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TEL2 B.ST - Tele2 AB Update: Sweden and Baltics

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PRESENTATION

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

Good afternoon, good afternoon. Well, welcome everyone to our fabulous new Tele2 House. For those of you that were at the previous Kista House, I hope you can see that we've done a little bit of renovation and upgrading.

This house was built to really build a sense of collaboration, co-creation, and to revitalize the Tele2 Challenger spirit as we go forward. And don't worry, we didn't buy it. We are renting it, but they designed it to exactly what we needed as a company. So today, this is - you're right at the Heart of Tele2. You can hear the noise. It's there for a very Tele2 Challenger style type of capital markets day.

It's not going to be your traditional formal capital markets day, and you'll get a real opportunity to hear from a number of our people in the organization. There'll be lots of opportunity for interaction so that you go away with a little bit more understanding and deeper feeling of what Tele2 is like at the moment and where it's heading.



Now, since we're at the heart of what we call our Baltic Sea Challenger business, we're going to very much today focus on our core markets of Sweden, of Baltics, a little bit of sprinkling of fairy dust from what we're doing in IoT. And you'll have the chance to get some updates from myself and Lars, the CFO, as well. As you can see, lots of opportunity for some Q&A time as well, and we hope you will join us for some mingling afterwards -- but just be careful what questions you ask, OK?

The presenters are a real mix of the leadership team and some of the talent we have in other parts of our organization, but you're also joined here in the arena, as we call it, and in the mingle afterwards with a broader set of both our leadership team and some other key talent that we have in the organization.

You all know Lars, our CFO. He will be presenting. Most of you know Samuel, our CEO for Sweden, and he will be joined with Francois Mairey from our shared operations organization who will bring alive our technology strategy for Sweden. You will then have the chance to meet Guillaume, who is our very international EVP, and he covers all of our markets outside of Sweden and the Netherlands, but will be very much focused on the Baltics today, but obviously we'll be able to pick up questions on his other businesses including Kazakhstan at the Q&A session.

He will be supported by Petras, who runs one of the best telco companies in the world, Tele2 Lithuania, and is now overseeing our Baltic business. And Ervins will represent the CTIO organization for the Baltics. He is based in Estonia. And then you will have our dynamic duo of Rami and Ingrid, and you are surrounded by many other people that I hope will be quiet during the presentation, but please don't ask them specific questions because they are not allowed to answer.

So the first thing we're going to do is we're going to kick off with a very Challenger-style homemade video that brings alive what Tele2 is all about, and you might recognize the actress.

(Video Playing)

Again, we did it on the cheap. So what is Tele2 all about? What we are very, very proud of is a few key things that differentiates us versus the others. First of all, our fearless brands; we have some of the best brand equities in the telco industry. And most recently, we're extremely proud of the award-winning campaigns that we have in the Netherlands behind the Fun Rebel, which is consistently taking our brand consideration scores and our NPS scores to levels that we've never seen in the Netherlands before.

And for those of you based here in Sweden, you might have seen our recent Avatar campaign where we have well-known figures such as Joel Kinnaman from House of Cards, [Kristina Stenvik], the daughter of our founder, and many other famous Swedes bringing alive what more you can get out of great connectivity.

On top of our fearless brands, we are extremely proud of the Baltic Sea strength that we have in Sweden, Lithuania, Latvia, and Estonia. And that's where we're really going to focus today, because they are consistently delivering more than 25% return on capital employed, and it's an ambition that we want to have for our whole group across the coming years. But those positions have been built from taking a very focused mobility first position.

We've recognized as a Challenger that we do have beautiful constraints and we have exploited those constraints by being really ruthless in our focus. And as a result, we have built some of the best 4G networks in the world as again recognized by OpenSignal earliest this year when we were recognized for having the best 4G coverage here in Sweden.

On top of the mobility first focus, we have been consistently innovators in the space and how we innovatively commercialize connectivity. Today, you will see that coming alive through the story of our IoT opportunity, but we have over many years been the first in a number of areas; the first at data-centric pricing, the first to decouple the handset from the subscription so the consumer could really understand the true value of connectivity, and now the first to be spotting that if we can fuel more and more devices to be connected, we can become an ever-increasing part of the consumer's lives in the future.

Those strengths have then enabled us to go in to some high-growth investment markets. Kazakhstan is now stronger than it ever was before as a result of the merger with ALTEL. We have de-risked that investment and we now have a platform for value creation that was difficult to see when we were a standalone operator in a four-player market.

In Netherlands, we're extremely proud of the position that we're now building. We're consistently taking 20% of the market. We are becoming ever more so the brand of choice to the young, to the hungry data consumers, and we're doing it in a very Challenger type way with a brand that really resonates.

But none of this is possible without the fantastic people and the culture that we have in our organization. They're all here today and they wear the culture on their sleeves. It's in their DNA and the culture has actually been built into the walls of this house as well. That's why we have some of the best in class employee engagement scores in our industry and in all the markets that we operate in.

So this is our strategy. The strategy obviously evolves over time, but the core to the strategy is our customer focus and being the champion of customer value. And we differentiate by choosing some very -- choiceful where we play and how we win choices, all underpinned by our values, our people, and our responsible Challenger approach to CR. And it's this strategy that is allowing us to consistently deliver shareholder value and will take our ambition further into the future because this will be the successful outcome of our strategy over the coming years.

Our ambition is to be consistently above a 20% return on capital employed, but that will only be enabled by having the most engaged employees and the happiest customers in the industry, and we're very happy with the progress that we're making in both of those areas.

But let's quickly touch on the industry. Everyone knows how mobile we are and we are increasingly becoming more mobile, 4G, more access to more reliable networks that are delivering much better experiences is allowing mobile demand to increase beyond anybody's previous expectations. Mobile connections are now bigger than the world's population, and as 4G continues to be rolled out, as speeds increase, and as 5G comes on the top of 4G, you can expect the penetration to increase even further.

And that will fuel not just the smartphone to be at the heart of this industry, but for connectivity to be at the heart of this industry fueling multiple, multiple devices that enables people and businesses to live a bigger life and a more fulfilled life than they could have ever imagined before the world of wireless connectivity.

And we're in a great position to take advantage of that. Our markets have some of the strongest 4G positions in the world. You don't often think about Lithuania as leading the world, but it comes after South Korea and Japan in terms of 4G availability. And we are the number one in the Lithuanian market. So, I feel very proud to say that we have fueled one of our markets to be almost at the same level as South Korea and Japan in terms of the availability of connectivity for the Lithuanians. And we follow that up with our Dutch strength, our Swedish strength, our Estonian and our Latvian strength.

So for those of you based in London, now you know why I chose to live in Sweden, because I can do everything I want to on the train back and forth from Arlanda. You can't do that on the Heathrow Express, can you? So this just proves that a very focused strategy that's been very focused on mobility first and building out great networks, thanks to our wonderful CTI organization, has allowed us to have better networks than you get in some of the biggest markets in the world.

And that's what's enabling us with all of our customer experience and focus on commercial innovation to get our business back to the levels that we believe it should be at, and that is mid-single digit mobile end user service revenue growth. These are the trends for Q3 where you saw our core business back to the 2% to 3% ambition and you saw the much higher than mid-single digit growth in some of our other growth markets, but also in the Baltics where you're seeing a real growth in data monetization. Because that's what we do, we build those networks, we commercialize them, and then we monetize data in the most successful way to return value to our shareholders.

So today we're going to try and just keep very focused on how we've done it in our core markets and why we have the confidence for our business to continue growing in those markets. And we will start first and that's where we generate all our cash, as you all know. So, we will focus very much



first on Sweden. We will then follow that up with the Baltics. And as I said earlier, you'll have a sprinkle of fairy dust on the IoT before Lars and I wrap up the time.

So on that note, I'd like to welcome Samuel to the stage. Thank you.

Samuel Skott - *Tele2 AB - EVP, CEO Tele2 Sweden*

Thank you, Allison.

Yes. Very much, a very warm welcome to our living room here at our new fantastic house in Kista. My name is Samuel. I'm the CEO for Tele2 Sweden since April, and I would like to say that Tele2 Sweden in a nutshell is about four things. It's about having a clear number two position to grow from, an award-winning network, a unique brand portfolio now infused with even more B2B strength since the acquisition of TDC, and all built and created by highly skilled and highly engaged employees.

And during 2016, we've been able to regain momentum in our business, to regain growth both at end user service revenue levels, but also on EBITDA as we manifested during the third quarter. And this is all thanks to us working hard and improving our underlying trends, the growth in the consumer postpaid segment, the continued sales of larger and larger data buckets, the continued rollout of a great 4G network to cater for more and more customers and data throughout the whole of Sweden. Because data is the fuel that our customers and our engines run on and data consumption continues to increase and it's increasing on 4G.

So, that's why and naturally why we are investing in 4G, both from a coverage perspective, but also from a capacity perspective, now being able in some areas to provide up to 340 megabits per second. And to top it off, all of this wouldn't matter if we wouldn't have the love of our customers, and we're getting that love because we are becoming not only the value champion, but also the customer champion, becoming the leader in delighted customers and customer satisfaction for the industry.

So, that's where we are. That's where we're coming from. And I would like to talk to you about, today, our some specific areas on our how we win strategy, the dual brand strategy, and then, Francois will help me to talk about how we work with our world-class networks and how we will work going forward and prepare for 5G, our progress made and the future looks of Challenger Program and also, of course, a couple of remarks of the people who make all of this come true.

But let's start with Value Champion and let's for once not start with consumer, but actually start with B2B because with the acquisition of TDC, we are infusing strength and acceleration to our B2B strategy. The B2B strategy wasn't something made up as we acquired TDC. It's something we've been working hard on for the last four or five years and we've been able to show growth in that segment, but now, we can expect even better performance going forward together with TDC, because we are complementing each other in a fantastic way, creating a stronger player for the customers, for the global players seeking local partnerships. So, that's the position we're gaining.

And it is making us a turnkey supplier. It's giving us that position to truly be a B2B large enterprise Challenger. If we look at the market shares of the large enterprise segments, it's like the consumer segment 20 years ago with one player having more than 50%. No reason in the world that it should be that way. Customers are losing in a market when it looks like that.

So, in terms of positioning, in terms of the segment focus and especially in terms of the skills and the complete product offering, we're set up to continue to grow B2B even further going forward together, and while doing so, not only growing customers and revenues and profits, but also unlocking significant synergies. OPEX synergies in the range of 300 million coming from end of migration of course, then other costs and of course optimizations of organizations and operations.

We have some CAPEX one-off synergies as we combine the strengths of our backhaul networks which of course comes to a cost. But it's a necessary cost with a great payback to get those networks combined, to get those IT stacks combined to deliver great value to our customers and to of course run the program and make the restructuring necessary.

In the consumer segment, I would argue that we have a unique position, having true two strong, very well known, very loved brands covering the entire part of the market in both Comviq and Tele2, Comviq, who is the market leader when it comes to prepaid and well positioned as the modern price fighter, are through those two great assets delivering great growth, also in the consumer postpaid segment, mainly through customer net adds.

Tele2 on the other hand is really leading by example when it comes to data monetization, stimulating usage and monetizing that usage by selling larger and larger buckets at the same time as improving the customer experience. And this is something that we will continue to work on and emphasize even more going forward, because the life of the connected human is changing. Telco has been very centered around the smartphone, the one device, the main device probably.

But, there is always today a number of devices surrounding that device and more devices will come and this is a great opportunity for us and the Tele2 brand in the consumer segment as we move forward because we will be championing this movement ahead by being the natural leader and enthusiast of connectivity, not just for a smartphone but for everything, making sure that it's simple, it's transparent, it's flexible, making sure it's great value and great amount of data for the money you pay and making sure that it is simple and easy to connect all of the gadgets that you want and kind of think of to your account.

And this is manifested now as a first start with our new offering and in the most recent campaign as should be seen as the first start of this journey, to be content with more, really showcasing what you can do with connectivity, with new types of applications, with new types of hardware, and in this case, being able to enter into a stranger's mind. Why be content with your own mind when you can enter everyone else's mind in the world, for instance, Joel Kinnaman or [Kristine Stenvik].

But none of this of course could happen if it wouldn't be for some really, really great network capabilities. And to talk about that, I would like to welcome up Francois. Please.

Francois Mairey - *Tele2 AB - Shared Operations Organization*

Thank you, Samuel.

So, Francois Mairey is my name. I'm within the technology department within the shared operations and I will explain you a bit why we have - I mean, we need a great network as Samuel said, but we have a great network. That's the good new. I will explain you why in a nutshell.

So, first of all, we have not only a 4G network in place but we have a 4G+ network which is called as well LTE advanced. So, we're able to very early enable carrier aggregation which is a great function, to merge two pipes, two bands that we can offer to our customers into one big pipe to increase the bandwidth and the throughput you can offer to your customers. At the same time as well, getting more efficient in the way we are using our spectrum.

So, I will explain to you afterwards a bit why we have this big advantage in our spectrum portfolio and this is key to understand this evolution on this carrier aggregation, aggregating a few bands but even more in the future. So, we are there today what Samuel was saying, more than 400-megabit per second for one customer in one cell, in some specific cells. We will go even further the next years and we have a great advantage. We are prepared for that. I will explain you why afterwards.

