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TEL2 B.ST - Q2 2015 Tele2 AB Earnings Call

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JULY 21, 2015 / 8:45AM, TEL2 B.ST - Q2 2015 Tele2 AB Earnings Call

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PRESENTATION

Louise Tjeder - *Tele2 AB - Head of IR*

Good morning, everyone, and welcome to Tele2's second quarter conference call. Speaking is Louise Tjeder, and with me I have our President and CEO, Mats Granryd, and CFO, Allison Kirkby.

We're also sending the presentation live over our web page, tele2.com, so welcome to everyone that has joined via the web.

After the formal presentation there will be, of course, a chance to ask questions, either over the phone and, of course, via the web.

And by that said I will hand over to you, Mats.

Mats Granryd - *Tele2 AB - Group President & CEO*

Thank you very much, Louise. Good morning, everyone, from a sunny Stockholm. I will start with the first slide -- or slide number 2 actually, with the highlights from the quarter.

We have a positive net intake across the Group of just above 0.5 million new customers joining us, 540,000.

On the focused technology choices we are now at 80% population coverage in Netherlands and growing roughly 50% indoor coverage; so well on the track there.

Step-change productivity; the challenger program is now delivering results. Allison will go through that in somewhat greater detail later on.

In the Winning people culture category we are happy to announce that we scored in the 91st percentile overall in the FTSE4Good index.

So that is highlights for the quarter. If we then go in on the more specifics. The monetization data continues. End-user service revenue for the Group is up 7%; mobile EBITDA is up 2%; and a whopping 55% up on average data usage per mobile subscriber. So, for sure, the trend of ever-increasing consumption data is continuing.



JULY 21, 2015 / 8:45AM, TEL2 B.ST - Q2 2015 Tele2 AB Earnings Call

And we just take a look at history of our end-user service revenue. As you can see, it has been 6 percentage points, 7 percentage points, 8 percentage point quarter-over-quarter, and this quarter 7.4%, a CAGR of 7.5%. So this is something that we track and we feel is -- it's an important factor.

End-user service revenues, of course, a combination of two things: one is ASPU and the second is subscriber growth, so it's important to focus [on].

Moving in that market year-on-year development. Start over in the east in Kazakhstan, we have a 65% end-user service revenue growth.

The Baltics are doing very nicely, between 6%, 8% and 4% in Lithuania. Croatia is up with 7%, and we see that continue in Q2/Q3. It's, of course, the strong quarters in Croatia being a summer destination for many.

Austria is flat or slightly down, but that is total sales, or predominantly fixed. Netherlands up 8%; Germany 6%; and Sweden then is 1%, and I will continue to discuss more on Sweden on the next slide, because I know that is something that everyone is eager to hear more about.

If you take the right-hand graph there, the bar graphs, as you can see we have a 70% data growth in our mobile networks; almost 50% growth in Sweden as an example. So, for sure, our networks are becoming more and more filled up with data and that is something that we welcome, something that is very good.

So, then moving on to Sweden. As you can see we have sales that is flat. We have an EBITDA that is up 3% giving us a 1% margin increase.

Net intake, to the right, is up 52,000 new customers, and this is something we feel happy with. You can see the trend from Q4, Q1 and now Q2.

The good thing with the net intake is that we are actually, in all disciplines, positive intakes; so postpaid is positive; prepaid is positive; business to business and mobile broadband is also positive; and those add up to 52,000.

This is really important, and we believe that this is a tribute to the value champion strategy. Leading indicator in the value champion strategy is that we do want to come closer to our customers. So, Net Promoter Score, i.e., customers that are already Tele2 customers, are they promoting the service? That is now taking a hike upwards.

Consideration is as strong as the biggest brand now in Sweden, and that means that everyone else are they considering to go to Tele2, and that is a fact right now.

So, that is activities that we believe is really important going forward. Value champion is all about changing the industry in Sweden to become -- continues to be in a benign environment, but continues to become more customer-friendly. We believe these early indicators are an example of that and it's testimony in the 52,000 net intakes going forward.

The mobile end-user service revenue, if you look, as I said, is 1% in Sweden. If we divide that down on the postpaid segment it is 6% up.

The prepaid business, the business [and] mobile broadband, is either flat to slightly down giving an average of 1%. But postpaid, and that is the segment that we're focusing most on is up 6%. That is something that we also think is a strong indicator.

On the business side we had a strong quarter and it was primarily driven by the large enterprise segment where we were awarded some really big and important contracts. One is Goeteborgs Stad which is a prestigious area to do business with.

So by and large we are okay with the Swedish progress and I would say that we're very confident in the value champions strategy going forward, although not only big buckets but also the configuration and Net Promoter Score is going in the right direction.

Moving on then to the Baltic States, up 7% on sales; EBITDA up 3%; and a customer intake of 10,000 in the quarter. Population coverage on LTE is now roughly 80% in Lithuania. By yearend we will have a 90% coverage in all the Baltic States, one LTE coverage.



JULY 21, 2015 / 8:45AM, TEL2 B.ST - Q2 2015 Tele2 AB Earnings Call

So this means that we are well positioned for a value champion launch in the Baltic States some time in the future as well.

Moving on to Netherlands. Sales up 5%. EBITDA is taking a tumble downwards, 45%, very much in line with what we have said previously. I think I said that it's going to get worse before it gets better, and this is certainly one of those quarters.

Out of SEK120 million in deficit on the EBITDA roughly two-thirds comes from fixed and one-third comes from a continuous focus on mobile. So the two-thirds in fixed is, of course, an issue for us and we have been taken somewhat by surprise over the rapid decline of our fixed business.

