, regarding the NPS, we have had some positive results on consideration, following the – after the end of the quarter. So that the consideration level you've seen at 52% at the end of – in Q2, as it risen to the higher 50s in the last few weeks. So that's a positive trend there [ph] is our perception (36:18).

Maurice Patrick

Analyst, Barclays Capital Securities Ltd.

That was great. Thank you.

Q

Allison Kirkby

President & Chief Executive Officer, Tele2 AB

That would drive NPS up, but we will start to try and report NPS more regularly.

A

Maurice Patrick

Analyst, Barclays Capital Securities Ltd.

Yeah. Very helpful. Thank you.

Q

Operator: We will now take our next question from Ulrich Rathe from Jefferies. Please go ahead.

Ulrich Rathe

Analyst, Jefferies International Ltd.

[ph] Thanks (36:35), actually follow-up on some questions that have been asked earlier, on Roam Like Home, first of all, Telenor commented yesterday, on a slightly slower growth but a very material growth in usage, similar to what you're talking about there in Sweden, but they actually said their costs were essentially flat on the basis of significantly lower negotiated wholesale rates. I was just wondering whether you would be able to comment on the unit cost? And whether that has come down and whether that could come down further for Tele2 as well?

Q

Second question is on Swedish B2B, you sort of indicated the future here for the large enterprise pressure. But obviously the another big news is that you have not turned the [indiscernible] (37:22) segment into growth. Just wondering, whether you're willing to comment on sustainability of that area now remaining and grow from here.

And my last question is coming back to the Netherlands, you did say that you want to retain the target of sort of roughly 20% of the available market per quarter. Could you just sort of outline again what the reasons are why you wouldn't push this a bit harder now given that you have this fairly empty network. The network seems to be very good according to the third-party network surveys. So what's the reason not to push this slightly harder at this point? Thank you.

Allison Kirkby

President & Chief Executive Officer, Tele2 AB

Hey, thanks, Ulrich. So, first, on Roam Like at Home, I guess, Telenor did launch Roam Like at Home last year. So they're already comp-ing a period where they had taken an early adopter approach to it. So, I guess, they are – we did know we've just launched Roam Like at Home. So it's a different comparable period.

A

In terms of the unit cost trends, my roaming team continue to do a fabulous job of negotiating the costs down and continue to do so. In fact, so much so that we actually provide outsourced MVNO services to MVNOs in countries around the world. Sky in the UK, for example, we do all of their MVNO traffic for them. So we keep working on the costs to manage it down, but Telenor already launched early last year. So, it's not going to have the same impact on them as it's having on us.

In terms of Sweden B2B, yes, I've commented on Large Enterprise pressure. SME is back to growth. We want to sustain that growth. It's a highly competitive market, but a lot of things are starting to come together. And we've

just launched the Power 2 campaign now into the B2B segment, and that's really pushing the messaging on both for the SME segment and the Large Enterprise segment. So I'd like to see that segment get back to sustainable growth again, and that's our ambition.

And in terms of the Netherlands, why not push harder. I'll be happy if we get more than 20% in any one quarter. As you see, we're well ahead of that in the handset market. But I think, for now, we're just saying 20% is a good target, but I always hope that my team will slightly over deliver on that.

Ulrich Rathe

Analyst, Jefferies International Ltd.

Q

Thanks. Can I follow up and just on that Roam Like Home thing? I mean, Telenor had a almost fourfold increase in volumes. And it's true that they started earlier, but still they had a year-on-year fourfold increase in volumes. And, again, the costs, they say, were essential flat, so they are implying a four – sort of a significant drop on a year-on-year basis to the wholesale rates, which isn't really related to them starting earlier. Are you seeing the same type of units cost reductions by sort of a factor of four or is that something that Tele2, maybe because of scale differences or other reasons, is not achieving? Thank you.

