



Event: Tele2 Presentation of First Quarter 2010

Date: 21 May 2010

Speakers: Lars Torstensson
Lars Nilsson

Call Duration: 00:56:02



LARS TORSTENSSON: Good morning everyone and a warm welcome to the first quarter 2010 conference call. My name is Lars Torstensson and together with me today I have my CFO and also Interim President and CEO, Lars Nilsson. I would also like to welcome everyone that has joined us via the web today. Without any further delay I would like to hand over to Lars Nilsson, please.

LARS NILSSON: Good morning everyone. Welcome to Tele2's interim report for the first quarter this year. I will now start by guiding you through some of the highlights in the quarter.

As you have seen hopefully, we delivered another robust result in the quarter. Our group EBITDA grew by 5%, resulting in a strong margin of almost 25%. In the Nordic region Tele2 Sweden delivered a solid result in the mobile segment, with a revenue growth of 3% compared with the same quarter last year. I'm also very proud to present the record high EBITDA contribution of SEK 790 million from our Russian operations. At the same time we added almost 1 million new customers in our networks.

In Central Europe and Eurasia we will - as long as the economy remains weak - focus on maintaining market share and cash flow contribution. In the quarter we also completed acquisition of the majority share of NEO in Kazakhstan, our latest member of the Tele2 family.

Our operations in Vesta Europe once again proved that it can generate sustainable and profitable growth by further optimising its structure and sales processes, and the focus there is of course on business-to-business.

Let me give you some more detailed information on each market, starting with Sweden. Tele2 Sweden delivered a stable net intake in the postpaid segment in the first quarter, with 15,000 new mobile internet customers and 14,000 mobile voice customers. In the quarter we had continued revenue growth, mainly driven by the mobile segment and also quite a stabilising trend which I will come back to later on.

We have changed the accounting treatment for all handsets sold by monthly instalments. As a result, both costs for handsets and revenue from instalments payments should be taken upfront. You can see on the slide here the old method and the new method, and of course if you follow the yellow line you can now see that we are at 35% on the EBITDA margin. For the rest of the year our margin development will be depending on how successful we are regarding our customer intake in the postpaid segment, and our ambition is to grow. I will come back to this later on.

Now, moving on over to Russia. In Russia we carried on our successful rollout in the new regions and all licences received in 2007 have now been commercially launched, so we now cover a population of roughly 61 million people. This marks a very important milestone and we now aim to rapidly increase our market share in the new regions, targeting to reach operational break even within two years of commercial launch.

On the slide here you can also see that we continue to have a high intake, both from new and old mature regions. Despite the intense rollout and the net intake, we have managed to maintain a very high blended EBITDA margin, which in this quarter reached 32%.

Western Europe: and here the slide is about the Netherlands. As stated before, Tele2's operations in Western Europe are the gold standard for the group when it comes to business and business services and consumer fixed broadband. We have continued to carry out the best deal strategy.

In the corporate segment, Tele2 Netherlands was once again successful in prolonging existing accounts and acquiring new accounts in the business segment. And on this slide you can see some of our new or prolonged customers for the first quarter.

Finally, the Baltics: the situation in the Baltic region continues to be tough and the recovery is still not seen. So we expect a very slow business development for this year, and we really try to adapt our capex to ensure that we get a healthy cash flow contribution from the region, and when we see a recovery in the economy of course we can push the button.

This was sort of more of an overview of this quarter and now I actually will give the floor to the Chief Finance Officer, Lars Nilsson, and the Chief Financial Officer will then continue to talk a little bit more about the numbers of course, and the starting point is then our profit and loss statement; nothing spectacular there. We have a margin growth - EBITDA growth - of almost 2% and then even higher growth when we look at the EBIT margin, 2.5% growth - and taxes I will come back to - and the financial items are positively affected by some currency gains from internal debt.

Taxes: there you can see no one-offs and we had an income statement, a tax cost of SEK 339 million and then you can see the cash flow of SEK 233 million. We have changed the guidance a little bit. So we now forecast a corporate tax rate of approximately 22%. This will affect the cash flow by roughly SEK 800 million, and this is due to better operational performance in Tele2 Russia. So this will be the guidance for this year.

Coming back to cash flow, a very strong cash flow for the first quarter as you can from operating activities, 2.3 billion, which mirrors the strong underlying result. The capex is rather low for the quarter and one driver behind that is that we have some delays in the rollout in Russia due to some problems with Customs, but that is now solved and we will start to rollout with full speed in May this year. So we have not changed the forecast for capex for Russia.