Now, we have worked hard on a deal called VULA, virtual unbundled local access and that is reselling KPN fixed network across the Netherlands. As you can see on the graph to the right there, we have a -- not a great coverage and, more importantly, we do not have a great speed in higher segments.

With VULA this will, as you see -- you foresee, this will take some time, but we will be able to offer as good mobile coverage and speed as KPN in Netherlands and this will be a mitigating factor and the factor of us using that network to upsell and cross sell into our mobile business as well.

So this is something that we're very proud of and we believe it's going to give the fixed business a reinvigorating life going forward.

As I said, the network is now at 80% population coverage. We have done the first VoLTE test and that is completed successfully. We are -- as we speak, transfer our 4G customers over to our own network, i.e., putting them on our CRM and billing system.

We also see a data offloading on our own network, on small numbers, but it's, at least, is going in the right direction. It's always encouraging to see that the thought process is actually going in in practical terms as well.

Moving then on to Kazakhstan. A great sales of 54% up. EBITDA is up with 200%, but that's from very low levels.

Maybe more importantly is that we see a net intake of close to 500,000; 470,000 net intakes. Equally important is that these customers are paying customers, they are not ones that we had before, just more models coming in than leaving us. These are customers that stay with us and actually use our service and you can see that we have a voice traffic of 124% up and data 195% up year over year.

Previously we have been regarded as the data provider and not much for voice. As you can see with 124% up on voice, we are now becoming more of an established player. In a way we're a more credible operator in Kazakhstan, and that is something that we are happy and proud of.

The network rollout is on track and we continue to build out geography as well as capacity coverage. We have a coverage of roughly 85% today and we'll continue to give that now.

So with those words I would like to hand over to Allison. Allison?

Allison Kirkby - Tele2 AB - CFO

Thank you, Mats, and good morning, everyone.

So in terms of the financial headlines, total sales are up 4% to SEK6.61 billion, mainly driven by strength in mobile end-user service revenue, which was up 7% to SEK3.32 billion with all regions contributing to the growth.

EBITDA was down 5% to SEK1.39 billion, mainly driven by continued decline as we expected in the Netherlands.

CapEx was up by a third compared to last year to SEK1.13 billion driven by geographic expansion and LTE investments in almost all markets.



JULY 21, 2015 / 8:45AM, TEL2 B.ST - Q2 2015 Tele2 AB Earnings Call

In terms of mobile end-user service revenue, all markets are contributing to the growth. But, as you saw earlier, growth in Kazakhstan was the real highlight of the quarter from a revenue perspective.

Excluding FX gains, mobile end-user service revenue was up 4.5% and so bang in line with our guidance for the year.

In EBITDA, all regions showed a growth in EBITDA except for Netherlands. The decline in EBITDA, as Mats said, is mainly due to the decline in fixed revenues, but recall we did have a positive impact from the KPN settlement in Q2 last year, so about half of the fixed decline was a one-off in our [base] last year. Obviously, a third of that [SEK120 million] is still cost that we're incurring in advance of our full MNO rollout.

In terms of CapEx, we are investing for the future. CapEx grew by a third and you saw investment across almost all markets. Continued investment in the Netherlands for the MNO rollout; geographic coverage in Sweden and Kazakhstan; and, of course, our network swap in Croatia.

So as you would expect, moving on to free cash flow, lower EBITDA and a higher CapEx investment are having an impact on our free cash flow in the quarter, as we expected.

Additionally, working capital was a net outflow of SEK251 million in the quarter compared to the same period last year, mainly due to encouraging handsets across the Group and in Sweden, as a result of timings of payment runs; and from impact of the Tele2.0 launch.

For prospective, however, first half 2015 working capital compared to first half 2014 is significantly lower at [SEK52 million] cash outflow. So a bit of timing effect of payments going on in there.

That takes us to our debt position which is just over the SEK10 billion mark at the end of June, placing us right in the middle of our new leverage target of 1.5 to 2.

So before I hand over to Mats, and as promised, I'd like to give you an update on the status of our challenger program.

The program has now been up and running for six months, with 30 kicked off live initiatives, and we are very happy with the progress that we are making so far.

As a reminder, our overall objective is to generate productivity improvement of SEK1 billion per annum by 2018. We'll deliver those benefits via four key metrics that underpin the productivity improvements that we aim to make.

First, we will simplify, by doubling the amount of harmonized products to around 60% of all products managed from one common shared platform.

Second, we will enforce discipline, particularly in our procurement area, by doubling the amount of spend that we strategically source and procure to around 80% of the total that we procure.

Third, we will continue to consolidate our IT and network operations, with an objective to reduce IT OpEx by 20% of share of revenue, taking it down to around 2.5% of revenues.

And finally, we will transform our back office and non-core activities to leverage scale and skills by doubling the amount of tasks we have in shared operations.

So how will each of these contribute to the SEK1 billion? 5% to 10% of it will come from simplification. 40% to 50% of it will come from discipline. 30% to 40% of it will come from consolidation. And, 10% to 15% of it will come from transformation.

So what progress are we making so far? The simplification area is the one that takes that bit longer, but we are making very good progress. We've already identified 8,300 bills and products, with only around 20% of those products accounting for 95% of our revenue. So we plan to close at least



JULY 21, 2015 / 8:45AM, TEL2 B.ST - Q2 2015 Tele2 AB Earnings Call

20% of our current products; obviously, the lowest revenue-generating products, to reduce product complexity and increase profitability across all our markets.

