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TEL2 B.ST - Q3 2015 Tele2 AB Earnings Call

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PRESENTATION

Louise Tjeder - *Tele2 AB - Head of IR*

Good morning, everyone, and welcome to Tele2's third-quarter 2015 conference call. Speaking is Louise Tjeder. And with me, I have our President and CEO, Allison Kirkby; and our interim CFO, James Maclaurin.

As you know, we're also sending this presentation live over our web page, tele2.com, so welcome to you that join us via the web.

After the formal presentation, there will be a chance to ask questions, either over the phone or via the web. Please be kind and keep it to one question each so that everyone has a possibility to get through.

With that said, I hand over to you, Allison.

Allison Kirkby - *Tele2 AB - President and Group CEO*

Good morning, everyone. And thank you for all dialing in this morning. As I said in the press release, it's a great honor to have been appointed CEO of Tele2, and to lead the Company in the next stage of its journey of data monetization, enabled by innovation and technology; service; pricing; and cost control.

Today's results are a reflection of this focus, with positive fundamentals in our key established markets and positive momentum in our investment markets.

Moving to page 2, key highlights of the quarter are as follows. First, customers continue to be attracted to our network, our products, and our services with strong net intake of 333,000; and end-user service revenue up 5% across the Group.

Data-hungry customers are also showing willing to trade up, as evidenced by our continued momentum in Sweden Tele2's residential ASPU.

Our networks are also increasingly ready for those data-hungry customers that we love with Netherlands and Baltics now at 90% population coverage, and Sweden on track towards the 90% geographic coverage that we're aiming for.

Our Challenger spirit, that is driving more efficiency and more productivity across the Group, is very much on track. And Kazakhstan is a great example of when customer momentum comes we have a scalable and profitable business.

And finally, as I said, I'm very proud to be Tele2's fifth CEO, and happy that in the last month we've made significant changes to our ways of working within the Company to realize more customer focus in our operating companies; and to enable successful execution of the Challenger Program.

Moving on to page 3, our mantra continues to be data monetization. Top-line development remains strong at 5%, although, with data growth at 70%, it would be good to see a stronger pass through to the bottom line.



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Obviously, we have some headwinds at the moment with the investment we are putting into the Netherlands. And we also had a one-off in Lithuania this time last year. If you exclude both of those two impacts, underlying mobile EBITDA was actually up almost 5%, and bang in line with our end-user service revenue growth.

Page 4 just shows it is another mid single-digit growth quarter, despite a tough comparison, and very much in line with our guidance. We're very much delivering not only in line with our guidance, but in line with our own expectations from a top-line perspective.

So, how does that look across the different markets? Well, in our established mobile markets of Sweden and Baltics we are seeing a positive development. Sweden, at 1%, is obviously slower than the same period last year, when it was growing at over 5%; but, as I'll show you later, the fundamentals in Sweden remain strong.

Baltics are growing between 5% to 8%, and showing very good momentum.

And Croatia is still showing positive progress, despite us still being in the midst of the network swap that will only start to benefit us in 2016.

In terms of our investment markets of Kazakhstan and Netherlands, that is where we are seeing stronger underlying momentum, and we are very well positioned for further growth.

Data usage continues to grow exponentially across all our markets, and this also provides a platform for further monetization.

So, let's get into each market. First, and importantly, Sweden, you see the headlines here are fairly flattish at our net sales and on EBITDA on the quarter. But underlying this, there is good positive fundamentals. And year to date, we should not forget that the Swedish business is up 6% year over year.

In terms of the detail, it's been a positive mobile quarter, despite the strong comps that we had last year, with mobile delivering its best EBITDA and highest ever mobile end-user service revenue. Mobile margin also hit 34%.

Comviq continued to grow, as did Tele2 residential. And it was only B2B that was down, mainly due to increased competition in the SME segment. However, large enterprise continued to show positive momentum with a long list of big names signing up.

And from an M2M perspective, although admittedly this is not Swedish, this is a global signing, we have just signed a wide frame agreement with Vattenfall group, the third biggest utility company in Europe, for all of their Internet of Things solutions in all of their subsidiaries.

As Rami, head of M2M, likes to remind me, we connect everything from electricity meters to wind power stations.

Let's just look at the fundamentals in Sweden now. As I said earlier, that despite a slowing of the top-line growth from last year, the fundamentals do remain strong and are providing a good platform for further growth.

I'm confident for these three reasons: first, our dual brand strategy is playing out well, with increasing customers on both brands, and net intake very strong, up 84,000 in the quarter.

Secondly, we continue to see increasing ASPU on Tele2, up 5%, and in line with the mid single-digit development that we explained to all of you when we announced Big Buckets.

And third, we are seeing strong prepaid to postpaid transition on Comviq, which is absolutely fundamental to ensure that as prepaid goes into decline we transition those customers into higher ASPU customers in postpaid.

Additionally, on top of those three fundamentals, we are seeing top-ups in line with last year. And we are seeing trade-ups in Tele2 consumer continue to be in line with our plans.



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In summary, the data monetization journey in Sweden is on track for both Tele2 and Comviq brands, especially in the consumer segment.

Moving onto the Baltics, we are seeing good consumer reaction to our network and the data bundles that we launched earlier this year. You see here strong end-user service revenues and equipment sales are driving a 7% growth. And if you exclude the one-off from last year, it's actually 9%. And this is even before we start to commercialize and advertise our 4G and value champion services.

