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TEL2 B.ST - Q1 2016 Tele2 AB Earnings Call

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PRESENTATION

Operator

Good day, and welcome to the Tele2 Q1 interim report 2016 conference call. Today's conference is being recorded.

At this time, I'd like to turn the conference over to Louise Tjeder. Please go ahead.

Louise Tjeder - *Tele2 AB - Head of IR*

Thank you. Good morning, everyone, and a warm welcome to Tele2's first quarter 2016 conference call.

Speaking is Louise Tjeder. Beside me I have our CEO and President, Allison Kirkby and our new CFO, Lars Nordmark. We're also sending this presentation via our webpage, tele2.com, so welcome, everyone, that has joined us also via the web.

Allison will start by going through the highlights of the quarter followed by some further financials presented by Lars.

Then as normal procedure, we'll open up for questions where you have the possibility to ask your question either over the phone or via the web.

So with this I hand over to you, Allison.

Allison Kirkby - *Tele2 AB - Group CEO*

Good morning, everyone, and thank you for joining us this morning on what's a beautiful spring morning here in Stockholm.

So, let's start with the highlights from the quarter as we continue to deliver on our long-term strategy.

Our Value Champion, Group mobile end-user service revenue continued to grow in line with our mid-single digit objective in the quarter. We enjoyed a particularly strong quarter in the Baltics; and we saw continued growth in our Swedish consumer business, albeit at a lower level this quarter.

Data monetization continued across the Group, accelerating in March, as a consequence of progressing the Netherland's launch strategy further and the actions we took in Sweden.

In terms of technological development, 4G is now available throughout our footprint, having switched it on in Croatia at the beginning of March and having merged with Altel in Kazakhstan.

As planned, we now have nationwide LTE advanced 4G network coverage throughout the Netherlands. As a result, we have seen a significant increase in the number of 4G customers on our base.

We also now have our first users on VoLTE and can officially say that we are the first 4G-only operator in the world.

On productivity, Challenger Program remains on track to achieve the SEK1 billion saving, per annum, by 2018. Since closing the transaction in Kazakhstan, both cost and revenue synergy plans are well underway. As I've said before, this JV creates a more sustainable and significant player for us in the Kazak market, whilst de-risking our investments there.

Also in the quarter, we've announced the vendors and the plan to virtualize and cloudify our internal network and IT system stack to drive significant efficiencies in the future and prepare for 5G.

In terms of our people and our culture, we're delighted to welcome almost 1,000 new Altel employees to the Tele2 team. They are all now being actively on boarded on the Tele2 way to embrace and live our culture and our value.

It's my pleasure to welcome here today our new Group CFO, Lars, who joins me on the call, and who you'll hear from later.

So moving to the headline financials for the quarter. Monetization of data has been and is still our key priority. We continue to see growth, in the quarter, with mobile end-user service revenue up 4% on a like-for-like basis, which to be clear is on a constant currency basis and includes pro forma for Altel.

Net sales were up 2% like for like, due to lower revenues from fixed broadband and fixed telephony.

Finally, EBITDA, fell almost SEK200 million as a result of the planned increased sales and marketing investments from the Netherlands and actions required in Sweden in the quarter. This was partly offset by positive development in both the Baltics and in Germany.

So turning to the markets in a bit more detail; Sweden first. In Sweden total revenue was impacted by lower equipment sales and declines in both fixed and the B2B segment.

The latter was driven by a decline in SME given the continued price aggression in the market that had continued into the quarter and which we mentioned in previous quarters.

Mobile end-user service revenue was flat down 1% year on year. The continued positive development in consumer is ongoing, albeit lower than we aimed for. But we continue to see growth in large enterprise too, but all of this was offset by declines in SME.

EBITDA was impacted by higher sales and marketing investment focused on regaining momentum in B2B and in Tele2 residential. But it's also worth noting that in Q1 last year we did have a particularly low investment quarter.

The initiatives and the actions that we've taken recently, however, have driven improved momentum in March and we continue to see that in the month of April.

So let's go into Sweden in a bit more detail. I'm sorry, I'm jumping ahead here. So all of that said, consumer is still growing at a lower rate this quarter than we expected to achieve.

The long-term fundamentals of the Swedish business, however, continue to develop positively. First, our dual-brand strategy and a particularly strong Comviq brand equity, and [state of] proposition, continued to drive positive postpaid net intake and positive mobile end-user service revenue, both Comviq prepaid and postpaid during the quarter, resulting in a total consumer growth of 3%.

Tele2's Value Champion strategy continues to attract higher [asset] customers to the larger data buckets. This strategy, in addition to increased network coverage, is driving customer satisfaction to best-in-class levels.

So whilst it was a fairly slack quarter from a revenue perspective, we are comfortable that the foundations we have in place and the actions we have taken will enable further opportunity for data monetization and both consumer and in B2B going forward.

As we now look at the Baltics, we saw good top and bottom-line growth from the commercialization and monetization of our recent 4G investments. Net sales growth was up 7% driven by equipment sales, which is enabling improved penetration of 4G handsets and, therefore, potential for increased data growth across the region.