But to do that, also, to have a good network, we need to be good where our customers need us. So, we are focusing a lot on the railroad. Now, we have an advantage here as well. We were able to use our low band frequencies, 900 megahertz for 4G, for LTE which means we have very large cells and also, a very deep indoor coverage in the train. So, that's a great advantage we have and we are leveraging on that, so, again, deep indoor coverage, at the same time, a very efficient way of using our frequencies.

And we will, of course, finalize the coverage of the subway in Stockholm. So, we have a lot of indoor coverage projects ongoing and we are here also in a very, very good shape. Q2 will be the date when we will finalize the subway for example. But that's what we can tell you, but some other

third parties like benchmarking and tests are showing us as well that we have the best network in the Nordics. We have a really great, great network here. So, it's confirmed many times. Open signal is one of them. We are more than this.

So, this is a combination, having low band frequencies that I will explain you afterwards with a great fantastic 4G network which has been deployed very quickly. We have now 88% area coverage which is exceptional, and 99.9% population coverage, again, exceptional. And it's not finished. We can leverage on that having a great, fantastic 4G network. Having the possibility of using carrier aggregation and LTE advanced, we will, for example, combine next year as soon as the handsets are available and capable of doing so, having the lower bands put together, with carrier aggregation and that will push and boost the performance in rural areas and for deep indoor coverage even further.

So, the secret of all that is that we have a fantastic portfolio in terms of frequencies and spectrum. So, as you can see here, we have a great advantage in the lower bands. So, we are currently lower bands champions. We were able to have a first MOCN network sharing agreement with Telenor. That was the first MOCN on 2G worldwide, and that was enabling us to use these low, low frequencies for 4G. That's a unique situation and we are leveraging on that to have this best network possible.

If you compare with competitors like Three or Telia, they don't have that. They have to have the frequencies for the old legacy 2G/3G which we don't have. That's a great advantage. To explain why it's an advantage to have these lower bands, we have bigger cells than others which have two effects, not only the deep indoor coverage, but we utilize as well the spectrum more efficiently. We have more customers in one cell. So, it's utilizing much more the asset we have here. So, it's a double advantage here.

But it's not the only thing. We think we have a great and perfect path to 5G by focusing on a few key technologies, not adopting all of them, just a few which are enabling us to go to this transformation to 5G. And for this transformation, it's not a revolution. It's just a very simple evolution because we have the right basis already today in 2016.

So, it's not only having this great portfolio of frequencies which is absolutely key, of course, but we have also in the background, some transmission network ready, with microwave fiber, but also ready for this ultra low latency that we will need in 2019 as a last step prerequisite to 5G. So, we are preparing this and we'd be able to use features not only the carrier aggregation I was explaining with a real growth in the throughput for our customers per cell, but also very, very key features like COMP, coordinating multi-points, where you're not only using the pipe of carrier aggregation, bigger pipe, but also connecting to multiple cells.

So, we have it today already in 2016 which is unique, but we can also, with this fantastic transmission network, plan it for the future. As soon as we have a synchronization - phase synchronization in our transmission, we will use multiple cells for multiple sites, so inter-site COMP. And this is I think unique with the great portfolio of frequencies that we have all together.

That's the first path to 5G. I will say the most technical path, radio transmission, ready for that, but we are more than this. We have also the application layer where we are also champions in a few things, VoLTE, for example. So, for us it's very easy to introduce VoLTE with high quality. We can copy-paste what we did in Netherlands. We did there - so, I'm seeing also unique worldwide, we have the first 4G-only network.

So, VoLTE is not only an add-on and a nice to have feature like for other operators. It's our main voice technology. And that's why we put a lot of effort there. We have a great quality. We have almost 0.5 million customers provisioned on VoLTE today in Netherlands who using our VoLTE. We have a great quality and low dropped call rates, but also a fantastic experience for the customers.

For the battery, the battery lifetime is much higher in new handsets. You have very, very short call setup time. When you call, you have the - it's ringing immediately and you have also this full HD voice experience which is very fantastic. It seems that you have the person you call next to you. That's really fantastic what people in Netherlands can enjoy today with our full 4G-only network.

So, we can just copy-paste it. It's ready for Sweden as well. We will introduce it next year. And we have of course an evolution, multiple, other functionalities or features or applications which are important for the customers, video over LTE, et cetera, which will be quite easy for us to implement. And one of the key things why it's easy for us to implement, we are ready today with the cloud and that's the last thing which is really, really where we think we have a great position, a great positioning.

I put here the cloud in 2019. If I would have shown you 2016, you would have seen we have already the cloud. We have a private cloud in place. We are using it already today and this is also unique in the industry. So, we had a big bet to believe in this technology, to believe if we have our private cloud, we can easily put some applications, either network functions or IT applications, in the cloud in a very cost efficient way. That's the great advantage, but also prepare for the path to 5G.

So, 5G will be, of course, all in the cloud, so, big transformation of all telco which we are doing today, already acting on it, but also being able to distribute our architecture. That will be key for 5G. 5G is a technology of small cells and distributed architecture and this is what the cloud will enable us to do in a very easy way.

So, being near to the customers for this 5G applications and what we have just before from Allison or Samuel, this IoT, Internet of Things which is machine-to-machine, is machine-to-humans, humans-to-machine, very important, and that this is what is supporting or what will be this 5G technology. You will hear a bit about that afterwards on IoT after Samuel, I think, after the Baltics.

That was it. So, I think we have great, great things towards 5G, very simple. In fact, I hope I was not too technical. It's a very simple thing to understand. We have a great, great basis towards our 5G evolution here.

And, yes, I will pass now to Samuel to go on with why are we so productive and why do we have so great people with a winning attitude. Thank you so much.

Samuel Skott - *Tele2 AB - EVP, CEO Tele2 Sweden*

Thank you, Francois.

Francois Mairey - *Tele2 AB - Shared Operations Organization*

Thank you.

Samuel Skott - *Tele2 AB - EVP, CEO Tele2 Sweden*

So, I guess you all understand why I needed help in explaining the path to 5G.

Moving into step change productivity, for us to be cost conscious, worry about the costs, striving towards efficiencies, one of the key pillars of our culture and our values, that's where we come from. And we have done a lot of things within this area for the last period. One is to leverage more in the group operating model, creating the shared operations, making sure that we make use of group-wide expertise, but also, of course, sharing costs.

Another one is to make sure that we are efficient, that we strive towards a lean and mean and, of course, happy organization, and that's why we, in October, announced the reduction of more than 200 FTEs in a store optimization program to make sure that we have the cost base necessary for commercial investments and for value creation.

We're big fans of network sharing. It's been a great journey in Sweden and we will continue to develop our joint ventures going forward in Sweden to make them an even better success. And then, of course, local in Sweden also working and leveraging on the group Challenger Program which is about a couple of areas. One is simplification that we've done a lot of simplification in the residential product portfolio especially.

But moving forward, we're focused even more on process simplification, because process simplification means that you can automate those processes which means that you can digitize those processes, which means that you can provide a much better customer experience, whilst at the same time saving a lot of cost. And we had some results in this already, this year, being able to lower the so-called contact ratio, the unnecessary calls to customer service, that has reduced that cost.

Then, it's discipline, and there, we worked a lot on sourcing, to strategically source, to source as a group, to get scale and leverage and better prices. Moving further, we will focus even more on the commercial activities, making sure that we have the right return on investments on marketing, on acquisition, on retention efforts. And there, we started off with return on investment program for just marketing.

Then, it's about consolidation. And as I said, leveraging the group operating model is a big piece of consolidation and we've come quite far in that for Sweden and we will continue to fine tune and use that organization. And then, of course, transformation, having a path and a clear strategy on what do we do here, what do we do nearshore and what do we do offshore, starting with customer service and some finance function being moved to Riga and India.

And by doing this, we have created a real competence center within shared operations doing this, who can do this for an entire group and then, of course, also for Sweden, and we will utilize this group even more going further to make sure that we do the right tasks at the right place at the right price.

So, we are very much on track on the Challenger Program. We will continue to deliver on the program and all the areas aside of the program to make sure that we stay efficient and that we stay competitive. And to stay competitive, you need to have a winning people and culture, and I'm very proud to say and also very honest to say that one of the reasons that I've been with this company for 11 years and will continue to stay for hopefully, a very, very long time, is our values.

It's a unique set of values, a culture that you can feel with the people you work with, feel within the walls, and I know that a lot of other companies and competitors envy us for having such a strong culture, because it's great. It gives you guidance every day to turn left or right, go forward, go back. That means that you can take quick and informed decisions.

So, we have a great set of values, a great culture which is committed by a very highly skilled and engaged team of employees. And we will invest in that team to continue to have engagement, to continue to have values, and this is one of those investments, to become even modern, staying true to our values, but also working in a more modern way, activity based, making use of digital tools, to increase efficiency but also collaboration and innovation, extremely important going forward.

So, if we go back to the foundation and to the nutshell, we are a clear number two position in both B2C and B2B, set to grow. We build everything on efficient and award winning networks. We have unique a brand portfolio and are infusing it with the strength of TDC in the B2B LTE area and it's all done by highly motivated, highly engaged and highly committed to the culture employees.

So, to build on that and move forward within these pillars of strategy, the priorities are to further strengthen the dual brand strategy, continue the momentum at Comviq and really continue also the journey in monetization but also positioning of Tele2 going forward. It's about integrating TDC, a huge undertaking, but also enormously fun undertaking I would say, and realize those synergies whilst also building and creating this B2B larger enterprise Challenger that Sweden so desperately needs, executing on the Challenger Program to make sure that we're efficient and lean and mean and preparing for the next generation network which is 5G.

QUESTIONS AND ANSWERS

Editor

So, that's Sweden in a nutshell, and that's the key priorities going forward. And with that, me and Francois are happy to take any questions on Sweden. And now, we're going to throw boxes at you I've been told. So, talk to the box.

Jacob Bluestone - Credit Suisse - Analyst

Hi, [Jake Bluestone] from Credit Suisse. This is very weird.



Samuel Skott - *Tele2 AB - EVP, CEO Tele2 Sweden*

Welcome to Tele2.

Jacob Bluestone - *Credit Suisse - Analyst*

Can I take it home? Just on B2B, could you maybe just give us an update on where are you in terms of launching new sort of integrated products? Should we expect a re-launch of your brand portfolio and what's sort of the timing there? Thank you.

Samuel Skott - *Tele2 AB - EVP, CEO Tele2 Sweden*

Yes. So, in B2B, I mean, we successfully passed the closing in day one in last October, 1st of November. So, we're roughly one month in. We already have had some bids in the large enterprise segments and some wins actually where we have combined the strength already, utilizing the integrator and the fixed network capacity from TDC with the mobile network strength of Tele2.

And in the large enterprise segment, a lot of stuff is, it takes the bits and pieces and it'd be something unique for that customer and their unique needs. So, in one sense, you could say we're already doing it. And then, on a more kind of the general portfolio, we will be taking the decisions now before yearend and then start implementing it as we go during the next year.

And in terms of brand, TDC will not be a brand any longer in Sweden eventually. So, we're working on that transition plan and somewhere along in 2017, there will only be the Tele2 brand in the B2B space.

Jacob Bluestone - *Credit Suisse - Analyst*

Thank you.

Unidentified Audience Member

Should I start or --

Samuel Skott - *Tele2 AB - EVP, CEO Tele2 Sweden*

Yes. Throw the box.

Unidentified Audience Member

Hi, there. Thanks so much. I was wondering if you could comment on capital intensity of CAPEX to sales going forward from here in the Swedish operation because it has it going up from here in '17 and '18 from very low levels you have today. Maybe you could give us some kind of insights into what your thoughts are there. Thank you very much.

Samuel Skott - *Tele2 AB - EVP, CEO Tele2 Sweden*

I think, of course, CAPEX levels will always go up and down a bit, but we are at the very efficient level and our vision is to be able to stay at those efficient levels also going forward. So, that's...

Francois Mairey - *Tele2 AB - Shared Operations Organization*

If I can make a comment here as well. So, we have now developed this LTE advanced network. So, we are preparing the 5G path which is less costly than the reinvestment in the new technology. That's a good thing. But also, we are leveraging on the possibility we have at shared operations. So, we are putting a lot of things together we do in the Baltics and Sweden to make sure we're utilizing the hubs like Tallinn or Vilnius, more than only Riga which we did until now. So, we want to leverage on that.

Also going you heard outsourcing to India, et cetera. So, that would be also lowering our CAPEX forward.

Samuel Skott - *Tele2 AB - EVP, CEO Tele2 Sweden*

Should we throw the box over here as well?

Unidentified Audience Member

Yes. Yes.

Nick Lyall - *Societe Generale - Analyst*

Yes. Hi, there, Nick Lyall from Soc Gen. Could you talk a little bit about the Tele2 brand please? It seems like - on the consumer side, it seemed like in the second quarter you had a problem with trading up and you were talking of repositioning. By the third quarter, you're saying customers are trading up and you seem a lot happier. So, is the trading up going as planned and do you think you've avoided the need for larger marketing in the fourth quarter and into next year to reposition?

Samuel Skott - *Tele2 AB - EVP, CEO Tele2 Sweden*

I think the underlying momentum of trading up is moving in a positive direction, and then we had kind of a boost as well in the third quarter thanks to a lot of extra data usage when people went to summer houses and abroad, which gave an exceptionally good bump in Q3, but the underlying trends are positive.