And then acquisition of shares: we bought the operation in Kazakhstan during this quarter and we also acquired some minority shares in Russia. Now we own all our operations. We have 100% ownership of our operations in Russia.

Return on capital employed is for us in the management a very, very important KPI and as you know we have a target of 20%. In this quarter we are actually close to 20%. We have also a strong balance sheet. Here you can see a low gearing and the debt is impacted now of course by the operations in Kazakhstan, which is -- even if we own only 51% of the shares the Kazakhstan operation is fully consolidated in our numbers.

When it comes to intake of course the driver is - as always I would say, and also in line with our strategy - the mobile. And you can see that we have for three quarters in a row now a very strong intake driven from Russia, and if you look at the total stock - group customer stock - you also see here the increased importance of mobile and you can also see a breakdown of our mobile customer stock, where of course the growth is within prepaid but we also hope that now in Sweden we will see a growth in postpaid customers.

Group EBITDA: very strong growth in the result compared with the first quarter last year and we are now close to 25%. And if we look at the mobile numbers, here you have a breakdown of the development and you can see that we also have a split here between mobile on own infrastructure and our MNO operations - the MNO operations we're having in the Netherlands and in Norway.

Continuing with the mobile development; let me show you here the growth of what happened with minutes of use and ARPU development in the two important mobile markets: Sweden and Russia. In Sweden, where we have an underlying growth of 3%, as you can see in the report the minutes of use is growing. We see more of a stable development, I would say, in ARPU being diluted by the increasing customer base in mobile internet and softness in the corporate segment. The ARPU in mobile and internet is improving. We can still not say that we have black numbers but we see a healthy trend upwards.

So then, Tele2 going forward. As you know, we always try for a best deal position. We should be the price leader in all our markets and we should deliver expected quality. That is sort of the core for us. We target a long-term mobile EBITDA margin on own infrastructure, at least 35%; to remind you that in the old regions in Russia we are 45%. All operations should have the ambition of reaching a return of capital employed of at least 20%, and in the markets where we operate in the system mainly for mobile; we would like to have the capability to reach the top two positions in terms of customer market share, in an individual country or also as in Russia in regions.

If we then go to Sweden and the Swedish outlook: we will continue to target the postpaid segment, which in the longer term will lead to increased ARPU and lower churn. Our ambition is to take market

share. In the short term this strategy will lead to higher total acquisition costs resulting in a full year EBITDA margin in the range of 33% to 35%, depending on the customer intake.

Russia: we are now looking for a targeted subscriber base that should be able to reach 19 million to 20 million customers by the end of 2011. We are at 15.4 million customers right now, and our ARPU growth at 5% by 2011.

EBITDA: old regions should stabilise on this 45% margin. We have had that now for two quarters in a row, and the ambition is that in the new regions we should reach an EBITDA break even two years from launch, and the contribution from the new regions this year should be in the range of between minus 600 million to minus 800 million, and that gives a blended ARPU in the range of 27% to 32%.

And the capex: despite the fact that we are a little bit late right now, we have the same ambition and target as before, that the capex should be in a range between SEK 4.5 billion to SEK 5 billion. And of course we have fulfilled our rollout requirements, but of course we are always interested in selected acquisitions under the right conditions. But the focus right now is of course to grow in the new regions. Then for Croatia, of course the target is and the ambition is, and we definitely believe that we will finally reach EBITDA break even during the second half of this year.

And then some concluding remarks about Nordic: continued revenue growth of the postpaid segment in Sweden is important; Russia, a record high EBITDA, and we will continue to grow; Central Europe and Eurasia, a stable cash flow contribution is the target; Western Europe, a solid operational performance. And then don't forget that this year is an investment year for us. We grow in Russia. We have now finalised the acquisition of the operation in Kazakhstan and we will come back to you later on with a forecast on the business plan, but of course the ambition is to grow from the present customer base of some 300,000 sales or customers.

And then we are just in the middle of or starting on the 4G rollout - the 4G network - in Sweden, and we are doing the same in Norway, the 3G network. So we have a lot of things on our plate. And then I'll leave these thoughts to the other Lars.

LARS TORSTENSSON: Thank you, Lars. That concludes our formal presentation on the result for the first quarter 2010. Now we will be happy to take any questions you may have. Operator, let's start with the first question from the telephone conference.

OPERATOR: The first question comes from the line of Mr Tim Brodie from Goldman Sachs; please go ahead with your question, sir.

TIM BRODIE: Yes. Thanks, Tim Brodie here. I just wanted to ask about the recent management changes and whether you could give us an update on the process for the CEO search, and I guess whether you feel that the change would lead to any change in strategy? It doesn't sound like it, but if you could confirm that that would be helpful?

