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PRESENTATION

Operator

Good day and welcome to the Tele2 Q3 interim report 2016 conference call. This conference is being recorded. At this time I would like to hand the conference over to Louise Tjeder. Please go ahead.

Louise Tjeder - Tele2 AB - Head of IR

Thank you very much. Good morning, everyone, and a warm welcome to Tele2's third quarter 2016 results presentation. Speaking is Louise Tjeder and with me, as usual, I have our CEO and President Allison Kirkby and our CFO Lars Nordmark.

Allison will start by going through the highlights of this quarter and obviously followed by Lars, who will go through a little bit more in detail on the Q3 financials. After this we will have a Q&A session where you have the possibility to ask your questions.

So with this, I will hand over to you, Allison.

Allison Kirkby - Tele2 AB - President & CEO

Good morning, everyone, and thank you for joining us this morning as we take you through our latest results. So let's start with the highlights from the quarter.

As customer-focused value champions, we saw Group mobile end-user service revenue return to our ambition of mid-single-digit growth, increasing by 6% in the quarter. That was the result of strong data monetization across all of our major markets.



In Sweden, we saw the momentum from earlier quarters go further to 2% and in the Netherlands the positive customer growth trend continued into and throughout Q3, achieving a net intake of 59,000 and resulting in a strong 15% growth.

In terms of technology our 4G position is again strengthened throughout our footprint. Swedish geographic coverage has now reached 88% and Baltic outdoor population coverage is now at 99%.

And we're also seeing continued build out of our Dutch network, enabling good progress on data on-loading, with 77% of all data being consumed on our fantastic Tele2 network by the end of the quarter.

In productivity, data monetization has successfully flowed through to the bottom line in Sweden, Baltics and Kazakhstan with improved margins.

The integration of Altel and Tele2 in Kazakhstan is progressing well with cost and revenue synergies contributing. And the Challenger program is developing in line with expectations, well on track for the SEK1 billion target in 2018 with around SEK400 million of savings already achieved versus our 2014 base line.

And on people, the integration of Altel is ahead of plan with more than one-half of the milestones already achieved. And it's with great excitement that we are now preparing for the integration of TDC Sweden's business and people; a merger that will enhance our growth and value creation strategy in our most important market.

So in terms of the headline financials, as I said, monetization of data is our key priority and we saw strong growth in the third quarter with mobile end-user service revenue up 6% on a like-for-like basis, which, to be clear, includes Altel pro forma and on a constant currency basis.

Net sales in the quarter amounted to almost SEK7 billion, up 1% like for like, due to higher revenues in Baltics and Netherlands, offset by lower revenue from fixed telephony and fixed broadband decline.

EBITDA was down by around 1% as a result of the increased sales and marketing investment in the Netherlands. But these were almost fully funded in the quarter by positive EBITDA development in Sweden, Baltics, Kazakhstan and Germany.

So moving on to our key markets, in Sweden we saw record mobile end-user service revenue in the quarter, which increased year on year by 2%. Both consumer postpaid and B2B large enterprise were up mid to high single digits, driven by seasonal ASPU increase in Tele2 residential, further customer growth in Comviq and also in large enterprise, fueled by high-quality customers, such as [Yiterber Estat] and [Criminal] (inaudible).

Overall, total revenue was flat with mobile end-user service revenue offset by lower fixed telephony and wholesale revenue.

EBITDA was positively affected by seasonally strong data monetization, a strong summer of roaming and realized efficiencies from our Challenger program initiatives. We also had slightly lower marketing expansion costs during the summer months but, all in all, these impacts led to EBITDA growth of 5% year on year.

Trends have, therefore, continued to improve this quarter. Our dual-brand strategy continues to drive positive postpaid net intake, and increased data consumption in Sweden and abroad led to a strong 7% consumer postpaid end-user service revenue increase.

Our value champion strategy continues to attract higher value customers to the larger data buckets and this strategy, in addition to our increased network coverage, is driving our network experience and our customer satisfaction to best-in-class levels and also fueling a positive ASPU development.

As you can see here, we are continuing to invest in geographic coverage, now at 88% this quarter, to ensure we can provide our customers with a great connectivity experience no matter where they are in Sweden.

Post quarter-end we launched a new campaign, be content with more, to reinforce our Tele2 brand and further strengthen our dual-brand strategy. We see immense opportunity for our customers to have more access to great connectivity by enabling even more of their devices to be connected. And this campaign will therefore be exploited heavily during the fourth quarter.

Let's move east now to the Baltics where commercialization and monetization of our 4G investments are continuing to drive excellent top and bottom-line growth.

Net sales growth of 6% was strong, thanks to an ever-increasing demand for data services and premium handsets.

Mobile end-user service revenue growth was also strong at 7%, largely driven by data consumption and higher value tariffs, encouraged by some great summer marketing campaigns. Our summer initiatives really helped offset the expected impact we had from declining roaming revenue.

EBITDA growth was up 9%, with Lithuania up 6%, Estonia up 10% and Latvia up by a very strong 14%. This excellent top end growth and our best-in-class Challenger cost structure is enabling data monetization to successfully flow through to our bottom line.

So as I said, we saw strong data monetization in the quarter and that's driven by a transition from prepaid to postpaid, increased smartphone penetration, data analytics reducing churn, and in our partnership with Viaplay. All of these contributed to ASPU growth of 7%.