After a number of tough years in the Baltics, I'm very proud of the momentum that we are now seeing across all three of these markets, and the Challenger attitude, especially when it comes to cost control, and it's something that we're certainly ensuring is leveraged within our Challenger Program.

Sweden and the Baltics, just as a reminder, throws off just under SEK3 billion of cash to us as a Group, and has done so over a number of years. In fact, it's these businesses that have enabled us to invest significantly in our growth and investment markets of Netherlands and Kazakhstan, and still allow us to continue to pay a progressive dividend.

That's why it's so important that the fundamentals in these businesses remain strong, and that they still have platforms for future growth, which, hopefully, you will see -- that you will see in these results.

Moving on to our investment markets, the first one, Netherlands. As you know, our strategy is to move away from aggressive SIM-only deals and focus on higher value 4G-ready customers. That strategy is starting to pay off with good mobile end-user service revenue of 13%, and good ASPU development.

Mobile margins are, obviously, impacted by MVNO costs and MNO rollouts. But it's been the challenges in the fixed business that have continued to impact our results as consumers demand greater speeds, and we do not currently have the ability to offer them that.

The important thing is that we have secured the platform from which to grow in the form of VULA. This will allow us to offer a much faster service to a much greater number of customers. And we expect to see the first results of this during 2016.

But the most positive news is that having now reached a population coverage of 90%, and given the strong recent performance results of independent tests, we have decided to launch ahead of plan, and we will now launch before Christmas.

Thanks to some tremendous work by the Tele2 team, both in Netherlands and at Group, our network is ready. We are handset ready. We have more than 50% of our customers on 4G handsets, with almost one-half of these already VoLTE enabled. And we are customer ready, as we are proving that higher ASPU customers are starting to be attracted to our network.

As I said, we will bring forward our launch into Q4, and we'll launch before Christmas. Our first retail store will open in December. And we plan to put considerable investment into marketing and distribution to relaunch the Tele2 brand to the Dutch consumer.

This will require incremental investment, not previously within our guidance, of between SEK100 million to SEK200 million. And we expect this level of incremental investment to continue in each quarter in 2016.

Finally, moving onto our other investment market, Kazakhstan. Demand for data and Tele2 continues to be very strong with customer net intake up 166,000 in the quarter; and data usage up more than 200%; and increased incoming traffic.

This top-line momentum is finally driving some scale benefits, leading to a SEK50 million EBITDA and a 10% margin in the quarter. And we're really proud of our local Kazak team for pulling this off in what is a very tough environment.

Kazakhstan is one of the lowest-priced markets on the planet at [\$0.25] per gig: 12 times less than Russia, and 40 times less than Sweden. So, as I look at it, there is lots of opportunity for data monetization in that market. We are, therefore, monitoring the pricing environment very carefully.

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On that point, I'm going to pass over to James now, who will take you over the financials.

James Maclaurin - Tele2 AB - Acting Group CFO

Good morning. Thank you, Allison. I'm the new interim CFO, as of October 1. I'll take you through the financials now.

There's been continuing FX volatility in some of our markets, so on an FX-adjusted basis, on slide 13, net sales were 2% growth quarter on quarter, and minus 6%, against the minus 5% on the chart. So, FX continues to be a concern for us.

EBITDA growth is tracking behind revenue growth, particularly in the Netherlands, where our fixed business is declining, as Allison just said, and we're expanding considerable investment in our 4G launch. So that is one of the key elements to our minus 6% EBITDA growth profile.

Slide 14, on this slide, mobile end-user service revenue growth continues to be driven by Kazakhstan, which, at 28%, is fairly stellar; Holland at 10%; and Sweden at 1.2% on an FX-adjusted basis.

In Sweden, market-driven prepaid decline continues with strong development of postpaid stock, which we expect will translate into improving usage growth in the Comviq segment.

ASPU uplifts are quite strong -- were strong across all segments, with the exception of the enterprise segment, where the SME sector, in particular, was a bit hit by price competition.

On a quarter-on-quarter basis, ASPUs in Netherlands are showing a healthy increase, in fact, of 10%, so that's Q2 to Q3, as opposed to year on year, which was driven by improving penetration; in particular, VoLTE penetration, as Allison has mentioned.

Over the page, slide 15, year-on-year EBITDA decline in the quarter, as you can see, is driven by activities in Holland, mainly concerning launch preparedness.

Expansion costs, subscriber acquisition costs in particular, spend has been ramped up a bit over the past few quarters.

So, despite heavy pricing pressures in Kazakhstan due to Kcell, particularly from Q2 onwards, our EBITDA grew substantially. Not quite tracking revenue growth, but, nevertheless, a strong performance on profitability growth in that market.

On a year-to-date basis, on slide 16, EBITDA growth across all markets is quite strong. Obviously, Holland, where you can see the SEK320 million reduction in EBITDA, that's driven by decline in fixed business and higher expansion costs, especially; but also, network OpEx related to the 4G launch.

Excellent year-to-date EBITDA growth in Sweden, driven by the revenue growth, as I've previously mentioned, as consumers trade up on data.

The trade up in Comviq is starting to happen, but we're still at the pre- to post-conversion stage and the evolution of that brand.

Slide 17, CapEx, we've got 8% CapEx growth, which is actually on a quarterly basis. The year-on-year comparison is actually rest of world, which is mainly Croatia, and that's the network swap from one legacy supplier to a new supplier. That's all part of our readiness in terms of our getting our network up to speed in Croatia.

Slide 18, cash flow, and, as you can see, there's a big chunk of working capital movement. That's a delta between delta, essentially. So it's the change in working capital across the quarters, year on year, which is actually mainly driven by the settlement of the historic dispute in Holland. But also, there's the impact of the decoupling of handsets from subsidies in Sweden included in that as well.

