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PRESENTATION

Anders Nilsson ***Tele2 AB (publ) - President & CEO***

Good morning, everyone, and welcome to the Q2 Report Call for Tele2.

With me here on this end is Mikael Larsson, CFO; and Samuel Skott, EVP Sweden Consumer. Today, we will walk you through the results for the quarter, give you an update on our ongoing initiatives and then move over to Q&A so we can address the topics you are most interested in covering.

In the quarter, we closed the sale of our operations in Kazakhstan and announced the sale of Croatia. With these steps taken to optimize our geographical footprint, we can now focus on our core Baltic Sea region where we see future of sustainable revenue growth and cash flow generation. During the quarter, we have also improved the sustainability of our business by implementing a new anticorruption policy and whistleblowing policy by continuing to generate positive results in diversity through our recruiting strategy and by reporting to the carbon disclosure project. We are proud that our efforts have been recognized by MSCI ESG research with their highest rating this month.

Please turn to Slide 2 for a brief summary of the Q2 results. Since we have announced the sale of our Croatian operations, Croatia is now reported as discontinued operations and is, therefore, not included in the numbers on this slide. The Tele2 group revenue declined by 2% on an organic basis, including Com Hem in the comparable period.

End-user service revenue declined as mobile services increased by 1%, while fixed declined by 5% due to decline in legacy services. Underlying EBITDA, excluding effects of IFRS 16, increased by 3% to SEK 2.2 billion driven by cost reduction as we continue progress on the synergies. CapEx, excluding spectrum and leases, amounted to SEK 0.5 billion in the quarter.

Now let's take a look at our strategic initiatives on Slide 3. On this slide, you can see the main strategic pillars that will help us become a true integrated challenger over time. In our largest segment, Sweden Consumer, we made great progress on our FMC strategy with 93,000 customers now on FMC benefits. This represents a penetration of almost 1/3 of the addressable overlap between the mobile and fixed customer base after only 8 months since the offer were launched.

We introduced FMC offers to the Boxer customer base for the first time this quarter. We expect this to increase pricing power as we've reduced churn and increased customer satisfaction in the Boxer customer base. We launched a major rebranding campaign of the Tele2 brand with the aim of raising it into a more premium position in the consumer market. The campaign was well received and had a positive effect on net adds in the quarter and will continue strengthening the brand over time. In the Sweden business segment, we continue executing on our plan to turn into revenue growth and improve profitability.

We made progress on cost reduction in B2B this quarter and had a strong mobile RGU intake. As expected, the revenue trend will take some time to improve as price pressure in the large enterprise segment continues. Key for the future will be focus on the SME segment, where price pressure is not as intense and Tele2 is underrepresented.

In the Baltics, we see continued great momentum with a 6% growth in mobile end-user service revenue and 10% in underlying EBITDA, excluding IFRS 16. And we continue to execute on cost reduction, which had an impact of SEK 100 million in the quarter, adding up to SEK 150 million in the first half of the year. We actually reached our year-end run rate target of SEK 450 million already after 6 months and now raised our year-end target to a run rate of SEK 600 million due to a faster execution of headcount reduction.

Now please move to Slide 4. We are adjusting our guidance to reflect that Croatia is now reported as discontinued operation. We maintain our guidance for end-user service revenue. Since we expect revenue benefits from the commercial strategy to gradually ramp up, we expect end-user service revenue to be roughly flat in 2019 and thereafter grow by low single digits.

We also maintain our guidance for EBITDA. We aim for mid-single-digit underlying EBITDA growth, excluding IFRS 16, in 2019 and over the mid-term, mainly driven by front-loaded cost synergies in 2019 and a combination of revenue growth and cost reduction in the coming years.

For CapEx, excluding spectrum and leases, we reduced the midpoint of our guidance by SEK 300 million this year to SEK 2.6 billion to SEK 2.9 billion, down from SEK 2.9 billion to SEK 3.2 billion, adjusting for Croatia and a slight delayed start of the 5G rollout.

For the mid-term, we reduced the midpoint by SEK 200 million to SEK 2.8 billion to SEK 3.3 billion, down from SEK 3 billion to SEK 3.5 billion, adjusting for Croatia. Through revenue growth, OpEx reduction and low capital intensity, we will continuously increase our cash flow, which we intend to return to shareholders. In May, we paid out half of the ordinary dividend of SEK 4.4, and the second half is scheduled for October. In addition, we are proposing extraordinary dividend of SEK 6 to distribute the proceeds from the sale in Kazakhstan and the Netherlands while maintaining our leverage within the target range of 2.5 to 3x.

