



Q3 2022 Interim Report

Thursday, 20th October 2022

Introduction

Kjell-Morten Johnsen

President & CEO, Tele2

Welcome

Thank you very much and good morning everyone. Welcome to Tele2's presentation of the results for the third quarter of 2022. With me here in Kista today, I have Charlotte Hansson, our Group CFO; Hendrik de Groot, our Chief Commercial Officer; and Stefan Trampus, our Head of B2B. I kindly ask you to turn to slide two for our quarterly highlights.

Continued Strong Top-Line Growth

The Group

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

During the third quarter, end-user service revenues grew by 3.5% on an organic basis. And it's great to see that all countries are contributing to this growth. Although we have seen a significant increase in energy prices and inflation, we have been able to convert the strong end-user service revenue growth, coupled with the execution of the business transformation programme, to an underlying EBITDAaL growth of 1.5% for the Group.

If we adjust for the increase in energy costs, approximately SEK80 million higher in the quarter, the growth in underlying EBITDAaL would have been around 4.5% in the quarter.

Sweden B2C

In Sweden B2C, I'm happy to see that mobile post-paid continues to show a strong net intake this quarter. And at the same time, we were able to maintain our mobile post-paid ASPU on a similar level as last year.

In Fixed Broadband, we saw an increase in the quarter as the Viaplay deal started to come through with all eligible customers now migrated to the new TV proposition.

Sweden B2B

In Sweden B2B, the good momentum has continued during the third quarter. End-user service revenue increased 4%, driven by volume growth in mobile, a stabilised ASPU, and a slight tailwind from roaming, which is more than offsetting the decline in legacy business.

Supply chain disturbances do, however, continue to impact our businesses during the quarter.

The Baltics

In the Baltics, we experienced yet another quarter of good performance, both in terms of top line and bottom line growth. So far, we've been able to mitigate most of the sharp increase in electricity costs and inflation rates, and all the three countries are showing good results.

During the quarter, we have successfully acquired spectrum in Estonia and are now focusing on rolling out 5G as fast as possible in all our markets. I should add we actually bought more spectrum in Latvia and Lithuania.

Sweden Consumer

Turning please to slide four. Commercial activity in Sweden consumer was solid during the quarter, with our new speed-based 5G mobile portfolio being the major new offering in the markets. End-user service revenue increased by 2%, driven by a strong net intake in mobile post-paid, in line with our FMC bundling strategy.

In Fixed Broadband, we see continued good volume growth, which contributed to higher revenues in the quarter.

In the digital TV, cable and fibre business, we are seeing some positive impacts from the new entertainment packages that include Viaplay. At the end of September, all eligible customers have been migrated to the new proposition, which was one factor contributing to digital TV, fibre and cable showing growth in the quarter. However, the overall customer base continues to decline, which reduces our end-user service revenue growth.

Mobile post-paid end-user service revenue grew by 2% in the quarter, driven by both prepaid and post-paid. We see continued end-user service revenue growth in fixed broadband of 1%, primarily driven by a larger customer base. Total end user service revenue for digital TV declined by 1% in the quarter, primarily driven by continued decline in the legacy DTT TV, terrestrial, due to a declining customer base, while digital TV, cable and fibre grew 2%.

With that, let's move to Sweden B2B on the next slide.

Sweden Business

Mobile net intake continued to be strong in the quarter, driven by new contracts within both the SME and large segments with 17,000 new mobile RGUs. The mobile ASPU, in absolute numbers, continued to – continues to be on similar levels as previous quarters, driven by the volume mix within SME and the profitability focus within large privates and public.

Continued mobile volume growth was able to fully offset the decline in the legacy fixed business, resulting in B2B growing end-user service revenue by 4% in the quarter.

Sweden Financials

The end-user service revenue increased 2% in Sweden, driven by a solid performance in both Sweden consumer and Sweden B2B. International roaming had a positive effect of SEK24 million in Sweden in the quarter.

Underlying EBITDAaL was on the same level as last year as higher end-user service revenues and positive effects from the business transformation programme were consumed primarily by higher costs for energy, external handset financing and content. We continue to see strong cash conversion of 67%.

Baltics Operational Highlights

We see similar trends to previous quarters in the Baltics, with strong volume and ASPU growth across all markets. Roaming continues to come back in a meaningful way and we're also able to monetise data through our successful more-for-more strategy.

Baltics Financials

This ASPU and volume growth led to an end-user service revenue growth for all markets, and we saw the Baltics grow by 13% in total. Despite the significant increase in energy costs and inflation this year, we have so far been able to mitigate the development by implementing

price adjustments and executing the more-for-more strategy. In the third quarter, underlying EBITDAaL grew by 6%.

We continue to see a high cash conversion for the Baltics due to the strong performance and relatively low CAPEX levels so far in the early stage of the 5G rollout.

And with that, I'd like to hand it over to Charlotte to take the financial overview.

Financial Overview

Charlotte Hansson

CFO, Tele2

Group Results

Thank you, Kjell, and good morning, everyone. Please turn to page 12 in the presentation.

