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PRESENTATION

Operator

Good day, and welcome to the Tele2 Q3 Interim Report 2018 Conference Call. Today's conference is being recorded. At this time, I would like to turn the conference over to Allison Kirkby, President and Group CEO. Please go ahead, Madame.

Allison Kirkby ***Tele2 AB (publ) - President & Group CEO***

Good morning, and welcome to our third quarter results. Here with me today, as usual, we have Erik Pers from IR. We have Lars Nordmark, our CFO; and we also have Samuel Skott, our CEO for Tele2 Sweden, joining us this morning. So as you have seen, this marks the final quarter before the closing of the merger with Com Hem in a year of major transformation for the whole Tele2 group. As you've seen this morning, we continued to deliver results ahead of overall expectation. In fact, it's our 13th consecutive this quarter. This overdelivery is providing us with the confidence to upgrade our full year EBITDA guidance again for Tele2 on a standalone basis. And Lars will explain that in a bit more detail towards the end of our presentation.

Liberating a more connected life continues to be our ultimate priority, and we saw yet another quarter of solid growth. Revenue amounts to SEK 6.5 billion, up by 4% on a like-for-like basis, driven by both strong data monetization especially in our international markets and from higher equipment sales in Sweden and the Baltic. We also saw solid mobile end-user service revenue growth of 5% with excellent momentum in the Baltics, Croatia and Kazakhstan. On the same basis, EBITDA was up by 9%, mainly driven by the top line growth, which flows through to the strong 14% increase in rolling 12 months operating cash flow, excluding the Netherlands, and 19% if you include Netherlands, which, as you all know, is classified as discontinued due to the impending transaction with T-Mobile.

Before getting into the details, I'd like to highlight some of the key successes in the quarter. Starting with our Baltic Sea Challenger markets, our Swedish business returned to growth with positive trends in both mobile end-user service revenue and adjusted EBITDA. All this despite it being a highly competitive market, proving both our agility and resilience in both our consumer and B2B businesses. As I said earlier, we're joined here today by Samuel, CEO of Tele2 Sweden, and he will take you through the Swedish results in a bit more detail and also be available for Q&A afterwards.

Moving to the Baltics, we continued to deliver solid revenue and EBITDA growth up by 3% and 9%, respectively, in local currency. As a result, our Baltic Sea Challenger businesses collectively achieved a 3% increase in operating cash flow on a rolling 12-months basis amounting to SEK 4.5 billion.

In our investment markets, we continued to have excellent momentum, thanks to 4G rollout, fearless commercial offerings, improved brand perfections and, of course, our customers' insatiable thirst for data. Kazakhstan delivered another outstanding quarter with mobile end-user service revenue up 22% in local currency on the back of higher ASPUs and the continuing growing customer base. As a consequence, further repayments of the shareholder loan was received during the quarter, and total repayments now amount to SEK 750 million. Croatia also delivered an excellent mobile end-user service revenue growth of 12%, which, in combination with lower spectrum cost, trickled down to an underlying EBITDA growth of 20% if you exclude the reversal of a prior period provision.

A core pillar of our strategy is to have the most engaging, fun and positively fearless brand that our customers love. As a testament to our dedication to this ambition, with Comviq's second consecutive win in the Evimetrix Swedish Brand Awards, which named Comviq the strongest telecom brand in Sweden based on an extensive consumer survey. Also, the Swedish Quality Index SKI study, published just this week, rankes Tele2 as the main consumer brand with the highest customer satisfaction levels alongside Tele2 business making the largest improvement in customer satisfaction in the B2B segment.

In the Baltics, our Lithuanian business, which is the most fearless and the most customer centric, recorded an all-time low churn of mid-single digits in the postpaid consumer segment, and something for the whole of the Tele2 footprint to learn from.

With respect to our upcoming mergers, as you know, a number of key milestones were achieved during the quarter. Starting here in Sweden and the merger with Com Hem, the transaction has now been approved by both sets of shareholders and the European Commission, and the transaction will now officially close on November 5. As for our Dutch merger, we continue to have a constructed dialogue with the European Commission during the phase 2 of regulatory process. The commission has set the date for a final decision on November 30. However, they do have the right to extend this timetable further if they feel it necessary.

So let's see into the markets in more detail, and we'll start with our Baltic Sea Challenger businesses and taking them in order of size, I'll first hand over to Samuel, who will present the results for Sweden.

Samuel Skott ***Tele2 AB (publ) - Executive VP & CEO of Tele2 Sweden***

Thank you, Allison, and good morning, everyone. In Sweden, following an eventful first half of the year with new price plans launched in the price fighter segment and increased competitive activities, the third quarter was still vibrant with lot of campaigns but no major movements in pricing. Our business remains resilient with mobile end-user service revenue we are starting to grow with the B2B segment and consumer postpaid driving the results.

