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PRESENTATION

Operator

Good day and welcome to the Tele2 Q4 interim report 2017 conference call. Today's conference is being recorded. At this time, I would like to turn the conference over to Kristoffer Carleskar, Head of IR. Please go ahead sir.

Kristoffer Carleskar - Tele2 AB - Head, IR

Thank you very much. Good morning, everyone, and a warm welcome to the presentation of Tele2's fourth quarter of 2016 results. Speaking is Kristoffer Carleskar, and with me today I have our President and CEO, Allison Kirkby and our CFO, Lars Nordmark. Allison will start off by going through the highlights of the quarter. And Lars will then follow and give you some more details on the financials. After this, we will have a Q&A session where we'll have the possibility to ask questions.

So with this, I will hand over to Allison.

Allison Kirkby - Tele2 AB - President and CEO

Good morning, everybody, and welcome to our fourth quarter results. So if we kick off with the overall Group financials, you will see now that we have completed the acquisition of TDC. The reported numbers include TDC from November 1. So absolute sales were SEK8.2 billion in the quarter, mobile end-user service revenue was SEK3.7 billion in the quarter and EBITDA just shy of SEK1.5 billion.

Monetization of data is continuing to be our key priority. And we didn't see just good growth on an absolute basis; we also saw good growth on a like-for-like basis with 6% mobile end-user service revenue growth in the quarter, which to be clear includes Altel and TDC on a pro forma basis and also on a constant currency basis.



Net sales, as I said, amounted to over SEK8 billion on a like-for-like basis. That's 2% up due to higher revenues in the Baltics and Kazakhstan, offset by lower revenues in fixed telephony and fixed broadband. And EBITDA was back to growth again up by around 4%, primarily related to Kazakhstan and Germany.

So let me take you into some of the key highlights that make us particularly proud in the quarter. Breaking down the 6% growth, in Sweden we saw momentum from earlier quarters build further to 4% excluding TDC. In the Baltics, we continued our very strong data monetization with mobile end-user service revenue up 12%.

In the Netherlands the positive customer growth trend continued into and throughout Q4, achieving a net intake of 55,000 and taking our customer base now above 1 million customers, which is resulting in an overall strong 9% growth. But I'll explain that a bit later because the underlying is much more than 9%.

In terms of technological development, our 4G position has strengthened throughout the footprint in the quarter with Swedish and Baltics geographic coverage now above 99%. And we are also seeing continued build-out of our Dutch network improving indoor coverage by 7 percentage points in the quarter to above 90%, which is now enabling good progress on data on-loading now at 82% of our customers now using Tele2's fantastic network for data.

On productivity, data monetization and good operating leverage is fueling strong cash contribution in Sweden and the Baltics, our established markets. And the integration of Altel in Kazakhstan is progressing well with cost and revenue synergies contributing to a strong EBITDA result in the quarter. And Challenger program is developing ahead of expectations, well on track for the SEK1 billion target in 2018 with an above SEK600 million run rate already achieved versus our 2014 base line.

On people, we welcomed 800 new TDC colleagues into our business. And we have with great excitement kicked off the integration of the TDC business, a merger that will enhance our growth and value creation strategy in our most important markets.

Also in the quarter, we were recognized independently for elements of our Responsible Challenger strategy. We came third in Sweden for the Allbright Foundation equality award. And we were also top-rated in the Global Child Forum annual assessment of how well Nordic companies nurture and protect children's rights.

And finally in November, as many of you saw, we moved into our new headquarters in Kista, a building that's been custom-built for Tele2's collaborative Challenger and open culture, aiming to liberate how our people work together to create the Tele2 of the future.

So let's get into the markets now, first of all Sweden. We saw strong mobile end-user service revenue in the quarter, which increased year on year by 4% excluding TDC and 7% if you include TDC. Both consumer postpaid and B2B large enterprise were up mid to high-single digits, driven by strong customer growth in Comviq postpaid and also in large enterprise.

Excluding TDC, total revenue was flat as we expected with mobile end-user service revenue offset by lower fixed telephony and wholesale revenues. EBITDA, also ex-TDC, was also flattish as we expected due to the higher marketing spend that we put into the quarter and during the course of last year. But adding TDC, which also had a strong end to the year, we delivered another quarter above SEK1 billion.

Looking at the trend, they did continue to improve in the quarter. We are seeing further increased data monetization and strong customer growth, which has led to 7% consumer postpaid end-user service revenue increase.

Our value champion strategy is continuing to attract higher value customers to the Tele2 larger data buckets. And the average consumption now has grown from 3.5 gig per month in Q4 last year to 4.5 gig per month this quarter. This strategy in addition to our increased network coverage, is driving our network expedience and customer satisfaction on Tele2 to best in class levels, and driving a positive ASPU development in the quarter.

Our dual-brand strategy continues to drive positive postpaid mobile end-user service revenue. And in the Christmas period, we aired again our successful Comviq Christmas campaign delivering the highest intake and therefore the highest sales ever for the Comviq brand.

We also saw particularly strong revenue and EBITDA growth within the large enterprise segment and in fact, seen record profit levels at TDC in the quarter. And proof that the early indications of the integration are going well, we also managed to retained, as a combined net sales force, some large enterprise customers such as Scania, Skatteverket and Volvo.

So moving into the Baltics and you saw another very strong quarter in the Baltics with the focus on commercialization and monetization of our 4G investments really driving excellent top- and bottom-line growth. Net sales growth of 15% was very strong thanks to the ever-increasing demand for data, a move to more premium handsets but also positively affected by currency movements.

