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PRESENTATION

Operator

Good day, and welcome to the Tele2 Q1 Interim Report 2017 Conference Call. Today's conference is being recorded.

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

Erik Strandin Pers - *Tele2 AB (publ) - Head of IR*

Thank you, operator. Welcome, everyone, to Tele2's First Quarter 2017 Results Call. My name is Erik Pers. I'm the new Head of IR here at Tele2. I have with me our CEO, Allison Kirkby; and our CFO, Lars Nordmark. And as usual, we will start with a management presentation, followed by a Q&A.

So Allison, please go ahead.

Allison Kirkby - *Tele2 AB (publ) - CEO and President*

Good morning, everyone, from a very sunny Stockholm, and welcome to our first quarter results for 2017.

So starting with the financials and the headlines of those that we released this morning. Monetization of connectivity has been and is our key priority, and we saw strong growth in the first quarter of this year with, on a like-for-like basis, mobile end-user service revenue up 10%, which clearly includes Altel and TDC pro forma and on a constant-currency basis.

Net sales amounted to just under SEK 8 billion, up 3%, driven by strong mobile end-user service revenue across our footprint, but with double-digit growth in the Netherlands, in the Baltics and also in Kazakhstan, and that was offset by declines in fixed. And EBITDA like-for-like was up by 28%, with a strong contribution from all of our key markets.

So as you'll have seen in our Annual Report, we have refreshed our strategy to reflect where we will prioritize and how we will differentiate in the months and years ahead. And so with that strategy at the forefront, let me take you through some of the highlights that we saw in the quarter.

First, our Baltic Sea Challenger businesses continue to grow and deliver strong results, with mobile end-user service revenue up 5% in Sweden and 12% in the Baltics. We also delivered double-digit EBITDA growth in both Sweden and the Baltics. But even more importantly, considering the importance of this region to our group, we saw a 16% increase in operating cash flow.

In our investment markets, we saw mobile end-user service revenue grow 40% in the Netherlands. And we now have 87% of data usage and 40% of voice usage on our own network as we increasingly become less dependent on the T-Mobile 2G/3G network. And in Kazakhstan, it was yet another strong quarter, delivering mobile end-user service revenue of 14% growth.

On Challenger cost structure, the integration of Altel in Kazakhstan continued to progress extremely well, with cost and revenue synergies contributing to a strong EBITDA result again this quarter. And we're also then starting to see TDC synergies materializing here in Sweden, mainly from the early exit from the MVNO deal with Telia and FTE reductions as we combine our 2 organizations. And we had another strong quarter for the Challenger program, which is well on track for the SEK 1 billion target that we set out to achieve by 2018.

Finally, on people. We physically welcomed 800 new colleagues from TDC Sweden into our headquarters in Kista and other offices around Sweden as we closed down the TDC head offices. And in the Netherlands, as you saw earlier in March, Jon James has been appointed the CEO there, having great commercial and operational excellence and experience to both the Dutch leadership team but also to our group leadership team.

So let's get into the market. And first, I'm going to touch on our Baltic Sea Challenger businesses of Sweden and Baltics. In Sweden, revenue was flat, with mobile end-user service revenue growth offset by lower fixed revenues and lower equipment sales, and they were mainly in the fixed and enterprise area. The strong mobile end-user service revenue growth, which increased year-on-year by 5%, was primarily driven by migration from prepaid to postpaid subscriptions, our customers opting for larger data buckets that support increased data growth and continued growth in the large enterprise segment. And this growth was delivered despite it being a fairly modest quarter for sales and marketing investment.

Sales and marketing will, however, ramp up in Q2, behind our new Power 2 Tele2 proposition, which some of you might have seen on Friday when we also launched Roam like at Home, and an unlimited package for very high-value customers. And obviously, in the last week, we've also launched the Samsung S8. But back to the quarter, EBITDA grew by a very strong 10% due to the higher service revenues, lower expansion cost, but as well as Challenger program and TDC synergy benefits now materializing and flowing through to the bottom line.

In our Swedish consumer business, trends were again strong in the quarter. We posted 12% growth in consumer postpaid on the back of migration towards higher ASPU products, which led to a 5% mobile end-user service revenue increase, as prepaid and mobile broadband were down in the quarter. If you recall, prepaid was very strong in Q1 last year.

Our dual-brand strategy and our Value Champion strategy continue to attract higher-value customers to the larger data buckets. And Comviq is now also trading customers up on the back of data growth. 69% of sales in both Tele2 and Comviq were on buckets of more than 3 gig.

Our dual-brand strategy, our increased network coverage and our single-minded focus on customer satisfaction is driving our customer satisfaction scores to best-in-class levels, with Comviq, in particular, seeing growth year-on-year and reaching Tele2 levels, which remain at best-in-class levels and will obviously be a key focus for us as we now introduce our new propositions at Roam like at Home and other opportunities.

In Swedish B2B, we saw stable sales in the quarter both in the Tele2 business segment and the former TDC Sweden entity. In large enterprise, we saw 3% growth, which was driven by a strong underlying development in mobile end-user service revenue where we grew 8%, which was partly offset by lower fixed telephony and equipment sales. We signed several new contracts in the quarter, including Katrineholm and Järfälla municipalities, as well as a contract with HCL Technologies. And we also managed to prolong our contract with Postnord.

At the TDC integration, we saw the first synergies trickling through, so far contributing SEK 19 million, which was driven to a large extent by an early migration of what was the TDC MVNO traffic on Telia's network. This migration will be finalized during the second quarter and is well ahead of our original integration plan.