Mobile end-user service revenue was up 5% overall; and in Lithuania and Estonia 8% and 6% respectively.

EBITDA growth was 6% up, driven by Lithuania, which was up 14%, achieving effective 37% EBITDA margin.

The strong data monetization in the region in the quarter has been very much driven by the ongoing prepaid to postpaid transition; increasing penetration of 4G handsets; data-centric pricing; and increased 4G coverage to 95% for the region.

ASPU development, up 8%, is similar, although slightly ahead of, mobile end-user service revenue development, with mid to high single-digit development in Lithuania and Estonia. If you look at how the penetration of 4G handsets is still only 25% on our base, there's lots of room for further ASPU development going forward.

We were also, in the quarter successful, at securing the 900 megahertz and 1800 megahertz spectrums in the recent Lithuanian auction, future-proofing data monetization for the foreseeable future in that market.

So let's get into the Netherlands now. As expected, we experienced a continuation of the trends seen in the fourth quarter into the first two months of this year with momentum accelerating in the month of March.

For the quarter net sales were up 3% driven by increased equipment sales and mobile revenues, offset by declines in fixed, and broadband, and telephony.

Mobile end-user service revenue was up 6%, but with a significantly higher run rate at the end of the quarter than at the beginning.

As part of the launch strategy, EBITDA was impacted by the sales and marketing investment, although partly offset by a EUR7 million one-off benefit from a renegotiated property lease in the quarter.

So let's get into the Netherlands in more detail, so you can understand how we are gaining momentum.

If you recall at launch our primary focus was to build brand awareness, disrupting the handset section of the market, and grow the share of VoLTE-enabled handsets in the base. We launched the disruptive handset offer. In Q1, we continued to focus on putting in place the additional components necessary to enable higher customer-based growth.

In February the 4G handset penetration in the Dutch mobile market allowed us to launch a SIM-only -- a disruptive SIM-only offer, and we saw good growth throughout the quarter on the back of that.

We also completed our handset line up by introducing the iPhone into our handset portfolio at a disruptive entry price.

The SIM-only and iPhone launches had a step-change impact on our growth through the quarter. Share of new postpaid contracts, so all new postpaid contracts, handset and SIM-only, jumped from 12% prelaunch to 20% in February, and to 25% in March, based on the information we just got last night from GfK. In March, if you recall, that's when all element of our planned strategy were live.

So brand awareness, consideration, 4G customers in the base, and share of available switchers, built sequentially across the quarter.

On the fixed side with a growing VULA high-speed fixed broadband footprint, we have been able to stabilize our customer base after four quarters of decline.

Operationally, we've been focusing very much on improving 4G on loading to support our future profitability and increase the freedom that we have in our offer.

We have continued to improve the network coverage throughout the quarter, but also put processes in place to improve our steering towards 4G customers, which delivered a higher ratio of 4G versus 3G handsets in the base. At the end of Q1, our data usage on our own network had increased to 61% from 27% pre-launch.

All of that being said, churn is still higher than we'd like, mainly in 3G, but continues to dilute the positive development in gross intake that we've seen since launching all elements of our plan. So if there's one thing we want to fix going forward, it's to reduce churn going forward. Work is very much underway there.

Finally, on the network side, we continue to improve both our outdoor, as well as our indoor, coverage. As planned our LTE advanced 4G network reached nationwide outdoor population coverage by the end of the quarter. We're now above 97% outdoor, and 78% indoor.

P3 earlier in the quarter also conducted a benchmark study and we achieved nine out of 10, which showed that, whilst still in rollout phase, we're already on a par with the other three MNOs in the country.

Now, in the last week of March, we have our first users on VoLTE and can now officially say we're the first 4G-only operator in the world. We expect to enable VoLTE for all our consumer and B2B customers during the third quarter.

So overall, good progress in the quarter and we remain absolutely committed to our disciplined investment strategy in the Netherlands as we further establish ourselves as the pre-eminent challenger in that market.

So let's go into Kazakhstan. We saw underlying mobile end-user service revenue growth in constant currency, up 31% from a higher customer base in what is an intensively competitive environment.

The competitive environment, expansion costs, and the devaluation of the tenge, impacted EBITDA in the quarter, but we were still able to deliver a positive sum.

As I said earlier, the closing of the transaction and the steps we've already taken on cost synergies and market pricing, will enable a stronger and more sustainable platform for growth in the future.

Since closing just seven weeks ago, we have already launched 4G to the Tele2 customer base and national voice roaming to the Altel customer base; and, we have started executing on the synergy plan.

Also, as of April, we have discontinued Altel's unlimited data offering as part of the rationalization of the bundles offered by the new JV. These unlimited bundles were eroding network capacity and quality of service, and were obviously unprofitable to us. So this is a critical part of the integration plan.