Let's take a closer look at the segments starting with Sweden Consumer on Slide 6. We made operational progress in this segment with very strong volumes across the board. Our core services had net adds of 34,000 RGUs, and the legacy service declined abated with an outflow of only 12,000 RGUs. In a market with a gradually shrinking churn pool from the main FMC players, this kind of momentum on volumes is a sign of the strength that our brands and offers carry.

While we have good momentum in volume, we need a combination on volume and price in order to get to revenue growth. As expected, we had pressure on ASPU this quarter as our price increases on fixed line services were significantly smaller compared to last year.

We believe that the progress on volume is a result of churn reduction as an early effect of the FMC strategy with 93,000 customers now on FMC benefits combined with a positive response to the Tele2 rebranding campaign and a widening pricing gap compared to our competitors. These same factors that contribute to volume growth also build pricing power. Combined with a positive pricing environment in the market, we see an opportunity to adjust prices already this year to support the ASPU side of the equation.

Volume growth in our core services led to continued growth in end-user service revenue for our core services, which you can see on Slide 7. End-user service revenue in our core services continue to grow, up 2%, although at a lower pace than previous quarters as volume growth did not compensate for lower ASPU in the quarter.

Mobile end-user service revenue turned into a 1% growth, driven by volume growth in postpaid and both volume and ASPU in prepaid. In spite of improving volumes, fixed end-user service revenue declines accelerated to minus 5% due to decline in legacy services and pressure on ASPU in fixed broadband and digital TV due to smaller price increases this year.

Total end-user service revenue continued to decline, down 1% this quarter as an 8% decline in legacy services offset growth in core services. It is clear that while we see good momentum in core volumes, we need to grow through price in order to offset the legacy decline and return to growth. With the positive momentum in our FMC strategy and benign pricing environment, we see ASPU upside already this year.

While we execute on initiatives to reignite growth, we continue to make progress on cost reduction. This resulted in a 3% growth in underlying EBITDA in the quarter despite the revenue decline, partially offset by investments into growth initiatives.

Please turn to Slide 8 for our Sweden business segment. Within B2B, we see no fundamental changes in the market. Our focus remains on gaining market share in profitable network-based services on our network while reducing cost. We continue to make progress on volumes with a 5% increase in mobile RGUs and 17,000 net adds in the quarter while ASPU continue to decline by 9% due to price pressure in the market, particularly from large enterprise and government contracts.

With a 5% increase in RGUs and a 9% decline in ASPU, it is clear that we are not growing our market share fast enough to make up for the price erosion in the market. This is why mobile end-user service revenue declined by 4% this quarter, leading to a 4% decline in total end-user service revenue.

Unfortunately, the government segment, where Tele2 has the strongest position, has the most pressure on price. Focus within large enterprise going forward will be to compensate ASPU decline by volume growth in the private sector where we see less price pressure.

We also see an opportunity within the SME market where the pricing environment is better and Tele2 is underrepresented. Throughout the year, we have taken steps to rebuild the SME sales organization, invested in sales capacity and expanded to new sales channels.

In addition, we plan a launch of fixed services during H2, which will allow us to introduce an FMC offer for smaller businesses. We saw continued growth within our solutions business, and their revenue mix is improving. We expect this to continue as we grow higher-margin revenue, like cloud-based PBX and Network-as-a-Service. So we have a plan in place, and we are executing on it. And while we implement our plan to return to revenue growth, we are continuously reducing cost to ensure that we can grow EBITDA.

On Slide 9, you can see that underlying EBITDA, excluding IFRS 16, grew by 4% in the quarter as cost reductions offset revenue decline.

Please go to Slide 10 for an overview of Sweden as a whole. Underlying EBITDA, excluding IFRS 16, grew by 3% despite the revenue decline driven by cost reduction, which was partly offset by investments into growth initiatives. We continue to see strong cash conversion of 72% as CapEx spend is relatively low now in between investment cycles.

On Slide 12, you can see that we have continued great momentum in the Baltics with a 1% growth in mobile RGUs and 5% growth in ASPU. As in previous quarters, this was mainly driven by Lithuania and Latvia. In Estonia, we see signs of improvement with positive net adds in the quarter and continued ASPU growth, but we are yet to see a sustainable turnaround.

On Slide 13, we see the effect on mobile end-user service revenue, which rose by 6% and underlying EBITDA, excluding IFRS 16, which increased by 10%, driven by Lithuania and Latvia, while Estonia remains a drag. This resulted in continued strong cash generation as you can see in the chart on the right. And with that, I hand over to Mikael.