And then secondly, I just wanted to ask about Swedish postpaid. There seems to be some volatility in the level of customer acquisition. If you could just talk more about your strategy to pick up share in postpaid, that would also be helpful. Thank you.

LARS TORSTENSSON: Tim, I'm just going to repeat the question because the line was pretty bad there. But you were wondering about the search for a new CEO if that would have any implication regarding strategy, and then when it comes to the postpaid intake in Sweden, what level of market share that we had in the quarter. Am I correct, Tim?

TIM BRODIE: More or less. I think it was just also an update on what's happening in the search for the new CEO and then on Sweden the question was: how you intend to gain market share in postpaid.

LARS TORSTENSSON: Okay. I'm going to give you the standard answer for the CEO. Because it's a position that is going to be filled by the -- or the search is going to be performed by the board, it is of course a board matter and the board will announce a CEO when they have done a thorough run through of candidates. So I'm going to leave that question to the board to answer and they will answer it when they are ready.

When it comes to strategy, I mean the strategy we have gone out saying it's still intact. We have no reasons to alter the strategy that we presented in our annual report for 2009. You can also find the current strategy on our web page if you like to update yourself on that one. So there are no changes to strategy as of now. Of course, with a new CEO that needs to be reviewed but the current state is unchanged strategy.

And then when it comes to postpaid, I mean we consider ourselves to be fairly level when it comes to market share in the postpaid segment. We have the ambition to take market share in the Swedish mobile market going forward. We will continue to do what we do best, offering an attractive price, mobile solutions. We will provide expected quality through our 3G network and at a later point in time we will also launch 4G services, which we think will be both attractive from a coverage standpoint but also from a pricing standpoint as well.

We will of course review our hands held portfolio continuously. We need to have the best smart phones out there, to make sure that we can attract also the most interesting customers as well. But we still believe that the strategy we are currently pursuing sooner or later it's going to result in us grabbing a larger market share than we currently have. Hopefully that's answered your question to some extent, Tim?

So, operator, could we have the next question, please?

OPERATOR: The next question comes from the line of Mr Jan Dworsky from Handelsbanken, please go ahead, sir.

JAN DWORSKY: Yes, thank you. I have a question on Russia. There is a very strong trend of ARPUs moving higher for the group but looking isolated at the old regions, if you could elaborate for the drivers for that ARPU increase?

LARS NILSSON: Okay. I mean if you look at the development in Russia you can see that we have a good trend when it comes to minutes of use, as well as following by the ARPU. We have a blended growth - as you can see - in new and old regions, so that indicates that the growth is even stronger in the old regions. And we see that, first of all, compared with a year ago we see a stronger underlying financial situation. As you remember, it was quite slow in the first quarter last year, and we also believe that we are gradually coming into a situation that we are more of a preferred SIM card for our customers. So I think these are the two drivers: a stronger economy and that we can actually be seen more as the preferred operator.

LARS TORSTENSSON: And on top of that, Jan, of course when we become the market leader in a specific region as you know we usually have less of a discount versus our competition and the pricing differential can be as low as 5%, and for us moving from a more significant discount 20%/25% up to 5% gives a fairly strong underlying push to ARPU development as well. So there are multiple factors working in our favour right now when it comes to ARPU development in Russia.

JAN DWORSKY: And when it comes to the margin development in the old regions, which was the statement of 45%, you previously talked about not in the new regions but the new regions within the old regions which started later which sort of broke even a year ago or nine months ago or so and continued to improve. Could you elaborate on whether you've seen -- are the best regions now sort of maturing or

not showing any progress or declining while the new regions in the old regions, so to speak, are climbing the ladder?

LARS NILSSON: I think in a way when it comes to trends there is really no change in trends compared to what we saw in the last quarter for 2009. But as you've seen there we continue to take in customers, so we have a growth there in the old regions which will help us of course in order to stabilise the result on the 45% level. But it's not so that we see that -- it's not sort of a changed trend now towards what we have seen before.

JAN DWORSKY: Okay.

LARS TORSTENSSON: We can say, Jan, that the trend that we're seeing in the old regions and specifically then the regions in the old segment which was launched - the latest - they do not deviate in a way from the operational trend we've seen before. That's why we're firm in our belief that we could repeat the trend also in the new regions, EBITDA breaking even within two years and then - as we've said before - that they should -- that's no reason why they should not have a similar operational profile as the old regions in total. So you could say that the regions that were launched, the latest in the old segment, they are a kind of leading indicator for us on how things will develop in the new regions as well. So as Lars Nilsson said, there is no change in any way and that's why we feel comfortable about talking about the fairly fast path to break even in the new regions.

