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EDITED TRANSCRIPT

TEL2 B.ST - Q3 2014 Tele2 AB Earnings Call

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PRESENTATION

Lars Torstensson - *Tele2 AB - EVP, Group Corporate Communication*

Good morning, everyone, and welcome to Tele2's third quarter 2014 interim call. My name is Lars Torstensson, and together with me today I have Allison Kirkby, our CFO; and also, Mats Granryd, our President and CEO.

As always, we will do a short presentation first, and open up for Q&A after that. And there is also a possibility to join us via the web, through tele2.com, if you have a hard time coming through on the telephone conference.

But without any further delay, I would like to invite Mats Granryd to take us through the quarter. So please, Mats.

Mats Granryd - *Tele2 AB - President & CEO*

Thank you very much, Lars, and good morning to you all. I am happy to announce the third quarter results.

On the Group side, from financials, we have reported SEK6.58 billion on sales, roughly up 1% year over year; EBITDA up to SEK1.68 billion, which is 14% up; margin on 26%; and CapEx up [30%], up to SEK860 million.



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It's been a strong quarter, with mobile end-user service revenue growth of 8% for the Group; EBITDA year-on-year growth of 14%. And we also have a pickup in the expenditure of CapEx, driven predominantly from the Netherlands and the rollout that we are doing in that country.

What I think is most impressive this quarter is that we have had a growth that is broad based across all markets. We're basically firing on all cylinders. In the quarter, we have also had a 208,000 net intake.

So let's look at what this looks for the Group then, when it comes to end-user service revenue.

As I said, 8% in the Group, up year over year. Sweden up 6%, which I think is a very healthy end-user service revenue growth, considering it's such a mature market. So there is still plenty of growth in Sweden, highly driven from data and our ability to monetize that data. And I'm going to talk more about that later.

Netherlands up 24%; Baltics, encouraging to see that it's not contracting, it's actually growing slightly, up to 3%; and Kazakhstan up 7%. Like for like, if we take the devaluation out, we have an increase of 21%. So all in all, a strong end-user service revenue growth.

Next slide, we put in here just to show that this is a continuation of the same trend that we have had quarter over quarter. We have a CAGR of 7.3% over the past two years. We are focusing heavily on our ability to build out a good quality network, with our relentless focus on coverage and quality in the mobile space.

Also, our possibility -- our ability, I should say, to monetize data. We do that through transparency, honesty in pricing, bucketized price plans, as well as top-ups, and I think that is where you see this trend come from.

Moving the on to significant events in the quarter. As I said, a strong quarter in Sweden, with a mobile end-user service revenue growth of 6%. And it comes predominantly from data usage, both in the consumer but also in the business to business segment; a very strong quarter in the business to business segment also.

The Netherlands, consumer broadband turnaround, that continues. The MNO rollout is on plan, and we are testing the network now with friendly users, etc. And as you can see in the numbers, the CapEx is being picked up in the Netherlands.

Net intake in Kazakhstan of 108,000, and the positive EBITDA momentum continues. Croatia is also growing nicely, with significant growth in customers, as well as an EBITDA margin of 18%. And as I said, the Baltics show a trend of recovery with strengthened EBITDA margins, which is very happy to announce that as well.

So let's take a little look at country by country [level], moving into Sweden. Sales is up. EBITDA is up significantly; it is up [14%]. If you look at total of the mobile side, it's up 20% on EBITDA. And if you look at year over year, Q3, 2014 versus Q3, 2013, it's a little bit more than SEK100 million, SEK125 million -- SEK100 million on EBITDA uplift.

And that comes from three buckets. The first bucket is that we have slightly under-spent on marketing in the third quarter. That will be picked up and corrected, if you would like, in the fourth quarter, when we have the Christmas campaign, etc.

The other two factors, which are equal in size; one is the ASPU uplift. People are trading up, want to have bigger buckets and that, we think, is sustainable. And the second thing -- the third thing is the top-ups, the real time rating, the top-ups of mobile data in between buckets, has also contributed nicely in the quarter. So those are the three main factors of the uplift of EBITDA.

I would also like to highlight the business to business segment that is up [23%] of sales year over year. And as you can see, we are proud to announce several big prestigious brands that are now using our technology and our services. So we are definitely taking market share in the highly competitive Swedish market.



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We added 28,000 mobile customer, which is strong in Sweden. 64% of our postpaid customers are now on data package price plans. And an interesting fact on that is that, if you look quarter over quarter, Q2 56% of our customers chose when they entered into us, 56% of them chose the smallest bucket.

In the third quarter, only 47% chose the smaller bucket. The rest chose a bigger bucket and that's where the ASPU uplift is coming; you can clearly see a link between those two.

And as I said, business to businesses had a very strong quarter, driven from three things. A strong product portfolio; we have launched our cloud PBX, which is highly sought after in the market already after 18 months, it's now number two in the market; we are piggy backing on extraordinarily strong 4G ubiquitous network in Sweden. And thirdly, through a couple of years, we have invested in a very competent sales force; more feet on the street and with a good competence. And those three factors are now playing in the right direction for us.

Moving then on to Netherlands; overall, a strong quarter in Netherlands as well. We are balancing net intake with acquisition cost; the world is going more and more data and the Netherlands is no exception. And of course, since we own an MVNO contract, it is becoming increasingly costly for us to attract too many customers, and that's why we're balancing the net intake with the acquisition cost.

You can see to the right hand on the graph that CapEx has a very nice trajectory upwards in 2014. So we are on track when it comes to our build-up of the network rollout. We added 24,000 mobile customers and we are the only operator showing growth; we're doing that for the 12th consecutive quarter in the country.

We also have the turnaround on consumer broadband, as I said, with a positive net intake in the quarter, which we're also very proud of, and that has been a positive trend for the past two quarters. Previously, we have had a shrinking customer base and that has been corrected, if you would like.

Okay, moving then over to Kazakhstan; net intake over 108,000, and our strategy is to continue to focus on high quality customers. And you can see that with ASPU also going up with 27% year over year. So not only are we pushing in 108,000, you can maybe say that we would have expected a little bit higher net intake; however, the quality of those customers we believe are very, very strong. And if you remember, we have had that discussion on previous quarters that we have changed the commission models, etc., and we think that that is now starting to pay off.

The right-hand graph you see data, and that is something that is steadily increasing, 7 times up versus Q4, 2012, if you have a four quarter rolling average. 39% of the ASPU is coming from data, so it is a massive contribution for us and we have a very good 3G network. And you can see that the EBITDA margin is progressing nicely; we now have 6% EBITDA margin, SEK22 million bottom line.

Okay, moving then over to Croatia and Lithuania. Croatia very, very strong still, 33,000 customers net intake. Of course, the third quarter is a strong quarter for Croatia with a lot of the vacationers coming down with a lot of roaming charges, as you can see in the previous quarter. But this quarter is very strong, and we also have a very healthy net intake.

Lithuania, also healthy, growing both on sales as well as on EBITDA margin. LTE; we have launched LTE in Lithuania and it's going to be really interesting to see how that market develops, going forward. 38% EBITDA margin in Lithuania I think is a very good number.

Moving over to Latvia and Estonia, not too much to say there except that going in the right direction. We are improving both top line as well as bottom line in Latvia. We're fairly active in the Latvian market of introducing new tariff plans for data usage. It's going to be interesting to see as well how that market develops.

