



Tele2 Q3 2024 Interim Report

Tuesday, 22nd October 2024

Introduction

Kjell Johnsen

CEO, Tele2

Welcome

Good morning, everyone. Thank you for taking the time to joining us and welcome to this report call for the third quarter of 2024.

With me here in Kista today I have Charlotte Hansson, our Group CFO; Stefan Trampus, our Head of B2B; and Hendrik de Groot, our Chief Commercial Officer. They will soon present an update on the Swedish Consumer Business and B2B, which is why we have extended today's call up to 20 minutes.

Let us move to page two.

Highlights

I am glad to report another solid quarter with good end-user service revenue growth of 3%, marking the 14th consecutive quarter of growth and with all business lines growing whereas underlying EBITDAaL grew by 2%. We continue to generate solid cash flow leading to a financial leverage of 2.3 times, which is below our target range.

In September, Tele2 announced the first Disney+ bundle offering in Sweden. New B2B customers will have this award-winning entertainment included from day one, whereas it will be made available to existing customers over time.

Once again we were ranked as one of Sweden's most gender-equal companies by Allbright. And earlier this year we were ranked as Sweden's second most gender-equal company by Equileap.

As you all know, I will be leaving the company after having had the privilege of leading Tele2 for the past four years. Together, we have achieved a great deal over this year. We have returned to growth in all major areas. We delivered strong cash flows, and we have taken our sustainability performance to new heights. And of course, all based on the Tele2 challenger culture.

Last week our Board appointed Jean Marc Harion as Tele2's new CEO. Jean Marc is currently the CEO of Polish telecom operator, Play, and he also serves on Tele2's Board.

Let us move to page three and look at the quarter.

Solid performance

End-user service revenue grew by 3% organically supported by growth across operations. Organic underlying EBITDAaL grew by 2%, mainly driven by end-user service revenue growth. Excluding the energy support in Sweden last year, growth would have been 3%, hence in line with the end-user service revenue growth.

We generated SEK1.1 billion of equity free cash flow in the quarter, leading to a low 2.3 times leverage ahead of the dividend distribution losses. In Sweden B2C, end-user service revenue grew by 1% led by fixed broadband and mobile postpaid, partly offset by elevated legacy headwinds.

In addition, we have previously flagged for tougher comps in the second half as we executed price adjustments earlier this year than the previous year. Sweden B2B grew end-user service revenue by 2%, hence a strong achievement given the prevailing macro headwinds out there. We continue to look forward to improving performance within a few quarters.

The Baltics grew end-user service revenue by 7% with growth in all markets. Underlying EBITDAaL grew almost as fast at 6%. In Q3, we saw sequential revenue growth acceleration in Latvia and Estonia driven by pricing.

Then let us move to Swedish B2C.

Sweden

Sweden Consumer: Solid value growth

We added 20,000 posted RGUs in a quarter with positive numbers from both Tele2 and Kombridge. ASPU grew by 1% year-over-year, which obviously lowered in the previous couple of quarters. The main difference is tougher comparables due to early pricing this year whereas it was later last year.

Fixed broadband returned a positive net intake with 4,000 RGUs in the third quarter, driven by both single-play and FMC. ASPU grew by a strong 8%, mostly due to price adjustments.

Digital TV, Cable & Fibre added 4,000 RGUs in the quarter, partly supported by the Disney+ launch towards the end of the quarter. The ASPU growth came from a combination of pricing and the cleanup of RGUs in Q1.

Moving on to slide six.

Sweden Consumer: Good EUSR growth in connectivity

Mobile end-user service revenue grew by 2%, driven by 3% in postpaid, partly offset by continued decline in prepaid. Fixed broadband grew end-user service revenue by 7% due to the strong ASPU. End-user service revenue for DTV declined by 4%, driven by an increasing decline rate in our legacy DTT business due to the ongoing migration, while cable and fibre remained largely stable.

Then let us move to B2B, slide seven.

Sweden Business: Continued topline growth

While Swedish companies have continued to be affected by economic headwinds, we look forward to gradual improvements over the next year. Given the circumstances, we continue to perform well with a 2% end-user service revenue growth in the quarter. Mobile grew by 4% driven by our IoT business, RGU base and ASPU.

Our solutions business grew by 2%, whereas fixed continued to stabilise following the closure of the copper business in the second quarter.

Then we will move to slide eight for a view of Sweden as a whole.

Sweden financials: Continued EBITDAaL growth

End-user service revenue growth for the total Swedish operations ended at 2%. Underlying EBITDAaL growth was 1%, driven by the end-user service revenue growth, partly offset by the energy headwind from the SEK25 million support we received last year. Adjusted for that EBITDAaL and EBITDAaL growth would have been 2%.

The cash conversion of 58% is reflecting 15% CAPEX to sales in Sweden during the last 12 months.

Then let us move to the Baltics.

Baltics

Baltics operational highlights: Strong overall performance

The number of Baltic mobile postpaid customers continue to increase driven by Lithuania and Latvia. Blended organic ASPU increased by 3% with growth in all markets. This is due to the more for more strategy, continued prepaid to postpaid migration, and not least, price adjustment, which have supported sequential ASPU upticks in Latvia and Estonia in this quarter.

Then looking at Baltic financials slide 11.

Baltics financials: Sustained strong growth

The ASPU growth combined with volume growth in all markets led to 7% organic end-user service revenue growth for the Baltics as a whole and with sequential improvement in Latvia and Estonia.

Underlying EBITDAaL grew by 6%, driven by 7% in both Latvia and Lithuania. Cash conversion remains strong at 73% during the last 12 months, reflecting 10% CAPEX to sales due to ongoing 5G rollout.

With that, I hand it over to Charlotte, who will take us through the financial overview.

Financial Overview

Charlotte Hansson

CFO, Tele2

Group results

Thank you, Kjell, and good morning, everyone. So now we are on the page 13. First a few comments on the Group P&L.

In Q3, both total revenue and end-user service revenue grew by 3% organically, supported by growth across operations. Underlying EBITDA grew by 2%, both in SEK terms and organically. And underlying EBITDAaL grew by 2% organically, driven by end-user service revenue growth and savings from the Strategy Execution Programme, partly offset by energy headwinds.

In Q3, we had a SEK17 million headwind from energy, mainly explained by the SEK25 million of electricity support we received last year.