JAN DWORSKY: And with the 32% plus margins in Q4 and Q1 and with a contribution from the new regions being sort of the highest negative -- or sort of approaching the peak negative contribution, why not be more aggressive in target setting?

LARS TORSTENSSON: Yes, I mean when it comes to our guidance in Russia, if it's conservative or not, I guess -- Lars Nilsson, what do you say?

LARS NILSSON: I mean, first of all, if you compare with the guidance last time you know that we are a little bit more optimistic right now following the trend on what we see, and then I think it's up to you to judge if this is still on the conservative end or not. I think -- this is for us, I think, a prudent and good forecast.

JAN DWORSKY: Then just the detail on the capex on how much net debt has been consolidated in Q1 from Kazakhstan?

LARS NILSSON: From Kazakhstan, I mean we -- the share price in itself was around SEK 500 million, and then we have added another SEK 1.2 billion as the real debt.

JAN DWORSKY: Thank you.

LARS TORSTENSSON: So, operator, can we have the next question, please?

OPERATOR: The next question comes from the line of Mr Peter Nielsen from Chevron; please go ahead with your question, sir.

PETER NIELSEN: Yes, thank you. Two questions please: firstly, could you please comment a bit on profitability in your Swedish mobile broadband operation now, which obviously increased. Are you profitable on these customers at this stage?

And secondly, if you would please return to the low capex in Russia in Q1; I didn't quite understand why -- what were your problems in terms of rollout? Thank you.

LARS TORSTENSSON: When it comes to Swedish mobile internet, we -- I mean when you look at the trends in mobile internet especially in the mobile internet -- when it comes to subscriptions, the trend we're seeing is similar to what we've seen before too, improving right now. The main reason for that is of course that we have a larger customer base leaving the so-called promotional pricing offerings - for example, six months for free - going into the list prices that they are supposed to be paying for this service. That has also helped of course the ARPU development for mobile internet, showing a strong recovery in ARPU in general terms.

And as we said before, we believe that an average pricing of around SEK 200 together with a customer base, which we still consider needs to be slightly larger, that will lead to a fairly solid service line here with an EBITDA margin which should not be far from what the postpaid subscription on the voice side would have. There will be a difference because the pricing or the ARPU is lower than mobile postpaid voice, but with the current development we think this is on its way to become an EBITDA break even product.

LARS NILSSON: When it comes to sort of the slow capex development in Russia, it's the fact that our wonderful equipment has had problems with the Customs in taking the equipment to Russia, but this is now solved. So as from May we will really start a push here and we will start to invest again.

LARS TORSTENSSON: We should add on top of that that the difficulties that our vendors had with the Customs have not hampered our rollout of networks in Russia. So it has had no impact on our operational performance.

PETER NIELSEN: Okay. Thank you.

LARS TORSTENSSON: Okay, operator, can we have the next question, please?

OPERATOR: The next question comes from the line of Mr Maurice Patrick from Barclay Capital; please go ahead with your question.

MAURICE PATRICK: Oh hi there. Could you just expand a bit more on Sweden mobile and mobile broadband? You've said you're on your way to becoming EBITDA break even on the product. Presumably we should think about mobile broadband as a lower margin product, and yet as your mobile broadband is growing your voice is presumably declining because your revenue line is still around 3%. So should we think about Tele2 mobile in Sweden as a business where revenues remain at a similar kind of growth level but at a fundamentally lower margin? Is that how we should think about things or have I got it wrong there? Thanks.

LARS TORSTENSSON: Okay, Maurice, I want to take the opportunity to just repeat the question because we have a little bit of bad sound quality here. But mobile broadband being a lower margin product versus mobile voice margin being a higher margin product, and when our new revenue is coming from -- or some of the new revenue is coming from mobile broadband and mobile internet services will that have an impact on our total EBITDA margin? Lars ...?

LARS NILSSON: No, I don't see it in that way. I mean now we are all the time adding up more mobile internet customers and on top of that we see an improved ARPU. So of course, over time, we have the same expectations when it comes to margins on this product as on voice. Then of course the overall mobile result - you see with a margin now of 35% - is then a blend. It's a mix of what we have in

prepaid, postpaid and mobile internet. But as such, you should not see this as a low margin product. That's not how we see the data.

MAURICE PATRICK: So how come it's probably not in break even in that case? Is it purely a scale issue and should we assume, therefore, that revenues will accelerate - as you say - on more of them?