During third quarter, we saw 2% organic growth in underlying EBITDA. This was mainly driven by higher end-user service revenue in all countries and positive effects from our Business Transformation Programme in Sweden. At the same time, we have continued to see pressure on our margins due to a sharp increase in energy prices and rising inflation.

Associated companies and JVs show a decrease compared to Q3 2021, as this no longer includes results from the divested T-Mobile Netherlands. Net interest and other financial items increased to SEK159 million due to higher interest costs.

Net profit, discontinued operations decreased since last year, included a settled dispute from previously divested operations.

Group Cash Flow

CAPEX paid was higher in Q3 2022 compared to last year, mainly due to timing in payments. Changes in working capital was negative in the quarter, driven by higher inventory levels compared to previously lower levels, and an increase of network equipment related to the ongoing rollout of 5G.

Taxes paid increased in Q3 2022 compared to last year, driven by improved operational performance. We continue to see good equity free cash flow generation of SEK1.3 billion in the quarter, yielding an equity free cash flow from continuing operations of SEK4.8 billion in the last 12 months, corresponding to SEK6.90 per share.

Leverage at 2.4x

Please move to slide 14 to go through the capital structure. At the end of the quarter, we saw economic net debt decrease to SEK23.7 billion due to continued good cash generation in the quarter. Leverage was at 2.4x at the end of September, which is just below our target range of 2.5-3x ahead of the second tranche of the ordinary dividend that was paid on 14th October. Should the dividends have been paid before closing of the third quarter, our leverage would have been at 2.6x.

Business Transformation Program update

Please turn to slide 15, where we will update you on the progress of Business Transformation Program.

During the quarter, we continued to execute on the Business Transformation Program and made improvements primarily within our combined IT and tech organisation, both in terms of network optimisation and savings in external spend. This led to an annual run rate savings of SEK725 million by the end of the quarter. The P&L effect of this was SEK170 million in the quarter with a net effect of SEK80 million compared to Q3 2021.

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

Conclusion

Kjell-Morten Johnsen

CEO, Tele2

Key Priorities Going Forward

Thank you very much, Charlotte. And let's turn to slide 16 for a summary.

With two-thirds of the year concluded, I'm happy to see that we are on a steady course to deliver on our 2022 guidance. We are delivering well on our top line growth in terms of the guidance. And we are also within the framework of the range that you would expect on EBITDAaL, although I should be very clear that we will be at the bottom end of the range that people would expect for mid-level – mid single-digit growth. And we're somewhere in the mid to lower range on the CAPEX. So that's kind of the guidance situation.

With the dividends for this year, we have been able to significantly remunerate our shareholders in 2022, in accordance with our midterm ambition. On the back of this, we want to reiterate what we said in the Q2 report, that we are prudent in the way we look at our balance sheet as we have done historically. This meant that even if we have room to re-lever our balance sheet, we want to be cautious and make sure that we keep our financial strength going forward, while keeping our current leverage and dividend policy in the long term.

In Sweden, we continue to roll-out 5G with some bumps on the way, driven by supply chain challenges and semiconductor shortage. However, we're still committed to our goal of covering 90% of the population in Sweden by the end of 2023, and to have a CAPEX range of SEK2.8-3.3 billion during 2022 and the midterm.

Similarly, on the fixed side, we continue to roll-out remote PHY devices in order to gain the benefits from the investment as soon as possible. Both projects are key for us in order to increase customer satisfaction, which will support our more-for-more strategy for years to come.

We will continue executing on the Business Transformation Program to deliver SEK1 billion of savings by end of Q2 2023.

In Sweden consumer, we will continue to balance volume and value in order to build sustainable growth, while gearing up our capabilities to address the 1.3 million non-FMC households. We will also continue to build our premium brands in order to increase customer satisfaction that we can monetise through reduced churn or price adjustments on the back of product improvements.

The improved entertainment offering that now includes Viaplay is a key part in this strategy, and we have now a more competitive offer out in the market. By the end of Q3, all eligible customers have been migrated to the new entertainment TV proposition.

In Sweden business, we have seen an uplift in numbers since the new strategy was launched last year, which also continued in Q3. It all comes down to the focus work that aims to support our customers long term. Although fluctuations should always be expected, we are witnessing a very important and sustainable shift within B2B.

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

With less than three months before we close this year, we look at the rest of the year and beyond. I have expressed many times before that Tele2 is a growth company at heart. And we continue to show this quarter after quarter as we execute on our strategy to reach our guidance for 2022 and in the mid-term.

With that, I would like to 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-one on your telephone and wait for your name to be announced. Please stand by, while we compile the Q&A roster. This will take a few moments.

Thank you. Now we're going to take our first question from line of Andrew Lee from Goldman Sachs. Your line is open. Please ask your question.