As you can see, this will result in an increase in the price we charge per gig to around KZT168, which is around $0.50, so still extremely attractive considering bundles in the market are somewhere in the 10 gig to 30 gig range. Integration plans are progressing well.

Briefly before I hand over to Lars, I just want to give you an update on Challenger Program, where we very much remain on track to achieve the SEK1 billion target per annum by 2018.

We are showing good progress. We have 60 initiatives in place and the vast majority are all very much focused on execution now.

In the area of simplification, we have defined a new approach to product development throughout the Group and are on way to harmonize around half of our product developments. We started to execute on simplified product portfolios and expect to see results from this in the end of 2016 and onwards. Already we have simplified the product portfolio in Estonia, down by about 50%, and in Croatia are closing almost 80% of the product portfolio.

In terms of improved discipline, we are seeing an increase in the spend we manage strategically and are well underway towards our target of 80%.

As an example, we're implementing a consolidated approach for the Group within handset management, covering both purchasing and campaign to better leverage scales and coordination across the Group.

The strength of the Samsung Galaxy 7 campaign is a result of a joint effort, not only resulting in campaign benefits, but also in great efficiencies in working capital. So it's not just in our OpEx that you'll see the benefits from Challenger ongoing, you will also see revenue opportunity and working capital opportunity too.

In consolidation, I mentioned previously, we decided to move our network and IT functions into the Cloud to cater for 5G using network function virtualization, in order to enable a smarter, user friendly, future proof and even more cost efficient internal management of our network and IT stack.

This shift of technology will enable us to deliver a wider set of services for our customers within all segments, including business, consumer and more importantly to enable development in the Internet of Things division.

In transformation, as you saw in the results, German EBITDA is benefiting from last year's restructuring, and the new operating model we launched in October, allows us to deliver economies of scale throughout the Group. We've already seen now around 100 FTEs outsourced to India, providing support to our Swedish, Dutch and finance operation.

So on that note, I'm now going to hand over to Lars.

Lars Nordmark - *Tele2 AB - Group CFO*

Thank you very much, Allison; and good morning, everybody. Let's turn page 14, for an overview of the end-user service revenue development.

On the left-hand side, you see the reported figures over the last five quarters showing a year-on-year decline in Q1, of this year, of 1%. On the right-hand side and looking at the separate operations we can see good development in the Baltics driven by good improvement in the ASPU and shift from prepaid to postpaid.

In the Netherlands have seen an increase [too] by customer growth and in Kazakhstan due to the valuation of the tenge, we experienced a decrease, year on year, for our operations over there.

Looking at the quarter from a constant currency and pro forma perspective, we saw a healthy growth of 4% year on year, where the Netherlands, Baltics and Kazakhstan were the main contributors.

Moving to EBITDA on the next page, we reported decline of 14% year on year. As expected, the Dutch operations were impacted by the investments related to our commercial launch.

In Sweden, we have increased variable spending in fixed sales and marketing to regain topline growth. In addition, we also saw some tailwinds in Q1 of last year. These investments had a negative impact on EBITDA in the quarter this year.

For the remaining countries, we have seen strong positive results coming through for the Baltics, as well as good bottom line impact from Germany, where we restructured the business in 2015.

In Germany, we had nonrecurring items of approximately EUR3 million to EUR4 million to the quarter of this year.

Turning to CapEx, we saw an increase of 23% versus the same period last year. This was primarily due to an increase in the Netherlands and the Baltic operations. Specifically, the increase in the Baltics was a result of us acquiring the 900 and 1800 megahertz licenses in Lithuania, in the amount of SEK123 million. Please note that only SEK26 million was actually paid in cash and the remaining amount will be paid over the next 15 years.

CapEx for the Netherlands increased due to investment in fixed broadband, where we continue to strengthen our ability to offer competitive offers in this section with speeds up to 100 megabits per second.

On the next page we see that the cash flow was at approximately the same level as for Q1 of last year. The improvement in interest is related to negative impact in Q1 2015 as result of FX swaps for the Norwegian operation.

We have seen improvement in the change of working capital, mainly due to Sweden where they have launched an external financial program for handsets during the first quarter this year.

The one-offs were mainly related to costs associated with our Challenger Program.

Now, let's look at our debt position and our leverage. Our economic debt to EBITDA was at 1.7 at the end of the quarter. The chart also reflects the upcoming dividend payment, which will take leverage up above 2. This is in line with our previous communication where we have said that we will be about 2 during the investment phase in the Netherlands.

Just to finish on economic debt, which is net debt excluding liabilities from Kazakhtelecom and liabilities guaranteed by Kazakhtelecom, also reflect the fact that we will not be require to provide funding to the Kazakh business in the foreseeable future.

And let me end on confirming our guidance, which we communicated during our last call. Please also note that the mobile end-user revenue is based on constant foreign exchange and pro forma.

And with that, I'm going to hand back to Allison.

Allison Kirkby - *Tele2 AB - Group CEO*

Thank you, Lars. So just to summarize, our priorities remain and very much focused on five key areas.

