Tele2 Q3 Interim Report 2021

Tuesday, 19th October 2021

Introduction

Kjell Johnsen

President & Group CEO, Tele2

Welcome

Thank you very much, and good morning everyone. Welcome to the Q3 Report Call for Tele2. With me in the room here today I have our Interim CFO, Peter Landgren; our Chief Commercial Officer, Hendrik de Groot; and our Head of B2B, Stefan Trampus.

Strong quarter with solid EUSR growth

I am glad to present to you today a second consecutive quarter of growth with good results across all segments. Sweden B2B, in particular, turned to growth for the first time in several years, while we saw a commercial momentum picking up in Sweden B2C.

During the quarter, we also finalised the consolidation of our international footprint through the divestment of T-Mobile Netherlands. While I am impressed by the development and efforts of the management and employees in the Netherlands, we clearly stated during the Capital Markets Day that our mid-term strategic ambition is to be the leading operator in the Nordics and the Baltics. Thus, our focus will be on this specific region.

As we will now go through this quarter's numbers, I am even more confident about reaching the ambitions that we set out earlier this year. The Group end-user service revenue showed growth of 2% in the quarter on the back of strong performance in the Baltics, growth in both Sweden B2C and B2B and a slight tailwind from roaming.

Underlying EBITDA grew by 5% for the Group in the quarter, driven by end-user service revenue growth and continued execution of the business transformation programme in Sweden. As I mentioned earlier, we closed the T-Mobile Netherlands sale in the quarter, marking an important milestone for the company. The Board intends to propose an extraordinary dividend of at least SEK11 per share pending receival of cash proceeds. This gives further proof of our mid-term ambition of having the best industry shareholder return.

During the quarter, we paid out an extraordinary dividend of SEK3 per share to our shareholders. Together with the second tranche of the ordinary dividend of SEK3 per share paid out in October, Tele2 will have distributed SEK9 per share this year to shareholders. This is yet another proof of our mid-term ambition.

In Sweden B2C, we see that our value-added strategy through price adjustments on the back of product improvements are continuing to bear fruits, while net intake in mobile postpaid turned positive. After a successful 5G launch last year on the premium Tele2 brand, we now launched 5G on Comviq to further assert our strong position in the mid-tier segment. This gives us an enhanced product offering prior to a quarter with seasonally higher activity for handsets.

I am very proud to say that Sweden B2B saw growth in the quarter. We are in the middle of a major turnaround within B2B, as Stefan and his team is doing an amazing job to fulfil the ambitions that we presented to you on the Capital Markets Day. Our more granular approach with clearly defined segments and a developed understanding of how to balance value and volume has led to a major improvement in performance.

Our operations in the Baltics are clearly performing very well, both in terms of end-user service revenue and underlying EBITDA growth. We see that our more-for-more strategy is very much working as we monetise the increased demand for data by our customers. But let us move over to the Swedish consumer segment on slide four.

Sweden Consumer

With previous modest market activity, commercial activity started to pick up in the quarter, and we saw positive net intake for mobile postpaids. With price adjustments made previously during the year having full effect in the quarter and a slight tailwind from roaming, we were able to grow mobile postpaid ASPU by 3%. As a result, we saw mobile postpaid end-user service revenue of 2%, for growth in net of 2%.

Fixed broadband continues to show steady growth, both in terms of volume and ASPU, leading to a solid end-user service revenue growth in the quarter of 4%. In the cable and fibre segment within Digital TV, we see continued group strong ASPU development on the back of pandemic unwind as we now had a full quarter of premium sports. Combined with a growing contribution from Comhem Play+, this fully offsets the slight decline of RGUs and we were able to grow end-user service revenue by 1%.

With a strong ASPU development in our core services and pandemic recovery, we were able to grow total end-user service revenues in Sweden B2C by 1%.

Let us continue with Sweden B2B on the next slide.

Sweden Business

Mobile net intake was positive with 17,000 revenue generating units in the quarter, driven by positive net intake in all three segments. Mobile ASPU declined by 4%. While still declining, this is a clear improvement in a trend as we see SME intake contributing to a better mix and focus on profitability and large public and private starting to have an effect. We also see a slight tailwind from roaming in the quarter.

With increasing mobile volumes, continued growth within IoT and solution sales, we were able to offset the decline in the legacy fixed services, and total end-user service revenue grew by 1%. And now let us move to an overview of Sweden on slide six.