4G coverage is now 99% in the region and continuous improvements in speed, with maximum download speeds far above our competitors and most of the fixed line businesses that are in the Baltics, are driving a great customer experience and therefore great data usage.

So let's move back west again to the Netherlands and our third quarter mobile momentum was, again, strong. Net sales were up 3%, driven by mobile momentum, offset by declines in fixed broadband and telephony, which continues to see challenging market conditions.

However, mobile end-user service revenue was up 15% as we saw an increased mobile customer base up almost 20% year on year, we hit one million customers just last week, and net intake slightly ahead of Q2 at 59,000.

This strong mobile end-user service revenue filtered through to EBITDA in the quarter, driven by an increase in customer base but also sequentially we saw seasonal boosts from roaming, top-up and trade-up to bigger bucket sizes. We also continued to invest in the market during Q3, albeit with less TV marketing in the summer months, as you would expect.

However, as you have seen in our release, and as part of our annual impairment review, we have reassessed the value of the Dutch asset base and a non-cash goodwill impairment of SEK2.5 billion was recognized in the quarter.

So, let me give you some more info on what we actually did during the third quarter to fuel the mobile momentum.

Our main focus has been to continue the positive growth trend that we built up during Q2 as well as to focus on increasing ASPU, rolling out a high quality VoLTE service and improving the overall customer experience.

This is the second quarter in which we had all components for growth in place and despite seasonally lower market investments and increased competitive pressure, our momentum increased in the quarter.

Sequentially higher mobile ASPUs were achieved through continuous brand positioning and product focus and increasing sales of larger buckets. We also increased our share of direct sales, having now reached 13 own stores, creating a valuable brand presence on more Dutch high streets.

And we continue to build up our Fun Rebel brand platform with an innovative off and online roaming campaign which had significant viral spread over the summer.

On the network side, we continue to expand our LTE Advanced 4G network, which has now reached above 98% outdoor population coverage and indoor population coverage of over 83%. 4G onloading on our own network has now reached 77% by the end of the quarter and rollout of VoLTE has started on a larger scale, particularly with Samsung subscribers where we have over 50,000 subscribers now on VoLTE.

So, yet another good quarter of continued momentum in mobile. Our disciplined investment strategy is delivering as we further establish ourselves as the preeminent Dutch challenger in the market. We will therefore continue to fuel this momentum in Q4 with a new campaign and increased sales and marketing investments versus Q3.

Moving further east to Kazakhstan, we saw strong underlying mobile end-user service revenue growth of 20% from an increased customer base and new pricing propositions.

Net sales in the third quarter last year were affected by Altel's handset campaign, which resulted in lower year-on-year net sales in this quarter. However, EBITDA developed significantly in the quarter, from pricing, improved operating leverage and from JV integration synergies. As you can see, even in these early days the JV is already enabling a much stronger and more sustainable platform for growth in the future.

So, what's driving the strong financial performance? Well, it's the higher customer base, it's the competitive advantage in 4G as our competitors are only now really starting to launch 4G commercially with limited coverage to date. It's also being driven by a comprehensive integration synergy plan that is being executed with discipline and well ahead of plan.

All of that being said, we did have negative intake in the quarter but we did expect that because we took significant pricing moves, both in Q2 and in the early part of Q3, and we're also monitoring recent moves by competition very closely.

Finally, before I hand over to Lars, on the Challenger program, it's developing in line with our expectations and well on track for the SEK1 billion target that we set out to achieve by 2018. Product simplification is progressing well with more than 900 products closed to date and an additional 750 to be closed in the year.

We have seen lower customer service costs across the Group, you saw that in the Sweden result, as a result of productivity interventions and relocation of resources, such as our Dutch B2B team, to offshore locations. And we're continuing to source and optimize in several areas, such as in devices, network and support, as well as increasingly using data analytics to improve customer base management.

We also announced earlier this week an initiative to step change productivity in our Swedish operations with an expected reduction in our workforce of around 225 FTEs.

So, in summary, the Challenger program was launched to challenge the way we work and set ourselves up for the future. The latest move in our largest most important market is proof that we are executing on what we promised.

So, Lars, over to you to take them through the financials.

Lars Nordmark - Tele2 AB - CFO

Thank you, Allison. Let's turn to the next page for an overview of the mobile end-user service revenue development.

A reported year-on-year increase came in at 6%. That was at the same level, from a constant currency and pro forma perspective. On the right-hand side, looking at the individual operations, we have seen good progress, both in our established and investment markets.

Sweden experienced a growth of SEK39 million versus Q3 last year, driven primarily by consumer postpaid growth in Comviq, good ASPU performance within the Tele2 residential [band] and solid data monetization. Excluding seasonal effects on roaming, Q3 mobile end-user service revenue growth in Sweden was at 1.5%.

In the Baltics, data monetization and strong prepaid summer campaigns led to a SEK33 million increase, resulting in a 6% increase year on year, despite headwind from the new EU roaming regulation. Excluding the roaming effect, Q3 mobile end-user service revenue growth was at 10%.

Our basis in Kazakhstan improved by SEK78 million, driven by a step change in price positioning during Q2 and Q3, combined with customer base growth.

In the Netherlands we saw a healthy increase of SEK55 million, mainly as a result of growth in our mobile customer base.

Moving on to EBITDA, overall EBITDA was positively affected by the strong mobile end-user service revenue growth. Let's look at the individual markets.