We will need to fuel the Tele2 brand going forward with marketing investments, but not to any larger extent than we already have talked about, but there is a need to as we go along into the new position of Tele2, of course, it needs to communicate around that position to build clarity and an emotional bond towards that position.

Nick Lyall - *Societe Generale - Analyst*

And then, in terms of repositioning, there's no repositioning plan of it. It's Tele2 brand as we understand it now continues.

Samuel Skott - *Tele2 AB - EVP, CEO Tele2 Sweden*

Exactly. And I mean, what we saw now was the first campaign kind of off the [track], there will come other campaigns and another concept, but that's already in the works and will happen during the first quarter of '17.

Ulrich Rathe - *Jefferies & Co. - Analyst*

Hi. Thanks, Ulrich Rathe. Just to follow up, Ulrich Rathe, Jefferies, follow up on that question, could you sort of comment on the tariff portfolio in Tele2, I mean we have this big gap for 50 kroner going from 5 to 20 which is I think pretty unique in the market. And are you happy with that? Do you see any reasons to change that in particular? Also, with regards to network capacity, do you anticipate a capacity issue once people start trading up to these very large buckets?

Samuel Skott - *Tele2 AB - EVP, CEO Tele2 Sweden*

First of all, I don't expect any big network capacity issue out of two reasons^ one, that we have a great network with huge amount of capacity available. Two, as Francois mentioned, we have a path towards 5G and also increasing that capacity. And the increase in efficiency of the network will go easily as fast as the ramp up of the usage. So, I don't worry about that.

When it comes to the bucket strategy, I mean, what we realized when we launched this portfolio is that in the B2C segment, a lot of people are not especially rational. They're extremely emotional. And this portfolio was not kind of trial and error launch. It was heavily investigated before launching. And what we saw was to give people a lot more for just another 50 kroner, so to say, really fueled upgrading.

And I think what the levels we are experiencing now having more than half a gig and also in the 20 and the 50-gig would never have been there if we'd had more of a kind of rational linear pricing. So, that together with the capacity and the economies of scale in the network gives me the confidence that we're doing the right stuff.

Unidentified Audience Member

Yes. A question on B2B or actually two, because you mentioned that you won a deal now with the TDC or combined deal, does that mean that you are able to increase prices or do you lower prices so that, I mean, the price level you have with TDC and your level combined will be higher, or do you need to give a discount on sort of a combined mobile and fixed offering?

Samuel Skott - *Tele2 AB - EVP, CEO Tele2 Sweden*

There's no need to give extra discounts just because we've become - two have become one. We have no B2B director in Sweden saying that these large enterprise companies, they are professional buyers. They will get the price they want for the quality they want. And so, there's a competitive market out there.

So, no, I don't see any need for us to kind of slash prices or do anything like that. It's about building a great product portfolio. It's about building great relationships with customers and partners and then, of course, to have attractive pricing, but that we already have and will continue to have. So, I don't see any need for an extra discount or anything like that.

Unidentified Audience Member

So, you expect to have the - or remain at current ARPU levels on the B2B side. Is that the interpretation?

Samuel Skott - *Tele2 AB - EVP, CEO Tele2 Sweden*

I think, I mean, we are seeing prices coming down in the large enterprise segment, absolutely, and especially when it comes to pure connectivity. So, I think those prices will continue to go down. But what we are doing is on top of that put managed services, cloud services, communication as a service where we can charge additional amount to keep the total level of the deal so to say on a healthy level.

So - but, yes, the prices are going down, but our strategy is to have an attractive pricing and with so much market share being out there to grab or to fight about, we're still confident that we can grow.

Unidentified Audience Member

Can you say something on the service revenue growth on the B2B side? You presented numbers for the consumer side.

Samuel Skott - *Tele2 AB - EVP, CEO Tele2 Sweden*

No. But I can say that we are growing in the large enterprise segment. We've had challenges in the small end price segment which is stabilizing. And if we look to how we would move forward, we see those trends continuing. We will continue to grow with large enterprise and we're planning to stabilize the small enterprise market as we go along.

Unidentified Audience Member

Thank you.

Lena Osterberg - *Carnegie Investment Bank AB - Analyst*

Leah, I'm from Carnegie. A question on the acquisition of TDC and the integration cost you say that they will be front end loaded, could you maybe give some indication of the phasing the first two years maybe? Do you know?

Samuel Skott - *Tele2 AB - EVP, CEO Tele2 Sweden*

Yes. So, I mean, the big chunks of the integrations costs are of course combining the network and the IT parts. And, of course, those it should be said being one month in where we really can work together. We're still in the planning phase of detailing all of this out, but it will be about combining the product portfolios into the IT systems, being able to sell in one proposition through one sales force through one delivery servicing it.

So, that will be big enough. Expect that to start in '17, but maybe have its heaviest year in the end of '17 going into '18. And then, of course, we have the networks parts which I think will be more evenly spread maybe during the next two years.

Unidentified Audience Member

Thank you. Hi. I have a question and further few compliments. So, the quick question is that how much of the action going forward will be on 4G+ or LTE advanced versus 5G. And the compliment is I really like, your positioning like you win with people and culture and you have really stepped up your marketing position I think in the last at least one-plus years, I would say.

I've been continuously following Tele2 digitally and non-digitally. And with the kind of a price war which is going on and you are probably giving more value for money without compromising the quality, it is good I think.

Samuel Skott - *Tele2 AB - EVP, CEO Tele2 Sweden*

Thank you.

Unidentified Audience Member

With that, I would like to - yes. With that, that's all from my side.

Samuel Skott - Tele2 AB - EVP, CEO Tele2 Sweden

Francois, maybe you want to answer the 4G versus 5G focus.

Francois Mairey - Tele2 AB - Shared Operations Organization

Yes, exactly. So, I explained a bit before. We want to focus on key features, not having all the sets like some operators are doing, but just selectively choose the ones which are important for us now for the few features which are really important. VoLTE will be one, but there will be some other ones, but also, the ones that should be relevant for the 5G pass so that we don't want to invest just for leaving one or two years of life for features. We are really selective, very selective on that.

Terence Tsui - Morgan Stanley - Analyst

Yes. Thank you, it's Terence here from Morgan Stanley. Can you talk more broadly about how you see the prospects of selling convergent products in Sweden? Like, if the TDC acquisition is pretty successful and you get us bundling products together in B2B, do you see an opportunity to maybe bring that into the consumer segment a bit more?

Samuel Skott - Tele2 AB - EVP, CEO Tele2 Sweden

I think, first of all, and this is - I mean, as we talk about Sweden, I think there is a big difference between the consumer segment and the B2B segment. In order to have a right to win or even play in the large enterprise segment, you need to be a converged player. You don't in a consumer segment.

So, there's a big difference. We are very happy with the mobility first strategy and actually the mobile only strategy that we're doing in consumer. It has proven to be the right decision to sell that subscale kind of fixed business off because it's heavy investment in access, in content, and a lot of those stuff and I'd rather put those investments into the B2B space and into making sure that we prepare and are at the frontend leading mobility into 4G+ and 5G.

So, there's no plans on moving back to fixed in the consumer space right now.

Thomas Heath - Danske Bank - Analyst

Thomas Heath here with Danske Bank. Follow up then to Terence's question, what is the sort of contingency plan if we do get more convergence in Sweden? I mean, you know from your Dutch operations that quite a large part of the mobile subscribers are pretty locked into KPN subscriptions.

Samuel Skott - Tele2 AB - EVP, CEO Tele2 Sweden

Yes.

Thomas Heath - Danske Bank - Analyst

And they've proved immensely successful and we really haven't seen much at all in Sweden yet, right? At the same time, you have the Telia fiber options where you could potentially enter in a relatively asset light model. Would that be something that you would consider if necessary or are you just cool and calm?

Samuel Skott - *Tele2 AB - EVP, CEO Tele2 Sweden*

I think both. We are cool and calm and that's one of the reasons we can be cool and calm because the mobile-only strategy is working and we don't see anything saying to us that we should change it. But at the same time, a big portion of the Swedish consumer fiber market is open networks.

So, as you say, if I wanted to enter into that market, more as a connectivity provider, I could at a fairly low cost and quite rapidly, nothing that we're planning at all to be clear, but we could and those two together makes me calm.

Thomas Heath - *Danske Bank - Analyst*

And if that was to happen, the TV space I suppose would be the most difficult one to succeed in, right, with high content and high barriers to entry as a subscale player?

Samuel Skott - *Tele2 AB - EVP, CEO Tele2 Sweden*

Yes. But then, the beauty is that fewer and fewer people are fond of buying TV traditionally 3P from the big old telco TV providers. They'd rather have it on top. And that generation is growing bigger and bigger and bigger just by nature. So, no, I'm not so worried about that.

Thomas Heath - *Danske Bank - Analyst*

Thank you.

Stefan Gauffin - *Nordea Markets - Analyst*

Yes, Stefan Gauffin, Nordea. First of all, one clarification, you showed that you're leading on the 4G network versus Telenor and given that you built your 4G network together, I just wonder if you can clarify that.

Second question related to cash release of the net working capital where you worked with the smartphone financing and can you say how that is developing and how much cash flow you expect to release from that.

Samuel Skott - *Tele2 AB - EVP, CEO Tele2 Sweden*

So, Francois, if you answer the first one.

Francois Mairey - *Tele2 AB - Shared Operations Organization*

Yes.

Samuel Skott - *Tele2 AB - EVP, CEO Tele2 Sweden*

I will to look to Lars for the second one.

Francois Mairey - Tele2 AB - Shared Operations Organization

OK, good. Yes. On the 4G, so we have two aspects here. So, we do it together, but we have a few things we can manage ourselves, first, have some features, et cetera, so we can - it's not completely - don't always stay with Telenor. And second thing, we have a few sites on our own. So, it's not completely only shared with N4N and [Agedis]. So, that's the difference we can have.

Lars Nordmark - Tele2 AB - Executive VP, Group CFO

And, Stefan, on the handset financing, we're very happy with the progress that we have made. We pay a very competitive margin on the deal that we have. And from a working capital perspective, give or take, 800 million to 900 million is the benefit that we see coming through on the year-on-year basis.

Stefan Gauffin - Nordea Markets - Analyst

Yes.

Samuel Skott - Tele2 AB - EVP, CEO Tele2 Sweden

Thanks, Lars.

Over there - yes.

Usman Ghazi - Berenberg - Analyst

Hi. It's Usman from Berenberg. I just had two questions please, first on the consumer side. Could you indicate where the Tele2 kind of brand NPS is versus let's say Telia for instance? I mean, is there a big gap that you need to make up or...

Samuel Skott - Tele2 AB - EVP, CEO Tele2 Sweden

No. We're actually beating them. It's a tough fight in all honesty, but I think we beat them by a squeeze in the second quarter and they beat us by a squeeze in the third quarter. But we have come from way below and up just as you know on delighted customers. So, ambition is of course is to pass.

Usman Ghazi - Berenberg - Analyst

OK. And just on 5G, I mean, most other operators talk about 5G being very niche and not a kind of "build it and they will come" kind of strategy. So, they're very much focused on B2B rather than B2C applications.

I mean, it seems from what you're saying that you see it a bit more differently, maybe a bit more mass market than other operators. And if so, you know, what is the strategy on the fixed network in order to be able to deploy that kind of coverage for 5G?

Samuel Skott - Tele2 AB - EVP, CEO Tele2 Sweden

If I can start and then, you can continue, Francois.

Francois Mairey - Tele2 AB - Shared Operations Organization

OK.

Samuel Skott - Tele2 AB - EVP, CEO Tele2 Sweden

I think we don't see 5G as this kind of commercial game changer in a sense. So, just people switch to completely new set of devices and handsets, we see it and that's - I think that's our strategy and the roadmap I'm sure as an evolution to more efficiently cater for higher and higher demand of capacity when it comes to the consumer segment.

I think that's the commercial aspect and the roadmap strategy aspect of it. It's not a big bang effect strategy. It's an evolution, picking the best pieces to deliver high capacity in the most efficient way.

Francois Mairey - Tele2 AB - Shared Operations Organization

Yes. Technically speaking, I think there are two aspects here. So, I think 5G technology, you can call it niche if you want, but the number of applications which will need low latency will draw massively, I think, where it's really an evolution of the whole world, so, machine-to-machine, and human-to-machines, and machines-to-humans.

That will be - low latency will be the key. And the second aspect with technology we are putting in place like you were saying, so, the transmission and backhauling. So, we put a lot of focus on that one as well. We have currently a good mix between microwaves and fiber. So, we don't think not having the full fiber is a problem anymore. That was a few years ago. Now, we have really high capacity microwave that you can increase capacity-wise per software key very easily. And this can bring very low latency if you bring them near to their customers.

So, everything which is distributed new to the customers with low latency will be addressed by 5G. So, if it's a niche segment or not, the world will say, will tell it. Currently, if you look at the applications we have today, yes, it's a niche. If you look in four-year times, maybe not anymore and we believe we can be ready for this path as well.

Sunil Patel - Bank of America - Analyst

Hi. Thank you. It's Sunil Patel from Bank of America. Just two questions on my side, on the tariffing, you have a relatively clear sort of tariff structure. Have you thought about potentially innovating by charging people for the highest feeds, overlaying effectively speed-based pricing to leverage your superior offering network?

And my second question is I think you previously talked about some mid single-digit revenue growth. Do you think post the TDC acquisition you have the portfolio effectively to be, you know, reaching that target over the next two to three years?