Product harmonization will run alongside simplification, and that is focusing first on our mobile products. We've so far identified 4,000 products that are in scope for harmonization. Harmonization will realize benefits in IT, by a reduction in the number of applications we have; in network by standardized platforms; in customer service by improved quality and efficiency; and our product organization, by getting synergies through less complexity and slim-lining of organizations scattered around the Group.

In terms of discipline, this area is already ramping up and we expect to see benefits in the second half. We're seeing benefits accruing in how we monetize apps to [certain] SMS, taking advantage of the central team that is already focused on roaming here in Sweden. We've now built that team to take advantage of this growing opportunity for us.

In addition, we are improving our customer analytics, and, by better targeting of our marketing investments and online targeting, we will be seeing benefits of those, hopefully, towards the end of the year.

In the area of consolidation, we have started to relocate NOC [homes] to our shared service center operations in Riga. We've also installed a new Group-wide purchasing platform that has already been launched in our Latvian operations and will be rolled out throughout the Group in the coming months.

Finally, in the transformation area, things have already started to happen there, particularly in the back office operations. A finance shared service center will be established in Riga in Q3, and tasks will start transferring from Sweden to Riga and India in the second half.

We've also announced our intention to move non-customer-facing back office tasks to our partner in India from Sweden also in the second half. In line with our mobile only strategy, operating on our own network, we have made the decision to restructure our German operations, with some redundancies already announced in June.

So where does that take us? Well, we remain confident in our ability to deliver the SEK1 billion annualized productivity improvement by 2018, as a result of a SEK1 billion investment over the next three years. We expect each market will improve its productivity by at least 5%, with high cost locations, Sweden, Netherlands, Austria and Germany, obviously, contributing slightly more.

Benefits will accrue predominantly in OpEx, but also in revenue. So, of that SEK1 billion, you can assume 90% will be in lower OpEx and 10% will be in higher revenue.

We also expect CapEx and working capital benefits to accrue, but that will come on top of the SEK1 billion.

In terms of the investment to get there, the investments will be skewed 67% to OpEx and 33% to CapEx, although, in this year, it's predominantly OpEx investment that we're making, and it'll be more like a 90%/10% split.

So that's the challenger program. I hope you see now that momentum is building. We are confident in our SEK1 billion benefit that we will accrue by 2018. We have more than 30 initiatives that are already in progress and kicked off since December, and we will continue to update you quarterly on the progress.

Mats Granryd - Tele2 AB - Group President & CEO

Thank you, Allison. This is Mats again.

The summary of Q2, only one slide. The priority going forward is to -- for us to continue to focus on the monetization of data; and getting ready for the 4G launch in The Netherlands and in the Baltics; and also, as Allison said, continue to execute on the challenger program.



JULY 21, 2015 / 8:45AM, TEL2 B.ST - Q2 2015 Tele2 AB Earnings Call

With those words, I would like to hand over to Louise for the Q&A.

Louise Tjeder - Tele2 AB - Head of IR

Yes, that concludes the formal presentation and so we open up for questions. Operator, let's start with the first question, please.

QUESTIONS AND ANSWERS

Operator

Peter Nielsen, Kepler Cheuvreux.

Peter Nielsen - Kepler Cheuvreux - Analyst

A couple of questions, please.

Firstly, Mats, if I may return to the Swedish mobile revenue growth. I guess, as you said, we'd all be interested in a bit of elaboration on why the end-user service revenue growth has slowed so sharply in this quarter, and whether you're happy with this and expect this to continue.

Is what you're telling us, basically, that what you have gained on the postpaid subscribers you have lost on the prepaid? And perhaps if you could elaborate a bit that would be useful.

And also, secondly, you talk about continuation of growth in customer intake in Dutch mobile, but, obviously, the intake has slowed down significantly in this quarter. Again, considering your process there, 4G launch, etc., are you happy with this and do you see any near-term changes?

And finally, just a very quick question. The VULA agreement with KPN, does that involve any upfront investments, any shared investments on your part? Thank you.

Louise Tjeder - Tele2 AB - Head of IR

Yes, Peter-Kurt, thanks for your question. So the first question on Sweden mobile growth, if we could elaborate on that one and how we expect that to continue? And that will be Mats taking that question.

And number two, continuation, of course, of the growth in customer in Netherlands.

And then the third one on the VULA agreement for you, Allison.

Mats Granryd - Tele2 AB - Group President & CEO

All right, hi, Peter. Good questions. If we start with Netherlands, 7,000, yes. Honestly, I think, we would have hoped to have a slightly higher customer intake than only 7,000. We have, in previous quarters, been around the 20,000 or so mark. It's, of course, a pacing exercise not to continue the bleeding, as you can see that we're doing. But I would have hoped to see a little bit higher growth there.

On Sweden, yes, 1%. As I said, on the postpaid segment, we have a 6% growth. And if you dissect that further down, you can see that the lower segment, i.e., Comviq, is growing faster and, hence, you have an ARPU that is 15% to 20% lower in Comviq's postpaid than on the Tele2 brand. So that's why you see a combined -- it's a combination, it's only 1% growth.



JULY 21, 2015 / 8:45AM, TEL2 B.ST - Q2 2015 Tele2 AB Earnings Call

So the trick here is to continue with the value champion launch; continue to position ourselves that the operator that has the closest relationship to the customer, so we continue to see net promoter score and consideration going up. And also, making sure that we have a positive customer intake.

Remember, value champion and our ambition to change the market in Sweden is not done in a quarter. It's going to take, of course, many quarters. We have been blessed with the first couple of quarters now with a very strong underlying service revenue growth.

