



Tele2 AB Q4 2022 Interim Report

Tuesday, 31st January 2023

Introduction

Kjell-Morten Johnsen

CEO, Tele2 AB

Welcome

Thank you very much, and good morning, everyone. Welcome to Tele2's presentation of the results for the fourth quarter and the full year of '22.

So with me here in Kista today, I have Charlotte Hansson, our Group CFO; Hendrik De Groot, our Chief Commercial Officer; and Stefan Trampus, our Head of B2B. So let's turn to slide two.

Highlights and strategic initiatives

So when summarising 2022, there are some points I want to highlight. First, our strong performance during a year that turned out to be very challenging. Despite a lot of unexpected events, we have delivered on our 2022 guidance set out a year ago with a steady growth in revenues and results.

Excluding increased energy costs, underlying EBITDA grew by 4.9%. We have also made some important strategic achievements. The turnaround of B2B, which proves our ability and strength to make necessary changes. We have taken important steps to strengthen our TV and B2C operation with a new entertainment offering.

Our Baltic operations have shown a remarkable ability to adapt to new external conditions and continued to deliver strong and stable results. We have also secured important spectrum in the Baltics that will enable us to grow our business for many years to come. And at the same time, we have managed to continue our internal efficiency measures in line with the Business Transformation Programme and realised savings of over SEK800 million so far.

We have also completed the sale of T-Mobile Netherlands and have made great progress within sustainability, among other things by having our science-based targets approved as the first company in Sweden.

Our Board of Directors proposes an ordinary dividend of SEK6.80 per share, an increase from SEK6.75 last year to be paid in two tranches in May and October. And let's turn to page three.

Continued strong top-line growth in Q4

When looking at the development during the fourth quarter, I'm very pleased to see that we are able to continue delivering growth despite the challenging environment. The strategy we have implemented is proving very helpful in navigating this new landscape that provides challenges to both businesses and society at large.

During the fourth quarter, end-user service revenue grew by 3.2% on an organic basis, and it's great to see that we continue to make good progress in all our markets. Although, we've seen a significant increase in energy prices and inflation during 2022, we have been able to convert the strong end-user service revenue growth, coupled with the execution of the Business Transformation Programme, to an underlying EBITDA growth of 3% for the Group. And adjusted again for the increase in energy costs, approximately SEK35 million higher in

the fourth quarter, the growth in underlying EBITDA would have been around 4.3% in the quarter.

Sweden B2C saw solid growth in net intake and end-user service revenues in core services, offsetting the decline in legacy services. Viaplay is now implemented for all eligible customers and is positively contributing to our digital TV business. In Sweden B2B, we saw continued commercial momentum with solid end-user service revenue growth and strong net intake of mobile postpaid across segments.

In the Baltics, we experienced yet another quarter of good performance, both in terms of top line and bottom line growth. We are also focused on rolling out 5G services as quickly as possible across our Baltic markets. So let's then move to the Swedish consumer segment.

Sweden Consumer

Mobile postpaid saw a continued strong net intake in the quarter, driven by FMC bundling and Comviq, while ASPU declined slightly. However, the commercial activities in the market have been more competitive lately and showing signs of slowing customer demand. In fixed broadband, we see continued good growth, driven by volume and a stable ARPU development.

In the digital TV, cable and fibre business, we are seeing positive impact from the migration of TV customers to the new entertainment packages that include Viaplay. Most important, the new package has been very well received among our customers and even contributed to an increased customer base during the quarter, breaking the downward trend from earlier quarters. We've also seen a new TV proposition contributing to the overall performance, which shows a 5% increase in ASPU during the quarter.

Mobile end-user service revenue grew by 1% in the quarter, driven by the larger postpaid customer base. Also in fixed broadband, end-user service revenues increased by 1%, thanks to the growing customer base. Total end-user service revenue for digital TV was flat in the quarter as the 3% growth in Digital TV was offset by a decline in the legacy DTT TV service. And then let's move on to B2B.

Sweden business

Commercial momentum continued to be strong in the quarter, with both extended and new customer contracts, including the recently announced agreements with fuel company OKQ8 and food retailer, Axfood.

Mobile net intake amounted to 26,000 RGUs driven by improvements across segments and notably in the large segment. Mobile ASPU remained stable. End-user service revenue increased by 6% in the quarter, including a positive one-off deal of SEK17 million related to Solutions business. Adjusted for this, end-user service revenue grew by 4%.

Sweden financials

And then looking at the combined Swedish operations. End-user service revenue increased 1%, driven by a solid performance within B2B. International roaming had a positive year-on-year effect of SEK16 million. Underlying EBITDA remained at the same level as last year as higher end-user service revenues and positive effects from the Business Transformation Programme were consumed primarily by higher cost for energy, external handset financing and content.

Cash conversion remained strong at 66% in the quarter. And then move to the Baltics.

Baltics operational highlights

Across our Baltic markets, the number of mobile postpaid customers continue to increase, whereas the number of prepaid customers fell in line with a normal fourth quarter seasonality. We have continued to see organic ASPU growth across markets during the quarter. The focus has been on price adjustments, combined with data monetising through our more for more strategy.

Baltics financials

As for the financials, ASPU volume growth in mobile postpaid led to organic end-user service revenue growth across markets in the quarter, resulting in 11% growth for the Baltics as a whole. Despite soaring energy cost and inflation, we have so far managed to adapt to the new environment by adjusting prices and executing the more-for-more strategy.

In the fourth quarter, underlying EBITDA grew by 16%. We continue to see a high cash conversion for the Baltics due to the strong performance and relatively low CapEx levels so far for the ongoing 5G rollouts.

And with that, I would like to hand it over to Charlotte, who will go through the financial overview.

Financial Overview

Charlotte Hansson

CFO, Tele2 AB

Group results

Thank you, Kjell, and good morning, everyone. Please turn to page 13 in the presentation.

During the fourth quarter, we saw a 3% organic growth in underlying EBITDA. This was mainly driven by high-end user service revenue in all countries and positive effects from our Business Transformation Programme in Sweden. At the same time, we have continued to see pressure on the margins due to the sharp increase in energy prices and rising inflation.