Samuel Skott - Tele2 AB - EVP, CEO Tele2 Sweden

So, I will start with the last question. I think that with the TDC acquisition, we don't see any change because we have talked a lot about the mobile end user service revenue growth being between 2% to 3% consistently as an ambition. And TDC acquisitions support us in that ambition, so no change there.

And then, on the first question of charging speed-based, we have done some trials with speed based pricing earlier. And I think the Swedish market has come quite accustomed to the per gigabyte pricing and the bucket pricing. And since we're already kind of transitioning and teaching people to move into this new ecosystem of multi-devices, I think we shouldn't try to kind of teach them too much new stuff. So, for now, we will stick with the bucket and gigabyte model.

Unidentified Audience Member

Yes. Thank you. I have two questions to follow up.

The first one is I understand in the TDC business, roughly half the revenues is essentially from services of one sort or the other. Are there aspects of their business portfolio that you really don't want to pursue because it's not strategic for you or is it really the whole TDC that we are looking at from a modeling perspective or are there areas you're curtailing? That would be my first question.

Samuel Skott - *Tele2 AB - EVP, CEO Tele2 Sweden*

Yes.

Unidentified Audience Member

Do you want me to add the second one then?

Samuel Skott - *Tele2 AB - EVP, CEO Tele2 Sweden*

Yes.

Unidentified Audience Member

I mean, sort of following on, on the earlier question on the revenue growth targets that you've put up in the past, I mean, of course in the past, you also talked about expanding margins sort of 35%. I understand there's this implementation cost sort of now weighing on things. But is that still the right number or are there reasons to notch this up or down?

Samuel Skott - *Tele2 AB - EVP, CEO Tele2 Sweden*

If we start with that one, I think 35% is the long term ambition and there's no change in that. And when it comes to TDC, I think from a modeling perspective, we should look at the old TDC, the whole TDC. Of course, there are bits and pieces everywhere that you need, but they're so minor.

And I think when it comes to services, yes, coming very much from a connectivity-driven business, you might wonder what is this, but getting closer to it, you realize that this is very much a part of the future, because the future is about managed services. Taking a lot of responsibility and the headache away from the customer, building the network, managing the network, working more as a turnkey supplier. So, that's very much an integral part of the business going forward.

OK. Perfect timing you guys, because we have only one minute left until the break. So, let's give ourselves a head start. We will have a break now for then 21 minutes and be back here at 25 past, OK?

Thanks.

[Break]

PRESENTATION

Guillaume van Gaver - *Tele2 AB - EVP-International*

OK. Good. Everybody gets a seat. Hello, everyone. I'm Guillaume van Gaver in charge of International at Tele2 and I should say hey to the Swedish friends of the audience. I think I should say also hello to some of the U.K. colleagues who joined.

I should also pronounce it in Lithuanian which is Labas to some of our Lithuanian joiners. I think some of them are at the back here, so, Labas. And I do not want to forget [Salve] which is the Latin word of saying hello. And [Tere] is the Estonian way of saying hello and good afternoon.

It's a great pleasure for me to present the Baltics with the help of Petras Masiulis who is our CEO for Lithuania and, of course, Ervins Kampans who is our CTIO for Estonia. So, they are going to help me to present this great story about the Baltics.

For those of you who are passionate about the numbers, let's refresh ourselves, in 2015, the Baltics were more than SEK3 billion in terms of net sales. We were above SEK2 billion in terms of net end user service revenues and around SEK1 billion in EBITDA. So, that is the numbers we're going to discuss and present.

For me, it's also important to remember that on the Baltics the Tele2 brand is actually extremely, extremely powerful. Yes, we have different prepaid and fighting brands in Tele2 but Tele2 as such is the number one telco brand in the Baltics.

The second element is that actually over the last 15 to 20 years, we've been enjoying a very strong market position and we have actually in the Baltics the number one number of customers if you compare to competition. That's really down to a great performance in Lithuania, which is the biggest of the Baltic countries, with Petras achieving the number one position with 40% market share, is down also to Latvian very strong position being number two and Estonia, yes, we are number three, is the smallest country, but we have there some healthy market share with 25%.

We heard it a lot today during the Swedish presentation and Allison's introduction, think about it, the Baltic countries as a region has the most advanced worldwide networks, how amazing that is, and we are going to tell you how translates into very good and strong results.

So, going back to the numbers, you would have seen our growth in Q3 2016, this growth was 6% on the total sales perspective which is outstanding. The end user service revenues, our customers, have actually increased their spend by 7% which is a very strong performance. I know you're following a lot of other telcos; they would love to be in the Baltics these days.

And from an EBITDA growth we've actually delivered 9% EBITDA growth year-on-year with a healthy 32% margin. This is clearly an outstanding performance from the Baltic countries. How and why? Clearly, it's all about that monetization and the customers have actually shown that they were ready to spend more with us, just in one year 7% more per customer is amazing.

We can see that this is clearly helped by the fact that more and more customers have 4G devices, which is helping us. At the same time, we cover everyone in the Baltics, 99%, outstanding coverage. This is clearly an enabler for us to drive better monetization.

This growth is actually clearly seen on our networks on the 4G side; 3G has remained stable which is good. We still have some healthy 3G data. In the Baltics, the data consumption accounts for more than 30% of the total customers' spend.

But you can see how 4G is kicking off. On a per-customer basis, we've been able to move from 1.5 to 2.3 gig and one of the most important KPIs is that 4G is a journey where we are not going to stay on 4G; we're now moving to 4G advanced which Francois and Ervin have been explaining and close to 50% of our customers are now enjoying LTE Advanced which is also helping some of the most amazing speed.

You can make the comparison between Arlanda Express or the Heathrow Express], I'm a frequent traveler in these countries and I can tell you that I'm now forgetting Wi-Fi or even fixed ADSL. Mobile beats fixed and this is showing in any reports you want to see. So, when we say forget about the Wi-Fi passwords, this is happening.

One of the key messages we want you to remember is actually the growth that we have seen in the first presentation from Sweden is actually taking place also in the Baltics. But you can see an 18-month lag between some of the adoption curves we are seeing in Sweden and some of the adoption curves we are seeing in the Baltics.

And there is absolutely no reason why those adoption curves would carry on growing on both sides, on Sweden, to continue leading and on the Baltics to follow. It you look at data usage, this is happening, 4G handset penetration, this is happening and this will happen in many different areas.

So, going forward, we are very optimistic about our Baltics performance based on four pillars. The first pillar is us moving away from only a price factor brand in the Baltics which has helped us grow to now more really strongly to the value champion positioning and Petras is going to explain this in a few minutes.

The second underlying performance is really about the focused technology choices and let's say it's really loud and clear, in consumer we are mobile only and very proud to be so and we are delivering some exceptional network quality KPIs.

The third element which is a Tele2 really culture is about making sure that whilst we grow, we drive more and more efficiency and I'm going to give you a few examples. Where the Baltics benefit from those savings and those cost consciousness but the Baltics which is extremely important is also helping the group to deliver important savings. And, of course, you are now fully convinced that this cannot happen without great, exceptionally engaged people and the Tele2 culture which is amazing.

So, please welcome Petras for the value champion section.

Petras Masiulis - Tele2 AB - CEO-Lithuania

Hello. I'm not sure how much do you know about Baltics. I guess you are not so much aware because the countries are small, but even though countries are small, the story of Tele2 in Baltics is great.

Actually, it's great because we not only managed to grow faster, we entered the markets later than our competition. Telia was around two to five years earlier than Tele2, but actually with the aggressive and well-managed price leaders strategy, we managed to grow very fast. And actually we are strong number one in the Baltics with over 40% customer share.

In Lithuania, we actually have 53% of customer share, 40% revenue share and still growing. And I think it's the right time, and actually we did the same as the Swedish Tele2 operations, we moved from just focused price fighter to value champion.

Just imagine, two years ago Tele2 didn't have any 4G network in the Baltics; now, we have in every country we have top class, top global class networks. You saw from the presentation that we are in Lithuania just behind South Korea and Japan.

Customer satisfaction has also improved. In Latvia, 90% of customers who call to the call center are fully happy with the service. Customers think well of Tele2 and our brand perceptions are very good and very well planned.

Here, you can see the example. Before, we used to advertise zeros, we used to advertise big buckets with a lower price; now, we move more to quality advertising. And actually customers took it very well. Perception for our main KPIs like network quality perception, voice quality perception and Internet speed perception has increased around 20% in the last two years.

Actually, Baltics is also different from the rest of Europe, maybe not all countries but majority of the countries because Tele2 company is well respected in the Baltics. We have a very good reputation. People love Tele2.

People respect Tele2 and in Lithuania, TNS Gallup research shows that 64% of opinion-makers in Lithuania believe that Tele2 is a company to trust and I think this is a very good position. When a customer trusts you, when a customer loves you, for sure he's ready to spend more with an operator he likes than he doesn't like.

Quality improvements and customer care improvements are not the only improvements that we have taken in the Baltics. The usage of big data tools, business intelligence is something that bring increasing profits in the Baltics.

Lithuania leads the case where good customer satisfaction combined with extensive and targeted usage of business intelligence tools has resulted in so low churn levels that I personally was looking and I didn't find any operator globally who could match, our average churn overall for postpaid customers is 0.83%.

I think Verizon has 1%. T-Mobile USA has 1.2%. Finnish Elisa which is really valued and good operator, they have 1.42%. So, here you can see and it proves that when Tele2 focuses we can really deliver. And you see churn levels have decreased in Lithuania, Latvia and Estonia and, of course, it helps to grow our postpaid base.

And I think there is another good piece of news for us in the future, because all the European markets and Baltics is not the exception are going through the phase of prepaid to post paid migration. Since we are a strong leader in prepaid as well, so, for sure we will be the ones who will be achieving best results there with the postpaid growth.

Our prepaid, our business intelligence tools are so advanced that once our prepaid customer refills the account, in one second he or she gets a proposal for upsell, either it is data plan or it is insurance or it is another proposal that we can make. Of course, we don't send it every time, but in a nice planned way we can do, and actually it has improved the hit rate significantly because before, when we were providing proposal in a one day time, in two three hours time, the hit rate was from 1% to 3%.

Now, when a customer gets proposal in one second, the hit rate is at 9%. And this, I think, is a nice way forward because when you analyze, when you know your customer, when you are ready and quick to offer a proposal this, of course, helps us to monetize it.

Of course, we are a strong leader in the current markets that we are existing, but this is not all. MBB and business-to-business market is a huge opportunity. As Guillaume has explained, our network is available, 99% of people are covered by our 4G networks. Speed is excellent, ranging from 29 in Lithuania to 21 in Estonia and it is competitive even with DSL.

So, this part of the market is also open for us. And we are growing actually quite well. In Estonia, in the second quarter we managed just in one quarter to go from 21% market share in the MBB to 25%. In Lithuania, if you compare first quarter and you compare third quarter this year, the growth is 150%.

So, I think now we are very, very well-positioned to go down and grow our market share in this market. Business-to-business, we are not so lousy in business-to-business. Actually, we are a strong leader in the Baltics in SOHO segment, small office/home office where the SIM card amount ranges from one to five, and actually this is right because the market, it was easier for us to enter with a price fighter.

This is the most profitable segment and you need to put least efforts to manage this segment, but now with analytics in place, we have good customer satisfaction, we have good networks, we are ready to go to the other segments as well, to small and medium enterprise and large enterprises.

So with this, I would like to give word to Ervins, our CTIO.



Ervins Kampans - *Tele2 AB - CTIO-Estonia*

First of all, thank you for having me. Thank you for Guillaume, for Allison and for all the leadership team. And first of all, I would like to start with extending an invitation so, first of all, you said that you are enjoying the great 4G in Sweden and I think that, Allison, you should bring all the crowd also to the Baltics to really experience the top of the world 4G.

And I'm really proud because as Petras already mentioned, so two years ago, we were not even commended in this crowdsourcing report of having or to saying that the Baltics is in the leading position. And I really want to say that you are welcome to come to the Baltics and experience the land of the mobile broadband.

So, I would say that our customers are so expecting, so demanding and I would say in some cases also spoiled. You just imagine that for Estonian people, it is just common to go out and pick a mushroom and already share it on Facebook whenever you go so, it doesn't depend that you are near to the city.

Since we have a coverage 99% so they expect that they can do there or where you can expect the B2B customer who comes and complains that the warehouse workers are experiencing low mobile data speeds and they cannot stream. So, I would say that this shows that demand and expectations of the network and actually also that Tele2 has achieved in the past few years is very impressive.

And since I humbly want to be a part of this story, I will tell that this also based on that that Tele2 has invested a lot of efforts in the Baltics. Of course, markets are not so big. Of course, markets are a bit of you saw like for Swedish people like who they are and what they are doing over the sea, but I would say that we should be proud and actually that's what I think and also proud to be a part of the team to presenting all the efforts that we did.

And I think it is also based not only about that we are very good commended in the latest open signal research, I think it's also commended on I would say quite good strategy of acquiring and working with the network, not only about that we are investing but we are also doing the smart investments and we also have enough resources to support our initiatives and also our bold promises to the market.

As you can see, all the three Baltic countries have a quite immense frequency portfolio. And I would say that we can also mention that we are also not afraid to take bold, technologically I would say risky decisions like you can see in Estonia.