In Sweden we saw a growth of SEK54 million, mainly due to good top-line development, lower marketing activity compared to last year, as well as reduced customer service costs as a result of benefits coming through from our Challenger program.

Solid performance in the Baltics, delivered a growth of SEK24 million as a result of good top-line development trickling through to the bottom line, also aided by excellent cost containment and [general] management.

The Dutch operation saw a decline year on year of SEK124 million due to investments into the mobile segment as well as a decline in the fixed segment. Profitability in the mobile segment has also been positive impacted by good development on optimizing acquisition costs as well as retention activities.

In Kazakhstan, EBITDA growth of SEK29 million was driven by higher revenue contributions and good progress in improving our operating leverage as a result of the ongoing integration work.

We also saw a strong contribution from Germany which resolved a legal dispute, giving a positive impact of SEK50 million in the quarter.

The negative impact of SEK32 million in other operations was driven by our investments into IoT and slightly higher headquarter-related costs.

On the CapEx side we saw a decline of 16% versus the same period last year, primarily due to lower investment levels in Netherlands and Croatia.

Turn to the page of free cash flow, we saw a significant increase during Q3, primarily driven by a positive development in working capital due to sales of handset receivables which we implemented in Sweden during Q1 of this year.

Moving on to debt and leverage. Our economic debt to EBITDA decreased slightly compared to last quarter to 2.13. As previously communicated, we will be above our target range of 1.5 to 2 during the investment phase in the Netherlands.

The definition of economic debt is net debt excluding liabilities from Kazakhtelecom and liabilities guaranteed by Kazakhtelecom. This reflects the fact that we will not be required to provide funding to the Kazakh business in the foreseeable future.

As you recall, this summer we were very excited to communicate the acquisition of TDC Sweden. This is an acquisition which will strengthen our B2B position in our home market.

In conjunction, and in order to maintain the financial strength of our balance sheet, we also announced the intention to raise equity through a rights issue where the EGM will now be held on October 27.

Tele2's largest shareholder, Kinnevik, has committed to subscribe for its rights and we also have a standby underwriting commitment from Nordea for the remaining portion.



On guidance, we confirm our guidance for 2016 where we expect to be at the upper end of the range for net sales and EBITDA. This excludes any impact from the TDC acquisition. Please also note that the mobile end-user service revenue is based on constant foreign exchange rates and pro forma.

And with that, I'll hand back to Allison.

Allison Kirkby - Tele2 AB - President & CEO

Thank you, Lars. So just to summarize, our key priorities remain the same.

First and foremost maximizing our dual brand strategy in Sweden to sustain momentum in our core market; monetizing 4G in the Netherlands, Baltics and Croatia to establish ourselves as the preeminent challenger, especially in the Netherlands; integrating our JV in Kazakhstan, driving both cost and revenue synergies; continuing to execute on the Challenger program.

With the regulatory clearance now received, we are now preparing for our proposed rights issue and the closing of the acquisition of TDC, a merger that, as I said before, will step change our growth strategy in our most important market.

So in summary, I am pleased with the underlying momentum that we've seen across the Group in the quarter and we remain focused on further data monetization across our businesses and delivering long-term shareholder value.

So thank you, that completes our presentation and I'll hand back to Louise to manage us through the Q&A.

QUESTIONS AND ANSWERS

Louise Tjeder - Tele2 AB - Head of IR

Thank you. That concludes our phone presentation regarding the results for the third quarter and yes, we will now open up for questions. So operator, could we please start with the first question.

Operator

Thank you. (Operator Instructions). Nick Lyall, Societe Generale.

Nick Lyall - Societe Generale - Analyst

Could I ask one on Sweden, please, and one on the Netherlands?

On Sweden first, could you give us an idea on the extra marketing you might need into the fourth quarter and also an idea of what Challenger contributed this quarter and what might be the step-up into Q4, please?

And then the second one on the Netherlands, an obvious one. On the writedown, is it possible to give us some idea of the main changes in the assumptions you've made and what you mean by that phrase about future cash flow generation being a reassessment of future cash flow generation, please? Thanks.



Louise Tjeder - Tele2 AB - Head of IR

So the first question on Sweden to give an idea of the marketing into Q4 and also elaborate on the Challenger contribution in the quarter and the next, for Lars.

Allison Kirkby - Tele2 AB - President & CEO

So in terms of Sweden, extra marketing in the quarter, I think we should really look at year on year. Q4 last year did not have as much going on as we are going to have going on this quarter. So for example, iPhone 6 wasn't as successful as the iPhone 7 and the demand for iPhone 7 is significant. In fact we've got a lot of customers still waiting for Apple to deliver their phones. And we've got the new campaign that's just gone out in Sweden.

So sequentially year on year there will be more marketing investment in the fourth quarter and therefore there will be limited EBITDA development in Sweden year on year because of those increased investments.

In terms of Challenger contribution, I think if you just look at the underlying margin development in the quarter versus last year, there's probably around SEK20 million of slightly lower sales and marketing expense. But the rest of the margin development has been driven by Challenger's benefits. And that's how you should look at that going forward.

In terms of Netherlands, I'll kick off, and then I'll pass over to Lars to give a little bit more detail. The big change in the assumptions going forward is we've seen the fixed consumer business and B2B business be very challenged for a number of years. That has continued again into this year. And you've seen the consequences of that in our EBITDA and our cash flow. Then the big news is the continued consolidation of that market with the recent approval of the Vodafone-Ziggo merger.