One, to maximize our dual-brand strategy in Sweden to regain momentum in what is our core market.

Two, to monetize 4G in the Baltics and now also in Croatia.

Three, accelerate our growth in the Netherlands as our investment establishes us as the pre-eminent challenger.

Fourth, is to integrate our JV successfully in Kazakhstan and drive both the cost and revenue synergies.

And finally, to continue to execute on the Challenger Progam.

So as you will see, we remain totally focused on further data monetization across our businesses, in order to maximize long-term shareholder value.

Thank you. That concludes our presentation for today. Both Lars, Louise and I will be very happy to take your questions now.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions). Nick Lyall, Soc. Gen.

Nick Lyall - *Societe Generale - Analyst*

A couple of questions on the Netherlands please, Allison. Can I ask, firstly, on the -- is it possible for you to tell us the 3G churn? Is it similar to last quarter?

Also, you mentioned the P3 test, I think in the release, it also looked like T-Mobile did very well in those tests as well. So again on the subs side could you tell us how much you assume in the long term, how much share do you assume to -- is going to come from T-Mobile in your assumptions?

And the second one was on the fixed line side and the margin fall. Could you explain does have anything to do with one-off costs on VULA, or where does that margin come from, it's slipped below 20% please? Thank you.

Allison Kirkby - *Tele2 AB - Group CEO*

Okay. Thanks, Nick. So yes, 3G churn was -- it was similar to last quarter. I think there's still the sub-brands and the MVNOs are still being very aggressive at that end of the segment -- end of the market. But that's fine, because those customers would be unprofitable to us anyway.

What we are now seeing though is we've got 60% of our customer base is now 4G, so that's a really positive development.

In terms of the P3 test; yes, T-Mobile did well but we got nine out of 10 and it was taken in January. We built the network further between January and the end of March, so basically we're already on a par with the others.

Regarding taking share from any one player in the market; we are taking share from everybody, at the moment. We're taking 25% of all available new post-paid contracts. So we are doing well against everyone, and we're still keeping firm to our 20% long-term target, market-share target.

Then finally on fixed line, I don't think there was any one-off negative impact in the quarter. I think that's just a reflection of the business declined again, and we have an increasing percentage of the business off-net now as [an] on-net.

But gross margin was pretty stable. There might be some marketing costs that are being allocated in that area, because of promoting the Tele2 brand moment. But as I looked at gross margin I think it was pretty stable.

Nick Lyall - *Societe Generale - Analyst*

So in terms of VULA, it's still a very small effect for the quarter, is it? It's not an indication that VULA's going to bring margins down substantially below 20% or anything like that?

Allison Kirkby - *Tele2 AB - Group CEO*

No, no. I think, as we've always said in VULA, VULA will stabilize the customer base and that's what we've seen. It's the first quarter that we haven't declined in a year -- in over a year.

What you're seeing is, as we've always said, our aim is that VULA would help us drive ARPU up. Therefore, the margin dilution would not be as big if it was all being sold at the same price.

But we're still early days in VULA, and as I said gross margin was stable in the quarter.

Nick Lyall - *Societe Generale - Analyst*

That's great, thank you.

Allison Kirkby - *Tele2 AB - Group CEO*

Thanks, Nick.

Operator

Henrik Herbst, Credit Suisse.

Henrik Herbst - *Credit Suisse - Analyst*

I've got two questions please, firstly on the Netherlands. I'm just trying to tie together your OpEx spend or EBITDA loss in Q1 versus your full-year guidance of, I guess, an average of SEK200 million to SEK300 million loss per quarter, and how I should think of your EBITDA loss as your subscriber momentum ramps up, and given that you're now in Q1, already underlying SEK290 million EBITDA loss.

And then secondly, in Sweden, I would just be a bit interested in hearing what you're actually doing with this incremental spend? What is it going to and, I guess, for how long do you think you'll maintain a higher spending level, and what do you expect it to result in? Is it improvement in ASPU, you'll migrate customers off to bigger data bundles, or will it be better subscriber trends? Thanks very much.

Louise Tjeder - *Tele2 AB - Head of IR*

Okay, thank you, Henrik, for your question. The first question on Netherlands and the OpEx spend, and what we have been referring as the [mobile-aided] losses of SEK200 million to SEK300 million on the quarter. Allison, if you could answer on that question, how that would [build up] and then we'll reveal that momentum in the customers?

Allison Kirkby - *Tele2 AB - Group CEO*

And then I'll just take Sweden afterwards. So, hi, Henrik, good morning.

So, yes, you're right, underlying EBITDA loss in mobile for the quarter was around SEK290 million, which, as we said, we will be around the SEK300 million per quarter for the year. That is still our projection as we look forward. So no change to that forecast, based on what we've seen in the first quarter.

In terms of Sweden, what are we doing? So there are, I guess, three elements to the plan. The first of those was always part of the plan anyway, which was the spring campaign on Tele2 residential, which was very much to focus on data and start to stimulate trade-up of the bundles again, and to keep that RPU development. So that's the first part of the plan.

