Tele2 Update – Investment Markets

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Welcome

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Okay hello, and welcome everyone to Tele2 Netherlands. We're very happy to see everyone here. We will have a session today which will be recorded and webcasted, and the slides for the presentation will be available afterwards at tele2.com, so you can find them there. And with those quick words, I would like to welcome our CEO, Allison Kirkby, on the stage.

Introduction

Allison Kirkby

President and Group Chief Executive Officer, Tele2

Introductory remarks

Thank you, Erik. Thank you and welcome, everyone, to our second bite-sized Tele2 update. We've put on the weather especially here in Amsterdam for you today. And Jon has recently shaken up the market here in the last couple of weeks, so we also put that on, especially for all of you today.

Speakers

So I will be – as I – this update is very much focused on our investment markets, and so I'll be joined here today by Jon, our CEO for the Netherlands, Guillaume, our EVP for International – and that is all of our markets outside of Sweden and the Netherlands. He will also be joined by Roman, who is our CEO for Kazakhstan. And Lars and I will – will close the session off later, where we can touch on some group aspects as well. But really today is very much to give you a deep dive into our international businesses. And in case you don't know how the individuals are and you haven't seen them before, that's Jon before he had his haircut, and you know Guillaume and obviously it's probably the first chance for you to meet Roman, who joined us just over a year ago to take over – to run the JV in Kazakhstan. He joined us from Tele2 Russia, so it was – he was actually a boomerang that came back to us and knows Tele2 very well from his track record in Russia before – now his greater track record in Kazakhstan.

Supporting speakers

We've also got a number of the Tele2 team here today that will be around for Q&A and for the mingle later. I just want to call out three individuals. We have Ilse who heads regulatory affairs and corporate responsibility, and since we've got some emphasis for ESG investors today, I wanted to make you aware that Ilse was here to take Q&A. We've got Barry, who heads up B2B here in the Netherlands, who will support Jon with any particular interest you have there. And then we have Zurab, who is our CFO for the international region, and he was previously the CFO of Kazakhstan and helped make the JV happen with Altel in Kazakhstan. And then we've got a number of others that I can introduce you to later.

This is Tele2

So you all know Tele2 very well, but just as a reminder, Tele2 is one of the fastest growing European telcos thanks to a few key things that we believe makes us special. First, we've got some of the most positively fearless brands in the industry that really stand out. Secondly, we really take a mobility-first position as we believe the world is increasingly going mobile. Third, we see ourselves as a connectivity innovator – so we're taking our mobility-first position into connectivity and thinking about how we continue to innovate in that space as increasingly consumers and businesses want to be more connected. And that is all underpinned by our unique Tele2 culture. We call it the Tele2 way, and it is our deep challenger spirit that helps us stand out and has been with us since Jan Stenbeck founded us over 20 years ago.

Those foundations are enabling us to have a set of complementary businesses. First of all, very well-established cash generating businesses around the Baltic Sea that consistently deliver industry-leading return on capital well above 20%. And the focus for today – very exciting high-growth markets that are coming to the end of their investment cycle and very much accelerating towards that, and we'll reap the returns of the significant investments that we've put into those markets over a number of years.

Our goals

Our goals for the coming years are very much focused on three things. First and foremost, we have some of the most engaged employees, not just in telco but in most companies in the world, and those employees are single-mindedly focused on delighting our customers with great connectivity and a great customer experience so that those customers will increasingly consume data on our networks, will increasingly become more loyal and recommend us to others, so that through data growth and data monetisation we can return the company to a return on capital above 20 for the whole group in the coming years. And that is our medium-term ambitions

Our Way2Win

How we achieve these goals are via our strategy house, or our – what we call our unique Way2Win, which we have recently refreshed to take us forward into the coming years. And the refreshment was about making – giving us a clearer purpose on our role in the connected world, because we believe the connected world is a better world, and we want to better define our role within that.

Our purpose, therefore, is to fearlessly liberate a more connected life for our customers. And the way we will do that is by focusing our portfolio in four very clear buckets, and focusing our capabilities also in four very clear differentiated buckets where be believe we can stand out versus other telcos and other plays in this space.

Where we play

Looking first at the portfolio, then, the four buckets are, first and foremost, our Baltic Sea challenger businesses – very well established, delivering sustainable and growing cash and great returns for our shareholders, and more than fund our annual dividend every year. We then have our cash generators. What they do is what it says on the tin – they are there just to generate cash for us to invest back into higher growth opportunities, either in our Baltic Sea challenger footprint, or in our higher growth investment markets or in our small but very fast-growing growing global business space in IoT. And today, as I said, the focus will be very much on our key investment markets of Netherlands and Kazakhstan.

How we win

Positively fearless brands

Today we will also try to bring alive how we win, particularly in those two markets, via the four differentiated capabilities that make us different. We believe we have some of the most fun, some of the most fearless brands in the telco space that really stand out because they have a personality that no other telco company has managed to achieve. And you will have seen across the footprint in recent weeks, we have been relaunching those brands to make them fit for purpose, and even more relevant in a connected world going forward.

Connecting things our customers love

Secondly, our aim is to connect the things our customers love to the data and the content that they increasingly consume all of the time, on the go, no matter where they are. And we are encouraging that and stimulating that, because we have got the most wonderful 4G networks that have great spectrum, great fibre backhaul, and therefore lots of capacity to stimulate even more growth that we can monetise in the future. And we have a roadmap towards 5G already planned out.

Digital-first customer experience

Next is a big opportunity for us in terms of customer experience. We see a huge opportunity in digitalising how we interface with our customers, through new tools, new services, to make them - to make it easier for them to connect with us, make it easier for them to stay with us, to make it easier for them to trade up with us, and make it easier for us to better understand them so we can work out how we can give them even more and make them even more loyal to us.

Challenger cost structure

And using digital tools will make us more efficient in the long run, which leads us into our desire to sustain and even further improve our challenger cost structure in the coming months and years. And all of those choices are very much underpinned by our unique winning people and culture, and the responsible challenger position that we have taken since Jan Stenbeck founded us.

Delivering on Way2Win

So how is our Way2Win delivering? Well, as you have seen since about spring last year, we have really started to build momentum across the footprint as we've become more focused and more clear on where we will focus and where we will not focus. And we've had a very strong to this year, with mobile end-user service revenue organic growth of 10%, organic EBITDA growth of almost 30%, and a more-than-doubling of our operating cash flow.

And that operating cash flow was driven by both strength in our established Baltic Sea challenger businesses, but also us hitting an inflection point in the investment cycle in our investment markets. And that's why we felt it now was an appropriate time for us to bring alive for you not just the strategies that have taken us to this point, but also give you a feel for how the acceleration of the reduction in the investment cycle and the acceleration towards EBITDA breakeven and EBITDA minus CapEx breakeven will be delivered through the different plans that the teams in both the Netherlands and Kazakhstan have.

Concluding remarks

So this is the focus for today. I'm going to now pass over first to Jon, who will take you through what's happening here in the Netherlands. We'll have some Q&A after that before we move onto Kazakhstan, and then Lars and I will close the discussion at the end with some group stuff. So welcome, Jon, and here you are.

The Netherlands

Jon James

CEO, Tele2 Netherlands

Introductory remarks

Thank you very much, Allison. There are some familiar faces for me from a previous career, and some new faces. So I look forward to getting to know you. And thank you for coming to hear us – me – tell you a little bit about the Netherlands. And it is a particularly exciting time for me to be joining Tele2 as a whole, and it's a particularly exciting time for me to joining Tele2 in the Netherlands. I'm going to be talking to you today mostly about our mobile business, and a key message that I really want to convey to you is that our mobile business is ready, here in the Netherlands, for renewed growth, having put in the hard work over the 18 months or so since our original launch in October 2015.

Overview

So I'm going got remind you briefly about the shape of our business in the Netherlands, I'm going to take you through a little bit of a journey that we've been on since October 2015, which has got us to the point that we're at now, that allowed us to disrupt the market as we did on 17th May. I'm going to take you through the work that we've done on network, I'm going to talk to you about the work that we've done on our brand and our go-to-market strategy, the opportunity we see commercially that lies behind the proposition that we launched on the 17th May, and we're going to talk a little bit about our fixed businesses as well as mobile before having a look at the financials and how these changes, particularly driven by our mobile business, are helping us to accelerate the end of the investment phase here in the Netherlands.

Tele2 Netherlands company profile

So then brief look at the Netherlands business as a whole. You'll see from this chart, which is split out the same way that we do in our quarterly reporting. This is a business that is already 55% mobile in terms of revenues, with a significant fixed component both in B2B and in business to consumer, and to be clear, the role of our fixed businesses here in the Netherlands is to be strong, stable sources of cash flow that help us to invest and accelerate our growth in mobile, which is where our attention is focused in terms of growing the business.

Ready for mobile growth

As I said from October 2015, we originally launched our proposition, and it is important to understand the journey that we have been on, and why it is now that we are ready to disrupt the market, we're ready to change the game, and not previously. The critical things that we have built in that time since October 2015 – we've built a very strong network, we've built a very strong brand, we've built sales distribution, we've migrated customers to the point where we have some very efficient network economics, and now we're a business with significant growth behind us already, but we're still already at 5% market share, and we have an extremely strong network, great network of economics and we're poised to growth faster, and we have the opportunity to transform the way that Dutch consumers think about mobile data and how they use it.

The network

So I'm going to talk to you about the progress we've made, firstly, on the network. The network is the foundation of everything that we can do, both in terms of quality and in terms of the level of disruption that we can bring to the market. So understanding that and the progress that we've made is really the foundation.

On par with Dutch competition

We have just seen the latest P3 report – came out a few weeks ago. Many of you will have seen it as well. And what it says to us, and I think to those of you whoa re interested in such things, this is the first time that we've seen network quality data that tell us that our network here in the Netherlands has reached the level of being top quality and entirely competitive with our fellow networks herein the Netherlands. Ours is the only 4G-only network here in the Netherlands. You can see from the data that we've been improving faster than anyone else as we've been rolling out that network, and we're really confident that as we continue in 2017, which is the last full year of our network build programme, that we will see continuing performance improvements, we will see the benefits of a 4G-only network starting to come through. So these are very high-quality networks here in the Netherlands. Everyone of the networks here in the Netherlands would be market leading in multiple other European territories. So we really do have a very high-quality network to play with.

Coverage

Critically in terms of the network economics and the performance and the pricing that we can give to our customers, the critical – what's critically important is that our customers are using our network – our 4G network. So we've – as you can see – made great progress in achieving coverage. So our customers overwhelmingly are now in a position to get on our network for both voice and for data. It's available in indoors and outdoors in almost every location they'll find themselves, which is the first step for us achieving that comprehensive transition to all our traffic beyond our own network.

VoLTE

We've made some very substantial progress in VoLTE, particularly in the last few months, as we've enabled that capability and encouraged customers, both in the background and directly to migrate to VoLTE. So you'll see that we have 428,000 customers on VoLTE – activated on VoLTE today, that represents, you know, about 46% – nearly 50% – of our voice traffic, and rising very fast. That's helped by the transition in the Apple family; Android handsets lagging somewhat behind. So we expect to find progress will slow a little as we get towards a rump, if you like, of older handsets. But we're seeing very substantial progress on VoLTE, which is fantastic, both in terms of quality for customers, but also in terms of the economics that our proposition can rely on.

Network onloading

But we're particularly pleased with our success on data. We implemented 3G barring on the 1st February. As a consequence, no new customers, whether on SIM-only or handset, will be joining us on 3G. In addition, clearly customers are busy swapping their 3G handsets to 4G, so the level of migration of data to our own 4G network is climbing very fast. We're 88% in the latest April numbers, and that is going to, as you'll see in a few minutes' time, really help us in terms of both quality, but in terms of – particularly in terms of getting us the network economics which are fundamental to us doing what we plan to do and shaking up the market.