Sweden overview

End-user service revenue grew by 1% in Sweden, as both B2C and B2B segments saw growth. Underlying EBITDAAL increased by 4% through end-user service revenue, wholesale revenue growth and structural cost savings related to the business transformation programme. Cash conversion continues to be high in the quarter at 65% as we keep growing underlying EBITDAAL and the full run rate of 5G rollout has not yet been reached. Then let us look at the Baltics on slide eight.

Baltics – Operational highlights

Our operations in the Baltics are performing well, both in terms of absolute numbers and in relation to our competitors. Net intake was strong in the quarter for the Baltics, driven by mobile postpaid growth in Lithuania and Latvia. We saw ASPU growth of similar levels as in Q2 as we continue to monetise increased data consumption through our more-for-more strategy and are held by a slight tailwind from roaming. Let us move to the next slide.

Baltics – Financials

We see continued strong end-user service revenue of 12% in the quarter with growth across all markets, driven by ASPU and volume growth. Higher end-user service revenue led to an underlying EBITDA growth of 6% on an organic basis. Cash conversion saw a slight decline compared to previous quarters as continued underlying EBITDAAL growth was offset by slightly higher CapEx, as we now have started to modernise our core networks to prepare for 5G.

So after this little overview, I would like to hand over to Peter to go through the financial overview.

Financial Overview

Peter Landgren

Interim EVP and 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 included the slides to illustrate the topline development with the roaming impact on a separate line. Please keep in mind that the organic growth rates on this slide are adjusted for currency movements.

With restrictions now starting to ease up, we now see a gradual roaming recovery. And as a result, outbound roaming provided tailwind of SEK29 million in the quarter. However, even if we stick out the roaming effect we see down the line business improving and we were able to grow end-user service revenue by 1.9% ex-roaming.

In Sweden B2C, mobile postpaid grew by 1% fixed roaming and fixed broadband by 4%, driven by price adjustments and also volume growth in fixed broadband. Within TV, we are helped by somewhat easier comps as sports broadcasts were shutdown, part of Q3 last year, and now we also see Comhem Play+ starting to contribute to the top line but this did not fully compensated the continued decline in the legacy DTT business resulting in TV end-user service revenue declined by 2%.

And to summarise, Sweden B2C end-user service revenue was quite flat, excluding roaming, as growth in the core services was offset by the legacy decline.

And as Kjell mentioned, we now see Sweden B2B going for the first time in several years as the business shows good progress. Growth in mobile and solutions was fully compensating the decline in legacy fixed services.

Our Baltics trends continue to deliver fantastic growth. End-user service revenue was up by 11%, excluding roaming, with new customers added, price adjustments and upselling, all enabled by our more-for-more strategy.

So to conclude, this marks the second consecutive quarter of end-user service revenue for the Group end-user service revenue growth. So please turn to slide 12 for the Group results.

Group results

The end-user service revenue growth, along with the continued execution on the business transformation programme, were the main factors behind the mid-single-digit growth in underlying EBITDA. Items affecting comparability of minus SEK75 million were mainly related to restructuring costs attached to the business transformation programme. And please note that last year's figure included a positive one-off of around SEK110 million.

D&A increased compared to last year, as we continue to amortise the book value of the Comhem brand following the merger with the Tele2 brand in the second quarter. And finally, results from associated companies and JVs improved, largely related to our 25% stake in T-Mobile Netherlands. So let us have a look at the cash flow on slide 13.

Group cash flow

We continue to see strong cash generation, with equity free cash flow of SEK1.9 billion in the quarter. Compared to last year, it improved by some SEK200 million with underlying EBITDA growth as the key driver. We also had a positive change to working capital, where external handset financing in the Baltics contributed.

Net financial items paid also improved as we benefit from lower interest rates compared to last year. And finally, looking at the last 12 months, equity free cash flow of SEK4.9 billion has been generated, which is equivalent to some SEK7 per share. So please move to slide 14 for an overview of the capital structure.

Leverage at 2.5x

In the third quarter, the extraordinary dividend of SEK3 per share was paid. Leverage or economic net debt to underlying EBITDAAL still stayed in the lower end of our 2.5 to 3 target range as a result of the strong cash generation and the underlying EBITDAAL growth in the quarter.

In October, the second tranche of the ordinary dividend was also paid. And if we adjust for this, leverage would have been at around 2.7 at the end of Q3. And worth repeating, we have now paid SEK9 per share in total dividends to our shareholders in 2021, and as already communicated, the Board intends to propose another extraordinary dividend of at least SEK11 per share once the divestment of T-Mobile Netherlands is finalised. So let us continue with slide 15 and the progress on the business transformation programme.