The second part of the plan was to look at third-party channels in the consumer segment to ensure that we were competitive in both direct, whether that be online or in our stores, but also in the indirect channel where we did not prioritize last year.

And then the third aspect is in the B2B SME area, where again focus on third-party channel development and also starting to be more competitive against some of the below-the-line offers that have been out there.

Now, just a reminder, last Q1 2015 it was a low sales and marketing investment quarter anyway. If you recall, around half of the benefit we got from lower expansion costs was because we'd spent it in Q4. The incremental spend in the quarter is not as much as the year-on-year trend, because we had a very low investment quarter last year.

So you shouldn't expect to see that impact in all the quarters going forward. Yes, a bit higher, at the moment, but we are seeing good early impact. As I said there, we already saw momentum improve in March back to the levels that we aim to have in our Swedish business. That has continued into April. We are seeing the intake of the new customers in the Tele2 brand are definitely trended towards higher ASPU bundles.

So our Tele2 focus is much more about ASPU development, encouraging the higher-value customers to be with us, and stay with us, because we give them bundles that give them more freedom to stream and surf, and not have to worry about hitting the top end of their bucket.

Then, in the B2B SME segment, and in the Comviq segment, that's a mix of both ASPU development and attracting new subscribers.

Henrik Herbst - *Credit Suisse - Analyst*

Great, thanks very much, very clear. Just, if I can follow-up on the Netherlands please. So as your -- I guess as your subscriber adds goes up, there needs to be costs coming out somewhere else, if you're going to stick with SEK300 million; can you maybe explain that please?

Allison Kirkby - *Tele2 AB - Group CEO*

Well, as you heard, we're already getting 61% on-load on our own network. The more we have the customers consuming on our network, the more the cost of the roaming goes down.

Henrik Herbst - *Credit Suisse - Analyst*

Thanks very much.

Operator

Andreas Joelsson, DNB.

Andreas Joelsson - *DNB - Analyst*

Could you maybe just give us some indication of how much spending you increased in Sweden and also maybe the -- a comment on the ASPU in Sweden, which is coming down, is that entirely related to the different mix in the subscriber base with more Comviq versus Tele2; and maybe also then give a sort of an indication of how much more ASPU and Tele2 customers' spending versus a Comviq customer?

Louise Tjeder - *Tele2 AB - Head of IR*

Thank you, Andreas. Three questions: if you could give, Alison, some indication on the spending in Sweden? And the second question on the ASPU coming down if that is due to the mix in the base? And if you could give an indication on the ASPU Tele2 and how that's trending?

Allison Kirkby - *Tele2 AB - Group CEO*

Okay. So I think if you look year on year what with Sweden down almost EUR100 million roughly, so around EUR50 million. Of that was us getting back more normalized levels of sales and marketing investments, because we were very low in Q1 last year.

The balance, EUR50 million, around two-thirds of that was -- we had real tailwind last Q1 from the changing price plan from the old proposition into the new bigger bucket.

Then the final third is probably roughly around the incremental spend in the quarter.

So it's nowhere near the EUR100million, so just to reassure. I would expect our spending to be slightly higher, in line with Q1, in the next couple of quarters.

In terms of ASPU, yes, ASPU is down and it is mainly because of mix. Comviq was very strong throughout the course of 2015 and has continued to be so in 2016. The average ASPU of Comviq is probably about, what, 40% lower than Tele2? 20% lower, sorry. I don't think we disclose that, do we, Louise? No, we don't disclose it, so it's about a 20% difference between the two.

What we are seeing now though a real focus on data and the focus on getting back to the trading up that we were doing in the back end of 2014 and the early part of 2015 is already showing that the new intake coming in Tele2 is coming in with higher ASPU. So early days, but we're seeing positive development there.

Is that all your questions, Andreas?

Andreas Joelsson - *DNB - Analyst*

Yes. I just had one more on the Netherlands. You mentioned that the measures you have taken in Sweden had a positive impact in March and also into April. Is that the same in the Netherlands, after you launched the SIM-only offering and the iPhone, that continues in April?

Allison Kirkby - *Tele2 AB - Group CEO*

Yes. I think the quarter -- January/February was very similar to Q4 and March, as planned, because we were switching on the final elements of -- or the next stage of our elements of our launch plan in the Netherlands, we saw Netherlands really spike up in March and we've seen the same in Sweden. And that has continued -- and it's continued into April.

And so the market share results, that 25% share of all new postpaid contracts, handset and SIM-only, just came in last night and that jumped from 20% in February to 25% in March.

Andreas Joelsson - *DNB - Analyst*

Perfect. Thanks.

Allison Kirkby - *Tele2 AB - Group CEO*

Thank you.

Operator

(Operator Instructions). Roman Arbuzov, UBS.

Roman Arbuzov - *UBS - Analyst*

I've got two on Sweden and one on the Netherlands. So on Sweden, you've mentioned that the momentum of the business in March is already improving. So could you please just provide more color -- is it your initiatives that are already starting to bear fruit, or is it the competitive environment that is improving?