Slide 19, our debt position remains in a healthy position, with us tracking during the year well below 2 times.

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The outlook in terms of 2016, we're planning to hold to that 2 times, with a possible spike in Q2, around the time of when we pay the dividend. So, our plan is to remain firmly in investment grade territory during the course of 2016.

Moving onto the Challenger Program, slide 22, it's good progress to be reported there. I think we're developing traction internally in the business. And what we're planning on doing is driving ever deeper line by line, so that no stone will remain unturned.

I think the Challenger Program is all about process re-engineering and simplification, and also systems rationalization. The shared service outsourcing activity is facilitated by this simplification process, which will drive costs down.

Slide 23, we're on track to hit our SEK1 billion savings targets by 2018. And our investment, reflecting our activity on the change program, is in line with expectations during the course of 2015.

So the message on the Challenger Program is that we're driving deeper; we've announced our new operating model; and we expect to hit our savings target by 2018.

That covers our slides all the way through to 25 now.

On to slide 26, the updated financial guidance is basically unchanged, with the exception of EBITDA. So, all KPIs on financial guidance are the same.

But EBITDA is down to SEK5.6 billion to SEK5.8 billion range, which reflects the pulling forward of our Dutch launch.

We're expecting to launch in the next two months in Holland, and this change simply reflects that. As Alison said earlier, we'd expect to be tracking higher spend, on Holland especially, on expansion costs, over the next couple of quarters. So, the main message on this one is that we're ready to launch, and it will take place shortly.

At that juncture -- actually, one other comment on guidance, which is, as mentioned, on leverage, we will be holding, as I said, to less than 2 [times], with a possible spike in Q2. So that's the only other thing that we should mention on guidance.

At that juncture, I'll pass back to Alison to conclude.

Allison Kirkby - Tele2 AB - President and Group CEO

Thank you, James. In summary, our priorities were clear this quarter; and they are very clear, going forward. We are focused on driving data monetization across all our markets. We are focused on driving costs and process re-engineering via the Challenger Program. And we are very excited about the prospect of launching the first 4G-only MNO in the world, in the Netherlands, before Christmas.

Finally, despite the accelerated investments in the Netherlands, we remain committed to our dividend policy and the further creation of shareholder value as we absolutely remain confident in our ability to successfully execute on our Way2Win strategy.

On that note, I am going to hand over to Louise for Q&A.

QUESTIONS AND ANSWERS

Louise Tjeder - Tele2 AB - Head of IR

This concludes our formal presentation for the third-quarter results, and we now open up for questions. Operator, could we have the first question, please?



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Operator

(Operator Instructions). As there appear to be no questions, I'll return the conference to you.

Louise Tjeder - Tele2 AB - Head of IR

For any questions, there seems to be some kind of complication here, so if you could ask your questions via the web, instead.

Operator

Yes, there are still no audio questions on the line at the moment. (Operator Instructions).

Unidentified Company Representative

We're going to do the Q&A session via the web, or via SMS. All analysts, you have both mine, and also Louise, phone, so please send questions through SMS to either me, or Louise, or via the web, tele2.com, and we will ask the questions to James and Allison.

Louise Tjeder - Tele2 AB - Head of IR

We will start with the first question now. Could you please be more specific on what you expect to be the net effect from higher launch costs and [traffic] synergies in the Netherlands next year? Is adding SEK100 million SEK200 million to the current run rate of SEK90 million of losses, you overestimating the loss, which would be around SEK800 million to SEK1.1 billion?

Allison Kirkby - Tele2 AB - President and Group CEO

The SEK100 million to SEK200 million per quarter is very much focused on year-on-year additional expansion costs to support the marketing, distribution, and handset subsidy implications of launching in the Netherlands.

At the same time, our underlying OpEx base will, of course, also be increasing because the business is growing. And so you will see, in 2016, also increased MVNO costs, and increased fixed production costs, because our network is still being rolled out.

Louise Tjeder - Tele2 AB - Head of IR

Next question is how much of the EBITDA improvement in the quarter in Kazakhstan is related to an increase in incoming calls? Is this sustainable?

Allison Kirkby - Tele2 AB - President and Group CEO

The increase in incoming calls is a good chunk of the year-on-year progress. But, as I said on the call, we are also getting good scale benefits from the increased momentum on the top line.

Unidentified Company Representative

The next question comes from Johanna Ahlqvist at SEB. And I think it's a question that, I guess, everyone is wondering about today, is when the Dutch operations from Netherlands will be breakeven after this early launch that we're having in Q4? What we say on that, Allison?

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Allison Kirkby - Tele2 AB - President and Group CEO

We've always said breakeven would be within the next two to three years. So it certainly won't be in 2016, but will be moving towards breakeven during the course of 2017.

Unidentified Company Representative

Do we have any further questions then, Louise?

Louise Tjeder - Tele2 AB - Head of IR

Yes. For the Netherlands, you report around 30% VoLTE penetration. How much of this group of customers can actually use VoLTE?

Allison Kirkby - Tele2 AB - President and Group CEO

Today, nobody can use VoLTE, because VoLTE has not been switched on in our network. We are aiming for the network to be VoLTE-ready during the first quarter of 2016, but not right at the beginning of the quarter.

Unidentified Company Representative

Okay, very good. And the next question comes from Erik Pers at Danske Bank. He is wondering about working the cap development, or the working capital movement within 2015 and 2016. I don't know, James, if you'd like to have a stab, even though you're still in your 100 days of work?