Allison Kirkby

President & Chief Executive Officer, Tele2 AB

A

I don't have those numbers at my fingertips, and we will not guide on that anyway. But we have seen a five times increase in volumes in Sweden, so very similar trend.

Ulrich Rathe

Analyst, Jefferies International Ltd.

Q

Thank you.

Operator: We will now take our next question from Nick Lyall from Société Générale. Please go ahead.

Nick Lyall

Analyst, Société Générale SA

Q

Yeah. Morning. It's Nick at Soc Gén. Could I ask two on Netherlands, please, Allison? The first one on the mobile business and on the current run rate of EBITDA, which is quite a bit below where we were last year. I mean, I was quite surprised at on net voice result by about 10 percentage points from last quarter particularly given the SIM only. So, could you maybe comment on that first? And then, with the NRA's being down, is there any sound of a move back to handsets at all post the BFT legislation? And was this a full marketing quarter? So, should this be in the run rate for EBITDA in the mobile side from here? Is this sort of where we're going to stick up for the next few quarters?

And the final one was on fixed business, the ARPU is still quite substantially down about 7%. I was bit surprised about now given the rule in corporations, so could you just mention really what you're doing on pricing. Are you slashing pricing on broadband as well because subs are still falling? Thank you.

Allison Kirkby

President & Chief Executive Officer, Tele2 AB

A

Okay. So, on the mobile business, the network economics are improving all the time as our network expand outdoor and indoor. And so, that is one of the positive factors that you're seeing in the quarter. What's happening

to handsets post-BFT is what you're starting to see now is the use of handsets in promotions, which is allowable within the regulation that you can do the odd promotional campaign. And I think all operators are taking advantage of that including ourselves.

Is this therefore a good reflection of a run rate going forward? No. We're still within our guidance assuming that for the full year, we will have EBITDA around breakeven for the year. So, we have got room in our guidance to increase expansion costs and investments behind good quality customer acquisition in the balance of the year to keep up our momentum. In terms of the fixed business, was that the Dutch fixed business you're talking about?

Nick Lyall

Analyst, Société Générale SA

Q

Yeah. So, is it the ARPU still seem quite...

Allison Kirkby

President & Chief Executive Officer, Tele2 AB

A

It's the ARPU affected by some of the one-offs or is there any – no, there's no one-off with that. I'm looking at my team here and I'll now really get Lars.

Per Lars Nordmark

Executive Vice President and Group Chief Financial Officer, Tele2 AB

A

Yeah. Nick, there could be a mixed effect here, so we have some business customers in there as well. So, the consumer pricing is obviously different than we're having in the – some of the smaller business segments there. So, there's probably something going on there. And then, we, obviously, have different price points for a single package, dual package, triple package. So, there have been some movements there as well. So, that's probably the reasons for that.

Allison Kirkby

President & Chief Executive Officer, Tele2 AB

A

That's great. Thank you.

Per Lars Nordmark

Executive Vice President and Group Chief Financial Officer, Tele2 AB

A

Thank you.

Allison Kirkby

President & Chief Executive Officer, Tele2 AB

A

Thanks.

Operator: We will now take our next question from Henrik Herbst from Credit Suisse. Please go ahead.

Henrik Herbst

Analyst, Credit Suisse Securities (Europe) Ltd.

Q

Yeah. Thanks very much. I had a few questions as well. Firstly on – in terms of the uptake of the larger than 3-gigabyte bundles. So, it's up a bit year-over-year but it does seem like it's down from – I think it was 69% in Q1, 66% in Q2. So, if you could just explain that a little bit? It seems like odd move. Also, if you could maybe talk a bit which of your bundles or which data bundle is the most popular on the Tele2 brand?

Then, I just also wanted to follow up on Roam Like at Home. So, as I understand, it was just a very small impact from Roam Like at Home on end-user service revenues in Q2. So, if you could just confirm that. And then, last question on CapEx in Sweden, which you're saying is picking up a little bit. Can you maybe talk a little bit about what you're investing in? Are you starting to see congestion in some areas of your network or are you still building out coverage? Thanks very much.