You've also mentioned that the business is performing in March close to the level with which you are happy. So just to check, which level is that? Is it the 2% to 3% mobile end-user service revenue growth that you have previously talked about as your full-year target for Sweden mobile?

And then for the Netherlands, just wanted to check if your strategic thinking about that operation has changed in any way following the announcement of Vodafone and Liberty of forming a joint venture in that market? Thank you very much.

Louise Tjeder - *Tele2 AB - Head of IR*

Thank you very much, Roman. So the first two questions on Sweden: the momentum that we are speaking about in March improving, is that a result of the initiatives or competitive -- competition? Also, on the levels that we are in March, do you mean that that is the 2% to 3% mobile revenue growth than we have been talking about in Sweden?

Allison Kirkby - *Tele2 AB - Group CEO*

Okay, so the momentum improving, you know the B2B SME segment remains very competitive. So we're seeing no change in the -- how fierce competition is there, but as I said, the initiatives are having an impact.

In terms of the consumer segment, I think no real change in competitive pressure there either. We have just strengthened the plan that we were always planning to do, which was about pushing the data message and returning to ensuring that we were getting the right trade-off in our base.

I think when I have been speaking to you and others over the last few months, Roman, I have expressed my disappointment at how some of the branding and communication was not getting across some of the great value and great quality that we can deliver to consumers. I think what we're now seeing is that is starting to work as we have focused on data again rather than focusing on bring-back, which was rather confusing for the consumer.

So, yes, that has returned us to levels that I feel this business is able to deliver over the medium to long term, which is 2% to 3%.

In terms of the Netherlands, has our strategic thinking changed? No, we are very much focused on building a pre-eminent challenger in that market that really focuses on brilliance, delivering great quality, coverage and a great source for consumers to consume lots of data at a great price and that's what we remain focused on and you know. It will be great if Vodafone and Liberty are distracted for the next 18 months trying to integrate themselves.

So, no, no change for us; very much focused on building another pillar to our value creation story.

Roman Arbuzov - *UBS - Analyst*

Thank you very much. Can I just squeeze one more in on Kazakhstan please? In terms of the put option that you have three years from now, so keeping the business or potentially selling out. What's your thinking on that front and what are the perhaps particular catalysts that would make you go either way?

Allison Kirkby - *Tele2 AB - Group CEO*

Well, at the moment, we're absolutely focused on integration, Roman. We have just started the integration; it's going well. We are still positive about the impact that we can have on that market now that as a combined entity we have 22% market share and the vast majority of data market share.

So that's where our priorities are at the moment. We'll decide what we want to do in three years as we see how the business develops between now and then.

Roman Arbuzov - *UBS - Analyst*

Thank you so much.

Operator

Ulrich Rathe, Jefferies.

Ulrich Rathe - *Jefferies - Analyst*

Maybe one on Germany and one on the Netherlands. Germany, you sort of talked about the changes due to your shift last year. Is the first quarter now representative of what we should expect, or is this just a ramp and things could get even better?

Also, just to clarify, the CFO comment there of these various one-offs, which you indicate in the report only summarily. I heard EUR3 to EUR4 million. Can you confirm that and also that is a positive one-off, right?

In the Netherlands, one can interpret the sequence of events slightly differently. One could argue that in the fourth quarter the competitors have tried to stonewall the launch a bit with their own measures and that Tele2 was forced into adjusting on the SIM-only front a bit.

What confidence do you have that the status quo that you have achieved now and the competitive balance will not be disrupted by competitors from here? Do you see them having spent their powder and now Tele2 can execute, or do you think there's a risk that they will take further measures which would undermine the improved trends you're seeing in mid-March and April? Thank you.

Louise Tjeder - *Tele2 AB - Head of IR*

Thank you, Ulrich. Lars, if you can answer the first question and elaborate a little bit on Germany, and if they should expect this level going forward. Then, Allison, if you could answer on the [NL] question.

Lars Nordmark - *Tele2 AB - Group CFO*

Sure. Hi, Ulrich. So when you look at the German operation the way you should look at it is that we had about EUR3 million to EUR4 million non-recurring items in Q1 and you should not expect that go forward. And they were positive, correct.

Louise Tjeder - *Tele2 AB - Head of IR*

Thank you, Lars. And then Allison, if you could elaborate a little bit on the [Netherlands]?

Allison Kirkby - *Tele2 AB - Group CEO*

But the German team have done a fab job there, I must say and it just shows you when you focus a team on a set of metrics that's all about cash generation, it's amazing what they can do.

So yes, Q1 is not representative going forward, but we're still going to be in a better position going forward than would have been if we'd continued without the current strategy.

On Netherlands, you reckon they stonewalled us in the fourth quarter, do you, Ulrich, and we were forced into adjusting our plans? Absolutely not. We always planned to become more disruptive in SIM-only when we felt that it was the right time to do it.

