First Quarter Interim Report 2021

Thursday, 22nd April 2021

First Quarter 2021

Kjell Johnsen

Group CEO, Tele2

Welcome

Operator: Good day and thank you for standing by. Welcome to the Tele2 Q1 Interim Report 2021 conference call. At this time all participants are in listen-only mode. After the speaker's presentation there will be a question and answer session. To ask a question during the session you need to press star one on your telephone. Please be advised that this conference is being recorded. if you require any further assistance please press star zero. I would now like to hand the conference over to your speaker today, Kjell Johnsen. Please go ahead.

Kjell Johnsen: Thank you very much and good morning everyone. Welcome to the Q1 Report call Tele2. With me here in the room I have Mikael Larsson, our CFO and Samuel Skott, our Chief Commercial Officer. Today we'll walk you through the results for the quarter followed by a Q&A session where we can address your questions.

Let me start by saying that over the past 12 months Tele2 has dealt with significant uncertainty in our markets, caused by the pandemic as well as regulatory unpredictability, by defending underlying EBITDAaL. And we've been able to continue distributing cash to our shareholders while maintaining a strong balance sheet. While the pandemic continues to impact our business, the future is more predictable. Meaning that we can now turn our focus back towards achieving growth later in the year and make the investments necessary to prepare the company for the future and achieve our mid-term guidance.

Solid quarter with disciplined focus and delivery

Group

Moving to slide two, the end-user service revenue declined by 1% in the quarter on a Group level, primarily caused by headwinds from the pandemic, including lower international roaming revenue. We continue to see the underlying business perform well and we see that excluding the negative headwinds stemming from the pandemic, end-user service revenue would have been roughly flat year-on-year. Strong performance in the Baltics, execution of the business transformation programme in Sweden and lower commercial spending led to an underlying EBITDAaL growth of 6%, partly helped by easier comparisons compared to last year as bad debt provisions of roughly SEK 35 million were taken in Q1 2020. As previously reported, Tele2 required 100 MHz in the Swedish 3.5 GHz spectrum auction through Net4Mobility during the quarter, which lays the foundation for the nationwide rollout of 5G in Sweden. We are now in full planning and execution mode and we expect the peak of the rollout to be in 2022 and 2023.We now also have more clarity of the business going forward. As a result, the Board intends to call for an Extraordinary General Meeting in June to propose an extraordinary dividend of SEK 3.00 per share to be paid in July 2021. This is yet another sign of the resilience in our business model and the potential trajectory of the company going forward.

Sweden B2C

In Sweden Consumer we see the strength of our value-led strategy as price adjustments on the back of our more-for-more strategy continues to deliver solid end-user service revenue in our mobile post-paid and fixed broadband segments, further asserting our premium position. In the quarter we took the next step by executing front and back book price adjustments on our economy brand. And we will continue to execute on our more-for-more strategy in our premium brand during 2021. However, this was offset by headwinds stemming from the pandemic and continued decline in legacy services, resulting in Sweden Consumer declining this quarter.

Sweden B2B

In Sweden the B2B market remains competitive within all segments and while we saw positive net intake both in the Large and Small segments, end-user service revenue remains under pressure by loss of roaming revenues, continued decline in legacy services and price pressure. We launched new product portfolios, including new price plans in Small in January in order to boost sales. The first indication shows promising results but it's still early days and we will continue monitoring this going forward.

The Baltics

In the Baltics there were nationwide restrictions in society during the quarter which created less activity in the markets and lower international roaming revenues. Despite this, we saw strong momentum during the quarter delivering strong top line growth through ASPU growth and higher equipment sales which filters through to underlying EBITDAaL.

Sweden

Kjell Johnsen

Group CEO, Tele2

Sweden Consumer

So let's move over to the Swedish Consumer segment. During the quarter the Swedish government imposed restrictions to mitigate the spread of the Covid-19 virus which negatively affected the activity in the physical channels, resulting in a negative net intake in mobile post-paid. Mobile post-paid ASPU was roughly flat as roaming took about 1.5 percentage points off the ASPU growth which would otherwise have been positive on the back of the price adjustments made last year. Strong volume growth last year led to a 2% growth in mobile post-paid end-user service revenue. The price adjustments made a – made in economy brand are still too early to impact the financials and we estimate the effect to start in Q2 with the full effect in the second half of 2021.

Fixed broadband which has showed steady growth quarter after quarter, continued to do so with a 5% growth driven by ASPU and net intake. In TV we see continued recovery in end-user service revenue on the back of ASPU improvements from the previously dire situation in Q2 and Q3 last year while live sport events were not broadcast. The business is still impacted by the churn that occurred during these quarters but we see promising signs of stabilisation over the next few quarters as this effect recedes. Total end-user service revenue declined by 2% as growth in mobile post-paid and fixed broadband was offset by the Covid-19 headwinds.

Sweden Business

Let’s continue with Sweden B2B on the next slide. Mobile net intake was positive in the quarter driven by positive development in the Small segment and new contract within the Large segment. The market remains tough with price pressure in addition to the headwinds caused by the pandemic. Overall resulting in a declining mobile ASPU year-on-year. Together with the continued decline in primarily legacy fixed services, end-user service revenue continued to decline in the quarter. We continue our efforts to set the Swedish B2B business on a path to stabilisation. In the Large segment we launched several new products and we continued to see positive uptake in handsets and accessories. In the Small segment we ramped up digital sales capabilities and continued the customer migration to the target IT architecture for both fixed and mobile services. So please turn to slide six for an overview of Sweden.