EBITDA was up by a healthy 6% with disciplined cost control, lower marketing spend and strong network cost efficiency compensating for a continued decline in our legacy fixed business.

Our rolling 12 months cash conversion continues to be on a high level at 79% with an operating cash flow for the same period of roughly SEK 3.4 billion.

Looking closer at our consumer business, we continue to leverage our strong jewel brand position and customer value propositions to successfully navigate the competitive environment. Mobile end-user service revenue remained resilient, flat in the quarter, despite sustained strong competition in the price fighter segment. This result is driven by solid growth in consumer postpaid, which is up 6% year-on-year, but offset by declines in prepaid and mobile broadband. Postpaid ASPU was up 1% in the quarter, mainly driven by Tele2, while Comviq postpaid ASPU remains stable. As Comviq have come from strength to strength, it makes up an increasing part of our consumer business naturally having an effect on the ASPU mix. As for Tele2, we see a continued demand for unlimited as customers continue to embrace the benefits of the connected life and in the process, consume more and more data. Volumes per postpaid subscription increasing by 30% over the past 12 months. Successful retention activities kept -- headed to stable in the quarter despite the effects from the marketing movements in Q1 and Q2. Sweden's ambition, our ambition is to achieve the strongest growth through the most satisfied customer, and therefore, I'm very pleased to see that Comviq, for the second year in a row, won the title of the strongest brand in the market in Evimetrix and your ranking, which is based on a combination of customer satisfaction and brand recognition.

Moving in to B2B, as we saw in previous quarters, the B2B market continued to be price competitive as players continue to challenge the incumbent premium pricing position. Revenue growth was up 1% of high equipment sales, and return to growth for mobile more than compensated the continued price competition. Service revenue was down 3% with headwinds from price erosion of legacy fixed business being partly offset by growth in mobile end-user service revenue of 3%, as we now start to reap the benefits of the consistent customer wins over the past year.

Our B2B sales organization is becoming more effective and confident as each month passes. We again had a very successful quarter when it comes to winning new and retaining existing customers. A few new names in our customer portfolio includes the municipalities of Kävlinge, Alvesta, Markaryd and Älmhult as well as Göteborg Energi and Axfood.

It all starts and ends with a customer, and we are very proud to see that our efforts to be the most customer-centric B2B operator are paying off. As the Swedish Quality Index shows that Tele2 made the largest improvement in the B2B market, where we are now a strong challenger to the incumbent and closing in on the #1 spot. This -- all of this with customer satisfaction and continued growth and wins of new customers is giving us the confidence that we are on the right track to growth. As we now see the first evidence of this in the quarter, the growth in our customer base should enable the continued recovery of revenue trends going forward for B2B.

And with that, I'd like to hand back to Allison, who will provide you with the results from the other markets.

Allison Kirkby ***Tele2 AB (publ) - President & Group CEO***

Thank you, Samuel. So moving east to the Baltics, it was another solid quarter for data monetization despite for year-on-year comps and the impact from customer compensation following a significant rolling out in early August. This outage shaved 2 percentage points off of the reported mobile end-user service revenue growth for the quarter. So underlying, we remain at our mid-single-digit ambition of 5% growth.

This underlying growth was driven by continued solid momentum in both Lithuania and Latvia. And as expected, this was partly offset by declines in Estonia, where we're still suffering from aggressive price competition in prior quarter at the loss of a mobile broadband MVNO arrangement to the Starman. For the region as a whole, EBITDA increased by 9%, driven by the top line growth and continued excellent cost control filtering through to a strong increase in cash flow with rolling 12 months operating cash flow up 12% and an excellent cash conversion similar to our Swedish business of almost 80%.

In the quarter, we saw aftergrowth of 1% as -- obviously higher than that in Lithuania and Latvia, as the transition from prepaid to postpaid subscriptions continued and customers traded up to larger data bucket. As in previous quarter, smartphone and mobile broadband penetration continues to increase, which supports the uptake of the larger data bundles.

Our Lithuanian business continues to be a shining light for the mobile industry with a record low churn rate of mid-single digits in consumer postpaid, great testament to the Lithuanian team's obsession to grow customer loyalty and customer lifetime value.

Our Latvian network also received positive recognition in the quarter as it was named by the regulator as offering the highest mobile Internet speeds of the country, now even faster than prior quarter with speeds above 40 megabits per second.

