



Tele2 Q2 Interim Report 2023

Tuesday, 18th July 2023

Introduction

Kjell Johnsen

CEO, Tele2

Welcome

Good morning, everyone. Welcome to Tele2's report call for the second quarter of '23. With me here in Kista today, I have Charlotte Hansson, our Group CFO, and Hendrik De Groot, our Chief Commercial Officer. If I can please ask you to turn to slide two for some highlights.

Q2 highlights

So by now, you're all aware that it's my belief that growth is an absolute necessity for any company to be successful over time, regardless if it's operating in a mature market with fierce competition. I'm therefore very pleased to see the strong growth we delivered in Q2 despite challenging macro conditions.

Once again, our colleagues in the Baltics delivered fantastic numbers. Swedish B2B uphold their momentum and the big tanker, that is Swedish B2C, that for the years was heading in the wrong direction has now turned around, calibrated the compass and is getting ready to accelerate.

It is, however, a stormy ocean to navigate. Inflation, interest rates and general uncertainties are affecting us all in one way or the other. Companies exposed to retail will have a challenging year ahead. Yet as CEO of Tele2, I'm optimistic about our ability to maintain a good balance between investments and continued healthy shareholder remuneration. As you might have noticed, our strong cash generation in the first half of the year largely covered the first tranche of the dividend despite high investment levels.

We go into these uncertain times with a strong balance sheet and a high pace of development in our IT transformation and 5G rollout, and have a very good opportunity to invest to ensure a strengthened Tele2 long term. One example of that is the digital customer journey, where the telco industry is still behind many other industries.

It is becoming increasingly important for us to get less dependent on third-party retail and instead welcome new and care for existing customers in our own digital universe. It's more efficient and reduces churn. Customers reaching us digitally are more loyal and more satisfied.

It is also a cornerstone in our strategy to build a real FMC category in the market, where we compete with value and service over unsustainable discounts. Tele2 has unique capabilities to lead this category, including our mobile, broadband and aggregated TV and streaming services, but it requires our services to be highly reliable and a customer journey easy to understand, and that's the way we're heading at speed right now.

While running as fast as we can to reach our targets, I'm happy that we in parallel manage to do it in a sustainable way. In May, the Financial Times ranked Tele2 as Europe's number one climate leader, something we're very proud of.

Before jumping into our financial and operational performance in Q2, I'd like to highlight that we today update some of our guidance parameters for 2023 and for our mid-term ambitions.

This is based on our proven ability to grow over time and the opportunity we see from investing in our capabilities during times of uncertainty. We are confident about our ability to combine 5G and spectrum investments with preserved healthy leverage and dividend levels. Charlotte will also walk you through the details of the guidance changes.

Strong topline growth and equity free cash flow in Q2

And with that, please turn to page three for a summary of the second quarter. End-user service revenue grew by close to 4% organically, driven by the Baltics and Sweden B2B.

Underlying EBITDA was largely unchanged organically, mostly due to timing as we observe and expect gradual improvements, supported by further effects from ongoing back book pricing and from abating headwinds from content and energy. Equity free cash flow improved significant this year by year-over-year driven by positive working capital.

Sweden B2C saw solid net intake for mobile postpaid and fixed broadband. End-user service revenue grew slightly, thanks to strong growth in core connectivity, offset by a decline in legacy services. Back book pricing has contributed to revenues in Q2 and will contribute more in the coming quarters as we approach full run rate.

Sweden B2B delivered continued solid and broad-based end user service growth as well as solid net intake of mobile postpays. And our Baltic operations experienced yet another excellent quarter, both in terms of top line and bottom-line growth. We have also continued rollout of 5G services at a high pace across our markets.

Let's then move to the Swedish consumer segment on slide five.

Sweden consumer: Solid volume growth

The quarter has been characterised by continued pricing activity in the market, primarily on mobile family offerings and in the broadband value chain. The slower consumer demand on handsets continued, both in the operating cluster and third-party retail.

Mobile postpaid saw a strong net intake with healthy support from Tele2 Unlimited, including the family proposition. In fixed broadband, we saw continued solid RGU growth driven by FMC and lower churn, alongside healthy ASPU growth supported by pricing. In the digital TV cable and fibre business, we are marginally down on RGUs and marginally up on ASPU.

And then moving to slide six, please.

Sweden consumer: Strong growth in core connectivity

Mobile end-user service revenue grew slightly, driven by improving postpaid growth, which more than offset the first full quarter with prepaid registration. In fixed broadband, end-user service revenue growth accelerated to 5%, thanks to both volume and ASPU growth.

End-user service revenue for digital TV declined slightly with stable sales in cable and fibre and continued decline in the legacy DTT business. The new Viaplay-infused packages continue to contribute positively to both subsegments.

And then let's move to B2B, slide seven.

Sweden business: Sustained topline growth

We continue to hold on to our overall strategy, and all business segments are contributing to the solid end-user service revenue growth of 5%. Our core services that have fuelled growth

for a long time continue to do so also in this quarter, offsetting further decline in legacy services.

Mobile net intake amounted to 11,000 RGUs. The Q2 ASPU was stable year-over-year, excluding a minor positive one-off, which, however, has been offset by a similar negative one-off elsewhere in B2B. Our Solutions business posted healthy revenue growth despite remaining supply chain issues.