Fearless brands

So a couple of slides on the network there. I'm now going to turn and talk to the brand, which is as fundamental for us at Tele2 as it is – as the network. And, you know, we're very proud of the brand that we built here in a very short time in the Netherlands. And in common with Tele2 territories elsewhere, we have created a brand that has a very distinct – not to say crazy personality, and I look forward to sharing with you some of the – some of the work we've done for our most recent campaign a little later on. But it's very important for us that this fun rebel positioning, which we adopted from the very beginning of our launch here, is completely our own and completely distinctive from our competitors, who are, you know, broadly speaking more corporate. It's – for us, we are here to shake up the market. That's what we do. And our persona reflects that ambition, and we're delighted with the progress we've made with the brand after all in a very short period of time.

From 'cheap' to fun rebel

You can see from the – pardon me – you can see from the numbers of the chart, we've always been defined by being great value. We started our journey here in the Netherlands with the brand – with a proposition focused on cheaper entry-level bundles. I think in the early days, as we begin – began to build our network. But as we've evolved and become more and more competitive in the mid-range and beyond, and as our brands have become more familiar we've seen some real progress in not just being seen as great value, but also being seen as a quality network, competitive to other players in the market. But also being really clear and easy to deal with. Fundamental Tele2 value.

Brand consideration

And you can see from the consideration numbers that the Tele2 brand now is over the 50% consideration mark. You know, that's a critical threshold for us in terms of competing directly head on with the KPNs, the Vodas, and the T-Mos for customers right across the range, including the higher value, high data usage customers who want data freedom.

NPS

Finally, on the customer experience, on NPS on the right-hand side, you can see that we have improved. This is one area of our transformation that we are not yet happy with. The Tele2 brand within the Netherlands, or where else where must be associated with not just good customer service, but customer service that is a delight to deal with. We have more work to do there, and we have underway already a very substantial customer experience programme with a goal of taking our customer experience towards the goals in terms of NPS that Allison outlined earlier. A fundamental priority for us here today in the Netherlands.

And in parallel with the brand and moving our perception on – we've been working extremely hard in parallel with a network and brand work to create a very powerful sales engine that can, you know, take the quality network, take that strong brand, and convert it into great value sales. We've been focused particularly on building a strong direct sales footprint; channels that we own and control. So that's online. We have 16 stores today. We're planning to expand our retail footprint over the coming months, and obviously we have, both inbound and outbound, telesales that we control. Those channels typically deliver to us higher value customers, a better customer experience, and higher ARPUs. We've been focused on growing their share, as you can see. We're over 50% in terms of sales coming though our direct channels, and we'll continue to drive that number upwards as we go through this year.

You know, that sales engine has successfully delivered for Tele2, depending on the month, depending on the tactical activity that we've been doing, very substantial shares. So as you can see from the middle chart, we have successfully taken 35%, for example, in March in handset sales in the market, so taking over a third of the business in the handset market. So that sales engine is performing. It's capable of disrupting the other players, moreover being the leading player in terms of acquisition, as we were in March. You can see that in SIM-only we were less – we've historically been less strong. Our focus has been on handset. That's a shift from handset to SIM-only. That's – we're making with our new proposition. I'll say a little bit more about that as I take you through what the opportunities were that led us to the new proposition.

New proposition

One of the ways that we decided to launch on 17th May, as I said, we have been working for 18 months to get our network and network economics to the right place. But it – and that is – we're now in the position where we can disrupt the market of which 17th May was the first step. What opportunity was it that we were going after? Ultimately, it's the same opportunity that brought Tele2 to the Netherlands with mobile in the first place, which is that Dutch customers are paying too much for too little data. This is Q1 2017 data – quite a similar picture from in 2016 and 2015 as well. The Dutch customer pay more per GB, and as a consequence, Dutch customers quite sensibly are choosing to ration their data consumption. And it's precisely that opportunity that we want to take on. We think there's a great opportunity to target customers who want data freedom and don't want to pay the earth for it. That's exactly what we trying to do here. It's an untapped opportunity in the Dutch market to transform it and make Dutch consumers among the most data consumptive out there; add great value. That's precisely what we're trying to do with our new proposition and our plan for the rest of this year.

Mobile only

So let's have a look at how that turns out – how that turns into opportunity in the market itself. Firstly, let's have a look at mobile only. So in mobile only, you can see pretty straightforwardly, these are the prices for mobile, but without a fixed subscription. But you can see here that with our new pricing and the latest pricing from our competitors, including KPN's pricing that actually comes online today, we have a very clear advantage at Tele2 over the rest of the market. So we are the clear price leader now at every step of the market, but particularly for those customers who value data freedom. Those are the ones, if you go back to the previous chart, who are being most ill-served by being – having to pay too much money for too little data. And that's our focus in terms of value. We think we've got a great opportunity to be better value than the competitors and to stay there

Unique FMC offers

So that's the first opportunity. The second opportunity is in the FMC market. Obviously for KPN, for Vodafone, Ziggo, it is the fixed bundle – the conversion bundle is how they attempt to secure their customers to lock them in and to cross sell mobile successfully. And we just want to illustrate for you, on this slide, the costs for a family – two adults, two kids – a family who ants data freedom. They want big data buckets. The parents want big data buckets. They[?] would choose to buy that from KPN or Vodafone, and then compare that to the – the premium they're implicitly paying compared to Tele2. This is Tele2's mobile-only proposition. What that shows you is that if you look at the prices that those customers are paying for their fixed bundles, these are – the bundles are available from KPN and Vodafone today. Then the – you can pair the mobile pricing within that and replace it with Tele2. The implicit premium – the implicitly price that they are paying for their fixed broadband and TV – basic fixed TV and broadband – is between €180 and €200.

In other words, customers inside fixed mobile bundles are not getting great value as a consequence of the bundles. On the contrary, they are being overcharged, and they are operating in bundles that are typically complicated, opaque in terms of the charging, and difficult to extract yourself from. And it's exactly that kind of charging, it's that kind of overcharging, it's that kind of complexity and lack of clarity that for us is a classic Tele2 opportunity. We want to go after those customers, offering great data freedom, really clear pricing, simple, easy to deal with company with – we're not trying to lock you in. Indeed, we'll offer you no contract. So that, for us, is a classic opportunity. Equally, we don't underestimate the determination of the incumbents to retain their customers. But fundamentally see this as an opportunity to take on some legacy pricing behaviour and disrupt the market.

ARPU growth

Third opportunity for us is that our ARPUs, by any measure, are the lowest of the major MNOs. So our opportunity to disrupt the market is – is pretty straightforward. You know, we have had lower data buckets and lower pricing. That was where we entered the market. We are now operating at €17 on average for ARPU, and that's at least €7 lower than any one of our competitors. So that's exactly what gives us the headroom to come in, shake up the market, and continue to grow both volume and our average revenue per customer. So that's the next opportunity that led us to the disruptive move on 17th, and we're making in the future.

Impact of WFT regulation

The fourth opportunity came, perhaps, from an unlikely source. Many of you will be familiar with WFT regulation that came into play in the Netherlands on 1st May, which required customers to take out a consumer loan in effect, with additional steps in the sales process when they're taking a subscription out which includes a handset, where the value of the handset is more than €250.

Now, that legislation, which I'll happily discuss in the Q&A, has clearly been complicated and has had a number of effects to the market. But above all, it's clear that it has driven a shift from handset to SIM only. As you saw from our market shares earlier, we were over represented in the handset market. Relatively, we've seen this as an opportunity to strengthen our position in SIM only, which is precisely where we think customers over the coming months will be drawn in part by the WFT legislation. So as we come onto the proposition, I'll explain how that strengthens our position in the SIM only market substantially.

Our new offer – shaking up the market

So here is the new proposition that we've launched on 17th May. Many of you will be familiar with it. But let me explain why we designed it this way and how it takes aim specifically at those opportunities I've just talked about. Most importantly, a headline count of €25 for unlimited data takes aim directly at those underserved Dutch customers who want data freedom, who are paying too much for too little. And where our price gap, if you remember the mobile only pricing, is at its most extreme now. There's a great opportunity for us to attract data hungry customers and say for €25, you can go for all your life.

That's available to not just new customers, it's available to all our current customers. And we've also upgraded all our customers who are on our top tier directly to the unlimited €25 proposition. We wanted them to hear it from us first and to get an equal crack at this great new proposition.

Secondly, we've taken aim at the mobile only and FMC customers who don't necessarily need unlimited, by cutting prices right across the board. So you can now take 1GB offer from us for only €10 and unlimited voice from just €4. We've added no contract for just €1, a very popular feature. And this, again, is targeted at those customers who are in an FMC deal or a long 24-month contract and dissatisfied with their provider. We are stepping out and saying we're so confident in our price, network quality and in our commitment to stay competitive that we're willing to offer no contract. We're the only people in the Dutch market doing that.

And as you compare these pricing to our previous pricing, these prices, by the way, operate both on handset and SIM only. Handset pricing themselves is charged separately to the customer. As you'll see that our SIM only pricing is markedly more competitive now as a consequence of this change. So that is part of us chasing after a fourth opportunity, which is a shift in the market that we've predicted and that we've also seen happen from handset to SIM only.

Having taken you through the proposition, let me show you three 20-second spots that we've used to launch the proposition. And these propositions are targeted at three separate segments – short and punchy and hopefully, you get the message.

[VIDEO]

There you go. My Dutch colleagues are standing by to translate that for you if necessary. But I hope you agree that Tele2 advertising here, as elsewhere, will always be distinctive and hopefully never sensible.

Mobile financials

Let me, with that, go on to give you a little bit of flavour of what we're doing in mobile, what we've done over the last year has contributed to our financial performance in mobile specifically. And that will give you a sense of where the business is as we've gone into Q2 and we've started to launch our disruptive activity.

Even before we have begun our activity in Q2 which really marks the point at which we felt we were ready to shake up the market properly, the performance we've put in over the previous 12 months, the previous 18 months since we launched the network has been very successful. It's been disruptive in terms of pricing and it was only the beginning.

And you can see that in the financials in that we've managed, in the last 12 months, to grow the customer base by 20%. We've also, in parallel, managed to grow ASPU because we've been moving from our starting point in lower end data bundles and as our network has rolled out and our network economics have improved, so we've been able to move higher and higher in terms of the tiers of service that we're offering.

And the combination of the base growing and ASPU growing at the same time gives us a great momentum in terms of revenue growth. And again, this is our starting point before we crossed the line into the world we're in now of genuinely disruptive behaviour as we head for accelerated growth and aim to bring the end of the investment phase closer.

And in parallel, with growing our top line fast in mobile with great subscriber growth and ASPU growth, we have begun to collect the benefits of our expanded network coverage. So 2014, 2015, 2016 have seen substantial investment in expanse of our own network, a 4G only network. And you can see that in the site numbers in the left-hand chart. As I said, 2017 is our last full year of complete network rollout. Next year is really about some of the tougher, smaller sites that, for example, the Rotterdam tunnel which are less consumptive of cash and time but are complex and difficult to get into.

The consequence of us growing that network coverage, which you saw on the earlier charts, is that more and more of our traffic by the voice and data is on that network. And if you look at our total network costs, this excludes CapEx because this is our ongoing costs, you can see the very healthy dynamic we've got there, which is that as we see some modest increases in the direct cost associated with our network, for example, site rental paying to landowners, building owners, to put our antenna in their environments, you're seeing much sharper falls in our roaming, our domestic roaming costs as data and voice are moving aggressively into our own network.

At the same time as our subscriber base is expanding and our revenues are expanding, we're actually managing an absolute term decrease in total network costs because the piece of cost reduction on roaming, third party costs particularly, is outpacing the increasing cost of running our own network. So with tight financial, discipline, we've already managed to turn that corner in reducing network cost in absolute terms. And of course, that means that our network costs per customer per month are falling even faster as our subscriber base grows. And that in turn translates into network economics which are very strong and allow us to do the disruptive activity that we've been talking about in the market.

Fixed broadband and B2B

I'm now going to talk about the fixed broadband and business-to-business operation. Again, the role of our fixed businesses, both in consumer and in B2B, is to provide strong and stable cash flows that support the business as a whole, specifically are there to help fuel our mobile growth engine.

And as you can see from these numbers, these businesses are generating material operating cash flow to do just that, to fuel the mobile business. With disciplined cost control, we've managed to deliver steady improvements in our cash flow. This is flattened somewhat by some VULA costs in Q1 2016, but the underlying picture is one of improving cash flow support for the mobile business from the fixed businesses. And that's despite the fact that both revenue and EBITDA are experiencing slow declines, largely driven by the decline of fixed voice in B2B and by price erosion in contract renewal in B2B, a familiar story for telcos in most places. So these businesses continue to do what we ask of them, which is to deliver cash flow to support the mobile businesses.