So it's when we look at that and add all of the fixed implications, alongside the good momentum in our mobile then, and we project that forward, it gives a different outlook than when we looked at it this time last year. And Lars, I don't know whether you want to build on that.

Lars Nordmark - Tele2 AB - CFO

Yes, if you look at the [amount of] CapEx for the fixed business year to date last year, we were above SEK100 million. And you look at it for the year to date, same period this year, we're seeing it's going to be in the red. Now obviously, once we improve that position, and we're working on optimizing cash, but the fact is that it has been [significantly] changed and has deteriorated. And that's what we are taking into account in the future capital projection.

Nick Lyall - Societe Generale - Analyst

Okay, that's great. Thank you.

Operator

Roman Arbuzov, UBS.

Roman Arbuzov - UBS - Analyst

My question is on the improved profitability which was very strong across the board. You've already commented on Sweden. So perhaps you could comment in a bit more color in terms of Netherlands, Kazakhstan, and Baltics. And just generally outline how sustainable do you think the development this quarter is, and whether there were any particular one-offs to bear in mind on top of what you've already clearly disclosed in terms of the one-offs. That would be very helpful.

Also secondly on Sweden top line, and a 2% to 3% target for mobile end-user service revenue growth, given that you will be facing easier comps in Q4, driven by the B2B segment, do you think it's potentially possible that you will exceed this range? And if you could just comment on the drag, please, that you still seeing on the B2B side as of this quarter, that will be very helpful.

Louise Tjeder - Tele2 AB - Head of IR

So Allison will answer your first question on improved profitability, and elaborate more on Netherlands, Kazakhstan, and Baltics, and also how sustainable this is and if there were any one-offs in the quarter.

Allison Kirkby - Tele2 AB - President & CEO

So the improved profitability across the Group, the one consistency across the board was data monetization. We have seen in Sweden, in Baltics, in Netherlands, in Kazakhstan, great usage on our networks, people trading up. Roaming domestically and internationally has been very positive during the summer months. Seasonally Q3 is always strong; it was particularly strong this Q3. And that's given us a great opportunity to filter that down to the bottom line.

How sustainable is it? Well, Q3 is always an outlier versus all of our other quarters. I think the only things that were slight outliers this quarter were a little bit less sales and marketing in Sweden, to the tune of maybe SEK20 million versus the same period last year; a little bit less in above-the-line marketing in the Netherlands than the other quarters because we don't do TV advertising in the summer months, and we were waiting for our new campaign to kick in at the end of the quarter.

The one-offs have all been explained already, and in the report. So I don't need to get into those. So it really was good data monetization. And you're starting to see Challenger benefits coming through and synergies kicking in in Kazakhstan.

In terms of Sweden top-line development, yes, we're moving in to an easier comp period. And, yes, things have improved in the B2B, SME segments. But it's still very competitive. And Q3 was a quiet quarter. So we want to ensure our momentum continues by investing behind our new brand campaign in Sweden by exploiting the iPhone 7, which has been a very, very, successful launch so far. As I said we've got people waiting for the phone.

And in terms of B2B, large enterprise still mid single digit. SME still a slight decline year on year, but it's getting better.

Roman Arbuzov - UBS - Analyst

Thank you very much. Can I just follow up very quickly on the Netherlands? The equipment sales was relatively low in the quarter. So is it fair to assume that maybe perhaps once that normalizes then you'll be spending a little bit more on subsidies going forwards? Or that's not the case?

Allison Kirkby - Tele2 AB - President & CEO

Yes, correct. The summer months are not a heavy period for equipment sales. One of our key competitors had a very aggressive marketing and pricing campaign during the summer. We decided not to overreact to that. And I'm glad we didn't, because we've still got good momentum. Our intake didn't suffer. Our market share development didn't suffer. And we have been waiting to really ramp up investment behind the iPhone 7 and the new campaign. So, yes, Q4 we'll go back to the higher levels of investment that you saw in previous quarters, but still within the range that we've guided previously.

Roman Arbuzov - UBS - Analyst

Thank you so much.



Operator

Lena Osterberg, Carnegie.

Lena Osterberg - *Carnegie Investment Bank AB - Analyst*

Congratulations on the very good quarter. First of all, you guided earlier on some impact, negative impact, from roaming regulation this year. And it seems you've had a very positive contribution from roaming in this quarter. So I was wondering a little bit first of all if you could specify a little bit more how much of that you see as extraordinarily positive. And then also if you could give some indication into next year when we move to roam at home, how much that will give you as an impact.

Then also if you could say something about the cost on T-Mobile. You migrated a lot of the traffic now. How much are they in the quarter? And what's the trend?

Then also if you could guide a little bit on the P&L and cash flow tax. And then dividends, you mentioned that this is the last year of your progressive dividend policy. If you could give some view on how you believe you view your distribution capacity going forward.

Louise Tjeder - *Tele2 AB - Head of IR*

So the first question, Lars, if you can answer that. And that is regarding the roaming regulation impact, and what we have guided for previously in terms of the SEK100 million. If you could specify how much in the quarter was extraordinary, and how to view that going forward, if we start there?

Lars Nordmark - *Tele2 AB - CFO*

Yes. On the roaming impact we've seen a lower than expected impact for the quarter, and also for year to date. As you mention, we have guided about SEK100 million impact. We believe that -- it's a combination of people using more within EU, so the positive volume impact, and also good smart pricing positioning in our market and in particular the Baltics.