The macroeconomic situation, which we continue to monitor closely, is affecting some of our customer groups more than others, but so far, without significant impact on our business.

And then we'll move to slide eight for Sweden overview.

Sweden financials: Topline growth improving

End-user service revenue growth for the combined Swedish operations increased to 2%, driven by a strong performance in B2B and improving the performance in B2C. International roaming had a positive year-over-year effect of SEK7 million as compared to SEK15 million in Q1.

Underlying EBITDAaL fell by 5% as inflation and content costs exceeded end-user service revenue and transformation benefits ahead of more back book pricing effects and annualising content costs in the coming quarters. Cash conversion remained strong at 61%, impacted by an increasing CapEx run rate as we are rolling out real 5G and Remote-PHY at a high pace.

And then moving to the Baltics, slide 10.

Baltics operational highlights: Strong ASPU growth

Across our Baltic markets, the number of mobile postpaid customers continue to increase and so did all prepaid customer bases this quarter. We have continued to see organic ASPU growth across markets during Q2, resulting from our more for more strategy, price adjustments, and to some extent, prepaid to postpaid migration.

And then Baltics financial, slide 11.

Baltics financials: Outstanding track record

ASPU and volume growth in mobile postpaid led to organic end-user service revenue growth across markets, resulting in 12% end-user service revenue growth for the Baltics overall. Our strong topline, combined with successful cost control has outpaced increasing personnel costs and slightly increasing energy costs, leading to an outstanding 15% organic growth in underlying EBITDAaL.

We continue to see a very high cash conversion, thanks to strong underlying EBITDAaL, while impacted by significant increase in CapEx run rate due to ongoing 5G rollouts.

And with that, I hand over to Charlotte for the financial overview.

Financial Overview

Charlotte Hansson

CFO, Tele2

Welcome

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

Group results

First, a few comments on the Group's P&L. In Q2, our total revenue grew by 3% organically, while end-user service revenue grew by close to 4%, driven by the Baltics and Sweden B2B. Our underlying EBITDA grew by 3% in SEK terms, while 1% organically. On the other hand, underlying EBITDAaL was largely flat organically as end-user service revenue growth and cost savings related to the business transformation programme were offset mainly by inflationary pressure and content costs, the latter of which will largely annualise in Q3.

In Q2, we had a modest SEK13 million headwind from energy year-on-year despite a SEK10 million electricity support in Sweden. Looking ahead, we currently estimate some tailwind from energy cost during the second half of the year in addition to expectations of another SEK25 million electricity support in Sweden.

In Q2, we saw a revenue increase of SEK10 million from international roaming. However, this was clearly lower than the SEK20 million to SEK30 million year-on-year increase we have seen in the previous several quarters.

I would also like to comment on our net financial items, while we only see a modest increase year-on-year despite higher interest rates. But this, in fact, includes the SEK77 million financial gain related to the bond buyback in the quarter.

By Q2, we had a debt mix of 66% fixed rates and 34% floating rates. And with that follows that for every 1 percentage points rate hike by our Central Bank, our annualised financial expenses increased by around SEK100 million.

So please look at the cash flow on slide 14.

Group cash flow

CapEx paid was slightly higher in Q2 compared to last year due to higher network investments. Working capital continued to improve in Q2 and was mainly impacted by lower levels of equipment receivables, as expected. We continue to have working capital as one of our priorities for the year.

Net financial items paid increased due to higher interest rates, both on loans and leases. All in all, our equity free cash flow for Q2 ended at a strong SEK1.2 billion, some SEK400 million above last year's level.

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

And please move to slide 15 for our capital structure.

Leverage at 2.6x

At the end of June, economic net debt amounted to SEK25.9 billion, representing a slight SEK0.2 billion increase compared to year-end 2022 as the first tranche of our dividend was largely covered by our strong cash flow. Leverage stood at 2.55 times at the end of June, which is slightly above the lower end of our target range of 2.5 to 3 times.

In May, we successfully issued a heavily oversubscribed EUR500 million bond maturing in 2029. We also repurchased EUR306 million worth of existing bond. The second tranche of the ordinary dividend will be paid in October.

And let's move to slide 16.

Business Transformation Programme completed on target

This will be the last update of our business transformation programme, which now have been successfully completed. During Q2, we executed the final stages of optimisations within legacy IT and networks, which led to an annual run rate savings of just above SEK1 billion by the end of June and in line with the target set some three years ago.

The P&L effect of this was SEK240 million in the quarter, with a net effect of SEK85 million compared to Q2 2022.

So please go to slide 17 for our 2023 financial guidance.

2023 financial guidance

Following the first half of 2023, which has generated close to 4% organic end-user service revenue growth and a CapEx run rate above our upper end of the SEK2.8 billion to SEK3.3 billion range, we find it prudent to update our 2023 financial guidance accordingly.

Consequently, we adjust our guidance for end-user service revenue growth from low single digits to low to mid-single-digit growth, while leaving our guidance for underlying EBITDAaL unchanged at low single-digit growth due to timing and continued inflationary pressure. We also rephrased our CapEx guidance to the more commonly used percentage of sales model and guide for less than 14% CapEx of sales in 2023.

