Tele2 Q4 & Full Year 2021 Results

Tuesday, 1st February 2022

Introduction

Kjell Johnsen

President & Group CEO, Tele2

Welcome

Good morning, everyone. Thank you for bearing with us. We seem to have a little bit of technical issues with the operator system, but here we are. So welcome to the Tele2 report call for the Fourth Quarter and Full Year of 2021.

Today, I'm very happy that in front of me I have Charlotte Hansson, our new Group CFO, sitting here in Kista. And of course, with me here, Hendrik de Groot, our Chief Commercial Officer, and Stefan Trampus, our Head of B2B.

Agenda

So today, we will walk you through the results of the quarter and full year. The progress that we have made in 2021 and the outlook for 2022 and beyond, and we will do a Q&A at the end of it.

2021 was yet another year with impressive results for the Group, and I would like to start by highlighting the achievements and strategic initiatives that we have taken. So, moving to slide two.

Highlights and strategic initiatives

So, despite the challenging year with headwinds stemming from the COVID-19 pandemic, we were able to lift and deliver on our guidance for 2021 by growing end-user service revenue by 1% and underlying EBITDAaL by 5%.

This was done by continued strong performance in the Baltics as we were able to achieve both ASPU and volume growth, while manoeuvring through an unpredictable pandemic.

In Sweden B2B, we were able to reach stabilization in Q3 and we see yet another strong quarter today. In Sweden Consumer, we continued our more-for-more strategy and saw strong performance within mobile postpaid and fixed broadband, while we were able to mitigate the decline in digital TV. At the same time, we executed on our business transformation program, which ended the year with an annual run rate of SEK500 million, in line with our targets.

During the year, we took a major step in our FMC strategy by creating the new premium Tele2 brand through the consolidation of two of the most iconic brands in Sweden. And with that, we concluded the first phase of our FMC strategy.

I am very happy to see the results in Sweden B2B that Stefan and his team has delivered during the year. When we presented the new B2B strategy on Capital Markets Day, I was optimistic and excited, and it pleases me now to say that they have over-delivered on my expectations for the second half of the year in 2021. This improvement is not merely done through our new SME mobile portfolio, but we see improvement across all segments as we are now able to show the second consecutive quarter of growth for a business that was declining by high single digits a year ago.

In September, we announced the sale of our stake in T-Mobile Netherlands, which was the last step in consolidating our international footprint. I am very impressed by the results the team has shown there during the last years and the value that they have created. And we were able to achieve a very good valuation for the company.

We expect the transaction to be completed soon, and once it is done, we intend to distribute all of the proceeds to our shareholders. Tele2 is a strong cash generative company, and as I said during the Capital Markets Day, one of our mid-term targets is to have the best industry shareholder return.

With the equity free cash flow that we have generated this year or rather last year, the Board intends to increase the ordinary dividend by 12.5% to SEK6.75 per share. This puts us comfortably within our leverage range, and as we generate more cash and grow our underlying EBITDAaL throughout the year, you should expect us to re-lever the balance sheet to remain around the midpoint over time and distribute that cash to our shareholders. And with that, please move to slide three.

Building sustainable growth

We started 2021 by witnessing negative impacts on the pandemic with the primary headwind being lower international roaming revenue. However, during the year, we have seen roaming gradually returning and we are now experiencing a tailwind, albeit, at a lower level than before the pandemic.

At the same time, we have been able to build a solid foundation for growth throughout the year, which we have seen tangible results for us since Q2 2021. In this quarter, we see a continuation of this, and we were able to grow end-user service revenue by 2%, both including and excluding roaming, adding up to a 1% growth for the whole of 2021.

In Q4, we decided to take our foot off the gas a bit in terms of commercial spending. Since I became CEO of this company, you have heard me talk about the importance of balancing value and volume in the consumer business in order to achieve sustainable growth in the long-term.

During the first half of 2021, we focused on monetising the increased demand for data by our customers by executing on our more-for-more strategy. In the second half, as societies opened and market activity picked up, we shifted focus to invest more in market. As Q4 normally is a quarter driven by high activity through campaigns, we decided to take a more active part in the market compared to the year before. This hampered some of the underlying EBITDAaL growth in the quarter but creates value for the long-term as we balance the value and volume in our customer base.

This, coupled with FX headwinds in Sweden and increased inflation, particularly in the Baltics, resulted in an underlying EBITDAaL growth of 1.3% in the quarter. Since this was in line with our plan and clearly communicated, we are able to land spot on with our guidance for the year as underlying EBITDAaL grew by 5%. As a result, we saw strong cash generation during 2021 with equity free cash flow growing double digits to SEK5.8 billion for the year.

In Sweden Consumer, we see continued strong performance in broadband and mobile postpaid, end-user mobile postpaid, end-user service revenue on the back of our more-for-more strategy. With investments in the markets, we were able to see strong net intake in mobile postpaid resulting in the customer base growing year-over-year. The renamed Tele2 Play+ continues to show solid performance and we also launched our first SIM offer now in January, further future-proofing our role as a player both in linear and OTT universe within the TV business.

Sweden B2B saw the second consecutive quarter of growth, driven by mobile volume growth solutions and slight tailwind in roaming. The mobile volume growth is driven by all segments. Activity within the solution space continues to pick up despite some challenges in the supply chain.

The Baltics continued to perform well, driven by both volume and after growth in Lithuania and Latvia, resulting in strong end-user service revenue development. During the quarter, we saw some elevated costs driven by increased commercial spending in order to sustain the growth, but also through higher inflation rates, primarily impacting energy costs.