So let's move across the water now to the Baltics, where commercialization and monetization of our 4G investments continue to drive really excellent top and bottom line growth. Net sales growth of 12% was very strong, thanks to an ever-increasing demand for data services and premium handsets. And mobile end-user service revenue growth was also 12%, with Lithuania leading the pack up 15%, largely driven by higher data consumption, pre to postpaid migration and growth in mobile broadband. Latvia and Estonia growth was also strong at 10% and 7% growth, respectively. EBITDA increased 16%, driven by the healthy revenue growth and benefits from the Challenger program as we continue to consolidate certain tasks and skills into our Shared Operations organization.

So clearly, data monetization is continuing in the Baltics, and we saw strong ASPU development of 9% in the quarter as the transition to postpaid continued and smartphone penetration increased. But as you can see here, the market remains underpenetrated from a smartphone perspective, and our use of data analytics and excellent customer base management is helping us to consistently up-sell successfully. The prior quarter investment into our mobile broadband business, where our market share is lagging that of what we have in handsets, has fueled a revenue increase in that segment of more than 50%, albeit from a low base. But it is establishing Tele2 as the liberator of conductivity both in the home and on the go in those parts of the Baltics where home broadband speeds lag that of the speed of our 4G network.

So let's now get into our investment markets, and first, the Netherlands. Net sales were up 9% due to strong mobile momentum, partly offset by fixed broadband and fixed telephony decline. Most importantly, mobile end-user service revenue was up 40% as the mobile customer base increased by more than 20% year-on-year, and ASPU grew by more than 10% year-on-year. EBITDA was positive in the quarter due to a number of timing impacts, but also benefits that will recur from higher revenues, lower NRA costs, lower investments into fixed and Challenger program benefit.

However, the one-timers were significant in the quarter and hence, why we are calling this quarter a transitionary quarter. First, expansion costs were lower than expected as BFT regulation subdued handset sales and subscriber acquisition and as some of our competitors introduced more aggressive propositions. Secondly, EBITDA was positively impacted by nonrecurring items totaling SEK 95 million, mainly coming from a revaluation of our handset receivable balance. But year-on-year, we did have a significant nonrecurring item in Q1 last year as well, around SEK 73 million.

But despite the increased competition in the market, we have managed to sustain the momentum we finished with last year, with our share of new postpaid subscriptions at around 17% in February and March looking stronger than February, although we don't have the market data yet. BFT and competition did have an impact on net intake in the quarter. Underlying intake of 40,000 customers was shy of the 50,000 to 60,000 quarterly intake that we were seeing last year, and then a one-time cleanup of 24,000 reduced our reported net intake to 16,000.

On the network side, we continue to expand our LTE Advanced 4G network, which is now at 99.5% outdoor population coverage and 91% indoor population coverage. As earlier communicated, we expect our rollout to be completed by the middle of 2018. As I said earlier, data onloading reached 87% by the end of Q1. And following VoLTE activation on the iPhone 6 in January, we now have just over 400,000 active VoLTE customers, resulting in 40% of voice traffic on our own network in March. And according to the newly released P3 report, our wonderful 4G network is now within 1 point of KPN and Vodafone, so hardly considered noticeable, and 1 of only 2 operators increasing their total score year-on-year.

So as we put a transitionary quarter behind us, we remain excited about what we can achieve in the Dutch market now that data and voice are increasingly on our own network and with the unique Challenger brand that keeps winning awards that are resonating very well with Dutch consumers. And yet, another quarter of growth gives us the belief that with our continued disciplined investment strategy, we will further establish ourselves as the preeminent challenger in the Dutch market.

So let's now move further east to Kazakhstan, where it was yet again another strong quarter, with net sales up 14% as strong momentum in mobile end-user service revenue continued, with an increasing customer base and higher ASPU. EBITDA was significantly higher year-on-year and is now a real material contributor to the group as we reap the benefits of improved scale and from JV integration synergies. As I've said before, this JV is now enabling a much stronger and a more sustainable platform for growth and value creation in the future.

And looking at the results in a bit more detail, you can see that our customer base grew by 3% year-on-year, and ASPU was up 9% year-on-year as we really focused on selling higher-ARPU and higher-margin propositions while staying true to our price leadership position in the market. The JV integration is progressing according to plan as both organizations are now fully integrated, and the remaining work this year is very much on the network side. So far, we have about 630 sites merged of a total to be merged of around 1,600, and that work will continue throughout 2017.

And finally, as we move into the final stretch of the Challenger program, it very much remains on track, and we're delivering benefits slightly ahead of expectations. One of the key drivers of our strong Q1 has been a result of the focus we've put into operational efficiency and productivity over the course of the last 2 years. Headcount reductions in Sweden and the Netherlands, in particular, are benefiting us this quarter, as with the benefits realized from continued consolidation of our network, IT and customer service operations. The Challenger program and our Challenger cost position, as you can see in our new refreshed strategy, continues to be a top priority for us. And we believe that in 2017, we will achieve 75% of the SEK 1 billion target for annualized run rate by 2018.

So on that note, I'm now going to hand over to Lars, who can take you through the numbers in a bit more detail.

Lars Nordmark - *Tele2 AB (publ) - Group CFO and EVP*

Thank you, Allison. Let's turn to the next page for an overview of the mobile end-user service revenue development. Reported year-on-year increase came in at 19% and at 10% from a constant currency and pro forma perspective. On the right-hand side, looking at the individual operations, we have seen positive trends across all our markets. Sweden contributed an increase of SEK 164 million versus Q1 last year, representing a 9% increase in revenues, of which 5% were for like-for-like growth.

Baltics contributed SEK 54 million increase, representing growth of 12%; while on a constant-currency basis, the growth was 10%. Baltics mobile momentum continues despite headwind from the EU roaming regulations that took effect during 2016. The roaming changes had a negative effect on the growth rate in the Baltics of just below 3 percentage points.

