

THOMSON REUTERS STREETEVENETS

EDITED TRANSCRIPT

TEL2 B.ST - Q1 2015 Tele2 AB Earnings Call

EVENT DATE/TIME: APRIL 21, 2015 / 8:45AM GMT



APRIL 21, 2015 / 8:45AM, TEL2 B.ST - Q1 2015 Tele2 AB Earnings Call

CORPORATE PARTICIPANTS

Lars Torstensson *Tele2 AB - EVP, Communication & Strategy*

Mats Granryd *Tele2 AB - President & CEO*

Allison Kirkby *Tele2 AB - CFO*

CONFERENCE CALL PARTICIPANTS

Lena Osterberg *Carnegie Investment Bank AB - Analyst*

Georgios Ierodiaconou *Citi - Analyst*

Henrik Herbst *Credit Suisse - Analyst*

Johanna Ahlqvist *SEB Equities - Analyst*

San Dhillon *RBC Capital Markets - Analyst*

Maurice Patrick *Barclays - Analyst*

Thomas Heath *Handelsbanken Capital Markets - Analyst*

Ulrich Rathe *Jefferies & Co. - Analyst*

Keval Khuroya *Deutsche Bank Research - Analyst*

Terence Tsui *Morgan Stanley - Analyst*

Barry Zeitoune *Berenberg - Analyst*

James Britton *Nomura - Analyst*

Nick Lyall *Societe Generale - Analyst*

Peter Nielsen *Kepler Cheuvreux - Analyst*

PRESENTATION

Lars Torstensson - *Tele2 AB - EVP, Communication & Strategy*

Welcome to Tele2's Q1 presentation for the quarter. With me today I have, of course, Mats Granryd, our President and CEO and our CFO, Allison Kirkby.

I also would like to take the opportunity to present also our new Head of IR, [Louise Tjeder], who is also joining me on the call.

We're going to work through the presentation in a little bit of a new format and open up for a little bit more time for Q&A which we know that you appreciate as well.

I would also like to take the opportunity to welcome everyone that has joined us through Tele2.com and the link that is available on our corporate web page as well.

But with that, I would like to hand over to Mats Granryd to take us through the quarter. Please, Mats.

Mats Granryd - *Tele2 AB - President & CEO*

Thank you very much, Lars, and good morning, everyone.



APRIL 21, 2015 / 8:45AM, TEL2 B.ST - Q1 2015 Tele2 AB Earnings Call

It's a pleasure to present to you the first quarter of 2015 results. So if we move right away into the first slide.

As you know we have defined our four how to win and highlights based on those four in the quarter, if we look at the Value Champion, is of course that the monetization of data continues in Sweden, that's following the launch of Tele2.0.

We can also see a substantial increase in data consumption across our footprint but driven from Sweden and that is driving ASPU uptake.

On technology choices we are now at 70% population coverage in Netherlands and we've also now -- we are going to make a network swap in Croatia in order to extend the reach and augment the quality.

Step-change productivity, we will defer that one by and large to next quarter as we have previously communicated we will come back to you on that. We can just say that that is on track and we have several good initiatives on [one way].

The last one, winning people and culture, I would like to highlight that we in the quarter were ranked as number one out of Transparency International Sweden, when it came to the most transparent companies, or transparent in corporate reporting. Something that we're obviously very, very proud of.

So moving then on to next line, monetization of data is continuing and we can see end-user service revenues up 10%, EBITDA is up 10%, and the average data usage per subscriber is up now roughly 40%.

Last quarter Q4 2014, that was up 30% so we can see that, yes, data is, continuing to grow as we have expected and as we have forecasted.

This is the 15th consecutive quarter we are showing end-user service revenue growth, so it's not an unusual effect this, this is a -- becoming more and more of a common and regular thing -- repeated thing, in the world of Tele2.

If we look at our footprint we can see that we have a stellar growth, I would argue, in many of the countries. Yes, we have had a good tailwind from ForEx, but still it is a solid performance I would argue.

The Baltics up 7% end-user -- mobile, end-user service revenue, Kazakhstan up 46%; Sweden 5%; Germany and Netherlands up 12%; Croatia up 8%; and Austria, it's not mobile, but that's total sales is up 3%.

So we're very happy with our footprint. But maybe more importantly, if you look at the graph to the right, you can see that our networks are now 50% more occupied with data than, say a year ago. And I think that is pretty impressive. If one is able, as we are, to monetize data in a proper way, I think we have a bright future going forward.

Moving then rapidly over to Sweden, as you can see we had good sales intake, EBITDA up 18% on total and mobile up 20%, end-user mobile up 5%.

I would maybe argue that Big Buckets have given a better value and encourage people to use more data. We have also seen ASPU uplift, and I will come back to you, on the following slide.

But I would also like to highlight a good, strong business-to-business quarter where we have grown with 3%, driven by a large enterprise and we have managed to get some more big and prestigious brand names that using our service and also some more prestigious brand names that have extended their service with us. So we're very happy with that and that performance.

ASPU is increasing. Top-ups are still good, even though they have slightly reduced, not so much but a little bit. We see from last quarter of last year was on average 2 top-ups, this quarter it's an average of 1.8 top-ups per individual that are [shifting the roof], so it is coming down a little bit to no surprise.



APRIL 21, 2015 / 8:45AM, TEL2 B.ST - Q1 2015 Tele2 AB Earnings Call

ASPU's up to 15%. Last quarter it was up 13%, so we're seeing a sequential uplift on that. And the intake mix is also encouraging. New people coming to us -- new customers coming to us, 30% are opting for a bigger bucket than 5 gig. So they're opting for 20 gigabytes, 50 gigabytes or 100 gigabytes of data. 70% are still opting for 5 gigabytes or 0.5 gigabytes of data on the postpaid segment.

But it is a significant uplift and people are trading upwards. It's exactly as we have anticipated.

Moving on to Baltics, I would say a very stable performance, up 7% on sales, EBITDA up 11%, and end-user service revenue's up 7%.

I would say that we are now -- 4G is covering the Baltics and we are seeing an increased focus, an increased optimism, I would say, from the [three CEOs] that we have in the Baltic states.

The 4G activity and the learnings that we can take from Sweden and take that over to the Baltics, is something that we're looking forward to. So more on the Baltics to come.

Moving on to Netherlands; good customer intake, 21,000 net adds. We are -- sales are up 6% which is very good. EBITDA is down to pretty much as expected, I also will go through that in greater detail.

What I do think is important is the next slide where we now are at 70% or so population coverage. So the network build-up is very much on its way, very much on track and we remain committed that we will have a nationwide outdoor population coverage by end of this year or beginning of next year.

Moving then rapidly over to Kazakhstan, 36% sales up, flat on EBITDA. But what I think is important is the right-hand graph where you see that we added in the quarter 429,000 net adds which is a record quarter. That's one thing.

But maybe more importantly, is that we see the customers that we are able -- that are joining us, are staying with us and they are using our network and that's the purple graph there, percentage subscribers, who stopped using services one month after acquisition -- that is now down below 15%, and that's a very, very nice trend.

So we're not just getting [hot-air] customers, we're actually getting customers that are paying and using our service, and that is something that we're very happy and proud of.

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

Allison Kirkby - Tele2 AB - CFO

Good morning, everyone. So let me take you through the numbers.

Total sales were up 6% to SEK6.51 billion, driven by the trends in mobile end-user service revenue and equipment revenue and, I guess, tailwinds from FX.

Mobile end-user service revenue up 10% to SEK3.18 billion, driven by the broad-base growth that Mat's just mentioned.