Estonia actually is proud to have the fastest LTE 2100 network in the world. So, it was also quite a bold move for Tele2 to adopt this frequency and start the first in Europe reform 3G frequencies for the 4G. So, I would say that we are poised now that we have enough frequencies, we are poised, with this we are actually quite successfully secured also the business for Lithuania where we prolonged and get in the auction the 900 and 1800 megahertz licenses that enables us to run the business as is.

At the same time, we also have quite promising lower frequencies as the technology neutrality was granted for Estonia so it means that we can start to explore new venues and these lower frequencies are also giving us some kind of new business opportunities.

All in all, I would say that a very big thanks for Francois that he had already like covered a lot of the things that I really want to present. But I want to say that LTE, it's just at the beginning. So, all of the industry is talking about the 5G and as a technical person who has lived and started my career, I started with the 2G, I would say I desperately want to see what will come with the 5G.

But at the same time I think that taking into account that our customers are so demanding and we see that we still have to continue to deliver them the best of the best of the LTE, since we also see that the consumption is growing, customers are demanding, and the LTE is also developing, so 600 megabits, 800 megabits up to one gigabit per second offering on the LTE layer.

We have enough resources, we can do that. But at the same time last but not least, we still keep the focus on the 5G because personally, I as a technical person, I'm really interested to do that. Of course, there is the commercial stuff. Of course, there is a lot of unknown. Of course, a lot of discussion and a lot of hype is around that. But I think that we are on the road of adopting the 5G and we are in the Baltics, we also want to follow the trend and we are following together with the big Tele2 on this journey for the 5G, starting with the first cloud implementation, continuing with

initiating the network transformation, adopting the new architecture, the new radio, I hope that in 2020 I will be maybe here and also will commemorate and present you the 5G in Baltics.

Thank you. And with that, I really want to give back word to Guillaume.

Guillaume van Gaver - *Tele2 AB - EVP-International*

Thank you. When you have our best technical people talking with such passion about networks, it makes our life as leaders so easy and it delivers day in, day out for the customers, so thank you, Ervin.

We need to keep focused and have these discussions around our cost consciousness. We will not be Tele2 if we don't put these efforts day in, day out. And I would like to talk about four building blocks regarding our cost focus.

The first one is simplicity. The second is really about discipline. The third is about consolidation, and actually the fourth is about transformation.

So, talking about simplicity, all of our big platforms from the Baltics are going to migrate to one single group platform. That's sounds easy; it is not. In Q1 2017 our billing, our CRM in the Baltics will be fully embedded into the group.

As Samuel was mentioning, 50% of our products would have been taken away to make sure we have lean and mean operation. Going forward in simplicity, there is so much more to do in terms of digitalization of our customer experience, of our backend processes, but let's think about it, it's so much about making our customers' life easy. They vote every day to join our self-service apps as an example, which delivers better customer satisfaction and actually improved cost.

On the discipline side, we have been extremely good at making very informed decisions on the CAPEX and the big investments and I think we've proven that over the years. Today, we are ranging towards far more data analytics as Petras was explaining in customer investment, in commercial areas.

Our return on investment have actually improved in areas such as channel management. We have a lot of our sales now almost more than 90% which are done through our direct channels which helps us to reduce cost.

Going forward, the data analytics and the real time offerings that Petras has mentioned will be rolled out across the Baltics, which enables discipline every time you spend one euro towards marketing investment as an example.

The third is clearly about consolidation. This is a clear message for you today that we are consolidating our network and IT teams into one center of excellence and one-shot operation. And this consolidation will help us actually deliver some strong benefits around scale.

Last but not least, we are continuously transforming. One element that Ervin mentioned which is extremely critical to us is that transformation took place in areas such as wholesales and roaming. When you consolidate and you bring all your bargaining power, you can access to lower rates and you can also access to higher revenue trends. So, clearly that consolidation, that transformation has taken place.

Now, as I said, the Baltics are clearly helping the group towards lower cost and more simplified processes and centralization, but we are also using the Baltics as a center of excellence to do business process outsourcing to places like India that enables us to, again, centralize the skills and continue to deliver some savings.

So, if I were to give a few examples, 45% of our IT teams are currently based in Riga. This is a very strong number. 20% of our finance teams are actually based in Riga where we have some scale and some also quality from a finance perspective.

One of the great places I'm sure Ervin or anyone who like to show you in Riga is our network operation center. We have 100 people actually looking at almost all of our networks across all of our countries and this is, of course, against having 50 people in very country to do that.



In Riga, we control every element of our customer's experiences and network's performance on the network side, which is a very good achievement and a very impressive place to visit actually. Of course, we do that with an absolute focus on quality. Our quality when we do outsourcing for instance in call center, is 85% on the Baltics. So, we do that not only to gain efficiency but also to gain quality.

That last slide is actually going to put this into an example, and you would love this type of KPIs. We have data growth five times, you can see what this is doing to our revenues, you can see what this is doing to our profitability. And if you look at network cost as a percentage of our net sales, this is reducing. So, that's clearly at the center of our strategy in the Baltics, but of course, across the group.

This is and as you can see not possible with great people and in Sweden clearly and in the Baltics the COs who most of them have been there for many years have achieved engagement scores which are unheard of, leadership scores which are unheard of and Tele2 index which is extremely high based on the values as we've explained it.

Even the benchmarks, this is not the worldwide benchmark, these are the worldwide benchmark for the best companies. Delivering results with this type of people engagement is clearly helping and core to our strategy.

I hope you can see today how optimistic and bullish we are about the Baltics, because we think the data monetization will continue and there's no reason it shouldn't. We know and Petras has explained it that moving into the value champion is actually opening new markets, mobile broadband is one, B2B is another, so that should fuel the growth forward.

We know that the Baltics are key for us for delivering some transformation in our productivity and efficiency that we want and continue to deliver on our Challenger program. And last but not least, if 5G is an evolution, this is a great evolution to be part of. Thank you.

I imagine you would get as much excitement by welcoming Ingrid and Rami who are the two founders and general managers of our IoT business. As Allison was saying this is the sparkling of today so, please come on stage and present us IoT. Thank you.

Ingrid Wistrand - Tele2 AB - Managing Director, IoT

Good afternoon, everybody. We are very happy to be here to share with you about our IoT business, right, Rami?

Rami Avidan - Tele2 AB - Managing Director, IoT

We are, indeed.

Ingrid Wistrand - Tele2 AB - Managing Director, IoT

Yes. So, with the core business focused on connectivity, customer service excellence and a digital first approach, it has been a very natural step for Tele2 to move into Internet of Things. And IoT is a very popular word these days and it's used in many different contexts.

For us at Tele2, it is actually something very concrete. And it's really about enabling automated, informed, real time decision-making. That is IoT is to us. And it's, of course, about connecting things. You can basically connect anything you like, the air we are breathing, the ground we are walking on, the cities we live in, right?

And you want to connect the things to get the data. Unfortunately today, we are not very good on a collective level to use our data on this planet, so we need to start doing more analytics. Some say we use only a couple of percent of the data we could use. And by doing analytics, we get to the informed real time decision-making. And by that we will add value to our businesses, new type of business models, cost efficiencies, increased quality and also to help us to be more environmentally friendly.

IoT is a business that is very different from the traditional telecommunications business. And as you see here, the average number of connections per customer is typically higher. So, here is an average of 10 to 15k per customer but it can also be in the 100,000.

The amount of data produced per connection in IoT is typically low, two to three megabyte but it can vary with the use cases, it's if you take an infotainment service of a car, of course, that can produce gigabytes, right?

Related to that, the ARPU is also low, so it's typically somewhere below EUR2. In IoT, we have long sale cycles, one year is not uncommon. On the other hand, once the SIM cards are out there, they tend to stay around; seven to eight years is not uncommon at all which is good, which means that the churn is very low.

And, of course, what we talk about here is complex B2B solutions which is in many cases done in multiple layers, and we can talk about B2B2B2C with a consumer down in the end. And we actually have customers with a set up like that.

The opportunity in IoT is great, and I'm sure you have all seen the fantastic growth curves. This forecast suggests an 80% CAGR between 2015 and 2020. So, in 2020 we will have billions of devices. We will have connected cars, at least in the developed world, the majority of them will have a connection. And there will be a lot of developers around working with IoT innovation.

So, I think we live in a very exciting time era, right? And, of course, we at Tele2 are taking our part of this opportunity. So, back in 2012, myself and Rami, we were setting a strategy for making Tele2 a competitive player in the global IoT space, which led to a launch in November, 2013.

And we launched a global setup, of course, based on our own footprint of networks but also a roaming footprint based out of around 400 operators. And since then, we have landed around 300 customers which we are very proud of, remember the long sale cycles I was talking about. And we have as a key piece of our strategy partnerships.

So, we work with partnerships both for sales reach but also to complement our own product offering and so far we have entered into around 100 partnerships to date and that is both with the big global players and the small niche players, very specific at what they are doing in a vertical, for example.

And our customers and partners, they are served by a fantastic team of around 100 IoT experts all hand-picked because they are the best at what they are doing in IoT so we are very proud of them. And I think it's fair to say that today, Tele2 IoT is a well-established player in the global IoT space. And we are not recognized only by our customers and our partners, but also by analysts that are specialized in IoT.

And this is one such analyst, Machine Research. And they have actually ranked us among the top 20 IoT operators globally, which is something we are very proud of. In IoT, we have taken a Challenger approach, which we love at Tele2, right? So, one of the big operator groups in many cases go vertical and place bets and by that taking higher risk, we have completed a different position which is horizontal. So it means that everything we offer can be used by all industry verticals. That is what we mean by a horizontal position.

And then that is something that is acknowledged also by these analysts. So to quote them they say, there is absolutely room in the market for a CSB IN operator. Taking such an approach and the contrast with other operators is noteworthy in itself. So Tele2 zigs while the CSB community zags, so that is, "We are quite proud of. We like to be different." So, we use our core competency connectivity and with that, we intend to take a good piece of the global IoT market.

But, of course, our ambition for IoT goes far beyond connectivity only. So this is our strategy house. And the vision we have set out for ourselves is to be an orchestrator of a smarter world and we will soon come back to what we mean by an orchestrator.

And we have a mission, which is really to develop a smarter world through the benefits that IoT brings to make businesses excel and societies [describe]. So that is our mission. And our playing field then is to work with IoT enabling services from the horizontal position I was speaking about. And IoT enabling services can then, of course, incorporate connectivity of different types, but also other type of services like connectivity management, device management, application enablement type of services, security type of services and, of course, analytics types of services.



So it's a lot you can do that horizontal layer on top of the connectivity. We have a global focus and setup as I said, but of course, our prime focus now initially is on Europe. And that's also where we have our people. So, we work out of 10 countries in Europe today. Our biggest hub is in Stockholm. We also have a hub in Riga, and then we have sales people in other key markets, and then we complement our sales people with partners to get the sales leverage we need beyond that. So that is a key piece of our strategy.

And we focus on B2B, which can be in many different layers. We have a very clear view on we win. And we will soon come back to that in more detail, but in summary, we win through product innovation, the way we go to market, our partner strategy and related ecosystem, which is called IoT Success Factory. You see the name up there and, of course, operational excellence.

At the bottom of our strategy house we have the Tele2 way. And it has been repeatedly been talked about during the day. And I think we both can subscribe to that without the Tele2 way, we would not have been as successful as we have been in IoT today.

Then, one final thing, you see in the middle of our strategy house, we have a heart. And I think we are the only operator in the world with a heart on our strategy house. And that really symbolizes the customer experience we give our customers and we call it IT love and that has substantially helped us to create the success that we have had in the market.

So, let's take a deeper look at what it means to be an orchestrator and how Tele2 IoT wins. Over to you, Rami.

Rami Avidan - Tele2 AB - Managing Director, IoT

Thank you. That was on the second. Well done.

Ingrid Wistrand - Tele2 AB - Managing Director, IoT

Perfect. Good.

Rami Avidan - Tele2 AB - Managing Director, IoT

So great to be here with you today. We're going to continue the journey of IoT now and dwell a little bit deeper into what it is that we actually do and how we do it. So, of course, as Ingrid mentioned, the first orchestrator position. I'm sure you've heard of the concept of being an orchestrator. For us there are two dimensions. The first dimension is really about how we go to market, so what we do, we take a business advisor position towards our customers and our partners.

Now, what does that mean? Now, you think about any given customer out there today. Some of them are going to be extremely mature, very often the automotive industry. Some are very immature, they haven't even started implementing IoT into their business, which means that you have to be very agile when you approach these different types of players. So what we've done here is on the go-to-market side, we have created, call it a manual of how we approach these different types of customers, depending on where they are in the lifecycle of deploying IoT in their organization.

And so, as Ingrid mentioned, it's very much about how we interact with other IoT ecosystem players. So for us, having the horizontal position, bundled together with our partners, really enables us to come to our customers and orchestrate for them an end to end solution.

So that's very much on the go-to-market side. On the other side of that spectrum, we talk about data orchestration. Now, if you're any given customer disregarding of what, where you are in the world or in what vertical you play, do you really care about what type technology or bearer service you're using? You really don't. What you do care about is quality of service, that the data that you want to extract from an asset or send to an asset is delivered on time with high levels of security, that you are able to manage and control that data in the way that you want to handle that data.

So for us, the orchestration from a data perspective is really that what, we do enable our customers to really be able to manage and control all of their assets wherever they are in the world using any type of bearer services. We call this unified connectivity.