Firstly, fixed consumer, broadband. We are maintaining a price leadership position in fixed broadband and TV. So that enables us to maintain a steady subscriber base, also to invest in steady improvements in our product portfolio. Around 50% of our customers are now on VULA and we continue to match the progress in terms of broadband being made elsewhere in the market, but at the same time, to keep a very tight lid on costs and to generate cash flow for the rest of the business. The base you can see there is stable and that includes a small number of B2B customers and predominantly a fixed consumer count, that number.

If I turn to our B2B business, our B2B operation is a significant force in the business telecoms market here in the Netherlands. It's number three in the market, after KPN and VodafoneZiggo. And we are led by value. We have a direct and likeable, if you like, position in the market compared to players who are more perceived as incumbent.

And we're moving faster than the others in taking advantage, for example, of FMC. While we are not pursuing an FMC strategy in consumer, given the broad access to infrastructure we have in B2B, we are pursuing an FMC strategy enthusiastically. So we move quickly to offer FMC. And our traditional business in large enterprise, including government, continues to perform well. At the same time, we are switching our focus steadily to secure growth from smaller enterprises, very small enterprises and SME where our FMC proposition is very powerful and also our mobile only proposition gets great traction.

So you can see here some of the clients that we support from our B2B offering. Again, our B2B play is a significant part of the Dutch business telecoms market, whether it be the police, some of the major banks, whether the Dutch Tax Authority, we have a very significant hold in the large enterprise market as well as seeing rapid growth in FMC, as you can see on the bottom left, by combining our fixed assets both the traditional VULA and KPN assets with our own network, together with our mobile assets.

Summary

So hopefully that gives you a flavour of both of our fixed assets which are really here to support our mobile business which is poised for the next phase of its growth. So I'll just give you a quick picture of the overall financials for the business and then I'm going to wrap up and take your questions.

Netherlands – financials

You can see from the total financials that we report that we are combining consistent revenue growth and moving towards the right direction on EBITDA. Q1 flatters us with a one-off, but we are maintaining our flat EBITDA guidance for the full year. And as you look at the cash flow, you can start to see the underlying trends that I pointed you to, driven by the mobile business which is that as we start to exit the intensive phases of network build, again, this is the last full year of intensive network build, as we start to turn into significant subscriber growth, into great margin thanks to our declining network costs, you'll start and see the benefit of those changes coming through in the operating cash flow. So from our point of view, we think we're well on track to accelerating the end of the investment phase.

In terms of the business, as I said at the beginning, we are really focussed on growing the mobile business. We are moving aggressively in the market, precisely because we've reached the point, after 18 months of hard work, where we have exactly the right brand, network and network economics to be able to go and shake up the market in the way that Tele2 should.

We're going to be creating a customer experience that we believe is genuinely Tele2 and ahead of the market. That's going to be a digital identity that is distinct, not just in the way that our Tele2 brand is distinct, but distinct in terms of the way that customers deal with us from our more corporate competitors. And we're going to work really hard to drive customers who want data freedom to fill our network with data consumption and nonetheless do that in a way that is disciplined so we can accelerate the end of that investment phase.

Most importantly, we want to use this moment that our brand, our network to lead a genuine transformation in how Dutch customers use data so that in 12 or 24 months, we don't say any longer that Dutch customers pay too much for too little. We have a great brand, we have a great network which is almost empty, we have 5% market share, we have great network economics, we have a low ARPU with loads of headwind to grow and we're ambitious to go and shake up the market.

So with that, thank you very much and I'm happy to take your questions.

Q&A

Erik Strandin Pers: Thank you, Jon. Before you ask your question, please wait for the microphone. We have Mark here and Olivia there with microphones. So, yes, please go ahead.

Matthew Bloxham (JP Morgan): Matthew Bloxham from JP Morgan. So I kind of understand the opportunity in the SIM only market. How much extra complexity do you anticipate in the sales process to make sure that customers, if they're bringing an existing handset, it's going to work okay, where the networks can be 4G, is not going to cause after sales problems?

Jon James: Yes. We have some practice now, because actually, it is not WFT or our new proposition that triggers the 3G barring, if you like. We introduced that product ourselves on the 1st February. A customer who joined us then or today with a 3G handset having passed through the various checks of handsets that we do in the sales process and ignored them or given the wrong handset type, when we see a 3G handset on the network, we'll warn them by text and then stop the service.

And actually, that has been a very straightforward process. And I think that's a testament to the pace at which 3G handsets are disappearing from the market. So that's been very successful and that has contributed to the rapid transfer of data from running environment to our 4G only market. VoLTE is a somewhat harder challenge but one that we're very focussed on and intend to bring the same approach to.

Matthew Bloxham: Are you able to give us any sense of how many people actually are coming, how much kind of noise that's creating in the process, people bringing the wrong kind of handset?

Jon James: I think minimal, minimal. That's a process that's been probably surprisingly successful.

Keval Khiroya (Deutsche Bank): Thank you. It's Keval Khiroya from Deutsche Bank. Obviously, whilst you have very attractive SIM only proposition, KPN and Vodafone are working quite hard to go down the converged route. And although the unlimited data price points are very expensive, in the KPN convergence, you get 20GB of data for €26 which, for many customers, may seem like a lot of data, so do you think the price points are sufficiently low enough to actually steal away these customers or are we focussing more on just the mobile only types of customers in the market?

Jon James: I mean, as I implied as we talked about in the market, we're going after both. Clearly, we think the mobile only market, we have a very straightforward price-led route and FMC comes with some inevitable complexity. It's exactly because customers have to sign up to multiple contracts and are locked into those discounts and in some cases, are not getting straightforward discounts but are getting added extras like value-added security and because they feel that they are often unable to extract themselves easily from those contracts because they have overlapping contracts.

It's precisely that which we think drives customer satisfaction and that's our opportunity. But as I said, we are sure that KPN and Ziggo will do their level best to cross-subsidise, to hang onto those customers despite our stronger propositions and we don't underestimate their determination to hold onto them by fair means or foul. So I think it's a straight fight.

Keval Khiroya: May I just ask on the OpEx base, you gave us some insight into how the network costs are developing. Is there any more sense you could give us on how the other costs in the business are developing? Because I guess on the one hand, you have the benefits of scale, but on the other, maybe you're now fighting a little bit more aggressively with more shops, perhaps more employees. So how is the OpEx base generally going to develop going forward? Thank you.

Jon James: Yes. We don't disclose more detail between – that you can see in the quarterly numbers. But all I would say is that Tele2 is habitually a lean operator and our focus on customer experience is intended to make us a very lean and digital operator with a cost base to suit. We firmly believe that having the best cost base in the business and in the market is going to be critical to supporting the continued moves in the market that we plan to make.

So that's as central a part of our strategy as the more visible and perhaps glamorous parts of marketing and pricing. But a lot of work going on behind the scenes to streamline this operation.

Nick Lyall (Société Générale): Yes, thank you. This is Nick Lyall from SocGen. Could I ask a couple of questions, please, Jon? Firstly, on the markets and sub growth, it didn't look as if the market growth was particularly strong still in April. Is that a function of the WFT legislation or is that quadplay churn, or quadplay driving down churn? It means there's not much growth left in the postpaid market?

Secondly, just to come back to this, you are attacking quadplay as well. Do you need to revamp your TV product because of that?

Jon James: Okay. Your first question was really about the sort of business in the market. I mean, I think it's unclear to us whether there's a material effect in the most recent period from FMC. If you look at the share that's been taken by ourselves and T-Mo among switches, clearly mobile only players are doing well. At the same time, I do think that there is some evidence, particularly in Q1, that the WFT introduction, because the warning came in at the beginning of January and that, we believe, did chill the market particularly in handset and may have contributed to a shrinking of the available pool in handset particularly.

Pardon me, remind me of your second question. It was about the TV product, yeah?

Nick Lyall: You mentioned you might also be going after quadplay subs as well, not just mobile only. So do you need to revamp the fixed and TV side of the product if that's the case?

Jon James: Yes. I mean, I think that we're not going after quadplay by offering a quadplay. We are targeting FMC customers by saying, 'Listen, we've got an incredibly simple, straightforward mobile proposition that can allow you total data freedom. You're being overcharged for your mobile bill within your FMC proposition.' So we will continue to evolve our fixed business, our fixed consumer business both in terms of TV and broadband, but that's not the thrust of our challenge to the quadplay home. We are trying to tempt them out with much better value, much more inclusive mobile bundles.

Irina Idrissova (RBC): Thanks for taking my question. Irina Idrissova, RBC. First question on your spectrum portfolio. There are a number of auctions coming up in 2018 and 2019. Could you just talk about how you feel you're positioned with the spectrum? My second question is, what do you see as the biggest risks to the EBITDA breakeven targets?

Jon James: Okay. I mean, I think all I'd say is we're very focussed on that auction and we are already very involved both internally and with the regulatory in thinking about how we best take advantage of that auction.

And remind me of your second question.

Irina Idrissova: The risks to the EBITDA.

Jon James: Yes. So listen, I think we're confident, that's why we're guiding again on EBITDA for the full year. Clearly, we have to continue our pace in terms of our network rollout so we can reduce that cost base. We have to make progress in terms of being a lean organisation and we have to translate great propositions in our brand and network quality into real progress in terms of revenue. But those are the key drivers and we're confident we'll achieve them, hence the reaffirmed guidance.

Sunil Patel (Bank of America): Thank you. It's Sunil Patel from Bank of America. Just two questions. One, you had a slide earlier about the amount of voice on your own network which I think stood at 46%. So I imagine that 54% is on the T-Mobile network. Has the new WFT regulation slowed down VoLTE handset sales and is what's changed you're going to be more reliant on T-Mobile for a longer period in time than you thought at the beginning of this year or before the regulation came in?

My second question really is around sort of your market share ambitions and this whole point around the churn[?] pool and the ads. I mean, I think back in 2015 you talked about sort of 20% by 2020. When I look at the net ads, these numbers, even at 55,000 to 60,000, it's hard to see that really being true. What is your market share ambition with your new pricing as it stands today and by when?

Jon James: Yes, sure. I mean, the simple answer on the net ads is more. We're not going to be guiding on specific market share ambitions or net ads, but clearly, the point we've got to with the network and with our brand and with our propositions is a point which we think allows us to go aggressively and to disrupt and shake up the market. That's absolutely why we're here, why I'm here. And so we are not going to give further guidance on that.

It's fair to say there's plenty of changes going on in the market as well, with WFT, with our proposition, with competitive response. So I think I'd rather be judged on the basis of our quarterly performance.

Sunil Patel: Thanks. And sorry, on the VoLTE question?

Jon James: Yes. On VoLTE, you're absolutely right. There is clearly a possibility that a shift in the market as whole towards SIM only may drive a change in the VoLTE percentage. We are confident that we will, across data and voice, continue to make excellent progress as we have been doing. We expect to have more challenges in the VoLTE than we have done in data, which have moved very fast. And we're working very closely with Apple, but particularly with Samsung and the android vendors to make sure that both existing handsets and new handsets work seamlessly with VoLTE.

And it is too early at this stage to say whether the SIM only change is driving a material shift in, if you like, handsets that will never be VoLTE capable, particularly in the android range. Too early to say.

Sunil Patel: So as a small follow-up, when do you think you will rid yourself of the T-Mobile roaming contract?

Jon James: Clearly, it's part of our ambition to do that as soon as we can. It's great for our network economics but I can't give you a date.

Roman Arbuzov (UBS): Roman Arbuzov from UBS. Just one question on NPS. I was a little bit surprised to see that you were lagging behind peers in NPS and usually, I guess, pricing is the major driver of NPS, so it's a little bit uncommon to see a price challenger lagging behind in NPS. So can you just elaborate a little bit on what's going on and what needs fixing, please?