Allison Kirkby

President & Chief Executive Officer, Tele2 AB

A

First question, you're right. The average went down from Q1 and that's because we were particularly driving some kit product in the quarter and data 1 gig. So, there was quite a good intake of that particularly kit focused profit. In terms of which bucket sells the most, it's somewhere between the 5 gig and the 16 gig in Sweden, half driven at the most intake in the quarter.

And then Roam Like at Home, yes, confirming very small impact this quarter. There were some positive benefits in Croatia. Looks like Swedes and Baltic people like to go to Croatia and probably Bulgaria on holiday and that was offset by some negative impacts in Baltics and Sweden. But, overall, it was a small impact in the quarter and on CapEx, Lars?

Per Lars Nordmark

Executive Vice President and Group Chief Financial Officer, Tele2 AB

A

Yeah, it's mainly related to capacity, Henrik. So, we obviously seen an increase in our usage which is positive because we can monetize on it. When you look at the CapEx increase mainly capacity and also some in IT. We talked about that before that we are pushing the digital initiatives within the company. There is also some investments going [ph] into that area (46:37).

Henrik Herbst

Analyst, Credit Suisse Securities (Europe) Ltd.

Q

Thanks very much. Actually just follow up in terms of the usage as well. Is the average or the growth in average usage per sub, is that accelerating the growth rate or is it...

Allison Kirkby

President & Chief Executive Officer, Tele2 AB

A

It's up to 5.4 gig in this traditional Tele2 brand in the quarter, from 4.7 gig last quarter.

Henrik Herbst

Analyst, Credit Suisse Securities (Europe) Ltd.

Q

But year-over-year, is the growth rate accelerating?

Allison Kirkby

President & Chief Executive Officer, Tele2 AB

A

Yes, it is. Yes, it is. It's everywhere.

Henrik Herbst

Analyst, Credit Suisse Securities (Europe) Ltd.

Q

Great. Thanks very much.

Allison Kirkby

President & Chief Executive Officer, Tele2 AB

Thank you.

A

Operator: We will now take our next question from Irina Idrissova from RBC Capital Markets. Please go ahead.

Irina Idrissova

Analyst, RBC Europe Ltd.

Hi. Good morning. Just a couple for me, please. First, on the Challenger Program, could you please quantify for us the contribution from the program at this quarter? And, also, on the CapEx guidance reduction, could you give us some more granularity on the items that drove the change in guidance? And are there any timing effects that we should be considering or, in other words, is there a chance that some of the CapEx will be pushed back into 2018?

Q

Per Lars Nordmark

Executive Vice President and Group Chief Financial Officer, Tele2 AB

Yeah. From the contribution in the program, what we said was another SEK 250 million when you look at the annual benefits, so the annual benefits was SEK 600 million in 2016 and, now, we're running towards SEK 850 million. So, I would say it's about – we're on track to deliver half of those benefits, so about SEK 125 million for the first half year when you compare it to last year.

A

Allison Kirkby

President & Chief Executive Officer, Tele2 AB

CapEx good.

A

Per Lars Nordmark

Executive Vice President and Group Chief Financial Officer, Tele2 AB

Could you repeat the second question, Irina, on CapEx guidance?

A

Irina Idrissova

Analyst, RBC Europe Ltd.

Yeah. Just some granularity around the items that drove the change in guidance? And are there any timing effects that we should be looking for? Is there a chance that some of it will be pushed back to 2018?

Q

Per Lars Nordmark

Executive Vice President and Group Chief Financial Officer, Tele2 AB

No, I think, I mean, what we have indicated is that we would see elevated levels in Sweden and also in Kazakhstan. And I think from a timing and pushing over into 2018 within the guidance of SEK 3.6 billion to SEK 3.9 billion, that's not foreseen to push in a large portion next year.