Estonia, we see a stabilization and maybe a slight increase above sales and EBITDA. It is a very, very competitive market Estonia and also very small market, so encouraging to see that we are stabilizing it.

Then to our two fixed markets, Austria and Germany. You can see Austria improving slightly and we are focusing solely, these days, on business to business customers and that is paying off. Germany, very stable with 19,000 mobile customer intake; doing good work in Germany as well.

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With those words, I would like to hand over to Allison to talk about the financials in numbers.

Allison Kirkby - Tele2 AB - CFO

Thank you, Mats. So looking at the financial results in total, as Mats said, total sales were up in the quarter 1.3%. If you exclude currency benefits around 2 percentage points and the sale of our Swedish fixed line cable business, the underlying growth is actually slightly higher at 1.4%.

Total end-user service revenue growth is 1% with mobile growth of 7%, net of FX, balancing the fixed decline. And an increase in equipment is partially offset by declines in operator revenue.

The EBITDA growth was broad based, with Sweden, Kazakhstan, Croatia, the Baltics and Germany all growing versus the same period last year and taking our margin to over 25.5% in the quarter. EBIT was particularly strong as we had no need to take any impairments in our annual impairment test this year. As you recall, we took a SEK457 million in impairment in Croatia this time last year. So this results in a very strong net profit for the quarter of SEK726 million, excluding Norway, and SEK623 million if you include Norway.

Looking year to date, our third quarter results have allowed us to catch up on ourselves, with revenue almost in line with last year at SEK19.1 billion. And EBITDA is up 2.6% versus last year, driven by growth in Sweden, Kazakhstan, Croatia and Lithuania and, of course, positive currency impact.

EBIT was positively affected by the sale of some Swedish residential cable business earlier in the year, worth SEK258 million. And as well, we've had a slight negative due to the devaluation of the Kazakhstan tenge of SEK18 million. But really, what you are seeing here also is financial items include the benefit from the revaluation of the Kazakhstan option following, again, that tenge devaluation earlier in the year. So, as a result of all these factors, net profit for continuing operations is around 3 times higher at over SEK2.1 billion.

Moving on to cash flow and just focusing on the quarter, we're up SEK160 million to just under SEK1.7 billion for the quarter. In the quarter, you saw lower interest as a result of less debt, higher taxes as we're now paying taxes in Sweden, higher working capital as we paid upfront for a frequency lease in Norway, and higher CapEx behind our MNO rollout in the Netherland.

This takes cash flow after investing activities to just above last year's level at SEK457 million.

But moving on and looking at our cash flow, excluding Norway and Russia, again you're seeing similar trends; interest is down, taxes are up. Working capital is also up, but year-to-date CapEx is actually down quite substantially as we invested in the Dutch mobile licenses in the first half of last year. So year-to-date cash flow, after investing activities, are over SEK1.6 billion; significantly up versus last year.

Moving on to our debt position then. As a result of the healthy cash generation in the quarter and year to date, debt EBITDA is now at 1.3 times and towards the bottom end of our targeted range.

So which now takes me, finally, to guidance. I'd like to end with a reminder of the guidance that we communicated in July. Due to the strong third quarter we are, obviously, increasingly confident that we can deliver at the upper end of our previously-communicated range on both revenue and EBITDA and still within the range on CapEx.

As Mats mentioned, as you look forward into the fourth quarter, the fourth quarter is always a heavy investment quarter for us with both the launch of the new iPhone and the Christmas campaign. And as Mats also mentioned, we did spend slightly less in Sweden in the third quarter, and that will be moved into the fourth quarter to support our business growth into the balance of the year and into next year.

Mats Granryd - Tele2 AB - President & CEO

Very good, thank you, Allison. So I would then just conclude this call by going through the summary of priorities. The summary in the quarter; high quality quarter with strong results delivered across the board and, as I said, we're firing on all cylinders.

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Sweden particularly strong with an end user of 6%, for the Group 8%; Sweden up 6% I think is fantastic. 4G rollout in Netherlands shows continued progress, and investments are on track in order to launch the network; focus on quality customer intake in Kazakhstan has been paying off, and we are still seeing a positive net intake in that market.

So what are our priorities, then, going forward? Well, it is the same priorities this quarter as we had in the second quarter. It is a constant focus on our MNO rollout in Netherlands and Kazakhstan.

Number two is, we do want to cement the position of Tele2 Sweden as the leader in mobile data services, and the ability for us to be able to monetize that service.

And thirdly, in anticipation of the Norwegian deal being closed, we are going to reassess our cost structure.

Those three items we will highlight and go into more depth, once we have our Capital Markets Day on December 12 in London, which I believe we have sent out a press release on, right?

Allison Kirkby - Tele2 AB - CFO

Yes.

Mats Granryd - Tele2 AB - President & CEO

So hope to see many of you at that Capital Markets Day. So that concludes our bit and over to you, Lars.

QUESTIONS AND ANSWERS

Lars Torstensson - Tele2 AB - EVP, Group Corporate Communication

Thank you very much, Mats and Allison, for that presentation. We will like now to open up for Q&A from the financial markets, so, operator, could you help us to compile the questions?

Operator

(Operator Instructions). Barry Zeitoune, Berenberg.

Barry Zeitoune - Berenberg - Analyst

I've got a few questions, actually. The first is, if you can give us a bit more color on the dynamics of EBITDA in Swedish mobile? Last year, we had revenue growth, but that revenue growth wasn't really translating into much by way of EBITDA growth, whereas this quarter, we've seen EBITDA growth actually outpace revenue growth. So you've been very clear in terms of the drivers of revenue growth being data, but I guess what's changing in the mix, in the revenue mix, such that we're seeing very high EBITDA growth come from that revenue growth, versus what we were seeing this time last year?

And then my second question is on the 270% increase in data top-ups that you note this quarter. I was wondering if you can give an indication of how that growth has phased over the course of the quarter, given the summer vacations in Sweden.

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And then my third question is on Croatia, which also performed very well this quarter. In your last conference call, Allison, you mentioned of the EUR8 million impact next year from spectrum fees, you expect to recoup 50% to 75% through price increases. One quarter on, I'm just interested in whether your assessment of that recovery is now more positive.

And then final question, just again on Croatia, if you can give us a bit more color on the roaming revenues and how much they're up this quarter versus the same quarter last year, if indeed they are up at all? Thank you.

Lars Torstensson - *Tele2 AB - EVP, Group Corporate Communication*

Okay, thanks, Barry. I'm going to do the repetition, as I always do. I know that can be a bit annoying, but it's for us just to ensure that everyone heard what you said, Barry.

So EBITDA development in Swedish mobile, and also Latvia you mentioned as an interesting example where you see EBITDA development outpacing the revenue development, and how is the revenue mix impacting that.

Data bucket, second question, data buckets, the sustainability of top-ups in the Swedish market in particular.

And then, Croatia, when it comes to the sustainability of the improvement as a result of us increasing prices as we're undergoing next year's license costs.

So Mats, you would like to start and, Allison, if you kick in as well, after Mats has --

Mats Granryd - *Tele2 AB - President & CEO*

Yes, I'll try to shed some light on the data pickup in Sweden, because I think that's what you were referring to there, Barry. And as I said, we have an ASPU uplift in Sweden over 4%. You can say that our outperforming bottom line versus last year is back to those three buckets that I've said. One, is that we have under-spent slightly on the marketing. Two, is that people are opting for bigger buckets, hence an ASPU uplift.