As you can see on the slide, D&A declined by around SEK80 million year-on-year, which is due to reduced regular depreciation and because the surface value of the TDC acquisition has been fully amortised.

Then our income taxes increased by around SEK50 million year-on-year mainly due to a Pillar 2 top-up tax relating to Lithuania. For those who are not familiar with Pillar 2, this top-up ensures that we fulfil our obligation to have an effective tax rate of at least 15% in every country.

By Q3, we had a debt mix of 59% fixed rates and 41% floating rates. With that follows that for every 1 percentage point rate change in underlying market rates, our annualised financial expenses on loans with floating rates moved by around SEK110 million.

So let us move to the cash flow on slide 14.

Group cash flow

CAPEX remained high also in Q3 due to continued intense network investments and cash CAPEX increased due to timing of payments. Changes in working capital were negative in Q3 mainly impacted by a decrease in liabilities following a temporary increase in the previous quarter. Our ambition to keep working capital cash flow neutral in 2024 remains unchanged.

Taxes paid increased mainly as this quarter included approximately SEK130 million of withholding tax payment, while the corresponding payment last year was made in the second quarter. All in all, our equity free cash flow for Q3 ended at SEK1.1 billion, hence around SEK800 million lower than last year's level, largely due to the aforementioned reasons.

Over the last 12 months, we have generated SEK4.1 billion of equity free cash flow corresponding to SEK5.9 per share.

So let us move to slide 15 for our capital structure.

Leverage at 2.3x

By Q3, economic net debt amounted to SEK24.6 billion, some SEK1.1 billion below the level of year-end, as the cash generation exceeded the first tranche of the dividend. Our leverage ended at 2.3 times, which is below our target range of 2.5 to 3 times ahead of the second dividend tranche which was paid last week. Adjusted for that, pro forma leverage would have been 2.55 times.

With that, I hand over to Kjell for an update on our strategy execution.

Strategy Execution Programme Update

Kjell Johnsen

CEO, Tele2

Strategy Execution Programme (SEP) update

Thank you very much, Charlotte. And this is already our third update on the progress of the Strategy Execution Programme, which aims to deliver radical improvement in customer experience.

In Q3, our online channel delivered improved customer experience on iPhone Launch Day following a redesign of key aspects of our IT front end. We have also accelerated the pace of upgrading Boxer TV customers to modern technology ahead of closing down the legacy DTT service by year end.

On the TV side, we have enhanced our ability to deliver exceptional entertainment to our customers, thanks to the launch of the first Disney+ bundle in Sweden.

Finally, our brand new 5G network continues to grow rapidly and is currently covering more than 80% of the Swedish population despite no low band spectrum in use.

Then we can go to the financials.

As you know, we are targeting SEK600 million of run rate cost savings by the end of 2026. By Q3, we have executed on organisational changes and network optimisations worth SEK225 million in annual run rate savings, of which SEK55 million contributed to our underlying EBITDAaL in Q3 year-over-year.

So we would not see any major increase in the run rate in Q4 but we hope to add a couple of tens of millions.

Then we will move to slide 18 for a reminder about our digitalisation and customer value journey before I let Hendrik in for an update on the Swedish consumer business.

Strategy Execution at full speed

So we have shown this graph before about our Strategy Execution, and I think it is important to remind ourselves what we are doing here. Now we have done a lot of the back-end migration.

Now we have one IT stack for the mass market, and like everyone else who integrates big complex IT systems who had some issues but we have also overcome them. We have fixed them. So we are now on one platform, not three or four, as we used to be.

This means that gradually we will get better speed, quality, and of course, in this day and age where we hear about cyberattacks every day, we also become stronger. We are more resilient against attacks and also less reliant on external providers.

Going forward, it will be very important that we develop our front-end and our digital channels so we can improve our efficiency. And this frees up resources for a more dynamic strategy. Of course, we want to improve the customer experience. We know that the customer that addresses us in a digital way and can find their own solutions typically is more happy than a customer that has to go indirectly to us.

We also will do a complete revamp of Tele2's go-to-market strategy and who could better speak about that than Henrik. We will get back to that. And, of course, we have talked a lot about the need to reduce third-party retail costs. Thus, it is a cost issue but it is also a relationship issue towards our customers.

In contrast to Comviq, Tele2 was without handset binding for many years. That was finally fixed in Q3 of last year. And since then and for strategic reasons, we are building an increasing base of customers in binding alongside efforts to rebalance the challenge mix from third-party retail to own stores. We do that because it makes sense long-term, thanks to higher customer lifetime value, to increased loyalty, reduced churn and lower expansion costs.

Let that be an intro, and let me hand it over to Hendrik to talk more.

Sweden Consumer Business Update

Hendrik de Groot

Chief Commercial Officer, Tele2

Building Sustainable Consumer Growth

We can move to the next slide. Thank you, Kjell, and good morning.

On 2021 Capital Markets Day, we shared a strategy to build a sustainable revenue growth for the Sweden consumer business. This was anchored on three core value drivers. The first one, capitalising on our FMC potential from combining Tele2's mobile and Com Hem's fixed assets and customer base. The second, driving a balanced approach in the market between value and volume growth. And third, stabilising our TV business by modernising our TV portfolio.

And to do this based on our leading consumer brands, Tele2 and Comviq, today I am pleased to provide an update on our progress and how we intend to take the consumer business forward. You can go to the next slide please.

Our Consumer Journey

Let me start with a summary view of our key achievements and milestones so far. From an initial wider all product, all brand retention approach, we have focused our FMC approach on the combination of mobile and fixed connectivity for Tele2 now reaching 26% penetration of FMC customers in our mobile and fixed customer base.

At the same time, we have reduced call volume to our call centres by 18%, driven by FMC customer base growth and related improvement measures. Across our portfolios, we have driven a responsible market posture, balancing both value and volume growth in the market. Our mobile postpaid RGUs grew over the period by plus 9% to 2.1 million RGUs, whilst our broadband ASPU grew by plus 11% to SEK277.

Together with stabilising our TV business, we have seen our overall consumer revenue return to growth and picking up apace of plus 3.1% year-to-date 2024.

In returning the consumer business to growth, we have been navigating a number of significant changes and related headwinds in our legacy business. This was prepaid registration in 2023 and is the transition of Boxer TV out of DTT to OTT this year.

We can move to the next slide, please.