Andrew Lee (Goldman Sachs): Yeah. Good morning, everyone. So I have two questions, one on working capital and one on ARPU or ASPU development. On the working capital side, obviously, investors have seen a number of companies deliver reasonably meaningful working capital outflows, and I think the SEK200 million working capital outflows this quarter surprised some investors negatively. You've talked about how it's basically in the attempt to build up inventory, given supply chain blockages at the start of the year. But I wonder if you could talk about how that should unwind and the pace at which those outflows should unwind, given it should be temporary factors? Should we see the working capital outflows over the last few quarters fully unwind in the fourth quarter? Or should we see that into the first half of 2023? That's question number one.

Question number two, obviously, good improvement in revenue trends this quarter. However, as your slides highlight, your ASPU have not grown across most of your key businesses in Sweden in the quarter. So how do we bridge your ambitions or optimism that you can offset higher cost headwinds into 2023 with the fact that at the moment, at least, your ASPUs are not rising at all? That's it. Thanks very much.

Kjell-Morten Johnsen: Thank you very much, Andrew. We will share that between us here. I can start a little bit on the working capital. I think it's clear that when we came out of last year, we came out with empty stores, basically. There was – if you go back eight months in

time, we had completely different discussions. We were talking about how can we make sure we can fuel our business, and make our business run with supply shortages that actually, to some extent, still exist, but are much less of an issue than they were before.

So, at that time, it was about securing the business by getting the supplies that we needed. It was 5G, it was Cisco routers as well as handsets.

So now we are in a more natural state on the supplies. We are able to run our 5G rollout now. We have a unique setup, as you know very well, with Net4Mobility. And one of the very few side effects we have of that is that it can be a little bit more cumbersome when we go through the billing of the services, because we have two companies operating through one. That is something that we will work with our partner to try to smooth even more out from where we are today. But that has held some capital now in the starting phase of 5G.

I should also point out that, due to this supply shortages, we have had situations where our vendors, with the best of intentions, have delivered to us systems that have not been fully complete in terms they're missing some part of a radio antenna or something like that. That has held up some of the goods in storage. As the process moves on now, it is running smoother, and we're working very hard to invoice these things. And we expect to invoice quite a bit of this in Q4.

When it comes to the second component, we are, of course, a company that delivers a lot of handsets to customers in binding or in other kinds of setups. And that's – with handset prices going up, particularly iPhones becoming very expensive here, and interest rates going up, that is something that has had a certain impact, because we haven't always sold everything to our banking partner. That is an issue that we are devoting quite a lot of attention to, and we'll be working on over the next weeks and the next one month or two to find that right balance in terms of working capital and the cost element of the factory.

But in short, there are some of these things that have piled up a little bit in working capital. And that is something that we have full attention to. And some of this invoicing is already underway to mitigate some of those concerns.

Should we talk a little bit about ASPU in the two, sort of, big – yeah, Hendrik, first maybe.

Hendrik de Groot: So on ASPU, Andrew, for the Swedish consumer side, I would say the following. You know that we've been driving to return to growth, which I'm very happy to see that we're delivering in this third quarter and we've very much been emphasising our entertainment portfolio as the first stage.

So, as you can see, ASPU clearly has been moving on the entertainment side and I think that has been a first good step, helping us to stabilise the product line and also drive the overall B2C business back to growth.

If you look at prepaid, we also see quite healthy ASPU trending there with a +6% growth on ASPU through refills and the trending we see there. So I think that's also very positive.

If you then look at the core connectivity side on broadband and mobile post-paid, then on broadband, you see that we are, at the moment, flat. And there's also a reason for that. I think we're trending pretty okay in the market with – on the RGUs. And also, the reason why we have not been able to drive ASPU as we would have liked, and some of you have, sort of, picked up also on the commentaries I've seen, is that we've made a conscious choice with a

lot of customers having entertainment and broadband, that we will do less of the price adjustments on broadband this year.

Now, of course, most of the migration has been done. So, looking into next year, we clearly see that we can go back to business as usual also on the broadband side.

On mobile post-paid, I would say the – there's a couple of things playing into a stable ASPU on the mobile post-paid side. First of all, of course, we have seen a positive effect of roaming, but it has been offset also by some variable revenue weaknesses around international calling and variable voice revenues, for example. So that has been, sort of, been offsetting itself.

At the same time, you may remember that we said earlier in the year we have an FMC IT migration to do, which will limit, a little bit, the price adjustment potential we have on the mobile side for the year. And also, we have been holding back a little bit with the launch of the new 5G front book. So also there, I would say, looking forward, I think we can do more as we go into next year.

And as Kjell was already saying, with the inflationary environment, and also looking at, for example, handsets, but also our overall business, we do believe that we have the right portfolio now and the right circumstances in terms of where we have to hold back this year to do more as we go into next year.

Kjell-Morten Johnsen: And before we hand it over to Stefan, I would really like to emphasise this point about the change we're going over now with 4G to 5G. The thinking needs to change a little bit around the industry here, because when going from basically a mobile product with a bundle to a broadband product with mobility, and the pricing structure that we have put out to the market is a 5G pricing structure. What we see from many others is the 4G pricing structure with a 5G add-on.