On a less positive note, Estonia has yet to turn around, however, our new CEO has a solid plan underway and is continuing to readjust the commercial model towards a higher quality proposition. In quarter, we saw positive progress on both NPS and margin development giving us confidence that we will see the revenue and EBITDA trends improve during 2019.

Now moving even further east to our investment markets and Kazakhstan, where despite continuous competitive pressures, mobile end-user service revenue was up 22% in local currency, driven by very strong monetization of increasing the larger data buckets as well as continued growth of the customer base. EBITDA was up by more than 60% in local currency, and we continued to sustain an excellent margin of 34%, thanks to the benefit with higher ASPU, increased scale and cost discipline.

As a result of this excellent momentum, Tele2 Kazakhstan's ability to generate cash continues to improve, now at 68% cash conversion on a rolling 12-months basis. Further repayments against the shareholder loan of KZT 6 billion, approximately SEK 150 million, were made in the quarter, and as I said earlier, accumulated repayments now amount to approximately SEK 750 million with an outstanding balance, as of end September, at SEK 2.3 billion.

Looking at the Kazakh results in a bit more detail, our customer base grew by 4% year-on-year and ASPU was up by 17% year-on-year driven by our 4G advantage, our improved network quality perfection and our jewel brand strategy with new tariffs launched on both brands during the quarter.

Despite a tougher competition, our focus on improving customer satisfaction continues to drive positive net intake for both brands, and as you can see, net promoter scores are improving also for both brands, paving the way for further growth. This scale of results coming out of our Kazakh team reflects the hard work and efforts of that local team. So much so that our JV integration project has laid the foundation for the current momentum, and it has been shortlisted at the Capacity Global Carrier Awards for the best Asian project in recent years.

And with that, I'd likely to hand over to Lars, who will go through the financials.

Lars Nordmark ***Tele2 AB (publ) - Executive VP & Group CFO***

Thank you, Allison. I'll start by making a few comments on the P&L this quarter. We saw a strong revenue growth of 7%, which was mainly driven by the continued mobile end-user service revenue momentum in the Baltics and our investment markets as well as continued strong equipment sales. At the EBITDA level, we had great contributions from across our footprint, driven primarily by revenue growth but also supported by excellent cost discipline, as mentioned by both Allison and Samuel. Looking at the reported revenue and EBITDA, both were helped in the quarter by an FX tailwind of approximately 3%, explained by the weaker FX compared to the euro, Croatian kuna and Kazakh tenge.

Moving further down the P&L, we have some items affecting comparability, the lower EBITDA, which relates to acquisition cost of Com Hem as well as integration cost of Com Hem and TDC. On the line other financial items, we report changes to the valuation of the earnout obligation for Kazakhstan every quarter. This quarter, the value increased again to just north of SEK 700 million on the back of continued splendid performance by Kazakh business.

Accordingly, we recognized a SEK 155 million noncash cost in our P&L as the value of our liability increased. As of P&L taxes, which were actually bit lower in Q3 2017 as we recognized a deferred tax asset in Germany of SEK 62 million, which is up in a positive impact of the tax in the quarter. In addition, we now have the tax cost in Kazakhstan.

If we then move on to the next slide, you can see the changes in the cash flow as compared to the same quarter last year. Do bear in mind that the cash flow statement is on a total operations basis and therefore, includes discontinued operations. Here, we'll make a few short comments. Adjusted EBITDA for discontinued operations is higher than Q3 last year reflecting mainly results from the Dutch business. Lower tax payments this quarter are mostly related to the timing difference in Sweden. At the CapEx line, the main difference versus the balance sheet CapEx is, of course, that the cash flow is on a total operations basis, for a Dutch CapEx is included here. At the bottom of the table, we split the free cash flow in continued operations and discontinued operations. As for the cash flow from discontinued operations, the year-on-year difference is mainly related to working capital movements in the Netherlands.

Moving on to the next slide. This is a familiar picture by now. It shows the operating cash flow defined as EBITDA less CapEx on a rolling 12-month basis. Our Baltic Sea Challenger businesses and our smaller business units continued to -- its trend by producing a solid cash flow of well over SEK 4 billion. The remaining investment markets' CapEx on -- in Croatia together generated over SEK 700 million of positive operating cash flow over the past 12 months. This is a significant turnaround from having produced a similar sized operating cash flow lost less than 3 years ago.

So, together we are now at an operating cash flow contribution from continuing operations of SEK 4.9 billion, while the Netherlands is still consuming cash.