Jon James: Yes. I mean, we're a new business and our mobile operation is new to the market. As you saw, we've made some substantial improvements in NPS in terms of improving processes and systems. I think most of our issues are to do with the ease of dealing with us. And we are absolutely focussed on that because as you say, as a challenger, we should be in a great position on NPS more fundamentally as Tele2. We are very focussed on having the best NPS in the market. We're not there now and the principal focus here in the Netherlands at the moment is customer experience transformation. So I'm very clear that we will improve that number dramatically over the coming quarters.

Lena Österberg (Carnegie): Lena Österberg, Carnegie. Jon, another question on CapEx and T-Mobile dependency, because you state now that you are close to being past your investment peak. So when you've completed this year or say the next half year of 2018, the rollouts, where will your CapEx to sales be and roughly, where do you think your T-Mobile costs will be at that point?

Jon James: I can't give you the specific guidance either on where we are with CapEx to sales now or in terms of the specifics of our T-Mo deal which, for a start, are confidential to us and T-Mo. We've said that we believe that we are accelerating the end of the investment phase and that this is the last full year of network investment, that we'll continue to build the network indefinitely as we accommodate the growth that our customers will be bringing us. But clearly, we will have exited, we hope by the middle of next year, the phase of completing the initial network rollout which is the most intensive.

Lena Österberg: Could you maybe say something on the CapEx level versus this year or last year? And how much of a decline can we expect?

Jon James: I'm not going to go specifically on CapEx. All I can give you is that the background colour of 2015, 2016, 2017 have been full years of investment in rolling out our network. You can see the site progress on the chart in the graph, and next year we're doing significantly fewer sites which are more complicated. And that will complete the first phase, the most significant phase of our network rollout.

Johanna Ahlqvist (SEB): Yes, Johanna Ahlqvist from SEB. First of all, if you can say something, given that you don't subsidise handsets anymore, in a sense, should we see it as you just moved those handset subsidies toward sort of the retail network and sort of given them the subsidies away to sales commissions instead?

Jon James: No, that wouldn't be fair. I think one way of characterising what we've done with our proposition is that we have shifted a significant amount of handset subsidy into everyday low pricing, absolutely. And that's a reflection of our ambition to compete at that level. It's also a reflection of the WFT legislation which doesn't stop handset subsidy, but it does put some significant limits to how you do it and particularly how you tie it to different tariffs. So it's certainly not about us taking money from handsets and giving it to retailer commission. It is about – there is a significant element of moving handset subsidy into everyday low pricing.

Johanna Ahlqvist: But should we expect the [inaudible] to come down significantly given this new regulation?

Jon James: I think there's a couple of dynamics. Clearly, as handset subsidy reduces across the market, as a consequence of WFT, our ambition and that I'm sure of our competitors will be that we can reduce that investment and turn into either pricing or, you know, improved margins.

At the same time, clearly, we have – we have largely been responsible for an increase in competitive intensity. And so we reserve the right to continue to invest hard to acquire business in the market depending on where the market goes as long as we continue to do in a financially responsible way.

Johanna Ahlqvist: And then just a second question if I may. Given the unlimited subscription you have now for €25, can you limit that to just using one subscription or can I use multiple SIM and can I use it as Wi-Fi and so forth? I know the regulator was a bit hassling T-Mobile on that note, so I'm just wondering what do you see?

Jon James: Indeed, we permit tethering for private customers, but we are clear that we do reserve the right that we think if that or other limits of the subscription are being abused, to block the subscription.

Erik Strandin Pers: We have question over there.

Peter Nielsen (ABG): Thank you. Peter Nielsen, ABG. As you mentioned, you have some excellent networks here. 3G is being phased out. Prices have come down. Are you seeing a material increase in data usage in the Netherlands?

And also just secondly, if I can place a bid on the preceding question, I appreciate you not giving guidance net adds, but when sort of – when we get to the next earnings call or the next one later after that, if you would say a net add levels, let's say at level with last year's average sort of, would you say that was a success? Would you be happy with that or less so? Thank you.

Jon James: Yeah. So data – to answer your first question, the data growth on our network and elsewhere in the Netherlands is clearly growing – growing substantially from, you know, 1GB on average to 1.5GB in the last quarter. At the same time, the rate of growth and the absolute level of consumption still remains materially behind other more advanced, if you like, markets in Europe. And that's – you know, I think that will be a measure of our success will be if we've successively managed to challenge the offers elsewhere in the market and increase that data consumption both for our own customers and elsewhere. So that, you know – that's exactly where we see an opportunity, is growing more slowly than elsewhere.

And as far as net adds, you know, I'm afraid I'm just not going to guide other than saying, more is good.

Peter Nielsen: Okay. Then just following up on the firs answer then. Does that mean that the unlimited offers now, which is where you had the biggest gain, is perhaps not the greatest selling point at the moment? I mean as was alluded to earlier, you know, the 10GB offers here would seem to be more than enough except for a very small proportion?

Jon James: We've lowered the offer. We did actually good with the response, you know, across every channel. I'm not – you know, I'm not here to give a running commentary on sales progress in the quarter. But you'll be wrong to draw that conclusion.

Erik Strandin Pers: Okay, Henrik.

Henrik Herbst (Credit Suisse): Thank you very much. It's Henrik Herbst from Credit Suisse. I just want to – I mean you've talked a lot about profitable growth. So I just want to ask about the production cost of your bundles. I think as you move traffic on to your own network, when you launched a big data balancing suite, I think you talked about the production cost of €50 per gigabyte, which is obviously very low. So I was just wondering – and in the Netherlands, we only have 4G network much more efficient – can you talk a little bit about how you think about the cost of producing a gigabyte of data?

And then also I wanted to ask how you think about further build out of your network with small cells[?] and 5G eventually? If you – I mean I know you've got a little bit of fibre, but how you look at the need for fixed infrastructure and if you could partner up with someone to build, basically? Thank you.

Jon James: Right. Okay, a few – there are a few elements in there. I mean in terms of production costs, happy to look at the Swedish comparison that was done. And I've talked about the broad things that we're very focussed on in terms of reducing cost as we move traffic onto our network. But in terms of giving, you know, beyond the data I've shared today, in terms of getting specifics on production cost and the elements of the NRA, you know, we can't go – can't get further than that.

As far as 4G and 5G rollout, as I said earlier, there is a potential 5G spectrum coming up in the auction in 2019 and the 700 megahertz band. And that's clearly of interest to us as we look at the increasing demand for our services. 4G or 5G in say, for example, 3.5GB may not be coming in the Netherlands until the middle of the 2020s. That auction time goes unclear at the moment.

So there remains substantial uncertainty about the timescale for small sales. We are in the luxurious position of having a relatively empty 4G network with only 5% market share. So we are, at the moment, very focussed on filling that with data. So that's – you know, we are in a relatively luxurious position.

Erik Strandin Pers: Any question? I think we have one over there.

Question (ING): [Inaudible] ING. Two questions. Do you believe there's room for two mobile-only operators in the Netherlands? And if so, why? And then on having a 4G-only network, where is the main benefit? Is that on the OpEx line or on the CapEx line because we all know that mobile operator typically has around 12% 14% CapEx to sales level. So I just want to check if it could be materially lower. Thank you.

Jon James: Basically, you know, as far mobile operators go we clearly do believe that there's space for us in the market. Specifically, we think that, you know, being a distinction brands, 4G-only operator with a very lean cost base and very focussed on mobile-only propositions is distinctive and creates space for us. Now, as you've seen from some of the data we've seen, you know, whether it be in handset market in March when we took 35% or in terms of ability to acquire customers, I think we've demonstrated that we can – we do that successfully.

I would add, it's probably not yet clear that T-Mobile is genuinely aiming to be a mobile-only operator given their fixed assets. That's a question mark. And then in terms of the efficiency of the 4G network, I'll just comment on the OpEx side of it, which is I think we see ourselves as having a significant advantage in terms of the cost of managing our infrastructure as we have, you know, a very simple and straightforward infrastructure regime, you know, single or [inaudible] tender in most locations. That allows us to keep site OpEx under control and it allows us to migrate customers very elegantly and single-mindedly from 2G and 3G to 4G.

So I can't guide – I can't give you a comment on the specific, you know, CapEx distinction between us and the hybrid network. But from our point of view, being a 4G-only network certainly gives us a material OpEx advantage compared to our competitors.

Erik Strandin Pers: So there's another question over there.

Usman Ghazi (Berenberg): Hello. It's Usman from Berenberg. I was just wondering if you could give any clarity on the churn – mobile churn because that used to be an issue for Tele2 and I know that there might be some churn right now from legacy 3G customers, but if you could give an underlying kind of churn assessment where we are.

And then the second question was – I guess this is more a general. You know, you said this is the start of disruption in the Netherlands. I mean some would see – some would, however, see the – you know, the unlimited offer at €25 is the last throw of the dice, right? Because I mean no matter how – I mean no doubt the brand is great, the pricing is great, the network is great. But the reality is this is a very competitive mobile market. So, you know, you're at 5% share now, maybe you get to 10% to 15% share. Is that – that still doesn't seem like a sustainable situation for a, you know, 4G network offering for €25.

Jon James: Okay. Thanks for the question. I mean, clearly we believe it is a sustainable position. But it is dependent clearly on us, A, executing in terms of acquiring – taking share in the market. You know, we said this was the – I said that this was the start of, you know, our disruptive phase. Clearly the market has been in change for some time, particularly since we launched and since T-Mobile introduced at €35, so we're – you know, we're well aware of that market context, which is why we're very focussed on delivering a mobile business which is distinctive in terms of brand, extremely lean and effective in terms of its cost structure, that is focussed on 4G only which is the most efficient way of managing a mobile network. And, you know, we have a very singular mission and we intend to do it in the most, you know, efficient and ambitious way we can. So I, you know, look forward to proving you wrong.

Erik Strandin Pers: I think we have a question from Johanna here.

Johanna Ahlqvist: Yeah. Just a follow up, I was also interested in the churn, if you can comment on anything –

Jon James: My apologies. Apologies for neglecting your churn question.

Johanna Ahlqvist: And then I have another question from my side as well. So do you see any possibility to divest the fixed part? Or how sort of important is it for you to have given that you have the, you know, focus with the mobile-only offering in a sense?

Jon James: Yeah. I mean as I said, just taking that question first and then coming up the churn, you know, our fixed businesses – business to consumer and business to business are, you know, fundamentally there to generate cash flow to support our mobile growth. Equally, clearly, we rely on certain assets jointly. But, you know, so that, you know, they remain integral part of the business. We have different – they play different roles. And in terms of any potential divestment or M&A, you know, I can't comment on that.

As far as the churn goes, I know I say as a new operator with, you know, very attractive pricing, you know, we are a beneficiary of churn as a general concept rather than – rather than someone who worries about churn. Clearly, we are very focussed on customer retention for our base, you know, and the kind of actions we did when we launched unlimited and the new pricing, you know, helps to solidify that churn.

But probably the most eloquent thing that we can – you know, we can point to is that by being only player who offers no contract, as really a sign for us of our confidence that our customers, you know, when given the choice to leave will choose not to do so. And we've had no contract for this – so far, you know, whole year. And, you know, we're very enthusiastic about the reception it's had. And sorry, I can't give you specific numbers on churn, but hopefully by pointing to, you know, that context and specifically in no contract, give you a sign of my confidence that our – that churn is – churn from others is a much bigger opportunity than churn from us is a threat.

Erik Strandin Pers: Great. We have a question over there.

Question: Yes, [inaudible]. I've got a question, let's say, on the invested capital in the Netherlands. What has been, let's say, the cumulative amount of invested capital in the Netherlands? And, you know, what kind of size of business do we need and what kind of margin profile do we need in order to make, let's say, a normal, let's say, return on your invested capital?

Jon James: Another question I think that we've answered in the past.

Allison Kirkby: Putting aside the fixed investments that we've made over a number of years, we have invested around €500 million into the network and getting the mobile business up and running. Was that the question? Yeah.

Question: Yeah, yeah. And that's the kind of market share of total size of business do we need to grow to in order to make a decent [inaudible]?

Allison Kirkby: Well, we've always spoken about a very long-term ambition of a 20% market share. That is a very long-term ambition. But we don't need to be anywhere near that to get a return on that investment.

Erik Strandin Pers: Great. I think they had a question over there as well.