Mobile end-user service revenue was similarly very strong at 12%. Again, currency movements helped, but it was very much driven by data consumption, pre to postpaid migration and growth in mobile broadband, a segment which is a key target area for us to grow in because our market share there is actually lower than our average market share.

EBITDA growth was up 3% with Latvia up 7% and Estonia up a very strong 12%. The excellent top-line growth and our best-in-class Challenger cost structure is enabling data monetization to successfully flow through to the bottom line whilst at the same time enabling us to invest in the mobile broadband segment in Lithuania to step-change our growth in that segment, which will really help us drive higher ASPUs over the long term.

Looking a little bit further into the Baltics. As I said, we saw strong data monetization, very much driven by prepaid to postpaid transition, smartphone penetration building further. And a great job on data analytics driving excellent customer base management down to best-in-class levels in terms of churn in Lithuania. This and our mobile broadband, where end-user service revenue more than doubled year on year in Lithuania, is growing consumer postpaid and all the contributors delivered a 7% ASPU growth.

4G coverage is now at 99% in the region and continuous improvements in speed with maximum download speeds far above our competitors. We have some speeds in some of our markets that are up to 350 megabytes per second. It's really driving a great customer experience and therefore great data usage including the possibility for increased top-up data buckets.

So then moving into our investment markets, first of all the Netherlands. This quarter marks our one-year anniversary since the launch last November of our world-first 4G only network. Mobile end-user service revenue was up 9%. But if you exclude the VAT benefit that we had this time last year worth SEK90 million, underlying growth in Netherlands mobile was 40% up year on year as we saw an increased mobile customer base, up 24%, and solid ASPU development throughout the year.

Net sales were up 5% with the same impact -- with the increase in mobile offset by last year's [back bent] VAT benefit and the declines that we've continued to see in fixed broadband and telephony, which obviously continue to be a challenge for us in that market.

EBITDA was impacted by our continued investments in the market during Q4. However, if you adjust for last year's VAT benefit we actually saw underlying improvement year on year. And we expect that to continue into 2017.

During the fourth quarter, our main focus has been to continue the positive growth trend that we've built up since March as well as to focus on increasing ASPU, rolling out a high quality VoLTE service and improving the overall customer experience. We continue to build and invest behind our Fun Rebel brand platform, which is supporting awareness and consideration levels to remain at high levels.

On the network side, as I said, we continue to expand our LTE advanced 4G network, which has now reached above 99% outdoor and above 90% indoor. And we expect our rollout to now be completed by mid-2018. 4G on-loading has now reached 82% by the end of the quarter, a metric that will continue to improve as we now have more than doubled our 4G customer base in the last year with now 800,000 4G subscribers, 650,000 of those have been provisioned on VoLTE and 170,000 already active on VoLTE.

So as we continue to build on these components for growth you can expect that we will see some headwinds from competition putting some pressure on us. We've already seen that since December. However, we fundamentally and continue to believe that we are the only mobile-focused

brand with the right to take a challenger customer champion position in the Dutch market. In summary, we have confidence that our disciplined investment strategy will deliver as we further establish ourselves as the preeminent challenger in the market.

And then in Kazakhstan our next investment market we saw strong underlying mobile end-user service revenue growth of 16%, an increased customer base and higher ASPU. Net sales admittedly were flat year on year but that was due to a heavy Altel equipment sales campaign in Q4 last year.

EBITDA was significantly higher year on year and is now a material contributor to the Group as we continue to reap the benefits of improved operating leverage and from JV integration synergies as well as mobile revenue growth. So as you can see, our disciplined approach in our investment markets are really enabling a much stronger and more sustainable platform for growth in the future.

Just looking at that growth in a little bit more detail, it's very much been driven by continued customer base growth despite a competitive market environment with our competitors now starting to roll out 4G. But still, despite that and despite unlimited promotional offerings during the fourth quarter, we saw ASPU increase by 8% year on year. The unlimited promotion has now ended in early January, and we are now actually seeing positive pricing developments back in the market again during the course of this month.

In terms of the integration, the JV is progressing according to plan. About a third of our sites have now been merged. And we've also fully migrated customers onto one single billing platform. And a new Altel campaign has been launched to promote our fantastic network speeds and our 4G coverage relative to others to really drive data usage and increase Altel brand consideration.

So then moving onto the Challenger program, Challenger program is ahead of plan in 2016 and therefore well on track for our 2018 target of SEK1 billion per annum benefit, which is enabling us very much to invest back in some areas to secure sustainable top and bottom line growth across the business.

Within simplification, we've reduced the complexity in our product portfolio by removing 950 products across the Group. In discipline we've significantly increased the share of spend strategically sourced and procured, allowing us to achieve scale benefits across the Group and working capital improvements especially enhance that and equipment.

On consolidation, during Q4 we've on-boarded the Baltics and the Croatian network and IT organizations into shared operations. And together with the previously on-boarded Swedish and Dutch network and IT organizations, we are really just starting to leverage scale and skill there. This has allowed us to reduced resources throughout the Group as well as shifting resources from high cost to low cost locations.

In transformation, we are continuing to transform our back office and our general and administrative resources significantly. We now have roughly 350 FTEs within our Indian BPO. And when I visited them early in December, I'm seeing how they're already starting to use robotics to drive even further efficiencies moving forward.

In addition, during Q4, we've made significant FTEs reductions within both the Swedish organization as well as the Dutch organization. As you're aware in late October, we announced a reduction of 225 FTEs in Sweden and in the last 10 days, we announced a further reduction in the Netherlands commercial organization of 75 FTEs. So just to be clear the Challenger program and our Challenger cost position continues to be a top priority for us as we move into 2017 and into the future.