And one data point on that is that last -- let's see now so I get this right -- so versus last quarter, second quarter, this quarter we have only 47% of our new customers choosing the smallest bucket. Last quarter, second quarter, 56% chose the smallest bucket; hence, we have an ASPU uplift of that 4%.

So ASPU uplift is one. The under-spend in marketing is the second, and third is the real time rating or the top-ups in between. And we have some interesting stats on that as well that, quarter over quarter, we have a 50% increase of number of top-ups.

Barry Zeitoune - *Berenberg - Analyst*

That would be Q3 versus Q2.

Allison Kirkby - *Tele2 AB - CFO*

Yes.



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Mats Granryd - *Tele2 AB - President & CEO*

Q2, sequentially, quarter versus quarter, yes? And 3 times if you take year over year. So the notion of being able to top up, having the comfort and understanding that I can buy 200 megabytes, I can buy 500 megabytes, I can buy 1 gig or 3 gig in between the months is a very reassuring thing for our consumers. So it's [3 times] year over year and 50% quarter over quarter.

Barry Zeitoune - *Berenberg - Analyst*

And just as an indicator of how this might be moving as we move into Q4, has that pace been constant throughout the quarter, or has it trended up as the quarter's progressed or normalized?

Mats Granryd - *Tele2 AB - President & CEO*

No, we see it as constant. And another interesting fact is that, out of our postpaid customers, 20, a little bit more one-fifth, of our customer base is hitting the roof. They have exhausted their data bucket. And after that one-fifth, 50%, or 48%, opts to have an extra top-up.

So it is an increased interest in actually topping up in between. Now, we should say, though, that the top-up, the transparency, the bucketized price plans, is something that has really taken off first during 2014 and towards the end of first quarter 2014. Second quarter, we saw positive trends and now we're [sitting in the] third quarter.

So I think it's still early days. We still need to really understand exactly where this is heading. Is it a trend shift, or is it just so that it's a fluke, if you would like? We don't think so.

We see data is increasing substantially over the period of time. We have a [13%] quarter over quarter, so Q3 is 13% more data being consumed than in the second quarter, and 46% up, almost 50% up, year over year. So Q3, 2014 versus Q3, 2013 up over 46%.

So the interest on data is there. We are able to monetize data to top up through intelligent bucketized price plans. I think that's the long and short of the success in Swedish market, and of course, coupled with the relentless focus on cost and quality.

Allison, maybe you want to take the --?

Lars Torstensson - *Tele2 AB - EVP, Group Corporate Communication*

And then we have Latvia, of course, and the development in the Latvian market. Even though we're seeing very strong development on the revenues overall in the Swedish market, the positive data trends we also see coming through in many other countries, as we've been writing about in the report, and Latvia is no exception.

But, I think one important development in the Baltic region is, of course, that the absolute lowest pricing points are starting to soften up a little bit, so there's more pricing, how shall we call it, discipline maybe. It's a strong word but it's a relative [quote] in the sense that the people are not necessarily pushing the absolute lowest price levels, in that sense.

Which means that you get a slightly better pricing power leading also to better transformation of revenue into profits. That is what we're seeing in the Baltic generally, Latvia in particular, so that's how it is.

Then when it comes to Croatia and sustainability, I would like to invite Allison [to comment].

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Allison Kirkby - Tele2 AB - CFO

Yes, Barry, as I communicated last quarter, we expect to be able to recoup between 50% and 75% of the increased taxes via pricing. The pricing that we took a couple of months ago is holding in the market; everybody took their pricing up. So that number that I communicated last quarter still stands.

Barry Zeitoune - Berenberg - Analyst

Okay. Thank you. And, just on the roaming charges -- sorry, roaming revenues as well in Croatia, were those significantly higher this quarter than the same quarter last year, or is the revenue growth all price increase?

Lars Torstensson - Tele2 AB - EVP, Group Corporate Communication

Roaming revenue is generally down when it comes to compared to last year because of general roaming charges being down. So this is more or less just, as you say, this is driven by price increase.

Barry Zeitoune - Berenberg - Analyst

Okay, great. Thanks so much.

Operator

Stefan Gauffin, Nordea.

Stefan Gauffin - Nordea Markets - Analyst

A couple more questions. Coming back a little bit to the marketing spend in Sweden, if you could give us a comparison versus last year, in Q3 last year, how much lower the marketing spend is this quarter, preferably in absolute numbers?

And then secondly, in the Netherlands, where you say that you are trying to balance the subscriber intake, and I think you are preparing for a soft launch of the 4G network, when do you expect that you can soft-launch the network and, thereafter, speed up the subscriber intake? Thank you.

Lars Torstensson - Tele2 AB - EVP, Group Corporate Communication

Thank you, Stefan. We have one question on marketing spend in Sweden, Allison, for you, and then we talk subscriber intake then in the Netherlands for Mats then. So, Allison, would you like to start on the marketing spend?

Allison Kirkby - Tele2 AB - CFO

So around one-third of the EBITDA pickup versus last year in the quarter in Sweden was from lower marketing spend. And some of that relates to the fact that we don't have the fixed broadband business this year, but some of it -- the majority is [less] mobile investment and so you'd expect to see that invested into the fourth quarter.

Lars Torstensson - Tele2 AB - EVP, Group Corporate Communication

And then we'll take the subscriber intake (multiple speakers).



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Mats Granryd - Tele2 AB - President & CEO

Yes, you're absolutely right, Stefan, that we are, as I've said, balancing net intake with acquisition. With our customer base increasingly interested in data in the Netherlands as well, our MVNO contract becomes increasingly unfavorable for us.

So we're saving the money until we have a meaningful data offload, and that will happen gradually. And, again, I don't want to go in on exactly when it will happen, but it will happen, and when it happens it's going to happen gradually.

Stefan Gauffin - Nordea Markets - Analyst

Okay. Thank you.

Lars Torstensson - Tele2 AB - EVP, Group Corporate Communication

You have a look at the transcript when it comes out later on (multiple speakers).

Mats Granryd - Tele2 AB - President & CEO

Sorry for that, Stefan. (laughter)

Lars Torstensson - Tele2 AB - EVP, Group Corporate Communication

I shall take up to just correct my statement on roaming. Roaming was up 1%, Barry, in local currency. Price is down but volume's up, so it's fairly flat, so to speak. Hopefully, that helps.

Operator

Nick Delfas, Redburn.

Nick Delfas - Redburn Partners - Analyst

It's just a simple question on the Swedish revenue performance. So ARPUs up about 4%, subscribers are down 1.5%, so the revenues should be up 2.5%. I just want to understand the 6% that you report. Is that driven by iPhone 6 sales and is that, therefore, mainly handset growth?

And does that also have any impact on the ARPU figures in terms of people taking bigger buckets with the iPhone? Thanks very much.

Lars Torstensson - Tele2 AB - EVP, Group Corporate Communication

Thanks, Nick, long time. It comes down to what is driving growth, if it's equipment or if it's underlying service revenue. Allison, would you like to [have that]?

Allison Kirkby - Tele2 AB - CFO

The mobile end-user service revenue number does not include equipment, so the 6% does not include equipment in the numbers. That is purely underlying growth in both our consumer business and in our B2B business as well.

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Lars Torstensson - Tele2 AB - EVP, Group Corporate Communication

Yes, because the business to business side was growing quite strongly in the quarter.