Let's move to slide 18 for an update of our mid-term ambitions.

Mid-term financial ambition

First, in line with our standard practice, we will announce our 2024 financial guidance in relation to the full year 2023 results presentation. However, given the revisions of our 2023 guidance, we'll also make similar adjustments to our mid-term ambitions. So we adjust end-user service revenue growth from low single digits too low to mid-single-digit growth, whereas our mid-single-digit growth ambitions for underlying EBITDAaL remains unchanged.

We then foresee CapEx to sales in the range of 10-14%, with 2024 in the upper end of the range, followed by a gradual decline towards the lower end of the range during 2025 to 2026.

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

Conclusion

Kjell Johnsen

CEO, Tele2

Key priorities going forward

Thank you very much, Charlotte. So then please turn to slide 19 and our key priorities.

So in summary, our main objective remains to keep up our growth momentum, which in turn requires us to continue building 5G and Remote-PHY at pace and to finalise the digital transformation, including our digital customer journeys.

Our efficient cash flow profile and strong balance sheet allows for healthy shareholder remuneration while investing. We will also continue leading in sustainability as suggested by several recent impressive recognitions.

And with that, I hand it over to the operator for Q&A.

Q&A

Operator: Ladies and gentlemen, we'll now begin the question-and-answer session. If you wish to ask a question, please press star one-one on your telephone. We are now taking the first question. Please stand by. The first question from Andrew Lee from Goldman Sachs. Please go ahead. Your line is open.

Andrew Lee (Goldman Sachs): Thank you. Good morning, everyone. I had two questions. First was just on your EBITDA growth trajectory. So obviously, you're guiding to still low single-digit this year of growth and mid-single digit in the midterm. But what we saw in the second quarter was stripping out that energy support that your Swedish EBITDAaL growth was down 4.8% year-on-year and your Group EBITDAaL growth was zero. So could you just talk us through the building blocks to the inflection of growth in Swedish EBITDA through this year, and maybe talk to why you're confident in the sustainable mid-single-digit growth, given weaker trends as expected but weaker trends in the second quarter?

And then the second question obviously relates to CapEx. So you raised your CapEx today. It's obviously a broad range that you've been explicit that you're going to head towards the upper end in 2023 and 2024. But how confident are you now that you've kind of – you've set out your stroll on CapEx and that we shouldn't expect an uplift or risk to the upside on your kind of low end of the range guidance into 2025 and hitting in 2026. Like how do you reassure investors that this is a kitchen thinking of your CapEx spend and not one of you – of more than one of many CapEx rises? Thank you.

Kjell Johnsen: Thank you, Andrew. Good questions. I will start. Charlotte will probably want to support in here.

Let me start on the EBITDAaL. And yes, I think you're right and prudent to strip out the energy support. At the same time, we also have a little – slight headwind. So they're quite equal in their numbers. And if you take the full of it, it's actually slightly negative, and we expect that to improve. But that's not the key issue.

The key issue is, of course, that the underlying business to generate an increase in EBITDAaL. And we have talked about the phasing of also content costs. We will have less of an effect in the third quarter and no year-over-year effect in the fourth quarter. So that is going to be helpful to us. We're starting to see some benefits from the price increases. So June, for example, was already significantly better.

So this is coming in step by step throughout the year. And that is why we also are confident about delivering EBITDA growth this year, but we have not upgraded EBITDAaL guidance for the year. So growth, we will get back to the growth later in this year.

I would also like to say when you're talking about the mid-term, it is an ambition. It is a quite high ambition level, given the circumstances we see around us on EBITDAaL. It's going to take a lot of hard work to get towards that kind of number. But that is the ambition we set ahead of ourselves. But for this year, we're confident about delivering a positive EBITDAaL growth when we summarise in February.

When it comes to the CapEx, I think it's – this is an opportunity for us at Tele2 to invest because we are in the lower range of our debt leverage. We do see that we generate good cash flow. We have worked hard on working capital, stabilised and improved. And of course, the underlying business with an EBITDAaL growth that we expect to see coming in the second half will have a re-lever effect.

So we think we are on solid ground when it comes to using this situation that we see around us as a way to strengthen our position versus competition. Some of the items you will find in our CapEx are non-recurring. I think we have talked about a couple of times before that in our 5G rollout, there are what we call flat rate. It's just a cost estimated for building out the 5G base station, who typically is heavier than the 4G base station.

Those costs are higher than initially thought some time ago. At the moment, we wind down the build out of 5G, that cost will no longer exist. And that is to the tune of SEK250 million plus per year. So when we then take down the volume on the 5G upgrade, then, of course, these numbers will disappear from our CapEx.

And of course, the main build out period is the next 18 to 24 months. So that I hope was an answer to your question, and one of the reasons why we will see CapEx improving, especially as a percentage.

And let me remind you, Andrew, you know the business very, very well that the CapEx range that we are entering into now is also a very good range compared to most telcos that we would see in Europe.