Associated companies in JVs shows the decrease compared to Q4 2021 as this no longer includes results from the divested T-Mobile Netherlands. Net interest and other financial items increased to minus SEK181 million due to higher interest costs. And net profit discontinued operations includes a release of a tax claim of SEK363 million. In December, the administrative Court of Appeal ruled in favour of Tele2 and accepted our claim for a deduction of exchange losses related to our former operations in Kazakhstan.

So let's continue with the cash flow on slide 14.

Group cash flow

CapEx paid was higher in Q4 2022 compared to last year, mainly due to higher network investments. Changes in working capital was negative in the fourth quarter as well as for the full year. And to follow up on what Kjell said earlier, I would say this is mainly explained by three items impacting the full year.

Firstly, we temporarily suspend a part of our external handset financing arrangements as we have renegotiated agreements with our third-party providers. Secondly, we saw inventory increase related to network equipment, primarily linked to the 5G rollout.

And lastly, we also saw our handset inventory rise from unusually low levels because of the supply chain challenges we were facing end of 2021. An improving working capital is one of our top priorities in 2023. However, this is not going to be a quick fix, and we expect to take a couple of quarters to come back to more normalised levels.

Taxes paid increased in Q4. This is mainly explained by a large repayment of preliminary tax in Q4 2021. And equity free cash flow from continuing operations amounted to SEK3.5 billion in 2022, corresponding to SEK5 per share, which were lower than in the previous years. The main explanation for that is the negative development in working capital.

However, this is, as I mentioned, something we expect to gradually improve during the coming quarters.

So please move to slide 15 to go through the capital structure.

Leverage at 2.5x

At the end of December 2022, economic net debt amounted to SEK25.6 billion. During fourth quarter, the second tranche of the ordinary dividend of SEK2.3 billion was paid. And in total, we have distributed some SEK13.6 billion in cash dividends to our shareholders during 2022. And leverage was at 2.5 times at the end of December, which is in the low end of our target range of 2.5 to 3 times.

And in December, we issued a SEK1 billion three-year bond. We also signed a €700 million sustainability-linked revolving credit facility with a tenor of five years. And those arrangements were signed in as attractive conditions.

And please turn to slide 16, where we'll update you on the progress of the Business Transformation Programme.

Business Transformation Programme Update

During the quarter, we continued to execute on the Business Transformation Programme and made improvements primarily within our combined IT and tech organisation, both in terms of network optimisation and savings in external spend. This led to an annual run rate savings of SEK825 million by the end of 2022. The P&L effect of this was SEK195 million in the quarter, with a net effect of SEK80 million compared to Q4 2021.

And with that, I hand over to Kjell to go through our guidance and key priorities going forward.

Conclusion

Kjell-Morten Johnsen

CEO, Tele2 AB

Financial guidance

Thank you, Charlotte. And then let's move to the page 17 with our guidance. So our guidance for 2023 is to continue to grow end-user service revenue by a low single-digit number

alongside a similar growth rate for underlying EBITDAaL as inflation will weigh temporarily on results.

Energy is part of inflation. And while it had a significant impact in 2022, the current benign price levels would say – would show a more limited headwind in '23. However, we all know that energy prices could change significantly.

In 2023, CapEx is expected to remain in the upper end of our midterm target range of SEK2.8 billion to SEK3.3 billion, as the rollout of 5G is accelerating alongside the upgrade of the fixed network in Sweden with Remote-PHY.

We also reiterate our midterm guidance with low single-digit end-user service revenue growth, mid-single-digit underlying EBITDAaL growth and CapEx in the range of SEK2.8 billion to SEK3.3 billion.

So please turn to Page 18 for a summary.

Key priorities going forward

To summarise last year, I'm happy to conclude that we delivered on our 2022 guidance. With the dividends paid last year in total SEK13.6 billion we were able to significantly remunerate our shareholders in accordance with our financial policy. For 2023, our Board proposes that another SEK4.7 billion shall be paid out to our shareholders.

On the back of this, I want to reiterate what I said at the time for the Q3 report that we are prudent in the way we look at our balance sheet as we've done historically and make sure that we keep our financial strength going forward while keeping our current leverage and dividend policy in the long term.

In Sweden, we continue to rollout 5G at a high pace and are committed to our goal of covering 90% of the population by the end of 2023. Also in the Baltic states, we are now rolling out 5G in all three countries after securing important spectrum last year.

Similarly, on the fixed side, we continue to roll out Remote-PHY devices in Sweden in order to gain the benefits from the investments as soon as possible. Both projects are key to us in order to increase customer satisfaction and being able to provide new services, which will support our more-for-more strategy for years to come.

In 2023, we have an important spectrum auction coming up in Sweden. With regards to that, I want to highlight Tele2's built-in network efficiency that will be further capitalised as net for mobility will become the only sharing vehicle in the market when a current 3G network is closed out.

We will also continue executing on the Business Transformation Programme to deliver the SEK1 billion of savings by mid-2023. However, the ending of the programme doesn't mean an ending of our cost focus. That for sure will continue.

When we integrate the full Comviq business through our new common IT platform by the end of 2023, we will have a simplified IT structure, allowing us to develop more of our resources to giving our customers a digitalised service experience with even more focus on the market as we spend less time fixing legacy issues.

In Sweden Consumer, we will continue to balance value and volume in order to build sustainable growth while gearing up our capabilities to address the 1.3 million non-FMC

households. We will also continue to build our premium brand in order to increase customer satisfaction that we can monetise through reduced churn or price adjustments on the back of product improvements.

The improved entertainment offering, including Viaplay is a key part of this strategy to regain our position in strengthening our customer offering. In Sweden business, we have seen an uplift in numbers since the new strategy was launched in 2021. The steady development during 2022 is encouraging, and we see further potential to develop and grow our business.

We have recently secured a number of new and renewed customer contracts, further meriting our strong offer within networks and security. It all comes down to a focused work that aims to support our customers' long term. Although fluctuations should always be expected, we are now witnessing a very important and sustainable shift within B2B.