Allison Kirkby - Tele2 AB - CFO

In the quarter, and 23% up year to date.

Lars Torstensson - Tele2 AB - EVP, Group Corporate Communication

Exactly. So you should remember, Nick, when it comes to [ASPU], ASPU is a lethal measurement because it's divided on SIM cards, so to speak.

We have a very strong performance in the Comviq brand, for example, where you low ARPU customers going from prepaid to postpaid. They are trading up quite a lot, or relatively well. But the average ARPU is still below the total ARPU, but that movement is still very, very good for us. But the underlying service revenue growth is strong.

Allison Kirkby - Tele2 AB - CFO

Yes.

Mats Granryd - Tele2 AB - President & CEO

And I think that's what we tried to show on one of the graphs in the beginning there, that this has been a trend that has gone on for two years, at least.

Nick Delfas - Redburn Partners - Analyst

So what's the missing piece if I take customers and ARPU, which gets to about 2.5% growth? What am I missing?

Mats Granryd - Tele2 AB - President & CEO

I don't know.

Allison Kirkby - Tele2 AB - CFO

ASPU is up 4%; customer numbers are also up. You've also got growth in mobile broadband and you've also got B2B broadband.

Lars Torstensson - Tele2 AB - EVP, Group Corporate Communication

Nick, do you take the total revenue [now] or do you just take the underlying service revenue? Because the mix is, of course, very much different as well.

Mats Granryd - Tele2 AB - President & CEO

I'm sure we can sort that out, maybe.



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Nick Delfas - Redburn Partners - Analyst

Is MTR the difference or is it -- because the ARPU, the 6% exclude the MTR impact?

Lars Torstensson - Tele2 AB - EVP, Group Corporate Communication

Yes.

Nick Delfas - Redburn Partners - Analyst

Okay, all right. Thanks very much.

Operator

[Nick Lyall, Societe Generale].

Nick Lyall - Societe Generale - Analyst

A couple of questions, please. Firstly on Sweden, Lars. Just to mention -- how's the competitive environment shaping up into the fourth quarter? Are you still happy with a pretty benign B2C consumer business? But any comments on the B2B market? It sounds like you've made some decent gains there, so is anybody starting to fight back?

And then secondly, just to clarify on the Netherlands, you're pretty close to your EUR170 million of spending now; I think you're about EUR145 million, EUR150 million. So is it fair to say the network is nearly done? Do these tests suggest network is fully rolled out and base stations are done now and you're literally just waiting for the right moment, or is there still a lot of work to do? Thanks.

Lars Torstensson - Tele2 AB - EVP, Group Corporate Communication

Thanks, Nick. Three good questions; competition in the Swedish market and, more particularly, maybe comment on the business to business market I give that to you, Mats. And then Netherlands, even though we're always reluctant when trying to record when we're going to launch, I'm still going to let Allison that one.

But shall we talk with Sweden, Mats?

Mats Granryd - Tele2 AB - President & CEO

Yes. Sweden has proven to be a stable market with price competition predominantly in the lower segment. So sub-brands are trying to make their way into the start of, if you would like, so all of our competitors are aggressive in the sub-brands, and so are we with our sub-brand Comviq, if you would like.

But it really hasn't affected the market's overall performance. It is still a good, healthy market and we can see that from our main brand, Tele2. We think that that will continue. We have all gone through with fresh memories 2.5 years ago the price war, and that really didn't help anyone. So as long as the CEOs are in place, I would think that it's not going to happen again.

On the business to business side, yes, we are taking market share. We're not alone; it is a highly competitive market no doubt. P2C is improving; 3, especially in the smaller segment, are also doing a good job, and we are doing a good job.



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Lars Torstensson - *Tele2 AB - EVP, Group Corporate Communication*

The consideration for the Tele2 brand, Mats, we've spoken about that one before.

Mats Granryd - *Tele2 AB - President & CEO*

Yes, the consideration is going up as well, so more and more people are seeing that Tele2 is a viable business to business supplier. That was not the case 18 months ago; I think we have a consideration well above 50% now, and that is also encouraging.

We believe, strongly, that positioning Tele2 away from only being a discounter to become more of a value champion brand associated with more things than just price, we're talking about quality, we're talking about the entrepreneurial, the challenger spirit, will make us more appealing to the business to business segment, without losing the focus on price, obviously.

Comviq is much more of a price fighter brand and we launched -- re-launched, you could say, Comviq after the price war we had in 2012 in order to have a cushion and try to cushion against future price wars, and also to try to separate the two brands. And I think that journey is now starting to pay off.

Lars Torstensson - *Tele2 AB - EVP, Group Corporate Communication*

Hope that helps, Nick. And then we have the Netherlands and potential launch dates, looking into spending.

Allison Kirkby - *Tele2 AB - CFO*

Okay, so as Mats has mentioned earlier, we're not discussing the launch date. But regarding the capital investment; at the time of the Capital Markets Day in September last year, we provided guidance that we would spend around EUR330 million as a result of the investment, being EUR160 million on the license and the balance on the network rollout.

As you can see, we're investing heavily behind the network rollout and we are probably about 50% to 60% of our way through the investment of the network rollout at this stage. Those numbers don't include the other investments that will be required like marketing and increased OpEx behind the new network, and that will come in due course as well. But in terms of CapEx, obviously we've [spent] the license and we're more than halfway through the network rollout investment.

Nick Lyall - *Societe Generale - Analyst*

That's great. Thanks.

Lars Torstensson - *Tele2 AB - EVP, Group Corporate Communication*

That's how much are you going to get today, Nick. A little bit, at least something.

Nick Lyall - *Societe Generale - Analyst*

(multiple speakers).



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Operator

Ulrich Rathe, Jefferies.

Lars Torstensson - Tele2 AB - EVP, Group Corporate Communication

I'm going to take a question from the web, while waiting for Ulrich.

It's, again, the sustainability of the strong performance in Croatia. I guess it's the same answer, it's from Fredrik at DNB, but it's also asking about the summer-specific items that we're talking about, is that driving the performance in Croatia in any particular way.

As we said before, roaming revenues were up 1% in local currency. Most of it was due to higher prices, or increased prices, in anticipation of high license costs as well. So I think that the performance is a good underlying improvement.

Allison Kirkby - Tele2 AB - CFO

Very good operational performance by the local team.

Lars Torstensson - Tele2 AB - EVP, Group Corporate Communication

Yes. I guess, Ulrich, you're missing the opportunity, so we ask the operator to look for another question, please.

Ulrich Rathe - Jefferies & Co. - Analyst

Well, I was talking earlier; somebody muted down the system. Anyway, so [I was interested] on the data side in Swedish mobile, again, and one question I have about this, I think it's a [universal] feature of consumers to look very carefully when their spending goes up and how they can control this.

Of course, from the point of view of the operator, there is a value proposition, but from the point of view of the consumer, there is the possibility to offload, to WiFi. So do you see any signs of maybe consumers who start on the higher data speeds that the networks are offering, see their data volume sort of explode, therefore they see the requirement to top up to get the service they want, to then actually change their behavior and offload more onto the WiFi network at home or in the office or on the go.

Do you see any of that dynamic actually happening, or is this simply an unmitigated data explosion that all ends up on the 4G network and gives you revenue upside? That would be my first question.