Moving on to the balance sheet on the next slide. Our economic net debt went up temporarily in Q2 as we paid out the dividend of SEK 2 billion. During the third quarter, we have taken down our debt from SEK 11.4 billion to SEK 10.2 billion through a positive cash flow generation, meaning that we closed the quarter with a healthy leverage of SEK 1.5 billion. Looking back 12 months, we have generated free cash flow of SEK 2 billion. We're seeing the cash contribution from the sale of Tele2 Austria, and against this, we pay a dividend of SEK 2 billion. Altogether, this deal leaves us with a stronger balance sheet than a year ago.

Let's touch my final slide, which covers financial guidance. First of all, I want to make it clear that the financial guidance provided on this slide is for Tele2 on a standalone basis. This means that no contribution from Com Hem is included as we want to be consistent with guidance provided earlier this year. As for the guidance, we are on the back of the continued strong delivery in our markets, upgrading our adjusted EBITDA guidance for the full year to between SEK 7.0 billion to SEK 7.2 billion. At the same time, we are taking down the full year guidance for CapEx to between SEK 1.9 billion to SEK 2.2 billion to reflect the investment rate seen to date.

Guidance for mobile end-user service revenue remains unchanged as mid-single-digit growth.

And with that, I'd like to hand back to Allison for some concluding remarks.

Allison Kirkby ***Tele2 AB (publ) - President & Group CEO***

Thank you, Lars. So let me end with our priorities as we hand over to the next Tele2 leadership team. First, with the closing of the merger with Com Hem only a few weeks away and the regulatory process in the Netherlands moving forward, our focus is now preparing for day 1 of our 2 transformational mergers. Both transactions will allow Tele2 to take its customer-focused strategy to an even higher at-scale level. However, whilst integration ramps up, we cannot and will not take our eye off the ball on the basics, and we will ensure that the great progress we've made financially and operationally over the last 2 years will be sustained. Thirdly, we'll continue to drive growth through the monetization of data across our footprint, which will enable us to continue our industry-leading momentum in the Baltics, Croatia and Kazakhstan and further momentum in Sweden now that we're back to growth again. All of this is done in the pursuit of our purpose to fearlessly liberate people to live a more connected life. And so as this will be my last quarterly report as CEO of Tele2, I'm extremely proud to hand over a business with a well-defined roadmap to create a leading connectivity provider around the Baltic Sea with optionality in our investment markets. Throughout my tenure, we have driven returns through disciplined capital allocation and focused our efforts on the markets where we can win from never losing focus on our customers.

I will, therefore, like to express my huge thanks to the whole Tele2 team who have been part of my Tele2 journey over the past 4-plus years. They are vibrant. Challenger-oriented spirit is the energy that drives Tele2 forward to ever stronger achievements. Some people think telcos are boring. Well, let me tell you, Tele2 and the Tele2 team are never boring. And I wish all of them to remain not boring, but wish them every success as their mission continues to liberate people to live a more connected life.

And with that, Lars, Samuel and I would like to take your questions.

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

Operator, we're now ready to take some questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) We will now take our first question from Lena Osterberg, Carnegie.

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

And questions now, I think on B2B Sweden for Samuel. I was wondering, are you sort of indicating that we're to see a year-over-year growth as of the fourth quarter? And then a question also on the Dutch mobile operations, which you now had at a breakeven in the quarter. Should we expect the mobile OpEx needs to stay around this level, you are thinking about EUR 400 million now? Or is it something that will drive it higher going forward into next year? And then also on the merger with Com Hem, I'm just trying to understand the PPA in your merger document. I was wondering if you could give some kind of indications on size of the intangible amortization and the tangible depreciation going forward post the merger.

Allison Kirkby ***Tele2 AB (publ) - President & Group CEO***

Okay. Thank you, Lena. Sorry to be moving on as well, but I'm sure we will keep in touch. So why don't I take Netherlands and then I'll hand over to Lars on the Com Hem PPA and then Samuel can finish with B2B Sweden. Yes, you will have seen Netherlands mobile be more positive in the quarter. As you know, we have an improved NRA agreement with Deutsche Telekom that kicked in during the quarter. You also see some seasonality in Q3, as -- but beyond that, we prefer not to really comment on the Dutch business at this time. The dialogue with the EU continues to be very constructive, and we remain on track with the process that we expected. Phase 2 -- the phase 2 period comes to an end on November 30. The commission, however, can extend that further into December, but as I said, a good constructive dialogue. And so that's what I would like to say on the Netherlands. And, Lars, why don't you...

Lars Nordmark ***Tele2 AB (publ) - Executive VP & Group CFO***

Yes, on the PPA for Com Hem, as you know, Lena, this is a preliminary one that we have done. If you look at the total consideration about the SEK 27.5 billion, we got about SEK 15.7 billion allocated to our intangibles. Out of which, approximately SEK 12.8 billion is to customer relations and then the remaining SEK 2.3 billion is to grants. Now they will be depreciated over anywhere between 5 and 15 years. So the additional account of depreciation, amortization that you would see is around SEK 770 million per year.