Our FMC Journey

As Yogesh mentioned in his Q1 technology update, we have now transitioned to one IT stack for all consumer services. This IT stack enables significant portfolio simplification, a 360 customer view in our touchpoints, unified channel engagement, and digital customer journeys and personalisation. This makes Tele2 well-positioned to capitalise on our FMC potential in a still immature Swedish FMC market.

Our focus has shifted from cross-brands or across all brands retention to Tele2 main brand cross-selling of mobile and fixed connectivity. The foundation of our FMC approach is the combination of connectivity services for households. So far, we are making good progress and can double click on core FMC value drivers.

We see significant churn reduction of around 30%. The product hold is growing and now stands at 3+ plus driven by multiple mobile RGUs. Our approach is connectivity-led and Tele2 main brand-focused. Our share of sales now stands at 30% across our channels, whereby we see the direct customer contact channels achieve higher results. And our online channel will be ready in 2025 unlocking further growth potential in cross deep and prospect selling of FMC as we move to full Multiplay inclusion.

We can move to the next slide please.

Our Connectivity Journey

Tele2 holds a long-standing reputation as customer value champion, challenger and innovator. We are supporting our customers demanding digital lives with innovations and increased connectivity which allows us to drive balanced value and volume growth in the market.

In 2022, Tele2 was first to introduce a new mobile 5G unlimited speed-based portfolio making unlimited subscriptions available to substantially larger part of the market. In 2022, Tele2 was also first to introduce bundled linear and video-on-the-demand TV packages to the Swedish market.

In 2023, Tele2 introduced seamless broadband switchover to the mobile network-as-a-service which still today is unique in the Swedish market.

In 2023, we also, as Kjell mentioned, corrected Tele2's mobile portfolio reintroducing handsets and enabling this in our own channel. And this year, Tele2 moved to annual pricing allowing for more comprehensive and transparent pricing approach, executed early in the year, whereby we annually adjust our prices for all eligible customers based on general price level development and innovations.

Finally, as already mentioned last month, we announced the launch of the first Disney+ TV bundle in the Swedish market.

In general, these innovations support both ASPU and RGU development. For Tele2 mobile, the development of a handset-bound base means that in the initial two-year build-up period from end of 2023 to end of 2025, mobile ASPU will be affected by IFRS 15 fair value treatment. Revenue will not be affected as this is balanced out by lower churn and profitability is improved from lower acquisition costs in own channels versus commissions in retail.

We can move to the next slide, please.

Our TV Portfolio Journey

Our TV portfolio has seen the most profound transformation in order to capture the support of customers' changing viewing habits across different age groups. The modernisation of our TV portfolio is anchored on three pillars.

First, enabling relevant entertainment content by combining linear TV channels and video-on-demand streaming service into a superior viewing experience. From this, we have, for example, seen a significant increase in video-on-demand viewing for our older customer age groups.

Second, upgrading customers to modern set-top boxes that enable the modern viewing experience. This has included so far upgrading over 100,000 customers from their old TiVo set-top box to our modern TV hub over the last year and includes the migration of our Boxer TV customers from DTT to a modern TV hub.

Today, 52% of our customers are using a modern TV hub. The pace of adoption is accelerating with the Boxer TV migration, as you can see on the graph. The set-top box modernisation allows us to achieve simplification and lower cost to serve.

A third pillar is our TV tech modernisation programme through which we enable an advanced aggregation platform and user experience. As a long-standing TV operator, Tele2 is uniquely positioned here with a deep TV tech competence at our disposal to work with our partner ecosystem to deliver. And the pace of innovation of our TV portfolio will continue.

Then how do we intend to take the consumer business forward? We can go to the next slide, next and final slide.

Going Forward

With the pace of transformation and innovation set, a lot of progress made, modern 5G and gigabit broadband networks and the unified IT stack at our disposal, our focus going forward will be on customer experience first.

How will we achieve this? The key to unlock customer experience advancement for us lies in becoming personally relevant. Since our customers, like we all do, use digital means to interact, our focus will be on enabling our customer journeys to start digitally first, with full 360 customer recognition, seamless across any of our touch points and with personally relevant interactions, which we believe will be increasingly AI-supported and generated.

We believe that consumers are increasingly climate aware and we see it as our mission to contribute by bringing sustainability to our customers through responsible utilisation of recycled materials and allowing our customers to contribute themselves by offering better circularity for devices to trade in, refurb and returns.

We will continue to build growth momentum based on our leading brands, the benefits of convergence, high-speed connectivity, modern entertainment, enhanced portfolios and its continued innovation.

Finally, we aim to further reuse cost of acquisition and cost to serve from a more efficient go-to-market. Based on online and own channels first, active handset engagement and renewal in own channels and increased FMC share to result in a more loyal customer base. These efficiencies are captured in our SAP programme.

This then concludes my consumer update. Thank you for listening. I am now returning the call back to Kjell.

Conclusion

Kjell Johnsen
CEO, Tele2

Financial Outlook (unchanged)

Thank you very much, Hendrik. Very interesting to sit and listen and reflect on the journey we have been on in terms of technology, of course, many changes, but also the approach to the culture and the precision level where we are focussing so much more on value. It is quite an interesting journey. So thank you very much for taking us through it.

And then we will turn to slide 25 for our guidance again. So let us make it short.

We reiterate both our 2024 guidance and the mid-term outlook. For this year, we now expect an energy cost headwind of around SEK40 million or broadly flat, excluding last year's energy support. And as a reminder of our CAPEX profile, in 2025, we expect 13-14% CAPEX to sales, driven by the final stage of the major 5G expansion in Sweden. And that means that we are replacing the 3G network by the end of 2025.

From 2026, CAPEX to sales is expected to come down to historical levels at 10-12% as our network expansion will return to being demand driven.

With that, I will hand it over to the operator for Q&A.

Q&A

Andrew Lee (Goldman Sachs): I just had a couple of questions around your confidence levels in getting to that kind of mid-term EBITDA growth guidance sooner rather than later. And the two questions just revolve around two areas of the business where the development was not quite as strong this quarter as it has been in previous quarters. So I just want to start out on consumer. Hendrik, thanks very much for your presentation. It is really helpful in terms of bottom-up analysis of what you have been improving upon. But could you help us just understand how we should think about how that translates into overall growth? Obviously, B2C growth shrank to 1.4% this quarter. It has been arguably artificially inflated by easy comps on pricing in the first half of the year. So given all the developments and improvements you have been making, should we expect a gradual improvement in B2C revenue growth from here, as you suggested can happen in B2B? And if not, why not?