The second question is on Kazakhstan, the intake. Now, you said yourself that the intake might have been a bit on the weak side, compared to your own expectations in the quarter, [it was] high quality. I was wondering what would be your current ambition level in terms of an annual run rate for the intake that you are looking at in this market in the current market environment in Kazakhstan? Thank you.

Lars Torstensson - Tele2 AB - EVP, Group Corporate Communication

Thanks, Ulrich. Two questions then. When people use a lot of mobile data, do they get nervous and start offloading? That was the first one.

And then Kazakhstan, when it comes to intake is there a specific annual run rate that we're looking for? So we'll start with Mats on Sweden.



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Mats Granryd - *Tele2 AB - President & CEO*

Yes, no, we don't see that at all, actually. It is almost the contrary. If you have a very strong 4G network and a transparency in your offering in the tariff setting, people are very, very comfortable in using the 4G service. And you don't need to find a WiFi spot; the 4G coverage is everywhere and it is controlled, from a cost perspective, since you all want to a bucketized price plan. So we don't see that as a trend at all.

Allison Kirkby - *Tele2 AB - CFO*

Not like London, Ulrich.

Mats Granryd - *Tele2 AB - President & CEO*

Not like the UK.

Allison Kirkby - *Tele2 AB - CFO*

Yes, exactly.

Lars Torstensson - *Tele2 AB - EVP, Group Corporate Communication*

Yes. Of course, we will continue to elaborate on price and packaging. One thing that we're seeing, of course, at the end of a month, that there should be an opportunity to buy very small buckets, if possible, as well because it's usually at the crossroad between two months that it's hard maybe to do the up-sell. But otherwise, the usage is, throughout, very strong.

Mats Granryd - *Tele2 AB - President & CEO*

Yes. And you can see as well that top-ups are every -- you have from one up to more than 10 top-ups in a month. So people are using the top-ups quite frequently. And I think the bigger trend would be that people stop doing top-ups and then opt for a bigger bucket instead and, for us, that is perfectly okay.

It is sort of a [zero sum] game, if you like, if you do top-ups or if you train upwards and get the larger bucket. Our ASPU will increase if you take a bigger bucket, but we will lose on the top-ups instead. But for us, it doesn't really matter. And, as Lars said, we will continue to be a challenger and be ahead in this intellectual game of trying to figure out what is the best bucket size, what's the best way of topping up.

One change that we have done recently is that where people have consumed, exhausted their bucket size, we don't truncate them down to a very low speed, which we did previously. Today, we shut them off and that has increased, again, the transparency. People understand that, oh, I have now consumed all my data. It's not an error in the network or my handset is not performing well, it is actually me that has consumed all my data.

So that's one of those small things that helps the perception of Tele2 and helps the perception of using data.

Lars Torstensson - *Tele2 AB - EVP, Group Corporate Communication*

Yes. And then, Allison, we have the Kazakhstan when it came to the intake, and also we had some clarity on ASPU in Sweden maybe you can give as well.



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Allison Kirkby - Tele2 AB - CFO

Yes. So on Kazakhstan, yes, customer numbers are important, but in a market like Kazakhstan, it's much more about the value of the customers that you're bringing in.

So we don't have a customer number target; we have a long-term revenue market share target, and that's all about growing high-quality customers that stay with us for a sustained period. It's much more about focus than emphasis, at the moment.

And then going back to Nick's question on Swedish mobile revenue; Swedish mobile blended ASPU is up 5% in the quarter and slightly average higher customer numbers. And excluding our M2M business, leads to a total revenue of just over 5.5%. So it's very much ASPU which excludes equipment revenues and customer numbers that's growing beyond 6% growth.

Lars Torstensson - Tele2 AB - EVP, Group Corporate Communication

I hope that helps, Ulrich.

Operator

Terence Tsui, Morgan Stanley.

Terence Tsui - Morgan Stanley - Analyst

My first question is on the guidance. I'm just wondering why you're not talking a bit more optimistically, particularly around the 2014 EBITDA guidance. I think, if I do the math, and I add on the Q4 EBITDA from 2013 to the nine months that you've already delivered this year, I get closer to around SEK6 billion, versus the upper end of your guidance, towards SEK5.8 billion.

And then, secondly, just going back into Sweden again, I've noticed that for a couple of quarters now the CapEx to sales ratio has been trending around 3%/4%/5%. That seems very low in the European context. Maybe you can just remind us again why that is and how sustainable you think that is, going forward. Thank you.

Lars Torstensson - Tele2 AB - EVP, Group Corporate Communication

That's good questions. A guidance question, of course, why we have the guidance that we have, and then CapEx to sales in Sweden of 4%.

I should say, though, that -- of course, never forget the joint venture structure that we have in the Swedish market but still, it's a valid question. Mats, would you like to start?

Mats Granryd - Tele2 AB - President & CEO

Yes, I can do the guidance bit. We don't run Tele2 on a quarterly basis and we said in 2014 that first half will be -- or second half will be stronger than the first half and I think that's what we're seeing. And what Allison said earlier, that we're confident that we'll reach the upper limit, and I think we'll stop at that.

Lars Torstensson - Tele2 AB - EVP, Group Corporate Communication

Yes. On the CapEx to sales, I don't know, Allison, it's more maybe --



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Allison Kirkby - Tele2 AB - CFO

Yes, it is very low in Sweden this year, and it's just about the saving of the continued investment in capacity, particularly in our 4G networks. It's a big slower than we were expecting and will probably happen next year. But certainly, the CapEx levels are way lower than you would normally expect in Sweden, and we should ramp up again next year.

Mats Granryd - Tele2 AB - President & CEO

Terence, also it is not sustainable, you're absolutely right. But it will be picked up, so I think you need to see those CapEx numbers over maybe 18 months or two years.

Allison Kirkby - Tele2 AB - CFO

Yes, exactly.

Lars Torstensson - Tele2 AB - EVP, Group Corporate Communication

Just [a detail, perhaps,] for you; we said that the coming CapEx investments are not driven by networks being full, from a data perspective, it's more that we are driving geographic coverage. We have a very high ambition when it comes to our 4G coverage in the Swedish market; we've gone from 70% geographic coverage to 90%.

We're picking up the glove from the main competitor here in Sweden when it comes to who is going to have the best 4G network, and we're going to continue to claim that we are doing the best when it comes to 4G, not just in Sweden but, as you know, in the rest of the world as well. That's what we are up to. This is not a capacity crunch, but a geographic rollout.

Terence Tsui - Morgan Stanley - Analyst

Thank you.

Operator

Thomas Heath, Handelsbanken.

Thomas Heath - Handelsbanken Capital Markets - Analyst

Just a few questions please. Firstly, on the new iPhones, if you have any early statistics specifically for the new iPhone levels if larger screens drive data and so forth?

Secondly, on B2B in Sweden, do you feel that you've had an extra boost now, or do you think you can keep up this quarter of high growth level from a lower base?

Then thirdly, just a technical question on if you could run us through the difference between your pro forma net debt and your reported net debt?
Thank you.



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Lars Torstensson - Tele2 AB - EVP, Group Corporate Communication

Thanks, Thomas. The iPhone effect when it comes to data usage, or is it a more large screen phenomena? Business to business is it sustainable? Then a run through of net debt. I guess, Mats, if you would like to start with business to business and iPhone potentially, and then Allison on net debt.

Mats Granryd - Tele2 AB - President & CEO

iPhone 6, it's a little bit early to draw any major conclusions on. Obviously, nice handset drives data consumption.