And then we are also (inaudible). In addition to that, we've also seen an increase in roaming outside the EU. So if you net all that out, then we're looking at an impact that is lower, the year's not over yet. I'd be a little bit careful to mention exactly what we're going to land, but it will definitely be lower than the SEK100 million that is our current estimate.

When it comes to the roam-like-at-home impact next year, I think we are currently looking at that, what the impact would be. But we would expect that impact to be -- definitely impact our roaming regulation and the impact we have on the revenues coming through. I think what we've seen from the initial analysis is that's going to be (inaudible) impact or slightly more.

I think on the dividend, we are sticking to the current dividend policy that we have, which basically says a 10% increase from a (inaudible) perspective. So that -- you should look at that. And when it comes to a new dividend policy, that will be communicated when we give the guidance early in 2017, and that's for our Board to decide.

Louise Tjeder - *Tele2 AB - Head of IR*

And then we have the question on the T-Mobile NRA costs, the level in the quarter, and the [Trango] report. Allison, if you could take that one?

Allison Kirkby - Tele2 AB - President & CEO

Yes. Similar to previous quarters. So despite an increased customer base, and not yet VoLTE fully rolled out, we're holding it around the EUR50 million per quarter. Going forward, we expect, as we switch on VoLTE fully, and our network enables even more data usage as a result of densification, then it'll go down over time. But that will happen during the course of 2017, and not in 2016.

And thank you, Lena, for recognizing the good quarter.

Lena Osterberg - Carnegie Investment Bank AB - Analyst

Could you say something about the taxes, sorry? P&L and cash flow tax for the full year?

Lars Nordmark - Tele2 AB - CFO

Yes, sure. So the cash flow tax has increased, because it's been higher tax rate in the countries like Sweden and the Baltics and Germany. And on the P&L tax, we had a reduction in the tax rate in Luxemburg, which reduces the DTA. So that's primarily the impact for that.

Lena Osterberg - Carnegie Investment Bank AB - Analyst

But for the full year? How much do you expect, roughly?

Lars Nordmark - Tele2 AB - CFO

We don't give guidance for that for the full year. So we'll be a bit cautious on that one. But we shouldn't see any major changes to what we've seen in the first three quarters.

Lena Osterberg - Carnegie Investment Bank AB - Analyst

Okay. Thank you.

Operator

Thomas Heath, Danske Bank.

Thomas Heath - Danske Bank - Analyst

A few questions if I may. Firstly, on Sweden here; a very strong quarter, of course. I understand that some of the benefits you'll reinvest in Q4, and you mentioned the iPhone; but when we sit here in the conference call in the next Q3, in 2017, will you say that well, Q3 2016 was extraordinary because of a very low handset sales, or will the run rate cost, if you like, in Q3, is that more telling of 2017, and then you just happen to have a push-in in Q4? So I'm trying to understand if the run rate cost, which seems to have decreased, if this quarter is more telling for next year or not?

And then the second question, also on cost, in the Netherlands. If I understand you correct, the lower cost you're seeing in the Netherlands is not related to lower roaming costs to T-Mobile. And that makes me wonder what are the biggest cost items that have decreased. I think you mentioned TV campaigning, but what other factors [for the] less handsets subsidies? So those are my two key questions. Thank you.



Allison Kirkby - Tele2 AB - President & CEO

So the only outlier in Q3 was slightly less sales and marketing investment of around SEK20 million in Sweden. So in Sweden, what really drove the healthy quarter was end-user service revenue development, driven by data monetization from top-ups, trade-ups and good growth in our underlying business.

So when we look into next year, the same period, I think the only outlier would depend on what we did in sales and marketing in the quarter. Sometimes the iPhone slips into Q3 and so that causes a bit of a phasing impact. But I think that would be the only outlier, because the underlying cost base, these benefits that we're seeing flow through, will be beneficial into the future.

In terms of the Netherlands, it's not really that we've got lower costs in the quarter, Thomas, it's the higher revenues that has driven the biggest impact. Because if you look year on year, our network costs have gone up, our NRA costs are about the same, and our sales and marketing has gone up. We just didn't invest the same on TV in Q3 as we had done in Q2. So it's really a revenue development that has caused the improvement in the Netherlands in the quarter.

Thomas Heath - Danske Bank - Analyst

That's very helpful. Thank you. If I can have one follow-up, just to clarify the answer on roaming. Was it correctly understood that your first best guess preliminary assumption would be slightly higher than SEK100 million for 2017. Thank you.

Lars Nordmark - Tele2 AB - CFO

Yes, we expect the roam-like-at-home to have a bigger impact than the regulations that we're seeing this year.

Allison Kirkby - Tele2 AB - President & CEO

And as you know, the EU are still sorting it out, so it's very uncertain, particularly dependent on where they end up with their fair usage policy; but it will definitely be higher than the guidance we originally had for this year.

Thomas Heath - Danske Bank - Analyst

That's very clear. Thank you.

Operator

Ulrich Rathe, Jefferies.

Ulrich Rathe - Jefferies - Analyst

I have two questions, please. The first one, again on the Netherlands I'm afraid. Let me maybe ask the question in another way. You have said expectations in the market for a particular spending level in the Netherlands, and I suppose in the strategic situation you are in the Netherlands, it's discretionary how much you invest. So what has made you retain the upside that comes through the stronger revenues, rather than spend to levels where essentially expectations were?