And EBITDA up 5%, due predominantly to strength in Sweden, and again FX benefits. And CapEx up by a third, to just under SEK1 billion, at SEK0.94 billion, mainly driven by our MNO rollouts in the Netherlands.

Looking at mobile end-user service revenue trends in a bit more detail, you can see here that it is very much broad-based, this is on page 14, very much driven by Sweden and Kazakhstan, but nice to see that all of our markets are contributing to that 10% topline growth.



APRIL 21, 2015 / 8:45AM, TEL2 B.ST - Q1 2015 Tele2 AB Earnings Call

Admittedly there's tailwinds from FX in there, but even stripping out FX, our mobile end-user service revenue was up just over 6%, so very much in line with our mid-single digit guidance for the year.

Looking at EBITDA on page 15; growth of 5%, mainly driven by Sweden and some nice solid growth in Baltics and Central Europe. But we're particularly proud of the results in Sweden as a result of our continued ability to monetize data growth in an ever-increasingly data-hungry market.

Netherlands, as expected, declined as a result of our increased investments and our MNO rollout, and by the impact of increasing [NRA] costs in a market where data consumption continues to increase.

Fixed also declined in the quarter as a result of a higher share of off-net services as customers demand higher speeds that we cannot provide on there. So about two-thirds of that hit was mobile, and a third was fixed decline.

The low EBITDA we also recognized SEK1.7 billion in capital gained from the sale of Norway.

And moving onto CapEx, page 16. CapEx increased by almost a third, [SEK230 million] in the quarter, very much driven by our Dutch MNO rollout and also to support geographic coverage and capacity investments in Kazakhstan.

Which leads me to free cash flow including the impact of CapEx in the quarter; the same period last year, we were almost SEK0.5 million negative in cash, that's reverted to almost a neutral situation in the same period this year, very much driven by a working capital cycle that paid a lot of our bills in January last year but actually paid the bills in December this year.

You're also seeing an outflow of around SEK140 million due to financing, which relates to loan swaps and hedging of the Norwegian sale proceeds. This, of course, excludes the cash of the sale of Norway which was SEK4.9 billion in the end on a cash-free basis.

That therefore leads us onto our debt position and ratio which obviously looks very healthy today as we continue to sit on the sale proceeds from Norway but will be distributed alongside our ordinary dividend in May, taking our leverage back up to 1.7 which is right in the middle of our new range, 1.5 to 2.

Just before I close, I just want to remind you the Challenger program was launched in December, it is very much ramping up with now over 20 live initiatives, so our work in progress. And we will be coming back to you in July with more specifics around how the benefits and the costs were split between OpEx, CapEx and amongst our markets. But there are a number of initiatives that makes us remain confident in the ability to realize the benefits of that program.

So, on that note, I think I will now hand back to Mats.

Mats Granryd - Tele2 AB - President & CEO

Yes, thank you, Allison. Just to summarize this quarter then, data, we are continuing to monetize it and we remain committed that our strategy that we have in place is the right one.

We are getting ready for 4G launch in Netherlands and the Baltics. And we're also executing on the Challenger program. So this is a mix of what we have done in the quarter and also what we're going to focus on going forward.

So, the first quarter of 2015 I think showed good progress towards our goals of sustainable profitable growth via data monetization.

So with those words, I would like to hand over to you, Lars, and maybe for some questions.



APRIL 21, 2015 / 8:45AM, TEL2 B.ST - Q1 2015 Tele2 AB Earnings Call

Lars Torstensson - *Tele2 AB - EVP, Communication & Strategy*

Thank you very much, Mats and Allison, that concludes our formal presentation and we would like to open up for a Q&A. So operator could you give the instructions on how to ask questions please.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions). Lena Osterberg, Carnegie Investment Bank AB.

Lena Osterberg - *Carnegie Investment Bank AB - Analyst*

I've a few questions here. I was wondering if you could say a little bit more about the marketing spend in Sweden in the quarter because you had very good margins and still it seems your marketing spend was at a quite level. So I was wondering if you could say something, compared to normal seasonality, do you believe you were above or below trend and what do you think we could see in terms of margins for the rest of the year?

And also I was wondering if you could explain a little bit more in detail the handset sales that you're doing now to other retailers in the market; how long do you expect that to continue. Is there a time -- within a time period that you do this, or how long will that continue? And what are the margins on that sale?

And then also on the Dutch business, if you could say a little bit more about how many of the phones that you have now in the Dutch subscriber base that are VoLTE enabled? And how fast do you think you can migrate customers over to your own network and be left dependent on roaming from the other operators?

Lars Torstensson - *Tele2 AB - EVP, Communication & Strategy*

Thanks, Lena, three good questions. I'm going to repeat them, I know this might be a little bit annoying but I'm still going to do it. So, are there some (inaudible) marketing spend in Sweden on how that looked like in the quarter and also handset sales to other retailers, how long that is going to continue, for example, sales to Brightpoint and similar companies.

And then in Netherlands when it comes to VoLTE-enabled handsets and 4G-enabled handsets, how large that is, that's for you, Mats. But if you'd like to start, Allison.

Allison Kirkby - *Tele2 AB - CFO*

Yes, absolutely. So sales and marketing spend in the quarter, [I think] it was around about 14% of revenue, Lena. Normally our average spend over the course of a year is between 16% to 17%. But as a result of decoupling and our desire to get out of subsidies, you should expect that our marketing spend will trend down to below the historical average of 16% to 17%. So at 14% it was slightly lower in the quarter than a normal year but our average year will go down as a result of lower subsidies.

In terms of future margins, our margins were strong in Sweden, above 30%. That is the level that we would like to see Sweden at sustainably. There'll always be the odd quarter we might not go below like we saw in the fourth quarter when we were heavily marketing Tele2.0 and the launch of the new iPhone. But certainly we are aiming for above 30% margins sustainably in Sweden.



APRIL 21, 2015 / 8:45AM, TEL2 B.ST - Q1 2015 Tele2 AB Earnings Call

In terms of handset sales to other retailers, it perhaps will go down over time but we're seeing no impact this year. Maybe about a 1% decline over time is what we see in Sweden on [Telenet]. But due to the nature of the contract that we have with Apple, I would expect our Apple sales to definitely hold up.

Mats Granryd - Tele2 AB - President & CEO

If I could say just that, just to build on Allison's answer there about (inaudible). The margin that we're making on the handsets, it's more or less zero, so to speak, when we are in [settlement] to third parties.

Lena Osterberg - Carnegie Investment Bank AB - Analyst

Can I ask you why you continue to do this then if it's a zero margin?

Mats Granryd - Tele2 AB - President & CEO

Well it's not zero but it's very close to zero, it's -- and the main reason --

Allison Kirkby - Tele2 AB - CFO

Well that's the market. The consumer still wants to go to shops and try out phones. And so until consumer behavior changes we very much want to offer a service that allows consumers to not just get a great subscription but to choose the phones that they want to buy.

Lena Osterberg - Carnegie Investment Bank AB - Analyst

Okay, but maybe I misunderstood it, because I thought that you were also -- you had so high volumes that you could sell through to other suppliers as well in the market that were not related to your customers. But then I maybe misunderstood the whole thing.

Allison Kirkby - Tele2 AB - CFO

Yes, we do. But the reason we have that is because of the ability for us to fulfill the Apple contract and be able to not hold onto excess inventory. So a part of that is to ensure that we have an efficient working capital cycle in managing handset sales.

Lena Osterberg - Carnegie Investment Bank AB - Analyst

Okay, so it's really due to volume commitments that you have with Apple?