So that's really the essence of the orchestration position. Now, if we take a deeper look and look at, OK, how do we convert that into how we win strategy. And you saw this in our house, in essence, the four very important aspects that we look at.

Of course, when you're playing in the space of IoT, you need to have a very robust agile infrastructure, not only from a connectivity perspective, but also from an IT services perspective because, of course, it's not only about deploying SIM cards or fixed services with extension of WiFi. You also have to allow your customers to be able to control their assets and their connectivity and to be able to derive value from those assets. So you think about our infrastructure. And I will come and show you a use case in a second so that you get a little bit more insight.

But you think about on top of all of the connectivity, you need to have an openness to be able to interact with lots and lots of different systems. Think about Microsoft Azure, SAP HANA, IBM Watson, Salesforce IoT, you could imagine that we have to be able to integrate ourselves into all of those type of infrastructures.

So on our technology side, not only are we very focused on the connectivity, we're also very focused on openness, being agile, being able to interact with many different types of systems. Then we talk about Crawl Walk Run methodology. Now, very often when we speak to our customers about how they are to deploy IoT in their organization because remember, this is a change project, right? This is going to fundamentally change everything about their business, how they communicate with their customers, how they offer their products, moving away from product selling to services, right?

What kind of organization they have. How their financials look, moving away from the one-time revenue streams into recurring revenue streams. So what we do, we talk about then thinking big what do I want to achieve with my organization long-term, starting small and then scaling fast when they have been able to understand exactly what they need to do, right?

What we've done here, together with our partners, we've created very flexible and agile business models that allows us to give our customers all the technology and solutions that they require to start their journey with dramatically reduced barriers of entry.

So one of the big issues historically have been that the barriers of entry in IoT has been very, very high, both from a technology perspective but also from a commercial perspective when I started out and this won't be fun for some of us, but when I started out in IoT 15 years ago, we were selling a megabyte across Europe for EUR10.

Well, you know what the megabyte is today across Europe, right? It's not EUR10. So, you could imagine the evolution here. So what we've spent a lot of focus on is crafting business models that allows our customers to think big, start small, and then scale fast.

Then, of course, our success factor which is really about how we engage with our partners. Now, you think about the essence of partnerships. The most important thing for us is this. Number one, we are now able to go to any given customers, any given point in time and offer them what they need together with our partners.

So if you're a sales person, imagine that you never have to say no to a customer. You can always say yes. It's a great, great sales tool. Now, of course, for us, that also extends our product portfolio. It, of course, also allows us to extend our reach because, of course, not only are we bringing on board our partners into the ecosystem and we go to customers, of course, our partners also brings us into their ecosystems of customers and partners.

Last but not least on this slide, world class operations. And I would argue here that this is one of the differences between IoT and general telco and IT services, and that is that what you're really doing here, you're becoming a very important, vital part of your customer's day-to-day business.

It's not only about an SMS not working if you are in Nigeria on a trip. You can't download your emails. You're now potentially driving and monetizing an entire business. Think about point of sale transactions or think about that you sold an SLA to a customer and to be able to maintain that SLA, you need to be able to monitor an asset somewhere, right?



So your core parts, operation is super, super important in the space of IoT. And we've spent a lot of time building up a truly fantastic team in our operations department. We recently did a CSAT, customer survey. And do you know what? We got a whopping 90% satisfaction of our customer base, which is truly, truly amazing, 90% -- 9-0, so not 9 or 1, 9-0. You got that, didn't you?

OK. So, quickly then into the customer use case, just to give you a flavor of what unified connectivity and our infrastructure does. How many of you have heard about the Company NorthStar before. Please raise your hand? NorthStar. Yes, some of you have. OK. So NorthStar is one of the world's leaders in building batteries.

And they're focused on two specific industries, predominantly. Number one, the telco industry. Number two, the automotive industry. And so, of course, you look at the -- I don't know if you have done analysis on the battery sector, but if you have you will know that that sector is a commoditized sector today.

You're selling batteries. You're getting one-time revenue streams, right? And all you're looking at is cost reduction. How do I produce these batteries at a lower cost consistently because the price is coming down?

What NorthStar wanted to do was to move away from selling batteries as a product, to selling the value of what the battery delivers as a service, right? The only way that you are able to do that is if you can connect and control and distribute information on the batteries.

So what we did for NorthStar is this. We've created a global infrastructure that allows them to connect up all of the batteries and monitor them from a network operating center and allowing them to give the information also to their customers.

So, to dwell a little bit deeper into the use case, in a normal telco environment, the network service providers, i.e., the monitors and managers all the action networks on each and every cell that are in average of eight batteries.

Today, on the monthly basis, people are actually travelling around to these sites to look at the state and the health of the batteries. Of course, in this type of environment, you don't need to do that because you have the information at your fingertips at all times.

So, not only are you saving them a lot of money, you're also creating a lot of value because they actually know where they need to go to fix what given point in time and very often, also before it actually happen, so predictive maintenance.

So, some of you will know that we bought a small IoT company called Kombridge earlier on this year. And in that transaction, we got two very valuable products. One, now called the Tele2 Secure Connect, and two the called the Tele2 Things.

And what you see here is actually those two products together with the connectivity solution from Tele2 working together and here is the beauty. You can see that it's Bluetooth that the batteries are talking to the router and then router 4G out into the cloud and we are then showing the analytics in our Tele2 Things platform.

Now, here is the beauty. We are now on the back of this type of solution, monetizing Bluetooth connectivity. So, we can actually charge for batteries speaking over Bluetooth to a router. Now, that for us is, of course, very, very important because, of course, that same technology, we will now use to extend our offering of connectivity into a much broader scope encompassing really any type of bearer service that you can imagine. And so, for us, this is the first larger deployment of this solution and you will see much, much more coming in the coming months.

So to wrap it up, we find that funny. We like that. Yes. So, look, I'm sure you've heard a lot about all the fantastic numbers of how big IoT is going to be. For sure, IoT is going to transform the world that we live in. And for sure, it's going to be a big part of Tele2 going into the future, without sharing too much and I hope I'm not, Lars, already year-to-date this year, we're looking at plus 100% year-on-year revenue growth, which is pretty phenomenal.

And Ingrid mentioned to you that we're ranked one of top players in the world, in three years that's also pretty phenomenal when you look at the top of competitors that we're facing out there in the market. And, of course, our success is also going to be to continue the growth on our horizontal



position, bundled with our orchestrator position and our partner-driven approach and, of course, our customer experience, which is IoT love, and, of course, as you've heard consistently during the day today, we are only successful on the back of the fact that we've been able to recruit and retain excellent, excellent colleagues that are delivering excellent value day in and day out.

So thank you very much for listening to IoT and I will now invite Lars up to the stage to continue this session. Thank you.

Lars Nordmark - Tele2 AB - Executive VP, Group CFO

Here you go. Great job.

All right. Good afternoon, everybody. Let's talk a little bit about the numbers. Let's start with a quick recap on the Q3 figures. As you may recall, we had a very good growth on the top line site. And it's obviously coming from the markets that I have presented today, Sweden and the Baltics, but also from our business in Holland and Kazakhstan, so Kazakhstan saw topline growth proforma of about 20%.

Holland's growth of about 15%, within a year we've added about 150,000 customers in the mobile business in Holland at good accretive ASP levels. On the EBITDA level in Q3, we were fairly flat and that's a function of the good top line growth coming through on the roaming side in Q3, which is always a strong quarter for us and also good development on the cost efficiency programs that we see.

And we've also seen quite a good impact from the Baltics and Kazakhstan as well on the EBITDA. As we did mention, we had somewhat slower marketing invest in Sweden and in Holland and we expect that to pick you up in the fourth quarter because we have a lot of campaigns, especially around the Christmas time. On EBITDA minus CAPEX, we were up Q3 on Q3, primary related to mobile rollout that has reduced in Holland and Croatia.

Now, let's talk a little bit about the established market which are Sweden and the Baltics. Good topline growth, 3% year-on-year. That is about 2% in Q3 for Sweden and around 7% as Guillaume mentioned for the Baltic countries excluding the roaming impact that's actually 10% in the Baltics, so very good performance.

On the EBITDA side, 6% growth, we see that monetization coming through. And also very good performance on the cost containment, the cost efficiency programs in all operations. EBITDA minus CAPEX, as you know, we have a network sharing agreement with Sweden that means that we have CAPEX to sales year-to-date around 6%.

There was a question earlier, we believe in Sweden 6% to 8% is a good CAPEX to sales ratio. In Baltics year-to-date, we are 13%. We had a license payment around 125 in Lithuania early in the year, but a level here around 9% to 11% is also a good level.

So, let's talk a little bit about the margins and also the ROCE and EBITDA minus CAPEX. We see here that if you look at the last three years and also the LTM for September in '16, we've seen a very sustainable consistent performance.

When you look at the margin, we've been close to and above 30% for the established markets. When we look at EBITDA minus CAPEX, we've had a consistent level or above SEK3.6 billion, more than covering our dividend as you know. And when you look at the ROCE, we're north of 25%. Now, obviously, we are using some of this cash to invest into our growth markets. And that's why you see when you look at the whole group some of these metrics or these metrics are trailing at the lower level.

Now, one metric that we look at and we believe is fundamentally important when you run a subscription-based businesses cash contribution, which is basically EBITDA minus CAPEX divided by CAPEX.

And you see here phenomenally very high level in Sweden, but also in the Baltics. And on the right-hand side, you see the comparison to some of our peers as well, so very good consistent performance over the last years. So this is not a quarter-on-quarter kind of happening. This is something that has been very reliable over time.

I think also maybe a couple of thoughts on when we look at the business from a subscription based perspective. It's almost like you look at two profit and losses. One is around the acquisition side and one is around the portfolio side. Now, on the acquisition side, we are looking at the entry [ASPU] and the entry ROI.

So, we're looking to get accretive ASP, customers coming in is basically telling us that we are monetizing on data as long as we're also making sure that the network cost is not going up. And then obviously subscriber acquisition cost is very important. And Guillaume and the team and Samuel have also talked about what we are doing in the go-to-market. It's important for us to have the balanced approach and also drive new go-to-market channels like online to make that the subscriber acquisition cost is the right area.

On the portfolio side, we are very much looking at cross and upsell and looking at operational excellence of driving cost down, tie it back to the Challenger program and also reducing churn.

Now, to get total shareholder return, including what has been reinvested from the dividend, you see that we have outperformed the stock index by about two times over the last five years. We have always been very open that we are not sitting on excess cash, that means that we are not sitting on available funds. If we are divesting a business like we did in Norway and also in Russia, we are giving that back to the shareholders. And if we see something that makes sense, like we did in TDC Sweden, we're also willing to look at a financing venue of rights issue.

On the guidance for the year, we reiterate our guidance for the full year, which is mid-single digit growth on the mobile end user service revenue. We will be at the upper end of the guidance when it comes to EBITDA and also on net sales.

As far as the dividend is concerned, we are sticking to the commitment which we have also stated as far as the three-year dividend policy, which is the last year coming due with the payout in 2017. And there is basically stating that we will increase the absolute amount of dividends by 10% every year. We will then communicate a new dividend policy where we go out with a new guidance, which will be in conjunction with the Q4 results, which will be around the 20th, 24th of January.

And with that, I'd like to welcome Allison on stage to sum it up.

Allison Kirkby - Tele2 AB - President, Group CEO

Thank you, Lars. Thank you. So, today was all about bringing alive for all of you in a very informal way, the unique strengths that we believe we have in our brands, in our market positions, particularly here around the Baltic Sea, in our networks, in our ability to innovate, and finally via our wonderful people.

I hope it's also reassured you that we are single-mindedly focusing on the customer so that we can consistently deliver sustainable value creation by leveraging on our unique Challenger positions and postures that were taken through our strategy.

So on that note, I'm going to ask a few of the presenters back up to the stage and it is just Q&A time now until we go back to mingling further. So, I think we need the orange boxes back again wherever they are. Yes. We've got a couple of hands.

QUESTIONS AND ANSWERS

Peter Kurt Nielsen - ABG - Analyst

Thank you. Peter Kurt Nielsen, ABG. Allison, you've been quoted this week for some comments around the dividend policy, adapting the dividend to the free cash flow. How literally should we take those comments? i.e., if there is no cash flow does that mean there is no dividend?



And just secondly, I'm interested in your thoughts on the 700 megahertz situation in Sweden. Would you consider it a problem for yourself and the industry if this gets perhaps delayed on a longer term basis? Or do you feel you have abundance of low band spectrum, so it doesn't really matter?

Thank you.

Allison Kirkby - Tele2 AB - President, Group CEO

Thank you. So I'll take the dividend question and then Samuel -- oh no, Samuel is not here. I'll take the 700 megahertz as well. OK. So dividend, obviously, I must say it's the board that decides on the dividend. And they have a capital structure committee that usually convenes straight after the December board meeting, that happened this week where we received our budget and our three-year plan for the coming years.

So as you already know, we have a new dividend policy that will come out with our fourth quarter results in January and that's when we will be able to give much more information. Obviously, as we go into that capital structure committee review for this year, we have been looking at where our dividend yield sits relative to our peers. And we have been assessing do we get credit for the progressive dividend on the current policy that we have? On the first of those our dividend yield is obviously at a level that is way above our peers now.