And then just second question on the cost-saving programme. The annualised run rate only rose SEK25 million, I think, in the quarter versus Q2. So a bit of a slowdown in the quarterly development of that for those savings. Obviously, this is a bit lumpy, but could you just give us a bit of an understanding about – I think you mentioned that 4Q would not develop that cost-saving much more either. So when should we see the next meaningful pickup in annualised run rates on the SEP?

Kjell Johnsen: Thank you, Andrew. Let us try to address these things step by step here. So I have talked in my CEO letter and also in interviews about the expectations for a gradually improving economy, and particularly in Sweden. We have seen a historic high level of bankruptcies over the last year. And of course, Swedish consumers, as you know very well, are very much impacted with higher interest rates because of a high proportion of variable rate loans.

Now, we have already seen a couple of rounds of interest rate reductions. And when we listen to the chief economists of different banks in Sweden, we hear a much more upbeat tonality for 2025. Now, whether it will grow 2% or 2.7%, I do not know at the end of the day, but people are giving these kinds of numbers.

Of course, that will help any business, especially ours, which is a consumer business, more than a B2B. But in B2B, we expect, of course, businesses to improve their outlook for next year. I think that is an important component. When the tide comes in, it lifts all the boats, and it should also help us.

I would go through a couple of specific things. You talked about the SEP. The previous programme we had, where we saved SEK1 billion, was very back-end loaded. We did a lot towards the end. This one, we have said we are going to save SEK600 million. And by the end of this year, we are closer to SEK250 million, SEK230 million to SEK250 million here. So we do it in a much more gradual way, and we get quite a lot of it out this year.

And Hendrik talked about the importance of changes in our go-to-market. That is a carrying component on it, that we are going to move more, and we have talked about it several times before, towards internal sales and digital sales. And it is going to happen gradually, as we have now consolidated our systems.

One thing that I would like to mention, that also Hendrik mentioned, which is quite important here, is the fair value treatment in IFRS. Because clearly, we were, at Tele2, for historical reasons, without a handset binding proposition. I think it was absolutely right and necessary to get that in place. While we are building that base, the fair value year-over-year comparison, as Hendrik also said, in 2023 and throughout 2025, for the period where we are building the two-year retention base, will of course impact the year-over-year comparison. Then it will more level out.

This is the absolutely right thing to do, regardless how it plays out in our books. And it is going to be an important part of our success formula going forward, with lower churn and higher customer lifetime value.

To summarise it, the SEP delivers actually more than a third of its weight of the programme in 2024. The next steps are detailed out. The fair value plays into it when you look at our ASPUs. Of course, we expect the improving economy to help us. I have talked in interviews about the order book of B2B, that has also improved. We have won some good contracts, not basically only on price. We are winning on quality and a good sustainability reference. There are a few things that speak to an improvement into next year.

Was that okay?

Andrew Lee: Can I just follow up?

Kjell Johnsen: Yes.

Andrew Lee: Yes, that was really helpful, Kjell. Just one point. I think you were saying that consumers are more sensitive to the macro backdrop than B2B. So as you get the improvements in macro, you should see improvement in consumer or mobile consumer than B2B. Is that right?

Kjell Johnsen: Yes. Well, let me say it like this. Swedish employees have had a negative disposable income, real disposable income development for a bit of time. When you face that situation, and you have higher interest rates, it means, of course, that the purchasing power is going down. There is no way to avoid that. It speaks to the resilience of this company and this industry, that we are still growing in that environment. I think because very many people in Sweden have variable rates or bound for three months and these kinds of things, when the interest rates go down, people will feel it relatively soon. Most people will have started to feel that by the end of this year or early next year.

Of course, if consumers can spend a bit more, it is helpful to businesses. We should be out of the woods, I hope, on the record number of bankruptcies that we live through. Again, also to our B2B team, to deliver growth throughout this period of time is really, really strong. I think that is actually something to be proud of.

Ondrej Cabejsek (UBS): I have one direct question, a simple question, one more of a higher level question, please. The first question would be just on working capital. You had a SEK400 million positive in 1H. You talked about a neutral balance for the year. We saw a bit of an

unwind or a big unwind, to be precise, in the third quarter. I just want to confirm that for the full year, a neutral net working capital number is still the target?

Then a second question just on specifically B2C mobile. So we had, I guess, an unexpectedly high growth rate in 1Q and 2Q. And now the drop in the growth rate, I think, is maybe also quite large more than people expected. Can we just maybe dig into the drivers of that? I am aware there were overlapping price increases that you explained well in the slides. However, was there anything more than that, specifically, maybe some pressure more recently from any of your competitors, maybe some shift. If you could maybe talk about the shift or the mix in Comviq versus Tele2? That would be helpful. That is something we have not had an update on for some time. Basically just to explain what is causing now the sharp drop in the mobile B2C run rate in Sweden specifically, please.

Charlotte Hansson: All right. If I start with regarding the working capital, and I think that what you are saying is correct. We had the negative impact this quarter, but we also had a very positive impact in last quarter in Q2. So what we are aiming at is still to have a neutral working capital by the end of this year.

Hendrik de Groot: Shall I take it on. Ondrej, just to add some more colour on B2C mobile. I think it is just good to remind the cycle we are in, right? There is two big changes that in a year-on-year comparison are happening that are both affecting how you look at the numbers. As we have been pointing out, the first one is that we have basically put Tele2 mobile on a very much so stronger footing by reintroducing handsets. So this is the first big measure.

The second big measure is that we completely changed the way we do pricing. If you then compare these in the year to year, then of course it is important to understand that some of that underlying detail. The result of the pricing has been that, for one, has been that the first two quarters of this year has been exceedingly strong because of course we are basically changing a backloaded cycle to a frontloaded cycle. That is the first big part of it. Year-to-date, we still stand at +3.1% growth in the quarter at +1.4%.

The second element is that, as we have moved Tele2 mobile into handsets, we have done this in two steps. I think we have said in the past that our IT development was not ready until September last year to move basically into our own handsets and our own channels. But in Q4 2022, we already introduced handset binding in retail. So the effect in 2023 has been that we had immediate, I guess, churn benefits coming in as we, of course, reintroduced that in retail, but we could only then add our own channels from September last year.