Moving forward, I think, it's going to be somewhat moderated. We see the continued trend, as we have seen this quarter in Sweden; that it is the lower segments that is -- that are growing faster.

But again, remember, this is not a quarter over quarter exercise. This is a long-term strategy that we are embarking on.

So VULA, maybe, Allison.

Allison Kirkby - Tele2 AB - CFO

Yes, there are some upfront investments required of around EUR7 million, and that is in our CapEx covenant for this year.

Peter Nielsen - Kepler Cheuvreux - Analyst

Okay, thank you.

Louise Tjeder - Tele2 AB - Head of IR

The next question, operator.

Operator

Stefan Gauffin, Nordea.

Stefan Gauffin - Nordea - Analyst

A couple of questions. Continue to elaborate a little bit on the end-user service revenue growth in Sweden. You have earlier provided how much data top-ups added or contributed with, and that would be helpful.

Then a detailed question. The interconnect revenue is up 13% year over year. Just wondering what is driving that.

And then a little bit on The Netherlands. There is an improvement in the EBITDA, quarter on quarter. Given the slowdown in subscriber intake, how much of the delta, quarter on quarter, is driven by lower SAC and how much is due to lower network cost, after migrating customers on to your network? Thank you.

Louise Tjeder - Tele2 AB - Head of IR

So, number one, further elaboration on the mobile end-user service revenue in Sweden; and a little bit more detail on the top-ups developments. Mats will take that one.



JULY 21, 2015 / 8:45AM, TEL2 B.ST - Q2 2015 Tele2 AB Earnings Call

Number two, the interconnect levels year on year will be explained by Allison.

And the third question on the [annual] EBITDA improvements, Q-on-Q, or not improvements, sorry for that; and the more detailed breakdown on the SAC network costs, etc., for Allison.

Mats Granryd - Tele2 AB - Group President & CEO

So if I start with again elaborating on Sweden. I understand that this is a whole topic, obviously. But you must remember that value champion for us is a strategic change. We see again net promoter score going up; consideration going up quite sharply. This is something that we feel is the right thing, going forward. People are considering and promoting us as an operator.

Therefore, we see churn going down in the quarter, and we also then see net intake going up. That is the proof point, we would say, of value champion. Then we will have end-user service revenue comparing to last quarter going up and down a little bit.

Again, postpaid up 6%, and the other disciplines, the other products flat or slightly down.

In Q3/Q4, remember we're coming up against really very strong comps in those two quarters. So that's why I'm saying that I don't think that we're going to see a massive growth in Sweden on end-user service revenue.

Also, remember we're taking now this to the next level. I do believe that Q2 is the highest Q2 ever when it comes to end-user service revenue in modern times. Yes, the comps are very tough and that's why you might not see such a huge growth, but the level we're playing on now is on a different level than what we have played before.

Top-ups in Sweden is also up year on year; I think it's around SEK28 million, and that is up 20% --

Louise Tjeder - Tele2 AB - Head of IR

27% up.

Mats Granryd - Tele2 AB - Group President & CEO

27% up Q2 over Q2. So it's holding up nicely. Allison, do you want to talk about the Interconnect?

Allison Kirkby - Tele2 AB - CFO

Okay, on Swedish interconnect, yes it's up strong; it's mainly due to the strong SMS volume, and some of our challenger program initiatives coming through in there.

In terms of the Netherlands question, could you repeat that again for me, Stefan?

Stefan Gauffin - Nordea - Analyst

Yes, looking on the mobile side, the EBITDA losses is lower this quarter, and just try to understand what is driving the development. How much lower is subscriber acquisition cost this quarter, and how much is driven by you moving 4G subscribers onto your own network?



JULY 21, 2015 / 8:45AM, TEL2 B.ST - Q2 2015 Tele2 AB Earnings Call

Allison Kirkby - *Tele2 AB - CFO*

The vast majority of it is lower subscriber acquisition costs, because we're very much focused on retention and transition of existing customers at the moment, rather than bringing in massive amounts of new customers, which we're waiting for for later in the year. And then there is a small amount from data offloading as well. But the material amount is mainly a lower subscriber aggregate.

Mats Granryd - *Tele2 AB - Group President & CEO*

And I think that comes back to the earlier question from Peter on growth in Netherlands, where I said that 7,000 we would have hoped for more. But it is a balancing act of making sure that we contain some of the money and not spending it continuously on getting more customers in, before we have our own network.

Stefan Gauffin - *Nordea - Analyst*

Could I add a question on the VULA agreement, just to understand the impact of that? What kind of impact will that have on the margins? If you would have your customer base on the fixed broadband migrated to that, the VULA agreement? I understand that you want to retain them on your own, on the current platform but --

Allison Kirkby - *Tele2 AB - CFO*

Yes, so our priority is to retain customers on our own network. But if they are at risk of churning, or if we are failing to attract new customers, we will then offer them -- we'll move them onto the VULA offer.

So then obviously the margins of those customers will be lower than our on-net customers, but they will be better than our off-net customers today, because the margins will be better as a result of the VULA deal. And, we'll be selling some products at higher speed, so we'll be moving up to higher ARPU levels in that area as well.

Stefan Gauffin - *Nordea - Analyst*

Okay, thank you.

Louise Tjeder - *Tele2 AB - Head of IR*

Thank you, next question please?

Operator

Nick Lyall, Soc. Gen.