On a positive note, in Latvia, we were able to secure spectrum in the 700 megahertz auction and at fair prices, which now enables us to start a full rollout of 5G within the country.

Sweden Consumer

So let us move over to Sweden Consumer on slide five. During the quarter, we saw a strong mobile postpaid net intake. And as a result, we were able to grow the customer base compared to last year. Postpaid ASPU increased by 2% driven by price adjustments made previously in the year and slight tailwind from roaming.

Price adjustments made earlier in the year continued to impact the fixed broadband ASPU, which grew by 1%. We saw a stronger quarter in terms of new sales within fixed broadband. However, this was offset by higher churn in the base as an effect of historically high sales periods in which customers are now rolling off, resulting in somewhat lower net intake.

In Digital TV, Cable & Fibre, we see continued contribution from Tele2 Play+, which helped us to grow by 3% in the quarter. We continue to see a negative intake, which hampers end-user service revenue growth.

Moving on slide six. ASPU and volume growth in mobile postpaid led to an end-user service revenue growth of 2% for mobile postpaid and 1% for total mobile. We see continued end-user service revenue growth in fixed broadband of 3%, driven by both ASPU and volume growth. Total end-user service revenue for Digital TV declined by 4% in the quarter, primarily driven by continued decline in the legacy DTT TV service due to a decline in customer base.

Sweden Business

And moving on to B2B, next page. Mobile net intake continued to be strong in the quarter, driven by new contracts, both within SME and large segments. The mobile ASPU declined in the quarter by 4%, but will clearly see improvements from the levels witnessed at the end of last year.

Continued mobile volume growth and strong growth in the solutions business was able to fully offset the decline in the legacy fixed business, resulting in Sweden B2B growing end-user service revenue for the second consecutive quarter with 1%.

Sweden Overview

Now let us turn to page eight for Sweden overview. End-user service revenue was flat in Sweden as growth in Sweden B2B was offset by continued decline in the legacy services within Sweden Consumer.

Underlying EBITDAaL was flat compared to Q4 2020 as the contribution from the business transformation program was offset by FX headwinds and increased commercial spending in the quarter within Sweden Consumer. We continued to see strong cash conversion of 64%, but at slightly lower levels compared to previous quarters as we ramp up networks investments related to the 5G rollout.

Baltics operational highlights

Then moving to Baltics, page 10. In the Baltics, we continue to see strong volume and ASPU growth in Lithuania and Latvia as we are able to monetise data through our more-for-more strategy and a slight tailwind from roaming.

In Estonia, we also see strong ASPU growth, driven by price adjustments, while volume growth was hampered by promotional activity from competitors leading to elevated churn in the quarter.

Baltics financials

Moving on, naturally this ASPU and volume growth resulted in strong end-user service revenue in the quarter, and we saw growth of 14% for the Baltics. Underlying EBITDAaL grew by 7% in the quarter as a strong end-user service revenue growth was partly offset by slight pressure from rising inflation rates, primarily impacting energy costs and higher commercial spend in Lithuania and Estonia. And I would add also an accounting adjustment related to handsets.

But with that, I would like to hand over to Charlotte, who will take us through the financial overview. So welcome Charlotte, and I hand it over to you.

Financial Overview

Charlotte Hansson

Group CFO, Tele2

Welcome

Thank you, Kjell, and good morning, everyone. Before we dig into the Group financials, I would like to give a quick take on my first impressions of Tele2.

During my first weeks here, I can see that in the last couple of years, Tele2 has built a solid foundation to become a leading telco in the Nordic and the Baltic region. This includes investing and developing an organization that can create sustainable growth, best industry shareholder return and lead in sustainability.

The Group leadership team that I have joined includes several individuals with a long expertise of the telco industry, both domestic and international. And after working in several different companies outside of the telco industry, I believe I can contribute with an outside perspective in order to improve and excel the already fantastic results that we have seen, which we will continue to achieve going forward. It is our job now to show that we can deliver on our mid-term ambitions and illustrate that we are a growing company.

Revenue breakdown

Please turn to page 13 in the presentation. As in previous quarter, we have created this slide to show the revenue breakdown of our segments, excluding roaming, to illustrate that we are a company that is growing despite the tailwind from roaming.

Like Kjell said, Consumer postpaid continues to perform well as price adjustments made previously during the year and volume growth contributes to the end-user service revenue growth.

Total Sweden Consumer end-user service revenue declined by 0.6% in the quarter, excluding roaming, as growth in mobile postpaid and fixed broadband was offset by decline in legacy services.

In Sweden B2B, we see continued strong momentum in mobile and solutions, offset by decline in fixed legacy services and total end-user service revenue remained stable, despite roaming being excluded.

In the Baltics, the strong performance continues, resulting in 13% growth, primarily driven by higher ASPU and volume growth in Lithuania and Latvia. For the Group, this led to an end-user service revenue growth of 2.3% in the quarter excluding roaming. We now see that roaming revenue is starting to come back in a material way as outbound roaming increased by SEK25 million in the quarter compared to Q4 2020. However, this is still not close to the roaming levels that we saw prior to the pandemic.

Group results

Please turn to slide 14 for the Group results. Underlying EBITDA grew by 1% organically in the quarter, driven by end-user service revenue growth and contribution from the business transformation program. However, this was partly offset by higher commercial spending, primarily in Sweden, but also in Lithuania and Estonia and FX headwinds in Sweden.

We also see higher inflation rates impacting the costs, primarily through higher energy costs, items affecting comparability of minus SEK117 million in the quarter primarily stemming from restructuring cost taken in the quarter, which relates to the continued execution of the business transformation program in Sweden.