It is clear that acquisition in own channels is a more profitable way of doing things than in retail. So we had the benefits of churn reduction, but from September 2023 and moving it increasingly to our own channels, we of course also got the fair value treatment to start growing. And if you add those two together, then this explains a little bit the cycle and that this just needs to normalise out. So pricing will be normalising out throughout this year because we are now in an annual pricing cycle.

As we have said, and also Charlotte reiterated, the fair value treatment will be a buildup over the next two-year period. You could say we are now halfway. Hopefully it gives you a little bit more colour.

Ondrej Cabejsek: That is great. If I may just, well, in terms of working capital outlook in 2025, just to be clear, I think previously there was a comment that working capital should also be neutral in 2025 and then only reversing with some positive impact as the 5G rollout ends in 2026. Is that still the expectation?

Charlotte Hansson: We have said that much about 2025 already. I think we need to come back to the 2025 when we do the guidance.

Andreas Joelsson (Carnegie): Maybe a question for Hendrik on the FMC. You mentioned that the penetration is quite low. The market is immature. Can you say something about what is holding back that penetration and the maturity and also how you can and will change that? You mentioned, for instance, increased degree of personal offerings or personalisation of the solutions. Can you describe that a little bit more?

The second question is also maybe on the offers you have. I understand that some of the content that maybe should have been included from one of your content providers is not included. And therefore, I guess, you will have discussions with them. Without going into details, how important is sport content for you, for instance? And you saw content cost increase quite a lot in, I think, 2022, 2023. What is the risk that we see another step up in content costs going forward?

Hendrik de Groot: Sure, Andreas. Happy to give you some colour. On FMC, it is part of our core strategy as I have been talking you through. So there is a couple of steps. First of all, I think if you look at Sweden versus some other European markets, I think that is the context in which I said it is pretty immature. There are, of course, other markets out in Europe where you see typically that the penetration of FMC on the base is substantially higher as you would on average, I think, see here in Sweden.

For us in particular, as we have been talking through, to really do FMC well, you need to be able to see the customer fully. And that means you need to be able to have your supporting IT working for you. And of course, that has been part of our transformation. And that brings us into a situation that we are pretty ready now.

Although, as I pointed out, for example, our online channel still needs to be further readied so that we can also completely use that channel for driving our FMC into our customer base.

With the penetration we have today, we are quite happy. We are also quite happy that we started with what I feel is the true foundation of fixed mobile convergence. That is basically combining connectivity. And with the IT readiness we have now, we will be introducing full multi-play into our FMC approach. And these are very important drivers for us to further accelerate.

We are doing a lot of work also with regards to cross-selling. And also there, the share of sales at the moment stands at 30%. You can see in my slides, I gave it a light green tick. There is still an awful lot more potential that we need to unlock, not only in online, but also in our customer operations, for example. And these are all types of programmes that are rolling out now, but they are all based on the fact that now through the one IT stack, we have the full customer 360 at our disposal.

Then when I talk about making it more personal, now that we have the customer 360, we need to hook up, of course, all our data analytics, all our supporting systems so that we have relevant

personnel. Seeing that the 360 of the customer is one, but being very relevant, understanding their needs, understanding, for example, the number of calls they have been making, their behaviour, enables us to be way more onto the customer themselves.

Then last comment to make, when we talk about content, it is very important. You have seen that content costs have been quite flat over the last period. And we are driving content for families and households. Sports is important, but it is not the most important thing as such. It is about a relevant entertainment experience. And we are quite happy actually to have Disney+ with us.

Stefan Gauffin (DNB): I have three questions, please. First, on the order intake, you mentioned that you have seen that you won some good contracts. Can you first just explain when these will be visible, both in terms of volumes and the P&L effect and some more colour on these?

Secondly, you mentioned that you think that you have a low FMC penetration. And on your comment, it sounded that that could have more to do with your readiness on the IT side. Or do you see other explanations to why we see a low FMC penetration in Sweden?

Then just thirdly, you are migrating your terrestrial B2B business. You have already mentioned that a large share of the old B2B customers are already migrated. But can you give some more details as to what the risks are related to the B2B revenues?

Kjell Johnsen: Quickly, on order intake, B2B, and then I will go.

Stefan Trampus: Sure. Hello, Stefan. Stefan here to answer the B2B question. I think Kjell was alluding to this performance that we had over this recession period. And I think all developments that we have seen on all segments and product lines should be seen in that light. But looking at the developments lately, which Kjell was alluding to on the ordering thing, we have seen signals that is positive and pointing in the right direction.

When returning from the summer vacation, we have seen good activity level basically in all our segments, which has ended up in a good trajectory for us. However, you should also see it in the perspective of the mobile RGU growth.

In Q2, we reported good growth on the mobile RGUs. Now we have a second quarter with good mobile RGU growth, summing up to 32,000 RGU growth for these two quarters. If you compare that with the period of Q1 last year 2023 to Q1 this year, we only have 13,000 RGU growth, which points to the direction that we are seeing positive signals.

Thirdly, we had really good equipment revenues in Q3. It is actually year-on-year, the best figure since Q2 last year. That is materialised basically already in the quarter. Also we have a fourth thing being the solution systems, where we have a good growth in Q3 versus Q3 last year. Some of this order intake we are already seeing in the numbers. However, of course, we are not still, as Kjell said, out of the woods. These are signals together with the macro KPIs that we are taking with us. That is pointing and giving signals that we will see better trajectory during next year.

I would say in the next year, and I do not want to give you a certain quarter, we will see better development.

Kjell Johnsen: Okay. In the interest of time, I will go quickly on the other ones. The low FMC presentation, I think, is partly a market maturity issue. I think that is going to be developing throughout the whole of the 20s, basically. We are going to see that increasing. To some extent, the readiness issue. But we have taken big steps on the preparedness. That is a part of the 2025-2026 programme to really fix our preparedness for FMC step by step.

The terrestrial TV that we are shutting down, clearly, it is a system that is very energy-consuming. It has had its useful life, so to speak. We are moving those customers over to other ways of receiving broadband signals, broadband entertainment and TV. That is a very good thing.

Obviously, many of those who use them in the more rural areas and are of a higher age group. It is an extra effort to transition them over to new technology. But we are making a big effort to help them with that. I hope that answers the terrestrial one and we can maybe move.