In the Baltics, we experienced more pressure on the cost side than in Sweden due to the exceptional high electricity prices as well as general inflation rates that have actually been well over 20% in recent months. So far, we've been able to mitigate this from the incredible top line growth, which filters down to underlying EBITDAaL. Going forward, we will build on this momentum while we are conducting nationwide rollout of the 5G network.

Our leading role in sustainability is something we can capitalise on as this is increasingly important to our customers. As such, we see potential to further develop circular economy solutions to meet customer demands.

We are now looking at the year to come and beyond. I have expressed many times before that Tele2 is a growth company at heart, and we continue to show this quarter after quarter as we execute on our strategy to reach our guidance for 2023 and in the midterm.

So with that, let's move it over to a Q&A session and take some questions, please.

Q&A

Operator: Thank you. Dear participants, as a reminder, to ask a question, you will need to slowly press star one and one on your telephone and wait for a name to be announced. To withdraw your question, please press star one and one again. Please stand by while we compile the Q&A roster. This will take a few moments. Now we're going to take our first question. And the question comes from the line of Andrew Lee from Goldman Sachs. Your line is open. Please ask your question.

Andrew Lee (Goldman Sachs): Yeah. Good morning, everyone. So I have two questions. One on the Swedish consumer outlook. And then secondly, on – just to dig a bit more into your working capital outflow or working capital expectations for 2023.

On Sweden, you mentioned, Kjell, a slowdown in customer demand and increasing competitive intensity through the fourth quarter. That's the odds with Tealium[?] management commentary that suggests there hasn't been a major change. So I just wondered if you give us a bit more colour on your thoughts and what scope you see for higher price rises in 2023 than in 2022 to offset the inflation headwinds that you laid out? So that's on Swedish consumer.

And then secondly, on the working capital outflows we saw in 2022 in the fourth quarter, thanks for laying out the drivers of that. I just wanted to get a bit more colour on what exactly should we be expecting in 2023 when you said you recovered to normalised levels. Does that mean stable working capital for 2023 and no headwinds, or a reversal of some of the effects and therefore, some tailwinds? Just a bit more of an understanding about direction of travel for working capital would be great. Thank you.

Kjell-Morten Johnsen: Thank you, Andrew. I'll kick off on the working capital, and probably I will let Hendrik answer on consumer Sweden.

So working capital is the result of very deliberate choices, one – almost one year ago to make sure that we could rollout 5G, make sure that Stefan would have enough routers and other equipment so that we could pursue the growth that he has been delivering in B2B. And of course, we make sure we have handsets for our business. We came into 2022, where I wouldn't use to word that completely empty shelves, but we have the very low inventories.

And we needed to make sure with the supply chain disruptions that we actually could support our business. And that has played out very well. We have had a good development of 5G rollout, and we've been able to sustain strong deliveries in the B2B. So what can you expect going forward?

Well, as interest rates started going up, we had to renegotiate our relationship with the factoring that we typically do on selling handsets. So we took for a limited amount of time, some of these handsets on our own balance sheet. We are not going to take more of this on our balance sheet going forward. And all the decisions were made actually back in November, so how we're going to deal with this.

We have a good relationship with our factoring partner. So that's going to work well. So what you have seen in terms of handsets will then gradually be paid back as the customers pay back the financing over the next, say, two-and-a-half years or so. So that's happening by itself. And that's almost a third of the increase in working capital.

Then when it comes to the net – the build-out of the 5G network. As you know, we have probably the most efficient network structure in Europe, where we are building the network together with Telenor. And those who have partners in 3G, Telia with us, and Tre with Telenor in the past, will no longer have those benefits when 3G gets shut down. So the vehicle we have with Net4Mobility is unique and a great thing to have. And we need to accelerate the invoicing procedures through there.

But we have already come to a level of working capital that now with more predictability on supplies, we can start optimising working capital within Net4Mobility. We have big volume, but now it's a time for that optimising.

And the third thing is that Stefan is sitting next to me here. He's going to be selling a lot of the goods that he took into storage last year because of its good growth, and gradually we will wind down some of what has come in, in the bulk orders that we placed last year.

Just as an information point, some orders that were made in March, we were even told in October – in September, October that they wouldn't be delivered until '23. And then all of a sudden, they start coming in October, November. So it is basically repercussions of a 2022 that was hard for everyone to predict. But you shouldn't expect to see that we will unwind

gradually the increase that we had in working capital through 2023 for the improved end of year showing.

Andrew Lee: Thanks. Kjell, that was really helpful. Can I just follow up just before we move on to the Swedish Consumer. Just so it sounds like an unwind. So on a net basis, we should expect a kind of positive working capital move in 2023.

Kjell-Morten Johnsen: That is clearly the ambition and the target that we set in front of ourselves. And I can say to you, like I said in an interview this morning, I would have done exactly the same thing again if I had the same choice knowing what I know today because it was really the right thing to do to secure that we can grow our business and build 5G and support Stefan's efforts to drive growth.

So I'm actually quite happy with the decision, but I understand, and it's fair that we should defend it to you why does it play out like this for that specific year.

Andrew Lee: Yes, it makes sense. Thank you.

Hendrik De Groot: Shall we move to Swedish Consumer?

Kjell-Morten Johnsen: Yeah.

Hendrik De Groot: Andrew, on your question, when we sort of look at the market, we, of course, look at a number of factors, right? So we take into account the consumer sentiment from the external reporting, which we've seen quite a slowdown in the consumer confidence index. We look at the market factors – and of course, we look at our customer touch points and sort of the feedback we're getting in the sales channels, but also through our customer operations and our interactions and any sort of customer service we're doing.

And I think if you sort of take all that together, we are seeing, of course, that the inflationary pressures, energy prices and general inflationary pressures on consumer pricing is affecting the consumer sentiment. And the way we're seeing it in our business is that markedly on device sales and handsets, we have seen a more careful customer and also a slowdown in the fourth quarter.

As you can see our numbers, we were 6% of lower on equipment revenues. Now that is, of course, also for us to say very strong quarter we had last year, but we still see an overall slowdown.