Sweden overview

End-user service revenue declined in Sweden by 3%, driven by continued price pressure within B2B and headwind related to the Covid19 pandemic. Underlying EBITDAaL increased 4% as headwinds from the pandemic were offset by continued execution of the business transformation programme, temporarily lower commercial spend and bad debt provision of approximately SEK 35 million in Q1 2020. We continue to see strong cash conversion of 66% despite increased capex related to the 5G rollout in Sweden and IT investments related to the business transformation programme.

Baltics

Kjell Johnsen

Group CEO, Tele2

Baltics – Operational highlights

Let’s take a look at the Baltics, slide eight. net intake was positive in the quarte for the Baltics driven by positive trends in Latvia. Despite the lockdown in Lithuania, we saw strong ASPU growth due to continued monetisation of data for our more-for-more strategy. In Estonia and Latvia we continued to see positive ASPU growth despite headwinds from the pandemic, negatively affecting roaming revenue. Please turn to the next slide.

Baltics – Financials

We are happy to see continued strong end-user service revenue growth in the quarter of 8% in the Baltics despite headwinds from the pandemic. Higher end-user service revenue and equipment sales together with bad debt provisions in Q1 2020 led to an underlying EBITDAaL growth of 17% on an organic basis. Strong growth in underlying EBITDAaL together with low capital intensity as we are in between investment cycles, led to an 82% cash conversion. With that, I would like to hand over to Mikael.

Financial Overview

Mikael Larsson

Group CFO, Tele2

Revenue breakdown

Thank you Kjell and good morning everyone. Please turn to page 11 in the presentation. As in previous quarters, we have taken this slide to illustrate each revenue line excluding roaming. Please keep in mind that there are non-roaming-related effects from the pandemic and FX rates affecting the numbers as well. As we are not out of the pandemic yet, outbound roaming revenue dropped by 63% compared to Q1 previous year, equal to SEK 47 million, with the majority of the impact in Sweden B2C and B2B. Within Sweden B2C mobile post-paid and broadband continues to perform well by growing 3% and 5% respectively, driven by both volume growth and price adjustments in previous year. [Inaudible] end-user service revenue in Sweden B2C declined by 1% in the quarter excluding roaming and growth in mobile post-paid and fixed broadband was offset by decline in legacy services and non-roaming-related pandemic headwinds. In Sweden B2B end-user service revenue excluding roaming declined by 4%, driven by continued price pressure in the market and declines in fixed legacy services. In the Baltics we saw continued strong momentum resulting in 10% growth in end-user service revenue excluding roaming, driven by higher ASPU on the back of our more-for-more strategy. For the Group this led to slight end-user service revenue decline of 0.2% in the quarter excluding roaming. Please go on to slide 12 for a walk-through of the Group results.

Group results

Underlying EBITDA increased by 6% organically, driven by continued strong development in the Baltics, execution of the business transformation in Sweden, temporarily lower commercial spend in Sweden prior to the consolidation of our two premium brands, as well as bad debt provisions in made in Q1 last year. Items affecting comparability increased year-on-year and this was primarily driven by restructuring costs related to the business transformation programme in Sweden. The increase in operating profit was mainly explained by growth in underlying EBITDA. Let’s continue by looking at cash flow on slide 13.

Group cash flow

Capex paid increased year-on-year as it includes a SEK 333 million payment for the 100 MHz that Tele2 bought through our joint venture Net4Mobility together with Telenor in the high frequency spectrum auction in January this year. Taxes paid decreased compared to Q1 2020 as it includes repaid preliminary tax in Sweden in this quarter. Despite increased capex levels we continued to deliver strong equity free cash flow in the quarter of SEK 820 million. And over the last 12 months our continuing operations generated SEK 4.3 billion of equity free cash flow or roughly SEK 6.3 per share. Please move to slide 14 for an overview of the capital structure.

Leverage at 2.5x

Leverage decreased due to cash generation in the quarter and we are now in the bottom-end of the target range of 2.5-3.0x, ahead of dividend pay outs. As Kjell mentioned previously, the Board has now proposed an extraordinary dividend of SEK 3.00 per share on top of the already proposed SEK 6.00 per share in ordinary dividend. This results in a proposed total dividend of SEK 9.00 per share to be paid during 2021. Even with this level of shareholder remuneration we are confident that leverage will remain within our target range as we continue to generate cash and grow underlying EBITDAaL in line with our guidance for 2021 and beyond. Let's continue with slide 15 where we'll show an update of the business transformation programme.

Business transformation programme update

We saw roughly SEK 70 million in cost reductions affecting the P&L in this quarter. This includes effects from the reductions already achieved in 2020 as well as continued execution during Q1, mainly within our now merged Technology and IT departments. We reached an annualised run rate of SEK 300 million in the end of Q1 2021, up from SEK 250 million at the end of last year. We remain committed to reach roughly half of the target of at least SEK 1 billion in savings out of our business transformation programme by the end of this year. Although back-end loaded within the year. And with that I will hand over to – hand back to you Kjell for some concluding remarks.