Question: Thank you. [Inaudible]. Getting back to your B2B business which is suffering from a mid-single digit sales and EBITDA decline in the Netherlands, maybe you can elaborate a bit to what extent that's caused by losing clients on price pressure and do you expect this trend to reverse any time soon? And secondly, maybe you can elaborate a bit on the tender activity in general in the B2B market at this stage?

Jon James: I can give you a high-level comment, or maybe that Barry[?] you want to give a comment on the tender market in the B2B market. I mean apology to that single digit decline in review and EBITDA, you know, which we're – you know, good cost discipline managing to, you know, keep our cash flow generation. The principle driver is there or, you know, tradition to B2B operations in Netherlands and elsewhere, which is firstly decline of fixed voice – fixed voice usage. And secondly, price erosion in B2B contract both in terms of access and in terms of, to a less extent, under services renewal given the competitive nature of the market. So those are the two principle drivers.

Barry Wissink[?]: Yeah. On the tender part, I think we see the same trend as we have seen in the past. And what we see is that a lot of tenders are now into FMC propositions. And I think we are fairly well situated for that with a good proposition. So I think that is looking good.

Erik Strandin Pers: Great. Any other thoughts? Yeah.

Jon James: I think [inaudible] question now. Back to you, Erik.

Erik Strandin Pers: Okay. So Jon will be available during the break as well, of course, for question. So unless you have any further thoughts right now, we have a break of about 20-25 minutes. And we come back here about 20 to 15.00, I think it should be. So great, so we have coffee and just – and cookies over there I think. Thank you.

Okay. Great. So let's give credit for the next session. We have a presentation of Kazakhstan from Guillaume and Roman. Please welcome.

Kazakhstan

Guillaume van Gaver

Executive Vice President for International, Tele2

Agenda

Okay. Good afternoon. Are you guys ready to move from Netherland to further east Kazakhstan? Good. So with Roman, the CEO of Tele2 Kazakhstan, it's a great pleasure to give you an update in the country further away from Stockholm or Amsterdam. So we will take you through a few important item. First, it's a great pleasure to give you an update in the last 14 months of the JV creation. We will then give you some update in our dual brand strategy, which is delivering strong results. We will also show how much are we able to actually monetise data and leverage our great network. We will also give you an example of how digital is also transforming some of our customer experience interfaces in Kazakhstan. We will not forget before we conclude to give you an update on the CR, corporate responsibility.

JV highlights

First, you guys and I have probably gone through a lot of mergers and integrations. You followed a lot of projects around the globe. And it's a strat to say, in my mind, that this is one of the most amazing integration that has been achieved in the industry. If we look at a few milestones in the last 14 months, for me, this is outstanding for various reasons. First of all, very early on, we had positive mobile number portability. We were negative, we became suddenly positive. Why? Because actually we offered really rapidly 4G to our 2G and 3G customers when they were Tele2 and we offered suddenly coverage to the 4G Altel customers. Very early on, we had positive momentum in the market.

Other examples. In six months, all of our customer operations were in the same building, working together on the brands and they were integrated really quickly, six months after closing. Probably the example that I found the most amazing is after nine months, our IT system were one. We merged billing, CRM, customer data. Give me an example of any integration or JV which is capable of doing this in the space of nine month? This is really strong.

When we measured how we were progressing in the first ten months of the JV with this measurement point at the end of 2016, we had 17 very specific KPIs to achieve. They were part of our agreement and these 17 KPIs had been met 100% of them, not a single one was missed. They ranged from operation, merger, by the duplication of headcount, by integration of our network, all of those steps were met at 100%.

The great news is in that journey, is actually that it has translated into strong performance on our profitability. As we have commented and presented to you, this 19% EBITDA ratio that has been achieved at the end of March.

JV key achievement since day one

And let's give also a bit more colour to this JV which I think has really been a success. A few weeks ago, we were actually able to decommission almost 10% of our network, meaning that we have closed sites, reused equipment somewhere else in our network, cancelled rental agreements and lowered our cost. And this was achieved recently. So really an amazing achievement in our very wide network.

25% solid market share. Yes, we're number three, but we have a solid market share, 25% and for the last 15 months, MNP has been positive for us.

Another indication which is also interesting to compare, today we have 30% of our customers on 4G. Now, the price of the handset is more of an issue historically in countries with lower GDP, but in this instance, already, 32% of the customers have 4G devices.

One data that I love because it's always difficult to grasp, it's 115 petabytes of data covered in the first quarter of 2017. And it doesn't say anything if you don't compare it with other operations. This is 2.5 times more data than our Swedish colleagues cover in their network, very significant network. And this is one of the KPIs we are, of course, following.

Kazakhstan continued momentum

I won't spend too much time on this slide, but, of course, as an investment market for Kazakhstan, we're very happy to report a growth on the net sales, on the end-user service revenue as well as, of course, a very significant step change in our profitability. No need to mention the percentage growth, I think what matters to us is the fact that we were almost not making an EBITDA – positive EBITDA. We are now into the 19% range just in the space of 14 months.

Scale and efficiency driving improvements

What did we say at the time is that we would deliver some improvements and we have. On the FTE, we have reduced the FTE in all the different areas of the operation by 32%. Just kind of a year ago, almost our indirect cost, which is production cost, commercial cost, SG&A all of our end users service revenue and we were consuming 93%. Now, today, this number has significantly decreased to 77%.

To pre-empt, one of the questions is how were you able to achieve this? And this is, of course, a combination of the great work done on the gross margin, fuelled by growth of usage and customers, but also significantly in this cost part when we were able to actually improve the profitability through all of the integration work.

Benefits expected to continue

Again, as we communicated on our JV last year, we gave you some indication of how much integration will actually cost and how much the integration will actually bring. So from a cost perspective, to date we have spent SEK52 million. We expect some investment during the summer because we are really speeding up our integration from a network perspective with a lot of work to be done the next few weeks and months.

We are definitely on track to create 17% to 20% CapEx efficiency, but earlier than we probably envisage for a few reasons. First of all, because we are really rolling out fast and integrating the network fast. Second reason is that we are able to leverage much stronger buying power. Because we now have such a position in markets, we were able to create very strong tension in our RFP for equipment vendors or IT solutions, therefore, reducing our CapEx cost.

On the integration, we have achieved 3%, but this is less than what we are aiming for because not 100% of the integration work has actually delivered. There are more work to be done on SG&A, on headcount optimisation, in the regions, we still have room for improvement. And there are also more work to be done on, for instance, the sales channels where in some places in Kazakhstan, you still have two stores, one for Altel, one for Tele2, they will be combined to one. And then we can continue to deliver some OpEx synergies.

Key focus areas

Last but not the least, and one of the key elements we can leverage is that Kazakhstan as a country is doing well. And the telco industry, which we discussed during the break was known for very strong price deflation is actually currently growing. So that gives us also a good platform.

So let's enter into more details using, of course, the framework of Tele2 on how we win that was presented by Allison. And Roman will start with the brand. We will talk about data monetisation, digital and I'll come back to talk about cost. Roman?

Strategy

Roman Volodin

Chief Executive Officer, Tele2 Kazakhstan

Dual brand strategy: target groups

Thank you, Guillaume. Good afternoon, everybody. It's really a great honour for me to be here and to present to you the results of our Kazakhstan team and also to talk a little bit about our focus areas going forward. As Guillaume mentioned, first of all, I would like to start with our brand strategy because in Kazakhstan, we have a unique situation when two brands who make very big competitors before the merge, now working together and divert complementary to each other and we were able during the last 12 months actually to do the huge job in order to differentiate the position of these two brands and actually to clearly define two target audience with whom we are working in Kazakhstan. And I would just would like to describe here, first of all, our target audience, how we see it.

First of all, I will talk about the Tele2 customer. If you can visualise it, quite young person. The core of the audience is around 25 years old. She or he lives in the city from – starting from 10,000 inhabitants. He or she has the smartphone and the majority of them use actually two SIM cards. They are late students, how we call them, or first jobbers. So they work very hard on their money. And because of that, the price is important for them. So they are really price seekers and they're looking for the best price for the data service because for them, data is important in terms of their social connections, they use a lot of social networks, OTT, messengers, etc., etc.

They're quite active and they would like to see the operator who are ready to take risk. And also it's important for them – they pay a lot of attention to advertising of such operator because they want to be perceived in their community with, you know, with – as active person who is ready for adventures.

From another hand when it comes to Altel customers, we're first of all talking about a little bit older audience, with the core target audience around 35 years old. They live in the biggest cities staring 150,000 inhabitants. They are well established in terms of their, you know, employment. They're either managers or the business owners. From that perspective, they earn enough money in order not to look for the best price. What is really important for them is to get the best data service in Kazakhstan and, of course, this is required for them in order to satisfy their data needs because they are really heavy data consumers. In many – in majority of cases, they use several devices, smartphone and a tablet. And of course, they consume a lot of – a lot of video.

When it comes to the figures, when we're talking about the Tele2 audience, this audience represent around 37% of the entire market population. And when we talk about Altel audience, yes, [inaudible] assumptions and our estimations, this audience represent only 15% of the entire population, but it's very important that in terms of the revenues, they generate up to one-fourth of the entire market revenue.

Of course, those audience, they require different communication. And because of that, we actually – during the last 12 months as we introduced two new communication platform. In August 2016, we introduced both platform for Tele2 subscribers. And in April this year, we've launched the new communication platform which we'll call Problem Solver for Altel customers.

Dual brand strategy: communication platforms

In the mingle, you can see some of the examples of commercials that we use now on air, currently in Kazakhstan, which just give you some flavour in understanding what are the difference, not really – because they're different not only in terms of the visual pictures and the corporate ID, but what is also important they are different in terms of the communication, the tone of voice, and of course the brand role.

Tele2 plays the role of the active, charismatic, rebel, who always fight for the customer interest. And his main role is actually to ensure that the customers will be not ripped off by the big guys and the customer will pay the best price for the data service.

On another hand, Altel communicates as a trendsetter, as the [inaudible], as the expert and his role actually to be an expert to provide the fastest solution for different problems or issues which customer could face in their daily life and routines.

All this communication platform is combined with the activities which we are running not only on the technical side, but also different commercial aspects, were able to provide us quite significant improvement in the main brand KPIs.

First of all, it's important to see that already at the end of Q1 this year, Altel and Tele2 took number one and number two positions in terms of the NPS. Yes, the markets are quite competitive and you can see that there is not so big gap between all of the players, but it's really important for us to keep the leading position in terms of the NPS for the market.

From another hand, when it comes to the top-of-mind brand awareness, historically Tele2 had a very strong brand awareness position, but with the launch of new platform, we were able to improve and to secure number two position on the market in terms of the brand awareness, meaning, that among the five brands, Tele2 is recognised as a number two brand. But of course for the Altel, with their new platform which was just introduced two months ago, we have a big goal to become at least in top three brands when it comes to brand awareness.

In addition to those KPIs, we're also chasing main brand attributes. For Tele2, it is price leadership perception, and we were able to secure the leading position on that KPI. And going forward, with all the data monetisation activities that we are running, we are going to keep this leading position. When it comes to Altel, what will be important for us going forward is to secure leadership position – leading position in two main attributes. First of all, it's the perception of the fast mobile internet and we see a very sustainable growth for the last year. And the second one, it's actually to perceived innovations because Altel will propose to his customer going forward innovative products.

Positioning combined with the pricing, with the changes in different commercial aspects allow us already now to increase value of existing and the new customers which we are gaining. For the last five quarters, we were able to increase average service revenue per user by 9%. But what is also important for us especially going forward, we were able to significantly increase the share of the bundles in our customer base.

What does it mean bundle in Kazakhstan? It's some sort of mixture between old-fashioned pay-as-you-go subscription and demands with commitment because now, we have more than 4 million customers in our customer base who are committed to pay us on the monthly basis at least €3.5. Of course, we provide some data and voice allowances instead of that, but it's really a great potential for us to grow value for our customers going forward.

It's more or less for us, what does it mean – that we've done a great improvement on the core business, meaning, the smartphone users, and we see some additional areas to grow this area going forward. But, on top of that, we recognise for us three main areas for growth going forward.