Business transformation programme update

So we continue to execute on the programme and we reached annualised run rate savings of SEK425 million at the end of Q3. And this resulted in SEK90 million of cost reductions affecting the P&L in the quarter. And the efficiency improvements added during this quarter came from the technology, IT and commercial organisations. And we remain committed to the saving targets of at least SEK1 billion.

And with that, I would like to hand back to Kjell to cover our key priorities going forward.

Conclusion

Kjell Johnsen

President & Group CEO, Tele2

Key priorities going forward

Thank you very much, Peter. So that allows you, all please to turn to slide 17 for our key priorities going forward. Like I said, I am very proud of the team's efforts when I see the results that we are able to present to you today. And we show that we can grow both on the top and bottom line.

As we gradually move to a post pandemic society, we will continue to make investments necessary to assert our premium position in the market. On the fixed side, this means improving our fixed footprint by building fibre closer to property through Remote-PHY, which is already showing promising signs from our pilot areas.

In the mobile infrastructure, we are now finishing the final test for our 5G network in Sweden and we aim to ramp up the rollout in order to achieve nationwide coverage. The execution of the business transformation programme is progressing well and we are on track to deliver an annualised run rate of SEK500 million at the end of this year and at least SEK1 billion at the end of 2022.

In Sweden B2C, we gear up our capabilities to address the SEK1.3 million non-FMC households, while continuing to build a premium brand with increasing customer satisfaction and we can monetise through reduced churn or price adjustments on the back of product improvements.

In the mid-tier market, we will continue the success story, that is Comviq. An introduction of 5G is a major step in this as we enter the quarter with seasonally higher activity. In Sweden B2B, we'll continue to turnaround that we've started with a new granular approach with clearly defined segments and a developed understanding of how to balance volume and value. This includes improved volumes in the SME segment while focusing on profitability in public and large segments.

In the Baltics, we will continue to build on the momentum and execute our mobile-centric convergence strategy through more-for-more offers, while ensuring that the growth we have seen will be sustainable. We have taken a major step in preparation of 5G by modernising our core network and launched a fibre pilot project in Lithuania to trial a CapEx-light approach in order to provide fixed services to our customers.

With yet another strong quarter behind us and restrictions starting to ease up, we can see that our hard work is starting to yield results. I am excited to continue this journey together with my colleagues at the office and am confident that we can and will achieve the ambitions that we have communicated and reach sustainable long-term growth.

So with that, operator, I hand it over to you for Q&A.

Q&A

Andrew Lee (Goldman Sachs): You had flat service revenue growth in Swedish consumer, ex-roaming. And your Swedish consumer intake turned positive in the quarter and postpaid net adds turned positive as well, but no way near where you were a year ago. So the question is just what does the run rate look like as you exited Q3 and so how much of an acceleration should we anticipate? How much is Sweden consumer running on all cylinders and how much is in terms of acceleration to come?

Kjell Johnsen: Well, let me start and probably Hendrik will fill in a bit. First of all, I think you see that throughout the year we have done a good value versus volume mix with the moves we did with Comviq in the earlier part of the year, which was kind of unprecedented to the market. And now you see that we are also looking into the volume side, where in Q3 we see positive volumes coming in.

So I think we are finding a good balance on that. It seems like we can keep two thoughts in our mind at the same time. Hendrik, do you want to add something?

Hendrik de Groot: Sure. Thanks, Kjell, and hi, Andrew. I think if you look at the trending, you do see that we are stabilising and moving back to positive terrain on the consumer side. I think for the fourth quarter, typically this is quite an active quarter in the business and we do believe that we can work on that basis and continue the trending. That will, of course, go hand-in-hand also with a little bit further investment, right, into the quarter as we see also post-pandemic recovery.

I do want to point out that we are not fully out of the woods, let us say, and that we are still on a recovery path. So I think you would need to take that into balance. But I do believe we can continue and strengthen our play on the consumer side.

Andrew Lee: Can I just check if I understood what you are saying. So when you say you are not fully out of the woods on recovery path, and when you say continue the trending, what exactly do you mean? Did you see accelerating run rate through the quarter and into Q4? Or is the Q3 overall that you posted today an indication of the run rate that you are delivering at as you exited Q3?

Hendrik de Groot: I think we have an underlying run rate that we are establishing throughout the third quarter. The fourth quarter typically is quite a busy season that we do believe we can pick up on. And I think that is how you would need to look at it.