Samuel Skott ***Tele2 AB (publ) - Executive VP & CEO of Tele2 Sweden***

Okay. And going on to the B2B question. I mean, what we see is continued recovery on the back of great wins with a lot of customers in the recent year. We built the momentum in -- within our customers and sales organization, and we're continuing to see that momentum. I'm not going to guide on a specific quarter, but we're confident that we will see that recovery going forward.

Operator

We will now take our next question from Stefan Gauffin, DNB.

Stefan Gauffin ***DNB Markets, Research Division - Analyst***

So first of all, I would just like to wish Allison and also Lars late one good luck in the future careers. And then I have a couple of questions just to clarify. So very strong performance on Sweden EBITDA. Can you give some more details here, first of all, relating to marketing spend, how much that was down year-over-year, especially on the mobile operation? And secondly, on other operations in Q2, you reported an EBITDA of SEK 28 million, this quarter, SEK 100 million. And looking at 12-month rolling, it's around SEK 70 million per quarter. Is this a normal seasonality effect? Or how should we think about that?

Allison Kirkby ***Tele2 AB (publ) - President & Group CEO***

Thank you, Stefan.

Lars Nordmark ***Tele2 AB (publ) - Executive VP & Group CFO***

Okay. So I mean, if we're going to the marketing spend, yes, it was lower in the third quarter. Not going into details exactly how much, but it was lower in the quarter.

Samuel Skott ***Tele2 AB (publ) - Executive VP & CEO of Tele2 Sweden***

And I think on other operations, Stefan, there is a couple of things going on there. One is the equipment (inaudible) so basically is a contribution in margin that we get from equipment sales, that was up, both versus last quarter also the quarter last year. And then there's also some seasonality on the cost side. So if you look at year to date, we're pretty much about the same level as we were last year. So that's probably from an underlying business performance gives you a better indication intimating some of the seasonality impact.

Operator

We will now take our next question from Peter Nielsen, ABG.

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

Congrats, Allison, on your new challenge in Denmark, and good luck to you both.

Allison Kirkby ***Tele2 AB (publ) - President & Group CEO***

Thank you, Peter.

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

A couple of questions, please. Firstly, if I can just return to Swedish consumer mobile, growth looks a bit weak in this quarter considering we're now out of the Roam Like at Home impact, could you perhaps, Samuel, talk a bit about what impact you've seen from these pricing moves in Sweden in the first half of the year during spring? And whether you feel that perhaps some of the increased data bundles, as you talked about, has limited the near-term upside potential to revenues and will continue to do so in the future? Any color you can give here would be appreciated. And if I can just ask on B2B, since the acquisition of TDC, Swedish business, you seemed to have improved your market position considerably in B2B. Can you talk a bit about what has been the driving factor? Is it ICT solutions? What is the driving factor behind this improved competitiveness, please? And thirdly, if I can just ask Lars. Lars, what is the main driver of the lower CapEx guidance for the full year, please?

Samuel Skott ***Tele2 AB (publ) - Executive VP & CEO of Tele2 Sweden***

Okay. So well, I'll start. If we go to the consumer mobile piece, I mean, we see -- continue to see really good growth in the consumer postpaid segment in this quarter, offset by declines in prepaid and mobile broadband. Of course, what happened in the first and the second quarters affected us a bit. But I think the main thing here is that we have remained a very stable business, and we definitely see opportunities for growing going forward. In terms of data bundles, we don't see any kind of signs that the increase in data bundles have any effect on our ability to grow. As we've campaigns adding and giving customers a chance to try more data. We see that they use more data. So there is vivid plenty of room to grow in consumer usage of data. Going over to B2B, I mean, you are absolutely right. With the TDC acquisition, we have turned that into much stronger combined market position. And I think it is just the combination that makes us so strong. It's the Tele2 fantastic mobile network and some of the cloud and cloud PBX services combined with TDC's huge knowledge and large enterprise segment in integration services that makes us successful. And we are seeing that on the back of the combined customer relationship. We are able to grow those relationships with new products and new services. And I think that's the underlying thing driving our momentum.

Lars Nordmark ***Tele2 AB (publ) - Executive VP & Group CFO***

And then on the CapEx guidance, I think that the 2 factors is, one, an overall level -- spend level across the board. And then in CapEx bond, if you look at data level compared to last year, they're down significantly. And I think we've reaped more benefit that we initially thought from the combination of the network that we did last year. And then the team (inaudible) really good work on the transmission, which has saved us some of the CapEx. That CapEx will probably have an uptick in the Q4, but still a lower guidance for the full year.