Andrew Lee: No, appreciate it. Thanks. Yeah. Just one quick follow-up. Given the CapEx is very much front-end loaded, how are you thinking about the dividend? Because your dividend is a payout of free cash flow basis. And obviously, you know you're going through peak CapEx at the moment. Does that incentivise you to push the limits of that payout ratio to continue to pay investors during this period? Or should we expect to kind of a slowdown or a reduction in the dividend to reflect this CapEx – growth in CapEx there?

Kjell Johnsen: Yeah, with all the information we have today, Andrew, we are confident that we can prepare the ground so that the Board can make a decision in February that could

uphold a level that you have become familiar with, subject to all kinds of things in this world. But what we know today, we are confident about that.

Andrew Lee: Thank you. It's really helpful. Thank you.

Operator: Thank you for your question. We are now taking the next question. And the next question from Ondrej Cabejsek from UBS. Please go ahead. Your line is open.

Ondrej Cabejsek (UBS): Hi. Good morning. Thank you for the presentation. I had two questions as well. One, probably a simple one in terms of working capital. So last year, you highlighted you had roughly a SEK1.2 billion drag in terms of free elements. And year-to-date, you're about plus 200 consensus for, say, this year and next year is just 300. So can you give us an update in terms of this SEK1.2 billion, I think it should be quite mechanical in terms of unwind over '23, '24 and '25. How confident are you that this SEK1.2 billion that you highlighted as a drag last year would be kind of unwound over the three-year period still. And therefore, is there upside to the consensus assuming roughly just SEK300 million? And any, of course, colour on this year would be helpful. That's one question.

And then second question, a follow-up on CapEx please. So I think implicitly, there is like a 20-30% increase in terms of absolute figures for CapEx for this year and next year, at least. You've already mentioned, I guess, higher than expected costs with respect to the 5G base stations. We know there is inflation as well. But I was wondering if there are there elements such as, for example, a new transformation project, where you're highlighting continued efficiencies going forward? Is there perhaps also some investment into managing your lease exposure, which clearly you've had quite a lot of and then something that's weighing down on EBITDAaL. Therefore, would you be, for example, investing more into your own fibre, which in turn would kind of bring down lease costs going forward, and therefore enable the kind of mid-single-digit growth on EBITDAaL in the coming years. If you could maybe just give us more colour on where the increase in the CapEx comes exactly, that would be very helpful. Thank you.

Kjell Johnsen: Yeah. I think the good news is that when we talk about CapEx, this is voluntary in terms of – except from the flat rate that I mentioned and the number, it is an opportunity-driven approach, where we see that finally, we can build one network, one 5G network, no more SUNAB with Telia, and basically have all the Gs lined up in a row and deliver on them in the most efficient way.

So we think that doing this at pace is clearly strategically advantageous for us when we're going to build the premium position and a convergent position. We can, of course, take that down if we felt that, that was the right thing to do and then take down our CapEx. That doesn't make sense to us at this stage because we can afford the rollout. And there is no change to our strategy in terms of building more fibre compared to leasing as we have done now. So you should not expect any major change to numbers coming from that.

On the working capital, we will not unwind the entire 1.2. Some of that was due to very low holdings of inventory coming out of COVID, handsets and these kinds of things, but we will definitely unwind the things that were put on our balance sheet in terms of handsets that we are financing ourselves rather than selling through factoring. So that's, of course, rolling in, and of course, the general improvement of working capital, but we will not unwind 1.2.

If we can get closer to half of that, that would already be a very good jump down. So that's what we basically had planned.

Ondrej Cabejsek: Okay. Thank you. So half of that roughly. And then in terms of just a quick follow-up, please, in terms of working capital. You would say that the increase that you're basically guiding for is largely due to just an acceleration of existing plants plus the fact that some of these network elements are more expected – sorry, more expensive than expected plus inflation within kind of, I guess, vendor expenses?

Kjell Johnsen: It's not so much vendors. So this is not recurring software costs. This is the installation cost that is a bit higher. And we talked about before. I think, we're more explicit about the numbers now. So that means that it's absolutely not recurring. It has nothing to do with software, and it's nothing we should take back in terms of our vendors. And that is why also that is an element of CapEx disappears immediately.

And not only 5G. It is also Remote-PHY. We are building Remote-PHY now at almost three times higher pace than we did two years ago. This means that we have fewer node splits out in the coax networks. We have more fibres directly into the buildings, and we have the split there inside the building, which gives more reliability and a better user experience.

So these things are preparing us for a much stronger convergent position. Mobile is super important. Broadband is important. The TV part is important. So putting this together to investing in mobile and Remote-PHY gives us strength in terms of delivering our business already for the next couple of years.

Ondrej Cabejsek: Thank you very much.

Operator: Thank you for your question. We are now taking the next question. And the next question from Stefan Gauffin from DNB. Please go ahead. Your line is open.

Stefan Gauffin (DNB Markets): Yes. Hello. Thanks for taking my questions. Yeah, I would like to come back a little bit to CapEx. You haven't given some explanations. But I mean the – that SUNAB was about to be closed down was known, building one network on all Gs should have been known. So what is actually new here? You mentioned the flat rate for building outside the base stations. You mentioned increased speed on Remote-PHY. Any other explanations, please?

Then you talk about more back book pricing effects in Sweden in second half. Can you please provide some more details on this? Thank you.