So on that note, I'd like to pass over to Lars to give you a little bit more detail on 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. Reported year-on-year increase came in at 14% and at 6% from a constant currency and pro forma perspective. On the right-hand side, looking at the individual operations, we have seen positive trends across all our markets.

Sweden experienced growth of SEK127 million versus Q4 last year out of which SEK56 million came from the acquisition of TDC Sweden. On an underlying basis, the business also grew, driven primarily by an increase in Comviq consumer postpaid, strong data monetization from sale of large data buckets in Tele2 residential as well as growth in our large enterprise segments.

In the Baltics, successful data monetization led to SEK57 million increase resulting in an underlying growth of 7% at constant FX rates. Baltics mobile momentum continues despite headwind from the new EU roaming regulation. Excluding the roaming effect, Q4 mobile end-user service revenue growth was up 10%.

In the Netherlands, we saw a healthy increase of SEK35 million as we continue to grow our mobile customer base and benefit from growth in data consumption. Adjusting for the SEK90 million positive impact of the VAT settlement that Allison referred to in Q4 2015, growth was at SEK125 million driven by solid growth of 200,000 new customers as well as 8% mobile ASPU improvement.

The biggest movement year on year came from the operation in Kazakhstan which improved by SEK217 million as a result of continued growth in our customer base and data monetization driving ASPU levels up.

Moving onto EBITDA, overall we can see strong growth in mobile end-user service revenue flowing through to EBITDA. Looking at the individual markets, in particular in Sweden, we saw a growth of SEK82 million which is mainly attributed to the consolidation of TDC. Excluding the impact of TDC of SEK87 million, EBITDA was flat due to intensified marketing spend compared to a seasonally low investment in Q4 last year.

Looking at the Baltics, Estonia and Latvia both experienced strong underlying growth. In Lithuania, EBITDA was somewhat negatively impacted by higher expansion cost as we look to increase our mobile broadband customer base. As a result, Baltics EBITDA was flat year on year.

The Dutch operations will report a decline year on year of SEK58 million. However, adjusting for the SEK90 million impact of the VAT benefit the underlying growth was at SEK32 million.

We also had a strong performance in Kazakhstan with EBITDA growth of SEK97 million driven by good progress in improving our operating leverage as synergies continue to be materialized.

Turning to CapEx, we saw a decline of 12% versus the same period last year, primarily due to the Netherlands and Croatia where we saw high spend levels for rollout activities last year. Please also note that excluding TDC Sweden CapEx amounted to SEK1.03 billion.

Turning to free cash flow, we saw another quarter of solid increase driven primarily by a positive development in working capital due to sales of handset receivables, which we implemented in Sweden during Q1 2016.

From a cash generation perspective, we see a high and consistent level of cash contribution in our established markets, which we define, as Sweden and Baltics. This reflects our strategy of disciplined investments and focused technology choices where network sharing plays an integral part.

Moving onto debt and leverage, our economic debt to EBITDA decreased slightly compared to last quarter to 1.9. The leverage is based on full-year EBITDA excluding the 51% share of Kazakhtelecom as well as including TDC pro forma.

The next page shows the debt maturity profile where we have refinanced SEK16 billion during 2016, expanding maturities further out in time. This is consistent with our funding strategy to diversify our funding source, maintain a well-managed maturity profile and a strong liquidity position.

Now, moving onto our guidance for 2017, mobile end-user service revenue is expected to remain at the mid-single-digit percent growth level. Guidance for net sales is in the range of SEK31 billion to SEK32 billion. Our CapEx guidance range is from SEK3.8 billion to SEK4.1 billion.

When it comes to EBITDA the guidance is at SEK5.9 billion to SEK6.2 billion, and this reflects the contribution of TDC Sweden, continued momentum across our footprint and growth investments in the Netherlands as well as headwinds from roaming and declines in our fixed business.

As confirmed in our Q3 2016 results announcement, our declared annual dividend for the fiscal year 2016 will be at SEK5.23. This represents an absolute dividend payout, which is 10% higher than the prior year dividend and marks the final year of the current three-year dividend policy.

Going forward, we will look to align our dividend policy in a manner, which rewards our shareholders both in the short and the long term but also maintains balance sheet strength and provides flexibility for continued disciplined investments reflecting the evolving nature of the Group.

For the fiscal year, 2017 we expect to propose a dividend of SEK4 per share. By financial year 2019, our expectation is for the equity free cash flow generated by the Group to progress and fully cover our 2020 dividend payout with an intention to deliver dividend per share growth thereafter. In the interim, owing to continued investments in our Dutch business and the TDC integration our dividend will exceed equity free cash flow.

Reflecting on our current capital structure and the dividend policy outline, we have also refined our leverage target to a net debt to EBITDA range of 2 to 2.5 which is in line with the industry and is consistent with our intention to remain investment grade and to maintain balance sheet flexibility.

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

Allison Kirkby - Tele2 AB - President and CEO

Thank you, Lars. So in summary we believe it was a very strong quarter driven by a set of very focused and disciplined choices that remain very much place our as priority and focus going forward.

Growth from continued data monetization is being fueled by Tele2 being single-mindedly focused on providing our customers with excellent connectivity at a great price. We continue to maximize our dual-brand strategies in both Sweden and Baltics to sustain the momentum and the cash generation in our established markets.

We are obviously now heavily focusing on integrating TDC into Sweden to create a strong modern challenger in the B2B space in our most important market. We will continue to further leverage our challenger strategy in our investment markets of Netherlands and Kazakhstan to take significant market share but in a disciplined and sensible manner.