And what I would also want to mark there is that we're seeing basically also a more sensitive customer to promotions. So customers are easier switching. I think there's been, on a comparable basis, a higher number of porting in the market. And of course, that also drives a little bit of pressure on ASPU as customers are, of course, hunting for deals.

In our numbers, we still feel and see that, that mainly pertains to the mobile side. So on the fixed side, it's actually been quite stable, both on broadband and TV, both on sales and on churn. So we had very low churn numbers. But on the mobile side, we've seen a bit more market movement.

Now how does that relate to our overall outlook for going into '23? We believe so far the market will still be very sensitive to – and the consumer to pricing. At the same time, we will move to offset some of the cost increases we've been running into our business into the market. And in Q4 and in 2022 full year, you have – you'll recall that we've mainly focused

our portfolio innovations on entertainment, and that also came with quite a bit of price adjustment on the entertainment side, but we've been lowered in doing price adjustments on the core connectivity side in mobile and broadband. But we will, of course, take that into 2022 – 2023 as we move forward now.

Andrew Lee: Thanks. That was really helpful.

Operator: Thank you, Andrew. Now we're going to take our next question. And the next question comes from the line of Maurice Patrick from Barclays. Your line is open. Please ask your question.

Maurice Patrick (Barclays): Good morning, Kjell, indeed, for taking the question. Just from my side on the guidance. You've guided – of course, you reiterated the midterm guidance of medium mid-single-digit EBITDA growth but this year it's low. Could you just spell out what you're assuming in terms of energy hedging, energy pricing? Just so we can get a sense of the headwind that you're assuming for that? I'm sure in your guidance, you've assumed some sort of conservative element given what we saw in 2022, you sort of hinted as much.

And then just on the spectrum side, it's probably hard for you to comment too much ahead of the spectrum auction [inaudible] seem to be signalling. But given it's mostly renewal, maybe you can just give some views in terms of if you're happy with your current spectrum portfolio. You don't have a burning need to acquire a lot more or get rid of a lot less. Any thoughts in terms of your high-level thinking about spectrum, given the Net4Mobility structure, would be helpful. Thank you.

Kjell-Morten Johnsen: So on the guidance, the way we have chosen to go about this is not to talk so much about energy numbers as such because, quite frankly, we don't have any better crystal ball or understanding of energy prices than anyone else. We do have some element of hedging but I'm very glad that we didn't do too much hedging in September, October last year to lock in the high prices that were then.

So the way we see it now, if trends continue like they have done in the beginning of the year and it's very early days, then we don't see energy as a massive impact on our business. Of course, if we end back with the September-October prices again, it will play out. And as you, of course, remember for 2022, it amounted to an extra bill of 1.5 percentage point at EBITDA level.

So we have made sensitivity scenarios for modelling our business for the next year or two with energy. And that is, of course, part of the prudent approach to dividends and other things.

So what I can say to you is that we expect to deliver low single-digit EBITDA growth, irrespective of what happens to energy prices. Of course, if they are benign, like we see in January, it will be a nicer low single-digit number than the case would be if they are at September level, where it be a low single-digit number. But it's not only about energy. There are multiple other things that are coming into.

I made an interview this morning, we talked about the wage discussions for this year, where will they land. And we see the equipment cost for – for example, Stefan selling his routers to our customers because of the Swedish kroner going down and general inflation. So these

things have gone up. And we are basically absorbing all of these things, including energy in 2023, but we are absorbing them to a level that doesn't take us quite to the mid single-digit.

Our ambition is to get back there again in the medium term, and we're going to work very hard to make that happen. So I'm afraid, during this year, we have to live with that. We were not able – we are not able to say in more detail where we will end up because we don't know the energy component. And it's been very, very volatile.

And on spectrum, I think you're right. It's not too easy for me to speak about the spectrum. I'm very happy that we bought good spectrum in the Baltics at what I would call low prices. And that has secured our business for many years ahead. In Sweden, we have a very good spectrum portfolio. And we will just have to go into that auction with our partner with a view to secure the spectrum that we think is the right for developing our business forward. But I think whatever I say beyond that will probably not smart to say.

Maurice Patrick: That's very clear. Thank you, Kjell.

Operator: Thank you. Now we're going to take our next question. And the next question comes from the line of Ondrej Cabejsek from UBS. Your line is open. Please ask your question.

Ondrej Cabejsek (UBS): Hi. Thanks for the presentation. I've got just a follow-up in terms of the B2C outlook in Sweden. So just in terms of the unlimited intake. Is it still the case that you're seeing more than 50% of gross out coming in on the 399 tariffs that you were highlighting last quarter?

And then also in terms of price increases specifically, have you seen 2022 you didn't do anything on the fixed side because of the – on the fixed broadband side, to be specific, because of the TV repricing? So is this something that will be your focus to help in early 2023.

And then a follow-up in terms of the – or just a question rather in terms of free cash flow going into 2023. So CapEx, I think you previously said would be somewhere around the midpoint of the guidance, perhaps even at the low end of the guidance, is actually at the very high end for this year. And in cash terms, it's quite above the high end of the guidance. So I was wondering in terms of cash impact of CapEx and just guidance in general for '23 and '24, do you expect some kind of easing relative to '22?

And then specifically also in terms of the factoring, I think the other two components that you mentioned around inventory, so we should see some almost mechanical unwind. But in terms of the factoring, can you just explain a bit better what you're doing there and the impact that you see specifically from this account and if free cash flow therefore benefits from both CapEx and working capital. Is it rational to expect an extraordinary dividend sometime around maybe 2Q results? Thank you very much.

Kjell-Morten Johnsen: I think I'll start with the things around free cash flow and factoring, and then Hendrik will take D2C.

So CapEx 2022, we said throughout the year that we were kind of hoping to come in the upper end because we really want to build 5G and Remote-PHY. And I'm glad to see that we managed to keep up the pace towards the end so that we came somewhere between the mid and the higher end of the CapEx guidance. That is actually a good thing. That's something that we are happy with.

And in 2023, we expect to be in the upper end of it because this is going to be the year that we're building 5G to most Swedish consumers and businesses. So that's going to be a big push. So B2B in the upper range. And then without guiding on this, I would say that in '24, at some point, we will come to the point on the curve, where the 5G momentum will gradually be taken down.