Erik Lindholm (SEB Enskilda): I will start with a question on EBITDA guidance. That is guidance unchanged here for the full year heading into Q4. Quite a broad range still on EBITDA. What are the main puts and takes here into Q4 that is, would you say, creating this uncertainty? I mean, what could put you towards the higher or the lower end of this range?

Then just a second question. It is about your move to annual pricing with greater transparency and more tied to general inflation. If you think about this for next year, what sort of price increases do you think is likely for Sweden's mobile businesses?

Kjell Johnsen: On the guidance, I think it is hard for us to put it in the direction of decimals here, but we are doing some more around the transformation plan. Of course, the volumes in those important weeks towards the end of the year will have some level of impact.

We are seeing the trends from Latvia coming through that is also net-net positive. But I think we are a little bit reluctant to guide you on decimal points on the EBITDA. We are feeling quite okay momentum. We feel that we are able to add profitability on top of the price increases from last year. That is good. But I feel a little bit awkward going too granular, so to speak.

On annual pricing, Hendrik, I would guess you will not want to be stating percentages.

Hendrik de Groot: I will keep it short. Annual pricing for us is a method, first of all, to capture transparency, all eligible customers. So many more customers than we typically would have done with more for more. And annual pricing is not orientation, maybe to price developments, but also driven by innovations. So we do believe also going forward, it will be a very good way to capture the value we want.

Titus Krahn (Bank of America): Thanks so much for taking my questions. Just very quickly, one follow up. Maybe I have missed this before. But did you talk about how many Boxer customers you still have on terrestrial TV? It would be interesting to hear any numbers from that.

Then staying on this topic, can you talk a bit about how the frequencies are going to be used in the future? Would that be an upside for the telecom sector, maybe? Else on the cost side, to what extent do you see the cost savings on the energy side offsetting any potential revenue losses?

Hendrik de Groot: Titus, I will just start and then maybe hand over on cost savings to Charlotte. However, basically, our intention is to move out of DTT holistically. That means by the end of this year, all of our customers will be moved out of the DTT network. We are moving those customers, as I said, to OTT to over the top to our TV Mini Hub. This is a programme that is in full swing at the moment, given 31st December, of course, at the end of the year.

That is a programme we are running. Will we be able to move all of our customers over? Well, some of them are in a bit more remote rural areas where connectivity may be an issue. So that is what we are at the moment managing. There will be a level of customers that will not move over.

However, I think we are seeing at the moment good traction on customers moving to OTT. And actually, we are getting as a response to the customers, once gone over, see the benefits of sitting on modern TV technology.

With regards to cost savings, Charlotte, do not know whether you want to comment on that?

Charlotte Hansson: Yes. When it comes to the energy, of course, we are doing some things that will lower the cost when it comes to energy, because we are having more efficient 3G network, for example, which is quite costly. At the same time, as we are reducing the consumption there, we also see a higher data usage from our customers. That then implies that there will be more consumption or higher consumption.

I cannot say exactly what the outcome of this will be, but I would say that more in the line of easing themselves out on those two specific items. Those we are seeing right now anyway. That is driving, of course, higher consumption on data.

Felix Henriksson (Nordea): I would like to follow up on fixed mobile convergence. Could you please elaborate on the CAPEX needs that you see to drive up the FMC penetration in the customer base and also comment on what role potential fibre M&A plays in your desires to increase your FMC ambitions in Sweden?

Kjell Johnsen: I do not see FMC as a massive driver of CAPEX. I mean, the main CAPEX is being used for building the 5G network and, of course, some upgrades with Remote-PHY. When we are finished with the main 5G rollouts, the remote PHY CAPEX is relatively limited. So FMC is, in my view, more of a front-end development and a digitalisation exercise than a massive CAPEX exercise.

Hendrik de Groot: Yes. No, absolutely, Kjell. So it is 5G. There is basically a network rolling out. It is Remote-PHY, as Kjell also was saying. We do hope that as we go into next year, we see a TPS moving on regulation and SDU. However, that means that the current fibre operators will need to open up at a wholesale level. And that also is not a huge CAPEX driver. It does mean, of course, that we need to interconnect. But I would say, it is minor CAPEX. However, it opens up a big opportunity.

Kjell Johnsen: I am sorry, Felix, the second question was?

Hendrik de Groot: Fibre M&A.

Kjell Johnsen: Fibre M&A. Okay. Well, we have said it before. We have not done anything. We have not done any M&A. We said that it is an option if there is something that we think has

the right price. We can do a lot of FMC without doing any M&A. If we do M&A, it is the icing of the cake.

Keval Khuroya (Deutsche Bank): I have got two questions, please. Firstly, you are quite clear on the potential macro improvements helping B2B. Can you say a little bit more about the competitive environment and also the scope for front book price increases as well? Secondly, just following on from the previous question, you have also highlighted the Baltics as an area where you could consider M&A with respect to convergence assets. Is this idea still supported by the Board? And how do we think about the likelihood and timing of any potential deals in the Baltics?

Kjell Johnsen: Well, the competitive environment is largely unchanged. We do have a rotational segment that lives its own life. I cannot really see that that is producing massive value creation in terms of what goes on with Hallon and Vimla and these kinds of things. However, we also see a relatively okay discipline among the players that focus on both paid and FMC and going in that direction. I think there is a relatively okay pricing discipline in the market.

My personal prediction is that this rotation market has found more or less its shape. I do not think there is going to be very much more volume coming in there. There should be scope for a relatively healthy pricing environment for the premium brands, the catering to families and businesses.

When it comes to M&A in the Baltics, I think that goes with a comment that we made before here. If the right opportunity is there, then yes, that we would look at it. We have not seen things that we have felt we wanted to go for. We still have a lot of legs. We are building a great 5G network now at maximum speed in the Baltics. We have a lot of capacity to use for a mobile-centric convergence game. We have plenty of time to develop based on the assets that we have.

Ajay Soni (JP Morgan): On your postpaid ASPU, obviously that has been slowing a bit. I just wanted to understand if there is further headwinds in Q4? More specifically on the Comviq brand, what the 2023 price increases were? Are these going to be done in 2024? And then on your leverage, even after the dividend, it is still towards the lower end. Did you target a lower range or do you see the balance sheet headroom for higher shareholder returns or potentially M&A as well?

Kjell Johnsen: Well, I think I can take the third one, and then Hendrik takes one and two, maybe with Charlotte.