The first one, it's growth in MBB and WTT[?] segment. All of the operators, including fixed operators, they are facing a lot of challenges in terms of providing the broadband connectivity in Kazakhstan, [inaudible] fixed the mobile. But now, we will talk about this a little bit later, we have the leading and the best 4G network inside the country. We have a good potential to grow in the MBB segment and that's what we will do starting second half of this year.

The second area which we are focussing now is the growth in the B2B segment. Historically, Tele2 was focussing on the small and medium enterprises because of different limitations, first of all, starting from the network perspective. But as of now, we have the joint network which is more or less on par with the main competitors and we have the leading 4G data proposition. Plus to that, we have a lot of synergies with KazakhTelecom in terms of approaching big segments, big corporate accounts. We have a really strong potential to grow there.

And last but not least, of course, it's the partnership with the biggest fixed operator on the market. Of course, we as the mobile operator, will play the role of the wholesale mobile connectivity provider and our connectivity will be used in the fixed packages or sort of convergent packages of KazakhTelecom which will be sold to existing customer base of the KazakhTelecom, and also will allow them to attract new customers.

Connecting things our customers love

Of course, all this will require really strong and superior connectivity. And with this, I just would like to shortly highlight what we are doing on the network and what is the current situation.

Kazakhstan market spectrum portfolio

First of all, I would like to start with the spectrum portfolio which will be available for all players in the market. And as you can see, we have a unique situation because as of now, we have the widest available range for us in 1,900 frequencies. Out of 40 megahertz, we already now use 30 to provide the 4G and 4G Plus services, and starting Q3 last year, we introduced the 4G Plus technology. And the key – and now, we are able to reach more than 100MB per second peak throughput in the main cities.

Going forward, our plan is actually to reform some of the frequencies and to allocate additional bandwidth for the 4G, plus implement some technical features which allow us to increase peak throughout up to 200 megabits per second. On top of that, we are also investing into 3G development. And, for example, we introduce as a part of the integration, HD Voice on the 3G. And this means for us that we will have an equal or even better network versus other players.

Superior data speed and 4G coverage

Here, you can see some figures and comparison. If we will talk about the 4G coverage, at the end of Q1, our coverage in terms of the populations was twice higher than our competitors. And at the same time, we were able to provide, despite the higher load on the network in terms of the traffic consumption, the higher amount of 4G users, we were able to provide much better quality in terms of the throughput in the main cities. And if some of you will visit Astana this year, for example for the Astana expo, you are really welcome to try and test the best 4G network in the country.

Data consumption driven by 4G/LTE advanced

Network development, introduction of the 4G to the Tele2 users combined with the data monetisation initiatives which we started to execute from April 2016 first of all gave us a really huge growth in the data consumption. As you can see for the last year, we were able to grow traffic by more than 50%. It is really important to mention that as of now, the 4G data represent more than 60% of our entire traffic, and we believe that the share of this traffic will grow further.

When it comes to the smartphone users, as you can see for the last – for the previous year, the average consumption grew up by more than 70%. But what is more important for us that this consumption was also accompanied by the growth of the average deal. So it was not just the growth of the consumption because of price fights, cutting the prices down, etc., etc.

Further room for growth in 4G-enabled devices

Going forward, we need to leverage more, of course, on our superb 4G network. As Guillaume already mentioned, we now have a little bit more than 2 million customers with the 4G enabled device. Yes, this figure dropped by more than 50% during last 12 months, but we're sure that we will be able to keep the growth going forward. And in order to do this, we, of course, introduced first of all the really affordable proposition in terms of the device because in many cases, the device is a key show stopper to migrate from 3G to the 4G.

At the end of Q1 this year, we introduced for the Tele2 customers the best priced proposition in terms of the 5-inch 4G device. Of course, it's the big[?] brand device which is bundled with a subscription – a promotional subscription where a customer pays roughly €7 per month, on top of the data allowance, he gets also the promotional 4G unlimited offered for the six months after the activation.

Digital first customer experience

As you can see, we definitely for the last 12 months, as we saw, the increase of the smartphone penetration and the 4G penetration, we also saw the increase in the data consumption and the share of active data users. Of course, this require from us a lot of improvements in terms of digital touch points because such users, they are very eager to interact with the operator through the digital touch points.

More digital offers and customer journeys

And with this, I just would like shortly to describe to where we are in that area. First of all, it's important to mention that we provide to our customers different value-added services which could be activated and managed by the digital channels. But what is more important for us and what was our key focus area for, I would say, the last couple of years, it's actually the self-care, the mobile self-care.

We introduced mobile app for the self-care in early 2015 and as of now, this is the number one mobile application in Kazakhstan. If we will consider together Tele2 and Altel, the amount of installations, from around 1 million to 1.5 million, which is more than the total installations of similar apps from our competitors. And this is for us a really great opportunity to improve digital interaction with the customer because on top of the self-care, we are now developing additional features in such application like up-sale functionality, like buying additional services. And also, through that application, we are able to merge in some of the elements of the end user experience, for example, for the data quality in particular.

In the parallel, we also developed a lot our website functionality. The e-shop also, self-care and in the second half of 2016, we introduced self-care for Altel on the Web and we also introduced the 4G – sorry, we also introduced the mobile application for Altel users. Here, you can see the dynamic in terms of the visitors and in terms of the self-care users. And what is more important for us here that on top of the improved satisfaction, because customers, if we will take for example our ratings on the Google Play for our application, we're actually number one, meaning, that we have a score more than 4.5. So it means that customers are satisfied with our application.

But on top of the customer satisfaction, of course, this drives a lot our savings in terms of the customer service and customer handling. And with this, I would like Guillaume to continue with the cost structure.

Challenger Cost Structure

Guillaume van Gaver

Executive Vice President for International, Tele2

Thank you, Roman.

Medium term ambition

So as you can see, we have great commercial plans and there is still value to be delivered on our integration programme. So to give a bit of perspective and give you some flavour of our ambition, if all of the environment remains as it is today and the momentum is kept, we believe that sometime in 2018, we'll actually be in a situation where EBITDA minus CapEx will be positive and we will break-even, so our investment market should be in a position to actually go through that important milestone.

We also think that from an ambition in the midterm, we should be in a position to grow our EBITDA ratio to up to 30%. That will be achieved through all of the work that is being done on the commercial side with the gross margin improvement, with the revenue growth we have described to you, up to 5% from where we were in Q1. And there is more indirect benefits and direct benefits on the indirect cost to be delivered, production cost, SG&A, license costs to be able to reach 30%. That is our ambition in the midterm.

Benefits expected to continue

The key building blocks, they are very simple. The first one, gross margin, continue the growth on customer numbers, continue the growth on ASPU, on data monetisation, continue the growth on 4G devices. That's clear. The other element of growth as we discussed on gross margin is where we are under the competition in terms of B2B, fixed mobile convergence is an area and as we discussed also, mobile broadband because we have a great network.

On the cost side, the list is very long. We still have to optimise our retail footprint. We still have to compare our internal in-sourcing versus outsourcing costs. We still need to grow our digital journeys. We are also looking at passive network sharing in order to limit our costs and share some locations with the competitors. And these are definitely going to deliver some benefits.

I would like to spend a bit more time on the CapEx side, where also on the CapEx, the amount of work, as I said, which has been done or still to be done on the network is significant. We have 7,500 base stations in Kazakhstan. It's a very wide country, 7,500. 50% of those sites, one way or the other, would have undergone a transformation in less than 18 months. Those transformations are for 40% of them, we actually decommissioned the sites. 20% of those sites will be completely decommissioned delivering, saving on CapEx and OpEx. The rest is 4G for the 3G and 2G sites and 2G and 3G for the 4G sites. All of that will have been achieved in 18 months and this is going to translate through better efficiency, higher courtesy network that our customers are going to enjoy.

Everything that is going in the integration is actually important from a financial perspective but, of course, we take great care on corporate responsibility on CR and I'm going to update you on what we do on this field.

Corporate responsibility focus areas

As Tele2 we five building blocks for corporate responsibility. The first one is Privacy and Integrity. The second is ethnic – Ethics and Compliance, sorry. The second – third one, sorry, is diversity and we have four and fifth around Child Protection and Environment. By the way, if we dismantle 20% of our sites, that's good news also for the environment. We consume less energy and this is also proving to be contributing from an environment perspective. But let's focus on the two first points in Kazakhstan.

Corporate responsibility focus areas in Kazakhstan

For the two first points, we have taken the decision that we will communicate to you on a regular basis from the day of the creation of the joint venture in these five different areas. The first one is Anti-corruption. The second is Tele2 Code of Conduct. Third area of focus on communication is the Ownership Structure, Transparency and also Privacy and Integrity. These are the five blocks that we take great care of communicating to you and all of our stakeholders regarding our joint venture in Kazakhstan. And if we look at what we have achieved since the declaration of the joint venture and what are we panning to improve, let us go through them one by one.

Responsible action and practice

When we created the joint venture, we said that we have performed a very extensive due diligence. We had extensive reviews by advisers. We have performed what we call UBO from the beneficiary owners. We have also performed warranties on the use of proceeds, and one of the most important element from Tele2 perspective is that we kept management control that's why we have the Tele2 appointed CEO as an example. We have this as a core element to our CR approach in Kazakhstan.

Since the JV was created, we have made great progress in various elements. A good example is the fact that we've appointed a CR officer who is in charge of CR across Kazakhstan. We have introduced the Code of Conduct not only to our employees. We have signed the Code of Conduct but also to our suppliers and we are having some stringent process for government requests.

Today, I'm also very happy thanks to Allison, who's there to answer any of your question today, that we have published and update on this five block of CR in Kazakhstan that is now live on the websites since the last few hours. That gives you a status, a very honest status of where we are. And as an example, we are very soon to be completed the full training of the Code of Conduct to all employees across all Kazakhstan. We have done a great work and there are still a few trainings to be deployed for the next few months.

Another element is that we communicate to you on the work we're doing with the governments and the relationship we have with the National Regulation Authorities. So that gives you a really strong picture. And for the ESG investors, Allison and Victor[?], we are at your disposal for any questions you may have specifically on the field of CR. So this is clearly an important block for us in Kazakhstan as we operate any of our footprint.

Summary

Summary is simple and I guess you got the key messages. Summary is great momentum in our smartphone core business.

Key priorities moving forward

This is growing form a customer number perspective, form a data monetisation perspective, from a data usage perspective, and this should continue. We have also segments where we can have some breakthrough and the ambition from the teams and our sales is that we go against those opportunities aggressively, of course. The full roll out of 4G will actually benefit our customers from an NPS perspective, from a customer experience perspective but also from a cost saving on the CapEx and OpEx perspective.

There's still more synergies to be delivered. Speed matters, we have been able to do this already in r4ecord speed. There is no question of us going slowly on those efficiencies and synergies and we have ambitious plans in the next weeks and months to come to deliver the full benefit of network integration and synergies. And, of course, as we spent a bit of time on this subject, we will always be a very responsible challenger in a country where we bring connectivity, which is important, but we also bring our Swedish way of operating and this is showing a really positive sign. Thank you very much.

So now, last is also – sorry, you wanted to make the transition but we are going to open for Q&A and I was going to invite Lars to answer any question you may have. Thank you.

Q&A

Lars Nordmark: Q&A time. Do we have the microphones? Questions on Kazakhstan? Johanna has a question here.

Johanna Ahlqvist: Yes. Johanna Ahlqvist from SEB. Two questions, if I may. First of all, if you can say about the competitive landscaping Kazakhstan at the moment and do you foresee sort of the risk that someone gets irrational in this market or have the things stabilised? And then secondly, perhaps to Lars, the exit or potential exit still one year or two years away, but how are we, sort of – do you see right now that you have a potential equity value to the transaction, yeah, if you can comment on that? Thank you.

Guillaume van Gaver: So I will answer regarding the competitive landscape. The competition is still very high you know that because some of our competitors, they are performing not so well. Of course, it's difficult to predict what will be the steps but we are ready for any developments from the market. And then, yes, of course, the main competition in our mind will be around the active data users and particularly the 4G users. But we see that the market improved slightly, it doesn't mean that there is no competition anymore. So we are still fighting for the customer, we are still fighting for the perception and they are all of the brands, they are investing into our 4G now and, of course, they're investing in order to gain data users.

Lars Nordmark: And on your second question, Johanna, we actually got a slide on that later on. So I suggest we park that for now and come back to your question later.