Operator

We will now take our next question from Maurice Patrick, Barclays.

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

Again, from my side, congratulations and good luck to both of you going forward. Couple of questions, please. I know you don't want to comment on the magnitude of the (inaudible) marketing, but was it volume led or was it sort of unit cost led? Is it -- are you being more efficient in how you allocate marketing spend or just -- you just spend this. And then the second question relates to CapEx levels. We haven't really spoken too much about today. I've always been amazed by how low the capital intensity is at Tele2. Another JV return obviously helps. I see -- I believe, you've booked the CapEx proportion, but given some of the strong growth in data, how are you able to keep that CapEx level just so low in Sweden?

Lars Nordmark ***Tele2 AB (publ) - Executive VP & Group CFO***

If you want on the second...

Samuel Skott ***Tele2 AB (publ) - Executive VP & CEO of Tele2 Sweden***

Yes. So on marketing spend, I mean, I would say it's a bit of both. We can see that we have been -- and that was actually part of the Challenger program, if you remember that, to work even more efficiently on data driven with marketing spend. So we are becoming more efficient in the way we work with marketing. But it's also a fact that the third quarter was a bit lower in terms of just spend as we made the decision not to go forward in the third quarter on some of the campaigns rather focusing on the most efficient ones. But it's always seasonalities in marketing, and as you know, some quarters are lower and some quarters are higher. So I think that's the basic explanation.

Lars Nordmark ***Tele2 AB (publ) - Executive VP & Group CFO***

And I think on the CapEx level in Sweden, as we have said a lot of times more is it that, it has been at an unusually low level and you would expect it to pick up somewhat. I think the investment that we have made in our 4G network have been extremely efficient. We have a very good cooperation with Telenor on that side to the way we cannot drive, roll out the capacity expansion, it's done in a very efficient way. Eventually, we will have to do some modernization to that network, but it's also clear. But for now, I mean, we are seeing levels that have been very low and it's not that we're holding back on investment, not at all. We are obviously monitoring the base station from thresholds, and we are upgrading them when we see them reach at certain point.

Operator

We will now take our next question from Terence Tsui, Morgan Stanley.

Terence Mun-Sion Tsui ***Morgan Stanley, Research Division - VP***

I've got a couple of questions, please. Firstly on Sweden, just following on from the discussion around B2B. I just wondered if you could give us a bit of a color around the pricing dynamics in B2B. Because I would have thought that lot of these large enterprises would have been very price sensitive. But as you are saying now that they are valuing much more, the conversion offer that you can give them now that you're merged with TDC in Sweden? And then secondly, I just had a couple of financial clarifications, please. So just on Kazakhstan, you mentioned the value of the production, is that including or excluding the accumulated repayment so far of SEK 750 million? And I know -- and do you have a latest value on the equity value as well, please? And so just lastly, on the Com Hem merger, do you have any more updates on the different accounting policies between the 2 companies? And how this could potentially impact EBITDA and cash flow from bringing the 2 businesses together?

Lars Nordmark ***Tele2 AB (publ) - Executive VP & Group CFO***

Okay. I'll start on the B2B side. I think, yes, there is -- it's a very competitive landscape. We see that also in terms of pricing, and if you compare, I mean, prices on a standalone SIM card connection, is going down over time. But what we are seeing is, as we alluded to, I mean, convert services and the ability to be a full-service supplier is extremely important, I mean, almost in all segments of the B2B business. And what we are able to do, in a lot of our businesses, is to expand the relationship we have with the existing customer base. So even if prices on a standalone service might be going down, we're able to offer more services now that in a lot of relationships actually more than compensates for the price erosion. So price erosion on standalone services is there. It's very competitive. But our kind of solutions, if you will, it's to grow our relationships with customers and take a larger part of the total spend in terms of communication and integration services.

Allison Kirkby ***Tele2 AB (publ) - President & Group CEO***

And moving onto Kazakhstan. So we have a remaining outstanding balance of SEK 2.3 billion. And that is improving at an interest rate of high single digits because it's big interest. So we've received SEK 750 million already and there's SEK 2.3 billion to go. In terms of that, it's just purely shareholder loan and doesn't take churn of any equity value that, we believe, is there in the business and as we continue to accrue against in our books. So you will have seen because of the continued momentum in the quarter in the business, we have taken up the value of the (inaudible) see it again. And that's equivalent to an 18% equity stake, and that's currently sitting at SEK 730 million. So if you think -- our diluted ownership of that business is 31%, so the equity value is almost double that based on how we are valuing the business at this point in time. And the final question was on the Com Hem merger?