And we will continue to execute on our Challenger program and on our synergy programs to ensure we continue to improve our operating leverage, our EBITDA and our cash generation going forward.

So basically, our guidance and our revised dividend policy reflects all of this. But most importantly, it reflects the confidence that we have in our focus on data monetization and the belief that we have that that will deliver long-term value for our shareholders, our customers and our employees.

So that brings us to the end of the presentation. And we will now be very happy to take questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions). Nick Lyall, Soc Gen.

Nick Lyall - Societe Generale - Analyst

Morning, Allison, morning, Lars. It's Nick at Sock Gen. Can I just ask on the Challenger program first in Sweden is it possible to give us some details on the contribution of Challenger in the fourth quarter and in the second half? And also, any comments on the outlook for gross savings for 2017 would be interesting as well, if you could, just in Sweden please.



And the second thing was on the Netherlands. Any comment on the impact of T-Mobile yet and its new pricing packs? The adds seem a little bit weak in the fourth quarter, maybe that's a bit unfair but was it a weaker market or was a T-Mobile impact or was it maybe 3G churn that hit your ads? Could you maybe give us a little bit of a breakdown of the ads for the quarter please? Thanks.

Lars Nordmark - Tele2 AB - CFO

Hi Nick, Lars here. Thanks for those questions. On the Challenger, we don't break it down externally per market. When it comes to the outlook for next year, as we mentioned, we are about SEK600 million, which is ahead of our plan. As you know we targeted 40% achievement of the SEK1 billion this year and we are still on plan to achieve 75% by next year. That's what we are shooting for.

As far as the Dutch question, Allison?

Allison Kirkby - Tele2 AB - President and CEO

The Dutch question, so, yes, December became more competitive again Nick because of T-Mobile's mad month which they had in September and then they kicked in in December. December's always a fairly slow month in the Netherlands anyway.

And January has so far been slow, but I'd say less because of the T-Mobile move but more of some of the regulatory changes that have happened in the market. There is new legislation around financial credit and it means all of us as mobile operators that are selling handsets are having to change the procedures so that you're not seen to be pushing credit in a poorly transparent way. So, yes, T-Mobile had a little bit of an impact possibly in December but it's a slow month anyway.

And we've got -- what's quite exciting about what T-Mobile are doing is that they are trying to drive ARPUs up from their level. So they average ARPUs of around EUR22 and have launched some interesting buckets in this -- the EUR20 all the way up to EUR35 range. That's a great opportunity for us because their ARPUs are closer to EUR15 than EUR20. So if the market starts to move into larger data buckets, which is what we've been very much encouraging so far then that gives us a lot of ARPU development.

Also, as we move closer to having our network fully rolled out, and we now have more than 80% of our customer base on 4G handsets and we've got VoLTE coming along, it's going to allow us to be braver on what we do with SIM-only propositions looking forward as well. So it's not a bad thing, but yes, it's a competitive market.

Nick Lyall - Societe Generale - Analyst

Presumably that means that your churn pool is more difficult now then? Do you have to bring forward those changes to your SIM-only plans faster do you think if T-Mobile's been more aggressive?

Allison Kirkby - Tele2 AB - President and CEO

T-Mobile are pushing mobile only which is great for us. So the churn pool gets bigger when mobile only stimulates the market. So that could be good news. We always -- we had a plan, as you know we've been quite cautious on SIM-only, because we've been nervous about it, the leakage into 3G handsets. We have now made it very clear that our SIM-only is for 4G now, because we want our customers to get the most modern experience, whether that be data or voice. So, we're brave enough now to be very much targeting 4G only SIMs and that will allow us to be braver going forward on what we can do with the campaigns that we had planned for February and then again in April.

Nick Lyall - Societe Generale - Analyst

That's great, thank you.

Operator

Sam Dillon, Exane. Please go ahead.

Sam Dillon - Exane BNP - Analyst

Hi guys, just a question on the forward-looking free cash flow guidance. It appears, based on the new dividend policy, that the cash outlay for dividends will be around SEK2 billion and, therefore, for you to achieve that level of free cash by 2019 with a pretty predictable CapEx tax, working capital and interest balance, it would seem to me you're being quite bearish on the outlook for your EBITDA growth for the next two years; especially when you have SEK1 billion of mobile losses in the Netherlands, synergies to be derived from the TDC acquisition and the Challenger program. What are the puts and takes that make you think that you can't cover free cash flow any earlier? Thanks.

Allison Kirkby - Tele2 AB - President and CEO

So, we obviously want to set expectations out there that we don't disappoint again and so we've set guidance that very much allows you to have a more predictable set of expectations going forward. If you look over the course of the next two years, our guidance basically reflects for 2017 we're going to move total Netherlands closer towards EBITDA breakeven, so, that's total Netherlands will get to EBITDA breakeven. We will be getting operating leverage from Challenger. We'll start to see synergies materializing in Sweden and Kazakhstan and we expect continued strong mobile momentum in Sweden and Baltics, as you've see recently.

We also need to factor in that we still get some investments and some headwinds over the next two years as well. We've still got to complete our network rollout in the Netherlands; as I said, that will be completed by mid-2018. We have SEK750 million of integration costs related to TDC that are very much from -- almost half of that is in 2017 and the majority of the balance is in 2018, and we've got a couple of headwinds to think about as well from rollout at home and from declines in our legacy fixed business.