Allison Kirkby - Tele2 AB - CFO

Yes.

Lena Osterberg - Carnegie Investment Bank AB - Analyst

Okay, thanks.

APRIL 21, 2015 / 8:45AM, TEL2 B.ST - Q1 2015 Tele2 AB Earnings Call

Mats Granryd - *Tele2 AB - President & CEO*

Yes, the Netherlands piece there. Out of the 850,000-odd customers, roughly 35% of that customer base is on 4G handsets. And I guess there, Lena, I would say that the majority of those are VoLTE enabled. And if not today, with an over-the-air softer upgrade they will be VoLTE enabled. I don't have the exact number, but 30%, 35%, today and growing steadily I should say as well.

Lena Osterberg - *Carnegie Investment Bank AB - Analyst*

Thank you.

Operator

Georgios Ierodiconou, Citi.

Georgios Ierodiconou - *Citi - Analyst*

Congratulations for the results. I had two questions based on what Telia has just said in their call, just before yours. Firstly they said K-cell has launched some new tariffs in Kazakhstan. And I just wanted a comment from you whether you think they are rational or there may be disruptive for the market.

And then the second one is regarding the B2B market in Sweden. They said that recently they've reached parity on portability. So I was wondering whether you are seeing perhaps some weakness in the KPIs you are reporting in that particular segment and how you expect that to trend towards the rest of the year. Thank you.

Lars Torstensson - *Tele2 AB - EVP, Communication & Strategy*

Yes, I think that both questions is for Mats, actually, when it comes to the market development in Kazakhstan.

Mats Granryd - *Tele2 AB - President & CEO*

Yes, that's a good question. Our main competitor in Kazakhstan is Altel, which unfortunately today are on an unlimited everything. And that is not a sustainable path we believe. K-cell is reducing their prices as well but it's on a completely different level.

So our main competitor is actually Altel. So the K-cell activity, recent activity, we don't think is going to influence us that much.

On the business-to-business side in Sweden, I think one needs to remember that the sales cycles in the business-to-business environment are very long. As I explained, we grew our business-to-business side in Sweden with 3% end-user service revenue. We have added some very prestigious names and that will port in throughout the year.

So we see a positive trend on our business-to-business segment in Sweden for sure. I don't think one should take too much, quarter by quarter, one needs to view the business segment over a longer period of time.

Lars Torstensson - *Tele2 AB - EVP, Communication & Strategy*

Yes. And I think that actually we are quite pleased with the development in the Swedish business-to-business area.



APRIL 21, 2015 / 8:45AM, TEL2 B.ST - Q1 2015 Tele2 AB Earnings Call

Mats Granryd - *Tele2 AB - President & CEO*

We are very, yes, absolutely.

Lars Torstensson - *Tele2 AB - EVP, Communication & Strategy*

And if you look at the trends over a longer period of time, the team is actually performing better and better all the time. So that's looking very promising.

Mats Granryd - *Tele2 AB - President & CEO*

And I think it's certainly helped by the fact that we have a clear market position nowadays with Tele2, which is different from that of Comviq and that is part of the success. And then we have a very good network and a very dedicated team as well.

Georgios Ierodionou - *Citi - Analyst*

If I could follow up on that. I understand you have good momentum because of the market-share gains you had last year. What I'm trying to understand is if you've seen any change in the fight back of Telia, perhaps Telenor, in recent months, that changed that as we trend towards the end of this year, beginning of the next?

Mats Granryd - *Tele2 AB - President & CEO*

No, I think that they are very, very, good competitors, very skilled as well. So we see no trend, no change, in the behavior.

Georgios Ierodionou - *Citi - Analyst*

Thank you.

Operator

Henrik Herbst, Credit Suisse.

Henrik Herbst - *Credit Suisse - Analyst*

I had a couple of questions. Firstly, on your new data plans in Sweden. It does seem to be working quite well.

Just in terms of the usage pattern, when customers -- you're having a pretty strong take up of the 20 gig and bigger data bundles, I'm just wondering, when customers take those plans, do you see a step up in data usage or do they continue on the same trajectory in terms of usage growth?

And then also, if it's actually stimulated a lot of the low-end customers to upgrade, like the 0.5 gig subs, etc.?

And then secondly, a question on your margins, which obviously were quite strong in Sweden. Are there any difference in terms of how you account for handset sales and the cost of handsets, I guess, under the new installment plans, versus the way you used to sell smartphones? That's that. Thank you.



APRIL 21, 2015 / 8:45AM, TEL2 B.ST - Q1 2015 Tele2 AB Earnings Call

Lars Torstensson - *Tele2 AB - EVP, Communication & Strategy*

Yes, good questions around Sweden there, Henrik. So, Mats, if you'd like to have a start with the first one and then Allison following on the second or -- yes?

Mats Granryd - *Tele2 AB - President & CEO*

Yes, so on the data plan, very relevant questions. As I said, 30% of net new intakes are opting for 20 gig, 50 gig or 100 gig, 70% are taking 5 gig and 0.5 gig. The biggest seller is obviously the 5 gig. We Swedes, we tend to try to be in the middle and be [logon] as we say, so we will tend to be on the 5 gig.

Also another data point, in fourth quarter of last year the average consumption of smartphones was 2 gigs, 2.0 gigabytes of data per months. This quarter we're up 10% to 2.2 gigabytes of data per month. So just in one quarter we see an increase of 10%, very encouraging.

If you take the 30%, they're the ones that use 20 gigs, 50 gigs and 100 gigs, the vast majority of that is in the 20 gigs and much less in the 50 gigs, and even less in 100 gigs.

I hope that answers your question.

Allison Kirkby - *Tele2 AB - CFO*

And on the handset question. So our handset accounting has not changed. We have always fully recognized upfront the handset revenues, the cost of the handsets and therefore subsidy. And that is -- was in our expansion costs and hence one of the reasons for sales and marketing costs having gone down this quarter versus the same period last year. And why we believe therefore, sales and marketing as a percent of revenue, will reduce over time. This shift is a result of decoupling basically [meant] we took the cost of the handset up to the consumer but we reduced the cost of the subscription so that they didn't see a dramatic increase in pricing.

So on average, they pay around SEK50 per month more for their phone but they pay SEK25 less a month for their underlying subscription. And because we no longer have the subsidy, we basically get a SEK25 per month benefit, but that is all recognized upfront because we don't have to write down that subsidy when they take the phone from us. But no change to our accounting. Does that explain the question?

Lars Torstensson - *Tele2 AB - EVP, Communication & Strategy*

Are you happy with the answer, Henrik?

Henrik Herbst - *Credit Suisse - Analyst*

Yes, that's great. Thank you very much.

Lars Torstensson - *Tele2 AB - EVP, Communication & Strategy*

Thanks Henrik. Operator, can we have the next question, please?

Operator

Johanna Ahlqvist, SEB Equities.



APRIL 21, 2015 / 8:45AM, TEL2 B.ST - Q1 2015 Tele2 AB Earnings Call

Johanna Ahlqvist - *SEB Equities - Analyst*

Just two questions, if I may? First of all, related to Swedish mobile again. I know that you lost quite many prepaid clients in the quarter and gained a few postpaid. I'm just wondering the dynamics behind this? Are you seeing that the part of the prepaid base is going to your own postpaid or are you basically losing out to Hallon, as we see Telias doing? And what do you see going forward, the expectations on the subscriber intake going forward?

And then on Holland, just if you can mention, the losses were a bit higher than we expected in the quarter and if you believe you will be able to meet the SEK300 million for the full-year 2015? Thank you.