Lars Torstensson - Tele2 AB - EVP, Group Corporate Communication

Also one thing, of course, it's 4G network.

Mats Granryd - Tele2 AB - President & CEO

That is maybe even more important; when people are on the 4G network they certainly consume more data. We're going to talk much more about that in the Capital Markets Day as well as on the fourth quarter. I will actually park that question right now.

On the business to business side, we have invested in a new sales force, new incentives for them; we have a fantastic 4G network; we will be doing investment in fiber to the business to business premises, if that is deemed to be necessary; and we have launched this cloud PBX, which is doing very, very well.

It is things coming together, and obviously, we will have quarters where we're extra strong, then we have quarters where we are less strong. But the trajectory is quite clear; we are going to be a force within the business to business segment. I don't think that we need to doubt that any more.

The sales cycles in the business to business segment are very long, so it's very difficult to predict. This is [so] if we can keep the pace up in the fourth quarter, etc., or than in the first quarter as well. But the trajectory, as I said, is maybe more important; that is going up, no doubt.

Allison, maybe on the net debt?

Allison Kirkby - Tele2 AB - CFO

In terms of difference between total net debt and pro forma net debt is, in our total net debt, we include provisions for dilapidations, and that comes out at a pro forma level.

Thomas Heath - Handelsbanken Capital Markets - Analyst

Thank you. That's very helpful.

Operator

Lena Osterberg, Carnegie.



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Lena Osterberg - *Carnegie Investment Bank AB - Analyst*

Good numbers, congratulations. I have two questions. First of all, to come back on the B2B side of the business, did I hear it right that you said it was about 26% of sales now in Sweden? Also, I was wondering if you maybe could say something about the growth rates underlying for B2B versus B2C.

My second question would be on consumer share of wallet. I was wondering if you've done some sort of interviews with your customers to see if consumers see an increased data spend as part of the communications or media spending, because I guess there is sort of a limited wallet size for each. But do you feel that your data consumption is more going into the media spending bucket, or is it part of the communications spending bucket?

Lars Torstensson - *Tele2 AB - EVP, Group Corporate Communication*

That's a very good question when it comes to how our customers are viewing their spending on mobile data networks. To be perfectly honest, we don't have that answer here; it's something that the Swedish team might be able to answer. So we need to come back to you on that one, or maybe set up a possibility that you could talk to them directly on that matter. We're sorry about that, but we cannot answer it at this stage.

Would you like to follow up with any other question?

Lena Osterberg - *Carnegie Investment Bank AB - Analyst*

Yes, there was the B2B and B2C side, if you could confirm it was 26% of sales in Sweden, and also if you could say something about the growth rates for B2B and B2C separately?

Lars Torstensson - *Tele2 AB - EVP, Group Corporate Communication*

Okay. Allison will take that.

Allison Kirkby - *Tele2 AB - CFO*

Yes, B2B is up 23% year to date.

Lena Osterberg - *Carnegie Investment Bank AB - Analyst*

23%.

Allison Kirkby - *Tele2 AB - CFO*

23% year to date, yes, not in the quarter but year to date.

Lena Osterberg - *Carnegie Investment Bank AB - Analyst*

Was it 26% of the total?

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Mats Granryd - *Tele2 AB - President & CEO*

No, 23% I think.

Allison Kirkby - *Tele2 AB - CFO*

Year to date.

Lena Osterberg - *Carnegie Investment Bank AB - Analyst*

But share of revenues for the Swedish mobile business?

Mats Granryd - *Tele2 AB - President & CEO*

It's about one-third, isn't it?

Lars Torstensson - *Tele2 AB - EVP, Group Corporate Communication*

Yes, one-third.

Lena Osterberg - *Carnegie Investment Bank AB - Analyst*

One-third, okay. Thank you.

Mats Granryd - *Tele2 AB - President & CEO*

I think that we will have some more share of wallet discussion in our Capital Markets Day as well, if you can hold your horses until then.

Lena Osterberg - *Carnegie Investment Bank AB - Analyst*

I'll try. Thanks.

Operator

Andrew Lee, Goldman Sachs.

Andrew Lee - *Goldman Sachs & Co. - Analyst*

Just on Sweden, firstly. Telia announced, in its Capital Markets Day a couple of weeks ago, that it will launch convergent services probably from the end of the year, but without price discount. So I was just wondering what your take is on how this will change the competitive environment in 2015. And in general, do you think Telia is competing more aggressively in the market right now?

Secondly, just a slightly random question on Kazakhstan; do you think the regulator would allow this market to consolidate, i.e., you buying one of your competitors, or vice versa? Thank you.



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Lars Torstensson - Tele2 AB - EVP, Group Corporate Communication

Okay. When it comes to the Swedish market and how converged services will impact the dynamic of the Swedish market in total, that is for you, Mats. I guess also the possibility of consolidation in the Kazak market if you take that one as well, Mats.

Mats Granryd - Tele2 AB - President & CEO

Yes, on the Swedish side the converged service from TeliaSonera, they are out already with some converged service, not giving a discount to it. We don't see, honestly, any impact whatsoever on that. We are, of course, monitoring that very, very carefully if we need to be back into fixed, which we doubt.

The buying patterns between buying a fixed line into your household, or to your apartment, is completely different from that of when you buy your mobile subscription. So from a consumer perspective, it's actually not linked at all; it's us as operator that are trying to create that drive. And you can only do that by reducing prices, which I don't think Telia will do, or at least I hope they won't.

And then you had on the Kazakhstan consolidations in the Kazak market. We have not had those discussions, so we don't know. I would think that it would be okay, but I'm not 100% sure, obviously.

Lars Torstensson - Tele2 AB - EVP, Group Corporate Communication

Is that okay for you, Andrew?

Andrew Lee - Goldman Sachs & Co. - Analyst

That's great. Thank you.

Operator

Andreas Joelsson, SEB.

Andreas Joelsson - SEB Enskilda - Analyst

Not holding back any horses, so back to Sweden, and the cost side. Could you give us some update on the costs for, for instance, the billing systems, and also the common costs that you had with Telenor, after the cable and fiber deal late last year?

And secondly, on Kazakhstan, you are doing a gradual improvement on the profitability; it looks very much like the Russian regions, back in the days. Is that something that we should expect, going forward, a similar pattern, as in Russia, once reaching break even?

Lars Torstensson - Tele2 AB - EVP, Group Corporate Communication

Thanks, Andreas. So we have three questions; one on the billing systems, and then we have common costs related to up-selling the fixed plan business to Telenor. For you, Allison?

Allison Kirkby - Tele2 AB - CFO

Yes.



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Lars Torstensson - *Tele2 AB - EVP, Group Corporate Communication*

And then we have how we should watch the operations in [Kazakhstan and Russia]. So Allison if you would like to start?

Allison Kirkby - *Tele2 AB - CFO*

We only run with one billing system now, but we do still have two data warehouse systems, one of them which is in the process of being closed down. And the annual costs of that was approximately SEK20 million.

And then in terms of the costs related to the residential fixed broadband business, the common costs were in the region of SEK50 million. Now obviously, we are still in the transitional services agreement with Telenor, so we've still got those costs. But when that transitional service agreement ends, we will obviously look to getting rid of those costs.

Lars Torstensson - *Tele2 AB - EVP, Group Corporate Communication*

So that would be around --

Allison Kirkby - *Tele2 AB - CFO*

Second half of 2015.