A

Allison Kirkby

President & Chief Executive Officer, Tele2 AB

This year we built more capacity into our CapEx planning for the year in most of our market, and we haven't needed as much as what we were planning. And some of our digital and IT transformation projects are not costing us as much as we expected either.

A

Irina Idrissova

Analyst, RBC Europe Ltd.

Great. Thank you.

Q

Operator: We will now take our next question from Peter Nielsen from ABG. Please go ahead.

Peter Kurt Nielsen

Analyst, ABG Sundal Collier Partners LLP

Thank you. Yeah. A couple of questions, please. First one, if I can return to [indiscernible] (49:37)

al

Allison Kirkby

President & Chief Executive Officer, Tele2 AB

Peter, you're breaking up.

A

Per Lars Nordmark

Executive Vice President and Group Chief Financial Officer, Tele2 AB

Peter, we can't hear you.

A

Peter Kurt Nielsen

Analyst, ABG Sundal Collier Partners LLP

It's very poor connection. I'm sorry.

Q

Allison Kirkby

President & Chief Executive Officer, Tele2 AB

All right. [indiscernible] (49:52).

A

Peter Kurt Nielsen

Analyst, ABG Sundal Collier Partners LLP

Okay. Thank you. Firstly, on Dutch mobile, as you said earlier, Allison, you're running at a significantly better run rate on EBITDA than previously guided and I guess that the new regulation has lower acquisition costs and you have better network economics. Why would this go up maturing in the second half if you expect slightly soft [indiscernible] (50:14) just secondly [indiscernible] (50:18)

Q

Allison Kirkby

President & Chief Executive Officer, Tele2 AB

Peter, we're losing you again.

A

Peter Kurt Nielsen

Analyst, ABG Sundal Collier Partners LLP

[indiscernible] (50:25) has much to do about it. Can you hear me?

Q

Allison Kirkby

President & Chief Executive Officer, Tele2 AB

A

Okay, Lars. Do you want me to take our first question then? So, Dutch mobile why would it go up in the second half of the year, well, we only launched the new proposition halfway through the second quarter and we are seeing in the early part of the year people were really avoiding pushing handset. We should expect that there will be some promotional campaigns in handset particularly around the October, November periods and so, we're allowing for that.

We're also in the process of completing our network rollout over the next 12 months. And so, our own internal network costs will go up as a result of that. So, we're just allowing for continued investments in a disciplined way in the second half of the year within the guidance.

Peter Kurt Nielsen

Analyst, ABG Sundal Collier Partners LLP

Q

Okay. Thank you.

Allison Kirkby

President & Chief Executive Officer, Tele2 AB

A

Thank you, Peter.

Operator: We will now take our next question from Sunil Patel from Bank of America. Please go ahead.

Sunil Patel

Analyst, Bank of America

Q

Yes. Thank you. Just two questions from myself, please. Firstly, on the Netherlands, when you look at your net adds, can you talk about little bit about which operators those come from and has that changed through this year especially with your recent launch of Unlimited? And [ph] you mentioned (52:02) KPN, Vodafone, T-Mobile and which are the splits there?

My second question is you've increased the Challenger savings. Will we see a return of the mid 30s margin target in Sweden anytime soon? Thank you.

Allison Kirkby

President & Chief Executive Officer, Tele2 AB

A

Okay. So the first one on Dutch net adds, they're coming from all operators, slightly relatively more from T-Mobile than the others. But we've been taking good intake from Vodafone recently as well. And – yeah, so I think KPN is always the lower of the three, but there is good broad base coming from kind of everybody, but slightly more T-Mobile and slightly more Vodafone than KPN. And on Challenger, Lars, do you want to take that question?

Per Lars Nordmark

Executive Vice President and Group Chief Financial Officer, Tele2 AB

A

Yeah. On the Challenger benefits in Sweden, I mean we obviously see the benefits coming through in Nord countries. Sweden is the largest country. It's around 40%, 45% that's coming through in Sweden. Then, when we look at this the Challenger Program, we also talk about the Challenger cost structure internally.