LARS NILSSON: I would say it's of course a scale issue but it's also - as we have said before - the ARPU has been fairly low for us and for competitors due to everyone really having an involvement, taking on more customers with discounts, etc. But we see now that the ARPU is clearly moving in the right direction.

MAURICE PATRICK: And just a slightly separate question, but you talk about the soft Sweden corporate markets. TeliaSonera indicated they had seen some relative strength in that market. Is there any difference there we should be understanding of what's driving the softness that perhaps others aren't seeing?

LARS TORSTENSSON: Maurice, I'm just going to repeat the question. I'm sorry about this, and I'm sorry to all the participants in the conference call that we cannot hear your questions straight out. But - if I understand it - you're referring to yesterday's conference call from one of our competitors and the comments made on the enterprise or mobile voice or mobile ARPU development on the enterprise side, specifically, and how that has developed for Tele2, is that correct?

MAURICE PATRICK: Exactly. And how you are different from that or what are you seeing that is different?

LARS TORSTENSSON: Yes sure. I mean we've -- specifically, when it comes to the enterprise market, I mean last year we saw a fairly large slump in usage from our mobile customers. If I remember it correctly, the ARPU year-over-year in the fourth quarter, around 14%/15%. We do believe that we are seeing or feeling the floor here or that the ARPU development(?) is dropping out, and that the demand from the small/medium to large enterprise customers is recovering to some extent. Of course, it's going to take time because our unemployment rate in Sweden is still high, meaning that -- and our customers are still cautious when it comes to adding on additional services on their mobile subscriptions, and so on, but just at the general but still early indications we are also seeing an indication of a recovery in the usage levels of enterprise customers.

MAURICE PATRICK: Okay. Thank you very much.

LARS TORSTENSSON: Operator, could we have the next question, please?

OPERATOR: The next question comes from the line of Mr Ulrich Rathe from Société Générale; please go ahead with your question, sir.

ULRICH RATHE: Thank you. I have three quick questions please. The first one is on Kazakhstan; your previous CEO sort of personally connected himself to that acquisition very strongly in conversations. So I was just wondering: who actually, personally, is in charge of that now? Who have you handed that whole process over to?

My second question is with regards to Swedish mobile on your chart 4 in the presentation. I was just wondering: what would be the EBITDA margin trend? Just a year-on-year trend, up or down, under the old accounting regime?

And my third question would be: have you seen any sort of step chain in the competitive reaction in Russia so far? Are the three sort of majors behaving any differently currently from the way they behaved in recent times throughout 2009? Thank you.

LARS NILSSON: Okay then, I will start then with Kazakhstan. And if I understand your question correctly, I mean first of all I think this company is and has never been a one man show. We are working as a team and we have different functions of course. A lot of Tele2 people have been involved in the acquisition in Kazakhstan, including myself and then the market director, Mr Niklas Sonkin. So we definitely don't see that there's something missing right now. It's just that we continue working with the same people as before and once again this is not a one man show. So we believe that we have everything under total control, and we have a board for this operation and on the board we have Mr Niklas Sonkin, myself, and also Anders Olsson who is our Chief Commercial Officer.

LARS TORSTENSSON: So when it comes to the trend in mobile, if you look at this slide we show you, you can see the new accounting method which I think is really a better mirror of the financial performance than the old method. So what we have said in our projections for this year is that we are -- the target is to have a margin between 33% and 35%, depending on customer intake. So I think that is the sort of margin guidance. And then when it comes to what's going on in Russia, we have three big competitors, the three big, and of course it's a fight every day. But I can't say that we have seen any kind of significant change in the overall market behaviour. This is in a way organised so that we take this reading by regions, which can be a different type of sort of landscape and competition in different regions, but no major shift I would say.

ULRICH RATHE: Thank you. Can I just follow up on Sweden mobile again: can you give us a sense whether the old accounting regime would have seen margins down or up in Q1 on a year-on-year basis? Because under the new one it's essentially stable, right, you have year-on-year stable margins now and I'm just wondering: how would that look under the old one?

LARS NILSSON: Actually, I mean what we have done now is that we have restated our old figures, as you know - as you can see on the yellow line. So I think that is what we now should sort of look for. So it's the yellow line that gives us a good indication of the underlying business.

ULRICH RATHE: Okay. Thank you.

LARS TORSTENSSON: Okay, operator, could we have the next question, please?

OPERATOR: The next question comes from the line of Mr David Wright from Deutsche Bank. Please go ahead with your question.