In the Netherlands, we saw healthy increase of SEK 129 million as we continue to grow our mobile customer base and experienced rising ASPUs. The biggest movement year-on-year came from the Kazakh business, which improved by SEK 230 million, a growth of 87% versus Q1 last year. This was based partly on growth in the customer base and higher ASPUs, but also on [Kazak] Altel, which was only consolidated for 1 month in the corresponding quarter last year. On a like-for-like basis, the growth was 14%.

Moving on to EBITDA. We can see that the strong growth in mobile end-user service revenue flowed through to EBITDA. The reported year-on-year increase was 41%; while from constant currency and pro forma perspective, it was 28%.

Let's look at the individual markets. Sweden contributed growth of SEK 197 million, with half of the increase coming from the consolidation of TDC, with the other drivers mainly being service revenues, lower expansion cost and Challenger benefits. The SEK 40 million growth contribution from the Baltics was likewise driven largely by service revenue growth and Challenger benefits. EBITDA from the Netherlands grew by nearly as much as in Sweden at SEK 182 million. Here, the increase comes predominantly from higher service revenues, helped also by lower national roaming cost and expansion cost. Kazakhstan's growth of EBITDA SEK 116 million is, to a large extent, driven by the increased scale of the business.

For CapEx, we saw a decline of 46% versus the same period last year, primarily due to lower investment in the Netherlands where we had a high level of VULA investment in Q1 2016 and a more intensive network build-out. In the Baltics and in Lithuania, we invested around SEK 130 million in spectrum of Q1 last year. Sweden also had an unusually low investment activity in the first quarter. And overall, we expect to ramp up that level of investment during the rest of the year.

Turning to free cash flow. We saw a year-on-year improvement, driven primarily by the higher EBITDA and lower investments, which we talked about, but partly offset by negative change in working capital. Timing differences will continue to have an effect on a quarterly basis on the working capital. But also keep in mind that during last year, Sweden was positively affected by the introduction of the external handset financing arrangement, which will not repeat itself this year.

Looking at cash flow generation from a more operational perspective. We show a view of the overall development on the next slide where we split the rolling 12-month operating cash flow, defined as EBITDA less CapEx, into 2 segments, with our investment market shown in gray and the Baltic Sea Challenger plus the other group units shown in blue.

We are pleased to see that the Baltic Sea Challenger and cash generators continued to deliver a high and solid cash contribution to the group, reflecting a strong EBITDA development and an efficient investment approach. Meanwhile, the negative operating cash flow in our investment markets, Netherlands, Kazakhstan and Croatia, declined for the third consecutive quarter on a rolling 12-month basis. This reflects the increase in scale of our Dutch and Kazakh business, which has been achieved on the back of the significant investments we have made in these markets in the past.

It is also important to keep in mind when looking at this that besides the underlying operational trends, the operating cash flow, we continue to be impacted by factors such as the timing on network CapEx, spectrum investments and nonrecurring items.

Moving on to debt and leverage. Our economic debt to EBITDA decreased slightly compared to last quarter to 1.75. The leverage is based on full year EBITDA, excluding the 51% share of Kazakhtelecom and all liabilities guaranteed by Kazakhtelecom, and it includes TDC pro forma.

Turning to our guidance. Q1 was a strong quarter. We have to keep in mind, however, that in the coming quarters, we will see higher levels of investment both in terms of CapEx and in terms of sales and marketing costs. In the second half of the year, we will also see the impact of Roam like at Home, and we will be up against tougher comps. So while the first quarter results put us well on track to deliver on our full-year targets, we're only 3 months into the year, and so we reiterate our guidance for the full year at this point, which we communicated to you in January. And do note that mobile end-user service revenue is based on constant FX and pro forma.

And with that, I'd like to hand back to Allison.

Allison Kirkby - *Tele2 AB (publ) - CEO and President*

Thank you, Lars. So in summary, our key priorities very much remain intact, and that is to be the customer champion and enthusiast of connectivity to liberate a more connected life for our customers. As a result, we will continue to focus on monetizing data despite headwinds from Roam like at Home. And this focus on our new refreshed strategy in customer propositions, we believe, will sustain our momentum in our Baltic Sea Challenger businesses. We also believe that this focus will enable us to leverage our Challenger strategy in the Netherlands and Kazakhstan to take significant market share but in a financially disciplined manner. And recognizing that our market positions require excellence in financial discipline and operational execution, we will continue to execute on our Challenger and synergy programs so that our top line momentum continues to flow down to bottom line momentum and improve cash generation.

So our guidance reflects all of this and some of the headwinds ahead. So obviously, the first quarter results give us great confidence that we will deliver. And it doesn't just give us confidence on the next quarter or the year, but we very much are confident that our focus on monetization of connectivity will deliver long-term value for our shareholders, our customers and our employees.

So on that note, thank you for listening to us. And I'll hand back to Erik now, who will kick off the Q&A session.

Erik Strandin Pers - *Tele2 AB (publ) - Head of IR*

Thank you, Allison, and thank you, Lars. Operator, we're now ready to take your questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) So we come already to the first question, it's from Nick Lyall from Societe Generale.

Nick Lyall - *Societe Generale Cross Asset Research - Equity Analyst*

It's Nick at SocGen. Can I ask 2, please, Allison? Just firstly, on the Challenger plan, what was the contribution in the quarter to the group? And could I just clarify, it was 75% of the run rate to be reached by the end of this year when you talked about Challenger? And then secondly, on the Dutch business. Subs looked a bit weak again, and I know revenue and EBITDA and other points are moving. But on subs particularly, do you need to kick start growth there? Should we expect a big investment in marketing? Could you again just clarify the 3G subs that are left to get rid of before the subs numbers can start moving?