The decrease in net profit for continuing operations compared to Q4 2020 was primarily driven by the close down of the operation in Luxembourg, which had a positive impact on the results by roughly SEK3.3 billion in Q4 2020, but with no impact on equity. There is also higher amortization of the Com Hem brand compared to last year, following the brand merger in Q2 2021.

Group cash flow

So let us continue with the cash flow on slide 15. CapEx paid decreased to SEK971 million in the quarter, driven by higher network investments related to 5G in Sweden. Working capital was strong in the quarter as we saw three separate items that had a positive impact.

Firstly, we settled the receivable in the quarter of roughly SEK325 million. Secondly, the timing of an accounts payable was favourable in the quarter, where we expect to see the opposite effect in Q1 2022. Thirdly, we see continued contribution from external handset financing in the Baltics.

Taxes paid declined compared to Q4 2020, primarily driven by preliminary tax in Sweden for the year 2020, which was repaid in the quarter. All of this led to a quarter with remarkably strong cash generation of SEK1.8 billion in equity free cash flow. For 2021, our continuing operations have thus generated SEK5.8 billion or SEK8.3 per share.

Leverage at 2.5x

Please move to slide 16 to go through the capital structure. Economic net debt rose by SEK0.2 billion in the quarter as we paid out the second tranche of the ordinary dividend of SEK2.1 billion. However, this was largely offset by the strong cash generation in the quarter. At the end of the year, leverage was 2.5 times, which is still in the lower end of the target range of 2.5 times and 3 times.

With the proposed 2.5% increase in ordinary dividend for the financial year of 2021, we will comfortably be within our range, and we remain committed to maintaining leverage around the midpoint of 2.5 times and 3 times over time, and re-lever the balance sheet as we grow underlying EBITDAaL in order to distribute excess cash to our shareholders.

In addition to the ordinary dividend, we also intend to distribute the full proceeds from T-Mobile Netherlands transaction as soon as the transaction is closed, and we have received the cash proceeds.

With that, I will hand over to Kjell.

Conclusion

Kjell Johnsen

President & Group CEO, Tele2

Business Transformation Program Update

Thank you very much, Charlotte. Then please turn over to slide 17, where we will go through the business transformation program.

So far, we have reached an annualized run rate of SEK500 million, with savings of SEK150 million affecting the P&L in the quarter and SEK355 million for the full year. And we are now entering the last stages of the transformation program. These last stages include three major operational improvements within the business: decommissioning the 3G network; improve efficiency within our consolidated IT and technology organization; and decommissioning our remaining IT stacks once we have migrated all customers.

Firstly, the close down of SUNAB, which we have already started, will increase the efficiency within our mobile network and reduce the amount of sites that we have as we consolidate towers and move frequencies into one company, Net4Mobility.

Secondly, when Tele2 and Com Hem merged, we realized certain synergies within the technology department by merging the fixed and mobile network organizations into one. When Yogesh joined the company, we further consolidated the technology and the IT department into one organization in order to improve collaboration within that organization, but also with the commercial units. From this, we expect to realize further synergies.

And thirdly, we have so far already decommissioned two of our IT systems, and in 2022, we will carry out the major IT migration elements, which will yield the largest cost savings and vastly improve operational efficiency. When we consolidated the Tele2 and Com Hem brand, we created a new IT stack on which new FMC customers are put.

Now the job is to migrate existing customers onto that IT stack as we currently operate different brands on different IT stacks. With all customers on one IT stack, we will vastly reduce the internal complexity, simplify the product portfolio, and reduce the time the customers spend with customer service. This is of course not an easy job. We have already started migrating our first customers with successful results.

However, in order to secure quality in all these complex projects and enable stable commercial momentum, we will extend the deadline from end of 2022 to end of Q2 2023. This is purely a matter of timing in order to optimize our ways to deliver on our mid-term ambitions.

We are still confident that we will achieve the target of at least SEK1 billion in annualized run rate savings by the end of the period. At the same time, we are able to guide on mid-single-digit growth in underlying EBITDAaL despite less contribution in 2022 from cost savings, which I will talk about on the next slide, demonstrating the long-term growth journey that we have embarked upon.

This is about saving costs, but it is also about building sustainable growth. And we need to balance those two things.

Financial guidance

So, moving to slide 18. I am happy to announce that we can now guide for the full year in accordance with our mid-term guidance. We expect low single-digit growth in end-user service revenue and mid-single-digit growth in underlying EBITDAaL for 2022 compared to 2021.

We expect CapEx, excluding spectrum and leases to be in the higher end of our range of SEK2.8 billion to SEK3.3 billion, driven by investment, primarily in our mobile network as we ramp up the 5G rollout in Sweden and the Baltics, but also investment in the fixed network through RemotePHY.

For end-user service, we expect to continue the momentum that we had since Q2 2021 by making all countries contribute to the growth as we leverage the continued performance in the Baltics and return to growth in Sweden. We expect Sweden B2B to continue the positive momentum that we have seen during the second half of 2021. This does not mean that we will grow Sweden B2B every quarter during the year, but our aim is to stabilize and grow the business for the full year.

In Sweden Consumer, we expect the momentum in mobile postpaid and fixed broadband to persist through our more-for-more strategy. We also expect to see continued momentum in the Baltics to provide support for the entire Group.

The end-user service revenue growth will filter down to underlying EBITDAaL and we will continue to execute on the business transformation program. The program remains back-end loaded in the year, and we expect to reach the majority of the remaining annual run rate in 2022.