Kjell Johnsen: Yeah. The second part, I will leave with Hendrik. On the first part, on the – so you heard me quantifying the number on this flat rates to a 250 million plus per year. It depends a bit on the volume to be between 250 and 300. So that's a big part of it. And again, non-recurring. So it disappears when we take down the production volume.

And then it becomes a bit of a choice. You're absolutely right, of course, that we know about the SUNAB dismantling. That has moved a bit slower than we would ideally had hoped. But okay, it is what it is. We're going to try to keep up a pace on that.

So the main component around the flat rate is there. And it becomes quite limited, whether you want to throttle it when you have a good rollout speed, and we have come to the view that looking at the landscape around us, the competition, their plans, the communicated

plans, it gives us an opportunity to build extra strength that we can invest in a time of uncertainty when maybe others would have to take it a little bit more easy. That's, of course, our judgment on that.

In terms of second part of your question, I'll leave it to Hendrik.

Hendrik De Groot: Yes, Stefan. On the pricing situation, as follows. You can see in the numbers that most of the broadband pricing you'll find in the numbers so far. Those were executed at the early parts of this year. Since we don't want to confront our customer base in one go with all of the pricing, it's a phased pricing throughout mainly Q2 and Q3.

The mobile pricing has started. Some of it is already in the numbers, but the majority will sort of flow into the numbers. And then, of course, you also need to get to a full four quarters of it. So mobile pricing sits in the period May and September. So you will see in the fourth quarter, a fully loaded – first fully loaded pricing quarter. So more mobile to flow in, in Q3 and a full pricing quarter in Q4.

Stefan Gauffin: Can I just follow-up? Do you have any other planned price initiatives for the Swedish market?

Hendrik De Groot: What do you mean out of plan?

Stefan Gauffin: If you have more planned price initiatives to drive top line growth in the Swedish market?

Hendrik De Groot: We have – for this year, we have done quite a bit of pricing. And again, you will see much more of it coming in, in the second half of this year. And that has basically captured all the customer base. The main thing on mobile, as we said before, is really to move the back book pricing on to the new front book for Tele2, right? The new unlimited front book, so that is happening in this period I've just been describing.

We've also been looking at Comviq since, of course, also on the lower end of the mobile spectrum, some price increases have been executed in the market. So there was – there's also something on that front coming in the second half of the year.

On broadband, we have done quite extensive pricing already. And what you will see is on TV there have been some comments I've seen in some of the analyst earlier reports that on TV, we have not done that much pricing. That is true because, of course, we've done most of the pricing last year in terms of the Viaplay introduction, but we still also have a number of customers rolling out of binding periods. So there's a little bit of pricing coming out of that as well. But that's it.

Kjell Johnsen: Yeah. And we've basically been through most.

Stefan Gauffin: Okay. Thank you.

Hendrik De Groot: Yeah.

Operator: Thank you for your question. We are now taking the next question. And the next question from Andreas Joelsson from Danske Bank. Please go ahead. Your line is open.

Andreas Joelsson (Danske Bank): Hello, everyone. Maybe sort of a question combining all of the other ones. We have seen ASPU levels coming up on mobile and broadband, as you said. But given this increased effort on investments and network quality, how confident are

you that consumers, especially will be willing to continue to pay more? Or do you see the investment as an opportunity to take market shares mainly? How do you see those two elements on back of these increased investments?

Kjell Johnsen: We can split this, Hendrik. And I think there are a couple of elements to it. One thing is the – we focus a lot on pricing for very good reasons and ASPU. It's also about delivering the quality so that people stay with us, see lower churn levels, higher reliability. And we have made big progress in terms of reliability over the last 18 to 24 months. We see a much stronger service delivery. And I think that's also a part of building the customer lifetime value here that we are talking much more about now than the volume that we've talked about in the past. So it fits for that building block as well.

But maybe, Hendrik, do you want to add something to the –

Hendrik De Groot: Yeah. I think it's a good question. And just to comment on it. If you look at how sustainable are these price levels in the market, of course, they all are a factor of the consumer confidence, the anticipation of inflation and how price levels in general are developing.

And what we see against the background of the type of service we offer and also the type of bundling that we see with consumers. And for now, what we're seeing is actually quite a good acceptance of the market of these price increases. And they fit, of course, in a more generic picture of inflation. At the same time, we also see the customer confidence index stabilising, so even over the last quarter, but still on – at a cautious level, but pricing in general has been accepted. And we see a quite low churn. That's one aspect of the market.

The other aspect of the market, though, is that customers are becoming more mindful and are becoming more selective in terms of the choices they do make. And this you can see in two ways. One way you can see, if you look at the handset business and the devices in the market, they actually have been down in Sweden, but I guess across Europe for the last two quarters by 15% to 20%. And also, of course, we have been affected by at least one of the players in the market. So customers have become more mindful about making these type of purchases. And I think if you look at brown goods, it's even lower levels.

So – but what you see as a consequence is that people are not buying something cheaper. People are waiting for a purchase cycle that still allows them to buy quality. So it's not going for the cheaper product per se. It is waiting until people can buy the quality product. And if I look at our tier mix, then we can see this across our fixed services, for example, we still see that 50%-plus of our customers are buying the higher tier mix on TV services, on our broadband speeds and also on unlimited.