Allison Kirkby - *Tele2 AB (publ) - CEO and President*

Thanks. Well, we don't give quarterly Challenger program numbers. But the way I looked at the year-on-year, like-for-like growth, so around SEK 380 million, about 1/2 of that is from a combination of Challenger program, synergy realization and lower NRA cost, so real operational financial benefit. About another 1/4 is from data monetization across the footprint x Kazakhstan, and then another 1/4 is from Kazakhstan. And then you've got the one-timers and the lower marketing spend in the quarter offsetting the drag from fixed, which is worth about 25%. So all in, a good chunk of the benefits in the quarter are from Challenger, lower NRA cost and real synergy materialization. And yet, we're very confident in the run rate being SEK 750 million by the end of this year. In terms of the Netherlands, yes, it was, as I said, a bit of a transitionary quarter. BFT regulation hit us in particular because we've been really pushing handset. And in third-party channels, you saw a real slowdown of handset sales in the quarter. And since we've been really prioritizing handset subsidy as opposed to SIM-only, that did have an impact on us. So yes, indeed, it was a lower sales and marketing quarter. And hence, that, and some of the nonrecurring benefits, gave us a positive EBITDA in the quarter. Now looking forward, investment will ramp up again in Q2. We still aim for the Dutch business, all in all to be about EBITDA breakeven for the year. And then I think your final question was on 3G subs, I think it's below 20% now of the total subs. Yes.

Operator

Next question comes from San Dhillon from BNP Paribas.

Sanvir Dhillon - *Exane BNP Paribas, Research Division - Research Analyst*

Two questions. So on Page 7, you highlight the customer satisfaction levels for Tele2 and Comviq. And I wonder, do you have the same data for the Netherlands and how that's trended over the last year to 18 months since your 4G launch? And at a group level, having delivered 10% like-for-like end-user service revenue growth on what was light marketing, which is indeed very impressive, I do wonder what more you need to do on marketing and what the incremental benefits would be? And could you not just keep the budget as it has been in 1Q?

Allison Kirkby - *Tele2 AB (publ) - CEO and President*

Okay, thank you. Thank you, San. In terms of customer satisfaction, the Swedish customer satisfaction metric is very unique to Sweden and it's based on real following up on calls with customers coming to us either a purchase online or being through our customer service hotline. So the most common metric that we use across the group is NPS. And we will start sharing those NPS metrics with you for all of our markets in the future, but we're just -- the organization that we get our NPS data from changed during the course of 2016, so we want to be able to get to a stage where we've got like-for-like to share with you, and then we will share that with you. But in [Kampen] NPS in the Netherlands, there's been dramatic improvement in NPS since we launched the 4G network and since we relaunched the brand. There's still room for improvement there. There's still too much frustration at the call center level, and that's one of the areas that Jon and the team are really putting a lot of emphasis against. But I would expect at our Capital Markets Day on June 1 that Jon will get into that in a bit more detail for you. But good progress, but room for improvement. In terms of your question on marketing investment and the 10% like-for-like in the quarter, it was really just in Sweden and the Netherlands where we were shy of investments. The Netherlands' intake was slower in the quarter as a result of that lower investment. And we do feel to sustain the momentum we need to get the full return on the investment we made in the Netherlands, that sales and marketing do need to ramp up. In Sweden, we're seeing great ARPU development, but it's a competitive market. And Tele2's brand equity and net intake have been suffering for quite some time. So the investment we're putting into the Tele2 brand, in particular, this quarter, we're hoping will allow us to stabilize and grow the Tele2 residential customer base and so that we're not just relying on ARPU development going forward. And since we launched Value Champion, we really haven't had a proposition that has emotionally connected with consumers as well as we wanted to, and that's why we're now investing. But rest assured, we are very much focused on driving a return-on-investment mentality across the organization and ensuring that when we do invest, we get a good return over the short, medium or long-term, depending on what that investment is. And so we will increase sales and marketing, but don't worry, it will be in a financially disciplined way, San.

Operator

From Nordea Bank, we've got Stefan Gauffin.

Stefan Gauffin - *Nordea Markets, Research Division - Senior Analyst, Telecoms*

I have a couple of questions. First of all, you show that there are some synergies coming through from TDC already, and you aim to move the MVNO traffic fully in Q2. Can you quantify how much you will benefit from this? Secondly, you also talked that the national roaming cost was down in the Netherlands. Can you quantify how much this was? Or do you add around EUR 50 million per quarter? And how is this expected to develop in the remainder of the year?

Lars Nordmark - *Tele2 AB (publ) - Group CFO and EVP*

Lars here, Stefan. Thanks for your questions. On the synergies in TDC, we had about SEK 19 million coming through in Q1. That's driven by 2 things. One is on the SG&A side where we have already done some efficiency measures. And then it's also the MVNO contract coming through where, as you know, Telia canceled that contract. So out of the 200,000 customers, we already have quite a large chunk coming through, but they come through also during the quarter and also towards the end of the quarter. Now when it comes to how much the MVNO contract will deliver out of the SEK 300 million synergies, we haven't given that number. What we can say is that it will come earlier as we had expected, which is very positive for us. On the MVNO traffic on the national roaming cost in Holland in the Netherlands, we, last year, as you remember, we were around EUR 15 million a quarter. This quarter, on a normalized level, we're around SEK 10 million. And going forward, obviously, a different measured impact that -- metric. And it's a combination of the customers that we take in and the users, but also rolling up the network, as Allison mentioned, we're at 87%, that's downloading already, and at 40% for the VoLTE of the customer base. So I think, generally speaking, we should see national roaming cost coming down as we already see the early benefits in Q1.

Stefan Gauffin - *Nordea Markets, Research Division - Senior Analyst, Telecoms*

Can I follow up on the synergies in Sweden? Can you say the run rate end of the quarter if you just continue as it is?