As I pointed out, during the first half of 2021, commercial activity and advertisement was significantly reduced during that part of the year and we have now focused on bringing sustainable growth back in the second half. And this leads to some investment in the market. This, coupled with the phasing of the business transformation program, will result in year-on-year underlying EBITDAaL trends to be more favourable from the summer of 2022, as we will continue to invest during the year.

We today also reiterate our mid-term guidance similar to our guidance for 2022. In this guidance, we aim for sustainable growth for the Group with continued contribution for all countries, while the business transformation program will continue to give tailwind to underlying EBITDAaL up until the first half of 2024.

For CapEx, we expect to be at the high end of our guidance during the peak of the 5G rollout, and we will gradually reduce CapEx spending as we complete the 5G rollout and improve the operational efficiency through the business transformation program.

Key priorities going forward

So then, please turn to the next slide for the key priorities going forward. In Sweden, we will continue to ramp up 5G investments in order to increase customer satisfaction, which will support our more-for-more strategy within the mobile business. Similarly, on the fixed side, we see the upgrade with RemotePHY as an opportunity to increase capacity and speed in order to maintain reliable growth in our broadband business.

We will continue executing on the business transformation program to deliver at least SEK1 billion of savings by the end of Q2 2023.

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

In Sweden B2B, we will continue to turnaround that we have started during the second half of the year by executing on our new granular approach with clearly defined segments.

In the Baltics, we will continue to build on the performance that we have seen and execute on our mobile-centric convergence strategy through more-for-more offers in order to make sure that we can sustain the growth. With the 5G auctions now concluded in Latvia, we will start to ramp up the 5G rollout, while preparing for the auctions in Lithuania and Estonia. At the same time, we will continue to develop and explore FMC capabilities.

And lastly, we aim to close the T-Mobile Netherlands transaction soon and which we intend to distribute all proceeds to our shareholders once the transaction is closed and we have received the proceeds.

Tele2 is a growth company at heart, and we are witnessing positive results from our strategic initiatives, which demonstrates the viability of our way forward. I am confident in our ability to succeed and deliver on our 2022 and mid-term guidance and excited to continue building sustainable growth.

With that, I would like to hand it over to the operator, so we can do a Q&A.

Q&A

Andrew Lee (Goldman Sachs): I just had a couple of questions reflecting on around the cost base of your business. Because I guess that is where the greatest investor focus is today. So just firstly on the costs in the quarter and that you highlight will continue into the first half of 2022 in terms of sales and marketing costs. Is that purely phasing, or do you think there is a sign there that the cost to compete has gone up in the market? And then second question, just around your mid-term cost cutting, which you have pushed back by six months, which one of your peers KPN did yesterday as well. Just wanted to try and understand, has cost cutting or cost efficiencies become harder? Or has COVID changed the scope of that cost reduction? Trying to understand a little bit more why the delay. And the key reason for the question really there is, we are trying to think about whether you can continue to create further efficiencies further out than middle of 2023 and trying to understand how much scope there is long-term greater efficiencies in the company?

Kjell Johnsen: Yeah, let me start and then I would invite maybe one or two colleagues here. Let me take the second one first on the mid-term cost-cutting.

If we were single-mindedly focused on cutting costs, we could have done the transformation program by the end of 2022. But what you see is, in the second half of 2021, we are actually able to get back to meaningful growth in Sweden. And I really would like for Stefan and Hendrik to not have too many freeze periods, where they are limited in their approach. And I am quite confident that that brings more value, especially in the medium term, getting the business back to growth rather than fast forwarding this cost cutting program.

To deliver on this, we will definitely do it. There is no doubt about that. But from a value perspective, I think the sequencing that we are putting now, where we are taking the last of the big migrations in the first quarter of 2023 is a better one for our overall business.

And we talk a lot about the sales and marketing cost. And of course, this is just a sign of the market becoming more normal again. So, we have comparisons where they were very low levels. You saw we had a huge uptick in our EBITDAaL in the first part of 2021. And then, of course, since we are very, very transparent in the way we go to market and operate with you, I could have made a bridge to you easily, that will take us back to the consensus of 3.7 by pointing out individual elements related to an IFRS adjustment we have done, the electricity cost in the Baltics and some exchange losses.

We will be back at what the consensus was. But this is how we are. We are maybe a little bit too brutally honest with ourselves. So let us not overdo the sales and marketing. I do not know, Hendrik, do you want to add few comments to that?

Hendrik de Groot: Yes, Kjell, pleased to. Andrew, hi. Thanks for the question. So, on the sales and marketing cost that Kjell was saying, we, of course, need to look at where we are in the fourth quarter against early in the year also from a return to normality point of view and that of course brings you in general to a little bit of a normalized level also on your marketing and sales cost.

And then within that, the fourth quarter is typically a very high trading season. We do a lot of the promotions, a lot of the handset and device sales and actually we have performed quite nicely in the quarter, I would say, particularly on the mobile postpaid side.

And then on your question, how will that translate into next year? As long as we get back to normality and out of COVID you will see, of course, a normalized run rate again. But within that, the fourth quarter is a higher cost quarter. And I also would like to point out that a lot of that commercial cost is driven by acquisition costs and not as much as marketing costs, which I saw on some of the commentaries, because we have, of course, also been able to get some transformation savings on to our marketing spend by moving to one brand. So, there is a lot more related cost to volumes.

Andrew Lee: Can I just follow-up on the longer term. What you are seeing in the company at the moment, does that give you confidence that there is further costs or efficiencies to go after post the mid-term plan? Or do you then rely on operational gearing to drive the growth forward?