Conclusion

Kjell Johnsen

Group CEO, Tele2

Key priorities going forward

Thank you Mikael. Please turn to slide 17 for our key priorities going forward. With the future being more predictable and a solid plan in place it is now time to execute and invest in growth. In the coming quarters we will execute on the necessary initiatives that will ensure success in the post-pandemic world. This includes investments that are essential for delivering a great service, secure our premium position in the market and support our more-for-more strategy. In Sweden B2C we will consolidate our two premium brands in the second quarter of 2021. This will enable us to take the next step in our brand optimisation journey and unlock the full potential of FMC in the Swedish consumer market. This however is just the first step in a longer journey which involves migrating to an IT architecture that enables both significant cost reduction over time and more commercial flexibility. While Sweden B2B still faces structural headwinds caused by external factors and historical inefficiencies. We see initial indicators of improvement in both the Small and Large segments as a result of our efforts to transform the business. We will continue our efforts to make – to take market share in the Small and Medium segment while defending our position in the Large segment and focus on profitability. In the Baltics we'll build on the current momentum and execute our mobile-centric convergence strategy, while preparing for the nationwide rollout of 5G once the spectrum auctions are concluded. We will also further develop our FMC opportunities by looking at our own and third party infrastructure capabilities.

We will continue to execute on the business transformation programme to deliver at least SEK 1 billion of savings by the end of 2022. One of the key steps in this transformation was the consolidation between Tech and IT which was executed in the beginning of the quarter. This has laid the foundation for a more end-to-end oriented organisation that is essential not only from a capex and opex optimisation perspective but also serving our customer better by having a holistic, harmonised IT and network landscape. While we are planning and executing on the 5G build-out, we will continue to improve our already efficient infrastructure portfolio setup and explore new ways to optimise the value chain. With the strong quarter performance and underlying EBITDAaL growth it is now time to invest in growth in order for us to reach end-user service revenue growth and deliver on our 2021 and mid-term guidance. With that I will hand it over to the operator for Q&A.

Q&A

Operator: Thank you. As a reminder, to ask a question you will need to press star one on your telephone. One question per analyst and to withdraw your question please press the pound or hash key. Please stand by while we compile a Q&A roster. We have question that just came through. Comes from the line of Peter Nielsen from ABG. Please ask your question.

Peter Nielsen (ABG): Thank you very much. Morning gentlemen, excuse me. Just a question Kjell on your comments about making the necessary investments in future growth, which you were referring to. Are you – are you primarily talking about external investments here, i.e. investments in the market, rebranding etc, or are you also referring to internal investments in your own systems which I believe you alluded to? And can I just ask a follow-up? You talk about improved or lower unpredictability in the market. Sweden has of course seen increased restrictions, pandemic restrictions in this quarter. How do you see the market environment of Sweden coming out of this – of the pandemic and the length of the recovery and impact on the overall market environment? That – any comments and colour would be appreciated. Thank you very much.

Kjell Johnsen: Yeah. Well we are clearly investing into the brand consolidation where it's a big, big initiative and actually fundamental to the whole transaction between Tele2 and Com Hem. So that when this comes out to the market it is – it's a special day in the history of this company. And that of course allows us to have a new and improved approach to the premium segment in the Swedish market. So that's something we're investing into. And you know very well that we're investing also into the interface for our TV customers, both as an essential freestanding play product or as an interface option for our Com Hem customer base. So there are – there are numerous initiatives inside the business that we are investing into and some of them of course are then giving us a lower opex like we took you through with the brand X launch when we come a little bit further down the road. So I hope this is what – the kind of things you were wondering about.

When it comes to the market sentiment going forward what I'm trying to do now is to build a bridge between one year ago out of an abundance of caution focusing on profitability. And I think it was the right move. And now seeing that, you know, some countries are coming out of the pandemic. Sweden will not be out of the pandemic in Q2 and probably not fully at least in Q3. But for me I need to mobilise the organisation and the mindset and the thinking towards where we should be in 6-9-12 months and not where we're going to be in three weeks. So I'm starting to signal to you that we are starting to think more in the – with a growth mindset and not only in terms of protecting profitability, which we of course are going to work on as well. But I – the shift will go back to focusing more on getting growth, in particular in the Swedish market. In the Baltics of course we have [inaudible] growth. I answers your question.

Peter Nielsen: That's good. It does, that's perfect. Thank you very much, that's very helpful. Thank you Kjell.

Operator: Your next question is from the line of Nick Lyall from Soc Gen. Please ask your question.

Nick Lyall (Société Générale): Everybody, it was a quick question on FMC please. What do you think of the opportunities there? Could you give us a little bit of an update on what you would be aiming at? And if it's share base how do you avoid creating a B2C price war, for want of a better phrase, in Sweden? Also could you mention on the marketing, Kjell, if possible? How much lower was the marketing this quarter than last year? And again, linked to the FMC stuff and the single brand, should we expect that to rise sharply again next quarter? Thank you.

Kjell Johnsen: I think you should expect that our marketing spend over Q1 and Q2 combined is by and large what you have been used to in the past. So see that as a whole. We're just giving you an indication that it was a bit lower in Q1 and because we will be doing a launch in Q2. So in total those two quarters will not be outside of the – of the ordinary. The FMC opportunity is at the core of why Tele2 and Com Hem became one company. The belief that we can build a strong premium brand and I internally sometimes use the phrase one out of two in '22. And those of you who remember [Inaudible] many, many years ago, we talked about one out of five in '95. I think we have an opportunity together with the incumbent to be two players that have a full suite of infrastructure and opportunities towards the premium segment in Sweden. And we have a really very well-functioning mid-tier operation in Comviq so setting those two in the right positioning is a key element of our value creation journey. And I don't know, maybe somebody want to add something to that?