Lena Österberg: Lena Österberg from Carnegie. First of all, again on competition, maybe Kcell is in the process of being divested or you can see the NPS course that you had on the picture was not that great for that brand. So how do you view them? Are they a bit ownerless or not being steered properly? How do you view them as a competitor?

And the second, a CSR question. When you corporate with KazakhTelecom, I assure that you can ensure that your own business follows or your five boxes. But when you now start to bundle your services with KazakhTelecom, how do you ensure that they also follow the same rules and processes you do?

Roman Volodin: Yeah. I will, first of all, answer regarding the Kcell. Of course, it's quite difficult to comment on the competitor. Yes, we see some of their developments from the financial reporting. Yes, in our mind they have some challenges but it's really difficult for me to say from the internal perspective how they manage from the group perspective, so I think it's more of a question for them and for their shareholders.

Lena Österberg: [Inaudible] now that are –

Roman Volodin: Let's be honest. They are still number one. They're the leading operator and we should remember that, for them, the main brand, in terms of the customer base and in terms of money is Activ, so we don't have any doubt that we have three very strong brands on the market and Kcell and Activ, they're strong brands with very long history and with a success story behind it.

Lars Nordmark: Maybe, if I may, the slide we presented maybe confusing to the extent that Activ is the very active brand of Kcell, and you can see that they are competing in, you know, really strongly. Kcell is more of a B2B brand so the Kcell downward trend is not a real correlation of their performance in the market, so just the NPS slide might have been a bit confusing. But the Activ brand is actually very active but we also – as we know in commercial terms, momentum matters and we have and we will remain very active and we want to keep the momentum.

To the question of our collaboration with KazakhTelecom, I have to report that this is a very beneficial collaboration. We have a very strong governance rules, a very strong framework of relationship with KazakhTelecom. They are owned and the number one mandatory shareholder is the Sovereign Fund, [inaudible], they are also quoted. And we have seen and observed absolutely no reason to worry but we are, of course, as we said, CR is a day to day fight. Today, we have nothing that tells that this is causing any issue from a structural perspective but also on a day-to-day basis on their behaviours a as partner. Thank you. Allison?

Allison Kirkby: Just maybe to add – to emphasise that the Tele2 Code of Conduct is also signed by our JV partner. In addition to that, in our JV agreement, we also have a provision that allows us to exit the partnership in case of a material breach of our Code of Conduct so that should also be a strong incentive for them to comply with our Code of Conduct.

Lars Nordmark: Thank you.

Roman Arbuzov: Thank you very much. Roman Arbuzov from UBS. A couple of question for Roman, my name's sake. So firstly, on 4G devices and also given your Russian experience, you know it strikes to me as actually relatively high 32% 4G device penetration compared to Russia is only around probably 15% for the market average. So which would you think is the secret? Is it the sort of proactive promotion of 4G devices from the operators and also are there any subsidies in the market? Maybe I'll just start with that one.

Roman Volodin: Yeah. It was – honestly, when I just entered the market, I would say it was a big surprise that the penetration of the smartphones in general and the 4G device was much more higher than in the neighbouring country or countries, I would say. In my mind, it's some sort of mixture of behaviour of the customers, their willingness to have the modern device but also what is important that in general penetration of the fixed is lower so the customers are now using more and more mobile internet to access them and from that perspective, of course, they need the more, let's say, modern device in order to experience – to have a better customer experience.

When it comes to the subsidies or the operator role in that segment, honestly speaking, operators do not play significant role on the hands of market. The majority of the market are controlled by big retail chains. If you'll consider separately our competitors, only Kcell doing a lot of promotions around the devices and time binding contract with some, of course, subsidies if you're buying like the latest iPhone or Samsung. But as we can also see from their public reporting, it's not some significant figures like, you know, 10% or 15% of the entire market. So, still, the customers are used to the fact that they go to the retail and they buy device there. Of course, there are some financial schemes from, you know, from the bank or from the retailer would be applied but it's not link with the operator.

Lars Nordmark: If I may add on this one, let's not forget the number four operator, Altel, had only 4G. So they pushed aggressively 4G in 2015 as an example which actually grew the base which we then inherit. So this has also been not so much the case in Russia.

Roman Arbuzov: Is there – is there a larger proportion of bundles within that numbers as well, therefore or – I'm so sorry, bundles and dangles. Is there a large proportion of dangles within that number?

Roman Volodin: It's significant share but still the majority is the smartphone users. The vast majority is the smartphone users.

Roman Arbuzov: And then my second question was going to be around ARPUs. It's a high-level question when you talk about of ARPUs of €3.5 and Russian operators also like to sign their ARPUs of sort of $5 being very low meaning that there is a lot of upside. Of course, it sounds, you know, relatively low. But then once you take into account how much people earn and sort of GDP per capita and also, I guess, given the fact that your usage is also pretty impressive already, like 5.5 GB per month. Do you – how much upside do you really see and do you think of your service has been genuinely sort of very cheap and there is a lot of upside?

Roman Volodin: Well, I would say that if we will compare this situation how it was one year before, if we will take comparable markets, of course, the Kazakhstan had the lowest prices for data, it is no doubt, with the, you know, average deal and with the consumption which we have. Now, the situation improved a little bit but, yes, still, we have quite one of the lowest market – price on the market for the – especially for the data services. So that's true.

Irina Idrissova: Thanks. Irina Idrissova of RBC. Could you just give us more colour on the market share you have in the first SIM for the customer versus being the second SIM on both brands, Tele2 and Altel. And then another question I have is on regulation. Any kind of key issues or key changes that you see coming down the pipeline over the next, say, 24 months?

Roman Volodin: When it comes to the market share, in terms of the first SIM card, it's really, you know, difficult to evaluate because not all the data about our competitors are available. As you know, some of them disclose results with the Kazakhstan. But we – our estimation on the penetration, the general penetration, that is stabled around 142%. So, as you can imagine, you can recalculate what is our share.

But what is important here that what we see as a trend, there is now the different behaviour, so, now, the customers splitting, for example, the usage. They now are focussing – they choose us in many cases as a data connectivity provider in their dual-SIM smartphones because one must be speaking if you will tell – if you will have a look at the entire smartphone universe in Kazakhstan, the majority – the vast majority of the device is Android and they have dual-SIM. So we, in many cases, use it as a primary data connectivity provider, and our competitors, they used purely for the voice services, it's especially visible in the smaller cities where we have dominant position in terms of, you know, the 4G service.

And the second one was about the regulation. I would say, yes, we have some changes in the discussion. In particular, this year we will implement the blacklist functionality in order to minimise the criminal actions around the smartphones. But all other regulatory changes or actions, they are not something [inaudible].

Lars Nordmark: There was two IMEI[?] blacklist.

Roman Volodin: Yeah. It's the functionality which will be based on IMEI database.

Lars Nordmark: Like we have in Europe for stolen devices.

Roman Volodin: Yeah.

Question: Thank you. It's really – it's more a clarification. You had a slide earlier which was talking about the percentage of Altel and Tele2 customers in bundles, and I just didn't quite understand what exactly those bundles were. Is that basically where you get an allowance of sort of minutes and texts and data versus pay-as-you-go?

Roman Volodin: Yes.

Question: And why is it that, you know, so high? I'm surprised that the prepaid mix, if that's how you call it, you know, what's driven that adoption for you?

Roman Volodin: Well, I would say that, of course, it's visibly more, I would say, cheaper, more affordable for the customer to commit to some certain level of payment to us and has a trade-off to get update – sorry, monthly allowance of voice, SMS and data.

The second thing is, of course, our initiatives in the distribution channels because we are focussing all our incentives with – for our employees and for the dealers in order to up-sale customers for such a type of product, because it's a really good balance between customer interest and our financial targets. And, of course, the entire market invest into this. Because, now, if we talk about the key-buying factors that people are mostly searching for the data connectivity with the amount of smartphones which we have on the market, and when they come to the store, they see just the best offer for them is to go for such type of bundle.

Question: Just as a follow-up, your competitors at that sort of percentage, is that market phenomenon or just – do you think you're higher than peers?

Roman Volodin: Unfortunately, we don't have any available data. But, yes, we are running some research marketing surveys when we're asking customers, you know, also of our competitors, what types of the product do they use.

And we believe that, according that, what we see from those research that we're at least on par but in some allocations have been better than our competitors in terms of such product presentation.

It's the Kazakhstan version of evolution from prepaid to post-paid is our post-paid version buckets and that becomes the focus of competition. So this is a really market phenomenon also.

We see this also in the Baltic countries where most of our prepaid customers have bundled buckets. And they commit every month to those buckets, which is good. Also to avoid the multi-SIM usage, because once you're committed, you're committed.

Jon James: Okay, that's it. Alright.

Roman Volodin: Good.

Jon James: So thank you very much. Now, it's time to welcome Allison with Lars for the summary. Thank you. Thank you guys.

Roman Volodin: Thank you.

Guillaume van Gaver: Thank you.

Summary

Lars Nordmark

Group Chief Financial Officer, Tele2

So let me start, and then Allison will come up and do the wrap-up.

Summary

So looking at Q1, we came up with a very strong quarter. I hope you got a good sense for the delivery of Kazakhstan and the Netherlands this afternoon. We also had really good performance through across our portfolio, all the markets, speed and end-user service revenue growth of 5%. The Baltics had end-user service revenue growth of 12%. And we're also very satisfied to see that the growth on the top line, also tripping down to the bottom line through good data monetisation, also driving economies of scale in our footprint and also seeing the challenge benefits and synergies coming through across the countries.

On the EBITDA side, also be aware, as you see, we launched new campaigns in a lot of our new countries after Q1. So there's a little bit of timing impact here on the expansion cost that is coming later. And also looking at the full-year, which Allison would touch on later, also remember that [inaudible] coming through in the summer, which we guided for around 200 million and we also got slightly tougher comps in the second half of the year.

On EBITDA minus CapEx, Q1 was very strong. Please bear in mind that Sweden was low from a timing perspective, so the CapEx [inaudible] was around 3%. We would expect the Swedish entities would be at approximate and at the same level as of 2016, around 7%, 7.5%, and also the Kazakhstan was also a little bit soft in Q1.

Looking at the investment markets and just building on the story that Guillaume, Roman and Jon had told. Mobile end-user service revenue growth, a tremendous performance coming through a very focussed approach on profitable growth, making sure that we get accretive customers coming through our channels. We see very good work done on the pricing element, which is our key focus areas in particular, in Netherlands and Kazakhstan, but also in the countries, so good ASPU development coming through.

And on the EBITDA margin, as Guillaume was mentioning the mid-term ambition in Kazakhstan is to get a 30%. That's not going to happen in 2018. But we're well on track to reach that level looking at the trading and the performance that we see coming through to-date.

In the Netherlands, the Q1 is not a trend but we're still guiding towards an EBITDA zero breakeven for this year as a Dutch entity.

Looking at cash and where we spend our cash is a big focus for us at Tele2. Obviously, CapEx is one element but also indirect cost is another one. So when we look at this chart, let's start with the CapEx. Here, we very much try to focus on network sharing, what can we do together with the partner to drive down the CapEx level. I just mentioned the CapEx we sell to Sweden, obviously, network sharing fundamentally changes the CapEx profile that you got and that is a key focus for us.

Johanna, coming back to your question, we're not guiding CapEx per individual country. Q1, as you know, was quite low. We're still sticking to the full-year guidance. What I can say is that, when it comes to the Netherlands, if you look at Q1, for instance, the mobile CapEx was lower by about SEK50 million. And if you look at fixed broadband, it was lower by about 200 million. So that was driven a lot of VULA investments in Q1 of last year. We don't expect at this point in time to have VULA investments. So net-net without giving a hard number for 2017 for the Netherlands, our ambition is to have the lower overall CapEx in 2017.

In Kazakhstan, I had a discussion during the break regarding CapEx-to-sales, the integration work and also some additional sites that will be rolling out through 2017 will lead to a slightly higher level in 2017 versus 2016, and that's also what we communicated when we released the Q1 results. And then after that, Guillaume was mentioning, the ambition is to have an EBITDA minus CapEx breakeven in 2018, and that's obviously reflecting the fact that the CapEx should then go down.