Kjell Johnsen: That is also why we are reiterating our mid-term guidance. I think we can say that there are cost savings. There are cash savings. The Swedish model has also quite a lot of capitalized expenses for consultants that is a bit unique to Sweden. So, at the end of the day, I do see a scope for improvements beyond the program that we have now defined in terms of reduction of cash spending in the company.

Ulrich Rathe (Jefferies): I have two questions please. The first one is bit of a follow-up on the earlier one. Just to clarify, when you talk about the phasing of commercial events in this regard to the BTS change, is that the customer migrations or is it other commercial events that you are referring to? And also, is this plan informed by anything you see in the market, actions by competitors or competitive levels overall in the market? Or is it simply going back to the drawing board putting together all the plans and deciding it is better to shift it out by six months? So, is it more internal or external? That is the first question. And then the second question is, you mentioned during your prepared remarks that there was a bit of a wave of contract expiration in the fourth quarter due to, I suppose, high sales in prior fourth quarters and then this contract expired and created higher churn. How do you see that, right? I mean, that is generally you would hope to not to see high churn when contracts expire. Was this sort of a normal rate and just the higher underlying contract expiry? Or was there a reason why more people percentage-wise of these expiring contracts decided to leave Tele2 or ask for better terms?

Kjell Johnsen: Yeah, okay. I will do the first one and Hendrik will do the second one. So, you are basically asking why do we shift to six months? I actually see that as a signal of strength in the business. If we were not succeeding in the go-to-market, then we would re-double the efforts on costs to try to compensate.

The thing here is that I see that both Stefan and now Hendrik has the opportunity to build sustainable growth and then it is easier to let them have a little bit of manoeuvring space in the go-to-market. So, it is a decision that we have made internally based on how we think we can get the most value out of the approach.

So, if we see the opportunity, like we do now, to have sustainable growth, it makes sense to give them a little bit more space and do not be bogged down by too many freeze periods. So overall, I think this is good news.

Hendrik de Groot: Yeah. Sure, Kjell. Ulrich, thanks for your questions. So first of all, just to confirm a couple of things. First of all, from a commercial point of view in the consumer market, we are really executing on our value strategy, right? So, we are trying to drive value into the market and of course with that also increase the overall value in the market for the industry.

And with that we are in a regular cycle that is recovering coming out of COVID with typically the fourth quarter being a very high trading season with some additional commercial spend just from the quarter itself.

If we take this forward, then what you can expect is that, in 2022 we will be able, as we recover from COVID, although we still have some weakness in end of January and in January as we speak, we will be able to get to a better sustainable commercial rate, but not at the high level of Q4, because that is a seasonality and not at the low levels we have seen earlier in 2021, where we were very much focused on EBITDA in the midst of COVID.

Then in terms of what happens with the customer base, we have seen that, and I think your question particularly pertains to broadband and our net intake of 1k versus a normal rate of mid-single digit rate. And I think we have been guiding that what happens in this quarter in particular around broadband is that we had a pretty decent sales rate, although we have had some impact from COVID on some of the channels that has sort of given a little bit of softening.

But in particular, we have seen for this quarter that we have had campaigns that we have had over the last two years, 24 months campaign and 12 months campaign, that have both rolled out and ended in this quarter. And typically, if we roll off a campaign this always comes with a level of churn. So, because we have had now two sort of these campaigns all happening in this quarter, we have seen some additional tick up on churn and that is key driver for the rate.

And that is not a continued trending, that is very much a particular event in the fourth quarter, and I would say underlying our broadband traction is still around sort of that mid-single-digit rate. And then lastly, what we typically do in terms of migrations, as we execute on more-for-more pricing strategies, we continuously move and upgrade customers to, of course, our new front book and of course also to our new product sets that we have. And if you mean migration in that sense, yeah, that is what we continue to do as part of more-for-more.

Ulrich Rathe: That is very helpful. Can I just clarify the very first question that I asked? These commercial events that you specifically talk about in the report as sort of the phasing of that informing did delay to the BTS, what exactly are this commercial events? Is it the migration waves? Is that what it is or what is it?

Kjell Johnsen: Yes. Okay. So yeah, we probably put it more clear in our language. So let me take a historic perspective on this. My predecessor made a decision, which I think was right at that time to focus on EBITDA and cost because of the uncertainties around COVID.

Now we are at the end of this thing, and we have seen that we have been able to get meaningful growth back into all main lines of our business. Then it makes sense for me and the management team to focus on getting that growth going and the commercial events that I mean that is that, for example, Hendrik is planning a campaign in an important period of the year.

We do not want him to be too restricted by constant freeze periods. So, by sequencing the B2P program, so that it fits well with our go-to-market, we are able to do both of these things and that builds the most value for the business.

Andreas Joelsson (Danske Bank): A question on leverage. You have been at the lower end of the leverage for quite a few quarters now as the slide showed. Is there anything that would change that view? Or if I am being a little bit blunt, what is preventing the Board from moving you to the mid of the range that you expressed?

Hendrik de Groot: Yes, I can start, and you can take over, Kjell. We have had a very positive 2021 from a cash flow perspective. And a couple of things have come our way that has been really helpful. We expected it and it has happened. So, you see a very high cash flow generation in the business.

And we do remain committed to the policy. We will be reviewing this. Last year we paid an extraordinary when we announced the second quarter. Of course, I cannot say anything about what we are going to do this year. But the Board is very committed to our policy. So, if we see that we will be, over time, trending significantly lower than what we have said, then that will be reviewed, for sure.

We have no desire as a management or as a Board to hold back any significant amount compared to what you expect. And of course, one thing we are doing now is that we are handing out when the deal closes in Netherlands, the entire amount, despite the fact that, from a ratings perspective, some of that revenue would have been calculated by S&P as future contributions. So that is a signal of strength from our side. But yes, we remain committed to the policy, and we will be monitoring that.