If you recall, for us to have gone disruptive on SIM-only when we were only unloading 30% of data onto our own network, would have not been a very financially disciplined way to do it.

So it was always our plan to wait until there was higher penetration of 4G handsets in the base and for our network to have been rolled out further before we became more disruptive on SIM-only; and we were able to take that decision in February.

It was always our plan also to become more disruptive when we had the iPhone and we got the iPhone on February 23. All of those plans came into play in March.

The market has been competitive since we launched, before we launched, since we launched and it continues to be competitive. I believe that we are performing well in a competitive environment.

Ulrich Rathe - *Jefferies - Analyst*

Okay, thanks very much. Thank you.

Operator

Victor Hoglund, SEB.

Victor Hoglund - *SEB - Analyst*

Three and then maybe I have a question here if I may. First on postpaid, did you see Tele2 brand high end Sweden is that positive trending out of Q1 the customer intake or negative?

You say that SMB is tough and Comviq is doing good. I was just asking specifically on the Tele2 postpaid brands.

And then secondly on the Dutch market. Just a quick question here on the metrics that you specify on spontaneous brand awareness and your share of the churn, it seems like it's slightly down from Q4 or maybe I'm seeing this wrong. Could you just elaborate a bit on how you view that? Maybe it's a no issue?

And then on Kazakhstan can you just repeat what you said on expected effects from the roaming agreement and the network rollout that you made on ARPU customer intake and maybe profits as well?

And then just to go back to your question on Germany, can you just clarify is it SEK3 million to SEK4 million or euros, the one-off? Thank you.

Louise Tjeder - *Tele2 AB - Head of IR*

Victor, could you clarify the third question? You said Kazakhstan and roaming. Could you clarify that one?

Victor Hoglund - *SEB - Analyst*

Yes. In the presentation you mentioned that the effects now from the JV is that you have a better network and you can do better offerings. I didn't really hear what you said, so maybe you can just repeat that?

Louise Tjeder - *Tele2 AB - Head of IR*

Okay. So, Allison if you could answer the question how the postpaid brand for Tele2 momentum and then, also, on the Dutch market and the brand awareness that is slightly down. If you could elaborate on that, and then again on the Kazakhstan?

Victor, the fourth question was --?

Allison Kirkby - *Tele2 AB - Group CEO*

I got that, it's okay. I'll take that German question first. Yes, that was euros, EUR3 million to EUR4 million in the quarter benefit that -- unlikely to see in the quarters going forward.

So start with Sweden. Tele2 residential, so premium postpaid as you said, in B2C. The subscriber base was fairly flat in the quarter, so we didn't really lose any, but we didn't really gain any either.

In the Netherlands spontaneous brand awareness. What we had in November/December was very high advertising levels; we were on air a lot. That came down a bit during January, February. It ramps up again now; we've got new advertising on the air that just went on last week.

So brand awareness, does spike up and down, based on how often people have seen it. It is still, despite all the other channels, mainly television that drives that.

So I think we were at 44% in December, and so it's gone down to 40%, and that's only February. We've not got the March brand awareness yet. I think it's February, going into March.

So as I said, that will change. The one that's more positive, and I think shows much more sustainability is consideration. So we're up to now, over 50% of people would consider Tele2, and that's a significant uplift, since prelaunch. So I think that is very positive.

In terms of Kazakhstan, so we are now able to offer 4G to the Tele2 customers, in 77% of the country ;and we're able to offer national voice roaming to all of the Altel customers, as a result of the JV, just seven weeks into the JV.

In terms of the offers, we announced in mid-March that we were removing the Altel unlimited data plan, that were very much unprofitable and were eroding network capacity and quality of service.

As of April, they have been replaced with bundles that offer a price of around KZT168 per gig, which is roughly $0.50, for a bundle size that's somewhere in the 10 to 30 gig range.

Victor Hoglund - *SEB - Analyst*

Perfect, thank you very much.

Allison Kirkby - *Tele2 AB - Group CEO*

Thank you.

Operator

Thomas Heath, Danske Bank.

Thomas Heath - *Danske Bank - Analyst*

Firstly, just a follow-up on the Netherlands. What you could say about the traction in postpaid handset versus SIM-only. Are these pulling equal share of the weight?

Then secondly, on Netherlands again, you mentioned you want to reduce churn in the 3G base, but at the same time, you say that you make no money off these subscribers. So what's going on there?

And then thirdly, Challenger program, you mentioned some positives coming in by the end of 2016, I believe, is that Q4, in our language? Thank you.

Allison Kirkby - *Tele2 AB - Group CEO*

Thank you. So the traction in -- we're still slightly more ahead on traction and handset versus SIM-only.

So if you recall last quarter, we were focusing on the handset only segment, because that's what our priority was. So the market share we were giving you was just in that segment, because we are selling into both segments now, quite practically. We think the new market share information we're giving you is much more representative.

But it's about, since March, it's about equal, but we made more inroads in handsets between November and March, than we did in SIM-only, because SIM-only started to really improve when we switched on the SIM only deal, towards the end of February.