Lars Nordmark ***Tele2 AB (publ) - Executive VP & Group CFO***

Yes. So on the accounting policies, I think the bigger one is probably the activation of sales commissions tariff, which we are taking in the P&L and they have activated. So that will move into the P&L going forward to reduce their CapEx. That's the biggest one I would comment on. I think in general terms, IFRS 16 is still work in progress on our side. So once we have more details on the implications, so that we will let you know.

Operator

We will now take our next question from Ulrich Rathe, Jefferies.

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

I was interested to discuss the cost pressure in Sweden a bit more. Maybe from a different angle, when you raise the guidance in Q2, presumably you had a budget in mind for the second half. Now by raising it, it seems mainly on cost development not so much on revenue, as I understand it. Could you sort of describe what part of the cost across the group really have moved quite so much compared to the plans just 3 months ago?

Lars Nordmark ***Tele2 AB (publ) - Executive VP & Group CFO***

I think you're right on the -- on account of top line. I mean, when we did go in the Q2 for the Swedish business, the top line development is broadly in line with Kazakhstan. I think on the cost side, like Samuel said, I mean we're really bit lower on the expansion cost and that's not just marketing, but it's also, I think, the store footprint and subsidies and commissions and so forth. I think the network cost, we have thought a lot about. We see further efficiencies coming through. We also see some benefits in customer service. I think if you look at the bigger kind of cost bucket in the Swedish business, expansion cost, network cost, G&A, including customer service, there've been -- it's been a positive build on -- pretty much in all aspects of that. So not see 1 single item that kind of drives this, but Q3 was lower. If you look at 2017, Q2 was also lower. We have not taken Q4 last year. You should expect an uptick in expansion cost in Q4. But we don't guide exactly on how much that will be.

Allison Kirkby ***Tele2 AB (publ) - President & Group CEO***

The underlying cost efficiency has continued, and that is benefiting with our Swedish projections and our international projections going forward. And certainly, one of the key drivers of us taking guidance out through is the continued strength in our international footprint, and that's very much revenue-driven.

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

If I just may follow up. My particular angle here is what changed over the last 3 months? I understand the drivers to some extent, and thank you for adding some color to that. But it's a relatively short period of time over the summer where sort of the guidance comes up quite a bit. So I'm just wondering, where that very significant delta compared to 3 months ago sort of comes from?

Allison Kirkby ***Tele2 AB (publ) - President & Group CEO***

Sweden has turned around slightly faster than we expected, certainly from an EBITDA development as the cost interventions that Samuel and the team started to put into place earlier in the year, when the market got tougher. So I've to come through. And we have continued to perform better versus a competitive situation in Kazakhstan than we were expecting as well. So that's probably the 2 drivers.

Operator

We will now take our next question from Nick Lyall, Societe Generale.

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

Couple for me, if that's okay. On the Swedish B2C, first. It doesn't look like you're struggling in terms of churn pool at all or in terms of marketing. So is there any increase do you think generally from Swedish consumers in convergence at the moment, obviously, for the other operating not for yourself? But any reductions in the churn pool because of that. And on the B2B side, do your comments suggested like-for-like B2B pricing is getting more difficult? I mean, obviously, you are making gains via the TDC acquisition, but it is basic market pricing for like-for-like products offering?

Samuel Skott ***Tele2 AB (publ) - Executive VP & CEO of Tele2 Sweden***

Okay. So starting up B2C and if kind of convergence affecting the churn pool. Well, talking about the kind of the mobile churn pool, where we are in currently, we don't see any effect of that. I mean, we are seeing FMC starting to happen, but it's starting from extremely low levels. So that will take time. So in the mobile churn pool, we're seeing very, very limited effect of that. In terms of B2B pricing, I wouldn't say it's getting more difficult. It's part of the B2B business, and especially in the early segment, it has always been there, and I think it will continue to be there. And the way for us to mitigate that is, of course, to win more customers as we see a potential in that but also expand our relationship with the customers we have.

Operator

We will now take our next question from Victor Höglund, SEB.

Victor Höglund ***SEB, Research Division - Analyst***

Two main areas of question, if I may. First, going back to CapEx. Do you see any news around (inaudible) for 5G in 2019 or maybe in Sweden due to capacity made for Kazakhstan, where you have now had a good benefit for a while and maybe that's reversing 2019? Or anything you can comment on CapEx trends into the '19 would be very helpful. And then on the mobile service revenue growth in general here. And first on Sweden, can you broadly indicate or just provide some color if possible on how mobile B2C service revenue growth would have been in Q3 or year to date, excluding negative impact from prepaid and mobile broadband? And then if you can just talk a bit about where you see the main drivers for mobile service revenue growth in 2019, that would be super.