Samuel Skott (Chief Commercial Officer, Tele2): I think just to add and of course this is something we will come back to along the way but that – I mean, what we've done so far is that focused on, you know, starting to loyalise the overlap across brands. And now we're moving towards the next phase which will be, you know, focusing on building this joint customer experience within one brand. And that will give a complete new and very big opportunity to both cross-sell but also loyalise and become even smarter in our more-for-more strategy.

Kjell Johnsen: So strategically our –

Samuel Skott: [Inaudible] –

Kjell Johnsen: Sorry. Strategically the belief is that there will be two premium players and then there will be one player that has some of these elements but not enough and then there will be one pure mobile-only player. And that within the premium segment we can, like Samuel explained, loyalise a part of the market through an integrated offering.

Nick Lyall: Okay, that's great. Thank you very much both.

Operator: Your next question comes from the line of Maurice Patrick from Barclays. Please ask your question.

Maurice Patrick (Barclays): Yeah, morning guys, thanks for taking the question. Just to kind of come back to your point on growth, I mean, you've made a clear point about wanting to target growth again this year. Your net adds on post-paid were negative in the first quarter. They were negative in the fourth – last quarter as well. And you said at the time there was more of a focus on value over volume. Should we interpret that as when you talk about growth sort of ARPU growth or subs growth? I mean, could there be a shift in terms of how aggressive you are in the channel rather than your sort of statement last couple of quarters around very much focusing on existing base rather than new customers? Thank you.

Kjell Johnsen: Yeah, I would say that we are taking a lot of strategic responsibility in setting this market now. You will see that we have moved out of the – of the no-frills segment very clearly. We are now putting together two of the – of the strongest brands in Sweden into one to build a premium position. When I have spoken about value over volume that has to some extent been related to B2C but it has been even more related to our B2B business. But I think historically Tele2 has been quite volume driven. Now we are value driven. This is what Samuel keeps talking about all the time. So that shift has been underway. But you know, Maurice, when I talk about growth, you know, I don't want to – we can break it down into components, whether that is [inaudible] or it's ASPU, at the end of the day the growth that I want to see is top line growth in our Swedish business. So when I talk about growth it is to return Sweden to some element of positive growth. And as you of course know very, very well, to give an organisation back towards growth takes a bit of time. So by signalling it to everyone now that we're starting to shift in that direction because we see more of an end to Covid and sending a signal about what the priorities will be going forward and then it's going to come back gradually. It's going to be a process. It's going to take a bit of time but we're working on it.

Maurice Patrick: That's very clear, thank you.

Operator: Your next question's from the line of Stefan Gauffin from DNB Bank. Please ask your question.

Stefan Gauffin (DNB): Yes, hello. I would like to focus a little bit on the mobile B2B development. There's still significant ARPU pressure in the quarter and no real shift yet seen on that front. At the same time you've launched new price plans and simplified the price plans. How do you think that that will affect the B2B business going forward? Should we expect a stabilisation near-term in the ARPU pressure?

Kjell Johnsen: Yeah, thank you Stefan. When I speak about B2B I'm trying to be as transparent as I can be. And the reality is of course when you have a downward trend for some time, it takes a little bit of time to turn that momentum around. But what we're doing now is that we have a much more clear strategy and we have a much clearer segment understanding and segment approach. We know where we want to be focused more on volume. We know where we want to be more focused on value. And the message I have to you now is that for us this is becoming much more clear and I think Stefan and others have done a good job at that. And the early indicators from the market in terms of volume in Small and value in Large is that we may have been past the turning point. But I am – I'm not going to sell you a story saying that this is going to happen very quickly but my intention, my objective and Stefan is very, very committed to this, is to move towards stabilisation in this year. And that you can see a tangible difference in the growth rate, negative growth rate that you saw last year coming into this year. So that's where we are. I'm sending a little bit more positive signals now than three months ago. Much more positive signals than six months ago. But I do have a huge amount of respect for that. This is a journey that takes a lot of hard work.

Stefan Gauffin: Okay.

Kjell Johnsen: Did you get an answer for that Stefan or…?

Stefan Gauffin: Yes. If I could just add a quick question on fixed broadband price.

Kjell Johnsen: Yeah.

Stefan Gauffin: Could you state the magnitude of the price increase as compared to last year?

Samuel Skott: Hi Stefan, Samuel here. So it's roughly in line with what we did last year.

Stefan Gauffin: Okay, that's that. Thank you.

Operator: Your next question from the line of Ulrich Rathe from Jefferies. Please ask your question.

Ulrich Rathe (Jefferies): I was wondering how you view your efforts and plans in relation to what Telia is talking about in terms of improving customer experience – the customer experience overall, investing in that and really talking about EBITDA impact on their side as well. How do you view that vis-à-vis your plans? Does it make it harder? Does it in some ways – is this almost, you know, moving in the same direction so therefore sort of helpful for both? Or how do you – how do you see that? And if I could just come back to Nick's question on the commercial spend, it would be very helpful if you could actually quantify what the Q1 effect from the marketing was. I understand it should be flat year-on-year for the first half but obviously you grew faster this quarter than your full-year guidance so it would be helpful to single out how much you had sort of unusually low from the commercial spending in the first quarter. Thank you.