I don't want to say at what point of time in '24, I think it's too early to say that, but it will be in '24. And then how much Remote-PHY we built is actually something we can, to some extent, throttle. We are very happy that we've been able to triple the speed of it because now it works so much better than it did 18 months ago. So now it's in our hands to choose the speed that we want to have. So '23, we're going to continue building our business and then, of course, we start optimising this.

And in terms of the free cash flow, of course, it's a component of multiple things. First of all, is the residual of revenues going through EBITDA to EBITDA minus CapEx for operating cash flow, which is growing year-over-year also in '22 and that's the ambition to do going forward. So the operating cash flow is growing. That's what we're going to live from in the long term.

Our working capital increased in '22, as you correctly pointed out, that's going to be worked on in '23 gradually to take it down. And that brings us to the factoring that you bring up. We stopped doing factoring for a short period of time while we renegotiated. We took it on our balance sheet. And clearly, those customers, let's say, they bought a handset with a three-year financing from us in November last year. Then throughout '23, '24 and some – at some point in '25, they would have repaid that. So it comes back naturally as they pay month-over-month back to us. So this – all these decisions have been made.

It's just a matter of the time and the repayment, for that one I will come back. And we're talking almost a third of the working capital increase relating to that specific component. So that is, of course, going to be helpful.

I hope I answered all the parts with you because you had many things in there. If not let me know after Hendrik speaks on D2C.

Hendrik De Groot: Thanks, Kjell. Yeah. Ondrej, let me just address your question around the 5G portfolio in context of the mobile performance that we're seeing in the fourth quarter. So on revenues, you see a growth of 1%. And you've also noted in the commentary that we had a one-off SEK10 million correction. This is an underlying netting off premium voice revenues that typically occur in the December period that last year we only netted off in January. So in that sense, the December '21 or Q4 '21 numbers are SEK10 million higher than they normally should be.

And against that, the mobile revenues grew by 1.7% versus 1%. And if you translate that to ASPU, we've seen minus 2% in the presentation, which if you go into the details, the numbers is minus 1.5%. And if you take the netting off out of that, then our ASPU has declined by 0.7% or SEK1.5. And if you then sort of go into that, that is mainly due to movements on the variable side, not on the core subscription side. So there have been a better roaming and better add-on data, but we've had also some offsets on variable revenues on voice and content, some lower MBB and also some allocations to our hardware bottom line that sort of bring in the net debt minus 0.7% on the ASPU.

And in that context, if you look at the 5G portfolio that we've introduced in August, and as we said, we've only introduced it to the market. We have not done any back book pricing yet. So the state of play at the moment is, as I've been also speaking in earlier quarterly results calls is that the portfolio is doing very well that I said that 50%-plus of the intake is on to the higher end of the portfolio, so into the unlimited part of the portfolio, and that is still the case as we speak today throughout the fourth quarter.

What we are seeing, of course, at the same time, is a little bit of an orientation also towards the lower prices and the limited tier. So it is still 50%-plus, but there is a couple of percentage points lower than, for example, it was in the third quarter.

The new portfolio is now sub-20% of our total base. So that's just for you also as an orientation as we move into 2023. And as part of our price adjustments, we will, of course, start to look at the back book pricing and moving customers on to – fully on to the new 5G portfolio. We are also looking at areas around our fixed broadband that we basically have been not pricing up that much in 2022.

A part of that also is that we have seen a lot of the access pricing in the Swedish market to go up quite substantially. So if nothing else, we just need to onward price some of this into the market.

And then Kjell was addressing the factoring side. And as we move into 2023, we do – we will also offset or at least ask customers to contribute to some of the financing costs. So as we move into the next month, we will introduce a handset financing charge on all of our device sales for both of our brands into the market.

Kjell-Morten Johnsen: And I was alerted to the fact that I – sorry, Ondrej please go ahead.

Ondrej Cabejsek: Now, Kjell, yes, exactly I guess follow-up on the free cash flow that you were essentially translating if it improves this year, then potentially translating into an extraordinary about something you're targeting this year. And then maybe a follow-up in terms of the commercial aspect just I think – I guess as many questions but the bottom line would be that do you expect consumer service revenues and mobile in Sweden to therefore kind of improve in terms of the strategy from here on out? Thank you.

Hendrik De Groot: Well, I would say, of course, we are looking at doing the necessary pricing adjustments into the market and introducing the handset financing fee, as I just said. At the same time, we have a very sensitive market. We have still a subdued consumer sentiment. And we do hope and believe that also in terms of that competitively, we will get into a more benign sort of promotional market again. But yes, given that context, we do believe that we can, of course, put some of the growth back into the market on the mobile side.

Kjell Johnsen: And then to answer about the potential for a one-off dividend. I think there are a couple of ways to look at this. If you take pure math and the spreadsheet and the communicated dividend policy, and set a midpoint in it, clearly, there is the capacity in the balance sheet to do an extraordinary dividend if that was all the determining factor.

What we have said consistently over the last quarters is that we want to be a little bit extra prudent going through this period of massive turmoil, keeping our powder a little bit dry. There is also a spectrum auction coming up in Sweden that is going to cost some money. So

we would rather get a couple of things sorted out before we entertain that discussion. But the balance sheet is quite strong, as you can see from our leverage. And we just are being a little bit cautious going through a period of historical turmoil in Europe.

Ondrej Cabejsek: Thank you very much.

Operator: Thank you. Now we're going to take our next question. And the next question is coming over from Stefan Gauffin from DNB. Your line is open. Please ask your question.

Stefan Gauffin (DNB Markets): Yes, a couple of more follow-up questions. So first of all, despite cost savings, Sweden delivers flat EBITDA growth and we're coming towards the end of the SEK1 billion cost saving programme. So can you talk a little bit on how you're going to get Sweden back to EBITDAaL growth if it's more pricing and more cost savings, etc.?

And then just on pricing. Telia just announced back book price increases from both mobile and fixed broadband. And now you talked about also doing back book price increases. Are that – are those planned for already first half in order to get growth back up? Thank you.