Peter Kurt Nielsen (ABG): Just a question related, again, to the transformation program, but the internal side of it. You have spoken about the market side, please. Kjell, on the IT migration transformation, et cetera, is this running according to plan? Or are you seeing some issues here that is sort of moves this also slightly into the next year? That was my first question. And just second one. Kjell, we are seeing a slight weakening of trends in the TV business. Could you give us any indication or qualitative comments on how do you view the TV business moving into this year?

Kjell Johnsen: Let me do the first and then the second one, I will hand over to. So, on the migrations, we have actually started that process. So, one of our main brands is moving to the new platform and we have not had any unexpected things there. Actually, it has been relatively smooth, I would say. These things are never super easy, but there has not been any kind of red or even orange flags coming up there.

So again, our reasoning for the choice we have made is exactly what you see is what you get. This is our thinking. We really want to make sure that we extract the most value from the market in this process. So, we are very confident about the business transformation plan, both the number and, of course, now the timeline that we have set. And I think it is definitely the right thing to do in terms of value creation perspective.

Hendrik de Groot: Yeah, Kjell. Peter, on the TV or in entertainment business, just to give you some insight there. In last year's Capital Markets Day, I think it was very clearly launched and stated that our aim is to stabilize and modernize our entertainment business to also contribute to driving value for the overall consumer business. And that is basically still our aim.

So, our aim is to stabilize this business and to make the necessary adjustments so that we can really move into streaming and get more solid fundamentals in the DTV business.

What you see? If you look at the numbers underlying, you see at least the revenue level that our cable and fibre entertainment business is sort of starting to stabilize, whilst we still have some decline on the legacy DTT side. And that is in part coming through from the uptake we are seeing on our streaming business, which sits in the cable and fibre numbers.

Again, we are still early on because, since we have now just rebranded Com Hem Play+ into Tele2 Play, we are seeing some good growth momentum and that is also where we are now launching linear streaming into the portfolio. This is, again, a first step into a continued modernization journey for our entertainment business that again in the end should be able to stabilize the total TV line over time.

Stefan Gauffin (DNB): I have a question on mobile ARPU. There was slightly weaker growth momentum on the ARPU side for both the consumer and the business mobile this quarter compared to Q3. I am just wondering if that is a result of campaigning or if it is increased mobile competition or due to phasing of price increases? Just help me understand the development on mobile ARPU.

Kjell Johnsen: Okay, Stefan will start and then Hendrik.

Stefan Trampus: Yeah. Hi, Stefan. Thanks for the question. And on B2B then, if you look at the comparison versus last year, it is true that we have a decline. But if you look on the long trend, we are decreasing that revenue or ASPU decline that we have seen in the B2B segment.

So, looking at the efforts that we are doing, keeping more disciplined around our pricing guidelines, focusing on value, and making sure that we take a responsible stance in the market, and we are challenging ourselves all the time to make sure that we get the right price from our B2B customers.

We can see, that is actually resulting in improvements. If you compare to the Q3 and Q4 ASPU, it is a flat development. And also, if you look at the full year ASPU, we are on the same level as we were in both Q3 and Q4. So, I would say, the strategy is yielding results and of course bringing in more SME customers with an higher ASPU than the key and the public sector. It works in the right direction for us in B2B. I hope that answers the question. Then I hand over to Hendrik.

Hendrik de Groot: Thank you, Stefan. Yes, Stefan and Stefan actually. So, I will focus on the consumer side on the postpaid asked by Stefan. And basically, what you see from Q3 to Q4 is typically that in Q3, also this year actually still sort of in that lighter touch on COVID, we did have some good roaming revenues as you may remember from our Q3 report. So that typically drives a higher ASPU in the quarter, which then, of course, coming out of the holiday season has an effect on the ASPU in the fourth quarter. And that I think is the main explanation.

If you look at the underlying ASPU in the quarter versus last year, we have been growing by 2% and actually also versus full-year strengthening the ASPU development. And whilst you may think well from a campaigning there may be a little bit of a campaign softer ASPU coming into the mix that, of course, to an extent is true, but it does not have any effect on the overall customer base ASPU as such. So, I would say it is mainly an effect from a strong Q3 driven by typically roaming and versus last year, we see a 2% growth in the quarter.

Francesca Schild (Exane BNP Paribas): I have one question please on wage inflation pressures. So how do you think of wage inflation risk in Sweden? And could you please remind us of the process for increased wage increase negotiations this year? When that will take place and what you are projecting for the increase?

Kjell Johnsen: Well, the wage inflation in Sweden is pretty much determined by the central negotiations. So, I do not see anything dramatic coming out of that. Those numbers are usually quite responsible. We do see a bit more wage inflation in the Baltics, that kind of goes with the overall growth that we see there in the business and the economy. And there is more inflationary pressure in the Baltics than in Sweden.

Now the good thing about that is that the business in the Baltics is also pretty good at pricing their services. So, I think the industry in general in Europe has struggled with focusing on this inflation adjustments of pricing and you see what BT is doing in the UK, as maybe one way of doing it. We think our Baltic colleagues have been overall quite good at it. I think probably we could be even better at this in the Swedish market.

But to be specific on your question, Sweden, wage pressures seem to be kind of under control because they are centrally managed, most of it. And the Baltics is also under control but will have a higher level.

Francesca Schild: So just on that, so do you think that in Sweden it will be similar the increase this year to last year? And have the negotiations taken place?