Lars Torstensson - *Tele2 AB - EVP, Communication & Strategy*

Thank you very much, Johanna. I think that the first question is for Mats when it comes to Sweden mobile and dynamics. And then when it comes to the losses in Dutch mobile, I think Allison could also have a stab at that one.

Mats, would you like to start?

Mats Granryd - *Tele2 AB - President & CEO*

Yes, Johanna, you're absolutely right. We had, on the [prepaid] a loss of 30,000-odd customers. On postpaid we were flat or gained some. And [there is] sure a churn between our Comviq prepaid to Tele2 postpaid, as well as to Comviq postpaid. We are actually focusing more, today, on our postpaid segment. We believe that having a longer-term relationship with our customer is beneficial. It creates a better lifetime value.

And what we have seen is that 12%, roughly, of Tele2 postpaid churn moved to Comviq postpaid and Comviq postpaid captured roughly 5% of Comviq prepaid churn. So you have a 5% churn from Comviq prepaid to Comviq postpaid and another 12% from Tele2 postpaid to Comviq postpaid. So there are movements between the different brand names.

What is really important for us is to grow, or at least not shrink, on the postpaid side. That is important for us. Prepaid is a little bit come and go. We have an effect, as we have in the Baltic States as well, where we have 60,000-odd negative intake where actually, customers are reducing the number of subscriptions.

They're actually taking -- instead of having two SIM cards, they nowadays have only one. So the penetration per se, is going down and we can see that in Baltics. And I'm pretty sure we have that effect in Sweden as well, that you become more and more reliant on one SIM card and therefore the prepaid numbers will have just disappeared, if you like. The subscriber doesn't disappear but the subscription will disappear.

Lars Torstensson - *Tele2 AB - EVP, Communication & Strategy*

The only thing [too that can be said is], Johanna, you know this dynamic, of course, is that we are market leaders within the prepaid in Sweden. So, as Mats is saying, our prepaid market is declining. Of course we are getting our fair share of that decline, so -- and the customers are migrating to postpaid. We do catch some of them but some of them we lose, of course, as well as they are moving to other brands. But I think it's more a paid phenomenon of the prepaid market and we actually are market leader there, and that is what we are --?

Mats Granryd - *Tele2 AB - President & CEO*

Yes, you're absolutely right, Lars. And I also think that you have a much more fiercer price campaign in the prepaid segment with the [sub-brands], of some Halebop and Hallon, and Vimla. And that is for the battle, in its own right, if you would like. And then I think we have succeeded in making



APRIL 21, 2015 / 8:45AM, TEL2 B.ST - Q1 2015 Tele2 AB Earnings Call

sure that we split the Tele2 brand and keep that intact, and keep that as a very prestigious brand name, and then let Comviq be, in the dog fight, within brackets, with other sub-brands.

And in fact, Lars said, the prepaid market is slowly but surely losing interest, and I promise you, Johanna, in a year's time, or maybe two years' time we're not going to talk about prepaid and postpaid, it's just a billing mechanism, it becomes less and less interesting. Having a long-term relationship with customers, that is what we want to have, a long-term billing relationship, that is what we want to have, and therefore postpaid is more important.

Lars Torstensson - *Tele2 AB - EVP, Communication & Strategy*

And I actually think that the Swedish team is playing it very nicely as well because if you look at the tendencies for average usage per subscriber, so to speak, as Mats was saying, it's about [15%] of the Tele2 side.

Of course it's trending down slightly on the Comviq side, but that's what you get, you get to take the price fight with Comviq, it's a modern price fighter, but you're moving customers to more value-oriented segment through Tele2 when you get the ASPU uplift which is a very nice way of playing two brands.

Then if we go to the Netherlands, Allison.

Allison Kirkby - *Tele2 AB - CFO*

The Netherlands, yes, the way to start reducing those losses in the Netherlands and start to get some profit is obviously to start data offload inside customer base that has 4G-enabled handsets.

We're very much on track with our plans on the MNO rollout, and on our plans to increase the 4G-enabled handsets in our base. So in terms of data offload in 4G-enabled handsets we are on track. That being said, whilst consumption continues to increase in the market, and pricing pressure in the low end of the market then the losses could go higher than SEK300 million in the short term until we're able to significantly offload onto 4G-enabled handsets.

Lars Torstensson - *Tele2 AB - EVP, Communication & Strategy*

I hope that helps, Johanna.

Lena Osterberg - *Carnegie Investment Bank AB - Analyst*

Yes, absolutely, thank you.

Lars Torstensson - *Tele2 AB - EVP, Communication & Strategy*

Thanks very much.

Operator

San Dhillon, RBC Capital Markets.



APRIL 21, 2015 / 8:45AM, TEL2 B.ST - Q1 2015 Tele2 AB Earnings Call

San Dhillon - *RBC Capital Markets - Analyst*

Two questions, if I may. Firstly on the Netherlands, it seems at the moment you're spending very little on the brand and marketing, and informing Dutch consumers that in the near future you'll be a fully-fledged data operator and MNO. Could you provide some color on what the strategy and marketing will be ahead of the 1Q 2016 nationwide launch, so to speak, and when you start to attempt winning subscribers from the other operators?

The second question on Kazakhstan, will you utilize the reduced MTRs to offer more and more off-net minutes, or will you happily take some of the benefit to EBTIDA? Thank you.

Lars Torstensson - *Tele2 AB - EVP, Communication & Strategy*

Yes, thanks, San, it was a little bit of a bad line there, but I believe that we are talking about how will you market expenditures in the Netherlands (inaudible) and how that's going to develop. And then when it comes to interconnecting Kazakhstan, and how we're going to utilize that, the benefit that we gain from that. Can I get Mats on Netherlands and Allison on Kazakhstan.

Mats Granryd - *Tele2 AB - President & CEO*

I can start now with the marketing spend in the Netherland. And as you rightly have picked up, 2015 is a balancing year for us in Netherlands. We do want to have new customers, but we don't want them to consume too much data, and that is, of course, very difficult.

The data is exploding in the Netherlands as it is elsewhere, and we are now being hit by that short term, but in the longer term it is good for us.

So we are today at roughly 70% population coverage, and we intend to be fully covering Netherlands by end of this year, beginning of next. And, of course, our marketing spend will be, once we are ready with the network we will increase the marketing spend. And that is, I would say, for us to know and you to find out.

Allison Kirkby - *Tele2 AB - CFO*

And in terms of Kazakhstan, it is our intention to take the MTR cuts to the bottom line. But, obviously, there's a lot going on in that market at the moment in terms of price competitiveness, and we are expecting devaluation as well. But it's very much our intention to take the benefits of that so that we can start to improve and build EBITDA in that market.

Mats Granryd - *Tele2 AB - President & CEO*

And I think that's fair, Allison, to say that we are anticipating a devaluation in May.

Allison Kirkby - *Tele2 AB - CFO*

Yes, we are.

Lars Torstensson - *Tele2 AB - EVP, Communication & Strategy*

So, San, I hope that helps you a little bit.

San Dhillon - *RBC Capital Markets - Analyst*

That's wonderful, thank you guys. No that's wonderful, sorry for the poor line. Bye.



APRIL 21, 2015 / 8:45AM, TEL2 B.ST - Q1 2015 Tele2 AB Earnings Call

Lars Torstensson - *Tele2 AB - EVP, Communication & Strategy*

No problem at all. Operator, can we have the next question.

Operator

Maurice Patrick, Barclays.