Kjell-Morten Johnsen: I will probably invite both Charlotte and Hendrik here. But I think it's clear that the whole world around us now experiences price increases. In some areas, it's dramatic. We're talking about what people pay for – well, interest is a kind of a cost for their loans. We are seeing pricing for food and these kinds of goods going up. Energy prices we've all seen.

So I think it's completely natural that there will be some price increases in this industry, just like in the rest of society. And you can expect that in this business, we will be making some price increases in a way that fits to the market realities, but it shouldn't be a surprise to anyone. It's completely natural at this stage that, that will happen.

Would you like to talk a little bit about Sweden, maybe Charlotte on EBITDAaL development?

Charlotte Hansson: Yes, I can do that. And like you mentioned, we are still working on our SEK1 billion in savings. And so we are still fully committed to that. But then also, as we mentioned here before, that it doesn't mean that we're not going to look at cost going forward. Of course, we will always make sure that we have an efficiency in our business.

And also when we roll out these or come further in our digital transformation, that will also give us a new possibility without necessarily setting a cost-cutting programme. But that is – what we say here is that it's part of our DNA to actually be very cost aware and working on efficiencies all the time.

So I'm not going to really point out any things in particular that they are – we see there are many possibilities, of course, thinking more digitalised as well.

Kjell-Morten Johnsen: I can add a little bit too. You saw last – two years ago, we put together Tele2 and Com Hem to one brand. Last year, we put them together as one IT infrastructure. This year, Tele2, Com Hem and Comviq will be one IT infrastructure. We will still keep the Tele2 brand. We'll still keep the Comviq brand, but they will all be on the same platform by the end of this year, which simplifies our life, makes it easier for us to work with the market and less with fixing the legacy. That is very, very important for us because the industry spends way too much money on physical distribution, on third-party retail and relatively non-targeted advertising.

So that's where the buckets are for savings. We can, of course, also work on our churn. We still have a potential to improve there. So when we are finished with the Business Transformation Programme, we're not going to come with a programme that is – has a specific so-and-so many kroner targets in it. We're going to have a value creation programme.

And then as a consequence of this improvement, savings will come. So you will not hear me saying that X amount of people are going to leave Tele2. That is not what we're going to say. We're going to say – we're going to improve this and this area. We're going to go more digital, and we're going to set KPIs and targets for it, and that's going to deliver the EBITDA going forward. That's sustainable revenues over time.

Hendrik De Groot: And then just on pricing, Stefan. The price adjustments for us are front loaded in the year. And actually, they are already in execution. Of course, they don't go all in one, but they will go, as I said, front-loaded in that sense, both for mobile and our fixed broadband. And just to remind you from the 1st February, so that's tomorrow, we'll be introducing the handset fee into the market as well.

Stefan Gauffin: Okay. Thank you. Very clear.

Operator: Thank you. Now we're going to take our next question. And the next question comes from the line of Andreas Joelsson from Danske Bank. Your line is open. Please ask your question.

Andreas Joelsson (Danske Bank): Yes. Hello, everyone. A question in line with many of the others on the growth drivers for next year. You talked about pricing and you talked about the sentiment in the market. So just curious how you manage your customers so that to prevent them from, as you stated, orient themselves down to the lower end of the portfolio. What tools do you have to make sure that they enter and stay also in the mid to upper end of the portfolio?

And also, if you can talk a little bit about what you see in terms of market behaviour. As you said, Kjell, everyone is interested in increasing prices. But is everyone walking the talk, so to say? Thanks.

Kjell-Morten Johnsen: Your question is a little bit tilted towards B2C, and Hendrik can, of course, answer that very, very well. But it's not only a B2C question. There is also the B2B element. And you can see that the progress we do in B2B is based on close – more intimacy to customers. We understand customers more.

One of our key values is to be insight-driven. And that means taking our customers seriously, listening to them and help them conducting their business in an efficient way. And that actually means a lot because our business, our delivery to our customers in B2B is usually a fraction of the cost components of their value chain. But it's an area that is incredibly important for them to get right. So when you come there with a solution, rather than just trying to push a volume on to them, that becomes a very strong relationship that we can build on and build more business, sell more products. That's super important in that area.

I will speak a little bit to the Baltics, where we have a very strong mobile-centric offering, where the business is thriving, and we are able to execute on a regular basis on compensating for inflationary tendencies. So hats off for a great performance there. And of

course, in the Swedish B2C, which you are alluding to, I will just briefly say that we do see some of those things that you would expect to see in 2010 happening from time to time. And that's the nature of a market with quite a lot of competition.

But we don't think it is the right solution to deliver a 5G product with the same kind of go-to-market as we did in the 3G and 4G world. We have gone to the market with a pricing structure that reflects the fact that 5G is a broadband product. It's not a product that stems out of the voice world with a bundle. It is something where you don't count the gigabytes. You look at the speed and the quality of service, and that's the way it should be. And I think the market will gravitate towards that over time.

But by my taste, there was a little bit too much opportunistic behaviour in the fourth quarter. But okay, I'm biased, of course. Hendrik, would you like to add something?

Hendrik De Groot: No, the fourth quarter and in particular, also this year, we've seen quite extensive promotional periods, and I think that is part and parcel, of course, of the fourth quarter in the Swedish market for sure. We're all trying to offset things in the market and create value in the market, at the same time, of course, there's the – there's also this value and volume trade off constantly happening.

I do believe we all have a shared interest in the market to move into this year and really drive the market and confidently up across – in particular, across our campaigns and promotionally the promotional side.

To your question, Andreas, the – for us, the core of what we're doing in our portfolio is basically, I would say, is value loading. Value loading sits at the core, of course, as Kjell was saying, our new 5G mobile portfolio because to provide the unlimited proposition, right, to a wider part of the market as we have been doing and introducing the speed tiering. We still very strongly believe that that is the way the market will go. And I think I'm very happy to see that all of our competition has also moved in that way, although I think there's still a lot of potential for them to explore the speed tiering to its fullest extent.