Kjell Johnsen: Yeah, let me go with the first one and then Mikael will do the second one. We've talked a lot about how we're going to do brand X. We are now announcing we're going to do it in Q2 of this year so now you have clarity – more clarity about the timing. And that is of course in the direction that you are describing where we want to work on our customer experience. I want to emphasise that okay we've been working with this for a year but when we do the launch we're going to also develop that proposition in phases. Very defined phases over the next year. Of course it's a journey that never ends but the – we're doing that to simplify not only the customer interface and the relationship between us and the customer base but also our own technical infrastructure. And I find it completely natural. I don't have any detailed knowledge of Telia's plans but I find it completely natural if they work in the same direction. They clearly have the potential to build a premium position in the Swedish market and I think that's actually on balance helpful for us because we will be building that segment together, in a way, as hard competitors. But it will also focus our intention more towards the more-for-more and the premium. And we have made a very, very visible step of going out of the absolute no-frills. How Telia relates to that is of course for them to decide. I don't know. But overall I think it's natural that we are both moving in this direction. And then maybe for the second question, Mikael, [inaudible] want to go all the way?

Mikael Larsson: Yeah, I will not go all the way. I'm sorry for that but we don't – we cannot be that detailed giving out the exact [inaudible] on the one cost line between the quarters. But normally when we talk about when we have a bit higher or a bit lower marketing spend it's – call it a couple of tens of millions in that quarter. And it's of that magnitude for this quarter as well versus what we expect to spend in Q2.

Ulrich Rathe: That's very helpful. Thank you very much for both answers.

Mikael Larsson: Thank you.

Operator: Your next question from the line of Ondrej Cabejsek from UBS. Please ask your question.

Ondrej Cabejsek (UBS): Thanks for the presentation. My question is more of a follow-up [inaudible] relating to the B2C mobile and the sort of past weakness in terms of the net additions. You mentioned a couple of potential reasons for that. [Inaudible] commercial spend [inaudible] segment which I'm sure had some impact on your prepaid as well as some of the price increases that you've done over the past couple of quarters. Can you just maybe dissect a bit and talk a bit more about, you know, the weakness in terms of the net adds for Q1 and then when you expect that to turn around? Thank you.

Kjell Johnsen: Yeah, I can start and I will hand over to Samuel. Clearly the B2C mobile business is impacted by lower traffic to stores and it also impacts the prepaid just as you correctly point out. So some of these things clearly have an impact and will in all fairness have an impact with us in the second quarter as well due to reasons that are outside of our control. Maybe Samuel will want to elaborate a bit but that's basically what is happening.

Samuel Skott: No, I think it – it's – well, it's rather easy. We have some spill-over effect from Q4 of course and then Q1 for us is a quarter impacted by the pandemic, a bit lower spend gearing up for Q2 and brand X launch. And we're in the midst of a – of a pricing cycle. So kind of natural explanations to a bit of a cyclical development in [inaudible].

Ondrej Cabejsek: Thank you and if I may have one short follow-up, please. I mean, you're talking about the – you know, the – [inaudible] the no-frills segment and positioning these brands in line with the price increases to a bit more premium segment. What are some of the early, you know, learnings from that process because clearly that's something that's going to intensify in the second quarter as well? Thank you.

Kjell Johnsen: Yeah, I mean, we're not abandoning big segments of the market. It's very important that we – that we are not misunderstood in that direction. We just think that we have a tool that can handle that. We can – we can use our Comviq brand forcefully in the market to serve pretty much every need we will have there. And I've said before, if there are some customers who will join us for a SEK 40 subscription in some kind of campaign at some point then we probably can live without it. And with the structure of these markets with us it's a relatively big number too and Telia are there. I think it's important that we show that we are not as volume-focused as we were in the past. But it's – it's not like we're going to let significant segments of this market stay out of the reach of our propositions.

Ondrej Cabejsek: Thank you very much.

Operator: Your next question from the line of Andrew Lee from Goldman Sachs. Please ask your question.

Andrew Lee (Goldman Sachs): [Inaudible] clarifications for my question. Just when you – all the conversation about the return to growth at the end of this year and the predictability that you've mentioned throughout the call that supported the extraordinary dividend, are you prepared to go – you know, as you put a couple of ago, to go all the way in terms of also guiding to – or guiding within that, that Swedish end-user service revenues can return to growth within the year. Is that possible? And then the question was really on the Swedish B2B path to stabilisation. You know, I think ex the one-offs from the – 1Q20 there were no major underlying improvements in this quarter. So what are the initial indicators you mentioned that offer signs for hope here? Any colour on that would be helpful, thanks.

Kjell Johnsen: It is simply the fact that we see some improvement in volumes in Small and we do see that we are with our approach where we're not totally volume-focused in Large still able to win contracts that are helpful to us. But I said earlier on I want to be very, very transparent with you. It is a journey that is going to take some time. I'm just telling you that I'm more positive about this now than I was three months ago and much more positive than six months ago. And then I hope that we will be able to show you numbers that take us towards stabilisation throughout this year. That is basically the message.

There was a first question. I'm sorry if I [inaudible] –

Andrew Lee: Yeah, it's just that – yeah, the return to growth maybe is that in end-user service revenue in Sweden as well? Which is obviously what the investors are most focused on.