Nick Lyall - *Societe Generale - Analyst*

Can I ask you a couple please? Firstly on Swedish mobile costs, it seems as if the costs were up a bit underlying this quarter; is there anything going on either in one-offs? Or would it be possible as well to tell us what the Tele2.0 impact is, or benefit is, this quarter so I can get back to an underlying number?

And then secondly, on the Dutch business again; what percentage of subs now are on the net? I think you said 35% of subs were 4G and could be moved across; would it be possible to give us a percent of subs over there?



JULY 21, 2015 / 8:45AM, TEL2 B.ST - Q2 2015 Tele2 AB Earnings Call

And how much more CapEx should we expect from the network as well? I think you've spent just over EUR200 million now versus the original EUR170 million target; so is there a lot more to do or is this CapEx being used for something else? Thanks.

Louise Tjeder - Tele2 AB - Head of IR

Thanks Nick, the first question on Swedish mobile and if there are any costs-up what's the underlying if there's any on-offs? That's Allison.

And number two, on the Dutch business, percentage of subscribers -- that is Mats.

Then the third one, how much more CapEx we will spend -- that is Allison.

Allison Kirkby - Tele2 AB - CFO

Okay, good morning Nick. In terms of Swedish mobile, basically the uplift you've seen in the quarter is very much driven by the lower expansion costs that we communicated last quarter. So both -- lower subsidy growth so taking lower commissions, at the moment. We're doing a better job of channeling.

The underlying revenue uplift is, however, being offset by increased production costs in the quarter. As a result of us increasing our geographic coverage of our network, we are seeing a slight increase in our network cost this quarter, and we're seeing that going forward as well.

So I think the big difference in the bottom line improvement this quarter is the fact that it's only a 1% end-user service revenue rather than a 5% that we've seen in previous quarters. But its cost structure and the benefits we're getting for more subsidies is just going through to the bottom line.

I think mobile EBITDA was up 8% and mobile margin was up 2.2% versus the same quarter last year; so still a good solid progress in profitability.

Mats Granryd - Tele2 AB - Group President & CEO

Yes, and on the Dutch situation and 800,000 mobile customers of which 45% or so and growing are 4G enabled -- have 4G-enabled handsets.

We have migrated roughly 20% onto our own billing and CRM system, and that is something that will be completed during early second half of this year, to -- i.e., to have all the 4G-enabled customers that we have on our own CRM and billing system.

As I said also, we are now seeing money not spent on T-Mobile but actually on our own network and that is encouraging. That will also continue to grow from very low levels today, but will, of course, continue to grow in the future.

CapEx?

Allison Kirkby - Tele2 AB - CFO

And then on CapEx in Netherlands; in terms of the original guidance we gave, the EUR350 million, that was related to the license and the radio network on its own. We are about 80% of the way through the spend of that, so we're around the EUR275 million mark of the EUR350 million.

On top of that, there's obviously the cost of the other elements, of launching a network; so the site, the IT systems, the VoLTE pieces, which add up to another just over EUR100 million to EUR150 million, and we're probably about a third to 40% of the way through that investment.



JULY 21, 2015 / 8:45AM, TEL2 B.ST - Q2 2015 Tele2 AB Earnings Call

Nick Lyall - *Societe Generale - Analyst*

That's great, thanks. And just on the Tele2.0 number; is there a number for the saving you could give us this quarter roughly?

Allison Kirkby - *Tele2 AB - CFO*

In line with what quarter?

Nick Lyall - *Societe Generale - Analyst*

Was that about EUR80 million-ish?

Allison Kirkby - *Tele2 AB - CFO*

That was correct; so the 25% of the -- sorry, it was 50% of EUR150 million, yes. Around the EUR70 million mark.

Nick Lyall - *Societe Generale - Analyst*

That's great, thanks very much.

Mats Granryd - *Tele2 AB - Group President & CEO*

Thank you. Thanks, Nick.

Louise Tjeder - *Tele2 AB - Head of IR*

Operator, could we have the next question please?

Operator

Lena Osterberg, Carnegie.

Lena Osterberg - *Carnegie - Analyst*

I was going to ask you on the cost-cutting program, just to understand it a little bit more in detail. You said that it's a net program and that you're halfway through this year's savings were EUR50 million, you said now. So I'm just trying to understand how we should look at this, because if we look at the OpEx base so far this year, it's up EUR600 million in the first half versus the other half.

So could you maybe say something a little bit about the addressable costs, the not-addressable costs -- how much are the not-addressable costs growing? Do you include expansion OpEx in this, or should we actually say that in 2018 your OpEx base of that revenues will be EUR1 billion lower than in 2014? Just to help us model this?

And then also, I understand that you're nearing a launch in the Netherlands, but you have so far not said anything about how much that launch will cost. Could you please give us some more details on how much we should factor in for that?



JULY 21, 2015 / 8:45AM, TEL2 B.ST - Q2 2015 Tele2 AB Earnings Call

Louise Tjeder - Tele2 AB - Head of IR

Okay, so the first question, Lena, could you just elaborate on the [augmentation]. You said something about halfway through that --

Lena Osterberg - Carnegie - Analyst

No, no, you've targeted for this year, I think, SEK100 million of savings, right?

Allison Kirkby - Tele2 AB - CFO

Well, we never give a number, but if you tried to work out on the chart, it is less than SEK100 million, yes, and that would mean come in the second half, Lena. It won't be in the first half. The first half will really be more about planning so that's that.

Lena Osterberg - Carnegie - Analyst

It's so hard to hear you, Allison; it's an echo when you're speaking, so it's very hard to hear.

Allison Kirkby - Tele2 AB - CFO

Okay, sorry. Yes, we said roughly SEK100 million this year and that will build up during the year, but mainly in the second half of the year in Q3 and 4 are where the benefits will come up -- will come through.