And we see that the market wants to move there. We've seen that our portfolio and the tier mix has substantially changed. Even though, as I said just before, there's, of course, a balancing versus affordability at the same time happening.

The value loading is key. And for us also what's also key to retain customers is that all the work we've been doing on the quality side and the innovation side. What I said, what we've done on the entertainment side with Viaplay on broadband with the quality programmes we've been running, we've been hitting all-time lows on churn, both – on both our fixed side of portfolios.

And we are still working quite a bit, but a little bit under the radar on all of the convergence. And convergence to us, that's, I think the landing spot for us, ultimately, that we can build value load in terms of a multiplay portfolio for consumers that they really want to hold on to. We've done a lot of the cross-selling introduction, but as Kjell was saying, we still need to complete our IT transformation to really be introducing full multiplay as part of our proposition set later on this year into the market.

But that will sort of give us some good protection to go along with the price adjustments we're moving forward with.

Andreas Joelsson: Perfect. Thanks a lot.

Operator: Thank you. Now we're going to take our next question. And the next question comes from the line of Nick Lyall from Société Générale.

Nick Lyall (Société Générale): Yeah. Morning, everybody. Hope you're well. It was a couple, please. One on Remote-PHY firstly, Kjell. Could you give us an update, please, on the number of homes that you've upgraded on Remote-PHY so far and how many are to go? And I think also you mentioned in your comments, you were seeing increased access charges. So is it possible to give us an idea of the cost – the incremental cost as you move from the HFC to fibre access network, please?

And then the second one was on – was more sort of Hendrik's consumer stuff, but it sounds like Telia is in the right mass in terms of its wafer coverage and just TV overall. Do you see any opportunities there? I mean, I think you said in the past you didn't really see much of an impact from Telia bringing in new wafer coverage in the first place. But is there anything there you think you can exploit or you're watching out for? Thank you very much.

Kjell Johnsen: Sorry Nick, that last bit on TV. I didn't fully understand that. Sorry, can you just repeat that?

Nick Lyall: No. It was just really to say, I think you'd said in the past Hendrik, that you hadn't really benefit – you hadn't really been impacted a great deal from Telia taking on the wafer rights in the first place. So just to get that – or if you've seen any – or any other opportunities really because it seems like they're in a little bit of flux in terms of what to do with our TV products.

Hendrik De Groot: Kjell, should I just start with that? So on that last bit, as we said before that we have not seen a huge impact in terms of customer losses or whatever. And I do believe with the rights coming up this year for – to the market, let's see where they end up going.

Ultimately, what we see is that as part of the core portfolio, customers are choosing a bouquet of entertainment service that they really just want to keep holding on to. And typically, that's a combination of linear channels and streaming. That's clearly at the core of our proposition. And of course, there are – it's a big segment growing up that is only streaming oriented.

But I think for us, still a big part of the market is what I call this hybrid segment, where people do like linear, they like their linear on any device in combination with streaming movies and series and live sports. And that's, of course, one of the key reasons for us to choose Viaplay, right, because we have a very good combination with live sports that is absolutely a customer attraction factor.

Now – and what do you then have Champions League as an element of that. I think we've – that is not good enough to really draw the crowds at least not as we have seen it so far. And I guess that will be somehow also Telia's own experience, I would guess.

You also asked some questions on Remote-PHY, right? So we have been rolling out Remote-PHY now to over 150,000 households. So we still have a bit to go. This is clearly a part of a programme that is, as Kjell said, part of our core rollout and acceleration also for this year. And what it basically gives us, as we've been saying, it gives us a direct fibre connection to

the basement of the house. And ultimately, it helps us in cost savings, right, from the – on the operational side is we don't have all the active equipment in the network that we typically have on the coax side.

Kjell-Morten Johnsen: A fewer node splits and all those

Hendrik De Groot: Exactly – and of course, it allows us also to move to the higher speeds on a symmetrical level, not to forget. And that's clearly also part of a more-to-more strategy as we move with our broadband portfolio from 100 megabits more to one gig. And we've seen also this year already with the propositions we have in the market and the tier mix is shifting to the higher end of the speed range.

Kjell-Morten Johnsen: And there was also a component of increased access charges, which I don't have from the top of my head.

Nick Lyall: That's great. Okay. Thanks very much, guys.

Operator: Thank you. Now we're going to take our next question. And the next question comes from the line of Peter Nielsen from ABG. Your line is open. Please ask your question.

Peter Nielsen (ABG Sundal Collier): Thanks very much and thank you for elaborating on the free cash flow and the working capital movements. Obviously, for the reasons you've discussed, the free cash flow falls very short – well short of covering the ordinary dividend for '22. The outlook for '23, Kjell, if I understand you correctly, whether you will cover the dividend by the – through the free cash flow will depend to a high degree on your success on reverting the working capital trends and also where we come out on the spectrum. Is that correctly understood?

And then Charlotte, just a quick question. I think you previously discussed your interest rate sensitivity. Could you give us any indication, Charlotte, on what we should assume for interest cost on a full year basis for this year? Thank you very much.

Kjell-Morten Johnsen: So we basically expect to cover the dividend from our operating cash flow. And then, of course – because you see our operating cash flow is increasing year-over-year as our EBITDA grows. We stay within the range and maybe potentially in the medium term can adjust the CapEx maybe downwards a bit, which I'm not guiding at this stage.

But as our EBITDA grows, our operating cash flow grows, it covers our dividend. And then, of course, we can optimise the working capital. And then you correctly point out, of course, that how much the spectrum will cost will, of course, impact the 2023 equity free cash flow number. And that's something we'll know much later this year what that number will be.

Charlotte Hansson: Yes. And then talking about the interest cost, I think we actually alluded to this before that a 1% increase of the interest rates would be approximately SEK100 million, SEK110 million or so. And of course, we don't know exactly what it's going to be at the end of the year, but we have – the majority of our fixed rate somewhere between 60% and 70%. We have a fixed rate on that interest.

Peter Nielsen: So we should come out on a full year basis around where?

Charlotte Hansson: No, I don't have that exact number for you on the interest.

Peter Nielsen: Okay. Okay, thank you.