Lars Torstensson - *Tele2 AB - EVP, Group Corporate Communication*

Okay.

Allison Kirkby - *Tele2 AB - CFO*

Those transitional services still into the middle of next year.

Mats Granryd - *Tele2 AB - President & CEO*

Okay, another year?

Allison Kirkby - *Tele2 AB - CFO*

Yes.

Lars Torstensson - *Tele2 AB - EVP, Group Corporate Communication*

Okay, Andreas. Then we had also how Kazakhstan [will look], Mats?

Mats Granryd - *Tele2 AB - President & CEO*

Yes, exactly what we have said all along, that this has a very similarity to the Russian region, so I think you can copy and paste what we did in Russia down to Kazakhstan.

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Andreas Joelsson - *SEB Enskilda - Analyst*

Everything?

Mats Granryd - *Tele2 AB - President & CEO*

Maybe not everything obviously, but we have a much healthier spectrum portfolio in Kazakhstan, as an example. But from a profitability the improvement on network, etc., I would say it's very similar. And the [buying] behavior also looks like it's similar. It's not identical but it's similar.

Andreas Joelsson - *SEB Enskilda - Analyst*

Perfect, very clear, thank you.

Operator

Dominik Klarmann, HSBC.

Dominik Klarmann - *HSBC Global Research - Analyst*

Firstly, I'd be interested in your view on the Apple SIM and also the VoLTE capabilities of the new iPhone 6. I would assume that's an opportunity for you, especially for your Dutch business, but maybe more of a risk for Sweden. Just wondering how you view that, and if you're in talks with Apple on it.

And then another one on Sweden mobile. You talked about 64% of all subs in bucket plans; would you have the respective percentage number of service revenues as well? Is that higher than 64%?

And then maybe on potential midterm guidance, given the better visibility now, is that something we can expect at the Capital Markets Day, that you give, again, a midterm guidance? Thank you.

Lars Torstensson - *Tele2 AB - EVP, Group Corporate Communication*

Thanks, Dominik. A lot of good questions there. We have Apple SIM and iPhone 6; I'm going to take that one as a matter of fact.

And then Sweden mobile service revenue, Mats, if you would kindly take a look at that one? And then of course we have guidance, but I don't know if we should just -- when it comes to guiding principles, we give annual guidance; it's what we're going to do, and continue to do.

We've tried it, Dominik, this idea with [midterm] guidance. Yes, I agree with you, it was not a great success, so we're going to stick to the annual guidance, and that's going to come in Q4.

When it comes to Apple SIM and iPhone 6, especially Apple SIM, we think it's -- from our perspective, we do believe that customers should not be locked in, and should have the flexibility of using the services that they really would like to have. So to some extent, Apple SIM is something that we already are working with, no lock in periods and trying to be as flexible -- give our customers the possibility to be flexible.

I think that we feel very comfortable with our ability to price and package our services in a very attractive way. And I think that Q3 is a very good example of that. And then of course, we have a great 4G which we think will be the foundation for customers wanting to use their Apple SIM, iPhone 6, or iPad Air 2, on just our network, so to speak. So to some extent, we think this is a very natural evolution for the telecom industry.

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It will mean, though, that our expansion costs or spending money, for handsets, will be less interesting for us. So subsidies is most likely going to come down, as a result of this, as customers need to then carry the costs, more or less, for the handsets, themselves.

So that is probably a change you're going to see in the market. That is going to come, not just without the SIM, but just generally; we think that this is the way that industry needs to develop.

So when it comes to Sweden, Swedish mobile.

Mats Granryd - Tele2 AB - President & CEO

Maybe I could just also say, on the VoLTE side, we don't see that it's going to be a huge extra CapEx expenditure that we need to do in order to upgrade the network to be able to cater for VoLTE. So that's going to be fairly seamless. That's something we all look forward to, to have a significant better quality in our network, when it comes to voice quality.

On the postpaid side, 64%, as I said, on our [optional] bucket price plans. We have roughly 80% of our revenue comes from postpaid. If you look at the number of postpaid versus prepaid, we have traditionally been at 50/50. That is no longer the case; we are more one-third prepaid, two-thirds postpaid.

So the migration has gone fairly fast. We've talked about this prepaid to postpaid migration for several quarters, and while I think we are seeing a stabilization, I don't think that we will go materially below one-third prepaid. It's always a prepaid market.

4% ASPU, as I said, in the postpaid market. It is driven from the amount of people opting for a bucket price plan. People need to see -- I think that is universal, at least I have to say or to understand how much I would be charged for things. And having a bucketized price plan means that I feel confident that I can use my data and someone will tell me when I'm approaching the limit. I will not just be charged extra once I have gone over.

As I said earlier, we have decided to not to truncate down to lower speeds, but we're actually shutting people off. So people understand that now it's nothing wrong with the network, I have just consumed my data. So in order to kick start everything again, you need to do a top up in between. And I think that clear and easy communicated way of doing things to our consumers is inducing a lot of confidence in them, and we all start to spend more money on it. I don't know if I answered your question, but that's what I'm planning saying.

Dominik Klarmann - HSBC Global Research - Analyst

All right. Thanks.

Operator

Erik Pers, Danske Bank.

Erik Pers - Danske Markets - Analyst

I have no questions about Sweden, believe it or not. I would like to ask you about the Netherlands, and it's slightly difficult to follow your EBITDA evolution on the mobile side there. I was just wondering, are there any costs associated with the rollout that comes into your OpEx base? Or are all those costs capitalized as investment?

And secondly, when you start to migrate traffic, how much of the current MVNO traffic do you expect you can be able to transfer, given that's 2G and 3G, right, and you're building 4G. So how much of that will you be able to migrate? And how much will the costs, do you think, come down on the current MVNO contract?



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And also, if you can tell me what is that cost? How much of your OpEx now is going towards the MVNO host in the Netherlands, please?

Lars Torstensson - Tele2 AB - EVP, Group Corporate Communication

Thanks, Erik. They are all very relevant questions, but we have some limitations in the way we can answer them. But I think when it comes to the rollout, general OpEx costs associated with the rollout, do we have that, Allison?

Allison Kirkby - Tele2 AB - CFO

Yes, for those sites that are not yet in use, but we're obviously starting to incur the cost of operating them, or the lease cost of having them, then we capitalize them until they're in use. But there is, obviously, some cost that we cannot capitalize. What you've also got to remember in our mobile costs at the moment, because we're working with an MVNO, the pricing for data versus voice is very different. And Netherlands, just like most other markets, are seeing a rapid increase in data, 10% up in the quarter. And that does mean that we're seeing increased costs as a result of that MVNO in our mobile lines at the moment.

Lars Torstensson - Tele2 AB - EVP, Group Corporate Communication

So the voice element of our OpEx cost is not what we are trying to address with getting our 4G network up. It's the data element. I think we'll come back and, hopefully, be able to elaborate a little bit on this as we meet you over in London, December 12. But I think, predominantly, we see the benefit of moving data traffic, of course. And that is also what is costing us, currently, is the increase of data usage, of course, in the MVNO agreements.

And that is also what we're trying to refer to when we talk about balancing our customer intake with cost as well. We need to get our network up and be able to utilize that to get most benefit. But we're not going to give you any data on that specifically today, Erik. I'm sorry about that.

Erik Pers - Danske Markets - Analyst

Okay. Thank you.

Operator

Georgios Ierodiconou, Citi.