And in terms of how do you view that billion benefit between now and 2018, we're basically aiming to get SEK1 billion; SEK900 million will come from lower OpEx relative to our 2014 cost base and SEK100 million will come from higher revenue. As I explained earlier, it's 90% OpEx based and 10% revenue based.

Lena Osterberg - Carnegie - Analyst

Okay, but say, then, for -- just to understand for comparison reasons, you have an OpEx base in 2014? Assuming you were going to have flat revenues, your OpEx base in 2018 should be SEK1 billion lower net.

Allison Kirkby - Tele2 AB - CFO

Yes, exactly. Exactly.

Lena Osterberg - Carnegie - Analyst

But then all the revenue growth on top comes with additional OpEx?

Allison Kirkby - Tele2 AB - CFO

Yes, so how we're modeling it is we have our own five-year plan and there was a five-year plan before the challenger program that started in 2014 and went all the way through to 2018. That SEK1 billion comes out of that new plan, that base plan, so it's a real SEK1 billion benefit to the bottom line, relative at week 2 if we had not done the challenger program.



JULY 21, 2015 / 8:45AM, TEL2 B.ST - Q2 2015 Tele2 AB Earnings Call

Lena Osterberg - *Carnegie - Analyst*

Okay. But then also to understand for this year, your OpEx base is up, I think, SEK640 million so far in the first half of the year. Do you still expect your OpEx to be down net this year?

Allison Kirkby - *Tele2 AB - CFO*

No, that SEK100 billion (sic) benefit is offset to what the underlying growth was going to be anyway. So the SEK100 billion (sic) benefit was always within our SEK5.8 billion to SEK6 billion guidance range. We already knew that we had an underlying increasing cost base, because the expansion and that SEK100 million is coming out of that higher cost base. So year on year, our cost base will still go up, because of our expansion, particularly in Netherlands and Kazakhstan.

Lena Osterberg - *Carnegie - Analyst*

Okay. And also one final question then on ARPU -- sorry, on data per user in Sweden. If you could say how much the average data usage is up versus the last quarter.

Mats Granryd - *Tele2 AB - Group President & CEO*

Yes, I can. Hi, Lena, Mats here. Gone up significantly. We are now on an average of 2.9 gigabytes. So, 2.2 in the first quarter, fourth quarter was 2.0 and now we're up to 2.9 gigabytes. So that's a hefty uptick.

Allison Kirkby - *Tele2 AB - CFO*

And I think you had one last question on the Netherlands launch, Lena. We've obviously not announced a launch date yet and so I can't give you any guidance on launch cost either.

Lena Osterberg - *Carnegie - Analyst*

But it's not included in this full-year guidance?

Allison Kirkby - *Tele2 AB - CFO*

We haven't announced a launch date yet.

Mats Granryd - *Tele2 AB - Group President & CEO*

We'll have to come back to you on that, Lena.

Lena Osterberg - *Carnegie - Analyst*

Thank you.

Louise Tjeder - *Tele2 AB - Head of IR*

Okay, thank you, Lena. Operator, do we have one more question?

JULY 21, 2015 / 8:45AM, TEL2 B.ST - Q2 2015 Tele2 AB Earnings Call

Operator

Henrik Herbst, Credit Suisse.

Henrik Herbst - Credit Suisse - Analyst

So I have -- just getting back to Swedish mobile, I was wondering what you're seeing in terms of migration of customers on your new Tele2.0 plans are. Are you seeing a lot of customers from 3 gig going to 5 gig, for example? So a little bit on kind of the trends there.

And then also, now you've had the Tele2.0 strategy in place for almost two quarters, is there anything in there that surprised you, also with your doubling of data on the Comviq brands?

And then secondly, on Swedish EBITDA, I guess some of the impact is lower subsidies. But can you also give any color on what's going on with working capital in the Swedish business? And maybe versus what was happening a year ago if possible. Thanks very much.

Louise Tjeder - Tele2 AB - Head of IR

Yes, so the first question on Swedish mobile and the migration of its customers to the bigger bucket, that is for Mats. And then the Swedish EBITDA development and specifically working capital, that is for Allison.

Mats Granryd - Tele2 AB - Group President & CEO

You (inaudible) and I will try to answer a little bit -- or elaborate a little more on Tele2.0 also.

On the mobile side, it is still too early to see how customers are migrating back and forth. The Big Bucket launch, we did that in February, so we are only a quarter and a half or so into it.

What we can see is that the average -- again, it's fairly boring, because it has been the same all across that we tend to use roughly half the amount of data that the bucket size is; so 50% of the 5-gigabyte bucket is being consumed, and roughly 40% of the 20-gigabyte bucket is being consumed.

We also know that roughly 30% of our new customers are opting for bucket sizes bigger than 5 gigabyte; so it's 20, 50 and 100 gigabytes. So it's roughly 30% in that category and 70% is opting for 5 and 0.5 gig bucket size.

On the Tele2.0, I think we are experiencing pretty much what we anticipated. Again then, I would like to highlight the fact that Net Promoter Score and consideration is taking a sharp turn upwards.

That is unheard of if you go back in time; we have always been struggling. We've been -- always been very strong on the price leadership, but not so strong on the consideration Net Promoter Score. Now that is changing dramatically with Tele2.0 and that's exactly what we wanted it to do. So we are becoming more of a value player, not only a price fighter, but a value player as well.