Kjell Johnsen: And I would like to say, since I have the benefit of being here last year also before Hendrik came, that we have a much stronger go-to-market position in the fourth quarter of this year than we had last year. We can see in Q3 that that has played out quite well compared to where we were last year.

At the same time, Andrew, to say just a final comment. What I mean with the post-pandemic is that we do see that traffic to, for example, retail and stores that is not at the level yet of pre-pandemic, okay? So that is the sort of balance I am just putting on the table.

Ondrej Cabejsek (UBS): I had a question, since its commercial costs, if I am not mistaken, if I am looking numbers correctly, then just looking quarter by quarter this year, it seems to me that about 75% of the costs that you did not decide to you tried in the first half came back in the third quarter. But as we know, there were still a lot of restrictions in Sweden until the end of September. So could you maybe explain how you have been doing things differently in terms of interacting with your growth as you mentioned stores were a bit emptier, at the same time you have got fewer stores than you had pre-pandemic? So just develop a bit on that. And then, any outlook in terms of directions of the commercial costs relative to 4Q as well we head into that busy period that you just mentioned, would be helpful.

Kjell Johnsen: Well, I think you will recall, we talked about this a bit in July also how the first and second quarters saw a relatively calm market and that we expected fully that the third and the fourth would be much more active, which is a normal seasonality, of course, around the iPhone launch, the Black Week and leading up to Christmas. So clearly, we said we would, we are investing a bit into that market activity and that is reflected in the commercial costs.

Peter Landgren: Yeah, I can just add. If you look at between the year-on-year, we see quite flat development between last year and this year. And as Kjell says, we expect it will be intense by next quarter. Sorry, the quarter that is in Q4.

Ondrej Cabejsek: And in terms of year-over-year dynamics, should we expect 4Q year-over-year to be more intense than last year because you mentioned first half you did save some money in this regard. So would you be reinvesting that, or would you expect more of a kind of flattish year-over-year situation in the second half, say, fourth quarter, of course?

Kjell Johnsen: We will have more activity definitely in the fourth quarter than you saw in the first two quarters. And my message is that the offerings out there now are like very competitive. So we are getting a return from investing that money. Hendrik?

Hendrik de Groot: Yeah. Ondrej, well, maybe to add to what was already said. So yes, it will be a more busy quarter. Your question, of course, is what is it from a year-on-year point of view. I do believe we are in a different situation than we were last year also on the pandemic. That said, on the marketing side, we have also been able, of course, to generate some efficiencies through the business transformation and the rebrand.

So I think whilst we are investing more in marketing side, on the one hand, we also have some efficiencies coming in, and I would say the sales cost will be slightly up also versus Q4. But how that in total will look? I think we are sort of pretty balanced play, given of course some of the marketing efficiencies that we are pointing out.

Kjell Johnsen: But we are happy about this. Gives us the momentum into next year.

Hendrik de Groot: Yeah.

Maurice Patrick (Barclays): If I could ask a slightly bigger picture question around CapEx. You indicated this quarter, you were focusing a lot on higher 5G spend and you seem to indicate much of that was around the core network. I was just curious to understand a bit around how far you are in the process of rolling out the 5G network in a number of new sites that you are rolling out with us mainly upgrading existing kits and just where you think will be by the end of next year in terms of Sweden coverage? And just linked to it, you talked about Remote-PHY investments. Should we understand that is more likely in 2022-2023 activity rather than this year?

Kjell Johnsen: Okay. So the position of 5G depends a bit on whether we are talking Baltics or Sweden. In the Baltics, we are clearly still doing the prep work with the core since we are still going to do the spectrum auctions. But we are quite far down the line of clarifying the round picture for the Baltics.

In Sweden, the testing and all the stuff is done. Orders have been placed. And roll out plans are put together. So you will see a lot of roll outs going on over the next three years and we are going to cover the majority or most of the population of Sweden at the end of 2023. And of course, there could be some disruptions – you heard Telia[?] talking about it today – but by and large the momentum is there. So we are going to do that.

Remote-PHY is, of course, in order of magnitude much, much smaller in terms of CapEx. So yes, we are going to continue doing that in 2022 and 2023. We have done quite a few installations this year as well. But we would think that we could potentially double the volume in 2022, even though we have not finally concluded the exact numbers of that order of magnitude, that is quite possible. But again, from a CapEx point of view that is not moving the needle in any major way.