Maurice Patrick - *Barclays - Analyst*

A question around operating leverage. I know you said you wanted to maintain margins above 30% in the Swedish business, but with revenues -- underlying service revenues growing 4%, 5%, subsidies coming down as you go towards the [no-subsidy] model, why shouldn't we expect margins well above 30% if you continue that rate of revenue growth? Are there any cost moving parts that we don't understand there? Thank you.

Lars Torstensson - *Tele2 AB - EVP, Communication & Strategy*

Thanks, Maurice. Operating leverage and the Swedish business model, I guess Allison, if you'd like to have a [stab] on --.

Allison Kirkby - *Tele2 AB - CFO*

No, we don't guide on market margin expectations, but, of course, we want to see our Swedish margins to go up to the mid-30% range over time. But we don't guide at that level of detail.

Maurice Patrick - *Barclays - Analyst*

And just a quick follow up, in terms of the data usage, you talked about a 10% increase in one quarter, what exactly are people using that they weren't using before?

Mats Granryd - *Tele2 AB - President & CEO*

Well that's a great question. I think they're using just more of everything, stream, the media is up. Previous quarters, YouTube was our big spender, that is now, and then you have the other stream media such as Netflix and HBO and Viaplay, down in the single digit percentage point, that is moving up as well now.

So it's a lot of video, a lot of social media, and collaboration, it's a lot of music as well. It's just people using more of everything, when you come to Sweden and you should go at 7.30 in the morning and commute on the subway or a bus, everyone is now looking at their phone, not reading a book any more, it's a huge shift in the behavior.

And, if I may, with our Big Buckets, we intend to make sure that people continue to be on the cellular network, but they need to feel comfortable. As I say, they are not exhausting in their limits, but actually continue on cellular network, which in many, many times are superior to that of the Wifi network.

Maurice Patrick - *Barclays - Analyst*

All right, thank you so much indeed.



APRIL 21, 2015 / 8:45AM, TEL2 B.ST - Q1 2015 Tele2 AB Earnings Call

Lars Torstensson - *Tele2 AB - EVP, Communication & Strategy*

Thanks, Maurice. Operator, can we have the next question, please?

Operator

Thomas Heath, Handelsbanken.

Thomas Heath - *Handelsbanken Capital Markets - Analyst*

A few questions, if I may. Firstly, on handsets in Sweden. Even if you kept the accounting the same, wouldn't you still agree that historically, you've booked more of the total EBITDA in months 2 to 24, and less in the upfront months? And that subscribers taking on before autumn 2014, will have more profitability in the end of their contract, rather than in the beginning. And that your [handsets] have double counting going on now. That was question number one.

Beyond that, on Kazakhstan, the MTR cut, how much are you benefiting from that? Is it all taken away by fierce competition? Would have perhaps expected a little more there in Q1.

And then lastly, on the Netherlands, you attribute to the EBITDA loss to MVNO cost. Should we read this as a big increase in data usage of your existing base, or has churn increased because net debt is still around SEK20,000 and couldn't really explain the data usage rising so much just in one quarter, to explain the EBITDA deviation. Thank you.

Lars Torstensson - *Tele2 AB - EVP, Communication & Strategy*

Thank you so much. I won't go over the questions. So it's handsets accounting [one on one], that's a question for you Allison. And then in response to Kazakhstan and pure impact, well Allison, I think, if you feel good to take that one.

And then the last one, MVNO costs related to data, Allison, [coming to your end, on this one].

Allison Kirkby - *Tele2 AB - CFO*

I guess I can try. Yes, so as I said, the accounting hasn't changed, but you're absolutely right, the customer is more profitable at the beginning now, because we don't take the upfront costs of the subsidy.

So in the past, in month one, we would take the subsidy costs, as a cost of expansion, in that first month. And then in month 2 to 24, you've got that subsidy cost in the P&L of that customer.

Now, we don't take that cost of that subsidy upfront, and therefore the portability of that customer is more sustainable, and more normalized over the [23-month] period.

Yet, because we took the underlying end-user service revenue down by around SEK25 a month, and the revenue you get in an underlying is slightly less, because we're paying less subsidy, overall that customer brings in more to us over the lifetime of the contract.

Thomas Heath - *Handelsbanken Capital Markets - Analyst*

That's very helpful thank you.



APRIL 21, 2015 / 8:45AM, TEL2 B.ST - Q1 2015 Tele2 AB Earnings Call

Allison Kirkby - *Tele2 AB - CFO*

In Kazakhstan, how are we benefiting? We're benefiting from maintaining our price leadership position in the market, as a result of all the moves we've made.

In the short term, what that does mean, however, is we're investing more in expansion costs, we're investing more in our network, because we're getting much more demand from customers. We're having to roll out our network more rapidly, and increase the capacity of that network.

So that's why you're not seeing the full benefit from EBITDA just yet, because there is a cost as a result of all those extra customers coming in at that point in time

But we're building enough scale now which should allow us to get full leverage over time. And we also want to ensure that that market will become more rational over time as well.

We are not happy at the pricing in that market today. And certainly, if there was any sign from competition to start changing our current position, we will be very, very keen to start being much more rational.

Then finally, in the Netherlands, yes you're right, it's not just increasing roaming costs. Yes, data usage has continued to increase in the Dutch market, as we've seen in all of our markets, and roaming costs are up quarter on quarter. But we are ramping up the rollout now, and so we have more operational costs in the market than we had before.

And as I said previously, our fixed business, the margins are in decline there as well, because we have more going off-net.

Thomas Heath - *Handelsbanken Capital Markets - Analyst*

That's very clear, thank you for those very good answers.

Lars Torstensson - *Tele2 AB - EVP, Communication & Strategy*

So operator, can we have the next question please?

Operator

Ulrich Rathe, Jefferies.

Ulrich Rathe - *Jefferies & Co. - Analyst*

Just on Swedish mobile margin, I think the last question -- the last answer really clarified it. But just to be absolutely clear, you were asked earlier whether there were any one offs, I think with regards to device sales, there are no other changes or other one offs in this particular quarter.

The reason why I'm -- why I suppose everybody's asking, why I'm asking is because it's very hard to explain this margin, just with operating leverage, even after taking the devices out.

So the question is really, what's going on in the underlying cost structure, beyond the things you have explained? Is this really all now that we have to take into account, what you have explained so far?



APRIL 21, 2015 / 8:45AM, TEL2 B.ST - Q1 2015 Tele2 AB Earnings Call

Mats Granryd - *Tele2 AB - President & CEO*

Well, when it comes to one offs, there are no one offs in this particular quarter. Is there any other explanatory effects for me to bring up? I don't think there are actually.

Allison Kirkby - *Tele2 AB - CFO*

No, for the SEK150 million EBITDA improvement in Sweden, more than half of that was reduced expansion costs. And around -- because it was a very heavy and promotional period in Q1 in 2014. But the other half of that is reduced subsidy. And so our move to decoupling is working for us, at the moment.

And then the rest of the benefit is underlying end-user service revenue, flowing through to gross margin on the bottom line. So that is the real driver for Sweden.

Ulrich Rathe - *Jefferies & Co. - Analyst*

Perfect, thank you very much.

Lars Torstensson - *Tele2 AB - EVP, Communication & Strategy*

Thank you, Ulrich. And operator, can we have the next question please?

Operator

Keval Khuroya, Deutsche Bank.

Keval Khuroya - *Deutsche Bank Research - Analyst*

I've just got two questions on the Netherlands, please. Firstly, can you give some updates on how you feel about the Dutch wireless pricing in the market, overall?

Allison, you obviously mentioned the low end price is now quite low, and you've seen KPN increase in the size of the data bundles. Do you still think there's an opportunity to take pricing down in the market?