James Maclaurin - Tele2 AB - Acting Group CFO

Yes, I'm assuming you're talking about the big block shown on the chart, which, as I said, is mainly to do with the settlement of a very historic dispute, which was around power, with another operator in the Netherlands. That was settled in Q2/Q3, so it's just driven a substantial shift in working capital movement.

The working capital movement number is a delta on a delta; it's basically showing the change in the change in working capital. But there's also some movements coming out of Sweden as well around handset financing, in particular. So, hopefully, that answers your question.

Unidentified Company Representative

Yes, thank you, James. It's a hard week. But follow ups on the questions, Erik, if you would like to please send me yet another SMS and I will ask a follow-up question to James on that one.

The next one comes from Ulrich Rathe from Jefferies. And he is asking that Swedish mobile service revenue acceleration to [SEK1.3 million] is, of course, welcome, but still below historical momentum; and also below what actually one of our competitors, TeliaSonera, posted which was higher than that, 5%.

What is our view on that growth rate in Sweden? Is this the new normal rate, or we will see a movement going forward in any direction when it comes to service revenue growth in the Swedish business? What do you say about that, Allison?



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Allison Kirkby - Tele2 AB - President and Group CEO

Thanks for the question, Ulrich. I believe Telia posted around 2% for Swedish mobile, but they include operator revenues in their figure.

If you include operator revenues in our figure, we were at 2.2% in the quarter. That being said, we focus much more -- because of high roaming; obviously, Sweden had a lot of visitors during the third quarter, that both we and Telia benefited from. Underlying mobile end-user service revenue is what we focus on.

And I agree, and as I said, we would obviously like to see higher growth than 1% in Sweden. And that's why we are focused very much on the fundamentals, or to provide a platform for growth in the future.

And the fundamentals are strong, net intake is positive. Net intake was not positive throughout last year; net intake is positive this year. We are seeing continued mid single-digit ASPU development in Tele2. We are seeing good prepaid to postpaid transition in Comviq. And we are seeing continued growth in Comviq.

Our objective is to get Sweden end-user service revenue momentum back up to more like a 3% range, rather than a 1% range, where it's at today. But we're still very happy that the fundamentals for that growth are there, but unlikely to see it turning from 1% until we're into next year. And we are comping a period where Comviq pricing had already moved down to take advantage of our dual-brand strategy.

Louise Tjeder - Tele2 AB - Head of IR

Our additional question on the web, Sweden mobile margins expanded year on year by [90] basis points. Considering the tough Q3 2014, was there any deferred spend in Q3 2015?

Allison Kirkby - Tele2 AB - President and Group CEO

No, there was no deferred spend. The big driver of the underlying progress in mobile was the removal of subsidies from Tele2, which was worth around SEK40 million in the quarter, and which is what we've been benefiting from throughout this year. Some of that was invested back into marketing in the quarter.

As you recall, last year we had a very low marketing spend quarter in anticipation of the Tele2.0 launch. So there was no deferred spend in Q3.

Unidentified Company Representative

Very good. Thank you, Allison. We have a couple of further questions here coming in via SMS, and also through the web.

Just to remind you, as our telephone conference is not working properly, you can SMS either me, or Louise Tjeder, on the phone, or post questions on Tele2.com. My phone number, if anyone has forgotten that one, is +46 702734879.

But the next one comes as a follow up from Johanna Ahlqvist at SEB. And that is around the losses in the Dutch operations, and how that will be distributed over the course of 2016.

We have indicated similar investment costs as we're going to have in Q4 2015 to be the same over the course of 2016. But still, is this front loaded, or back-end loaded? Or is it some linear consequence throughout 2016, would you say, Allison?

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Allison Kirkby - Tele2 AB - President and Group CEO

We don't give -- we're not giving 2016 guidance yet, and we're certainly not giving guidance by quarter. It will very much depend on how quickly customers become attracted to our offer, and in the ramp up of our distribution. But, at this stage, I would be assuming it's fairly spread equally throughout the year so that we build momentum throughout the year.

Unidentified Company Representative

Yes. And just as a follow-up question on that one is then the spread that we are talking about when it comes to cost, is that dependent on the success of the business? Or [you think] it's going to be upper end, or lower end of the business? Or how should the analysts [continue] to view that?

Allison Kirkby - Tele2 AB - President and Group CEO

In terms of the -- sorry?

Unidentified Company Representative

Investment costs that we have indicated, that's cost for the fourth quarter that will continue and remain during 2016. The range that we are discussing, is that something that will be dependent on the success of -- or how successful we are in the Dutch business?

Allison Kirkby - Tele2 AB - President and Group CEO

Yes. No, it will also depend on as we start seeing what different levers are having the biggest impact on customer acquisition it will very much be -- we will be playing around with those levers throughout the year.

Sometimes, the investment will be very much focused on the brand marketing; some of it will be driving commissions in the indirect channels; some of it will be very focused on handset subsidies. So, I wouldn't say it will be determined on whether we're successful, or not. We're just giving you a wide range because we want to have as much flexibility as possible to invest against all of the levers.

Unidentified Company Representative

Thanks very much, Allison. Operator, even though we have issues with our telco call, could you please repeat the instructions for asking questions over the phone.

Operator

(Operator Instructions).

Unidentified Company Representative

Thanks very much, operator. But we have another question from the web. Louise?