Indirect cost, the big buckets in that area is expansion cost, it's network cost, obviously, payroll. And as we discussed during the course of the afternoon, there is a plethora of activities that are going on to work on network cost, what can we do with the partner, what can we do from a maintenance perspective to drive down cost, and we see this coming through in Netherlands and Kazakhstan but also in the other countries in the group. So we see a double-digit reduction of the cash that we spend on CapEx and indirect costs over the last quarters.

Expansion costs, we talk a lot about how do we optimise our go-to market, how do we get more sales put through in our online channels. As Jon was mentioning, we have over 50% of our sales coming through our own channels. Not only does that drive through cost but we also see a better quality of customers coming through when it comes entry of ASPU and also from maturing profile perspective. So from a unit economics in our wide perspective, we are very much focussed on driving those kind of channels.

Other buckets is people costs and we're looking obviously to always make sure that we are making in an efficient. Roshan, the Swedish FD, is here today, we had a step-change programme coming through in Q1 last year and we are seeing the benefits of that, obviously, tripping through into the bottom line. Kazakhstan had a significant optimisation on the payroll side during the course of 2016, and we see those benefits coming through as well.

Customer service, remember what Roman was talking about when it comes to online service and the tremendous improvements that we see in there. There, we're seeing a dramatic reduction in customer service cost. We're talking on a quarterly basis of single digit million SEK cost in the Kazakh business. So it's tremendous performance also in that area.

So that should give you a bit more flavour on – when we talk about indirect cost, those are the big buckets that we refer to.

Of course, we will always look to invest also from a CapEx perspective. But we try to go where the money is. So when we are putting up new sites, there are individual business cases for those sites to make sure that marketing, finance and technology are all aligned, then we're putting up the sites. We're actually going to get significant traffic through.

Coming back to this slide which Allison touched upon in her presentation earlier, this is looking at the EBITDA minus CapEx from an LTM perspective. And at the bottom half, we see the inflection points that we had a few quarters ago and we see an improvement in the EBITDA coming through and also the slightly lower CapEx levels. So we see an improvement in the cash flow and the investment markets.

At the top, we see Sweden and the Baltics, and we've been consistently around 3.5 billion. Those 3.5 billion covered the 2.6 billion dividends but also tax cost and the finance cost, and I think that's an important element to remember and it's very much how we look at the business from a leadership team perspective, so significant cash coming through.

Another measure that we target as a leadership team is cash conversion. That's EBITDA minus CapEx divided EBITDA. Sweden and the Baltics have been constantly around 75% to 80%, which is very much top of the line when we compare it to our other competitors out there. If you even add Austria and Germany in group, we are looking at a cash conversion around 70%, so it's still a very good number coming through.

And Q1 was obviously slightly elevated, and the way you should look at this is – we're not looking at a step-change going forward but more of an evolution from this as a reflection of continuous cash generation with the Baltics and improvement in the EBITDA minus CapEx in the investment markets.

Tele2 has outperformed

And we're obviously very satisfied to see this reflecting on the share price. So if you look at the share including the reinvestment of the dividends, we've almost have a return that is two times the general stock. And this is – and this is from the beginning of 2014. So, I'm going to invite Allison up to do the summary.

Summary

Allison Kirkby

President and Group Chief Executive Officer, Tele2

Okay. So before we close and get back out in the sunshine, just I thought I would summarise with some of our priorities as we look forward.

Financial guidance

First of all, our guidance. We introduced this guidance in January. We reconfirmed it with our Q1 results. We are re-confirming it again today. But as we said just a few weeks ago, we will be reviewing that guidance along with our Q2 results when we release them in July.

Key priorities moving forward

And then finally our priorities going forward, very clear, very focussed and hopefully brought a life today and reconfirmed today by what you've seen from Jon, from Guillaume and Roman and also from Lars.

We have five key priorities and that is to become the customer champion of connectivity in the footprints that we operate in. We will continue to stimulate demand for data and monetise that data despite headwinds from Roam Like At Home, but that is our priority. And that focus on data monetisation will sustain the momentum that you've seen in Sweden and the Baltics. I can't promise a Swedish quarter like that every quarter but we do aim to sustainably have Sweden growing 2% to 3% on the top line, mid-single digits on the bottom line and Baltics to be slightly ahead of that as they are coming from behind in terms of network rollout and smart phone penetration.

We will continue to accelerate our growth in our investment markets of Netherlands and Kazakhstan and accelerate towards the end of the investment cycle which hopefully you've got great confidence in here today by really focussing in on those two markets. And finally, our Challenger co-structure remains a key priority for us. We will continue to execute with discipline on that programme to realise the 1 billion per annum benefits by 2018 and of course we have a number of synergy programmes that we are executing on very successfully in Kazakhstan and now also Sweden. And all of those priorities will ensure that we can sustainably and reliably create shareholder value over the long term for our shareholders.

Q&A

Allison Kirkby: So that is us. It's getting very warm in here but Lars and I are very happy to take any final questions that you might have. Those others on the room that can support any of those questions, but please go ahead. I think we've got one question already lined up which is a follow up to what Johanna said and it's – we know it's a question that you have asked many times and I obviously failed to answer it as the CFO when we merged with KazakhTelecom in Kazakhstan and we continue to try to answer it but here is the answer on the Kazakh shareholder loans which I know you've all been waiting for.

Lars Nordmark: Okay. So, Johanna, I will see if you give me – what grade you'll give me on this one but this is the situation, so we got 49% stake economic interest, KazakhTelecom got a 51% stake. We have 51% management control so we consolidate the business. We have a back to back 80% versus our precious partner with an earn-out to be effective economic interest is 31%. Then we have a shareholder loan that was really KZT97 billion, that is [inaudible]-based. That is [inaudible] at an interest which we haven't disclosed but currently that's slightly north of 3 billion.

Then there's the put option and call option, please bear that in mind, in Q1 2019. And obviously we will see where we at this point or that point in time. At that point, if it here is exit, you know, we get the shareholders loan back and then there's equity residual which then gets distributed. Important to remember there is that Asianet would get the first 200 million approximately of that equity.

Then we also have a loan from KazakhTelecom and also a bank loan that is funding the JV expansion. This is also related to our economic debt definition and they are guaranteeing that. Is that clear?

Johanna Ahlqvist: Yes.

Lars Nordmark: Very good.

Allison Kirkby: Okay, Terence. Yeah?

Terence Tsui (Morgan Stanley): Thanks. So I just had a quick question on the overall group portfolio and the structure. Just given how successful the integration has gone in Kazakhstan, do you think there's more opportunities that is similar joint ventures elsewhere, maybe in the Netherlands or the Baltics?

Allison Kirkby: We are very focussed on value creation and where we can find opportunities like we did in Kazakhstan to strengthen a subscale position, then we obviously take advantage when it makes sense from a shareholder value point of view. We're not currently pursuing any at the moment but it's always an opportunity to strengthen our scale and we're big fans of JVs. You know, we have wonderful network sharing agreements in Sweden. And so where we see those opportunities, we absolutely take advantage of them.

Erik Strandin Pers: Sunil.

Sunil Patel: Thank you. You mentioned on both presentations around the brands and the dual brand strategy, you know, in Sweden when you look at Tele2 and the Comviq brands, in the past it's appeared to be slightly too close for comfort and having at least some of the pricing to come [inaudible]. Are you happy in that market that the brands are sufficiently far apart and Tele2 is not just sort of retainer of the high value customers but actually can grow going forward?

Allison Kirkby: I think, you know, what we have seen since we went to the dual brand strategy and we moved Tele2 into the value champion position has been a great success. Comviq is more clearly than ever the price fighter and Tele2 as increasingly sells larger data buckets and now unlimited is the real enthusiasts of connectivity for these customers that want more access all the time at a great value for money price. So whilst we have seen the customer base in Comviq grow and the Tele2 customer base slightly decline, we've seen great revenue growth on the Tele2 brand and great customer and revenue growth on the Comviq brand. So we're very happy with the development.

We just launched the new commercials on Tele2 in April, the Tele2 School of Power. And that is again differentiating a way from being a price fighter and we're very happy with the – with the early reaction that we're getting to that. So we're very happy with our dual brand strategy in Sweden. And, you know, to be honest, their market is very much going to where we had two brands with the right to win. And it's – it's been a great pillar of our success.

Terence Tsui: Thank you.

Allison Kirkby: I think that was – yeah.

Matthew Bloxham: Hi. Matthew Bloxham, JP Morgan. Just to clarify on what you said about the reviewing the guidance at Q2. I mean that – I mean I would expect you to be always reviewing, you know, whether you've got your guidance on the right range but is that all you're saying or you're implying that there could be a change to the guidance?

Allison Kirkby: That's all I'm saying.

Matthew Bloxham: Okay.

Allison Kirkby: 19th July, if you're not on holiday, we will release our results and we will give you an update on that point of time.

Question: Thank you. You haven't talked – discussed your third investment markets. Sort of if you look in the broader picture, longer term, how do you see this business in the Tele2 group, please?

Allison Kirkby: Croatia?

Question: Yeah.

Allison Kirkby: It's very small. It is now getting momentum after completing the 4G roll out last year. We did a brand re-launch last spring that didn't have quite the impact we wanted. We have just recently refreshed that and launched some new propositions again in this quarter so early days, getting good traction from Croatian consumers. But absolutely, we want to get – we want to see the same kind of growth rates that we're getting in our other investment markets in Croatia but we're not there yet but we're nowhere near spending the same levels of investment in that market. We're very, very [inaudible]. I think everybody is about to die in the heat.

Question: Just a very quick one. Did Kinnevik consult you before the Com Hem stake acquisition the other day and what your general thoughts about the speed of convergence in the Swedish market and how you could prepare for that in the absence of anything larger?

Allison Kirkby: First of all, Kinnevik, of course, didn't consult us on that acquisition. That is very much their decision and a very independent decision and they wouldn't consult us with that. Our views on conversions in the Swedish market, FMC, hasn't really happened in the Swedish market for a number of reasons. Great 4G networks, great consumer habit already established on mobile networks, great value for money and great experience on those networks and no one player has felt the need to discount any one part of the bundle to push FMC.

You also see the Swedish market, increasingly, consumers are watching their content over the top so there's much less force fitting of the content with the fixed our connection in the home. So we monitor the situation closely. We're very aware of what Telia have said publicly but they've also said that they don't really want to discount any part of the bundle either. So, of course, you shouldn't forget we do offer converged service to our B2B customers which is an increasingly larger part of our business since we acquired TDC and so we're able to offer a full suite of connectivity services to them and we still see continued room for growth in the mobile space with the consumer but we watch it closely. And we're learning a lot more now that we've got Jon on our leadership team.

Any more questions? I think people might – Lena, you put your hand up, no? Right, do you want to ask the last question and then people can get some fresh air?

Lena Österberg: Yeah. Lena Österberg, Carnegie. Maybe if you could just reiterate Q1 because you're sort of alluding to the guidance change. Q1 was the massive beat, but then on the other hand you had some less expenditure. I mean you pushed the marketing campaign in Q2, so could you maybe just go – say a little bit more about Q1, how much of that was temporary less marketing spend, how much of it is sort of a new cost base because you have lower cost here. In the Netherlands, you got synergies through in the Kazakhstan and in Sweden with TDC and you have the Challenger programme. So what's the – a normalised OpEx base for Q1?

Allison Kirkby: Well, there is no real normal quarter but I think what we said at the time, Lars –

Lars Nordmark: Sweden, we said about 30 million, 40 million on the marketing. And I think Jon probably about the same amount in the Netherlands, but really a bit softer due to delay in the launches.

Allison Kirkby: And then there was about 90 million of one offs in Netherlands as well.

Lars Nordmark: Netherlands, correct.

Allison Kirkby: So they were – they will not be recurring and obviously Q2, you've seen a number of re-launches and new propositions launched so – but we'll be able to report more on 29th July, a few days after my birthday.

Okay, thank you all. Thank you for taking the time to come here today. Thank you to all who helped make the presentations work and bring our investment markets alive. They don't always get the focus that they deserve and we look forward to chatting further with you out in the sunshine, and to seeing you or at least hearing you on the Q2 call on 29th July, so thank you all.

[END OF TRANSCRIPT]