So, all of that says that we will be making very good momentum on our EBITDA over the period. We've got some investments into TDC integration; we've now got the CapEx to take onboard from TDC as well over that period. Definitely by 2019 our equity free cash flow will have grown and our dividend will be fully covered.

Sam Dillon - Exane BNP - Analyst

Okay, thanks. Just a quick follow-up on the Netherlands, I know for the 2016 year you provided mobile EBITDA loss guidance, is that something you can do for 2017?

Allison Kirkby - Tele2 AB - President and CEO

No, we've decided, based on our track record, it was a bit all over the place last year by quarter. We run our business over a longer period and I think our guidance for the Netherlands this year, and it's very much the ambition of the local team, is to get to breakeven for the total business. The mobile losses will be down year on year, but they will be offset by fixed.

Sam Dillon - Exane BNP - Analyst

Fair enough. Thank you very much guys.

Allison Kirkby - Tele2 AB - President and CEO

Thank you.

Operator

Roman Arbuzov, UBS. Please go ahead.

Roman Arbuzov - UBS - Analyst

Thank you very much for taking the question. Just following up on the previous one on the dividends, at your Capital Markets Day in December you were talking about potentially tying your dividend to equity free cash flow. So, thinking about 2019 when your dividend is meant to be covered by equity free cash flow, is there a particular percentage that you had in mind that you could be potentially paying out? So, that's question one.

Then secondly, just on CapEx, just trying to better understand your CapEx dynamics and perhaps why isn't it declining a bit more than what you're guiding for. So, has anything changed on your CapEx thinking just recently? For example, Netherlands mobile or would you expect to invest perhaps a bit more in Netherlands fixed? Yes, so some additional color on the CapEx guidance that would be very helpful, thank you.

Allison Kirkby - Tele2 AB - President and CEO

Yes, in terms of -- so let me take the dividend question, Roman, and then I'll hand over to Lars on CapEx. Absolutely, our dividend policy is to be able to fully cover our dividend from a growing equity free cash flow in the business and it will be fully covered by 2019. In terms of percentage payout, we are not setting a percentage at this point in time, but we will be aiming to pay out the majority of our equity free cash flow in line with the industry.

Lars Nordmark - Tele2 AB - CFO

As far as the CapEx, Roman, I think what we need to remember is that with TDC integration coming in, so we have about SEK150 million to SEK200 million of integration CapEx in the guidance that we have given you. As far as the other countries are concerned, we don't see any major movements in the established markets and when it comes to Holland, I think you should look at Holland that the mobile rollout will be at the lower level compared to 2016 in 2017.

On the fixed piece, we talked about this in the previous calls that we're looking at the fixed investments from a return investment perspective and we're reviewing them in detail and it is very important to us that the cash contribution on the fixed piece in Holland is improving.

Allison Kirkby - Tele2 AB - President and CEO

You've also got a full year of TDC CapEx and full year of Altel CapEx in the numbers this year as well. Like-for-like it is down year on year, Roman.

Roman Arbuzov - UBS - Analyst

I see, okay, thank you. Can I just quickly follow-up on the dividend? Can I just check, I've been assuming, but can I just check that you expect your dividend in absolute terms to be going up, right, over the 2017 to 2017 period?



Allison Kirkby - Tele2 AB - President and CEO

The policy is for it to be fully covered by equity free cash flow in 2019 and we will communicate an annual dividend each year between now and then.

Roman Arbuzov - UBS - Analyst

Right, got you, thank you very much.

Operator

Maurice Patrick, Barclays. Please go ahead.

Maurice Patrick - Barclays - Analyst

Yes, Maurice from Barclays. A couple of quick questions. First of all, on the CapEx side, just checking -- you've been very helpful there fleshing out where your CapEx is being spent, but is there any need to increase investment in enterprise CapEx in Sweden as part of the TDC acquisition looking to bulk up in addition of functionality there?

Just a second question, did I hear correctly it was 4.5 gigabytes was your average usage in Netherlands, because I think KPN is running at 1.5, I think? Is that a big differentiator for you, this idea of much bigger buckets and therefore you're attracting those kinds of customers? Thank you.

Allison Kirkby - Tele2 AB - President and CEO

No, the 4.5 gig was in Sweden, Maurice, sorry.

Maurice Patrick - Barclays - Analyst

Okay, my bad.

Allison Kirkby - Tele2 AB - President and CEO

The Netherlands it's still around 1, just above the 1. In terms of CapEx, the investment in Swedish enterprise both our organic business and our new TDC business is very much built into the CapEx guidance.

Maurice Patrick - Barclays - Analyst

Okay, thank you.

Allison Kirkby - Tele2 AB - President and CEO

It's a combination of either integration CapEx or CapEx that we were already planning to spend in our Swedish business.

Maurice Patrick - Barclays - Analyst

Okay, thank you.

Operator

Stefan Gauffin, Nordea Bank. Please go ahead.

Stefan Gauffin - Nordea Bank - Analyst

Yes, hello. I'm dwelling a little bit on the EBITDA guidance for this year, just try to clarify some things. You said on the Challenger program that you're now running the run rate is around SEK600 million in cost savings. I believe that was up from SEK400 million in Q3. So just in terms of net savings, 2017 versus 2016, where are you aiming?

Secondly, on TDC contribution, if I calculate on the Q4 contribution I come up with that 2017 there will be a net contribution of around SEK450 million. Then there should be lower losses in the Netherlands and CapEx done is also on quite good momentum. So, it seems like your EBITDA guidance is on the cautious side, so where am I wrong?