Stefan Gauffin (DNB): I have a question on the wholesale revenue in Sweden because that was the main relation compared to my numbers. What is driving a 17% increase year-over-year in the wholesale revenue line? I mean, the business seems fairly lumpy. Why is that he case?

Kjell Johnsen: Well, clearly our – part of the delegated key businesses here in the Sweden, that is one major element, and of course we see some of this roaming effect. But please, Peter?

Peter Landgren: Yeah, I can come in [inaudible] and then roaming is recovering. People are coming to Sweden and that helps us a lot.

Terence Tsui (Morgan Stanley): So just picking up on the theme again of investments and CapEx. I just wondered if you can just say a few words around supply chain? Obviously, you have got the big rollout of 5G. What is Tele2 accessed to things like labour, equipment and chips? And then the second part of this is just maybe you can elaborate a bit more on your plans for Remote-PHY? Why have you chosen to go down Remote-PHY? Why not full fibre, which is what several cable companies are doing? And maybe just give us an indication of some of the build out costs for Remote-PHY, would be great, please.

Kjell Johnsen: So the 5G rollout and the component part is, of course, maybe related to the round at this stage because we have done so much of the preparation in our core networks. So like we all know that there are some small warning signs but we have placed orders. We are going into production mode. So at this point, it does not look like it is going to be a big deal for us. There can, of course, be some impacts.

We are, to some extent, hedged, because in Sweden we are getting delivers from both Ericsson and Nokia, and the way of course such contracts are structured that gives us the opportunity, if need be, to adjust volumes. I do not think it will come to that but it is an opportunity that we have out there.

And when you come to this discussion about Remote-PHY versus fibre, I think, to some extent, you are getting a little bit into religion here. So several cable operators, of course, go with Remote-PHY, which gives plenty of speeds and reliability for all foreseeable future. You probably listened in on our Capital Markets Day when Yogesh took you through 10G thinking. It is a natural upgrade path for us to clean up the note splits and to get a simple infrastructure that is cheaper to operate and have even higher reliability.

And at the end of the day, if you use fibre, you still have to buy quite expensive equipment to give higher speeds to the end users. So it is a matter of pros and cons, but in almost any case that we operate, the service delivery and the speeds that we can offer will be more than the markets with any realistic will need.

Ulrich Rathe (Jefferies): I was wondering about the revenue growth inflection in B2B. You are highlighting this very prominently as sort of a clear sign of your turnaround efforts. I am wondering how sustainable sort of this inflection is? This is a sort of lumpy item and you would say, look, there could be some quarters there where it sounds negative again depending how things unfold? And what are the uncertainties? What are the major uncertainties with regards to the continuity of the revenue growth outlook in B2B?

Kjell Johnsen: I will soon hand over to Stefan on that, to the man himself. Clearly, B2B markets also in Sweden are very competitive. So the big change that has happened here is of course the level of accuracy has improved tremendously over the last nine months. So much more data-driven, much more clearly segmented and much more disciplined. But please, Stefan?

Stefan Trampus: Yeah. Hello, Ulrich. First of all, I mean, our long term financial objective for B2B, which we presented at the Capital Markets Day, was or is to return to growth and improve profitability. And I am confident that the strategy and the focus areas that we have put in place supports this in the correct way.

Then if we look at the Q3 results, I mean, Q3 2022 or 2020 was somewhat an easier comparison quarter for the fixed revenues. Looking forward to Q4, we have some one-off effects in Q4 last year on the mobile side. But with that said, I mean, we can conclude that Q3 was really, really strong. We will achieve the trend shift that we were talking about in the Capital Markets Day to achieve a less revenue decline in 2021. And our ambition is to stabilise the revenues in 2022.

So we are sticking with the revenue ambitions and the financial objectives both for 2021, 2022 and long term.

And then there was a question about uncertainties as well. I mean, I would say then that would be market moves by our competitors. We have not seen any of those. It is quite a stable market in terms of B2B. One factor that is a question mark that you are all aware of and that is visible for us as well is the semiconductor shortage, and that can affect us on the solution business going forward in Q4. But this is not affecting our competitiveness. We would not lose any market share if it comes to that, then it is just delays in the levers basically. And mainly that affects the equipment revenues.

Roman Arbuzov (JP Morgan): Can I just ask a small clarification on the T-Mobile Netherlands proceeds? The over SEK11[?] distribution that you are targeting, do you intend to distribute 100% of the proceeds or would you need to hold some back? And also perhaps you could discuss some of the related costs anything to do with taxes or any other costs to close the transaction? And can I also just ask on the Baltics fibre, the Lithuania pilot, the timing of it. Why did you suddenly decide to do it now? It seems like something that you certainly could have done a while back and the topic has been on your mind for some time. So why now, please?