Louise Tjeder - Tele2 AB - Head of IR

Yes, [question follow up]. When you bought the spectrum three years ago, you thought Dutch prices were very high. ARPUs are now 25% lower than three years ago. Do you still feel Dutch pricing is too high, or is it more a case of customers not getting enough with their bundles?



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Allison Kirkby - Tele2 AB - President and Group CEO

It's a bit of both. Pricing, if you look in the Netherlands, the average price per gig to the consumer is still significantly higher than most other European markets, despite, admittedly, there's been some movement since the beginning of this year.

So you're right, some of it is the amount of data that you get in the bundles. But it's also, relatively, the pricing in the Netherlands is still higher than other markets that we've looked at.

Louise Tjeder - Tele2 AB - Head of IR

We have a further question on the web; it's from Thomas Heath, Handelsbanken. Your dividend is clearly not covered in 2016, perhaps not in 2017, either. Will you lower your [details]?

Allison Kirkby - Tele2 AB - President and Group CEO

As I said on the call, we remain committed to our progressive dividend policy.

And as James reiterated, and we said in our press release, considering the incremental investments in 2016, we expect our leverage to nudge above the upper end of our range, the range of 1.5 to 2. We expect that to spike up, particularly during the second quarter, but likely throughout 2016, so that we can still invest behind the Netherlands and still pay our progressive dividend out.

Louise Tjeder - Tele2 AB - Head of IR

Next question on the web is how much of customer base in the Netherlands are prepaid? Could you give some flavor on adding postpaid subscribers and losing prepaid subscribers this quarter? And this question comes from Stefan Gauffin, Nordea.

Allison Kirkby - Tele2 AB - President and Group CEO

Yes, you will have noted that there was no subscriber growth in the Netherlands this quarter. That has been a very conscious decision that we have taken to remove some of the very cheap SIM-only deals that were out there in the market.

So we've seen high churn in our prepaid business, but we've seen good, positive momentum in postpaid. I would expect that at launch we will see a further shift away from prepaid and into postpaid in our Dutch business.

Unidentified Company Representative

Very good. Operator, have we had any success with getting any questions through the telephone?

Operator

Unfortunately, we still have no audio questions on the telephone.



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Unidentified Company Representative

I see. So we still have a little bit of a technical -- well, a fairly reasonable technical snag on the phone. But we are getting questions via SMS and web, so please continue to ask your questions that way.

The next question comes from Nick Lyall, a Scottish fellow, he's worked for SocGen. He is wondering a little bit about the running. What kind of a running cost do we have for our MVNO today, running costs that we incurred with the Dutch MVNO this quarter?

And then, what rough idea of how much incremental cost do you expect to book for the new network in 2016? That would be about launch costs then.

And then, as a last question from him, is what sort of margin should we expect for fixed within the VULA agreement, which is virtual unbundling local access with incumbent in the Netherlands?

So, would you like to have a try on that one, Alison?

Allison Kirkby - Tele2 AB - President and Group CEO

I'll do the first couple; and then, maybe James can do the fixed question, yes.

On the MVNO, the quarterly costs are around SEK150 million per quarter, so just under EUR15 million per quarter. We expect that to spike up a bit in the early part of 2016 as we have more customers on our network. We won't be quite at 100% coverage. And, obviously, we're -- not all of our customers will have VoLTE-enabled phones.

In terms of our fixed production costs next year, the cost of our own network, that should also continue to increase next year, as we're still rolling out the network, to the tune of SEK100 million roughly. But that's a very rough number, Nick. And we're not yet giving guidance for 2016.

Unidentified Company Representative

Thank you very much, Alison. And on VULA, James, what do we have there? What can we share?

James Maclairin - Tele2 AB - Acting Group CFO

On the fixed side, the gross margin for VULA is around 50% to 60%; and it's slightly down in the quarter.

Unidentified Company Representative

Thanks, James. Louise, do we have another question on the web?

Louise Tjeder - Tele2 AB - Head of IR

Yes, from [Phil Taylor] from (inaudible). And further on the VULA contract, how would your strategy be affected by an acceleration to convergent bundles in that market, especially if we see more fixed mobile M&A? Do you need greater scale in mobile, perhaps consolidation, to compete against larger fixed mobile bundle operators?

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Allison Kirkby - *Tele2 AB - President and Group CEO*

Obviously, we have a strategy to fix fixed, which is VULA, to give us more access to higher-speed connectivity so that we can compete in the fixed end of the bundle. And our mobile launch will give us the ability to compete in the mobile side of the bundle.

We, today, have a converged offer already in the Netherlands. It will become an improved offer as we move forward, thanks to VULA, and thanks to the 4G launch. And we are well placed to compete with those quarterly offers that are in the market.

And so -- and from an M&A point of view, that makes no difference to us really, because we were always embarking on an organic and fixed and mobile strategy as we launched the network.

Unidentified Company Representative

Okay, I have another question. This one comes from Andreas Joelsson at DNB. He is wondering about the development in the Swedish business-to-business market, and the SME segment.

As TeliaSonera said yesterday, they are seeing some progress within specific segments. Are we -- do we agree on that picture? Or do we have a different view when it comes to the development in SME versus large enterprise?

Allison Kirkby - *Tele2 AB - President and Group CEO*

Yes, as I said in the presentation, we have seen some competitive pressure in the SME segment, which has driven our B2B business down 2% in the quarter. However, we remain happy with the progress that we are getting in the large enterprise segment, and continue to sign up new big accounts.

So, yes, competition has increased from both a pricing and a sales commission point of view in that SME segment.

Unidentified Company Representative

Thank you, Alison. Any more questions from the web?