Lars Nordmark - Tele2 AB - CFO

Okay, so, Stefan, let me take the first one on the Challenger program. So, we're at SEK600 million, we aim to be according to plan at 75%, so that's another SEK150 million coming through net-net year-on-year positive development. When it comes to the TDC contribution, we have about in that EBITDA a run rate of around SEK400 million, I would say, and then we have synergies coming through, but we haven't given that specific exactly what will come through. We have said it's SEK300 million over four years and that's still what we are shooting for.

Allison Kirkby - Tele2 AB - President and CEO

Then don't forget the headwinds that we've got going into the year, Stefan, we've got rollout at home, which we're assuming will be about a SEK200 million year-on-year impact; we have had some big one-offs in Germany this year of around SEK150 million. The Germany will revert back to probably 2015 levels in 2017 and we've still got some fixed declines in Netherlands and some of the legacy Swedish business as well.

So, we've given you a range that accounts for those headwinds, but also accounts for progressing Netherlands towards breakeven, operating leverage from Challenger program and synergies and good momentum in Sweden. We're aiming for around 2% on the top line in Sweden next year and continued mid-single digits on Baltics.

Stefan Gauffin - Nordea Bank - Analyst

Can I just follow-up on the cost savings. The run rate of SEK600 million and then -- that would be SEK150 million in cost saving Q4 2017 versus Q4 2016, so it's much more cost savings if you look at 2017 versus 2016, right?

Lars Nordmark - Tele2 AB - CFO

Okay, so Stefan, the SEK600 million is versus the baseline 2014, which we have communicated before, and the SEK150 million is for the full year, 2017 versus 2016.

Stefan Gauffin - Nordea Bank - Analyst

Yes, okay.

Lars Nordmark - Tele2 AB - CFO

Yes?

Stefan Gauffin - Nordea Bank - Analyst

Yes, thank you.

Operator

Henrik Herbst, Credit Suisse. Please go ahead.

Henrik Herbst - Credit Suisse - Analyst

Yes, thanks very much, I have a couple of questions. The first one is on the Netherlands and your comments, Allison, that the competition is getting a little bit worse. If we look at T-Mobile's new price plans, they don't seem that aggressive and, if they do, it's on the EUR30, EUR35 per month plans, which is quite expensive. Is there anything else going on? Are they pushing more on SAC or is there any more to it than just those price plans?

Allison Kirkby - Tele2 AB - President and CEO

In December they did push more on SAC, like they did in September, because they did their mad month. Basically it's 50% discount on certain handsets and subscriptions. So, that was in December. So far in January it's been much more of a PR campaign around the unlimited at EUR35 and more in the bundle for the 5 and 10 gig buckets but, as I said earlier to Nick, they're trying to test the 22 ARPU level, we're coming from 15, so if they're promoting more data consumption in the market and higher buckets, that only helps us because we can start to trade our customers up.

Now that, as I've said, we've got a stronger 4G network rollout position and we'll be hopefully rolling out VoLTE across all of our handsets in the first half of the year, that puts us in a strong position to start to really benefit from our network and reduce the reliance on the T-Mobile NRA during the course of 2017.

Henrik Herbst - Credit Suisse - Analyst

Oh right, so essentially it sounds like it could be good for you instead of pushing a 5-gig plan at EUR10, you can now push an unlimited data bundle at EUR20, EUR25, you're still cheaper and you drive the ARPU higher. Is that how I should think about it?

Allison Kirkby - Tele2 AB - President and CEO

That's something that we're certainly looking at for the future, just as we were very brave in big buckets and driving consumption up in Sweden, now that we've got more than 80% data on-load on our network and we're getting close to being able to have voice VoLTE or voice over Wi-Fi then we'll find it easier to be confident to push some SIM-only propositions that will be competitive to T-Mobile and will make economic sense for us.

Henrik Herbst - Credit Suisse - Analyst

Okay and then just following up on the Netherlands. Can you just remind me how you sell the handsets in the Netherlands, if it's just on the installment plans? Because I guess your OpEx base or your EBITDA loss was a bit lower than I think -- or we thought at least, in Q4. I'm just wondering a little bit if you compare it to the EBITDA loss run-rate in the earlier part of the year, what has improved, really? I guess your revenue base has grown a bit, but is there anything on the OpEx base that improved as well?

Allison Kirkby - *Tele2 AB - President and CEO*

Yes, well, the way we sell handsets in the Netherlands is the same as the way we sell it everywhere else, it's monthly installment plans and there we take the hit of the cost of the handset right up front when the customer takes out the contract. Recall year on year we already started our campaign at the end of November, early December last year, so we had some quite equipment costs and acquisition costs going through in December last year.

So, we had that already in our base but, as I said, December was a little bit slower because of the T-Mobile campaign and December being a month where consumers don't generally, in the Netherlands from what I understand, don't go and buy handsets because they are focused on other things in the lead up to Christmas.

Henrik Herbst - *Credit Suisse - Analyst*

All right and in terms of distribution channels I see more coming through your own channels now than you saw previously, or more online (multiple speakers)?

Allison Kirkby - *Tele2 AB - President and CEO*

Yes, we continue to push more than 50% of our sales are through our own channels and that is good progress through our stores, but also very good progress on our own online channel as well. Obviously, when we sell directly, we have higher ARPU and we then don't have the commission cost that we have on third-party retail.

Henrik Herbst - *Credit Suisse - Analyst*

All right, thank you very much.

Allison Kirkby - *Tele2 AB - President and CEO*

Thank you, Henrik.

Operator

Victor Hoglund, SEB. Please go ahead.