I know this is not -- this is obviously a question on the quarter, but if you could comment on the thinking on the investment levels in the Netherlands also in 2017. Are you still in a position where you think it makes a lot of sense to really put serious money into the market to gain scale? Or do you think it might be time to rebalance maybe that a bit and look towards breakeven and these sorts of things?

My second question is on the exposure to roam-like-home. You mentioned earlier very indicative expectations. I think this was on revenues. But I was wondering, would you have some indication what the EBITDA impact might be? I understand there are lots of variables there, so maybe if you could just give us some sort of worst case scenario for the EBITDA impact, understanding then that likely actual impact would be lower than that. But if you could just get a lower bound if you will on the EBITDA impact from your point of view, that would be helpful. Thank you.

Louise Tjeder - *Tele2 AB - Head of IR*

So if we take the first question, Allison can answer that on the Netherlands. We have been quite specific in our guidance in terms of (inaudible) losses of SEK200 million to SEK300 million, if we could elaborate on that on the levels and how we view that in terms of scaling and rebalancing. So if we start there.

Allison Kirkby - *Tele2 AB - President & CEO*

Yes, okay. So as I said on answering the last question, the real benefit that we got in Q3 was not from reduced spending, but actually from much higher revenue development in the quarter, as data monetization is flowing through in a healthier way. Why did we not spend more? Well as said all along, that we are investing in a very disciplined manner so that we create the right level of shareholder return on this business.

Q3 is always a quarter where if you throw too much money at it, you might not actually get a good return because nobody's watching the television, nobody is buying as many handsets, and people are just waiting to buy new handsets in the Christmas period.

We also saw one of our key competitors do their madness month which became six weeks, and we chose not to escalate price promotion during that period. And I'm glad we didn't, because we still took around 20% of the available switchers market, and we had net intake at the same levels, or slightly ahead, of Q2.

So what does that mean for 2017? What we are looking at doing looking forward is really reassessing the investment that we're putting into fixed, because as you've seen as a result of the impairment, that business continues to be difficult for us, both from a B2B and a consumer point of view. So we're reassessing the investment we put there.

But from a mobile point of view, 11 months into launch we are consistently taking 20% of the available market. We are building a unique challenger presence in the market. We have [grown] our customer base year on year 20%; we're now over 1 million customers. And we will continue to build to a level that gets what we believe the right return on our overall investment.

And then on roam-like-home, do you want to follow up on that Lars?

Lars Nordmark - *Tele2 AB - CFO*

Yes, I think as I mentioned earlier an impact of up to SEK250 million, but I think there's been a lot of [variable] parts and moving parts around that number. So I think we would have more visibility when we give the guidance early next year to get a bit more granular on that figure. But that's the figure that we've given today.

Ulrich Rathe - *Jefferies - Analyst*

Great. Can I just confirm, up to SEK250 million with lots of uncertainties attached to it on EBITDA for the Group, is that correct?

Lars Nordmark - *Tele2 AB - CFO*

That's correct.

Allison Kirkby - Tele2 AB - President & CEO

That's what we guided at the beginning of this year. We said it would be SEK100 million this year and then an incremental SEK150 million the following year. So we're still sticking to that, whilst we're waiting for the EU to resolve the fair usage policy and we understand where wholesale rates are going to end up, but we don't have clarity on that yet, Ulrich.

Ulrich Rathe - Jefferies - Analyst

Understood. Thank you.

Operator

Andreas Joelsson, DNB.

Andreas Joelsson - DNB Markets - Analyst

A couple of questions from my side. First of all on the guidance, and especially the sales guidance, if I take the full year, upper end of the range, and see where you could end up in Q4, it implies that the growth rates in Q4 should be clearly less than it was in, for instance, Q3 despite that you have easier comps and, as you say, you have good momentum, or good interest in the iPhone 7, so I wonder what you base that assumption on.

And also the same question as we had in Sweden, how much more marketing you are planning for in the Netherlands in Q4? That would be my two questions, thanks.

Allison Kirkby - Tele2 AB - President & CEO

So on the sales guidance, I think what you need to remember is last year Q4 we had a Dutch VAT reimbursement, which really boosted our revenue by around SEK90 million; so that obviously doesn't happen again in Q4. And then I think the only other thing you need to recognize, we always don't get the roaming impacts in Q4 versus Q3.

Of the Swedish momentum, of the 2.1% growth in Sweden, I think 0.5% of that 2.1% was from roaming, and Lars mentioned the impact that we had in the Baltics as well. Without roaming we've have been 10 rather than 7

So, I think we expect the underlying momentum, ex roaming and ex that Dutch VAT adjustment, to be similar to this quarter on the top line. That's why we're now expecting to be at the upper end of our guidance range on both sales and EBITDA, and be in line with that mid- single-digit mobile end-user service revenue growth for the year.

In terms of Netherlands Q4, we'll be back within that SEK200 million to SEK300 million loss range for the fourth quarter. We were close to the SEK200 million this quarter because of seasonally high revenues and slightly less marketing, but we'll be back in the SEK200 million to SEK300 million range in Q4.

Andreas Joelsson - DNB Markets - Analyst

Thank you very much.

Operator

Johanna Ahlqvist, SEB.