Louise Tjeder - *Tele2 AB - Head of IR*

We have a question from Kristofer Eriksson at ABG. He's asking, on Sweden, how much did Tele2 consumer lose at the expense of Comviq?

Allison Kirkby - *Tele2 AB - President and Group CEO*

Tele2 was very stable again in the quarter. Underlying ASPU was up. Year on year, we have lower customer numbers, which we explained last year. But those customers, we have stabilized the customer numbers, and we're slightly growing in terms of Tele2 residential now.

There has been no uptick in the average switching that we see between Comviq and Tele2; that has been fairly stable for a number of quarters now. So there, we're not seeing any losses to say that Tele2 is losing out to Comviq.



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Louise Tjeder - Tele2 AB - Head of IR

Again, so we take the next question from the web. It's from Andrew Lee, Goldman Sachs. And it's regarding Kazakhstan. If you could give more color about the competitive retaliation you saw in Q2. Do you think we have seen the full impact of that in Q2, or we will see more of an impact in Q3?

Allison Kirkby - Tele2 AB - President and Group CEO

No, you didn't see the full impact of that in Q2, because that really ramped up during the quarter.

However, what we have seen, since the end of the quarter, is Kcell reducing some of the minutes, the off-net minutes in their bundles. And so we've seen a slight improvement in the competitor situation in the last two weeks, although the perception still with the Kazak consumer at the moment is that the Kcell deal is totally unlimited.

But, as I said, early signs that there has been a little bit of pulling back from Kcell in the last two weeks.

Louise Tjeder - Tele2 AB - Head of IR

We have further, on Kazakhstan, a question on the web; and that's referring what TeliaSonera talked about, their views on the interconnecting CapEx on this quarter, and that they have taken corrective measures. How sustainable is your interconnect development this quarter in Kazakhstan? This question comes from Stefan at Nordea.

Allison Kirkby - Tele2 AB - President and Group CEO

Yes, obviously, the incoming bonus that we put in place in defense of the situation that Kcell launched earlier in the summer has had a benefit in the quarter. And it's difficult to see how that will evolve, because it will really depend how Kcell dials back its promotions in the market going forward. But, at this stage, we're seeing no tail off yet.

Unidentified Company Representative

Very good. Thanks, Allison. And the next one is coming from a follow-up question from Erik Pers. He's asking for some clarification, what is included in the term investments into the Dutch operations? We're talking about that one when clarifying our ambition to launch early in Q4 this year. So, what do we include?

Allison Kirkby - Tele2 AB - President and Group CEO

Incremental marketing, distribution, and expansion costs. The SEK100 million to SEK200 million is very much focused on those costs only.

There will, obviously, be further underlying OpEx increases as well behind continued expansion of the network. We're only at 90% today. And as we ramp up more customers on our network, and not everybody is yet on 4G VoLTE-enabled phones, there will be a short-term increase in MVNO revenues going to T-Mobile in the next year, as well.

Unidentified Company Representative

Building on that answer then, we have actually a follow up from Ulrich Rathe again, from Jefferies. He is wondering a little bit about what we include in the term, pulled forward the launch in the Netherlands.

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What will be our focus as we are launching early in the Netherlands? Is it migrating own subs first to the new network? Or is it a question around new subs, so to speak?

And he's asking can we migrate existing MVNO subs to own network without touching the customer, so to speak? Do we need to send out new SIM cards, and so on, to the customer to be able to move them? Would you like to start, and I can build on that as well?

Allison Kirkby - Tele2 AB - President and Group CEO

Yes, so the reason we're saying pull forward, Ulrich, is because we had always planned to launch in Q1. This was investment that we had never planned in the fourth quarter, so it is a real pull forward.

We have already been focused on transitioning our existing base, and we've made very good progress there. We've been very much focused on those customers that are 4G-ready, i.e., they had 4G handsets. And that transition is almost complete.

And so, very much the focus on this quarter, and going into next year, will be attracting new customers on to our network, and still trying to get those existing customers that are either SIM-only or 3G, on to our 4G network. Now, since the focus was really on attracting new, it will, therefore, require new SIM cards.

Louise Tjeder - Tele2 AB - Head of IR

Thank you, Allison. We continue with a question on the web from Terence Tsui, Morgan Stanley. It's on Swedish mobile. You mentioned top ups being in line with last year. Are you surprised with this result, given the increase in data allowance? How much higher are the gross margins on top ups, please?

Allison Kirkby - Tele2 AB - President and Group CEO

No, our whole dual-brand strategy, and the development that we're seeing across Tele2 and Comviq, is very much in line with what we expected.

What you're seeing is you're getting good top-up development in both Tele2 and Comviq. And it's good to see that that top-up revenue is still there. So, no, it's all very much in line with plan.

Louise Tjeder - Tele2 AB - Head of IR

We have one question from Roman Arbuzov, UBS. When can Comviq start growing ARPU?

Allison Kirkby - Tele2 AB - President and Group CEO

Good question, Roman. I'd like to see that, too. Thomas is always looking at how do we ensure that we protect the Comviq brand in the transition from prepaid to postpaid, because it's such a significant business to us.

And so, it's all about getting the pricing right to encourage that transition and not suddenly lose the prepaid business to others in the marketplace, who continue to be very competitive in that space.

That being said, Thomas is always looking at price innovation, and is continuing to do so, either in the form of straight pricing up, or in the form of new bundles.

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We're now seeing the average Comviq user in postpaid is consuming just over 2 gigs. So there's perfect opportunity to start trading them up now, because they are growing very nicely; not consuming as much as Tele2, but still penetration is growing there.