So, going above and beyond the Challenger program, we will obviously continue to focus on making sure that we have a very efficient operation and operate at the lowest cost possible because we believe that's part of our DNA of Tele2 Challenger.

Allison Kirkby

President & Chief Executive Officer, Tele2 AB

A

And that would drive us to higher EBITDA margins across our footprint.

Sunil Patel

Analyst, Bank of America

Q

Thank you.

Operator: We will now take our next question from Robert Slorach from Handelsbanken. Please go ahead.

Robert Slorach

Analyst, Svenska Handelsbanken AB

Q

Thank you. A couple of questions on cost in Netherlands and wireless there. Could you say something about the percentage of gross adds to take a handset now and the difference maybe between Q1 and Q2? And also maybe I missed it, but the roaming cost to T-Mobile in Q2, if you could give us any number on that will be great. Thank you very much.

Allison Kirkby

President & Chief Executive Officer, Tele2 AB

A

Okay. It's about 50/50 handset and SIM-only intake in the quarter. And, obviously, that fully accelerates a bit more towards the end of the quarter, but it was 50/50 in the quarter. In terms of the cost T-Mobile, it's in line with our forecast, and we're going to stop disclosing that now because it's obviously [indiscernible] (54:32) sensitive.

Per Lars Nordmark

Executive Vice President and Group Chief Financial Officer, Tele2 AB

A

Robert, the trend we showed at the Capital Markets Day in Amsterdam, although flattish to slightly falling overall network costs including our own network cost and the international roaming and a falling network cost on a per subscriber base, that's continued.

Robert Slorach

Analyst, Svenska Handelsbanken AB

Q

Okay. Thank you.

Operator: [Operator Instructions] We will now take our next question from Usman Ghazi from Berenberg. Please go ahead.

Usman Ghazi

Analyst, Joh. Berenberg, Gossler & Co. KG (United Kingdom)

Q

Hello, everyone. Thank you for taking my question. I've got two questions, please. Firstly, in Sweden, we do expect that the end-user mobile service revenue growth because of the pressure from B2B and the Roam Like at

Home is going to go to flat to slightly negative in the second half. That's what seems to be implied in your guidance.

And then, the second question which is on the Netherlands again. Breakeven for the entire segment for 2017 implies mobile business doing a loss of around SEK 600 million in the second half versus a positive SEK 140 million in the first half. I mean, that implies quite a huge increase in marketing cost in the second half. I mean, is that the right way to think about this or if you can give any comments on that, that'd be great? Thank you.

Allison Kirkby

President & Chief Executive Officer, Tele2 AB

A

I'm not sure about that second question how – I'm going to look at Erik and Kristoffer to maybe get that because those numbers don't sound right, Usman. But certainly, I would see that significant change and mobile has not been profitable in the first half. We've had made losses in mobile in the first half.

In terms of Sweden mobile end-user service revenue, yes, you're right. It will go flat to negative as a result of Roam Like at Home in Q3 in particular. That would be exciting all along because we had significant move in revenues in our headline numbers in Q3 last year in Sweden.

Usman Ghazi

Analyst, Joh. Berenberg, Gossler & Co. KG (United Kingdom)

Q

Yes. Okay. Just on the Netherlands, I mean, again, I mean your guidance with breakeven applies to the entire Dutch business, is that correct? It's fixed in mobile...

Allison Kirkby

President & Chief Executive Officer, Tele2 AB

A

Yes.

Per Lars Nordmark

Executive Vice President and Group Chief Financial Officer, Tele2 AB

A

That's correct.

Allison Kirkby

President & Chief Executive Officer, Tele2 AB

A

That's correct.

Usman Ghazi

Analyst, Joh. Berenberg, Gossler & Co. KG (United Kingdom)

Q

Okay. So, I guess the question...