I think this needs to, in a way, settle itself in the market. And people need to see how that is different from the regime we had before and stop treating 5G as a 5G add-on that you will hand off – that you hand away in some kind of campaign activities.

Stefan, maybe a little bit on ASPU and B2B?

Stefan Trampus: Yeah. And the ASPU that we're reporting external then is mobile one, so let's focus on that one. The first thing I want to say is that we tried to find a balance between both the ASPU and the volume. And volume being a combination of then churn and also gross [inaudible], etc.

And I think when you look at the figures as such, we are having that good balance with posting 11% growth on the mobile side. So I think we are on a good level in finding that balance at the moment. So it works well for us in the mobile domain.

And if you look historically how the development has been in B2B results for ASPU, we can go back not many, many quarters, quite – I mean, end of 2020, beginning of 2021, we had a quite big of a decline in the ASPU in the B2B sector and then the segment.

And with the efforts that we've done on pricing guidelines, governance and taking a responsible stance to the market in regards to pricing, we've been able to level out that

decline that we saw in the past. So, at the moment, we are in a good position and we will continue to balance this approach going forward.

Andrew Lee: Okay. Thank you. That's really helpful colour. I guess we just wait to see the broadband and mobile post-paid efforts rally into next year and obviously, look forward to seeing your invoicing on the working capital side. Thank you.

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

Maurice Patrick (Barclays): Yeah. Morning, guys. Maurice here from Barclays. Thanks for taking the questions. A question on balance sheet and leverage more widely, please. You ended the quarter, I think, at 2.4x leverage, that's below your 2.5-3x target. You do point out, of course, that [inaudible] 2.6. I'm just thinking, given your, sort of, comments in the prepared remarks around rising interest rates, rising inflation, some pressure on the profitability levels coming through, wonder whether it's – whether you think it is time to maybe be more prudent than the 2.5-3x or whether you think that's still an appropriate level of leverage going forward, that clearly has implications of special dividends?

And I guess linked to that, Telia has been quite active selling or monetising much of its portfolio of towers. And they've done Sweden towers and I think Sweden rooftops are in the offering. Just wondered your thoughts, now you've started to see that change in tower ownership taking place a bit across the Nordic markets, whether your attitude towards monetising towers has changed at all or, in fact, even using some of the Telia towers? Thank you.

Kjell-Morten Johnsen: So we are not changing our policy, of course, in this meeting. We are still with the range that we have. We decided to be prudent, as you correctly point out. We are now currently at around 2.6 after paying the dividend. And of course, we are having a dialogue with the Board on a regular basis about what is the optimum level to be at. But I don't think it's very complicated. We all look around us. We see what's happening.

It's uncertain times. We are in good shape with our balance sheet. We generate cash from the business. We have growth on the top line. So when some of these negative external factors start abating or disappearing, we are coming out with a bigger base to generate the cash flows from. So I'm kind of positive about that.

The only thing we don't really know is the timing of these external factors. And your guess is as good or better than mine in terms of those things. So there is no change to the policy. But I think you can expect us to be relatively prudent as long as we have this high level of uncertainty in the – I mean, around us in the macro climate.

And towers is something we speak about on a regular basis. You should remember that Tele2, and I'm sure you know this very well, is relatively infrastructure-light compared to many other operators. We are completely pragmatic about whether we own the towers ourselves, or we have a different structure, as long as it serves our long-term needs and represents a good opportunity.

My personal opinion around this, as I've said before, is that I think some of the operators in Europe – and I'm not referring to any of our competitors in Sweden by these comments, but

I'm talking about some of the others. They were probably in a situation where this was balance sheet related due to expensive spectrum auctions. And in our case, we don't need to do these kinds of moves. And with a higher inflation rate probably being built into these contracts, as well as a higher cost of capital due to higher interest rates, this is not the top priority from our side at this point of time. But it could be something that we decide to do at a later point of time. And we are spending a little bit of time following the events there. But it's not a top priority.

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

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

Ondrej Cabejsek (UBS): Hi, everyone, and thank you for the presentation. I had a bit of a broader question, I guess, around EBITDA guidance. So for this year, in order to get to, I guess, mid-single digits, everyone expects the kind of U-shape to form up in the fourth quarter. Can you remind us of all the, kind of, puts and takes that we have going into the final quarter of the year? I know we had Baltics one-off last year. Some of the new costs, I guess, mostly in the second and third quarter is around the TV launch. Energy, I guess, peaking in the Baltics in the third quarter. It would be very useful if you could give us a bit of a laundry list in terms of what we're looking at into the fourth quarter.

And then around 2023 EBITDA guidance, can you, first of all, define for us, I guess, what qualifies as mid-single digits in your view? Is that, for example, a rounded 4[?] as a kind of floor to meet that guidance? Is it that the mid-single digit, kind of, growth on EBITDA that you have for the midterm should apply in every single year? And are you very happy with that already, kind of, confirming that? Or is this something that still will be reassessed as you get to the full year results, and you can get, sort of, a better view in terms of the cost cutting, the energy situation, etc.? Thank you very much.