Lars Nordmark - *Tele2 AB (publ) - Group CFO and EVP*

What we've said is that the majority will come through in the first couple of years. I think it's a little bit too early to say what the run rate is going to be expected to be at the end of the year, Stefan. What we are seeing on the MVNO transition is that that is full steam ahead, so that will come in earlier. But I would like to wait at least for another quarter until we give you that number.

Operator

The next question comes from Roman Arbuzov from UBS.

Roman Arbuzov - *UBS Investment Bank, Research Division - Director and Equity Research Analyst of Telecoms*

My first is on Sweden mobile. So it sounds like things are going very well in the consumer segment and also the large enterprise, but what about the SME market? Do you see any positive signs of prices going in the right direction post the TDC acquisition? And any signs of market repair or improved competitive dynamics in that market? And then secondly, I just wanted to follow up on the question Stefan was just asking around the TDC synergies. So is there a number that you can give us for what you hope to achieve in terms of synergies for this year or not, just in aggregate in terms of what would be TDC synergy this year?

Allison Kirkby - *Tele2 AB (publ) - CEO and President*

So as Lars said on the TDC synergies, Roman, we've got to wait another quarter before giving you a number there. But it's SEK 19 million already in this quarter, and then that's very positive. And so on feed in mobile, SME has stabilized. And the good news is that we're seeing intake growing again. TDC has no impact there. They didn't have an SME business. So the real competitive pressure in the SME segment is much more from Telenor and from Three in the little 50-employee market. So it's still tough, but we're seeing some stabilization. We're seeing net intake starting to grow again. And there will be a halo effect of the new commercial propositions on Tele2 consumer into the Tele2 SME and business segment in the coming months.

Operator

From SEB, we've got Johanna Ahlqvist on the line.

Johanna Ahlqvist - *SEB, Research Division - Analyst*

Just a few questions from my side, if I may. First of all, ARPU in the Netherlands, can you say something what you expect on the development in absolute terms ahead, given, I mean, the competitive situation that you have? And are you sort of considering changing your own offer to meet the quite aggressive ones from T-Mobile? And secondly, you guided for the roaming impact of SEK 200 million. I just -- sort of if you can give some more flavor on that, how much is related to loss of roaming revenues? And sort of what do you expect -- what is sort of included in terms of data usage abroad in that? Is this sort of average usage per month, also abroad? Or can you say something on sort of the sensitivity on that number? And then thirdly, Sweden, can you say something about the churn in the quarter, how it has developed quarter-over-quarter or year-over-year?

Allison Kirkby - *Tele2 AB (publ) - CEO and President*

Thanks, Johanna. So Dutch ARPU expectations, well, yes, it's become very competitive there. But the rest of the competition is still trying to protect EUR 22 ARPUs upwards, and we are still in the kind of the EUR 15 ARPU level. So despite it being competitive, there's definitely room for us to improve our ARPU and still be lower than the others. But as you know, our current propositions in the market are still very much skewed towards handset subsidy. And we've not yet done anything major on a SIM-only proposition, but that's something that we are reviewing at the moment. In terms of Roam like at Home guidance, it's still too early to tell. We're sticking very much to the guidance that we gave at the beginning of the year, Johanna. We're expecting around SEK 200 million hit to revenue and EBITDA, and that's based on impact across our footprint and based on the information we had based on consumer behavior on roaming patterns last summer. We're still sticking to that guidance at the moment. And it's another reason why we are not yet nudging our guidance overall for the group because we'd like a few more months under our belt before we could change our group guidance. But the Roam like at Home is still around the SEK 200 million. And then Swedish churn in the quarter, pretty much kind of stable in postpaid. Nothing much to report there. We had negative net intake in prepaid. But then we had -- prepaid grew towards the end of '15 and early '16, and it's back to decline again. But no, churn is nothing to report really in the quarter. It was a fairly -- from a sales and marketing point of view, there was nothing really major that happened in the quarter.

Operator

Next on the line, we've got Peter Nielsen from ABG.

Peter Kurt Nielsen - *ABG Sundal Collier Holding ASA, Research Division - Analyst*

Just a question related to the Swedish business, please. For the first couple of quarters, you told us, and particularly at the end of Q4, that you had initiated a Tele2 repositioning campaign in Sweden. It sounds now like, which would imply higher marketing spend, that that hasn't really materialized and it has been perhaps pushed backwards a little bit. Could you elaborate a little bit on this in terms of your efforts?

Allison Kirkby - *Tele2 AB (publ) - CEO and President*

Yes. Well, we just launched on Friday last week, so it didn't impact the quarter. So on Friday last week, we launched the Power 2 campaign. So if you go on to YouTube, you'll be able to see the Tele2 School of Power and some of the great characters that we're now fueling with connectivity with the new propositions that include Roam like at Home and for the higher-value customers, an unlimited offer at SEK 500.

Peter Kurt Nielsen - *ABG Sundal Collier Holding ASA, Research Division - Analyst*

So was it deliberately postponed at quarter 1?

Allison Kirkby - *Tele2 AB (publ) - CEO and President*

No, we always -- it was always going to be in the spring because that's the best time to launch. And we tried to link it close to the Samsung S8 launch. So at one point, we might have thought of doing it in March. But if anything, it's just a few weeks because we tried to combine it with the Samsung S8.

Operator

Our next question comes from Ulrich Rathe from Jefferies.

Ulrich Rathe - *Jefferies LLC, Research Division - Senior European Telecommunications Analyst*

I have 2 questions, please. The first one is, you mentioned several times the sort of somewhat lower market investment in both Sweden and the Netherlands, I believe. Would you be able to sort of separately, just for that commercial investment in the markets, give us a sense of what the scale of that has been of that reduction in Sweden and the Netherlands? I think you've sort of given a couple of indications, but they were aggregated with other items. And sort of related to that, I think it's pretty clear why you have done that in Sweden. It's not entirely clear to me why you would have reduced market investment in the Netherlands in the first quarter. Could you sort of just describe the rationale for doing that? Is it simply related to the management change? Or are there other reasons, tactical reasons or other market reasons for that? The second question is a very simple one. What is the reason for the 24,000 cleanup in the Netherlands? Is this sort of a reflection of something that happened there in the past? Or is it sort of just usual stuff? I don't think you have very much prepaid in the Netherlands so I'm just wondering what that 24,000 actually is?