Kjell Johnsen: So I think you should take my statement as directional. We're not doing anything to our guidance at this point but it's directional. And not only when I'm speaking to you. It will be also directional inside the company because it was absolutely right to focus on EBITDAaL and control and these things when we had this uncertainty one year ago. And now we need gradually to move back to a growth mindset. And growth doesn't come one week after you start investing for it. You see we are investing quite a lot in our – in our platform around Comhem Play/Play Plus and we need it for two specific purposes. We're investing – we will be investing quite a lot into our premium consolidated FMC brand and of course we're investing into the – into the business in general. So but the statement is more directional at this stage.

Andrew Lee: Okay, thank you.

Operator: Your next question from the line of Johanna Ahlqvist from SEB. Please ask your question.

Johanna Ahlqvist (SEB): Yes, thank you. Sorry for repeating some of what has already been asked but I just wanted to understand a bit more on the B2B because in SME obviously you lowered prices and I was – we discussed this I think in the Q4 report as well. Now you are saying – you mentioned some initial signs that you – on volumes. Is it much related to the fact that you have sort of this all-you-can-eat offer for SEK 349 and how have you seen competition respond? I think Telenor has cut prices as well and how do you foresee this playing out? So is it a risk here that you are seeing short-term volumes and then competition will follow suit and you will not have the volume uptick as you see now? That's sort of what I'm getting to. And then if I may another question related – for Mikael. If you can give us any update on the Dutch business and potential exit opportunities. Thank you.

Kjell Johnsen: Your question is well put although I need to clarify and make it a little bit more granular. You say that we cut prices and got more volume. On the face of it, you're right but if you look at the total picture you also have to adjust for the fact that discounts were taken away. So we have actually streamlined the portfolio so that the net adjustment is far smaller than the headline price change. And how will that play out in the market? Well we do know that there is a player that offers a lower price in the market and the litmus test of that is going to be how do volumes develop going forward when we see that there are different players with different propositions in the market. Where we are right now it looks okay. I mean, it's not like it's fantastic and everything is great but it is – it is showing a positive development and I'm happy with that. So I don't want the takeaway to be that we have reduced prices significantly for purely volume reasons. We have actually streamlined and taken away subsidies as well.

Mikael Larsson: And for the – moving to the Netherlands, we can't comment on Q1 since Deutsche Telekom has no released their Q1 results yet. So everything I say relates to Q4 but the operating performance is great in the business. I mean, if you look at this from a – over a longer perspective we have moved from 2.5 years ago we were weak number four player in this market and today we own 25% of the number one mobile operator in the Netherlands. Which are also going into fixed and they offer FMC propositions to the customers now. So we are very happy shareholders of this asset. Then long-term nothing has changed from what we have said in previous quarters. Over time of course we are there to maximise value out of the 25% stake we own in that asset. But no update except for – except for that. So we repeat what we have said in previous quarters.

Johanna Ahlqvist: Yes, so a follow-up there Mikael. So assuming sort of no exit will take place but is it still so that you expect to receive dividends in 2022?

Mikael Larsson: We can't give you any promise or anything because that would be like giving guidance for that – for that company. But over time as long – as soon as the company – leverage in the company will fall under a certain threshold then we are entitled to dividends, yes. And this year we didn't receive it because we – they – because of the spectrum payments. Next year will be – will be different of course.

Johanna Ahlqvist: Exactly. Thank you.

Mikael Larsson: Thank you.

Operator: Next question comes from the line of Steve Malcolm from Redburn. Please ask your question.

Steve Malcolm (Redburn): Good morning, guys, hope you can hear me okay. So I'll go for a couple. Just coming back to the point on marketing expenditure, if I look at your income statement, you know, it – looking at EBITDA that way it seems pretty clear that all the EBITDA growth came from reduced selling expenses in the quarter. If I look at 2020 your selling expenses rose 4%. In Q1 they were down about 9% year-on-year. Could you just help us understand, you know, what drove that? Obviously lower marketing expenditure, I guess what you're saying is that some of the B2B discounts were taken out. Maybe if we back those into the line as well. And also, you know, whether with the Covid benefit there whether you are seeing lower costs because you're unable to open your physical stores and how we should think about that selling expense line through the rest of the year. That'd be really helpful, thanks. And then just a quick one on sort of convergence. I guess there's lots of ways to dice and slice convergence. You clearly have, you know, broadband customers that maybe, you know, whereas the broadband customer isn't taking a Tele2 mobile contract, equally Telia will have broadband customers where you have the mobile contract. You know, when you think about that going forward are you taking specific measures to protect that bit of the mobile base or do you think the overall sort of single brand premium strategy will be enough to preserve your market share where Telia is maybe underinvesting on mobile? Thanks.

Mikael Larsson: If I start now. If you're comparing two lines in the – in the – or one line two periods in the – in the Group consolidated income statement, I assume that is what you're doing, sometimes you have a lot of other movements in there as well.

Steve Malcolm: Yes.

Mikael Larsson: You have – as an example, last year you have the bad debt provision on that line, the SEK 35 million for the Group, SEK 25 million for Sweden, SEK 10 million Baltics. So that is one component. And then of course you –

Steve Malcolm: Was that the selling expenses or admin expenses? That goes into selling, does it?

Mikael Larsson: Selling.

Steve Malcolm: Okay, thank you.

Mikael Larsson: And the admin the decrease is more explained out of the business transformation programme. The reduction in admin expenses. But then of course, yeah, some of it can be attributed to selling as well. Some of the savings we are doing there.

Steve Malcolm: Okay, so we should expect that selling expense line to bounce back as the bad debt annualises and you spend more on marketing through the rest of the year, yeah?