Operator: Thank you. Now we're going to take our next question. And the next question comes from the line of Titus Krahn from Bank of America. Your line is open. Please ask your question.

Titus Krahn (Bank of America): Hi. Good morning, everyone, and thanks a lot for taking my question. I have just one quick follow-up on the medium-term outlook on CapEx. And I understand that beyond 2023 and potential '24 as well with high investments it's difficult to guide for you. But the question is mainly coming from Telia last week, for example, giving a bit more colour on what to expect in the medium term after the high investments are over? Is there any way to split up maybe 5G CapEx or Remote-PHY CapEx from the current envelope for the next year, just to give us a little bit of an impression of how much is spent on those upgrade compared to the underlying run rate?

Kjell-Morten Johnsen: Yeah. Well, yes, I don't think we want to detail it completely out. But what I can tell you is we all love to play around with single-digit low mid high and all these things when they do guidance. But the Remote-PHY is definitely a single-digit percentage of our CapEx, whereas the 5G is significantly higher. So once we get beyond the peak and our 5G that will start, all other things being equal, to be helpful towards having less pressure on CapEx.

Remote-PHY is something that we, as Hendrik correctly pointed out, we do it both for the customer experience, but also there are cost savings in this. So if we get away from all of these nodes bit and the active equipment there. So there are two sides – two positive sides to that point in a way. So we kind of like to do that.

And then there are other CapEx components in here. Some of it is related to the work we do on fixing our legacy. We already have started optimising that a bit in terms of external consultants. But for the two points that you brought up, Remote-PHY is a much smaller component than the 5G.

Titus Krahn: Okay. Thank you.

Operator: Thank you. Now we're going to take our last question. And the last question comes from the line of Luis Lecaroz from Credit Suisse. Your line is open. Please your question.

Luis Lecaroz (Credit Suisse): Hi. Good morning. I have two questions, please. The first one is a follow-up on Maurice's question on the guidance. Can you please clarify what is the hedging you have as a percentage into 2023 and into 2024 as well, please? And can you let us know what is the assumption that you are building into the guidance for wage increases into 2023?

And then specifically to Swedish EBITDA. You were mentioning that there was some content increases probably related to the Viaplay deal. Can you let us know as a percentage of the EBITDA, what was the drag in Q4, and what are your expectations into 2023 from content drag? Thank you.

Kjell-Morten Johnsen: So I don't think we should give you a number on the wage increase because that will be a little bit tricky since we are also going to have the internal negotiations that will be – but I think you can follow the discussion that happens in Sweden. There has been an offer from employers at 2%, and there has been a demand request from employees

for around 4.4%. And they're going to meet somewhere there within those – that framework for sure. And I think they're going to sort it out, but it's going to take a bit of time.

In terms of hedging, we are – we have hedged quite a lot in Estonia up until the end of first quarter this year. We have limited hedging in the other countries in – in Latvia, we have a couple of hedges that we've done. But they are for just a part of the energy cost.

In Sweden, we've had a policy of rolling hedges. So quite a bit is under hedging now. Charlotte exactly where we are now?

Charlotte Hansson: I would say that approximately 50% of the cost in feed is hedged.

Kjell-Morten Johnsen: Yeah.

Charlotte Hansson: And that's on a rolling basis.

Kjell-Morten Johnsen: Yeah. So we are exposed, but I think also there is a risk of trying to hedge everything, especially on high prices. So right now, we're okay with not going fully into the year, for sure.

Luis Lecaroz: Okay. Thank you. And my follow-up on the hedges. The rolling basis policy is a three-year rolling – is it a one-year rolling basis? Or is it more multiyear?

Charlotte Hansson: It's a three-year rolling basis in Sweden.

Luis Lecaroz: And it's 50% for 2024 as well?

Charlotte Hansson: No, it gradually decreases as we go along. So it's the majority in the first quarter and then gradually decrease.

Kjell-Morten Johnsen: If you look at our profile now, then actually all other things equal, based on where we are now, we would have energy costs start coming down for Sweden a bit in the second half of the year. But lots of caveats. I mean the world can change – all things can change. We've seen that in short term. But where we are now, given the combination of hedging and spots, we will see that this starts easing off a bit in the second half. So either way, it doesn't have a dramatic impact on the business from where we are now.

Luis Lecaroz: Okay. Thank you.

Charlotte Hansson: And then just briefly on your question about the content. And the content costs came in Q3 last year. So you can expect us to be on Q3, Q4 level also beginning of this year. So it's going to be stabilising on the level that we are in Q4.

Kjell-Morten Johnsen: Yes. I guess we can say so that we had a little bit benign content position in the first and second quarter last year while we renegotiated with Viaplay, and that was added back in. So we had a good phase negotiation going with them. So exactly like Charlotte said, what you saw in the third and the fourth quarter will be more of the natural run rate.

Hendrik De Groot: Yes, because that's been fully implemented right into our base.

Kjell-Morten Johnsen: Good.

Luis Lecaroz: Thank you.

Operator: Thank you. There are no further questions. I would now like to hand the conference over to our speaker, Kjell Johnsen, for closing remarks.

Kjell-Morten Johnsen: Yes. And I would like to thank you all for spending this time with us today to go through where we are in our business. I would summarise '22 saying that I'm very satisfied that we have been able to deliver on our guidance in a tough year that started in one way and ended in a completely different way for reasons that we all see with a war in Ukraine.

We are a stable company that is able to grow. I think 3% growth is pretty good in the telecom industry. We're growing consistently our EBITDAaL, and adjusted for energy, we were at close to 5%. We will absorb the costs that are coming our way in 2023, not fully back to the mid-single digits. But our ambition is clearly to move back to that in the medium term.

So I think we are in a quite strong position. '23 will take us through the last stage of the big IT transformation. We have visibility on the end dates, and we're going to deliver on that. So we can be even more focused on the go-to-market in '24 and on our customer base.

So I think we're in a quite good spot. '23 will probably throw curveballs just like '22 did, but we are ready to take them all. So I am ending '22 on a positive note, and we're going to keep on pushing in '23. And thank you for joining.

[END OF TRANSCRIPT]