And as the board considers that going forward, they have to look at that in the context of is that dividend covered from equity free cash flow. And obviously, today, it's not covered from equity free cash flow. Now, our core businesses more than cover our dividend. And that's what gave us the confidence to continue with the policy that we set out to deliver three years ago. But the yield related to our peers, how we look at our equity free cash flow developing over the next three years, our leverage relative to our peers will all be considered as we look at the new dividend policy going forward.

And we would obviously like to attract income funds that are very much focused on dividend into our shareholder portfolio. And so, we would like to over the coming years obviously have a dividend that is covered from equity free cash flow. But the board will obviously consult on that during the coming weeks.

And the 700 megahertz... Oh, Samuel, you've got a box.

Samuel Skott - Tele2 AB - EVP, CEO Tele2 Sweden

I can talk into the box down there. Yes.

So having the 700 megahertz postponed is not a problem for us. I mean, we're very well-positioned with the 800 to 900 megahertz spectrum that we already have. So, not an issue for us at all, since we don't see the 700 megahertz coming into use yet, in a couple of years.

Nick Lyall - Societe Generale - Analyst

Hi. It's Nick from Societe Generale. Just asking for the Baltic guys first, it may be a bit of an ignorant question, but have you seen any effect from concerns from business, less so from consumers about the Russian position in the Baltic yet? Is there anything we should be a little concerned around the edges in the business at all in terms of growth?

And then secondly, you mentioned Swedish marketing looked reasonably steady, no need for large changes to marketing for Q4, but the same comment for the Dutch business, I mean, you've now got a lot more and you back pocket, a lot more products. So should we expect a big bump up in Dutch marketing for Q4?

Allison Kirkby - Tele2 AB - President, Group CEO

So I'll take the second question first and then Guillaume and Petras will take the first question. So on the Q4 marketing, no change to what we guided to with third quarter results. Q4 is always seasonally higher than Q3. Q4 last year was seasonally low in Sweden, and Netherlands we had only launched the network towards the end of November and we'd not yet launched the iPhone in our channels. So Q4 marketing investments are likely to be up versus Q3 and also up versus Q4 last year. So no change to that guidance.

And Samuel said the Q4 campaign is very much a transitional one that goes into next year as well, but it's definitely up-weighted versus Q3 and versus last year. You've also had a more successful iPhone 7 launch than you did with the iPhone 6S last year, so that is also factors for increased marketing investment in the quarter.

And, Petras, you're closer to the first question.

Petras Masiulis - Tele2 AB - CEO-Lithuania

Yes. So for Baltics, no worries. Actually business, actually is [situational] is intense for several years; so lately there are no changes and we don't see any dangers going forward.

Ulrich Rathe - Jefferies & Co. - Analyst

Ulrich Rathe at Jefferies. I have three questions. They're all short so I hope I'm allowed three. The first one is obviously the whole roaming regulation issue in the Baltics have always sort of come up at the European level as sort of the poster child of the companies who would suffer from what's happening. Could you comment on that maybe in terms of exposure according to the current proposals or however you want to comment on that?

The second question is if I multiply through your indications for number of customers, connections per customer, and ARPU, I get sort of some revenue number around EUR700 million. Is that sort of the right order of magnitude? And also what sort of margin is in the business, because if I understand you correctly you are relying on the connectivity from other operators in quite a number of countries. So I would guess that a lot of that ARPU sort of get paid away has a connectivity cost, so I would guess that the margins of this business are a bit lower, I'm not entirely sure how you're sort of defining the ARPU there.

And my last question is on the capital allocation in Tele2. There's sort of some debate in the market whether your controlling shareholder wants you to sort of be more the cash cow rather than investing into growth areas so that there's some sense that maybe they're asking you to reduce the allocation of the cash you're generating in the more mature businesses and not sort of reallocate it so much into the growth business. Is there any truth to that? Can you comment on that sense of where the cash in Tele2 is going to go in future? Thank you.

Allison Kirkby - Tele2 AB - President, Group CEO

So I think, Guillaume, why don't you take the first question?

Guillaume van Gaver - Tele2 AB - EVP-International

Yes. We'll take it together with us.

Allison Kirkby - Tele2 AB - President, Group CEO

And then you can take the second question?

Guillaume van Gaver - Tele2 AB - EVP-International

I guess it was an IoT question.

Allison Kirkby - Tele2 AB - President, Group CEO

It was an IoT question, the second one, yes.

Guillaume van Gaver - Tele2 AB - EVP-International

Yes. Okay.

Allison Kirkby - Tele2 AB - President, Group CEO

And then I'll take third.

Guillaume van Gaver - Tele2 AB - EVP-International

Okay. Just from a roaming regulation perspective, that's one of the very important subjects for us in the Baltics in 2017. Now, if we stand back, as I explained, we give a lot of incremental value to our customers in the Baltics at a very low price. So we are looking at our offering in such a way that actually if we deliver increased value from a roaming proposition perspective, we should also be clever in terms of pricing. So we are, of course, going to have impacts with [losses] going to expand across Tele2.

But I would like to reiterate the fact that these beautiful increased high performance networks are increased now international proposition and roaming proposition has to be taken into account when it comes to pricing. And this, as you know, pricing is a heart for which you need to prepare and actually enter the market with the perception that we want to have happy customers, that the customers have to pay the right price for the great service we give them.

Lars Nordmark - Tele2 AB - Executive VP, Group CFO

And as far as the numbers is concerned, we guided for an impact this year. We're around 100 million and then an additional 150 million next year. Now, in this year we've actually seen the impact being slightly less, but we're still sticking to the 250 for year since not everything has landed as far as the commercial agreements with exactly how will it look like according to fair uses policy and so forth.

Allison Kirkby - Tele2 AB - President, Group CEO

Though there has been some interesting movements already in - was it Latvia, Guillaume?

Guillaume van Gaver - Tele2 AB - EVP-International

Yes.

Allison Kirkby - Tele2 AB - President, Group CEO

On how some others are actually starting to drive our ARPUs up in advance of Roam Like at Home. So it shouldn't all be seen as negative. We will obviously try to innovate our pricing models around some of the Roam Like at Home packages that are coming out.

On IoT, you're absolutely right. The connectivity piece has very low ARPUs, that's why we are now taking it beyond connectivity and building platforms that can deliver value-added services to our customers, because the real value to be had in IoT is in how our customers transform the data that we give them into value for their business model, and then it's all about how we get a share of the pie when they create value so you can bring it alive.

Rami Avidan - Tele2 AB - Managing Director, IoT

Sure. Yes. No, I mean that's spot on, number one. Number two, I would also argue that you're looking at the reduction of the potential wholesale cap that they're talking about here in EU, that for us is only an upside if any. We don't see a hard push down on the pricing, where you look at the margins on the GM1 levels, you're looking at sort of mid to high 70s on GM1 levels which we perceive to be static over time and, of course, then sprinkled with the stardust of new IoT solutions on top of that, but, of course, increase that over time. Four to five years from today, of course, the majority of our revenue will also obviously come from IT services bundled together with our connectivity solutions. Does that make sense?

Allison Kirkby - Tele2 AB - President, Group CEO

But it's a very small business today, but it's got fantastic growth potential and it's a scale game. So you put sales team in, you build strong platforms that are value-additive to your customers and then you build a very, very loyal customer base with very little return.

On the final question on capital allocation and our majority shareholder, you know, we have a capital allocation policy that is determined by our board, it's not just driven by one shareholder. And we take onboard the feedback of all of our shareholders as we create that capital allocation policy.

We've very much always been committed to our progressive dividend and aim to deliver sustainably good capital appreciation and a good progressive dividend. That's how we structure our capital allocation, and we have aimed to keep a strong balance sheet by keeping our leverage probably lower than our peers.

In this recent period, we have stayed very committed to our dividend that we committed to three years ago. And because we've got great confidence in our core businesses that are throwing off great cash, and we've used the opportunity of a low interest rate environment to fund the investment markets of Netherlands and Kazakhstan.

And as we look forward, we will take the views of all of our shareholders to decide what's the right capital allocation going forward. But, yes, we take the voice of Kinnevik, but it's not the only shareholder that we listen to in terms of how we create value in Tele2 over the long term.

I'm very proud of the independence of our board that are very much focused on doing what is the right thing for Tele2's full shareholder base in terms of delivering sustainable value creation over the long term. So I don't think you should feel that any one of our shareholders has a bigger voice than they deserve.

Lena Osterberg - Carnegie Investment Bank AB - Analyst

Oh, sorry.



Allison Kirkby - Tele2 AB - President, Group CEO

You could be next, [Eva]. Go. No, ladies first.

Lena Osterberg - Carnegie Investment Bank AB - Analyst

OK.

Allison Kirkby - Tele2 AB - President, Group CEO

There's not many of you here today so you deserve it.

Lena Osterberg - Carnegie Investment Bank AB - Analyst

Thank you. Two questions. First of all, we didn't talk very much about the Netherlands. But also in this interview earlier this week you said it will not reach EBITDA breakeven in '17. But could you maybe also guide us to the right level and progression of EBITDA recovery throughout the year because I assume it will maybe start the year with the same levels we're seeing now, then trend up.

And then, second, on the IoT strategy of going horizontally, will you get scale benefits doing that because it means you have to tailor-made a solution for every customer, whereas if you choose a vertical platform you can maybe get synergies from that one platform that you develop. How do you view that?

Allison Kirkby - Tele2 AB - President, Group CEO

OK. So on the Netherlands, today it's very much been about our core markets, but on the Netherlands, as I said a couple of quarters ago, we won't be EBITDA breakeven in 2017. You would expect during the course of 2017, however, that the NRA bill will start to reduce because we will be increasingly rolling VoLTE and it will be during the first half of the year that we should if Apple behave that we'll be able to switch on VoLTE on our Apple handsets. But the transition on the Samsung handsets are going very strongly and I think already we have about 150,000 Samsung customers now using VoLTE on our network and getting a great experience. We will give our guidance for '17 with our fourth quarter results, Lena, and I don't really want to see anything else beyond that.

In terms of IoT and horizontal versus vertical, first of all, my perspective is as a Challenger it would make absolutely no sense for us to go vertical, because vertical requires you to take quite significant risk and bets in one area. And I fundamentally believe that only the largest global telcos in the world will ever be able to become a meaningful vertical player. So we've chosen to build on connectivity which is close to our heart and then building applications on that connectivity that is scalable before we then take it into each customers. And over to you.

Ingrid Wistrand - Tele2 AB - Managing Director, IoT

Exactly as Allison said. By taking the horizontal position, we de-risk our business because everything we develop has synergies across all verticals. So we see the opposite, and we get the scale by taking their horizontal position rather than the other way around, because otherwise you need to place that on each one of the verticals you choose to going to. And you need to do that with some partners by being very clear on what we are doing. And I think we have been if not the most but one of the most operators that have been the most clear on our position on what we do and what we don't do, we've become very attractive to partner with. So it has also really helped us to leverage our scale because as you say it's a scale game, this, by being very good as a partner.

Allison Kirkby - Tele2 AB - President, Group CEO

So our platform will create the data that fuels each individual customer's unique system stack. And so by working in an ecosystem with SAP, with Oracle, with Microsoft, with Amazon, whoever our customers are using at the frontend, we are building a platform that gives them that data no matter what platform they're in, so that we don't need to bespoke anything in such a complex way.

Now you can speak, Stefan.

Stefan Gauffin - Nordea Markets - Analyst

Yes, finally. Ulrich jumped ahead and took two of my questions. If I could move a little bit to Baltics, you talked about your launch on SOHO, but moving into SME and large enterprises. Can you say what market share you have there today and also how big share of the market that represents those segments?

Secondly, Sweden target 35% EBITDA margin, could you give target for the Baltics on that metrics? Then finally on Internet of Things, where can I find the revenues of that business in the reporting today?

Allison Kirkby - Tele2 AB - President, Group CEO

OK. I think, Guillaume, start with your answer.

Guillaume van Gaver - Tele2 AB - EVP-International

Yes. So on the B2B in the Baltics, we are moving towards larger companies. From a market share perspective, we've actually inherited from a very strong SOHO market share because this is similar routes to market than what you see in consumer. But, obviously, on the B2B we are slightly below our market share in residential, that is why I'm very optimistic towards growth. And to speak between consumer residential and B2B is not very different to what you could see in normal telcos, that there's no specific difference on that subject. We don't disclose the numbers specifically, but it's meaningful for us to fight.

Guillaume van Gaver - Tele2 AB - EVP-International

I think on the margin, when you look at Lithuania they're around 36, Latvia is a little bit north of 30 and then Estonia is around 25. And I think the mission is to grow the margins in all those countries separately. And if you look at Baltics as a whole, we're moving around 32% so we're looking to improve that obviously going forward.

Allison Kirkby - Tele2 AB - President, Group CEO

And the last question?

Guillaume van Gaver - Tele2 AB - EVP-International

The last question in the reporting, Stefan, you got this section out there, yes, below. And then there's a piece called mobile, that's for your fine IoT.

Allison Kirkby - Tele2 AB - President, Group CEO

But it's sprinkled with fair dust so that you won't yet be able to work it out totally.

Guillaume van Gaver - Tele2 AB - EVP-International

Yes.

Unidentified Audience Member

Shall I go? On the Netherlands, I was wondering if you could give us some kind of help on how to understand the CAPEX development from here. You reached very high outdoor coverage numbers and the indoor numbers are going up as well. So going into '17 and maybe '18, could we see CAPEX dropping off as you reach these targets or are other drivers that will keep CAPEX high in absolute terms or as a percent of sales?