Most of the customers for Tele2 mobile choose unlimited package still. So people are buying quality, but they're very mindful of it. We need to be mindful, of course, with future pricing levels to keep supporting this mindset.

Andreas Joelsson: Thanks a lot. Maybe a follow-up on the leverage side. I mean given the macro environment, given where interest rates are, how comfortable are you to increase the leverage and also the total cost of debt at this point in time?

Kjell Johnsen: Our leverage is almost flat year-over-year. We are 2.52x versus 2.55x. It's down to one step behind the decimal point. So we see good cash flow generation. We see

good control of working capital. We see that we're moving in the right direction. And we – I've been doing this for quite a few years now. We have levers. We have several levers in the business like this. I've been through the 2008-2009 situation and some of the learnings from there are nice to have. You see a little bit of uncertainty in the world around you. We are quite comfortable about where we are today.

Andreas Joelsson: Perfect. Thanks.

Operator: Thank you for your question. We are now taking the next question. And the next question from Nick Lyall from Société Générale. Please go ahead. Your line is open.

Nick Lyall (Société Générale): Thanks very much. Morning, everybody. It was just two follow-ups, please, Kjell, on the existing question. Just on back on the question of how fast CapEx comes down, please. I mean, SEK4.1 billion seems to be in the top of the range on the new guidance, and you're saying about SEK0.3 billion to cut off. So that could still leave you well in the middle of the range in 2025-'26. So could you be a little bit more explicit on do you expect to get back to 10-11% by '25, '26? So how fast does this work? And what's the long run CapEx to sales of the company now? Has that changed significantly?

And the second one was on the dividend discussions with the Board. How do you convince the Board? I mean this is a bit related to Andreas' question a second ago. But how do you convince the Board to be happy when you're producing SEK4.1 billion cash flow over 12 months, and you've got a SEK4.9 billion dividend and CapEx about to go up. I mean what sort of parameters are going to come into play here? And how do you make them confident that you can cover this? Thanks very much.

Kjell Johnsen: So now you automatically assume that it was going to be exactly 14% when we say up to 14%. That is, of course, your estimation. So yeah, and you deduct the number that I have given you, which makes logical sense. And then, of course, we're not going to build 5G forever, and we're not going to keep on pushing all things at the same time forever. So once we get the main build out of 5G behind us and we have done a big job on Remote-PHY, and, of course, these levels will be coming down. So that's going to be helpful to us.

We are growing our revenues. So as a percentage of our revenues, it by definition goes down. And as we are growing our EBITDA, which we definitely plan to do, we have the re-lever effect, which is also helpful to this. And you can see how, over the last few months, we have refinanced, we have 2024 a refinancing based on the Tele2-Com Hem deal a couple of years ago. That is now done. We know what interest rates are going to pay on that fixed rate refinancing.

So a lot of things have come into place, and that gives us the confidence that you move this situation a little bit more on our front foot. We have every opportunity to move levers if and when we should like to do so at any point in the future. And I think that is something that has been important for the Board to know when they ask questions about this. And then, of course, they – the Board will consider in February where we are on this.

Our job is to make sure that they have an opportunity to continue rewarding our shareholders in the same way that they have gotten used to.

Nick Lyall: Okay. Thanks very much.

Operator: Thank you for your question. We are now taking the next question. And the next question from Peter Nielsen from ABG. Please go ahead. Your line is open.

Peter Kurt Nielsen (ABG Sundal Collier): Thank you very much. Morning. Just a question on – well, Andreas partly pre-empted me. But my question is here. How do you plan to monetise 5G? As you said, it is an effort – a laborious effort to turn Swedish consumer trends back to positive growth, that seems to be a tendency in the market. How do you think plan to monetise 5G? And to what extent do you think 5G can be a driver for renewed growth in your revenues in Sweden? Thank you.

Kjell Johnsen: I think Hendrik and his team has set the tone in the Swedish market on how pricing should be done. Then, of course, we exist in a market where people make their own decisions. But given the situation we have around us, I think there will be the need for other players also to focus on value should be relatively clear and obvious.

But Hendrik, you have launched the 5G pricing plan, which basically was the best one in the market. It's partially being copied, but that's the direction of –

Hendrik De Groot: Yeah. It clearly is, Peter. And I think what we're constantly striving for is to deliver quality in customer experience and in underlying product in a society that was still a high-speed digitalising. And so, we see that the demand is there from consumers. And we see, of course, also with the new portfolio, as I said, we have a very good uptake on the unlimited price plans and we see that continues.

But we also want to – on your question on monetising 5G, you also need to look, put it into the context, which Kjell's been talking about the conversion play we want to do. So it's 5G in the context of a digital society, where we put the household and the family at the centre, where we want to have our customers be fully connected and have a long-term relationship with us. And move out of the characteristic of this market, it has been here in Sweden for a long time, which is high level of discounted rotation in the market. That is honestly not satisfying anyone on the long term.

And I think that's where the benefit lies. And I think next to 5G, we were also first out with value loading our entertainment portfolio. We will be later out this year also with some new innovations on the broadband market. And we can see already the market has a tendency to go to these higher speeds. So the demand is there and you need to look at 5G or at least what we do in the context of the household, a convergent play where everyone can be fully connected.