Kjell-Morten Johnsen: Yeah, that's a pretty broad question but it's a good question. So if we take a little bit step back in time to when we were planning this year, typically when you make budgets and these things, if I look at what we were talking about at that time, and I look at the performance we have as a business, then I'm happy to say that, overall, all things included, we are actually trending slightly better than we forecast in December.

But there is one caveat. And that is – and I've highlighted it in my CEO letter, that I do take an adjustment for the external factor represented by energy cost. That was something that no one predicted. And with the numbers that we get when we include energy costs, everything in there, I can just be very clear that when you hear us not changing our guidance, you should not put into your model what does it take to get Tele2 to deliver 5% of EBITDA for the year, because we will not do that.

We will be delivering at the lower end of what you would expect when you talk about mid-single-digit EBITDA, all included. If you adjust for the energy costs, will be a very solid mid-single-digit EBITDA growth. And then it's anyone's guess how long that external element will be with us. And my key message to you is that we are continuing to be a growing business. We were not a growing business two or three years ago. We are a growing business. We come out of this with a stronger base to capitalise on and, of course, that cost will roll off.

That's the ambition level that we are setting. So I just wanted to be very clear so that people are not misunderstanding the thinking.

And when it comes to 2023, we will guide for 2023 in February. So, at this point of time, I don't want to say anything about what we are going to say in February 2023. I hope that explains the EBITDA for 2022 in a reasonable way.

Ondrej Cabejsek: It did. Thank you very much. If I may have one quick follow-up, just on energy. Is there any kind of guidance that you can give us? I know we've had like SEK30 million headwind in both of the first quarters of the year, now SEK80 million this year. Is there any guidance that you can give us, given what we know now in terms of the forward curve, etc., for both the remainder of the year and what you see as a headwind in addition to what we've seen this year, in 2023?

Kjell-Morten Johnsen: Yeah, I will do that. It is a little tricky because governments have different kinds of initiatives ongoing that are not fully implemented and may not be implemented. So when I say this, I say that with a level of uncertainty to decisions that are outside the control of this company. But just to give you my gut feeling around it, I should think you should expect the impact in the fourth quarter to be broadly similar what you see in the third quarter. That's my best estimate now, subject to a lot of other factors.

And then let us talk more about what our expectations are for 2023 and onwards when we meet in February, because that's the right time for that discussion. But we are not – just to – I got this question from the – from a Swedish newspaper today, based on Telenor's numbers. And of course, we are not going to talk about numbers like that. They talk about the million NOK, I guess, in their operations. We are far below those numbers.

Ondrej Cabejsek: That's very helpful. Kjell, thank you very much.

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

Luis Sanchez-Lecaroz (Credit Suisse): Hi. Good morning. I just wanted to follow up on this question about the EBITDA guidance. I guess that when we refer to mid-single-digit growth, there's an ample range there. So considering what we are seeing in Q3, that there's a drag from energy of 3 percentage points; considering that the run rate on the nine month for EBITDA growth at 3.5%, and that we will see a similar – broadly similar impact from energy into Q4, I would like to understand a little bit better if you consider that 3% also make single-digit growth for the full year? Or how do you see the range of mid-single-digit growth? Thank you.

Kjell-Morten Johnsen: Yeah, that's an interesting academic discussion. And I – actually, I would almost ask you for advice on that. I think my answer to that is that is the lower range of what people would expect to get, I guess, a number like that. So this becomes a game of words.

One or two is definitely [inaudible] single digits – low single digits, I guess. But where do we draw all these lines? So what I'm saying to you, being very, very transparent, is that we will be in the lower range for the full year of what you expect when you say mid-single digits.

Luis Sanchez-Lecaroz: Okay. Thanks.

Kjell-Morten Johnsen: But I can't give you the exact number because I just told you on the [inaudible] of these things.

Luis Sanchez-Lecaroz: I know.

Kjell-Morten Johnsen: There are variables. So there's an element of uncertainty also on this side. So we would like to be transparent, but there are limits to what we can do.

Luis Sanchez-Lecaroz: Okay. Thank you.

Operator: Thank you. Now we're going to take our next question. Please stand by. And the next question comes from line of Nick Lyall from Société Générale. Your line is open. Please ask your question.

Nick Lyall (Société Générale): Hi there. Hi, Kjell. Just quickly just to come back to this EBITDA gross point, apologies. But your mid-single digit you're referring to, sort of, this low end of the mid-single digits, whatever that may be, just to be clear, that's the headline number you're referring to? You're not also adjusting for excess energy costs in that? That's going to be the headline number, let's say, a 3% gross or a 4% gross or whatever you decide the low end is. Can I just clarify that?

And then secondly – can I just ask one on ARPU as well, just to mention – sorry, on the new speed-based tariffs as well. Can you just discuss how they've been received and why you choose to go with unlimited speed-based tariffs? And whether you think that limits your upside in ARPU, or there's some other reason why you've gone for that? Thank you.