Allison Kirkby - *Tele2 AB (publ) - CEO and President*

Okay. Thanks, Ulrich. I'll take the first question, then Lars can mention the cleanup. In terms of the market investment in the quarter, it was about SEK 40 million lower in Sweden year-on-year and probably about SEK 50 million in the Netherlands year-on-year. And in Sweden, as you said, it's expanded. The Netherlands, it wasn't intentional, just that the handset market shrunk in the quarter. And as you know, our propositions are very attractive from a handset point of view. The whole BFT regulation is -- you're basic when you sell a handset now, it's seen as a consumer credit. And a lot of the third-party retailers, in particular, and all of us as operators are under new, very regulated information on how we sell those handsets. And that is all effective May 1, but people started to prepare for that already in the first quarter. And so the whole communication around selling a handset now is like about selling a mortgage. And the consumer has reacted to that, and the handset market definitely shrunk in the quarter, and we probably suffered more than our peers. Our peers reacted more on SIM-only, and we have not yet reacted to that as we are getting our brand commercial proposition ready for a Q2 refreshment, which Jon is now getting ready to launch into the market.

Lars Nordmark - *Tele2 AB (publ) - Group CFO and EVP*

And as far as the 24,000 customers, it was part of the review of the systems that we went through and we noticed that differ -- contract customers, postpaid customers that have been on the suspended account for quite some time, and we then disconnected them.

Allison Kirkby - *Tele2 AB (publ) - CEO and President*

So it's just a regular cleanup.

Operator

Next question comes from Maurice Patrick from Barclays.

Maurice Patrick - *Barclays PLC, Research Division - MD*

A question on the outlook for the Netherlands. So you talk about the slowdown at ads and slow down at third-party handset sales as well. Do you think the churn pool in the Netherlands is actually shrinking as some of the other operators push conversion tariffs aggressively to their own base? And what have you -- could you give us the mobile data stats? The gigabyte per use, please, would be very helpful. You've given them in previous quarters.

Allison Kirkby - *Tele2 AB (publ) - CEO and President*

Yes. So obviously, the churn pool has been shrinking for quite some time as a result of FMC, and it shrunk further in the quarter as a result of the BFT regulation. But we think it will start growing again. And actually, we just commissioned some research that said that there is increasing demand for our consumers to reconsider mobile only and get out of the bundles because the fixed operators are really pushing up the price of the fixed broadband and TV bundle. So there's definitely still a churn pool on the mobile-only customer base that we can go after. And Jon is very much working on at the moment what is the right mix of handset subsidy and SIM-only pricing for the market now that there's been quite some change from T-Mobile and now VodafoneZiggo. In terms of gigabyte per user, it's just over, for us, it's now 1.5 gig.

Maurice Patrick - *Barclays PLC, Research Division - MD*

In Sweden, Telia?

Allison Kirkby - *Tele2 AB (publ) - CEO and President*

Sweden is 4.7.

Operator

Our next question comes from Lena Osterberg from Carnegie.

Lena Osterberg - *Carnegie Investment Bank AB, Research Division - Head of Research of Sweden, Head of Technology Hardware and Equipment, and Financial Analyst*

Some more questions on the Netherlands, I'm afraid. I was just -- I was happy to see that you're already at 40% of the traffic migrated on voice as well. I assume that's related to the iPhone migration. How do you think that will proceed over the rest of the year? Because now you had one big jump with the iPhone, how will that work with the other handsets that you have? Sort of what target should we assume in migration for the year-end? And also, as you've now launch unlimited in Sweden, is that the way to respond to T-Mobile in the Netherlands to go unlimited as well? I'm just sort of wondering how you see the fact that you're dependent on handset subsidies and now you can't really subsidize to the same extent as you've had before. So how do you view that? How do you respond to T-Mobile? And then also one final question on Kazakhstan. How far have you come in the OpEx synergy structure? If I understood it you have now done most of the integration between the 2. Now it's more -- is it more CapEx now if you move to a network integration? Or is it still OpEx also on the network?

Allison Kirkby - *Tele2 AB (publ) - CEO and President*

Okay. So thank you, Lena. In terms of Dutch voice traffic, yes, you're right, we've had a big step-up now with the iPhone 6. And so progress from now and throughout the end of the year will be a combination of network rollout, new handsets and remaining customers moving on to either VoLTE handsets or upgrading their software. We haven't given a target for the end of the year. I don't think it will jump up as much as it did in this quarter in the coming quarters, then it will progressively increase during the course of the year. And as you saw, as Lars mentioned, our NRA costs were already around 1/3 lower than they were last year already in Q1. In terms of -- we've launched unlimited in Sweden because we have -- we felt it was the next stage in our data bucket journey for the Swedish consumer. It's very consistent with our brand proposition. And we see great customer satisfaction benefit for those customers who want to spend EUR 50 per month. And we take our pricing decisions very much on a market-by-market basis. And Jon and his team are obviously reviewing what is now the right move for the Netherlands. Now that we are increasingly less dependent on the T-Mobile NRA cost, it's obviously allowing us to reassess what's the right mix of handset subsidy and SIM-only pricing, and that's something that we're reviewing at the moment. Kazakhstan, we've always said that by the time our put option is due in March 2019, we'd like to be close to a 30% market share and a 30% EBITDA margin. And so there are still -- we're still to get the full year OpEx synergy benefit. The headcount reductions really only started in late spring, early summer last year. Customer service consolidation only happened in Q3 last year. So you will see margin expansion from OpEx synergy during the course of this year. So obviously, the CapEx synergy will start to kick in once we do the network sharing. I don't know, Lars, if you want to add anything to that?