And secondly, do you feel you need to wait 'til you have full nationwide coverage before increasing the size of your data bundles in the Dutch market?

Lars Torstensson - *Tele2 AB - EVP, Communication & Strategy*

Thank you, Keval. Regarding the Netherlands and pricing environment, and timing of our own launch on [MNO], what do you say, Mats?

Mats Granryd - *Tele2 AB - President & CEO*

Yes, we have also seen larger buckets from the incumbents, if I may say [both for T-Mo] and KPN, obviously.

Remember we are entering into the market with no legacy, so our cost base is completely different from that of those three. We will still firmly believe in our business case, and all aspects is pointing that this will be a great journey for us.



APRIL 21, 2015 / 8:45AM, TEL2 B.ST - Q1 2015 Tele2 AB Earnings Call

It's actually pretty good from the perspective that data is growing, and these three operators are educated within the brackets to market. It's pretty much similar to what we have done in other markets, where we are not the first but we are a very strong and decisive follower into the market.

We should learn from others -- other mistakes, and they are also, in a way, educating the consumers, so that's the good thing with it.

Data usage, as I said, in the Netherlands, in the Dutch market, is short term, an issue for us. Longer term, it [builds], obviously. Now, will we launch earlier or not? I think that's something for our internal discussion to have.

We have said repeatedly that we will have a nationwide coverage by end of this year, beginning of next. And we are today at 70%. And we are, as we speak, migrating the 35% or so of the just shy of 900,000 customers over to our network. And that is going to take some time. It's going to take several months to migrate them over. So that's not a quick fix.

Why are we so extra cautious here? Well, we feel that we only have one silver bullet here. We cannot get it wrong initially. We need to get this right. In Croatia, just as an example, 10 years ago when we launched our network, we did that with inferior quality, and it has literally, not taken up to now, but it took us a good six, seven, eight years to get over that negative perception that Tele2 was poor quality. So we don't want to repeat that mistake.

And that's why we've also said that 2015 will be a balancing act, to get customers on board but not push too much. So it is a little bit of a halfway waiting game until we have the network and everything ready to do the full blown launch.

I'm sorry that I'm a little bit vague, but I'm sure you can appreciate that it's sort of a state secret on exactly what we're going to do.

Keval Khuroya - *Deutsche Bank Research - Analyst*

Sure, that's very clear. Thank you.

Lars Torstensson - *Tele2 AB - EVP, Communication & Strategy*

Operator, can we have another question, please?

Operator

Terence Tsui, Morgan Stanley.

Terence Tsui - *Morgan Stanley - Analyst*

I've got a couple of questions, please. Just firstly on Sweden again. You mentioned, obviously, the strong data monetization but maybe you can talk a little bit about the network. I notice that CapEx to sales still remains quite low at around 5% of sales. How sustainable do you think that is?

And then, secondly, just on some of the smaller businesses elsewhere in Europe. I think, Mats, you mentioned maybe a month or two ago, about Germany. Maybe you could clarify the comments about the long-term future for the German business. And I think in the past you've also mentioned Austria as potentially non-core as well. Thank you.

Lars Torstensson - *Tele2 AB - EVP, Communication & Strategy*

Thanks Terence. I think that your question was around Sweden and the top line growth, the 5.5%.



APRIL 21, 2015 / 8:45AM, TEL2 B.ST - Q1 2015 Tele2 AB Earnings Call

Terence Tsui - *Morgan Stanley - Analyst*

It was just about the sustainability of the low CapEx to sales that you're seeing.

Lars Torstensson - *Tele2 AB - EVP, Communication & Strategy*

Sorry about that, Terence. And that is for you, Allison, of course. And when it comes to other businesses, so to speak, Germany and Austria, if you Mats could comment on that one. Would you like to start, Allison?

Allison Kirkby - *Tele2 AB - CFO*

Yes. No, basically, as we said last year, and it's the same trend in the first quarter this year, the Swedish CapEx is very low at the mid-single digit range and it should be in the high single digit range. And it will go up to that level during the course of this year, as we continue to ramp up our investment behind geographic coverage. We're currently about 77% and we're aiming to get to 90%. And obviously, this is for data consumption as well.

So no, it is a very low level of CapEx in Sweden, and we've been saying that for the last -- it was the last year that I've been here, it would go up to the mid to high single digit over the course of this year and the future.

Mats Granryd - *Tele2 AB - President & CEO*

Hello, Terence. I think, on Germany and Austria then. We view countries where we have our own network, where we have a good position, maybe it's a little bit more core than the countries where we don't have that. And I think you can sort of see that in Austria we have a number two solid position on the business-to-business segment. We have our own fixed lines, fixed instalments, towards our business-to-business customers. And we're also launching MNO.

We have done similar things in Germany, but it is not on our own network. So, from that perspective, Austria is a little bit more core. Germany might be a little bit less core.

Terence Tsui - *Morgan Stanley - Analyst*

Great, thank you.

Lars Torstensson - *Tele2 AB - EVP, Communication & Strategy*

Thanks, Terence. Operator, can we have the next question, please?

Operator

Barry Zeitoune, Berenberg.



APRIL 21, 2015 / 8:45AM, TEL2 B.ST - Q1 2015 Tele2 AB Earnings Call

Barry Zeitoune - *Berenberg - Analyst*

Just a few questions. The first is just on Swedish mobile revenue growth. Clearly, it's still going very strong, but the comp is going to get a lot harder as we move through the year. I'm just wondering whether you think you can maintain the current 5%, 5.5% rate, or whether we should expect the rate to slow as we go through the year.

The second question is just on the Dutch market. I'm wondering whether you have any plans for a store footprint for the Dutch mobile business. I saw the Phone House was divesting, I think, 50 stores of its 160 total. So I just wondered whether there was any intention to maybe buy some stores to complement your rollout.

And then a final question. I was just wondering whether your 10% market share target of one year post commercial launch is still valid for The Netherlands. Thank you.

Lars Torstensson - *Tele2 AB - EVP, Communication & Strategy*

Thanks, Barry. Sweden and the revenue profile of Swedish mobile ops for Allison. And then, when it comes to the distribution network for the Netherlands, you Mats. And once again when it comes to -- I think, Barry, you were also asking around the potential launch in the Netherlands.

Barry Zeitoune - *Berenberg - Analyst*

The 10% market share --

Lars Torstensson - *Tele2 AB - EVP, Communication & Strategy*

The 10% market share, yes, thanks. That's also for you.

Allison Kirkby - *Tele2 AB - CFO*

Okay. So, Swedish mobile revenue growth, yes Barry, the [first] quarter was very strong at 5.4%. In our overall guidance for the year of mid-single digits for the Group, we were assuming that Sweden would be in the 3% to 5% range for the year.

Mats Granryd - *Tele2 AB - President & CEO*

Okay. And on the Netherlands and the shops stores, we're looking at the various different ways of reaching out to our customers. Acquiring shops could be one, [online] is maybe our preferred option. Or a combination of both.

And the 10% market share year after launch, we still stand committed to that. We had today a market share of roughly 5% -- between 5% and 6%. So I don't think it's going to be impossible to get 10%. But it all depends on how the market develops, obviously. But we do need to get scale once we have launched the network there.

Barry Zeitoune - *Berenberg - Analyst*

Just in terms of your preference for online as a means of distribution, do you know what proportion of sales are online today in the Netherlands, roughly?

APRIL 21, 2015 / 8:45AM, TEL2 B.ST - Q1 2015 Tele2 AB Earnings Call

Lars Torstensson - *Tele2 AB - EVP, Communication & Strategy*

Sales in our stores?