Allison Kirkby

President & Chief Executive Officer, Tele2 AB

A

From mobile...

Usman Ghazi

Analyst, Joh. Berenberg, Gossler & Co. KG (United Kingdom)

Q

Yeah.

Allison Kirkby

President & Chief Executive Officer, Tele2 AB

...so mobile in the first quarter was around SEK 50 million low.

A

Usman Ghazi

Analyst, Joh. Berenberg, Gossler & Co. KG (United Kingdom)

Yeah, yeah.

Q

Allison Kirkby

President & Chief Executive Officer, Tele2 AB

And the second quarter was around about a SEK 95 million, SEK 100 million low roughly?

A

Usman Ghazi

Analyst, Joh. Berenberg, Gossler & Co. KG (United Kingdom)

Yes. Exactly. So, the first half, you've done around SEK 140 million loss. I mean, that needs to go up by 3 to 4 times for you to hit a kind of overall breakeven number for all of Netherlands for 2017, right? So, that's quite a big...

Q

Allison Kirkby

President & Chief Executive Officer, Tele2 AB

It goes up, but maybe not to the extent that you're talking about. But we can take that offline...

A

[Multiple Speaker] (57:27).

Usman Ghazi

Analyst, Joh. Berenberg, Gossler & Co. KG (United Kingdom)

Okay. Thank you very much.

Q

Allison Kirkby

President & Chief Executive Officer, Tele2 AB

Thanks.

A

Operator: We will now take our next question from Stefan Gauffin from Nordea Bank. Please go ahead.

Stefan Gauffin

Analyst, Nordea Bank AB

Yes. Well, I was mainly looking into the same type of calculation on the Netherlands as the previous speaker, but I could follow up on the Challenger Program. So, the raised impact for the Challenger Program this year, is this only that you're ahead of plan or is this an indication that the plan can be exceeded?

Q

Per Lars Nordmark

Executive Vice President and Group Chief Financial Officer, Tele2 AB

So, Stefan, that is an indication that we are ahead of plan and we're still shooting for the SEK 1 billion, but we're moving a little bit faster.

A

Stefan Gauffin
Analyst, Nordea Bank AB
Okay. Thank you.

Q

Allison Kirkby
President & Chief Executive Officer, Tele2 AB
Thanks, Stefan.

A

Operator: We will now take our next question from Max Hallam from New Street Research. Please go ahead.

Max Hallam
Analyst, New Street Research LLP

Q

Hi there. Mine's similar to the last question actually. I was just wondering, with the good progress, is there any scope for a new program over and above the existing Challenger Program and whether you could maybe quantify some of those cost savings after this program ends? And, also, with the progress made on synergies to-date, whether there's any room for further synergy benefits to be coming through. Thank you.

Allison Kirkby
President & Chief Executive Officer, Tele2 AB

A

So, obviously, within our new guidance, we reflected the higher Challenger Program benefit this year and the great progress on synergy benefits, particularly in TDC and Altel. Looking forward, we have cost consciousness. That's one of our values in The Tele2 way and cost consciousness as a key part of our DNA. So, I would like to end the program [indiscernible] (59:15), but we will always keep pursuing to have the best lowest Challenger cost structure in the market that we operate by growing onwards, and that is very much a key part of our strategy beyond the Challenger Program.

And I don't want to start talking about synergy expectations outside of 2017, but those Challenger and integration is very much benefiting us this year and we talk to build from that in future years.

Erik Strandin Pers
Head-Investor Relations, Tele2 AB

A

Operator, we're approaching the end of the calling time. Let's take one more question, please?

Operator: There are no further questions on the telephone.

Allison Kirkby
President & Chief Executive Officer, Tele2 AB

Perfect. Well, thank you all. I wish you all a great summer.

Erik Strandin Pers
Head-Investor Relations, Tele2 AB

Thank you very much. That's the end of the call.

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

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