Georgios Ierodiconou - Citi - Analyst

I've got two questions, please; one on Sweden, and one on Kazakhstan. On Sweden, I would like to understand the dynamics in the business market. Obviously, you are seeing good growth, but I was wondering how much of that is pure market-share gain. Or whether you actually see, as part of your existing contract, some improvement in revenue. And if that's the case, can you give us an indication of what's driving it? Because it's not obvious to me whether video would be an application that business users would be utilizing.

And the second question on Kazakhstan, there's been some new offers in the market from you and the phone operators recently with quite aggressive offer offers. I understand there is a monthly fee introduced also, but will that impact profitability? And whether that changes, even more, your stance around MTRs. Could you change them for 2015, or is it only 2016 and 2017? Thank you.



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Lars Torstensson - Tele2 AB - EVP, Group Corporate Communication

Once again, the questions around the business to business operations, if that is a market share gain, or if it's existing customers that are trading up. Mats, you could take that one. I guess also new offers in Kazakhstan is for you, Mats, so please.

Mats Granryd - Tele2 AB - President & CEO

Very good questions, both of them. In the Swedish business to business [market] it's actually a combination of both. Obviously, market share gain is helping. But also people are using -- again, back to the bucketized price plans, and our excellence in 4G network, people are using and relying more and more heavily on being connected wherever they are when they feel the confidence in the network. So it is a combination of both, and I'm not, today, able to tell you if it's 50/50, or one-third, two-thirds, but it is a combination. And maybe we can take a look at that and come back to you, because it is a good question.

The second one on Kazakhstan, yes, you're absolutely right, that there is price aggression in the market in Kazakhstan, especially with offnet. We're matching that. For us, it is really important to be the price leader in that market and we will maintain that position, come what may. And so far, we are doing excellently in protecting that.

Lars Torstensson - Tele2 AB - EVP, Group Corporate Communication

When it comes to termination rate, Mats, any comment on that?

Mats Granryd - Tele2 AB - President & CEO

That will also go down starting next year, down to, I think, just below KZT9, KZT8.8. And then another factor that we sometimes forget, and that is the number portability. That will be in place second half of next year, and we believe that is something that will be very beneficial for us since we're the small player. So that means that people, consumers, can move seamlessly between networks.

Georgios Ierodiaconou - Citi - Analyst

Thank you.

Operator

San Dhillon, Royal Bank of Canada.

San Dhillon - RBC Capital Markets - Analyst

A couple of questions. On the Netherlands, UPC have just launched some pretty aggressive tariffs; I think there's a EUR12.50 tariff for voice and limited SMS, and 300 mg of data. I guess the question is, do you see that as a threat to your success in the Netherlands? And where would you like to position yourselves, relative to cable operators moving in to mobile?

And secondly, in Kazakhstan, our friends at TeliaSonera, over the last few days, have said that they were surprised at how little competition they had received from Alltel over the spring and summer. And I guess I'd like to get your view on what level of competition you are seeing from them, if any at all. Thank you.



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Lars Torstensson - *Tele2 AB - EVP, Group Corporate Communication*

Thanks, San. When it comes to the pricing in the Dutch market, if I talk to that one, and then let Mats talk a little bit about the competition.

I think UPC pricing is in line with what we're seeing currently in the market among the discount brands, so we don't see that currently having any change, in our view, on this specific market. We have our own view when it comes to LTE economics, and we also plan to talk a little bit about that one on December 12 as well, where we might give you some insight on our reasoning around what you can do today with a modern 4G network, of course.

But UPC pricing is very much in line with what we see and it doesn't change our view on our ambition in the Dutch market. So Mats.

Mats Granryd - *Tele2 AB - President & CEO*

On the Kazakhstan and Alltel, I think clearly your observation is correct; we are a small brand in Kazakhstan still with just shy of 10% market share on revenue. So we are the ones who are having to deal, if you would like, with Alltel; maybe not so much Kcell and VimpelCom.

San Dhillon - *RBC Capital Markets - Analyst*

Okay, wonderful, guys. Thank you very much.

Operator

[Roman Arbuzov, UBS].

Roman Arbuzov - *UBS - Analyst*

Most of the questions actually have been answered, but if I may, with two general questions.

First, on the Telia reinvestment for growth program; if you may share your thoughts on what are the implications for Tele2?

And secondly, a slightly cheeky question. As you say, you're firing on all cylinders, so how much do you attribute this to the Tele2 factor and how much of it do you think is explained by other factors? Thank you.

Lars Torstensson - *Tele2 AB - EVP, Group Corporate Communication*

It's always very hard to comment on behalf of one of our competitors when it comes to their investment into something that we don't invest in, but we can try; fiber investments as such. And then we also have firing on all cylinders, maybe, Mats, you would like to elaborate on what you meant when it comes to firing on all cylinders later on.

But when it comes to fiber investment, the only thing I should say is just a general statement on that one, which is more around the risk that will come with a monopolization of fixed access in the Swedish market, and that there is a need for strong regulatory environment, or regulatory support, in the Swedish market as this investment program is going on.

I should also say that, in Sweden, there are a lot of alternatives when it comes to the possibility of if we would like to. That is not the case today, but if we would like to have a fixed broadband offer, then there is several different parties that could provide that, of course. But there is always a risk when somebody's trying to monopolize a market again, and we're going to view that very carefully, going forward. Then when it comes to firing on all cylinders?



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Mats Granryd - *Tele2 AB - President & CEO*

Maybe it's my poor English. What I meant with firing on all cylinders is that plenty of countries are doing a good job, not only one or two, but across the board. And remember, we are a challenger and we have always been a challenger, and we will continue to be a challenger. We will do the unexpected continuously.

Roman Arbuzov - *UBS - Analyst*

Okay. Thank you.

Operator

Barry Zeitoune, Berenberg.

Barry Zeitoune - *Berenberg - Analyst*

In the Netherlands, I know you're obviously being quite closed in terms of where you are in the network rollout, but it's interesting that the CapEx has taken a pretty material step up this quarter to over SEK400 million from SEK270 million last quarter. So can you give us some comments maybe on the pace of rollout and whether that's changed, increasing, or is flat? Thank you.

Lars Torstensson - *Tele2 AB - EVP, Group Corporate Communication*

So the question is around the pace of the rollout. Mats, any comments?

Mats Granryd - *Tele2 AB - President & CEO*

Yes, it has increased. Barry, your observation is absolutely right and we are continuously, obviously, investing and the pace has been picked up. The way that we thought is you always have a little bit slower start until you get everything in place. Once you have it in place then the floodgates are more or less open.

Barry Zeitoune - *Berenberg - Analyst*

And can you give us any feel for how many towers you would be looking to hit a month, or run rate, or anything like that?

Mats Granryd - *Tele2 AB - President & CEO*

No.

Barry Zeitoune - *Berenberg - Analyst*

Okay, fair enough.

Operator

There are no further questions on the phone.



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Lars Torstensson - *Tele2 AB - EVP, Group Corporate Communication*

Okay, thank you very much. So that concludes our Q3, 2013 conference call. I would just like you to remember about the two important dates. One is, of course, the Capital Markets Day at December 12, and when we report our fourth quarter results, which will be done, if I remember correctly, on January 30. But, of course, we're here for you, so if you have any more questions please reach out to us and we will continue to discuss the progress for Tele2.

Until then, take care and have a great day. Bye-bye.

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