Victor Hoglund - *SEB - Analyst*

Yes, good morning, thank you. So just going back here to Holland again and sorry for repeating, but I was just wondering, previously you said when indoor coverage goes above 90% then you will have -- well, supposedly you can have a good kick on the gross margin. I understand that's of course theoretic, but can you comment maybe on if it's 5, 10 or how many percentage points gross margin improvement you've seen over 2016? Is it significant change from the beginning of the year to the latter parts or is it more or less unchanged? That's the first question.

Then on Baltics, as you say, you have very strong service revenue growth. Can you comment on if you think that those trends and the monetization that you now do, can that counterbalance the roaming on the full-year EBITDA 2017 versus 2016 or if the roaming effect's too tough?

The last question, on the Swedish customer intake, can you just comment on Tele2 brand development and Comviq postpaid versus Comviq prepaid and if it's very much on prepaid a negative effect this time due to summer subscriptions that now show as a churn as they've been inactive, or what's the definition? Thank you.

Allison Kirkby - Tele2 AB - President and CEO

Okay, I'll take the last two questions and then I'll hand back to Lars on the Netherlands margin. Sweden customer intake, the negative was very much driven by prepaid, which is very -- in fact slightly lower than what we were predicting because we're continuing to see very strong postpaid to prepaid transition in the Comviq brand in particular. We did lose some Tele2 residential customers in the quarter, but they were at the low end ARPU level.

So, we're really starting to see our dual-brand strategy work in that Tele2 is increasingly the higher bucket and the higher ARPU customers, which is enabling Tele2 residential to have grown year on year, albeit with a lower customer base. Then Comviq just goes from strength to strength to strength in the prepaid to post-paid transition.

In terms of Baltics end-user service revenue, we are seeing that 12% did include about 4% to 5% of currency tailwind, but it's certainly all of the action that we are taking is with the ambition to ensure that we are not as impacted by roaming as we would want to be, but we are being cautious on what the impact of roaming will be and are assuming SEK200 million at this point in time.

Obviously, my team are doing everything they can to try and offset that, that's one of the reasons for the mobile broadband campaign. That business segment will not be hit by roaming and it's a segment where we have a lower market share than our average market share. So, that's why we chose to invest heavily in that segment in the fourth quarter so that that will try and offset some of the headwinds from roaming as we go through next year.

Then, Lars, the question on Netherlands margin, I'll hand over to you on that.

Lars Nordmark - Tele2 AB - CFO

Yes, so I think in absolute terms we see a healthy increase on the margin. What we also see is obviously we get customers that are using more data, so there's a little bit of an offset there as well, even though we have kept our NRA costs very much in check. So, we've been actually slightly below the [EUR50 million] for this quarter. Overall, from an absolute perspective, it's about 7% to 9% year on year improvement on the margin.

Allison Kirkby - Tele2 AB - President and CEO

As we said, as we really roll out VoLTE now, we'll see a big impact on the NRA next year.

Victor Høglund - SEB - Analyst

Can you -- just on that last comment, to make it very rough typically an MVNO can maybe have 30% to 40% gross margins, whereas if you own your network you can have 70% to 85% in a broad range. Are you in the middle now or in the low end or in the high end or do you disagree with the very rough ranges I just said for Netherlands, that is, on mobile?

Lars Nordmark - Tele2 AB - CFO

Yes, I think we will probably be -- at the moment, I think long-term that will be the ambition to get to those levels, but we still have a way to go on the mobile rollout and we obviously increase the data consumptions so that we shall offset that a little bit.

Allison Kirkby - Tele2 AB - President and CEO

Yes, those are the targets you get to once the network is fully rolled out and 2017 there's still a dependency on T-Mobile that dilutes those gross margins. It will be the second half of 2018, when the network is fully rolled out, we've got VoLTE fully rolled out and we're just using an NRA for a bit of voice that gross margins will get to the levels you would expect of an MNO.

Victor Høglund - SEB - Analyst

Perfect, thank you very much.

Operator

Thomas Heath, Danske Bank. Please go ahead.

Thomas Heath - Danske Bank - Analyst

Thank you, Thomas Heath here with Danske Bank. Two questions if I may. Firstly, did I hear you correctly, Allison, when you said that the SEK4 base is for 2017 and then you expect growth from that level after 2019? So, is it reasonable to see a flat dividend for a few years as you invest heavily and then growth from the SEK4 level, is that a correct interpretation?

Then, secondly, on the quarter, just curious to hear there's some strong EBITDA both in other operations and in Netherlands fixed, curious to hear what's going on there and whether that's sustainable going into 2017? Thanks.

Allison Kirkby - Tele2 AB - President and CEO

Okay, so on the dividend, so as I've said we are aiming for our equity free cash flow in our business to grow between now and 2019 and 2019 onwards and, therefore, 2019 dividend will be fully covered. Between now and then the Board are only proposing an annual dividend at this point in time, which is SEK4 per share, and we will review what the dividend should be for 2018 this time next year, but underlying we want our equity free cash flow to be progressing throughout the period.

Lars Nordmark - Tele2 AB - CFO

Then on the Holland fixed, I think it's a reflection of two things; there's a little bit of an FX in there but there's also very good progression on the address in the cost base in the Dutch business. On other, what you see there is what we talked about at the Capital Markets Days, the IoT business; we are progressing further on growing that business and that has an impact in the other mobile segments.

Thomas Heath - Danske Bank - Analyst

That's very helpful, thank you.

Allison Kirkby - Tele2 AB - President and CEO

Thanks.

Operator

Ulrich Rathe, Jefferies. Please go ahead.