Kjell Johnsen: I will start with the second one because it is very easy, just because Petras who runs Baltics asked me for permission to run the pilot and I said yes. When it comes to the first one, we sent a very clear signal when we announced Netherlands that the money is going to be distributed to shareholders and that is the message that we are basically giving.

So we want to just make sure that Tele2 is in the same situation after telling Netherlands as we were before, because I do not want to hold back anything. So we want to make sure from a rating's and from a future dividend perspective, we have the same situation. And given that selling Netherlands means that in the future, there will be absolutely no dividend of course coming from Netherlands when that has been sold, that has a certain impact on our ratings and capital positions.

So we just want to make sure that we have that picture crystal clear before we set the final dividend, which will be at least SEK11. If we were to go all the way and take the nominal amount to kroner per kroner, then all other things equal, we would have basically paid a extraordinary dividend. You see what I mean.

So let us take that when we get the money on the account to talk to the Board and Board will make a recommendation.

Roman Arbuzov: Right. And is there any costs that is related to that? Any explicit costs that you are expecting during closing?

Peter Landgren: It is Peter here. Just to comment on that one on the cost, no specific taxes or such things. Obviously, there are slight transaction costs seen in it, but that is reflected by us already. So that is [inaudible].

Keval Khiroya (Deutsche Bank): You talked about supply chains. But there is also been increased discussion around inflationary impacts across sectors seen accelerating inflation in Sweden. Can you talk about how you think about the impacts to your business as you see it today from energy or any other areas as well?

Kjell Johnsen: Yeah. At this point, we do not see anything that has a major impact on how we run our day-to-day business. Peter maybe can address something that I have –

Peter Landgren: I mean, I share your view. I mean, obviously the energy prices are increasing. That has an impact and is of course, all else equal, negative for us but in schema of things, it is not the major cost items for us.

Adam Fox-Rumley (HSBC): I had a question on the sales cycle and B2B, please. What proportion of the customer bases had to consider new tariffs or products in business? I guess it is probably different by business segment. But it would be interesting to note how far through that kind of process you are?

Stefan Trampus: Well, if we look at the development that we have, I mean, there is lots of different products, so it could be a really, really complex answer to your questions, Adam. But if we look at the development and what we are doing in the markets for the different segments, I mean, we are taking in good intake in the SME segment and a small segment on the back of the new portfolio that we launched this year. I think we are taking a conscious and responsible approach to the price in the market.

We are well above of some of our competitors on the pricing there. So it is actually developing a little bit better than expected in that segment. On the larger segment, so the public and the key private segments, I mean, these are the contracts that we take in. Their pricing are individual contracts and negotiations.

And the focus on these segments is really to drive profitability, making sure that they stick with the pricing guidelines and improve margin totally according to the ambition that we set out for the different segments going forward. And we can see that this is yielding result. You can see that on the mobile ASPU for instance, but also when we look at the solutions revenues that we are getting. So hopefully that answers your questions, Adam.

Nick Lyall (Société Générale): Just a quick one maybe to Hendrik. Just on the commercial strategy, given you started just recently Hamano. Is there anything you are planning on changing, particularly on the FMC strategy? And then secondly, it is very, very early days, but have you seen any change in customer behaviour after the Telia fibre price rises or the start of the UEFA service?

Hendrik de Groot: Yeah. Nick, thanks for the questions. And yes, pleased to be here, I could tell you. And it is a great time to join to the two in a combination to strength of the company and the market and of course where we are on hopefully end of the pandemic.

I think the commercial strategy was clearly laid out. I hope to joined at the Capital Markets Day that was before my time. But I think there is a clear direction we want to go on with the consumer business. FMC is a key part of that.

Certainly now all the assets have come together. And I think as it was laid out before, what I see at the moment is not a question of change of direction. It is a question of making sure that we execute on the next phase. And as you may have noted before that the first phase was very much as a result of the merger, making sure that we retain those valuable customers. You can see a little bit but that there were sort at the end of that were sort of tailing off in terms of adding customers at around 310k and then sort of stabilising a bit at the same time.

We will and we are in process of ramping up our next phase. For that, we need to bring a number of sort of capabilities in place that are different from what we had at our disposal in the first phase, which is basically to address that 1.3 million households that was also pointed out at the Capital Markets Day that are, I would say, Tele2 customers but they are mainly single play. And therefore, we need to have a sort of a cross-selling approach.