Mats Granryd - *Tele2 AB - President & CEO*

No, sales online.

Allison Kirkby - *Tele2 AB - CFO*

Online.

Lars Torstensson - *Tele2 AB - EVP, Communication & Strategy*

I can check while we're --

Mats Granryd - *Tele2 AB - President & CEO*

Yes. So Barry, we'll come back to you on that question, so we get it right, okay?

Barry Zeitoune - *Berenberg - Analyst*

I appreciate it. Thanks very much.

Lars Torstensson - *Tele2 AB - EVP, Communication & Strategy*

Mats, I think distribution channels could be --

Mats Granryd - *Tele2 AB - President & CEO*

Oh, yes, I've answered that.

Lars Torstensson - *Tele2 AB - EVP, Communication & Strategy*

Okay. But we'll get back to you on that one, Barry.

Barry Zeitoune - *Berenberg - Analyst*

Thank you.

Lars Torstensson - *Tele2 AB - EVP, Communication & Strategy*

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



APRIL 21, 2015 / 8:45AM, TEL2 B.ST - Q1 2015 Tele2 AB Earnings Call

Operator

James Britton, Nomura.

James Britton - *Nomura - Analyst*

I've got two questions also on Sweden. So I think Apple's pushed up their prices in Scandinavia, and Telia said this morning they expect the other handset vendors to follow. So do you think this trend of higher handset costs will actually help push people more towards the SIM-only pricing model, where you guys are very competitive?

And then, secondly, I think Mats made mention of some people opting now for 4G over WiFi at home. So could you just elaborate more on this? Is this due to faster speeds or lower latency? What's driving that change in customer habits? Thanks.

Lars Torstensson - *Tele2 AB - EVP, Communication & Strategy*

When it comes to the first question, we talk about that higher handset costs that's driving more SIM-only behavior, if I got you right there as well then, James. And then, you're also asking around the drivers behind voice over WiFi?

Mats Granryd - *Tele2 AB - President & CEO*

Or using cellular more than WiFi. I can take that one.

Lars Torstensson - *Tele2 AB - EVP, Communication & Strategy*

Okay, very good. So Allison, would you start with the handsets?

Allison Kirkby - *Tele2 AB - CFO*

Yes. So yes, Apple did take up their pricing recently, and we moved that into the marketplace immediately. So we were not prepared to take any impact ourselves.

Obviously, because we've already decoupled, we would be very happy to see a trend of higher handset pricing in the marketplace, because that very much -- we want -- our whole concept of Value Champion in Tele2.0 was to educate the consumer on the value of the connectivity that we provide, and disconnect it from the confusion of the cost of the handset.

So we would be big supporters of increased handset pricing, and more transparency on the costs of underlying connectivity, so that we can get consumers to value it properly.

Lars Torstensson - *Tele2 AB - EVP, Communication & Strategy*

And we think this, of course, is something that could benefit the whole market as a result.

Allison Kirkby - *Tele2 AB - CFO*

Absolutely.



APRIL 21, 2015 / 8:45AM, TEL2 B.ST - Q1 2015 Tele2 AB Earnings Call

Mats Granryd - Tele2 AB - President & CEO

And on a side note, we wouldn't be surprised either, James, if you would see people using their handset a longer time, but upgraded through new software. So it becomes more like a PC, if you would like. They all look pretty much the same these days.

On the -- my comment on cellular over WiFi, I think the Big Buckets we launched in this quarter is a response to our consumers demanding or using more data. And as we have seen, when people have to either top up or trade up in a bigger bucket, there is a risk of a churn.

So what we tried to do here is to accommodate people using more data, to have enough bucket size so they feel comfortable of using the cellular network wherever they are. Sweden is so different from that of the UK, where the first thing you ask is, so what's the WiFi and password. In Sweden we don't, we just continue on our cellular network.

And latency and speed is traditionally better on cellular network, 4G, in Sweden than that of WiFi. WiFi, you typically get truncated at 20 megabits, maybe 25 megabits per second. On the cellular network, you get up to maybe 80 megabits or so, with very, very low latency. So speed is, for sure, something that is important, and latency as well.

Mainly the most important is the ubiquitous coverage. You can be on the cellular network regardless of if you're in the basement, elevator or if you are in your flat. Saying that though, we know that only 30 -- 20% to 30% of consumption is used on outside on cellular network, and still there is a vast majority of data being pushed through on the WiFi network. So we see actually an opportunity here to capture some of that.

Lars Torstensson - Tele2 AB - EVP, Communication & Strategy

James, just so you know, you know our favorite product is, it's actually a WiFi router with a 4G backup, which is the combination of your question, I guess. You get them both.

Mats Granryd - Tele2 AB - President & CEO

But even in that, we should say that WiFi -- I have one of those, and I think you as well, Lars, you get typically 12 megabits to 25 megabits per second on WiFi. But if you switch your handset to the cellular network, you then get, all of a sudden, 60 megabits or 80 megabits per second. So the WiFi router in itself is not able to do more than the 20 megabits, 25 megabits per second.

Lars Torstensson - Tele2 AB - EVP, Communication & Strategy

Thanks, James, for the questions. Any follow ups?

James Britton - Nomura - Analyst

Yes, can I ask one follow up on the first question? So since you pushed through the higher handset price points, is it too early to really see whether there's been any change in the sales mix, and whether more customers are coming to you just for SIM-only? I think in the past, you've given us the SIM-only mix at around 20% in Sweden. Has that still -- is that stable, or is that starting to go up, do you think?

Allison Kirkby - Tele2 AB - CFO

Too early to tell. And what we're seeing is some of the handset providers are actually starting to subsidize the phones themselves. And so we've had quite a promotional period with some of our handset manufacturers, obviously, not Apple. So that is also distorting the market. So I would say, just too early to tell.



APRIL 21, 2015 / 8:45AM, TEL2 B.ST - Q1 2015 Tele2 AB Earnings Call

James Britton - *Nomura - Analyst*

Okay, great. Thank you.

Lars Torstensson - *Tele2 AB - EVP, Communication & Strategy*

Thanks, James.

Mats Granryd - *Tele2 AB - President & CEO*

But it's a very good question, this one that James said, because it is, from our perspective, a big change in the rhetoric of our sales people. We are now not -- we're not selling someone else's product, we're selling our own service. And that will take some time. And that's why we're a little bit cautious of being too bombastic when it comes to predictions, going forward.

But it's a huge change. It's a bigger change than one maybe initially can anticipate. The rhetoric, the way that we are now educating the market, moving away from subsidies, we're selling our own product which is a service, instead of someone else's product. That's a huge difference.

James Britton - *Nomura - Analyst*

Great stuff. Thanks.

Lars Torstensson - *Tele2 AB - EVP, Communication & Strategy*

Operator, can we have the next question please?

Operator

Nick Lyall, Societe Generale.

Nick Lyall - *Societe Generale - Analyst*

Just one on the Dutch business please, on the fixed business, Lars, if I could. Your Internet subs, I think, were down 9,000 this quarter. So firstly, is there anything happening in terms of promotions or just a greater threat in the market from, say, fiber, that you could tell us about?

And then, secondly, why the bitstream contract as well, are you scaling down expectations on broadband -- fixed broadband in the Dutch market? Or even are you moving away from a quad-play solution maybe to a mobile-only solution with a new network? Thanks.

Lars Torstensson - *Tele2 AB - EVP, Communication & Strategy*

Thanks, Nick. Good question. Fixed line or fixed broadband in the Netherlands, which is actually, to be perfectly clear, it's more around our consumer fixed broadband and our view on that one. But we're making some strides there, I think.