So I think it's the strategy is paying off. We are seeing that consumers are choosing us for the right reason. And the reason is fantastic now for freedom to choose and freedom to return if they're not happy with our service, not being locked in for 24 months.

I think we just need to be patient and continue this journey. We are changing the industry in Sweden and that needs to take some time.



JULY 21, 2015 / 8:45AM, TEL2 B.ST - Q2 2015 Tele2 AB Earnings Call

We can also see that data is being consumed at a larger pace than what was there before. Our large bucket initiative is a way to respond to that craving for more data. 2.2 in the first quarter now up to 2.9 gigabytes, and that's a hefty uptake. I wouldn't be surprised if we continue to see an uptake of 20%, or 15%/20% quarter over quarter.

So it's going to be a great run, and we need to position ourselves to continue to be able to monetize the data.

Over to you, Allison, I think.

Allison Kirkby - Tele2 AB - CFO

Yes, hi, Henrik. So Swedish EBITDA, as I explained, mobile is up 8%, very much driven by continued lower expansion costs. The higher revenue is being offset by increased network costs as a result of our geographic expansion.

At a total level, we're up 3% and that's because we have contained the clients in our fixed telephony business and we also had a small one-off last year, the footnote case I think is referenced in the notes to our accounts.

Regarding working capital trends, the Tele2.0 launch has had two impacts, but just timing impacts on working capital. Basically, we moved to billing in arrears instead of previously billing in advance, so that we would come in line with our competition and our peers. So that's one impact.

And then the second impact as a result of decoupling our handsets from the monthly subscription, we now have to pay the VAT on the handset upfront, rather than paying it over the course of the contract, which has always been a bit of a delicate thing for the tax authorities anyway. So we now just pay the tax, the VAT, right up front on the handset.

Henrik Herbst - Credit Suisse - Analyst

Okay. Thanks very much. And just if I can follow up on, Mats, on Swedish mobile and net promoter scores? You're saying that churn is coming down. Can you give any numbers on churn; what churn trends are in Swedish mobile please?

Mats Granryd - Tele2 AB - Group President & CEO

No, I don't think that we give that out, but it's very much in a positive trend. Sorry for that.

Henrik Herbst - Credit Suisse - Analyst

Okay. Thank you.

Louise Tjeder - Tele2 AB - Head of IR

Okay, operator, do we have another question?

Operator

Johanna Ahlqvist, SEB.

JULY 21, 2015 / 8:45AM, TEL2 B.ST - Q2 2015 Tele2 AB Earnings Call

Johanna Ahlqvist - SEB - Analyst

Two questions from my side. First of all, if you can have the post and prepaid split in Swedish mobile; you report a net intake of [52,000].

And then if you can say something, in Sweden again, and again on why you saw Comviq was so significantly better in terms of intake, and if that was a surprise to you, and if the reason is a migration from Tele2 to Comviq, or what is the reason behind this?

And secondly, or thirdly, perhaps, Kazakhstan, if you can say something what you expect in terms of the EBITDA contribution ahead, given the fact that we've seen Telia reporting, stating that competition has intensified, and if that is your experience as well? Thank you.

Louise Tjeder - Tele2 AB - Head of IR

Okay, the first question, the postpaid and prepaid split in mobile on the customer intake of 52,000, Mats will take that one. And then also elaborate on why Comviq have a bit of a stronger customer intake, and if there's any migration issue there between Tele2 and Comviq postpaid.

And the third, that is also -- that is Allison, sorry, and then Kazakhstan, our view on the EBITDA development is also Allison.

Mats Granryd - Tele2 AB - Group President & CEO

I can comment maybe a little on Kazakhstan on the market there.

Okay, the postpaid/prepaid, hi, Johanna, I think you can say that two-thirds of the intake comes from postpaid and one-third from prepaid. So if you combine post and prepaid, out of the 35,000 or so, 20,000-plus comes from postpaid and 14,000 or so comes from prepaid.

We do not think that there is -- going back to Comviq then, why they have such a strong -- on the lower [ARPU] segment why that is the case. We do not think that there is a huge (inaudible) cannibalization from Tele2 postpaid to Comviq postpaid, but rather a migration from prepaid into postpaid.

This is something that we encourage. We do want to have a longer time relationship with our customers, and not only have a prepaid relationship, but also having a longer-term billing relationship. So that is something that we look at.

Just two seconds then on Kazakh, and I think we concur with what I heard you said that Telia said: that the market in Kazakhstan is now becoming fairly bloody.

Previously, we had a price war between us and Altel, Altel being the mobile arm of Kazakhtelecom. Both of us are very clearly the price fighters and that you can see in our numbers. We've had a very strong customer intake. I will be -- we have been anticipating a reaction from Kcell and Beeline and that is now the case. They are also joining in on the price fighting activity in Kazakhstan.

So this will subside after a while, but it's going to be most likely during 2015 and continues fairly bloody market.

Now, we are fairly well positioned. We have a very cost-conscious setup in Kazakhstan, but still it's not going to be a brilliant market.

Allison Kirkby - Tele2 AB - CFO

We're coming from a very different base from Telia, from a profitability point of view anyway. So at today's pricing level, and market share level, we can start to generate positive momentum in EBITDA.



JULY 21, 2015 / 8:45AM, TEL2 B.ST - Q2 2015 Tele2 AB Earnings Call

With the MTR cuts that are due in June 2016 that will make that EBITDA contribution even more. But, obviously, it's very dependent on what happens in the marketplace and whether if pricing were to come down further, then obviously that would be a challenge. But we've not got much to lose there when you're generating such a small amount of EBITDA.