DAVID WRIGHT: Yes. Hello, it's David here. I might just return to Swedish mobile; a lot of questions on that. You seem to have lost just a little ground in relative net editions to the TeliaSonera in Q1 versus Q4, certainly on the voice users rather than mobile internet. So it's kind of returning to the first question on this call. Telia have said that conditions are very benign. Do you plan just to be a little more aggressive on pricing to restore that market share a little because it definitely seemed to get away from you a touch in Q1, and I did notice your revenues are a touch below consensus expectations? And then secondly, on Russia, a two part question: you said that the capex delay has not affected operations. I guess that just kind of feels surprising. What kind of capex would sort of not affect the operational ability of the business over the next couple of quarters? And then, finally, on Russia are there any plans midterm to look at Moscow? Thanks.

LARS TORSTENSSON: Okay. When it comes to Swedish mobile and that's losing ground towards TeliaSonera, I mean it depends on how you look upon it. I mean our market share coming from the prepaid market and moving into the postpaid market, we consider ourselves to have somewhere around 22% of the total postpaid market. We added around 20% -- we think we took around 20% of the total net there. So yes, we did lose some ground but I'm not sure if we lost it towards TeliaSonera. We think that the most aggressive operator in the Swedish market right now is 3, and if you look at how they have changed their marketing spend over the last quarter they have been the ones being extremely aggressive when it comes to spending on ads, radio, TV, and so on. I mean if you look at the total net intake, if you take postpaid and prepaid, I mean we had net debts in the quarter which our main competitor did not have. So, if I may, I'm not completely agreeing with you on that side. That is when it comes to customers. Then it might be a different discussion when it comes to revenue market share; that I don't have any statistics on so it's hard to comment on. But when we go forward, we think this is just hard work when it comes to taking market share in the postpaid segment. You need to build good distribution channels; you need to build good relationships with the retailers. It takes time to sell or to break into large corporate accounts as well. So this is nothing you do by being overly aggressive on price, you just need to always protect your price position but that doesn't mean that we need to be overly aggressive on price. We would agree with TeliaSonera on the fact that pricing on voice is fairly benign and we hope that the current trends in mobile internet will also continue. (overspeaking)

DAVID WRIGHT: With no plans to --

LARS TORSTENSSON: Sorry.

DAVID WRIGHT: Excuse me, but no plans to sort of match that little bit more aggression of 3 just yet?

LARS TORSTENSSON: Well, 3: when it comes to aggression we think that 3 is aggressive when it comes to how much in absolute terms they're spending on marketing. That is for them to answer. We have our budget. We're going to follow that one. We think that the trend is okay right now and we believe that the work that we do now will result in us gaining market share, and then maybe we should talk about Russia.

LARS NILSSON: When it comes to the capex in Russia, it's our view that even if there has been a delay now in the rollout that we can quite rapidly catch up and - as I said before - we will have the equipment in May and so we don't see that this really will hurt a bit.

DAVID WRIGHT: Okay, and any comments on Moscow?

LARS NILSSON: What was the question there?

LARS TORSTENSSON: Moscow, yes.

LARS NILSSON: I mean our focus is always on the existing business and we are now focusing on the rollout in the new regions and also to stabilise the result in the old regions, and of course we are always interested in seeing if we can expand operations but I have no comments regarding Moscow.

DAVID WRIGHT: That's very helpful. Thank you.

LARS TORSTENSSON: Okay, thank you. So operator, can we have the next question, please?

OPERATOR: The next question comes from the line of Mr Andrew Lee(?) from Citi. Please go ahead with your question, sir.

ANDREW LEE: Hi, good morning. Just one question on Germany: your top line decline is fairly rapid now, cable competition is accelerating and the market is consolidating. Given that it's quite hard for you to get your cost base down as fast as the top line, can you give us any update on your thoughts on your long term ownership of this asset? Thank you.

LARS NILSSON: Yes, first of all, I think it is still a very good result there and - as we have said before - that we are aware of the fact that this business would sort of shrink over time, and that we have put in the same strategy -- or we have the same strategy as before to really maximise profit on these assets and that is also the strategy going forward..

ANDREW LEE: Okay, just to follow up on that. I mean is maximising profit just running it into the ground or is maximising profit actually taking the value of your customer base now or crystallising the value of your customer base today?

LARS NILSSON: I mean we think that we are running this in a quite good way but of course we are always there -- if someone is interested in acquiring the customer base, of course we always listen, but right now we think we are running an effective operation with a solid cash flow coming out from this.

ANDREW LEE: Thank you.

LARS TORSTENSSON: Thank you. Operator, can we have the next question, please?

OPERATOR: The next question comes from the line of Leana Esterbah(?) from Carnegie. Please go ahead with your question.