APRIL 21, 2015 / 8:45AM, TEL2 B.ST - Q1 2015 Tele2 AB Earnings Call

Mats Granryd - *Tele2 AB - President & CEO*

Yes, we are. But you're right, in the quarter we've had actually two outages that have pushed us back a little bit. I think that's what you see an effect on. But we are still committed. We're focusing a lot on it, so we are not giving up on our fixed install base.

We are also in good discussions with one of the incumbents on being able to offer something interesting. But I would like to stop there, and then maybe come back, once we have more tangible results on that.

But for sure, we are not giving up our fixed base, by no means. We still want to have this as a quad-play opportunity, if it has -- if it becomes something really important to be part of. I'm sorry for being very vague, but you will understand more in a couple of weeks' time, hopefully.

Nick Lyall - *Societe Generale - Analyst*

No, no problem. And also, can I just ask as well, Lars, while I'm on. If -- hypothetically, if T-Mobile Netherlands were sold, are you fully protected in terms of network rollout? There's no chance of disruption to the speed of the network rollout if something like that happened?

Lars Torstensson - *Tele2 AB - EVP, Communication & Strategy*

No, we have -- yes, we are, well call it fully protected, or we have that in our agreement to be able to continue to work with any potential future owner of a T-Mobile asset, so to speak.

Nick Lyall - *Societe Generale - Analyst*

That's great. Thank you.

Lars Torstensson - *Tele2 AB - EVP, Communication & Strategy*

Thanks. Also, for Barry, just coming back to the online sales in the Netherlands. It's actually a high 70% -- roughly 70%, which is online sales. It's always a good thing. That should be, for example, compared to Sweden, which is also doing very good work, but it's at 25%. So we are much more dependent on online sales in the Netherlands.

Allison Kirkby - *Tele2 AB - CFO*

And that's why online is a big stream of the Challenger program.

Lars Torstensson - *Tele2 AB - EVP, Communication & Strategy*

Yes. Operator, I think we're getting to where we need to stop, but we can have just another question, please.

Operator

Peter Nielsen, Kepler Cheuvreux.

APRIL 21, 2015 / 8:45AM, TEL2 B.ST - Q1 2015 Tele2 AB Earnings Call

Peter Nielsen - *Kepler Cheuvreux - Analyst*

Just one on Swedish corporate market. You're enjoying good momentum here, as you've done for some quarters. Previously, you mainly talked about the SME and the SOHO business, and your new cloud PBX, etc. But you also seem to have good momentum on the large enterprise side.

Is it possible to talk a bit about the source of this competitive edge? What's driving your good performance? Is it because you're simply coming from a low base, and you have hired more sales [privilege], or is there anything else on the technical side which you can talk to us about, please?

And also, just if I can -- it's a pretty poor sound quality coming through here, so if I can just ask if you could repeat what Allison said at an earlier question about marketing spend in Sweden, in Q1. That would be appreciated. Thank you.

Lars Torstensson - *Tele2 AB - EVP, Communication & Strategy*

Thanks. So we have a good performance in the large enterprise price segment, and the reasons for that. And then, also, when it comes to marketing expenses in Sweden, once again. Maybe we should start with the (inaudible) prices, Lars. Yes, let's do the (inaudible).

Mats Granryd - *Tele2 AB - President & CEO*

Okay. It's a good question and the enterprise business-to-business sales is --

Lars Torstensson - *Tele2 AB - EVP, Communication & Strategy*

It's coming up (inaudible).

Mats Granryd - *Tele2 AB - President & CEO*

Yes. It's nothing that happens overnight. This is something that we have worked on continuously for the past 2.5 years. And now, we're starting to see momentum coming our way. It's hard and persistent work, and --

Lars Torstensson - *Tele2 AB - EVP, Communication & Strategy*

The sales cycle, it's -- as we talked about before, it's a quite long one and that's something that is, of course -- we implement them and then we [benefit].

Mats Granryd - *Tele2 AB - President & CEO*

Maybe I would -- we have invested in very good people, very dedicated, knowledgeable people. And we're fast to the market and we listen a lot to the customers. I don't know how our competitors are doing, but that's what we are doing. And we see that, that is yielding results.

I don't think that there is that big of a difference in the solution itself or the technology that we can provide, except a fantastic 4G network. But our competitors have a similarly good network. It's more the way that we approach, I think, and good hard work. It's nothing -- no quick wins here.

Allison Kirkby - *Tele2 AB - CFO*

And on the marketing spend. So over the last eight quarters, Sweden's sales and marketing has trended between 14% and 17% of revenue. Last year was 16% to 17%. In this quarter, it was 14%.



APRIL 21, 2015 / 8:45AM, TEL2 B.ST - Q1 2015 Tele2 AB Earnings Call

And as a result of lower subsidies, we should be seeing lower sales and marketing in the future anyway. For example, the lower subsidies reduced the sales and marketing spend by around 1.5 percentage points in the quarter.

Peter Nielsen - *Kepler Cheuvreux - Analyst*

Thank you.

Lars Torstensson - *Tele2 AB - EVP, Communication & Strategy*

I hope that helps, [PK].

Peter Nielsen - *Kepler Cheuvreux - Analyst*

Yes, thanks.

Lars Torstensson - *Tele2 AB - EVP, Communication & Strategy*

Yes, very good. So that actually concludes our presentation for the first quarter report.

I'm sorry if anyone has not been able to answer -- get their questions answered. But, of course, we are here to support you if you have any follow ups later on today.

We look forward, of course, to keep in touch with you during Q2. And I'm also very pleased that I'm handing over the baton to [Louise Tjeder], as well as the new Head of IR that's going to do a phenomenal job as well.

But if we don't talk to you until we report the second quarter, which is July 21, we very much look forward to keep in touch.

So thank you very much and goodbye.

DISCLAIMER

Thomson Reuters reserves the right to make changes to documents, content, or other information on this web site without obligation to notify any person of such changes.

In the conference calls upon which Event Transcripts are based, companies may make projections or other forward-looking statements regarding a variety of items. Such forward-looking statements are based upon current expectations and involve risks and uncertainties. Actual results may differ materially from those stated in any forward-looking statement based on a number of important factors and risks, which are more specifically identified in the companies' most recent SEC filings. Although the companies may indicate and believe that the assumptions underlying the forward-looking statements are reasonable, any of the assumptions could prove inaccurate or incorrect and, therefore, there can be no assurance that the results contemplated in the forward-looking statements will be realized.

THE INFORMATION CONTAINED IN EVENT TRANSCRIPTS IS A TEXTUAL REPRESENTATION OF THE APPLICABLE COMPANY'S CONFERENCE CALL AND WHILE EFFORTS ARE MADE TO PROVIDE AN ACCURATE TRANSCRIPTION, THERE MAY BE MATERIAL ERRORS, OMISSIONS, OR INACCURACIES IN THE REPORTING OF THE SUBSTANCE OF THE CONFERENCE CALLS. IN NO WAY DOES THOMSON REUTERS OR THE APPLICABLE COMPANY ASSUME ANY RESPONSIBILITY FOR ANY INVESTMENT OR OTHER DECISIONS MADE BASED UPON THE INFORMATION PROVIDED ON THIS WEB SITE OR IN ANY EVENT TRANSCRIPT. USERS ARE ADVISED TO REVIEW THE APPLICABLE COMPANY'S CONFERENCE CALL ITSELF AND THE APPLICABLE COMPANY'S SEC FILINGS BEFORE MAKING ANY INVESTMENT OR OTHER DECISIONS.

©2015, Thomson Reuters. All Rights Reserved.