Kjell-Morten Johnsen: Question one, answer yes. Question two, my friend, Hendrik.

Hendrik de Groot: Yes. The – so we see – the answer is, yes, we see a good take-up in the market. And maybe I can, sort of, paint it like this. We launched the portfolio end of August. So, of course, there's limited effect in the Q3 numbers. We have not done any forced migrations yet and that was what I was alluding to before in terms of what potential we have. So we've just launched it for new customers.

And what we're basically seeing is that where we had, before in the old portfolio, 50+% of the volume go to the lower end of the portfolio, we now have 50+% of the volume going to the higher end of the portfolio, which means the unlimited tariffs. Hope that helps.

Nick Lyall: That's great. Thank you very much.

Operator: Thank you. Dear participants, as a reminder, if you wish to ask a question, please press star one-one on your telephone keypad. Now we're going to take our next question. And the next question comes from the line of Stefan Gauffin from DNB. Your line is open. Please ask your question.

Stefan Gauffin (DNB): Yes, hello. A couple of questions. First of all, on EBITDA in Sweden. Can you just clarify how much impact you had from handset financing? I guess it's the US dollar movement that is hurting. And how fast can you adjust your price [inaudible] to get the correct handset margin? I mean, is this a temporary Q3 issue? Or how should we think about that?

Secondly, I've seen that Elisa, Telenor, Telia, they have entered long-term power purchasing agreements to secure low energy prices. I have not seen anything of that from you. Have you looked into that? Is it too late to do anything right now? Will you just have to live with

the stock prices? I know that you have hedges for the Swedish operation, but just some comments around that. Thank you.

Hendrik de Groot: So Stefan, it's Hendrik here. I'll take the first one, and then hand over. On the Sweden handset financing and what it does to our margin and what is our outlook to it. So there are – as Kjell was alluding to, there is some effect of handset financing, as, of course, we've been seeing interest rates going up and we have not changed our market model as such. So basically, that has come in the tens of millions in the quarter.

Looking forward, we, of course, are looking to adjust our market model as we move forward, which means that we will see what is the right balance of – on how we deal with this going forward as we also look to price it into the market. And all these preparations are ongoing and they will be implemented pretty soon as we move into the fourth quarter and new year, probably closer to the new year.

And whether we will then, therefore, fully offset all of the interest increases, or part of it, that is a very, again, careful balance between, of course, also a market that maybe has some more recessionary pressures. We, of course, still want to serve the market. We still want to have long-term relationships with our customers. So we also need to take into account, of course, our competitive context. So that's a judgement and assessment we're doing as we speak.

Kjell-Morten Johnsen: And to those power deals, I'd say our priorities are clear. We're working on trying to reduce consumption, because that's a sustainable effort. And that goes in several ways. Optimising our networks is one way of doing it. And we are experimenting in different ways with that. But of course, we don't want to risk the customer experience. So that's a fine line we tread there.

And then, of course, we've been hedging some of our power needs. But as you run out all these hedges, of course, you come into a new level. And that's what you've seen, that the hedges in a way start running out. So then the costs are coming into it.

We don't, at heart, see ourselves as someone who is investing into power utilities, although it can make sense to have a cooperation. But we think the business case now for using solar for – to help running base stations is there. The costs have come down to a level where that actually is something that we can be doing. We are doing it. We're starting this in a limited scale that serves many needs, more independence, less need for battery times. Sustainability objectives are met by that. And that's, of course, the business case for it.

We have looked into working with power generating initiatives within wind. But again, I don't think the perfect time to buy an oil refinery is when the oil price is \$150. The same way here. I think maybe it's not the right timing for it. I think it's more something that we have to look into down the road when the world stabilises if the cost and benefit is good.

So that's where we are. There are multiple – it's a multifaceted issue that we're approaching from different angles.

Stefan Gauffin: Yes. Thank you. That's clear.

Operator: Thank you. Now we're going to take our next question. Please stand by. And the next question comes to line of Clara Ng from JP Morgan. Your line is open. Please ask your question.

Clara Ng (JP Morgan): Hi. Thanks. Just had some questions, first of all, Sweden B2B shows a very strong growth the past two quarters, 10-11%. So how sustainable is this, do you think, going into the next few quarters?

And then the second question is just on the higher interest costs. I think last quarter, you said it would increase gradually, after showing about SEK30 million increase last quarter. Do you think that the current level is going to stay? Or do you think it's going to increase further? Like maybe just some colour on that, if you have any expectations? Thank you.

Stefan Trampus: Hi, Clara, it's Stefan here. The line was breaking up a little bit. But I think the question was in lines of, can we sustain the growth that we've seen in the past couple of quarters? And I would say, I mean, with all the turmoil and the macro environment happening, of course, that's – that affects our customers, as it affects us. But we're not seeing our customers disengaging in projects or dialogues around solutions, and discussions around that. I think basically, that's a trend that's going for us.