For that, a number of things need to be well in place in terms of being able to approach these customers in a data-driven way to make sure that also on the IT side, they are sitting on the right systems. As you probably know, we are still moving through some IT transformation that we need to have fully in place as an enabler.

And there is a couple of other things that we are considering to follow through on. So bit of a long answer but we are clearly moving in that direction. You will see us picking up as we move into 2022 on that phase two. I would say at the moment it is putting the right levers in place and actually honestly also focusing on the fourth quarter as we have pointed out before, which is a very strong season, and that is sort of where we are on FMC.

In terms of customer behaviour around Telia, which you sort of pointed out with probably more on the entertainment side, I think what we are seeing there is that the market in general is moving and entertainment is moving behind the paywall. That is a trend that has been going on for a bit of a longer term obviously with the SVOD players coming to market, it is now picking up speed sort of across the whole market that sports are moving behind the paywall basically from old premium now on the SVOD basis by the paywall, I think, is also a normal trend.

We are also working on our entertainment strategy as we have laid out on the Capital Markets Day. It is a couple of things that we have in the works that will see daylight as we enter the new year.

For now what we are seeing on Telia and for example, Champion's League behind the paywall. There will be customers and also Tele2 customers who sort of are very big fans for Champion's League and have made that mark have we seen customers depart us. Yes, we have seen some. Is it material? No, it is not. And again, that is how we are trending. So yes, entertainment is changing. We have also very clearly laid out a strategy around the entertainment. And on the short-term, is it significant for us in respect to the Champion's League move? No, it is not.

Siyi He (Citi): It is actually a follow-up on the question previously. I think in your presentation you talk about you see some positive contributions from Comhem Play. It will be interesting to hear you say what you see and willingness of paying that particular project product? And really just to back on your comments, your work doing on the entertainment side. And I wonder if there is an ambition to stabilise your TV base, because I understand that your target to stabilise the cable TV revenue assuming that stable customer base would be a cornerstone for that, but now with Telia potentially taking some customers away on the premium sports. And what you plan to do to offset the decline?

Kjell Johnsen: Sure. And thanks for the questions. I would say what we are seeing, overall, if you look at our entertainment business, we do see that, and I think Peter you also talked about, right, in terms of the financials, we have the DTT business that is a declining business and that is just, I would say, a legacy that will carry on, so that will put some pressure on the total entertainment business line as such. If you look at bit sort of closer into, let us say, the cable and PayTV part, that is where we have seen, of course, in this quarter a little bit of jump back from lows from last year that helped us in a bit of a clean up also on the RGUs.

But in addition, we have seen indeed Comhem Play+ sort of first trying to chip in where we have had a 12-month freemium, let us say, and now these customers are rolling off and we see a likely willingness to pay a little bit of our expectation. So I think that is good. It is still very early days so we need to see what is taking us over that will look like going forward. But early signals are good.

And in general, we do believe this will help us to stabilise at least the historic trend, which was declining both on Boxer[?] and on the cable TV base to stabilise certainly that latter bit. And then with the developments we have planned, and I do not want to take any sort of forward-looking specific comments here at this stage. But I think we are quite confident with some of the developments we are at the moment executing on that we can look at.

I at least look confidently as we move into 2022 on our entertainment business and ability to stabilise that side of the business.

Abhilash Mohapatra (Berenberg): I have got a question on the B2B mobile ASPUs, please, and the chart that you show in the presentation. I was just wondering, excluding roaming and IoT, is it fair to think that B2B mobile ASPUs can sort of stabilise going forward? Or should we continue to see a sort of year-on-year declining trends more in line with what we have seen historically?

Stefan Trampus: Yeah. Hello, Abhilash, and thank you for your question. Of course, I mean, we have seen the mobile ASPU developing better than previously. And this is basically due to a couple of things. First of all, the things that I was talking about the pricing guidelines and bidding guidelines and the focus on profitability in the large on[?] public.

Secondly, we have a good momentum in the small segment yielding good net intake and decreasing churn as well as part of the new portfolio. And also the ASPU on that segment, of course, is higher, which improves totally then with this development. I would not like to guide anything on specific KPIs going forward, but we think the strategy that we have put in place will support us going forward also in the mobile revenue that we have and the mobile line that we have.