Johanna Ahlqvist - *SEB Equities - Analyst*

Two questions, if I may. First one related to Dutch business and the ARPU was strong in the quarter, and if you can say something about how this will -- is this a lasting impact? You mentioned top-ups for instance. Is that a seasonal impact in Q3, and how much of the ARPU uptick will prevail going forward?

And then secondly, if you can comment anything on the churn level in Holland. Thank you.

Allison Kirkby - *Tele2 AB - President & CEO*

The ARPU level was sequentially up so not year on year, because obviously our ARPUs came down when we launched our new propositions. So we are happy that that sequential ARPU development we had will be maintained into Q4.

Yes, there's a little bit from roaming but the more direct sales we have, as we roll out our own stores and we've become even better at selling online. We also see we have higher ARPUs in our direct channels than our indirect channels, and that's something that the team are really focused on.

Our campaigns have more and more been focused on the higher buckets like 4GIG and that's what's really starting to drive higher sales in the bigger buckets, and that's what we want to sustain going forward.

In terms of churn, churn has reduced sequentially as we're cleaning up some of the older customer base. And again, as the team focus more and more on improving the customer experience and more and more building better data analytics, we're getting much better at customer base management. So, yes, churn is down too.

Johanna Ahlqvist - *SEB Equities - Analyst*

Thank you.

Operator

Peter Nielson, ABG.

Peter Nielson - *ABG Sundal Collier - Analyst*

Just a couple left, please. On Sweden firstly; you talked about strong growth in the B2B large enterprise price market segment and you also indicated, Allison, earlier some positive comments about the enterprise market improving in Sweden. Are you talking about the overall market or are you mainly talking about your own performance here, and what is driving Tele2's good performance in the large enterprise segment?

And then just secondly on the Baltics; given that we now have had a few, actually several, quarters with gradually improving performance in the Baltics, could you elaborate a bit on what is driving this? Is it a macro-driven increase in consumer spending, or are there other factors that is driving the much improved performance in the Baltics? Thank you.

Allison Kirkby - Tele2 AB - President & CEO

Yes, I was talking about our own performance in B2B and the enterprise segment in general. We haven't seen any of our competitors release their results yet, so it's difficult for me to comment, although we have seen the SME segment be less price-aggressive in the last quarter. And certainly the investment that we put into that segment earlier on in the year to get momentum back has paid off for us and things have stabilized.

So large enterprise, we are consistently growing in the mid-single-digit range, and continuing to win good, high quality customers such as Gothenburg, the City, and parts of the government, and the defense sector. So, yes, it puts us in a strong position as we integrate the TDC business in the coming weeks and months.

In Baltics, macro-wise definitely the Baltics has improved. But I'm also really proud of what we are doing in the Baltics. We've had a very strong business in Lithuania for a number of years, we're number one in the market. And the rollout of 4G, the new data-centric pricing, has really helped fuel momentum in Lithuania.

Our Lithuanian team are also best-in-class at cost management so we managed to flow top-line growth down to the bottom line, and we're building up some really good analytical skills in Lithuania.

What we did, as part of the operating model changes last year, we have our Lithuanian CEO now oversee the whole of the Baltic region so that we can replicate what we're doing in Lithuania in the other markets, and that's really starting to pay off. In Latvia we took some significant pricing moves at the end of Q2, beginning of Q3, and that's all part of the data monetization story.

So, yes, a good macro environment but also a really strong Tele2 Challenger way to grow businesses in the mobile market.

Peter Nielson - ABG Sundal Collier - Analyst

All right, that's useful, thank you.

Operator

Maurice Patrick, Barclays.

Maurice Patrick - Barclays - Analyst

I guess a quick question on the Challenger program. We talked about the SEK1 billion target, I think. Many of us questioned how much of that was gross or net. And it seems like some of that's now coming through on the net level, not just the gross side. So I guess thoughts about the remaining SEK600 million that are coming through for the rest of the program. You've got your conviction that will come through at the net level rather than the gross level. Thanks.

Allison Kirkby - Tele2 AB - President & CEO

Yes, we've always been confident that, excluding the major sales and marketing investments and network rollout in Netherlands and Kazakhstan, that this would ultimately flow through to net. And as you said, we are now seeing that in Sweden. You're seeing it in Baltics. It's difficult to see it in Netherlands and Kazakhstan because of the investments there. But Netherlands, it will start to come through in the fixed business in due course.

We have every intention that it will be -- we will deliver on the SEK1 billion by 2018. Hence, we've just announced a significant headcount reduction in our Swedish business. So we're not just doing the big operating model consolidation of roles into central shared operations organization; we're now using our learnings to go after real productivity and efficiency gains to really review how we go to market in our individual markets now as well.

Maurice Patrick - Barclays - Analyst

Great. And just a quick follow-up. On the Netherlands, just so we don't extrapolate your 56,000 net adds and EBITDA going towards zero by end of 2017, your ambition in a Dutch market is to grow much faster than the 50,000 to 60,000 net adds you've been doing in recent quarters. We should assume you'll pick that up significantly in the coming quarters.

Allison Kirkby - Tele2 AB - President & CEO

We are happy with taking around 20% of the available market at this point in time, and that's what we are doing consistently. We take around 30% of the available handset switchers, and we're only taking around 10% to 12% of the SIM-only. Until our network is more rolled out and we can guarantee more SIM-only going into 4G handsets, we will keep at the 20% market share intake target. But in time, we might use the opportunity to do something more on SIM-only and that might take us higher. But in Q4 we'll focus on that average of around 20% available market share.