Kjell Johnsen: I think you can expect overall those agreements to end up in the area of 2% to maybe 2.5%.

Pontus Wachtmeister (SEB): On the marketplace, I focus on Sweden and in regard to everything spoken about before, the positioning in networks and your 5G position and the JV with Telenor. Can you describe to us just very top down, how important that is going forward in terms of having a good position in 5G and the perception in the market of fast and strong networks and the investments in those? And are you aligned with Telenor in that space?

Kjell Johnsen: Pontus, actually really thank you for that question, because it is something I love to talk about. We have a quite unique position in European telecoms with our network cooperation with Telenor. So, we run some part of Sweden on our own network, but most of it through Net4Mobility. And that gives a great advantage, because we have the scale advantage and we have also very good spectrum position.

So, when the whole 2G, 3G, 4G market consolidates into one 5G market, that is actually a net positive for us at Tele2. Because the combination of Net4Mobility on our home networks will mean that in terms of base stations and spectrum, we will have the strongest position in the markets. Because right now we are operating with network corporations with SUNAB, with Telia, we have Net4Mobility, we have our own. When we consolidate all of this into one, with one network planning, we will have the biggest reach and we will have a great spectrum portfolio. So, we cannot wait to get through this, because it will, if anything, strengthen our position towards both B2B and B2C consumers in the Swedish market.

Pontus Wachtmeister: I know it is becoming more important towards the consumer you feel, or is it because in the beginning, and now people were not so aware, but now if you look Sweden, efficiency is more of a divider in the marketplace?

Kjell Johnsen: Yeah, I think we have a good 4G network now. But the good news is that, when we are moving over to the next technology and we can re-plan the network, we will be able to have better reach with fewer base stations, because we are not sharing in multiple relationships here. So that whole planning has a significant efficiency in it.

Actually, I think, Yogesh described that very well at our Capital Markets Day. So, there is a clip out there that describes how that journey goes. So, it is something that we are really looking forward.

Hendrik de Groot: And maybe to add, Pontus, I think if I look at the typical consumer behaviour and uptake on, for example, new phones and handsets, you see quite a lot of the phones that we have been shipping also in the fourth quarter are 5G ready and that is sort of making its way into the market quite quickly. So, there is a natural uptake by the market.

Adam Fox-Rumley (HSBC): I wanted to ask a slightly general question about the way you are thinking on phasing of customer growth. From my perspective, today's results show the machine is kind of working. You can turn it on when you choose that allows you to dip in and out of the market to optimize your return on spend. But are you saying from today that you prefer maintaining business momentum, so it is better to have a slightly smoother approach to customer growth through the course of the year? Or is it really just that you are correcting for what was a very unusual first half last year? And then I wondered, slightly following up on that previous question on the question on CapEx, you have begun the big ramp-up in spend. I wonder if you could just say a few words about how that is going, whether you are seeing any issues or any areas where you were ahead of plans that kind of thing?

Kjell Johnsen: Okay. So, when looking at our positioning in the market, I am very happy to see that we have a much higher accuracy now than we had when I joined. And that is because a lot of people have worked hard on getting their data right.

One of the reasons why Stefan is successful in B2B is that they do much better analysis now. B2B used to be very volume driven if you go back in time. Now they are much more accurate about the customer needs. They have a much more interesting and relevant discussion with our large customers and solutions customers. And that is how they can provide value to these customer relationships.

One of the things we want to get out of our business transformation program beyond saving cost is that, Hendrik, in cooperation with Yogesh, will work much more with big data, be much more accurate in our go-to-markets. Tele2 has a history of being a very successful challenger. And that was great in a growing market and where you did not have such a huge, long tail.

Now we are a converged FMC player. We need to be much more accurate, and that level of accuracy has increased a lot. And what Hendrik brings to the business here, he brings many things. But one of the things he brings is a deep understanding not only on mobile markets and not only of broadband markets, but also the TV side of the business. So, the whole picture comes together. And for us to be more surgical in our approach between value and volume, we need more and bigger data. That is what we are getting into place. That is one of the key things that is happening.

And on the rollout of the 5G, it is moving ahead. We actually were able to do a little bit more towards the end of the year than we expected. So that momentum has really picked up. So, we think a lot is going to be built out in 2022. And the main momentum will be done and finished by 2023 with of course some build-outs in 2024.

And the guidance for our CapEx, you have it, will be at the upper end, clearly. But we have transparency on that. We have visibility on that. It is looking pretty good.

Adam Fox-Rumley: If I could just follow-up on that first question. In terms of the staff requirement to become better and more capable with big data, is Tele2 seen as a place where that is a great career option to be able to have that opportunity?

Kjell Johnsen: I will start and then if you guys want to chip in, please. One of the things that I did after coming here was to move the big data resources out from being more of a staff function to being directly in the line of business. We have people here who are truly capable, and they are actually quite motivated now because they are much closer to where it happens. They are much closer to the business.

So, they have really quite a lot of energy in putting into their work. And it seems like they are coming up with a big value add. Do you want to add something guys?

Stefan Trampus: Well, from a B2B perspective, I would say that in the past in Tele2 we have underinvested in the business intelligence side. That is something that we are changing and which we started already next year with the program in becoming more data-driven, and to Kjell's point, in different manners of running the business.

We will continue to do that also this year. And I think the cooperation that we have with the units within our technical organization, with the skill set that they bring in cooperation between the commercial and technical parts that will yield better control, better performance and execution going forward in all aspects, and not just commercial, I would say, but also from a customer experience perspective and a production perspective. So really, really looking forward to that.