Kjell Johnsen: And still in Sweden, our services as a share of wallet are at a relatively moderate level compared to many other countries. Absolutely.

Hendrik De Groot: And I think and next that we – of course, for that part of the market that only wants to be truly mobile and efficiently connected, we have Comviq in the market, which is a straightforward brand and people love it. And that's also doing a great job.

Peter Nielsen: So mainly as the quality-of-service parameter at the high end of the market, is that what you're saying?

Hendrik De Groot: Yes. And I think things that people really are willing to pay for, which is ease of use, and unlimited is something that people always like. You don't have to trouble free, don't need to worry about anything, you can just connect and be connected and do the

things you want to do. And that's the same also for the household, the broadband connectivity that the market number that was at 100 megabits, we're all talking towards higher speeds in towards 1 gig, and that's where we're heading. And the market is moving in Sweden, quite fast into that domain.

Peter Nielsen: Are you seeing any exciting trends in the B2B market on demand for 5G?

Hendrik De Groot: I think we're seeing pretty much the same level – the same trajectories, honestly, because everyone that works in B2B is also a consumer in the end, right? So the whole anticipation of the market is moving that way and also with our unlimited portfolio in type of uptake and trajectory.

Peter Nielsen: Thank you very much.

Hendrik De Groot: Sure.

Operator: Thank you for your question. We are now taking the next question. Please stand by. The next question from Keval Khuroya from Deutsche Bank. Please go ahead. Your line is open.

Keval Khuroya (Deutsche Bank): Thanks very much. I've got two questions, please. So firstly, on CapEx. If we reflect back to the 2021 CMD when you already had the 3.5 gigahertz spectrum. Can you talk a bit – talk about exactly how your network strategy has changed versus what you had planned then? I guess I'm trying to work out to what degree the CapEx change is higher cost versus change in what your plan to deliver on the network?

And then secondly, when we think about the CapEx trending down towards the lower end of the 10-14% range, when we look at your telco peers across Europe, none of them are towards that 10-11% number, even if we exclude those, even if we only look at those not doing fibre. So what gives you the confidence that you can move back towards the lower end of that 10-14% range from post 2024? Thank you.

Kjell Johnsen: Yeah. And I think those two questions hang well together. The structure, of course, is changing. The Swedish setup where we have Net4Mobility for 2G and 4G with Telenor, and we have 3G with SUNAB, which is basically together with Telia. And of course, Telenor and Hutch have 3GIS for their 3G. And what we want to do, of course, is to get out of multiple network constructions. So we want to close down SUNAB that we run and operate together with Telia, which reduces costs, but also makes it operationally more efficient. That's why we are keen to everything together into one network through Net4Mobility. And that's where we're headed.

And the sooner we can do it, the faster we can have a top reliable network with the lowest operating cost and seeing it holistically as one network. The efficiency of the combined market position that we have in the market, the two players gives us a relatively unique position in Europe at Tele2. There's hardly anyone else that has a more efficient – capital efficient setup than the one we have. And you have seen it over time. We have been down all those levels before in between the different generations.

And we have every opportunity to getting back to the lower part of that range once the main build out of 5G and Remote-PHY is done. I'm not saying we're going to be at 10% in 2025 because we don't even – or '26 because even when we take down the 5G rollout, we'll probably be building a Remote-PHY for another two years. That's a much smaller number

than the 5G rollout, and we will be investing into our IT infrastructure, but we'll definitely have probably the most capital-efficient structure among telcos in Europe.

Keval Khuroya: Thank you.

Operator: Thank you for your question. We are now taking the next question. And the next question from Siyi He from Citi. Please go ahead. Your line is open.

Siyi He (Citi): Hello. Thank you very much for taking my questions. I just have a couple of very quick questions. And the first one is on the Swedish B2B. And obviously, it has shown quite strong growth for a number of quarters. Just wondering if you can talk us through what you see in the competition side? And also how sustainable you think this level of growth can continue going forward?

And my second question is on the EBITDA outlook. You have kept the mid-single-digit growth target for the mid-term. But now you have already come to the end of the transformation plan. I was wondering if you could update the market regarding how you think about the cost-cutting opportunities? And if possible, you can quantify it for the next two to three years?

And my final question is – I'm not sure how much you can talk about it. But it's very interesting that you – to hear you say that you want to build the leading 5G network. And I was wondering how happy you are with your current spectrum holding at the moment. And given that there is an upcoming spectrum auction in Sweden, do you feel that this could provide you potentially opportunities to further enrich your current holdings? Thank you very much.

Kjell Johnsen: Yeah. That was quite a few questions. Let me make go at it. Let me start with the B2B, which is now a success story and has been a success story for the last two years. It definitely was not in the past. And that is built upon the customer intimacy that has been developed. It's much more fact-based. It is dialogue-based. It is not contract and only contract and volume based. And that is the strength that we have in that business.

Now if you take business to business and take a little bit longer outlook on that, I think there are interesting adjacencies for us to explore getting into. If you look at, for example, the cloud market in Sweden, it's much bigger than the telecom market. So there are areas where we were the kind of customer intimacy we have now can start exploring. I don't think they're going to build massive growth in 2023 or '24, but it is definitely the opportunity we're looking into.