So, there is a trade-up opportunity in Comviq; there is a price-up opportunity in Comviq. And we're always looking at what are the right bundles for that segment to ensure that we manage the prepaid to postpaid transition well.

Louise Tjeder - Tele2 AB - Head of IR

Thank you, Allison.

Allison Kirkby - Tele2 AB - President and Group CEO

As you know, of all the areas that I see ASPU opportunity, it's probably in that Comviq area, but we just need to do it in a very cautious way.

Louise Tjeder - Tele2 AB - Head of IR

Okay, we'll continue with a question from Lena, Carnegie. How much of your [trend-to-trend] market share do you expect to capture during 2016?

Allison Kirkby - Tele2 AB - President and Group CEO

Lena, we are forecasting a very steady progression towards 20%. And we're not going to be giving out any specific guidance on what we're setting out to achieve in 2016.

Unidentified Company Representative

Thank you, Allison. Here comes another question, Henrik Herbst this time from Credit Suisse. He's wondering a little bit about the Netherlands, of course, as this is the big news today, and wanted to elaborate a little bit on how we look upon distribution, and how we plan our distribution in the Dutch market. More online, third party, or rolling out an extensive own network with more brand stores. Is there anything we can share on that matter?

Allison Kirkby - Tele2 AB - President and Group CEO

In the short term, it's very much focused on online and indirect. And we will build up a retail presence during the course of the next couple of years.

We won't rush into building up that retail presence. We will very look at doing it in -- we will measure the success we're getting online and via indirect channels, before rushing into having stores dramatically across all of the country. But the ramp up of the retail stores will start already in December, when we open our first store.

Louise Tjeder - Tele2 AB - Head of IR

Okay, a question here with Netherlands, and if you could clarify indoor coverage population, as well as geographic coverage.

Allison Kirkby - Tele2 AB - President and Group CEO

Indoor is just under the 70%, at this point in time.



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Unidentified Company Representative

Then, we have a follow-up question from Andreas Joelsson from DNB, as well. And he is wondering about Apple and the Apple contract in Netherlands. Is that something we would have at launch?

Allison Kirkby - *Tele2 AB - President and Group CEO*

It's all work in progress, and on track.

Unidentified Company Representative

So we're going to keep you a little bit on your toes there, Andreas, when it comes to Apple. Then, also a little bit on --

Allison Kirkby - *Tele2 AB - President and Group CEO*

And just on that, we don't need to have an Apple contract at launch to be able to sell Apple phones to our customers, because the Apple contract is in the indirect channels. So even if we don't have it at launch, our customers will be able to access Apple phones.

Unidentified Company Representative

I also actually have a follow-up question from Lena Osterberg from Carnegie. She's wondering a little bit about our Q4 guidance for Dutch mobile implies EBITDA losses of some SEK300 million. Is this a reasonable run rate per quarter into 2016?

Allison Kirkby - *Tele2 AB - President and Group CEO*

We're not giving full guidance for 2016 yet. But, yes, it's going to be fairly hefty losses in 2016 for mobile; that's why we're giving the guidance of up to SEK200 million per quarter in expansion costs.

Unidentified Company Representative

Thank you very much, Allison. Do we have any more questions from the web?

Louise Tjeder - *Tele2 AB - Head of IR*

Yes, we do --

Allison Kirkby - *Tele2 AB - President and Group CEO*

SEK200 million to SEK300 million is a good estimate, Lena, per quarter, for next year.

Louise Tjeder - *Tele2 AB - Head of IR*

Further, on Netherlands, how does Tele2 expect to handle the existing low base with regard to the focus of 4G and [VoLTE]?



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Allison Kirkby - Tele2 AB - President and Group CEO

Well, we're already above the 50%; and half of those are VoLTE-enabled. VoLTE will only be switched on during the first quarter.

And as we -- and another reason for the accelerated launch is the sooner we can launch the sooner we can start to get more 4G VoLTE-enabled handsets into the customer base. So all new customers will be very much focused on attracting 4G VoLTE-enabled smartphones.

And then, we'll continue to try and manage the base, our existing base that are on 3G or SIM only. But our real focus is on bringing in new customers on 4G now.

Louise Tjeder - Tele2 AB - Head of IR

Thank you, Allison. We continue with questions on the web. This is the question: with iPhone 6S launching into Q4, do you see risk of additional churn on the Tele2 brand, risk of value attrition as Tele2 customers [trade] to Comviq?

Allison Kirkby - Tele2 AB - President and Group CEO

No, we have a very strong fourth-quarter marketing plan planned. The new iPhone 6S, so far, hasn't been quite as successful as previous iPhone launches. But the Tele2 Sweden team have a very strong pre-Christmas campaign starting that will benefit and be good for both our Tele2 customers, and potential customers, and Comviq.

Unidentified Company Representative

I have actually a follow-up question from Henrik Herbst from Credit Suisse. He is wondering a little bit about some of the stats that we've historically been giving around the uptake of above 5 gigabyte bundles in Sweden. We said 28% in the second quarter 2015, and he's wondering if we can give an update on that for the third quarter 2015.

Allison Kirkby - Tele2 AB - President and Group CEO

It's still around the same level; we're still getting about 30% above 5 gig in the take up. And the number of customers on our Big Buckets are increasing, and in line with plan.

Louise Tjeder - Tele2 AB - Head of IR

We continue with questions on the web. We have one from Thomas Heath, Handelsbanken. On Kazakhstan, we [expect] Kazakhstan fall in Q1 when MTRs are cut, or can you offset with growth?