Hendrik de Groot: And maybe, Adam, just to add from a consumer point of view. I think customer value management, you probably pick it up also but there are other operators is really a way to go as you go into a converged strategy. That is where we still have a lot of opportunity and mileage to go. And as Kjell alluding to earlier, the IT transformation is quite essential to get that done so that we can really not just have the data but also act on it through how we build propositions, how we get the intelligence to the channels and et cetera.

So, we are in full motion of that and there is clearly a lot of potential still to come out of this as we go through 2022.

Abhilash Mohapatra (Berenberg Bank): I just wanted to come back to the comments around driving improved top line growth in Sweden, please, in context of the guidance. In 2021, obviously, Group service revenue growth of 1%, but all of that was driven by the Baltics with Sweden declining 0.5% and Q4 actually softening a bit. So just to confirm, within the 2022 guide what are you assuming for Sweden, please? It looks like consensus has around 1% growth for Sweden, in both consumer and business. Is that something that you are comfortable with?

Kjell Johnsen: Well, I can start. First of all, I think it is very important to see the trends overtime here. So going from a quite significant negative trend in B2B to being a stable business was what we said we would do, and we have done it. And then, of course, we want to take it from there. Stefan and I and others will work hard to deliver meaningful growth there also.

And then, of course, we have seen volumes picking up a bit in Consumer. So, our ambition is that all the main lines of the business, meaning the Baltics, B2C Sweden, B2B Sweden should be delivering to the overall growth momentum of the company. And then, of course, it will vary over time where the biggest contribution comes from. Clearly, in the short-term, it will be the Baltics. Anything you want to add?

Stefan Trampus: No, I think you have put it well. I mean during the year, we have set some strategy for B2B with specific cornerstones that we shared with you at the Capital Markets Day. We are delivering on that strategy to the full extent and that is our focus and also to be consistent with regards to strategy and these cornerstones with segmentation being a big subscription partner, operational excellence, et cetera.

And with that ambition to make a major trend shift during 2021, which Kjell just mentioned. I mean we have delivered on that. And then we are on the path of having the ambition to be stabilizing the revenue growth that you saw in the last quarter. And hopefully that answers the ambitions that we have and going from minus 7% in 2020 to that level that we see now with two consecutive quarters with positive growth. We are proud of that delivery. But we are not satisfied. We will push forward going into the future.

Nick Lyall (Société Générale): There was a quick question, please, Kjell. Just two things. Just I was looking at the annual survey, the end of 2021 annual survey. Well, could you just explain why that is or is not a true reflection of the sort of network quality? And should we be concerned about your ability to close the gap on TV and mobile prices because of that? And then secondly, and apologies if I missed something, because I got cut off for a couple of times. But I take your point about the broadband campaigns annualizing. But if you were able to remove that, would we see in the numbers you are making some headway by taking share from Telia because of their rises in broadband prices? Could you just explain the background to the market on the fixed side and the broadband side in particular? And what share you might be taking ex those end of campaigns, please?

Kjell Johnsen: So, I will do one and maybe Hendrik does two.

Hendrik de Groot: Yeah.

Kjell Johnsen: So, what you are highlighting is an opportunity for Tele2. We have a good network today and then of course there will always be surveys. There are always been surveys as long as I have been in this industry. But what I tried to say on the previous question is that going into this setting up the 5G networks, well, we can have a one network under our own control and not have a multiple cooperations.

The cooperation, Net4Mobility, is tested over time. It works really well. We are in a good relationship with our partner there with Telenor. So 5G brings an opportunity for us to capitalize on that gap that you are pointing out, because clearly, we moving forward with Tele2 becoming a converged player, quality player gives us the chance to lift ASPUs over time. So, when we come out end of 2023 and early 2024 with great coverage and great spectrum and a very strong 5G proposition, that gives us an opportunity to equalize some of that gap that you are pointing out. So, it is a good opportunity for us.

Hendrik de Groot: And Nick, it will be an opportunity to carry on the growth momentum I think also through more-for-more on the mobile ASPU for us as such. And then on the fixed, I would just briefly comment on that. Underlying, I think we have still a good trend. Of course, you need to look at the total market, of course, where we have gotten and if you look traditionally first where we are now, we do have a mature and quite penetrated market.

However, the campaign momentum that I was alluding to is that, of course, you need campaigns to an extent to drive your net adds on the one hand, but in this quarter in particular, we have seen just the two of these sort of quite successful campaigns rolling out and that is specific effect.

So yes, you need campaigns to drive it. Of course, this need to be well planned and scheduled that you do not have these sort of effects that we have seen in this quarter in particular, which we are doing as we go forward. And as we also execute on the FMC strategy and we will be able to, as we have been alluding to, get more out of the customer base and customer value focus, we will also be able to address some of the churn levels and see some churn reduction.

So, a continuation on driving campaigns that are well planned in combination with really driving the FMC momentum throughout 2022, I think will give us a good underpinning for our broadband business going forward.

Kjell Johnsen: Yeah. Thank you very much everyone for joining us this morning to go through the full year of 2021 and our outlook for 2022. I am very happy that we could close the year on a relatively high note, basically living up to the guidance increase that we gave you in July of last year and that we are now sitting with a guidance that is higher than we had 12 months ago.

We have increased our dividend by 12.5% and we are recommitted to, of course, as we always are, to the dividend policy and the capital allocation. So, things are looking good. We are going to deliver on our transformation program, and we are going to make sure that that does not interfere with our ability to drive growth momentum also in the Swedish market. So, we are making these judgment calls and I am pretty positive about the outlook. So, thanks for joining us today.

[END OF TRANSCRIPT]