Samuel Skott ***Tele2 AB (publ) - Executive VP & CEO of Tele2 Sweden***

So if we talk by CapEx levels and the need for going forward, I think coming back to what Lars said, I mean, we're running a very efficient network currently and a very good cooperation with Telenor. And of course, our ambition and target is to keep on running a very efficient network. However, as well, as Lars said, eventually, we will move into modernization of that network and 5G rollout as well. So that will remain an uptake. But I think -- I mean, you can rest assure that efficiency will be the name of the game for us going forward as well. And doing it as an evolution rather than a revolution. If we're going to service revenue for Sweden, I think -- I mean, the key thing we disclosed already is, that in consumer postpaid, we grew 6%. So I think that gives some kind of good pointer for you. In terms of forward-looking statement, we're not giving guidance of that prepaid level at this point.

Lars Nordmark ***Tele2 AB (publ) - Executive VP & Group CFO***

Yes. And I think on the CapEx bond level, as I said before, it's been unusually lower, we would say, is lower than expected. We would expect an uptick in 2019. I mean, the business is firing on all cylinders and growing tremendously. What that particular number will be, that's for Anders and Niklas to come back on one day and communicate the 2019 guidance with the Q4 figures.

Victor Höglund ***SEB, Research Division - Analyst***

Okay. Great. And just 1 question, again, on the consumer postpaid mobile service revenue growth that you speak about, 6% here. How is that -- is the main contributed at the larger bundles? Or is it up -- trending on lower bundles or mix of everything? Just some logics on the dynamics that would be super helpful.

Samuel Skott ***Tele2 AB (publ) - Executive VP & CEO of Tele2 Sweden***

I mean, it's the same underlying dynamics that we've seen within our dual brand strategy, which is the growth of Comviq and customer base and a successful data monetization with unlimited within the Tele2 base.

Operator

We will now take our next question from Usman Ghazi, Berenberg.

Usman Ghazi ***Joh. Berenberg, Gossler & Co. KG, Research Division - Analyst of Telecom***

And I just wanted to extend my well wishes to both Allison and Lars as well. I've got 3 questions, please. Firstly, I was wondering, on the consumer mobile revenues, again, in Sweden, I mean, if I look at it excluding the Roam Like at Home impact, we've gone from plus 3% growth in Q1 to plus (inaudible) in Q2 to flat now in Q3. I mean, not asking for the direct -- specific direction going forward, but I mean, is there a risk that consumer mobile revenues go into a bit of a decline here? Or do you expect them to stay flat to up over the next few quarters? The second question was just on whether you could comment on how big the legacy revenue exposure is in the B2B business? And my final question was just on the equity value that's implied by the earnout calculation for Kazakh. When it comes to a potential exit, is there room for negotiation on that equity value? Or is what you're providing in the accounts? Basically what's an agreed kind of mechanism to calculate the value?

Samuel Skott ***Tele2 AB (publ) - Executive VP & CEO of Tele2 Sweden***

So I mean, if we start with the consumer fees, what we're seeing is our ability to be stable in a vibrant market. We're confident that it won't get worse, and we're definitely seeing opportunity to grow going forward. We have seen decline in the prepaid and mobile broadband business as well, which is a natural movement in the market. So it's not only about what happened in the first half of the year. But it's -- we are stable in a vibrant market, and we see opportunity to grow going forward. In terms of the division of revenues in the B2B area, that's not something that we disclose.

Lars Nordmark ***Tele2 AB (publ) - Executive VP & Group CFO***

And, Usman, on the earnout, so we got a SEK 730 million on the 18%. So that's a total equity value for that business about SEK 4 billion. And as far as the room to negotiate, there's a clear kind of way forward in the shareholders' agreement on the valuation mechanism, and that will be followed. One important element to note if ever that we are valuing it in our books according to DCF in the valuation methodology and approach we will have with the other party. There are more elements to the valuation than just the DCF. There is also comparables and multiples and so forth about the transaction. So that's important to remember.

Operator

(Operator Instructions)

Lars Nordmark ***Tele2 AB (publ) - Executive VP & Group CFO***

Yes, operator, I think we actually need to finish up the call very soon. We've got the Com Hem call coming up in a few minutes. So we'd like to thank you -- everyone who has been listening in, and we look forward to speak to you again in February when we release our fourth quarter results. Thank you, and goodbye.

Operator

This concludes today's call. Thank you for your participation. You may now disconnect.