In terms of reducing churn, yes, very good point. I should be quite happy to lose all my 3G customers, but my point there is there must be some of the 3G customers that we could convert to 4G, before we lose them. So we should try and convert them first to 4G, but if we cannot convert them, absolutely, we should just let them go.

Then in Challenger program, yes, I think it was on the call I mentioned that some of the simplification and product harmonization initiatives will start to come through in Q -- towards the end of the year.

Yes, the simplification and product harmonization piece was always one that would start to come through end 2016 and in 2017. I think yes, it will be a little bit in Q4, but that will build into 2017.

Thomas Heath - *Danske Bank - Analyst*

That's very helpful, thank you.

Allison Kirkby - *Tele2 AB - Group CEO*

Thank you.

Operator

(Operator Instructions). Keval Khiroya, Deutsche Bank.

Keval Khiroya - *Deutsche Bank - Analyst*

I've got two questions on the Netherlands, please. Firstly, you sound a lot more confident on the data use on your own network. Should we therefore expect the total roaming payments to T-Mobile to fall this year? And if so, how much by? I think previously you have said they would rise 2016.

And secondly, you have this metric, the share of total postpaid new connections, can you give any color as to how large this pool actually is? And in Q4 if I just take the change to the total postpaid subs accounted for by the three largest MNOs, it was around 90,000. So this pool I thought maybe a little bit small, if you are indeed tapping on that to reach your market share targets? Thank you.

Louise Tjeder - *Tele2 AB - Head of IR*

Hello Keval, thank you for the question. So Allison, back to you again, on the data use on our own network, and what you are thinking about the check to T-Mobile, going forward. Yes, and then the share of total post-paid.

Allison Kirkby - *Tele2 AB - Group CEO*

So basically the roaming payments to T-Mobile are flat, year on year. We are very happy with how the network is performing, and how we are pushing more and more of that data consumption onto our network.

I don't want to talk about what those payments might be, going forward, because as we increase the customer base and, whilst we're still rolling out VoLTE, then we will still be reliant on the T-Mobile network for a period. But we're happy with the progress we've made so far in that area.

In terms of how I view the GfK report, the trends that they give us, this is a share of all new postpaid contracts, or people that are looking to switch in the month. I believe that the fact that we are getting 25% of those, no matter what the size of that market is, shows that we are attracting 25% of the market to come and switch to Tele2; and that is very positive.

Actually, when I look at the trends in terms of the total base that is now switching, we have stimulated more switching in the market since we launched. So there's been a spike in the available consumers wanting -- considering moving to a new provider and we are taking 25% of those.

Keval Khiroya - *Deutsche Bank - Analyst*

That's clear. Thank you.

Operator

Usman Ghazi, Berenberg.

Usman Ghazi - *Berenberg Bank - Analyst*

I have three questions please. Can I just ask firstly, why the EUR3 million to EUR4 million or SEK32 million roughly was included in adjusted EBITDA in the morning? It just gives a misleading picture of what was achieved versus consensus.

The second question was on the mobile market. I was just wondering, could you indicate what revenue decline you're seeing in the SME segment, because you've said that, overall, service revenues were down and consumer was up around 3%? So what was the SME decline please?

And then related to that, when you talk about mid-term to grow mobile service revenues in Sweden by 2% to 3%, what is your assumption on what happens to the SME market in that assumption? Thank you.

Louise Tjeder - *Tele2 AB - Head of IR*

Thank you, Usman. So the first question is if you could explain why the EUR4 million was not included as a one-off instead of in EBITDA.

The second question is on the mobile market, if you could indicate the revenue decline in SME.

And the third is on the mid-term target of the 2% to 3%, what underlying assumption is on the SME as well.

Allison Kirkby - *Tele2 AB - Group CEO*

Well, on the first question, it would have been wrong to put it below EBITDA, because it is real underlying performance benefit from interventions that we took in that business. For example, the sale of bad debt which our companies do all the time, and that's always in to EBITDA. For example, renegotiating new contracts with people, that goes into EBITDA. So that was treated in exactly the right way, and I think Louise explained that on the calls earlier.

In terms of -- and some of the elements are fundamental interventions that were taken as a result of choosing to milk out that business and restructuring in line with our Challenger Program objective.

In terms of Sweden mobile market, we don't give a revenue split in the different segments, but consumer mobile was up 3%, as I mentioned and we were overall around flattish. B2B was down a bit.

Over the mid-term, yes, we still believe this is a market that can achieve 2% to 3% of mobile end-user service revenue. That reflects both growth in consumer and growth in B2B.

Usman Ghazi - *Berenberg Bank - Analyst*

Thank you very much.

Operator

As there are no further questions at this time, I'd like to hand the call back to the host for any additional or closing remarks.

Louise Tjeder - *Tele2 AB - Head of IR*

Okay, thank you very much for calling in. We will release our results for the second quarter 2016 on July 21. By that, I just wish you all a very nice day. Thank you very much.

Operator

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