Mikael Larsson: Yes. And selling is of course a very much volume – if we taken in more volume then you will see that line go up as well. Some of it comes immediately in the quarter, some of it is accrued over the – over 12-24 months under IFRS.

Kjell Johnsen: Okay.

Steve Malcolm: Okay, great.

Kjell Johnsen: And the other question I hope I understood it correctly. I'll at least start based on my understanding. The first stage that we have undertaken is to combine the direct overlaps between Tele2 and Com Hem. And that is broadly done. So the next step now is of course to take the customer bases that are not directly overlapped and that's of course a bigger chunk of people. So we're going to go after those segments now when we are launching the brand X. And the functionality had to be developed for that so that we can go and offer this to one of our broadband customers as an option. We had to spend some time preparing that kind of functionality. Now we are starting to roll it out quite soon when we go with the launch.

Steve Malcolm: I guess the question is more I think intuitively it's easier to see you upselling mobile into the fixed base but clearly Telia is going to do the same thing. I mean, places where you have Tele2 and Comviq mobile customers that they may be on a Telia broadband subscription. So are there measures that you can take to – there's threats and opportunities and that's a threat. To try and preserve that market – that mobile market share where, you know, Telia makes the opportunity. Or do you think you can do enough with the overall single brand strategy, you know, to preserve your market share in those areas where you may be more vulnerable?

Kjell Johnsen: Well clearly, I mean, we both have the opportunity. That's what I was saying initially. That we are the two players that have this opportunity in full and we will both be pursuing broadly similar strategies. So it's – it's a bit about having time to market. It's a bit about having the proposition ready. And then of course it's down to the – to the – to the game who can – who can get there first. Samuel?

Samuel Skott: No, but I think just to add and remind that, yes, this is what we're going to do but we have a more-for-more approach to it. We're not going to chase penetration with huge discounts. That's not the name of our game. The name of our game is to provide value and more-for-more benefits to our customers and thereby grow the FMC base. So I mean, we're chasing value and customer benefits, not penetration and discounts.

Steve Malcolm: Okay, great. Can I ask one quick follow-up on Com Hem Play Plus? Just what you're seeing from customers that are moving into the non-discounted phase of that, you know, having to start paying. Are you seeing any material churn there or are you seeing customers staying with it and paying the SEK 69 per month?

Samuel Skott: I mean, of course we have customers dropping off after this free period. That's natural for any kind of digital business. But the stay rate as we call it is more or less spot on what we – what we predicted. So, so far so good. But as we keep on saying, this is – this is a learning experience for us. It's an investment and it's still early days of customers rolling into kind of a paying – a paying product. But so far our predictions are holding up.

Steve Malcolm: Okay, great, thank you.

Operator: Next questions are from the line of Terence Tsui from Morgan Stanley. Please ask your question.

Terence Tsui (Morgan Stanley): Thanks very much, good morning everyone. I just wondered if you can say a few more words around infrastructure? You kind of alluded it – to it in the closing remarks. Just have you got any fresh thoughts around the viability of separating some of your infrastructure assets. Do you think that will be value accretive in the longer-term in your view?

Kjell Johnsen: It will clearly be possible to do a separation if we – if we choose to do so. Now we are in the middle of the process of detailing out the shutdown of SUNAB and of course when 3G started closing down, when we get clarity on which towers would be with us and these things. And the same also with our partners, Telenor. There are – there are things we can be talking about and the opportunity does exist. I just emphasise, like I always do, that if we do this it's because it's going to make sense not only in 2022 but also in five years from now. So you can see that with our balance sheet we are able to run our business and pay a healthy dividend. But we're definitely spending time on this issue, we are.

Terence Tsui: Okay, do you think it will be an initiative that you'll explore in more detail at the Capital Markets Day?

Kjell Johnsen: Let's see where we are at that point of time. I would – I would love to share details with you if we feel that that's the right moment.

Terence Tsui: Okay. Thank you.

Operator: Your next question comes from the line of Fredrik Lithell from Danske Bank. Please ask your question.

Fredrik Lithell (Danske Bank): Hello everybody. Thanks for taking my question. I just wanted to come back a little bit on the cost side and the transformation programme that you are running in a good way. We have the figures and everything but could you sort of put some colour on it where you are right now, the experience having sort of been in the transformation programme for more than a year now and what you see sort of happening in the next few quarters. Just to get a feel on what you're actually doing underneath all the figures. Thank you.

Mikael Larsson: Good morning. I can [inaudible] and Kjell and Samuel can fill in. I mean, what we are doing behind the scenes is of course very – it's very focused around I would say both Tech and IT. In Tech we are combining the network, the core networks of Tele2, the former TDC business and Com Hem business. That's one big project. Another one is to build the future IT stack for – within – for B2C. And that's being built now. We are in the end stage of phase 1 of that project. And then the – that phase will end the day we will launch the one common premium brand. But we will not be completely done by that time. Then we will see continued development into this IT stack and we'll also have customer migrations in the end of this year and next year. And that's why we have said all the time that the positive effects out of this transformation will – it's back-end loaded over the three years as we'll not see the positive effects in the P&L until we decommission the infrastructure we will not use for the future. So that will come in 2022. But from a customer experience perspective, sales/marketing perspective the positive effects will come later this year. Or rather you will start to see them later this year, as Kjell amplified earlier today.