LEANA ESTERBAH: Yes, two questions on Kazakhstan if I may: first of all, I was wondering do I remember it correctly, are there any additional payments that you will make up on meeting certain requirements for the transaction and how much were they in that case, if there are any?

And the second question was: given that the transaction has been somewhat delayed is the old guidance that you gave for capex and EBITDA losses still valid or do you think that you will push capex and losses into next year?

LARS NILSSON: I can -- that's two things. What we said when we signed the deal and which is still valid is that we have, as well as our partners, promised a capital contribution or capital injection of US\$ 50 million: US\$ 50 million from us and US\$ 50 million from our partner. We have not as we in a way promised giving us your new update and that's due to the fact that this deal was finalised rather late, but we will come back with new guidance, hopefully, not too far from now. But still I think when it comes to total capex and all that stuff, the sole guidance is valid. But as soon as we have more information to share we will do that.

LEANA ESTERBAH: And can I just ask you: you now have access to the operations I guess and when do you think - from a timing perspective - we will see a re-launch of the business?

LARS NILSSON: That is something we will come back to you with more information. It is too early to give you something now.

LEANA ESTERBAH: Okay. Thank you.

LARS TORSTENSSON: Thank you. Operator, can we have the next question, please?

OPERATOR: The next question comes from the line of Justine Denorex(?) from Xian(?). Please go ahead with your question.

JUSTINE DENOREX: Thank you very much. A few questions on my side: so, I'd like to understand where you stand in terms of network rollout in 4G in Sweden? I think you indicated that it has started and that the 2G network has been upgraded in Q1, but if you can explain how much Tele2 has contributed to the GV to date and how much do you expect to contribute in 2010 for the financing of the rollout? As well, I would be interested in understanding: has the structure been leveraged so far? I have more or less a similar question for mobile in Norway and the network rollout there. And finally, a very, very small question about Russia and, in particular, the discount in ARPU between the old and new regions, if you can provide some indication about that in Q1 that would be very helpful? Thank you.

LARS TORSTENSSON: Can you repeat your question regarding Russia - that one fell through - please?

JUSTINE DENOREX: Okay. Sorry. The question is about -- I mean it's two-fold. So it's about the ARPU discount that you are experiencing in the new regions versus the old regions; if you can provide an indication on this one? And the second part is about the churn levels that you are seeing, especially in the new regions. It seems to be lower than what you had anticipated at the beginning of the year. If you can give any indication on that, that would be helpful. Thank you.

LARS TORSTENSSON: Thank you, Justine. Lars?

LARS NILSSON: If we talk about the 4G rollout, I mean we have the ambition to do a commercial launch here close to yearend. So far we have not invested so much in this. We are just at the very, very early stage but it will be sort of -- we will start to set up the equipment in the later part of this year. And so the financing from our part has been very, very limited. We haven't given any -- and the guidance we are given when it comes to total capex here is that we expect that the investments for this 4G network will be less than half of what we invested in our 3G network. And the investments, the total investments were around 5 billion, which would be less than half of that over time.

The question about mobile Norway: I mean we have started the rollout on the 3G network and as you know we are -- so this is just at the very, very early stage and there has not been sort of any significant impact on our financials as of now.

LARS TORSTENSSON: Yes, just to clarify on the 4G network rollout, that also includes a swap part of our old 2G equipment and our ambition is to cover 98% of the population with our new network, and that will give us - I would assume - the best network when it comes to coverage in Sweden in total. When it comes to Russia, discount in new regions versus old regions, I mean it's a region-per-region approach of course but we usually say that we have a discount of 20% to 25%. Sometimes we go in with even higher discounts in the regions during a short but intensive promotional period. Then the discount can be as high as 30% versus the competition. But, as I said, that is promotion pricing only then.

And then we have -- I mean we divided the regions up in three different categories: I mean the newcomer, challenger, and defender and saying that the newcomer would have a discount of 20% to 25%; the defender would have a discount of around 5%, and in between I guess that you have all different kinds of pricing depending on which regions you are in, and which market share the country -- or our current operations have in that specific region.

Churn levels: we are positively surprised when it comes to churn in our customer base overall. That means that we are also very happy with the churn development in the new regions as well, which have shown a similar churn level. It is on the margins(?) of the high and the old regions but still a similar churn level as the old regions. We have made significant progress on churn levels, partly due to a new way of compensating our retailers. We have more of a revenue share model today, based on if the customer were actually not at the three months in the network, meaning that the retailer would not get any compensation for the customer if it churns before three months but after three months we have a way of sharing our revenue with them. That has had a great improvement or a significant impact on the churn level in Russia.

Okay, operator -- oh Justine, did you have any follow up on that or ...?