The services that we deliver is actually supporting our customers in transforming their businesses in different ways and very much linked to the digitalisation. So there's many trends working for us in the market as such, that will continue us having dialogues on solutions, which I truly believe that we will see a continued growth from the B2B perspective. So, the fundamentals in the market is there. So that's really good.

Secondly, I would say, we have the right capabilities in place to support these customers, both from a portfolio perspective, both with the infrastructure parts that we have, both the fixed network, but also everything that we're doing around the mobile, 5G modernisation and what have you with – that comes with that.

And then, of course, we have a good positioning in the market as such in these segments and being a trusted adviser to our customers. And topping up that with the capabilities that we have internally from a competence perspective. So I think we are well positioned to support our customers going forward in the turmoil that we're seeing at the moment. Hope that clarifies your question, Clara.

Clara Ng: Just one follow-up on that, sorry. So the contracts for solutions and connectivity, I thought that would, kind of, fall more on like fixed side and solutions [inaudible] the mobile side, like, what are you doing there that's growing mobile by, like, 10%?

Stefan Trampus: Did you ask about the solution revenues or the mobile revenues now?

Clara Ng: Mobile.

Stefan Trampus: Mobile, what we're doing there?

Clara Ng: Yeah, right.

Stefan Trampus: Yeah. So, in the mobile side, I mean, we have growth coming from different perspectives. We have growth coming from existing customers, moving from fixed services to mobile services, engaging more in solutions that drive mobile data, mobile voice. We see an increase going from customer-equipped usage solutions to more cloud-based solutions, and where we combine cloud-based solutions on [inaudible] with mobile solutions. We see an increase in the IoT domain with good growth, where our customers are connecting more and more devices.

We see a really good development and have continued throughout the whole year with good churn development on the base that we have. And, of course, that is supporting the growth on RGUs as well. And that is – based on that, we have satisfied customers who appreciate the services that we deliver and the network that we have. So it's a combination of lots of things that is supporting this growth and the growth is not just coming from new customers; I want to emphasise that. It comes also from existing customers and them wanting to engage more and driving the development of the businesses.

Clara Ng: Okay. Thank you. And the interest costs?

Charlotte Hansson: Yes, I can take that. Charlotte here. And, of course, we are ahead of the macro environment in this aspect as well. It's very difficult to speculate where we're going to end up on interest rates. At least I'm not an expert on that. We will see what's going to happen going forward.

But we are – when looking at our debts, we have a stable level, and in our finances in general. And I think that's – what we could say is that in the current mix that we're having today, a 1% increase of the interest rates would have an impact of around SEK100 million. But then what it is going to end up as an actual number, then that's – I think, your guess is as good as mine.

Clara Ng: Okay, thank you.

Operator: Thank you. Now we're going to take our next question. Please stand by. And the next question comes from line of Siyi He from Citi. Your line is open. Please ask your question.

Siyi He (Citi): Hello. Good morning. Siyi from Citigroup. Just two questions. First question is on your mid-term EBITDA target. And just looking at the numbers, if we ignore the energy cost impact, so by the end of the Business Transformation Programme, that your EBITDA and the cash flow margin already quite high compared to some of the incumbents. And you mentioned about there could be additional efficiencies that you could deliver. And I wonder if you can talk us through about where you'll see the efficiency come from. And for the midterm, do you have a margin target in your mind that you want to achieve?

And my second question is on Baltics. Just given the inflation in the Baltics, I wonder if you can talk us through how easy for you to actually pass through those inflation to the end users from pricing [inaudible]. Thank you.

Kjell-Morten Johnsen: Okay, the first question is quite broad and very interesting. I think when you look beyond the Business Transformation Programme, I've said several times before that we want a guide on a set of targets, like we do today, maybe not the cost programme per se. What we're going to have to do then, and also the industry, is to change our go-to-market quite a bit.

We need to get out of quite expensive physical retail, where there are now very high commission levels. And this is not really building any loyalty to customers at all, because that's a pure transactional business. So it doesn't develop a relationship between us and the customers at all. It's much better than if they buy it in our stores, or even better, in the long run, if they buy it online with us in a very smooth way. And that's why we're doing the IT transformation.

And in doing so, by having great self-care apps and having an online model that can cater for a substantial part of the customer, not for all but for quite many, you build more loyalty. And it becomes easier for them to relate to us, which, as a secondary effect of the online offering and the improvements we do in our delivery capabilities, should reduce the need for customer-care costs. So some of these channel costs will be very important when we get out of this tightly defined Business Transformation Programme. And that's going to be ongoing.

It's not like it's going to be done in a year. But that is something we can tap into. And this industry needs to tap into it because the way we are structured today is really not efficient at all. It is a little bit too much of how things were run 10 years ago, and we clearly want to move out of that. And there are significant savings there. And we will have to detail them out over the course of the next couple of years, as we proceed.

And in the Baltics, I think we should be all very clear that they have done a great job in terms of protecting their profitability. And, of course, they cannot protect themselves against the energy cost. That is just not possible. But they are able to actually keep up a good pace also on profitability despite the very high general inflation that they have there.