On the leverage, yes, you are right. We are at the lower end and we are almost at the lower end even after paying the dividend. I choose to see that as a positive thing. I think my successor and the Board will have significant freedom of action, whatever they choose to do on that. I think that is a good starting point for the next stage. Hendrik?

Hendrik de Groot: Yes, on Comviq, Comviq as of 2025 will be fully in the annual pricing cycle. That is what I can say on this. It was not included this year fully in, given that in September 2023, we already did a more for more pricing on Comviq.

Kjell Johnsen: Was the question on postpaid ASPU, was that related to fair value or what did that come from, Hendrik?

Ajay Soni: No. I was just more looking at the mobile pricing. I mean, just on Comviq itself, did you do any price increases in 2024?

Kjell Johnsen: We did a second branch of more for more in early 2024, yes. But we did the majority of it in September 2023, which was still a more for more pricing cycle. And it will now move into full annualised pricing as we go forward.

Fredrik Lithell (Handelsbanken): I would like to start with saying, Kjell, it has been a pleasure to get to know you and I wish you all the luck going forward. Hope we meet again. With that, a lot of questions have been asked. Maybe one that I would like to have a more colour on is the ongoing rollout of 5G and you have come a far way, but can you give us some more incremental experiences from that work or if you are on par or above or ahead of competition on several of your sites or something like that. Some more colour on your 5G network, how it stands to competition right now would be interesting.

Kjell Johnsen: Yes, that is a very, very good question. I am glad you asked it, and I am talking a bit about it in my CEO letter. When we started the process of 5G, we had to start with a high-end spectrum at 3.5, which gives fantastic speeds but bad coverage. You have to build very many base stations to get the same coverage as you do with the low-end spectrum.

One of our main competitors could start in a bit different way and it is not because they did something wrong or right or we did something wrong or right. It is just related to the regulatory approach that we have to take, given that we have to take Huawei from our networks.

I am very happy to see that in Opensignal, which is completely independent, it is not bought by an operator to, and in a way, tailor-made for testing out a network for some operators. This is Opensignal, and they gave us very good feedback now on a network, best video experience. They also put us on the list of the companies that had the best acceleration of coverage. Also, for those who are interested, very good feedback on gaming experience.

The reason why we get this fantastic video experience is that we have had been forced to build out the high-frequency spectrum first. When we then get the coverage, you get a fast 5G experience that you physically cannot get with a 700 or a 900 network. It is a good thing to have. It is great, and we are going to do it ourselves also, but we really got positive feedback on that.

We have now come to the point where we cover more than 80% of the population. During 2025, when we replace soon now the 3G network, we will do the area coverage for 5G. I think we have come to a turning point where it is becoming visible that we have, for certain high-quality standard needs, the best network available in the Swedish market.

Fredrik Lithell: Sounds great. Just a follow-up on that then. When you do the implementation of the maybe low bands in 2025, do you do that in any specific order in order to capture the best low-hanging proofs from that in the start, or how do you go by them?

Kjell Johnsen: It is such a big project that we have to do it like a machine rollout. It is very hard to cherry-pick when you have such an enormous transaction volume. This is the biggest volume swap upgrade rollout that has happened in the history of telecoms in Sweden. Of course, we make sure that that delivers.

What I would like to highlight is that we still are slightly below 50% 5G handset penetration. Another effect of these upgrades that we do is that those who have a 4G handset also get an

improved experience, which is almost even more important in the Baltics, but also important in Sweden. It is not only for 5G, but we get a better 4G experience also. That is important.

Going from a 3G network to a revamped 4G plus 5G network, it is kind of a sea change.

Usman Ghazi (Berenberg): I have got two questions, please. The first one was just going back to the annual price increase strategy in Sweden. I mean, is it fair to say at this point that CP or inflation is a fair barometer for what a fair annual pricing strategy looks like? Or do you consider that we should be thinking about inflation type of stuff? That was the first question.

The second question was just going to the cost savings programme that you have of SEK600 million. I just wanted to understand that as we look out for 2025 and 2026, is it fair to say that the bulk of the savings for 2025 is related to the Boxer migrations, which, as you have said, are progressing well? Then in 2026, that is when the savings from the move to your own channels as opposed to third-party channels, those savings then came off on the basis and built up on the asset-binding contracts.

Hendrik de Groot: I can take the first one, Usman, on annual pricing. The way to think about it is that inflation orientation is maybe a baseline, but we will every year look at how we want to move and innovate our portfolios. The combination of those two, one gives us as wide as possible a customer base that we can transparently touch, but also that we can innovate on.

The old more-for-more pricing was way more cohort-driven and with smaller subset of customers that you would move. We are now combining a baseline and innovations to drive the type of values that we think we can capture in the market.

Kjell Johnsen: Yes. I guess on the cost savings, clearly Boxer will lead to some cost savings. It will also lead to some churn, and we are writing about absorbing that effect, but it is an element of it.

I would like to highlight, maybe Charlotte will say some more. I would like to say that the Boxer migration we do now is the last big customer movement that we are doing at Tele2. We are now almost out completely of DSL businesses, legacy businesses like that. We have been through a prepaid registration that has been a big job. Of course, we did the migrations now when we moved customers to one consumer IT platform, and now we do Boxer.

Then it will be easier to keep the focus on the business and not have these disturbances from migrations. But clearly, there is a cost-saving element from shutting down a legacy, high energy-consuming terrestrial network.

Charlotte Hansson: Just slightly commenting as well. The savings that we have seen this year has been largely when it comes to reorganisations that we made and also a lot to clean the network optimisations. Some of this will also have an impact going forward, but to a much lower extent.

What we also talked about as part of the SEP programme, Strategy Execution Programme, is also the B2B transformation, digital transformation. That is one part that we are looking forward to in the coming years. And, of course, the sales channels optimisation that you were also mentioning, but that is actually more towards the end of the programme. That is the plan, I would say.

Usman Ghazi: Got it. Can I perhaps just follow up on the Boxer migration? Where is the churn impact coming from? Because I mean, customers at the back end have already understand and moved, or at least they have the opportunity – or let me rephrase that. So I understand that they have access to the new platform already, right? So is it that come the end of the year, most of these customers might realise that they are paying for something that they do not want and therefore – or that they were not consuming and therefore shut down the service or something? I mean, I am just trying to understand why you would be expecting a churn impact.