JUSTINE DENOREX: Yes, sorry, just a very quick follow up on the first one about the 4G rollout in Sweden. Can you just give an idea of -- I mean you talked about the total capex analogy but can you give an idea of the timing over how many years should we spread that out?

LARS NILSSON: You can take that over the coming three years from now I would say.

JUSTINE DENOREX: Okay. Thank you very much, very helpful.

LARS TORSTENSSON: Operator, can we have the next question, please?

OPERATOR: The next question comes from the line of Jakob Bluestone from Merrill Lynch. Please go ahead.

JAKOB BLUESTONE: Oh hi there. I just have one fairly brief question: just on your Dutch business where you had a very good margin. I was just wondering, could you maybe give us a little bit of a sense to what an extent this is due to external competitor factors, or to what extent it's internally driven that you've got good margins? Thanks.

LARS TORSTENSSON: Jakob, we did not hear that question. I'm terribly sorry about that. Can you repeat it and maybe go a little bit slower so that we might be able to interpret it. I'm sorry about that. It's our mistake but (overspeaking)

JAKOB BLUESTONE: No problem. I hope you're not on a Tele2 phone. I was just asking about the Dutch business where you had very good margins, and I was just wondering if you could give us some colour. Is that driven by competition being low or is it driven by something you're doing internally? You obviously talked about some of our corporate contract wins. So just to help us understand the EBITDA trend there?

LARS TORSTENSSON: Yes, I'm going to repeat that question for other participants as well. Looking -- why the Netherlands are showing a good progress when it comes to EBITDA development, especially in fixed broadband, if that is based on general competition being benign in the Dutch market or if it's just because we have added specific contracts which have been supporting the development in EBITDA? What do you say, Lars?

LARS NILSSON: As always, the different recent -- as you know, we have focused more on the business segment and there I think we have taken market share and we have also been more -- we have also worked a lot within internal cost controls. So one part of this is of course contracts for customers, but it's also internal work of taking down the production costs.

JAKOB BLUESTONE: Thanks.

LARS TORSTENSSON: Jakob, would you like to have a follow up on that?

JAKOB BLUESTONE: Well, I guess how sustainable do you think it is?

LARS TORSTENSSON: How sustainable it is?

LARS NILSSON: We believe if the question was -- if we're talking about sustainable margins in this business, yes, I mean we have a position on that. We see a lot of opportunities also going forward, so it's not about one-offs and all that stuff; it's not.

JAKOB BLUESTONE: Okay. Thanks.

LARS TORSTENSSON: Yes, and also when it comes to the pricing environment in the Dutch market it has been -- I mean it's a good market to be in, with the incumbent being -- wanting to raise prices, both on the fixed as well as the broadband side. So of course that is an external factor which is supportive of the development in the Dutch market.

So, operator, could we have the last question, please?

OPERATOR: The last question comes from Lionel Henrik Hertz(?) from Credit Suisse. Please go ahead with your question.

LIONEL HENRIK HERTZ: Yes, thank you. I was just wondering about: you say that you stimulate usage and try to retain customers in Russia and if you could please elaborate on how you do that, if there is any specific measures you take? Thank you.

LARS NILSSON: Are you there referring to our old regions or new regions or both?

LIONEL HENRIK HERTZ: Old regions mainly.

LARS NILSSON: If you look at our new regions we are - as you know - a newcomer there, and there we are coming in with our -- firstly, without a network and then we'll launch the Tele2 brand and using -- I mean the important image there is that we should be the price leader and we are coming out with prices. We should be sort of 25% of the low competition. And over time, as we know, as we grow of course we will come closer to the competition when it comes to prices. But we should also be seen as the price leader. And that's also of course the same thing in our old regions, but there now we focus a lot more about retention and taking down the share level rather than going for new customers. And so retention is key in old regions and then of course in new regions to take on new customers, to take market share.

LARS TORSTENSSON: I would also like to take the opportunity to go back to David Wright's question - from Deutsche Bank - regarding revenue market share in the Swedish postpaid market. If you take postpaid, together with mobile internet access, our revenue increased by 5% year-over-year in the first quarter 2010. So we are seeing an improved growth profile of our postpaid segment in the Swedish market, also sequentially, compared to the fourth quarter 2009. Hopefully, that can help you, David, when it comes to taking a look at the result in the first quarter.

But otherwise that concludes our formal presentation for the first quarter 2010. We will release our result for the second quarter 2010 on 21 July. So thank you all for participating in today's press and analysts' conference call, and we look forward to keeping you updated on the operation performance on Tele2. Thank you and goodbye.