And for the team, our growth agenda in B2B has legs that we think will carry us well into the mid-term. Of course, there can be some of our customers who will have a harder time because of the macroeconomic environment, and we respect that. But overall, we're quite positive and optimistic on the growth profile for B2B. And then, of course, you talk about EBITDAaL and the mid-term ambition, which I underline is an ambition, and it's a tough ambition that will involve a lot of hard work.

And coming out of the business transformation programme, the next level of reducing costs, there are two components, at least here. One is to get more value out of existing customers and new customers. The other one is, of course, to do this in a more efficient way.

The next stage is to reduce what we group into the word expansion cost, which is the cost for third-party retail and others commissions, which is quite substantial money. And the second

one is, of course, how we take care of our customers in terms of our customer care and other costs.

I've been talking for – since I came here about the need for getting all the brands onto one platform, having one development cycle for them, and of course, becoming a more digital operator. And we are at the tail end of that. By end of this year or latest mid-first quarter next year, we plan to have them all on the same platform. So then we can start building better and more interesting digital journeys for our customer base because, let's face it, they are generally not good enough in the telecom industry. We need to build those. And that's going to be a multiyear project where we're going to build the best convergent player in the Swedish market on the back of a great 5G network and the Remote-PHY investments. So this is a story that has legs actually for several years ahead. And going digital is the next level of cutting costs for us.

Then you get into spectrum. We have a good spectrum portfolio. We're going to work to have a good spectrum portfolio going forward. It's a very sensitive topic for me to talk about, given that there is an auction coming in September. And I should be very, very careful what I say in public around that. So we are in a good position, and I expect that – and we have a lot of spectrum in the Baltics and Sweden already that has – is with us for the longer term.

And I expect that when we summarise the year, we will also be in a good position, but there are external factors there, and there are limitations to what I should be talking about. So I unfortunately have to leave it at that for this point.

Siyi He: Okay. This is fair enough. Thank you very much.

Operator: Thank you for your question. We are now taking the next question. The next question from Adam Fox-Rumley from HSBC. Please go ahead. Your line is open.

Adam Fox-Rumley (HSBC): Great. Thank you very much. I've just got one, which is kind of still related to CapEx, I'm afraid. You're spending more money now over the next couple of years. You've got the spectrum auction. You just discussed really it kind of to come later in the year. I'd just like to hear you talk about how you're going to measure the results of all that collective spend. I mean are you thinking about return on capital within the business? Would you be prepared to guide the market on how you expect return on capital to evolve over time? Thank you.

Kjell Johnsen: So the guide on the things that we have agreed with our Board, and that's all publicly and well known. And of course, if we have a dialogue with the Board at some point about the change on these things, then, of course, we will announce it to you.

Obviously, it's very important that we can deliver a good return on capital employed or cash return on gross investment or whatever you prefer to measure. But for the time being, we have felt that the combination of growth, profitability, and of course, CapEx, and then, of course, the resulting dividend gives a good picture of how the company has developed.

And we understand perfectly that we are a business where most of our investors are very keen to uphold a good dividend, sustainable dividend, and that is something that the management spends a lot of time working on making up.

Adam Fox-Rumley: Can I just ask one extra question, which is just on the network build out and how it's going to change? Is there any degree to which you're building more sites in the

plan now than you had been before? Or is it genuinely just building kind of more rapidly than had been anticipated previously?

Kjell Johnsen: Well, we are finished with everything – SUNAB, Net4Mobility, getting it all into place. As a matter of fact, we will have fewer sites than the combination of all of these networks would be in the past. And that is a part of the efficiency that we will reap from getting it all together. So we can have one uniform network for whatever technology we use, and we can put them together. So that is a part of the efficiency we expect to read – if I understood your question correctly, I had a little noise from my side.

Adam Fox-Rumley: Thanks.

Operator: Thank you for your question. There are no further questions. I will hand back the conference over to Kjell for closing remarks.

Kjell Johnsen: Okay. So thank you very much for spending the time with us to take a discussion in very interesting times, actually. And I think we – I know that we, at Tele2, are very happy that we have steered through the last year or two in a way that takes us into this uncertainty with a strong balance sheet, a good cash flow generation and that we see improvements in several areas of the business.

We have stabilised the TV business. Hendrik and his team did a great job on that last year. Now we are moving on to monetising that. We have stabilised the B2B over the last two years, made it into a growth story that we are very proud of. So some of the fundamentals are really getting there. Now we see an opportunity to strengthen our position with – at least some of our competition in the Swedish market by investing into our capabilities, whether that is 5G or it is Remote-PHY or it is our IT transformation.

We are doing this in a very measured and controlled way. We have a very strong look towards our balance sheets and our dividend expectations while we're doing this. I've been through a couple of crisis or financial crises internationally in this industry. We have seen what levers there are. We think we have multiple ways of navigating the landscape that we'll be developing ahead of ourselves. And we're quite confident that we're going to find the right mix also going forward.

So thank you very much for your attention, and have a great day.

[END OF TRANSCRIPT]