Hendrik de Groot: Sure, Usman. First of all, it is, as Kjell mentioned, the Boxer base and the Boxer network is the last big legacy move that we are doing. This part of the business has been declining year after year. There is inherent decline in this business to start with. We are now moving them to OTT, which we can see, and you have seen that our cable and fibre business, we have been able to stabilise that with the modernisations we did on the portfolio.

We do believe once customers move over to OTT and a new viewing experience, it inherently is better for retention. That is actually what is happening. This has been happening throughout the year. First of all, the Boxer base is declining throughout the year, like it has done any year. However, now with the migration, we have been moving customers over to OTT. And underlying, we already see once they are on OTT, the retention rate is anyway much better. Also the NPS we are getting is way better.

Towards the end of the cycle now, there may be some customers, right, that either choose to move; either choose to, for example, only move to the free-to-air part of the terrestrial distribution that still will be ongoing because ours is a PayTV part. But that will, of course, very severely limit the number of channels they have to one or two public channels. There may be a cohort of customers making that choice. That is where we are.

It is a declining base. It is managing the legacy. It is driving, of course, the cost efficiencies for us into our SEP programme. It is basically moving to our modern platform by which we have an inherently better viewing experience and also retention rate.

Kjell Johnsen: I think we can say that some of these customers are also relatively elderly people who may not have the best of coverage where they live. That is an element that plays into it. We can cover that maybe with mobile as we build out. We have to help the people in their transition, so to speak.

Adam Fox-Rumley (HSBC): I had two, please. The first one was an operational one on consumer, and I guess your aspirations to be digital first down the line. I was wondering to what extent there is a customer education element here. To the extent there is, what is necessary to help them drive more of their business digitally. You did not mention any ad or anything like that. Is that some engagement by that process, something on your agenda?

The second question was on AI in telecoms and your customer insight, which I think you mentioned in the presentation. I guess I would love to hear you talk about the balance between partnership and in-house development there. I was wondering if Tele2 needed to work more closely, say, with one of the larger telecoms groups to get more access to the relevant data centres or whether or not you can do that in-house?

Hendrik de Groot: Yes, good questions. On digital first, we can see that when we offer the right digital channels to our customers, that customers do very much use that. It is not a question of overcoming that much. It is more a question of us being able to present the right digital touchpoints to them. You can see that, for example, if you look at Comviq versus Tele2 in channel mix, we have a very much highly driven digital channel mix for Comviq, and we still have a lot of opportunity for Tele2 to get there. However, given that we have not been able to present the right digital interface, we, of course, see that there is still an opportunity that we need to cater for. This, of course, also includes the right platform, which given that we are increasingly and predominantly mobile, has to be app-based. And that is all part of the next steps we are taking now that we are on one full IT stack, and that we can move forward into really moving the investments into the customer-facing part.

Then on AI, definitely, of course, it is a buzzword anyway, but it is also something that is absolutely that we are working on. It will take a number of steps. It starts with having our customer data at our fingertips fully and our data analytics there. We have, of course, moved quite a bit already in MBA and MBO and these sort of platforms.

To make them fully AI-driven is the next step. For us, just give you a little bit of colour, the first step we are doing now is basically on the customer support interface. Our chatbots that we have been working on and that are now fully in production for Tele2 also, they are in a first step now becoming, first of all, hooked up to all our backend so that they can be personalised, but they are also starting to get elements of AI into them.

There is a whole roadmap that we need to unveil and build. But that was also what Kjell mentioned before, that now we can really move the whole approach and investment cycle into the front end, into that customer interface and making that more relevant, more digital, and more personalised.

Kjell Johnsen: And, of course, now when we are seeing the end of the main 5G rollout, we will do the earlier stage of AI that is not so fancy as generative AI or general AI, but we will do much more automation of how we are running our networks. That is clearly in our plan. And we are comparing those with other telcos to see where we can learn and where we are good. We have interactions, of course, also with Iliad and Play, but with others. We are actively collaborating with others to speed up. Thanks very much.

Viktor Högberg (Danske Bank): Kjell, now when you are passing the torch, reflect on the years now as CEO of Tele2, anything you would have done differently? What and why? Also, just what you think have been the most important parts during your time as CEO? Then I have a follow-up on it.

Kjell Johnsen: Okay. Well, my mother thinks I am a patient person and she is wrong. When I look back, I am always looking at what could we have done faster, because your speed is important, but accuracy is also important. That is why we have worked a lot with first the strategy, then the values, and then to build the culture.

Because if we had gone at full speed just after formulating the strategy, the organisation would not have been able to keep up with that. We would have to take it in steps. I am very pleased to see that the value-driven culture that we are developing here, which is more about position and is more about value, a bit less about volume, is paying off. That is one of the key reasons

why we have had growth for many quarters in B2B. Also, Hendrik and his team have turned B2C back to consistent growth.

It is a question of accuracy and having a clarity of mind. So I would say almost in any company, to work on the culture is super important and be clear about where you are headed. But I will probably never be satisfied with myself about if we did this fast enough. Then your follow-up.

Viktor Högberg: Thank you. A bit more detail, short-term. Free cash flow, we are thinking interest paid, given the year-to-date, any changes to your full-year expectations, given the rate moves we have seen? Just a short-term comment about Q4, basically.

Kjell Johnsen: You mean whether the interest rate moves will impact our free cash flow in the fourth quarter?

Viktor Högberg: Yes. I was positively surprised in consensus as well by the low amount in Q3. Just what to think about the Q4 number, the full-year number, basically.

Charlotte Hansson: Yes, so I can take that. And it is more timing. We have a seasonality when it comes to the interest payments in the year. It is expected from our point of view, Q3 is usually always lower than other quarters. So we should see an increase between Q3 and Q4.

Kjell Johnsen: Yes. Okay. Thank you very much for joining us today to go through the development of Tele2 in the third quarter. I think we are showing again that we are able to grow in a challenging environment. I am hopeful that as we progress with interest rate deductions and a better GDP growth environment, maybe we can see even better performance over time, although it is going to happen gradually.

Of course, I would like to thank you who have been on these calls with me, this is my 17th quarterly call, for your questions and your support and sometimes tough questions, which is fair. That is what you are doing. I will see some of you today and also tomorrow on the roadshow. To those that I do not see, once again, thank you very much for following us. And I am sure that you will have interesting discussions with the team also going forward. Thank you.

[END OF TRANSCRIPT]