Lars Nordmark - *Tele2 AB (publ) - Group CFO and EVP*

Yes. I mean, as you know, we are merging sites. So we have merged around 630, and there are about 1,000 more to go. At the same time, we're also rolling out more sites in Kazakhstan as part of the network program. So when you look at CapEx, Lena, you should see an increase in CapEx going forward, and that's also what we had talked about before.

Operator

From Danske Bank, we've got Thomas Heath on the line.

Thomas Heath - *Danske Bank Markets Equity Research - Analyst*

Thomas here. Just a follow-up on Kazakhstan, if you can you remind us a little bit, there's a debt part -- portion, but the valuation of the equity part in Kazakhstan, just on sort of what basis is that valued if you choose to exit the Netherlands and use that put option? And then recognize that it might be way too early, but do you have any initial sort of response on unlimited plans? Or is that just too early to say?

Allison Kirkby - *Tele2 AB (publ) - CEO and President*

On unlimited, it was just launched on Friday, so a little bit too early to say anything there. And remember, it's SEK 500, so it's a major step-up from our average Tele2 offer. So it'll be targeted to that very specific customer base. Kazakhstan, well, the shareholder loan outstanding at the moment is worth around SEK 3 billion, SEK 3.1 billion, that when we start the put option would be due to be repeat churn. In terms of valuation of the equity part, our partner will go to 3 independent valuations at the time of the exit, so it's not based on any multiple. It will be based on what the business is worth at that point in time. And if they offer us a price and we don't agree with it and we get an independent value, then there'll be a third independent valuation that will come in. But as you -- as the business keeps improving, you will see that we did accrue further for -- we've increased the value of the earn-out that will be due to our previous partner as a result of the latest rate progress. So we do believe there is equity value in that business already today based on our future projected cash flows.

Operator

Next on the line, we got Sunil Patel from Bank of America.

Sunil Praful Patel - *BofA Merrill Lynch, Research Division - VP*

I just had 2 questions. One is, what can be done to fix the declines in Sweden fixed? And the second question is, you provided a (inaudible), but what I'm interested in is the 1% B2B net sales growth. Do you think that can grow at the same rate as your consumer business?

Allison Kirkby - *Tele2 AB (publ) - CEO and President*

So Sweden fixed, well, Sweden fixed consumer is old legacy telephony and a little bit of broadband here and there. So that business will continue to decline. Sweden B2B fixed, however, is obviously a growth opportunity for us as a result of the integration with TDC. And then you're right, we're now putting out B2B. In that net sales number you see the variability of some of the other segments, so you see equipment sales and you see solutions and you see projects. So it's not just as simple as mobile and fixed. In terms of getting -- our ambition is that the B2B business should be able to grow at the 2% to 3% range as well as our consumer business. But the consumer piece is mobile end-user service revenue, and the B2B piece is including everything, including equipment and solutions and the whole range of services that we offer to enterprise. But I think in the quarter, another very strong mobile end-user service revenue growth in large enterprise, up 8%.

Sunil Praful Patel - *BofA Merrill Lynch, Research Division - VP*

Just to clarify, what I meant in Sweden fixed I just meant the telephony piece. When I look at the sort of fixed telephony line that you record, I appreciate that it's an ever smaller part of your number, but I mean the declines are quite steep and I think something like 17-odd percent. Is that just something that we should assume will continue to decline at that rate going forward? Or is there a way, you think -- or is there a point we're reaching now where the declines will just become less because people have substituted if they want to and, et cetera, et cetera?

Allison Kirkby - *Tele2 AB (publ) - CEO and President*

No, I think it's safer to assume that it will continue at those kind of decline rates. Those businesses, unfortunately, have natural churn because it tends to be the older population that are the only ones using fixed telephony. So as they leave us, we are not able to replace them because the younger generation is not bothering to get fixed telephony anymore. And we are actually proactively trying to migrate them away from fixed telephony and move them into mobile because it's just economically more attractive for us.

Operator

Next on the line from Crédit Suisse, we got Henrik Herbst.

Henrik Herbst - *Crédit Suisse AG, Research Division - Research Analyst*

I'm just trying to understand the OpEx trends in the Netherlands a little bit better. So you have less voice and as well as roaming cost and also less sales and marketing. And I mean, as you ramp up sales and marketing again, because I presume you'll continue to push handsets, but your national roaming cost will continue to fall and also the expansion cost, I presume. I mean, is it fair to assume that you can keep your OpEx space broadly flat from here? And then the second question is on Sweden. I was just wondering if you can give a bit of color in terms of the distribution of your existing customers on the consumer. And so 69% of new customers or new sales taking a bundle with more on free gigabytes? And in terms of your existing base, how does that number compare?

Allison Kirkby - *Tele2 AB (publ) - CEO and President*

Okay. So I'll take the Swedish question, then maybe Lars will help you on the OpEx trends in the Netherlands. This is the first time that we've combined both Tele2 and Comviq bundles. I think previously, we've always been talking about Tele2 postpaid sales above 0.5 gig. And what we're just trying to show here is that above 3 gig and above is now very strong growth for both Comviq and Tele2. Tele2 has been really promoting the 20-gig bucket for quite some time. So in the last few months, we've been getting a good half of our intake coming in, in 20 gig. And then in the Comviq brand, we've been pushing much more the 7-gig bucket. And for those really heavy data users, we have been offering the Comviq customers also a 20-gig bucket, but at the same price as the Tele2 consumer. So we get exactly the same gross margin whether they are Comviq or Tele2 on a 20-gig bucket. So we're doing a great job at trading consumers up. I think our big bucket strategy has really helped us up-sell and trade up. And the new propositions that we launched on Friday is giving us yet another opportunity for trading customers up around SEK 50 a time.