Kjell Johnsen: I think it goes to – it shows how important the move we are doing with brand X that we've spoken about. And we are now telling you that this is going to happen. Last time I said it's going to happen this year and it's not going to be a December[?] exercise. Now I'm telling you it's going to happen in Q2. So you're getting predictability on timing and then of course the cost effects are in a way secondary effects to the market propositions that we're building.

Fredrik Lithell: Alright, thank you. Thank you very much.

Mikael Larsson: Thank you.

Operator: Your next questions are from the line of Siyi He from Citi. Please ask your question.

Siyi He (Citi): Thank you very much for taking my questions. I have a couple, please. And I think last year I think it was in Q2 we talked about temporary savings on operations because of the pandemic. And some of your peers are now citing out of bundle revenues – higher out of bundle revenues in Q2 of high usage at the start of pandemic. So I wonder if you can help us to think about the potential tailwinds that you had last year. How is that going to impact this year's EBITDA evolution? And a second question, a quick one. You talk about the growth and IT modernisation and if you think about the growth profile you have in mind and the budget to deliver on that, how does this compare to the budget that you inherited when you first joined? Thank you very much.

Mikael Larsson: Good morning, I can talk with number one. Of course the temporary savings we did in Q2 last year, I mean, that will result in tougher comparables when we come to Q2 – end of Q2 this year. So it's something you have to – it's embedded in our financial guidance for the full year 2021 of course. But that is something you will see in Q2. Not massive but there is one effector, yes. I hope that answers your question, your first question.

Kjell Johnsen: Yeah, the other one, I mean, the budget I inherited finished on 1st January so but having done this in several companies now, you know, you always get surprises and it's a question of how you deal with surprises and set the tonality. So we have our mid-term guidance view which we have delivered. We have given you a guidance for this year and in the day-to-day operations that means that sometimes you have to reallocate and you have to chase maybe sometimes costs a little bit harder to even – to get to those targets. And we are – we are making a push for sort of back office expenses. [Inaudible], we're looking at that so that we can afford to invest into the business. And I'm quite positive that we can do that. And if we are to invest into the business there is only one bag of money and that money needs to cover everything. And the place where we can – that – where I would like to put harder scrutiny is to see what we can do in terms of the non-market-facing expenses. I don't want to cut our – do short-term cuts on marketing spend. I don't want to – definitely don't cut our capex lower than it should be. So I think we're pretty well know what we have to do. It's – it's relatively clear to us.

Siyi He: That's very clear. Thank you very much.

Operator: Your last question's on the line of Adam Fox-Rumley from HSBC. Please ask your question.

Adam Fox-Rumley (HSBC): Thanks very much. You've mentioned in your prepared comments that you launched some new products to Large corporate customers in the quarter. I wondered if you could give us a bit more detail there and whether you're satisfied that your current product portfolio stacks up sufficiently well against the incumbent. Thanks.

Samuel Skott: Well, it's not only against the incumbent. The broadband market is not only a game between us, Telia and Telenor. They are other players in this market. So it's not necessarily so that what we do is always a reaction to or a – or a plan to overtake them. I'd like to say that first. And I'm not prepared to go too much into detail on the specific product. It's just product updates that Stefan brings into his new position. You can see he's – what I find really cool about Stefan is that first of all he's putting together a strategy. He's very clear about his segmentation strategy. And then he also finds time to go out and make sure that we can get our food delivered from different shops in Stockholm to begin with, with 5G technology with an Italian-developed robot that drives around on the streets. The guy brings creativity into it and I think it's – it's nice because B2B has often been seen as, you know, a very, you know, conservative business that has looked the same all the time. It's all about volume and price. What we're doing in terms of now starting to raise 5G and what we're doing in IoT is also a part of that equation of updating our product portfolio and our thinking.

Adam Fox-Rumley: Okay. If I could just – if I could just have a very quick follow-up, I think I asked last quarter whether or not you changed your sales incentives for your business division. I think you said that it was in process of happening. Has that now been finalised?

Samuel Skott: Yeah, the incentive structure in B2B has definitely changed and we are moving away from something that was very much volume-focused to a much more granular approach. And I think it's an absolute necessity to get the mindset changed and to focus on value in those segments where we really should focus on value. And then to steer people towards volume where we want to steer towards volume. But we need to granular segment by segment and it is – this has happened. It was absolutely essential.

Adam Fox-Rumley: Got it. Thank you very much.

Kjell Johnsen: Okay, I think that took us to the end. So…

Mikael Larsson: Do we have more questions?

Kjell Johnsen: I think we have come to the end. I'd like to thank you for taking the time to share this hour with us and thank you for lots of good questions. I'm very happy to see that despite, you know, lots of challenges that we're all facing in our everyday life and that we face as businesses, we are able to continue delivering a – what I would call a good growth story in terms of our profitability. I'm very happy that we've been able to pay a dividend to our shareholders which I think they will appreciate. I have told you that I'm more optimistic around our B2B than I was before. Lots of hard work to do but I think we're – we are doing the right things and I start seeing some indicators of it. And I'm really excited about the fact that we're going to launch finally the brand X where we position ourselves as a premium player in the Swedish market and it enables us to delivery on simplifying IT infrastructure and taking out the significant amount of costs throughout 2022. So I think we're well underway. We have lots of work to do but I think we know what to do and that's the most important thing. Thank you very much for joining us.

Operator: This concludes today's conference call. Thank you for participating. You may now disconnect.

[END OF TRANSCRIPT]