Allison Kirkby - Tele2 AB - President, Group CEO

CAPEX will go down next year. Yes. Now, listen, now that we are 98% outdoor, 82% indoor obviously CAPEX rollout will now start to reduce. We're also looking at how we tweak what we've got already to ensure as we roll out further we're doing it in a very cost-efficient way. And then it's all about balancing how much of the CAPEX should we roll out to then reduce the NRE cost. But 2017 CAPEX will definitely be lower than 2016. 2016 was our peak year.

Unidentified Audience Member

Maybe just on IoT if I may. Should we worry about our losses in IoT going up in '17? Is the trajectory still on?

Allison Kirkby - Tele2 AB - President, Group CEO

Not to a material extent.

Lena Osterberg - Carnegie Investment Bank AB - Analyst

OK. Yes, a follow-up on the Netherlands CAPEX, can you say something about the sustainable CAPEX to sales level in the Netherlands going forward? And then perhaps two more questions related to the Baltics. First of all, on the B2C business, where are you in the pre to postpaid migration, if you can give a percentage on this spilit. And then on the SME side, have you seen any substantial price pressure in the Baltics as we have seen in Sweden, for instance, or how do you see that develop going forward? Thank you.

Lars Nordmark - Tele2 AB - Executive VP, Group CFO

So I can take the first one on the sustainable CAPEX level. So as we just said on the mobile piece, we should see that coming down. I think overall now you have a mixture between the mobile piece and the fixed piece, so mobile should go down. And we should be entering those regions mid-term that we have been seeing in the other markets where you don't have a network sharing agreement in place.

On the fixed side, this year you actually see an increase because of the [Bula] investment that we've done. And I think when we look at the fixed piece, the business in Holland, we are looking to basically optimize the way we spend our cash on the fixed side. And CAPEX is obviously an important element of that.

Guillaume van Gaver - Tele2 AB - EVP-International

When it comes to the two Baltics question, so in terms of the prepaid to postpaid migration, actually in all of the countries we have now more postpaid customers than prepaid customers and the growth in postpaid is quite significant. So we mentioned in the slide 9% year-on-year growth on the postpaid side.

Now, prepaid to postpaid migration is a theme in all of Europe and we would continue to this trend. I would say that the Baltics is slightly over-performing as what we can see in Europe from a prepaid to postpaid migration.

Regarding the price pressure on SME, we cannot see this today. It's also linked to the fact that in the Baltics, as I said, we are already quite low in terms of pricing. Actually, we see quite the reverse with the data monetization that is playing very strongly on SOHO and is also playing on SME.

We are growing market share in the government segments. Those government segments tend to be quite low on data usage and with quite low ARPUs, but obviously we take our investment decisions for every bit we take part and our market share, as I said, is growing. Thank you.

Roman Arbuzov - UBS - Analyst

Roman Arbuzov from UBS. First question on strategy, from my experience I think you're one of the few operators that remain very, very connectivity-focused whereas others are sort of trying to go beyond that. And we've heard an example from another industry from the IoT team of the risk of being commoditized, so I was immediately thinking of telcos.

So when you think about going beyond connectivity, it seems like IoT is really the only part of your business where you're thinking beyond that. So is IoT your answer to sort of going beyond connectivity?

Allison Kirkby - Tele2 AB - President, Group CEO

No, I think our strategy is very much, it's built on connectivity. But if you are really honest about over the long-term, can you differentiate via connectivity, the answer is no. Yes, we've got fabulous networks and that will always be a priority, but where we fundamentally believe we will differentiate over the long term in both our consumer business, our B2B business, and in IoT is by the customer experience and the use of digitization and data around the core connectivity.

So our brands and our commercial innovation strengths allow our customer experience to be differentiated. And the use of data to, the enablement that digitization will give us to have even more data so we can better target our customers with what they need and how they will need it in the future is also another differentiator that we will have as well. And that's very much consistent with the IoT model. It starts with connectivity, you build partnerships and customer experiences around those partnerships, and more and more the data will fuel revenue sources and digitization opportunities.

Roman Arbuzov - UBS - Analyst

OK. Thank you. And then one more, please on the Baltics, on Lithuania, so you've mentioned you've got 53% market share but at the same time you've got 35%, 36% margins which you could argue maybe is a little bit low given your market share. So is there any particular reason why it's like this? Is there any particular regulation or taxes or sort of value, intra-group value transfer?

Guillaume van Gaver - Tele2 AB - EVP-International

From the value transfer into group we are very clear that there are no specific hidden. But, Petras, maybe you can give some background?

Petras Masiulis - *Tele2 AB - CEO-Lithuania*

Yes. I think historically with, it happened historically because Tele2 was going very fast and actually that was a price fighter strategy. This is why price level in Lithuania is quite low. If you would look on overall Europe map, so it's probably the lowest in Europe. And I think we've commented, at this stage as it is now, I don't think that there is any danger going forward. I think it might just go up if it would move.

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

And the 53% is customer market share. Remember, we've got the biggest prepaid brands in the market, so our revenue market share is 40% which is closer to the 37% EBITDA margin.

But the great opportunity there is we've got 53% of the customers in the market and if we can transition more of those to postpaid as we've done phenomenally well in Sweden in the prepaid to postpaid transition, then there's no reason to believe that we can't grow our revenue market share as we drive up the ARPUs from those. And then as his revenue market share goes up, his EBITDA margin will also go up, but it's a great margin already.

Roman Arbuzov - *UBS - Analyst*

Thank you.

Unidentified Audience Member

Hi. This is Jacob Bluestone from Credit Suisse. Three questions. Firstly, on IoT, what sort of level of scale do you think you need to hit the sort of ROCE targets that you have longer term. I obviously appreciate it's still very early days, but how many times does the business need to? How many years of 100% growth do you essentially need?

Second question is on the Baltics. Can you maybe just help us understand sort of what share the cost base across the three assets is shared, to just hypothetically if someone came and wanted to cherry-pick one of those assets, is it actually easy to break them off independently or is it really run as one business?

And then thirdly again also on the Baltics, could you maybe help us just sort of give us an update what's happening competitively and you obviously described how your own process had evolved from being focused on pricing to trying to upsell more data. Is that what competitors are doing, are prices going up or down? So any color there.

And then maybe just related to the Baltic competition, I didn't quite understand why your churn was so particularly low. Is there something special like very long contract lengths that's driving that churn to be quite so low? Thank you.

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

So I'll just kick off with ROCE and then you can do cost structure and then you can do Baltics, yes? Yes. So in IoT, the great thing is it's very low capital intensive in terms of business, very low and high gross margins. So in the short term, yes, you need to build up sales teams and you need to invest in developers to create the platforms, but over the long term it's a very high return on capital employed business.

Lars Nordmark - Tele2 AB - Executive VP, Group CFO

I think on the cost structure and then first of all we're not looking to sell any of the Baltic assets. They're a jewel in our portfolio. But I think we believe in accountability, so every MD has full accountability for its operation, for its balance sheet and also for its profit and loss. So there are some efficiencies coming through.

The operation that we have in Riga is a shared service center, right, which is managed out of the shared operations remit under [Frederik], and that is obviously a bigger piece. But each individual market, that is not specifically funded into their operations.

Guillaume van Gaver - Tele2 AB - EVP-International

One of your questions was regarding pricing in the Baltics. We believe that with these extraordinary networks, all players that we are seeing, all players growing in also better data monetization and also increasing their price for the obvious reasons that we've invested a very strong element of CAPEX and we are delivering an outstanding service and the proposition is growing in terms of value for the customers. So we are no different than the other players in that we are also working on improving the packages from a pricing perspective.

Regarding churn, I need to turn to the master of churn in the world.

Petras Masiulis - Tele2 AB - CEO-Lithuania

Actually, churn is low and this is because two reasons. One reason, customers are very, very happy Tele2. One thing, all the metrics in the market, whatever you can, see Tele2 is significantly above competition. Trust, customer satisfaction, reputation, pricing, perception, quality perception is on top so for sure customer doesn't have many reasons to churn.

But another thing which is also very important, it's already fifth year when Tele2 is mastering business intelligence skills. So we track customer behavior, we segment our customers and we are very much proactively going after the customers and offering services that they like and pricing that they like. So basically this is it.

Allison Kirkby - Tele2 AB - President, Group CEO

Coming back to your question, Roman, that data analytics and how we really convert data into real insights to create value is something that we are taking from Lithuania across the whole group now and see as a big opportunity for us in the future.

Unidentified Audience Member

Can I just ask one follow-up just on IoT as well? How integrated is it into the rest of the Tele2 group? Is it run as a sort of separate little startup or does it use Tele2's internal resources?

Rami Avidan - Tele2 AB - Managing Director, IoT

Both. So, of course, we're completely integrated in Tele2 from an ownership perspective. We're a separate business. As a matter of fact, from first of January we'll be a company of our own within the group, so we run as independent. Of course, we have a lot of interaction with the general part of Tele2, especially on the sales side as well as on the technology and roaming side. But legally we are going to be a separate unit as of first of January.

Allison Kirkby - Tele2 AB - President, Group CEO

Because we do want to have its own startup type of spirit and mentality and that's our intention.

Unidentified Audience Member

Thank you.

Matthew Burke - JP Morgan - Analyst

Matthew Burke, JP Morgan. So I've got a question on the return on capital employed and then another one on the IoT stuff. So on return on capital employed, do you have a particular timeframe to get to the 20%? And from I think 5G as being an important part of the presentations, but I get a sense that you don't see that as being a big drag on the path towards that overall 20%.

And then the question on IoT was whether you could give us a little bit more flavor about the kind of mix of customers you've got whether there are a few of that are really big or if it's quite evenly distributed, if there's any particular industry segmentation, that'd be helpful. Thanks.

Allison Kirkby - Tele2 AB - President, Group CEO

Lars, 20%?

Lars Nordmark - Tele2 AB - Executive VP, Group CFO

Yes, I think on ROCE we haven't said a particular time where we want to get to the group, ROCE target. What is important is that the gentleman up on stage now and Samuel, that we're driving the businesses that we see a continuation of ROCE above the 25% for those assets. And then through profitable growth in our investment markets we should see a continuous improvement in ROCE quarter-on-quarter, right?

Now, depending on we already have CAPEX investments, they may go up a little bit up and down, but we would like to see a path to those 20%. And just take Holland as an example, we've got 1 million mobile customers today. We are growing 60,000 net adds in the last quarters. We continue to do that. We will get more scale in that business and then we are in good path to run a very a valuable operation, or even more valuable than it is today.

Rami Avidan - Tele2 AB - Managing Director, IoT

For IoT so very simply it's a 20-80 split so 20% of our customers generate today around 80% of the revenues. Now, looking at the segmentation, basically you have really three parts. You have the larger enterprises and you have the strategic customers that we are now taking on a growth journey within the IoT space and then you have the long tail. And I would argue if you want to play in the space of IoT, you have to be able to cater to all three segmentations.

This year-to-date, our long tail so basically the 80% of the customer base, has grown with more than 300%. And so, of course, what we're looking to do is to continue to infuse our business with lots and lots of more customers and then, of course, keeping them, maintaining them and, of course, ensuring that we're growing them substantially with new services and new products and solutions.

Allison Kirkby - Tele2 AB - President, Group CEO

And we have time for one last question and then we'll be out there mingling anyway, so you can always ask more questions one-to-one.

Unidentified Speaker

Thomas?

Allison Kirkby - Tele2 AB - President, Group CEO

Thomas?

Thomas Heath - Danske Bank - Analyst

Thank you. Sorry to labor on dividends as the final, final question. Perhaps you can squeeze in another one.

Allison Kirkby - Tele2 AB - President, Group CEO

You've already written a report on the dividend.

Thomas Heath - Danske Bank - Analyst

True, true. So just trying to understand cash flow then next year, because I think estimates will differ. But I think in a lot of research notes across this crowd, very literal reading of dividend covered by cash flow would imply sequentially lowered dividend on the cash flow in 2017 and so I think all the questions that come up.

So I understand you don't want to be too specific, but is there anything you can say about what the big moving parts are in cash flow in 2017? For example, working capital was quite negative in 2015, but swung back quite a lot 2016. So if there is anything else in cash flow-wise that we can be aware of?

Allison Kirkby - Tele2 AB - President, Group CEO

So today's not about a guidance day. I know you'd love it, but I've already mentioned one of the big drivers that will happen next year is lower CAPEX in the Netherlands. You're absolutely right, we had a great positive swing in working capital this year as a result of the Swedish handset financing. There'll be a smaller benefit in that next year than we saw this year. And we're looking to roll out that handset financing in other parts of our portfolio during the course of 2017. But we've never given guidance on working capital and we never will, but obviously by the time we give guidance at the end of January we can maybe give you some more information.

Thomas Heath - Danske Bank - Analyst

Thank you.

Allison Kirkby - Tele2 AB - President, Group CEO

OK. Thank you.

Well, listen, thank you, all, for your time today. I hope you've enjoyed being at the heart of Tele2. And please join us for some Friday evening drinks just right at the back where you had lunch. And I wish you all a very merry Christmas and a happy new year and I look forward to continuing to



take our updates forward. As I said, we'll do something similar in Netherlands and Kazakhstan in the New Year. So thank you, all, and thank you to all my presenters.

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