So, for us at Tele2, whether it's Sweden or the Baltics, one of the main objectives is to keep up the growth momentum. And then when we come out of these external shocks that we have now, that's going to show that we have a quite unique position in Europe as a company with a decent growth rate and a very efficient capital structure through our network partnership.

Siyi He: Thank you very much.

Operator: Thank you. Now we're going to take our next question. Please stand by. And the next question comes from line of Adam Fox-Rumley from HSBC. Your line is open. Please ask your question.

Adam Fox-Rumley (HSBC): Thank you very much. Kjell, I appreciate your direct answers to the questions today. So I wanted to just, kind of, challenge you a little bit on the 4G to 5G migration, I guess, just thinking from an end customer, particularly consumer perspective. Yes, speeds go up, latency might improve, but does the experience really warrant a kind of full change of approach or how do you – how are you thinking about justifying that other than just tariff structure? I'd be interested to hear your thoughts. Thanks.

Kjell-Morten Johnsen: Yeah, I can start on this and Hendrik is definitely the expert here on this. But I think when you look at those who succeed with launching 5G, they are able to take the customer base on a journey, where you're able to increase value over time by getting more usage on the platform. I don't want to name specific operators, but there are some who are able to take customers on that ride.

In addition, we are an integrated operator with FMC offerings. We have broadband, we have TV. We can make these things interplay. They can be a part of service reliability, in the rare case that we have an issue with our systems, of course. And it's also about, of course, the genuine mobile experience when you are in nomadic behaviour when you – but really should treat it more like a broadband product, with the yearly price increases, and then driving the – getting the usage to go up so that there is a scope for extracting value.

Something that I will freely admit that this industry has not been the best in the world to do over the last 20 years. But as this realisation sinks in and some are showing the way, I think there is an opportunity. Hendrik?

Hendrik de Groot: Yeah, I can just, sort of, add some more colour to it from what Kjell was saying. So I think the key transition we're trying to make, moving from 4G to 5G, in terms of the customer is to basically make unlimited, way more available than it is.

If you look at the real customer, any customer behaviour, being – sitting in a tiered portfolio and a limited with tiered portfolio versus unlimited, unlimited is basically what everyone wants. You don't need to worry anymore. It's just there and you can just use it, right? That's the key premise of what the consumer basically is angling for.

Now, certainly in the Swedish market, the limited portfolio has been, sort of, quite a highly priced portfolio and has been limited to the upper end of the market. And with the move we're doing now, we're, sort of, democratising unlimited and we bring it much closer to a much bigger part of the market.

Now, this will, of course, allow us, first of all, to basically satisfy a much larger part of the population with an unlimited promise and an unlimited availability. But secondly, also to hopefully move quite a bit of our base into that unlimited proposition. The key thing here with how we have put into the market is clearly that we need to get the speed tiering to work in the eyes of the consumer, right? So that's very important.

So we have now basically put in SEK399 capped at 100 megabits. Typical 4G speeds are around 60 megabits. So there's already more availability on 5G as it becomes fully available. And most of the handsets today are already 5G enabled anyway. So, then the usage can, sort of, kick in but then, of course, we have put these other speed tiers in to allow basically for up to one gig or full usage. And ultimately in the network, we will prioritise traffic to basically make a difference. So, it's not only a commercial play, it's, of course, also a network and experience play.

And to allow it to settle into the market, if you look at our bundles, we have clearly also put some value more than just a speed tiering into the bundle. So for it to enable settling into the market that people feel they get the unlimited promise, but they get also some additional value as they choose the higher packages.

So I think we're well set. It is also – it is very important, of course, also to see how the rest of the market acts on the opportunity here, because the risk is here, like it's always been in telecom, so that you go to a next G, and we ended up not doing much with it in terms of its monetisation potential.

So hopefully, we have certainly made the right step, I believe, and let's see how the market in itself fully develops. We do see our customers, certainly, as I said before, being very interested in the take-up. Hope that helps.

Adam Fox-Rumley: Yes. Thank you.

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

Kjell-Morten Johnsen: Yes. Thank you very much. And thank you to everyone for participating, asking good questions and sharing this time with us. And in my wrap, I just want to say that at Tele2, our priorities are now to continue our profitable growth. We have shown over time that we are able to sustain this momentum. And we will do it also through this tricky time that we have around us.

We will continue to balance value and volume. And that is something that you have to do actively. It depends on what's happening around you but we really are making sure we are balancing these things. We have secured the spectrum we need for 5G in all our operations, except 700MHz in Estonia. We expect that to happen very soon. And we have secured the spectrum in the Baltics at very attractive price levels, I would say. And we are ready for the whole 5G wave that is coming there.

So our task as a management now is to navigate this landscape of inflation, interest rates and electricity prices in a good way. I'm quite confident we'll keep up the growth momentum and we come out of this external influences, that will come back in again as profitability and with our cash conversion to equity free cash flow [inaudible] fundamentals for the future.

But again, thank you for joining and have a great day.

[END OF TRANSCRIPT]