Maurice Patrick - Barclays - Analyst

Very clear. Thanks.

Operator

Robert Slorach, Handelsbanken.

Robert Slorach - Handelsbanken Capital Markets - Analyst

I was just wondering on the cost side in the Dutch wireless business. It seems like every quarter you're paying the same amount to Deutsche, no matter what happens to your business and how much of the data is on your own network. I was just wondering, when could the costs actually start going down more materially for that cost item.

And on the Dutch fixed business, what do you see, what are your alternatives there? You've been moving over to the VULA set-up and it hasn't really helped, or things have gone the other way. Maybe you could give us a few thoughts there. Thank you very much.

Louise Tjeder - Tele2 AB - Head of IR

So the first question on the cost side of mobile and what we're paying to T-Mobile. And when you can expect the cost actually to go down, the NRA costs. Allison, if you can take that one.

Allison Kirkby - Tele2 AB - President & CEO

So we always expected that would go down more towards the end of 2017 and into 2018, because it does require us to have VoLTE fully rolled out. And part of that is subject to the handset manufacturers updating their software, some of which will not happen until early 2017. And until we've totally densified the network.

We did, in fact, expect it would go up during the course of 2016. We've managed to hold it stable, and I expect it will be stable until about when you start getting into 2017. But it'll be really the end of 2017 into 2018 before it's materially beneficial to us and no longer the drag that it is.

In terms of the Dutch fixed business, yes, we are re-looking at how we can still offer a Challenger fixed offer but in a value-accretive way for Tele2. And that's what we're now looking at.

Robert Slorach - *Handelsbanken Capital Markets - Analyst*

Okay. Thank you very much.

Operator

Max Hallam, New Street Research.

Max Hallam - *New Street Research - Analyst*

My question has just about been covered, I think, on the Netherlands. But I was just going to check. So you reached one million subscribers, you said, last week. Should we imply -- that implies 10,000 net adds in the first couple of weeks of Q4. Should we assume that that continues, that rate of net adds for the rest of the quarter? And is that driven by the increased spend, so that that's a slight step up on the Q3?

Allison Kirkby - *Tele2 AB - President & CEO*

Well, I'm not getting into weekly guidance, Max. But as I said to Maurice, we are aiming to consistently take around 20% of the available market. And now that we have the iPhone 7 and the new campaign, and our competitor's mad month has stopped, then I'd expect to see momentum continuing in Q4 as we've seen in Q3.

Max Hallam - *New Street Research - Analyst*

Thank you.

Louise Tjeder - *Tele2 AB - Head of IR*

Operator, do I have any more questions?

Operator

Thomas Heath, Danske Bank.

Thomas Heath - *Danske Bank - Analyst*

A few follow-ups, if I may. You mentioned some recent price moves by competitors in Kazakhstan; just to clarify in which direction those are moving.

Also, you mentioned IoT, a little bit of a drag on Group EBITDA. So what scope are we talking there? And any timeline for when that might turn positive?

And lastly, the share of 3G in your Netherlands mobile base. Thank you.

Allison Kirkby - *Tele2 AB - President & CEO*

Beeline have recently reintroduced some unlimited offers on 4G, so we are watching that very closely. We have reacted, but we have got throttling in place so that it doesn't become hugely expensive to us. And so that was the reference I made to Kazakhstan.

IoT, yes, we see that as a very attractive growth area and we are investing in a low risk manner to take advantage of the growth that will be there in the future. Over the long term, that's a business that will have similar margins, EBITDA margins, to our mobile business; but higher cash margins, because it won't have the same CapEx associated with it. And so that's why we are very interested in it.

But it's very small, and you do have to invest upfront in on-the-ground sales teams, which is what we've been doing and ramping up during the course of this year. And that's why you see the EBITDA losses, well, the negative EBITDA increase.

In terms of 3G in our Dutch base?

Lars Nordmark - Tele2 AB - CFO

It's around 30%.

Allison Kirkby - Tele2 AB - President & CEO

Around 30%, yes. But reducing all the time, actually.

Thomas Heath - Danske Bank - Analyst

And for IoT, do you expect to add more employees in this space next year? Or have you reached a level where you're happy?

Allison Kirkby - Tele2 AB - President & CEO

No, we're still adding employees.

Thomas Heath - Danske Bank - Analyst

Okay, very clear. Thank you.

Louise Tjeder - Tele2 AB - Head of IR

Operator, before we conclude for today, we will take a question from the web that reads: can you please provide a little more information about IoT, how growth looks? And what is the goal when it comes to [save the] margins? Lars, please.

Lars Nordmark - Tele2 AB - CFO

I think we've had [something on that already]. I think the point I would add is that we are looking at the IoT opportunity in a very disciplined asset-light way. We take it one step at a time. And we're focusing obviously initially on connectivity, but then also on value-added services that could drive ARPU and on to the margins. So that's how we look at the IoT. Very exciting opportunity for us and we look at the growth coming our way on connected devices in the future.

Louise Tjeder - Tele2 AB - Head of IR

Thank you, Lars, Allison, and this concludes our third quarter 2016 results presentation. We will release our results for the fourth quarter January 26. Thank you all for participating today, and all the good questions. And have a very nice day. Thank you.

Operator

That will conclude this conference call. Thank you for your participation. Ladies and gentlemen, you may now disconnect.

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