Mats Granryd - Tele2 AB - Group President & CEO

And with the experience from other markets, these price wars they come and go, and after a while everyone realizes that it's really not that fun any more, and then everyone stops.

But it's important to note what you said, Allison, that the termination rates we go down from the KZT8, as we have today, down to KZT5 in 2016, and that's going to have a positive impact obviously on our EBITDA.

Johanna Ahlqvist - SEB - Analyst

Thank you.

Louise Tjeder - Tele2 AB - Head of IR

Do we have another question before we go into questions asked on the web, so we have a final question, operator, please.

Operator

San Dhillon, RBC.

San Dhillon - RBC - Analyst

Sorry to press the point on Swedish end-user service revenue guidance. Perhaps you could give us the prepaid/postpaid revenue split, or even a high-level guide, so as to make it easier for us to forecast what prepaid revenues are doing versus the postpaid growth of 6% you mentioned.

There was a question earlier on top-up revenues. I think they were SEK27 million in 2Q 2014 and SEK38 million in the prior quarter. It would be great to get that figure for 2Q 2015 as well.

Louise Tjeder - Tele2 AB - Head of IR

Okay, thanks, San. Both questions about the Swedish mobile end-user service revenue development for Allison. Also, the second question on the top-up development, yes, for Allison?

Allison Kirkby - Tele2 AB - CFO

Postpaid revenues in Sweden were up 6% and prepaid -- so the prepaid revenues, sorry, were down around 5% in the quarter. Top-up revenues were up 7% to SEK28 million in the quarter.

San Dhillon - RBC - Analyst

Okay, wonderful. Thank you very much.

JULY 21, 2015 / 8:45AM, TEL2 B.ST - Q2 2015 Tele2 AB Earnings Call

Louise Tjeder - Tele2 AB - Head of IR

Okay, then we have some further questions. Terence from Morgan Stanley, first question is what are Tele2's plans for fixed broadband and TV in Sweden when your comps start to push triple and quad play more aggressively?

Mats Granryd - Tele2 AB - Group President & CEO

Shall I take that one?

Louise Tjeder - Tele2 AB - Head of IR

Yes that one is for Mats. Then the second question, what are your expectations for EBITDA losses in Dutch mobile for the full year, as Q2 losses were lower than in Q1? That is for Allison.

Mats Granryd - Tele2 AB - Group President & CEO

All right, [and what's the third one?]

Louise Tjeder - Tele2 AB - Head of IR

We have a third question from Terence and that is do you have any update on core versus non-core assets? Whether you have any news on potential disposals in Austria and Germany? That is for Mats.

Mats Granryd - Tele2 AB - Group President & CEO

The quad-play discussion in Sweden is not very high upon our agenda, and we don't see many -- many or much movement either in the marketplace. With our 4G capabilities, we believe that we can handle the fixed broadband threat, if you like, through our Wi-Fi router on 4G.

Now, if this becomes a real deal breaker, i.e., that we just have to have quad-play offering, let's say, Sweden will go the same direction as Spain or France, we have plans in place of how to handle that. There are plenty of fixed operators that we can either team up with, acquire or buy capacity from.

So we don't feel a need now to do a move from that angle. It's more important for us to take the geography build out on 4G up to 90% geography coverage rate and then continue to intensify the higher density of the network.

Then when it comes to the disposals or acquisition of new countries, I think we are right now, as I've said before, fully booked. We do believe we need to focus on Kazakhstan and Netherlands; and also, to continue to foster a good climate here in Sweden with the value champion. So we're not actively looking for new countries to go into.

As we have said as well, Germany is -- might not be as core any more as it has possibly been before. We have taken some redundancy cost out there and started to become much, much, much more cautious when it comes to aggression and sales in that market.

I think you had a question --

JULY 21, 2015 / 8:45AM, TEL2 B.ST - Q2 2015 Tele2 AB Earnings Call

Allison Kirkby - *Tele2 AB - CFO*

Yes. Then on the Dutch mobile losses. I think you can expect that Q3 and Q4 will more be aligned to Q1, because there will be a point that we'll start to increase expansion costs and subscriber acquisitions costs again.

Louise Tjeder - *Tele2 AB - Head of IR*

Okay. Now that we take the last question, this is in the Netherlands, who are you losing customers too on the fixed line side? That's the first question, Mats.

Would T2 be pushing VULA high bid services more aggressively than before?

Mats Granryd - *Tele2 AB - Group President & CEO*

In the Netherlands on the mobile side, T-Mobile may just become aggressive. That has subsided in June, but they were very aggressive previously in the quarter. On the fixed side, we are losing customers to literally everyone and -- to KPN and to [Simyo].

When it comes to VULA, we will be more aggressive on pushing that deal going forward. This is, however, quite far out in time. The contract is not yet in force until January 1, 2016, so we need to pace ourselves a little bit.

While we're going to primarily use it as a retention tool in the beginning, we do want to have customers on our own network as long as we can, since we are enjoying higher margin on that network. But it will be, over time, migrated over to VULA, where we will have higher speeds and a significantly better coverage.

Louise Tjeder - *Tele2 AB - Head of IR*

Okay, then this will conclude the conference call for the second quarter. We will release our results for the third quarter on October 21. Thank you all for participating in today's conference call. Have a very nice summer.

Mats Granryd - *Tele2 AB - Group President & CEO*

Thank you so much, everyone.

Allison Kirkby - *Tele2 AB - CFO*

Thank you, everyone.



JULY 21, 2015 / 8:45AM, TEL2 B.ST - Q2 2015 Tele2 AB Earnings Call

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