Ulrich Rathe - *Jefferies - Analyst*

Thank you. I think most -- I have three questions and all of them hark back to stuff we have discussed before, I'd just like to get a bit more clarity. First of all, to Lars on the CapEx budget, 2016 is slightly over SEK3.8 billion, the guide is for SEK3.8 billion to SEK4.1 billion. And, Lars, when you were asked whether that leaves a bit of room, you said, well, don't forget integration CapEx, which then, however, you said is only SEK150 million to SEK200 million and the Dutch CapEx comes down. So still I think the question still stands why the CapEx budget really has last year's level as the lower bound, why the midpoint of that guidance isn't lower, I'm still not quite clear where that increment would come from?

Second question is on the level of the investments you're putting into the Dutch business. Obviously, there's always a trade-off between trying to milk the asset, trying to get it towards a return investment and trying to build scales. I'm wondering, have you changed your priorities on that? We saw in the second half of 2016 the investments going down, which I think was observed by some other people asking questions on that. Is this that you're so happy with the progress and you're seeing yourself on track towards the 20% share target and everything's fine and costs are coming down, therefore it is okay to have lower EBITDA losses or does it reflect an effort to constrain the profit leakage in the operation and maybe also a degree of maybe scaling back ambition?

My last question is, in Sweden, you have restated the mix, the product mix, ever so slightly but said it was restated and you mention the trigger of that. I still don't fully understand why the consolidation of TDC would make it reasonable to restate historical product mix for this future business. Thank you.

Allison Kirkby - *Tele2 AB - President and CEO*

Okay, let me start with Netherlands, Ulrich, and then Lars will take you through CapEx and Sweden restatement. Netherlands, we have always said that we will invest in a disciplined way and, as we look at the Netherlands, we want to ensure that as we look forward any additional investments we put into the market we will see a return on that from gathering scale and making impact in the market. So, it is a balancing act, but still aiming to get above moving towards the 20% market share, admittedly in a market that shrunk because of the large amount of consolidation that's happened around us. So, it's all about balance.

What we are doing though is we're really reassessing the investment we put into fixed. Because, whereas in mobile we do believe we have a right to win because we've got a different brand proposition from the rest, we've got a uniquely modern network that can offer the best in data and voice quality once everybody's got 4G handsets, and that will give us a very unique, low-cost operating leverage that nobody else will have in the market. Fixed, we need to really assess the amount of investment we put in there, because we've got less of a right to win in that segment over the long term because we're up against some very large fixed players and we're increasingly just becoming a reseller of the KPN VULA product.

So, it's all about striking the balance, keep fueling where we've got a right to win, but in a way that we believe will get a return back and then dialing back on investment, particularly CapEx investment in fixed, to ensure that that business will also get a return on, but recognizing that we don't have -- we're becoming increasingly a reseller.

Lars Nordmark - *Tele2 AB - CFO*

On the other two questions, Ulrich, on the CapEx please remember that we do have the 10 months of the run-rate TDC CapEx investment and they were running at approximately SEK300 million, so you need to add that as well. Then, in Kazakhstan, we are doing the merger of the two networks, which started around mid this year, so there's a little bit of an elevated level in CapEx done also during 2017.

When it comes to the restatement, as you know, TDC are having quite a different portfolio and a large enterprise services portfolio that they offer the customers, so communications service and other IPVPN services. We have shown them in the mobile and the fixed segment and, in order to be very transparent, we wanted to reflect that also retroactively, so that's why we did the restatement.

Ulrich Rathe - *Jefferies - Analyst*

Okay, thank you.

Kristoffer Carleskar - *Tele2 AB - Head, IR*

Operator, could we please have the final question on the phone please? Thank you.

Operator

Peter Nielsen, ABG. Please go ahead.

Peter Nielsen - *ABG - Analyst*

Thank you, just one follow-up, so a short one please. Allison, did you say earlier that you expected 2% top line growth in Sweden in 2017 and is that for mobile only please? Thank you.

Allison Kirkby - *Tele2 AB - President and CEO*

Yes, that's mobile only.

Peter Nielsen - *ABG - Analyst*

Service revenue.

Allison Kirkby - *Tele2 AB - President and CEO*

Yes, mobile end-user service revenue in that 2% to 3% range is what we're aiming for Sweden and then mid-single digits on the bottom line.

Peter Nielsen - *ABG - Analyst*

Okay, thank you.

Kristoffer Carleskar - *Tele2 AB - Head, IR*

Thank you, we'll take a question from the web as well, I'll read it out to Allison. It's from Sunil at Bank of America. He asks, do you think there is scope for the Dutch mobile market to consolidate down to three players and when do you think Netherlands will be cash flow breakeven?

Allison Kirkby - Tele2 AB - President and CEO

As you know, we are big believers in in-market consolidation, so we would be fans of that happening and, obviously, our license restrictions end at the end of 2017, so then it would very much be would there be regulatory support to that happening. But we're big fans of consolidation because it can create great value for shareholders, as we're seeing with our Kazak JV.

When do you think Netherlands will be cash flow breakeven? Part of the journey towards 2019 is to get Netherlands through to cash flow breakeven and that's why we have the confidence in a growing dividend policy going forward fully covered by equity free cash flow.

Kristoffer Carleskar - Tele2 AB - Head, IR

Thank you, Allison, and thank you, Lars. This concludes our fourth quarter 2016 results presentation. We will release the results for the first quarter of 2017 on April 24. Thank you, everyone, for participating and for all the good questions. Have a nice day.

Operator

Thank you for participating, ladies and gentlemen, you may now disconnect.

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