Ethan Newthan[?] (ABG): Yeah, just one follow-up on the one question earlier about the convergence, just so I understand your comments correctly. What you are saying is we should not anticipate a major push from Tele2 until sometime perhaps well into next year on the convergence side. Did I understand that correctly?

Hendrik de Groot: Our view on convergence is that we are carrying on with the initiative and the focus and it is key priority as we speak today. So it is not like we have parked everything and we will sort of switch on the engine again somewhere next year. So that has been your sort of your perception and that is not the case.

I think what we are seeing is that there are number of ways we can enter and continue on FMC. And the way we want to do it is in line with our overall commercial strategy, which is to look for a balanced play of value and volume. So you will not see us press the button on a hard aggressive type price play on FMC. That is not the way we want to do it. And we definitely will sort of continue this and move this forward in a balanced fashion but not somewhere starting it up in the second half next year, for example.

So we are working it. We are working it through also early into the next year. And you will see us taking sort of balanced steps, okay. So it is more like a continuum and building up momentum type trajectory that we are looking for, where we can balance value and volume in the market and bring these customers to us for a sustainable journey with us instead of for a quick buck or a quick deal.

Kristoffer Carleskär (Handelsbanken): So if we look at the Swedish mobile market, we have seen Hutch bring in a lot of subscribers over the past year. So I was a bit interested to understand how big of a threat you believe this is to your business, or do you actually believe it is good that they are able to bring in customers with current price plans, and thereby, minimising the risk for them reducing prices in the market?

Kjell Johnsen: We talked about the strategic picture here before where I have said that there are two players that have all the assets that are needed to build the FMC story that Hendrik was talking about. And of course, a lot of the transformation that we are going through now is about taking us through a level where we simplify and we can do this in a much more nimble way than traditional, for telcos.

So in that perspective, the two of us have that opportunity. The third player has some of those elements but have struggled quite a lot with making that work. And then you have Telia, but it is a pure play mobile growing their customer base. And I think when you go into the numbers, you will see it is their second brand that has grown the most. So the first brand shows limited growth. There is also an element of cannibalisation.

I think that our approach is quite rational. I think it is quite natural that they will have a fleet from people who want to be mobile-only. And if they execute well on that, they can have an okay position for that. So the position that we are taking is to develop Tele2 as the converge brand, and of course, continue the success of Comviq, where we have assets that definitely Telia does not have.

So we should get credit to these guys for executing on relatively clear strategy. We are getting traction on our converge story. And as we get out of transformation programme, we will be in a great spot.

Pontus Vaktmeister[?] (SEB): Quick question on the working capital. It was a slightly larger release than usual in third quarter, but also year-to-date is a better kind of nine-month period than the previous years. Would you say this is pure efficiencies and just a better execution? Or is it that we are seeing inventories drawing down because of bottlenecks in areas basically selling everything you have got and it is hard to replenish supplies or hardware? Can we see a reversion of this is my big point in the future?

Peter Landgren: Thanks for your question. Peter here. I would say that we have a strong working capital in the quarter and year-to-date. The first piece is, of course, that we get the help from external handsets financing in the Baltics, Lithuania from last year and Latvia this year. So that is positive. Then I think if you compare to last year, I think you should recall that in Q3 last year we had a little bit of swings with the one-off effect in working capital negatively SEK100 million roughly. So that should be kept in mind looking year-on-year.

And then I think you should keep in mind the seasonality. We are strong year-to-date but then we entered a heavy Christmas and Black Friday period, where we will sell phones which will bring it down a bit. So that is how I would look at working capital.

Kjell Johnsen: Thank you very much, and thank you to all of you for your questions. I am going back to my original statements here. I think we are very happy to see that we are delivering a strong quarter. We see that it is not one area alone that drives it. It is across the board and improved performance. Very happy to see our growth in the Baltics. But of course, in the long run the mother ship is Sweden. So now we are getting back to growth overall in Sweden, which I think is a milestone.

We see B2B that used to be a problem 12 months ago, a big problem, is now back in a stable situation. And that gives us quite good hopes for going forward. I also see that on the CapEx side we are definitely within our guidance. And for this year, we probably will be somewhere between the top and the medium range of our CapEx. We could come in a bit up under the top. So cash flow generation is very, very strong at Tele2.

So the third quarter is something that is step on the way, but if you see quarter by quarter there is continuous improvement. And I am very happy to see that. And I think we are going to land this year in a quite decent way. I am quite comfortable and confident about that.

But again, thank you for joining us today and I look forward to speaking to you guys later.

[END OF TRANSCRIPT]