Lars Nordmark - *Tele2 AB (publ) - Group CFO and EVP*

And on the OpEx, I mean, if you look at the national roaming cost, we would expect it to be at approximately that level, given the fact they we're taking on new customers and the usage is increasing, but then we're also rolling out our network. On the other OpEx elements, please bear in mind that we rolled out about a thousand sites last year, we're also rolling out 5 this year and up until Q3 next year. So when you look at the network OpEx, that will actually taper up somewhat. And on the expansion growth, Allison mentioned before that we were about SEK 40 million to SEK 50 million lower in expansion cost Q1-on-Q1. And due to the activity we got coming our way, we would expect that to go up. And then offsetting there, obviously, you have the Challenger benefits coming through in the Netherlands as well on the different initiatives that we got. But net-net, adding that together, comparing to Q1, we will probably see a slight uptick in the OpEx.

Allison Kirkby - *Tele2 AB (publ) - CEO and President*

Yes. I think for now, Henrik, we're still sticking to our EBITDA being roughly flat for -- breakeven for the total business, total Dutch business in this year. And we'll obviously reassess that once we've got another quarter below our belts, and that's when we'll reassess prices as well.

Henrik Herbst - *Crédit Suisse AG, Research Division - Research Analyst*

Can I just follow-up on the first question, Allison? The -- so of your existing base, how many customers are on bundles that have 3 gig or smaller now?

Allison Kirkby - *Tele2 AB (publ) - CEO and President*

We've never disclosed that, but quite a big chunk are still -- if you think -- if you look at our average ARPU levels, Comviq is below SEK 200; Tele2 is above SEK 200. So there are still lots of room for ARPU development on existing customer base.

Operator

Our next question comes from Irina Idrissova from RBC Capital Markets.

Irina Idrissova - *RBC Capital Markets, LLC, Research Division - Assistant VP*

Just a couple. So first, a follow-up on the EU roaming question. Of course, the new offer in Sweden now includes EU roaming. And we've seen operators in other geographies say they plan to do things like domestic-only packages or perhaps resort to regulatory mechanisms. Can you just talk about what tools are perhaps the most realistic for you to use across your footprint to contain the roaming impact to SEK 200 million that you have factored in? And then just a quick one on the Netherlands fixed line. Could you just give us more color on the progress in addressing the cost base there? And are you where you want to be now? And how meaningful could this be in terms of EBITDA contribution for this year?

Allison Kirkby - *Tele2 AB (publ) - CEO and President*

So yes, you're right, there are some markets where there are domestic-only tariffs being created, and you've seen that in some of the Baltic markets already. We're monitoring the situation every day at the moment to see what are the price plans that are going into each of our markets. Some markets love domestic-only, others don't. It's pretty clear that would not happen in Sweden because Telenor already launched Roam like at Home last year within their existing tariff, so that will not happen in Sweden. What tools do we have? We obviously have the fair usage policy to help us manage that. And then what we are trying to do is encourage people, our customers to take on bigger buckets so that they feel comfortable to roam freely like they would at home when they're abroad, and that's giving us that trade-up opportunity to higher price plans. In terms of the Netherlands, progress in addressing the cost base, well, as Lars just said, we're still rolling out the network, so great progress on becoming less dependent on T-Mobile and getting the NRA cost down. And obviously, it's our ambition for that to become 0 by summer 2018 when our network is fully rolled out. But we still need to build up our own network at the same time, so that would totally flow through to the bottom line. We continue to look at our fixed business. And as you will have seen in the quarter, we've done a really good job at focusing on the cash generation of that business. And we are continuing to look at how do we drive out cost in that end of the business as well. And I think the new legislation on handset actually is a fantastic opportunity for us once our network is getting closer to being totally rolled out because I'd much rather invest in very transparent subscription pricing than into handset subsidies. But that's not something we can do yet as we're still really pushing VoLTE handsets in the market.

Erik Strandin Pers - *Tele2 AB (publ) - Head of IR*

Operator, we're about to run out of time, so can we have just one more question, please?

Operator

Our last question comes from Robert Slorach from Handelsbanken.

Robert Slorach - *Handelsbanken Capital Markets AB, Research Division - Research Analyst*

Just a couple of ones there. Other in -- Sweden looked a bit remarkable. I thought it would step up a lot more revenues and EBITDA quarter-to-quarter. It would be 1 more month of the TDC business. And then also if you could give us any sense for the usage on the 20-gig bucket, that would be interesting to know as well.

Allison Kirkby - *Tele2 AB (publ) - CEO and President*

Okay. Usage in all our buckets is usually about 50% to 60%. That's the average that we always see. What was your question on Sweden? I didn't quite get that, Robert. I'm sorry.

Robert Slorach - *Handelsbanken Capital Markets AB, Research Division - Research Analyst*

On other operations in Sweden, they had only stepped up about SEK 40 million quarter-on-quarter. It looks pretty low compared to what one could have expected since, I guess, the TDC business would be in there and it will be another month of it.

Allison Kirkby - *Tele2 AB (publ) - CEO and President*

Yes. I think that's probably a business area called projects that TDC has where that could be quite -- that varies quite a bit quarterly by quarter because it depends on whether they're doing big integration projects or not. So that's one that has quite a high amount of variability. And if I recall, it was a big area -- it was a big contributor to TDC in Q1 last year.

Thank you, everyone.

Erik Strandin Pers - *Tele2 AB (publ) - Head of IR*

Thank you. That concludes the call. Thanks, everyone, for listening in. And you're always welcome to contact the IR if you have any further questions. We will talk again on the 19th of July when we release our second quarter results. So thank you, and good-bye.

Operator

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