Allison Kirkby - Tele2 AB - President and Group CEO

Well, MTR cuts should benefit EBITDA in Q1, unless competition decided to take all of those MTR cuts into further price cuts. So we are -- unfortunately, that's what happened this year. The MTR cuts should have been worth around [SEK50 million], ended going into pricing. The benefit next year is even more, and we are hoping that they can fall through to the bottom line, rather be reinvest in pricing.

As I said on the call, with pricing already at [\$0.25] per gig in Kazakhstan, it would be crazy if those MTR cuts did go into pricing, because then we really would be out of the planet in terms of the level of pricing in Kazakhstan.



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Louise Tjeder - Tele2 AB - Head of IR

So further, and that's on Kazakhstan, what do you expect to pay for the LTE spectrum in Kazakhstan? Can you say anything about that?

Allison Kirkby - Tele2 AB - President and Group CEO

We are -- the information coming out of the regulator is changing all the time. It's not quite clear whether it will happen early in 2016, or not. We are monitoring the situation.

We also don't feel the need to rush into 4G, at this stage, in Kazakhstan. There is still -- we have a very good 3G network that delivers very good speeds to the population. As you know, we didn't rush into 4G in some of our other developing markets; Baltics and Croatia are good examples. So we are assessing what we would be prepared to pay at the time that we feel the market is ready for 4G.

Louise Tjeder - Tele2 AB - Head of IR

Okay, we have a question from the web regarding Sweden, and that is what percentage of your base is now on the new pricing models with unsubsidized handset, Allison?

Allison Kirkby - Tele2 AB - President and Group CEO

About 20% of the total customer base in Sweden.

Louise Tjeder - Tele2 AB - Head of IR

Yes, thank you. We have another question on the web, and that is regarding Internet of Things. Tele2 has been announcing a lot of Internet of Things initiatives. How big do you think Internet of Things can be for Tele2 on a three-year view? How are you delivering European-wide solutions in this area?

Allison Kirkby - Tele2 AB - President and Group CEO

Lars, since you are now in charge of new growth, and M2M is your baby, why don't you take that question, because they're probably bored of listening to my Scottish tilt.

Lars Torstensson - Tele2 AB - EVP, New Growth & Strategy

(laughter) Exactly. No, thanks very much for that. First, I have to start by saying I'm very excited about being responsible, together with Rami and Ingrid, who's running the business for Tele2.

I think we have quite some high ambitions. We haven't given any specific details on what this will mean, but, of course, we view this as a business that could have some significance for Tele2 overall. And it should be able to be a standalone business unit that should be able to match our smaller areas, our smaller countries, as such.

Without revealing exactly what we are planning for this space, we have high expectations, and we believe this could be a reasonably large standalone business as well.

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Louise Tjeder - Tele2 AB - Head of IR

Thank you, Lars. We continue with questions on the web. Can you explain why Dutch MVNO costs in 2016 will be increasing when you add new customers to your own mobile networks? Do you still expect to carry a lot of voice over to T-Mobile's network? Allison, we already talked about this, but maybe you could clarify it further.

Allison Kirkby - Tele2 AB - President and Group CEO

Yes. We will still have, what, 5% to 10% of the geographic coverage not yet met when we launch. And VoLTE will ramp up during the course of the year. As we get more customers on our network there will still be offload to T-Mobile, until we have 100% indoor and outdoor coverage, and 100% 4G VoLTE-enabled handsets.

Just, it's actually more customers. And whilst we don't have 100% of everything, there will still be, in the first half of the year, increasing costs to T-Mobile, or increasing revenues to T-Mobile; but then, that should start to decline as we move towards the end of the year, and into 2017.

Louise Tjeder - Tele2 AB - Head of IR

Thank you, Allison. Additional questions from the web. Sweden. Margin in Sweden is clearly better than expected in Q3, but [still] comments to direct indicate this would be offset in Q4 as comparison to margin for 2015 is said to be reasonable before Q3. Can we forecast a higher EBITDA margin for Sweden 2016 than in 2015?

Allison Kirkby - Tele2 AB - President and Group CEO

Okay, well, we haven't given guidance for 2016 yet. Q3 is always the highest EBITDA, and, therefore, margin, in the year due to seasonality. If you look back last year as well, we were already a 33% margin, but then it went down to 27% in Q4. Now, I'm not expecting the same decline in Q4 this year, but Q3 is always the highest.

What's most important is that you're seeing good, steady, sustainable progression of our underlying margin in Sweden, and we expect that to continue in 2016.

Louise Tjeder - Tele2 AB - Head of IR

Okay, Allison, thank you. I think we soon will wrap up this. We will still do some additional questions. This is from the web. What are Tele2's competitive advantages in the Netherlands?

Allison Kirkby - Tele2 AB - President and Group CEO

A fantastic network. And independent tests, even before it is complete, is proving that the quality is very high.

That fantastic network is significantly more cost efficient than anybody else's network, because we have no legacy; and that will allow us, therefore, to offer great value to our customers.

And third, we intend to reinvent the brand, and make it disruptive and rebellious, relative to the other three players that have been in the market for a number of years.

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Louise Tjeder - Tele2 AB - Head of IR

Okay. Thank you very much. And, with that, we conclude this third-quarter results presentation and Q&A session. Thank you, all, for joining. And I apologize for the technical problem.

We will release our fourth-quarter results, January 28.

With that, thanks. And bye.

Operator

Thank you. This now concludes our conference call. Thank you, all, for attending. You may now disconnect your lines.

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