Mikael Larsson ***Tele2 AB (publ) - Executive VP & Group CFO***

Thank you, Anders, and good morning, everyone. Please go to Slide 15, group profit and loss for the second quarter. Since this is the official reported income statement, Com Hem is not included in last year's numbers while revenue and operating performance can't be compared between the reporting periods.

Total revenue for the group amounted to SEK 6.8 billion for the second quarter with underlying EBITDA, including effects from IFRS 16, of SEK 2.5 billion. In the quarter, we recorded costs related to the integration of Com Hem of SEK 227 million, which are included in items affecting comparability.

The major step-up in depreciation and amortization is explained by additional amortization of surplus value from acquisitions of SEK 298 million as well as depreciation of right-of-use of -- assets under IFRS 16 of SEK 296 million. Profit for the quarter was negatively affected by goodwill impairment of SEK 452 million relating to our business in Estonia.

We concluded on this write-down of the reassessment of future cash generation, reflecting a lower starting point following last year's decline in profitability from the country. The book value attached to the Estonian operation is now SEK 850 million.

Net profit of SEK 2.1 billion for the quarter includes a capital gain of SEK 1.6 billion from the sale of our operations in Kazakhstan, reported under discontinued operations.

Let us move to the cash flow for the quarter on Slide 16. Equity free cash flow more than doubled in this quarter compared to same period last year, reaching SEK 1.1 billion with the addition of Com Hem in this year's numbers, explaining about SEK 300 million of the increase and the remaining SEK 300 million explained by improved cash generation in the remaining continuing operations.

Income taxes paid were elevated due to withholding tax related to the sale of Kazakhstan paid in this quarter and to be refunded in coming periods. In addition to equity free cash flow of SEK 1.1 billion generated by the group in Q2, we also received the proceeds from the sale of Kazakhstan. SEK 2.1 billion in repayment of shareholder loan and SEK 1.6 billion in equity proceeds.

Please go to Slide 17, synergy update. In the quarter, we had a positive impact of approximately SEK 100 million of OpEx savings in the books, leading to a total of SEK 150 million in the first half of this year.

At the end of the quarter, the annualized run rate of realized OpEx synergies -- they reached SEK 450 million, while we have upgraded a target for the end of this year to SEK 600 million based on faster headcount reduction than we originally planned. The SEK 900 million target in total annual OpEx synergies to be realized until the end of 2021 remains unchanged.

For the revenue synergies, further initiatives were taken in the quarter by including the Boxer customer base in the FMC benefit packages, leading to nearly 100,000 customers now being on FMC benefit packages at the end of the quarter.

Let's move on to Slide 18 with a summary of our financial guidance updated to reflect Croatia now being reported as discontinued operations. As Andres mentioned, guidance for end-user service revenue and underlying EBITDA is unchanged, while the CapEx range has been lowered by SEK 300 million for this year mainly explained by exclusion of Croatia but also due to slightly delayed start of 5G investments. Mid-term range for CapEx has been lowered by SEK 200 million, reflecting Croatia move to discontinued operation.

Please go to Slide 19. At the end of June, we reported leverage of 2.4x, measured as economic net debt to underlying EBITDA after leases, down from 2.8x at the end of 2018 and 2.6x end of March, which has been achieved by strong cash flow generation in the business and from the proceeds from sale of Netherlands in Q1 and Kazakhstan in Q2. This means that we are now temporarily below our target range of 2.5 to 3x before distribution of proposed extraordinary dividend of SEK 6 per share in August. Adjusted for the proposed extraordinary dividend, totaling SEK 4.1 billion, leverage would have been 2.8x end of June.

And with that, I would like to hand back to Anders.

Anders Nilsson ***Tele2 AB (publ) - President & CEO***

Thank you very much, Mikael, and please turn to Slide 21 for our key priorities going forward. And one of our top priorities is to reignite growth in Sweden. And we will do this by ramping up FMC penetration in the customer base to reduce churn and increase pricing power over the long term.

And already this year, we've seen opportunities to capitalize on our improved pricing power. We also aim to turn the Swedish B2B business into growth by taking market share and improved profitability by focusing on high margin on net growth.

On the cost side, we will continue executing on the restructuring process and aim to reach a run rate of SEK 600 million by the end of this year and SEK 900 million within 3 years. In addition, we are investigating the potential for more structural change over time to turn Tele2 into a true integrated challenger. We aim to get back to you with more details on this later this year.

Outside of Sweden, we will build on the momentum we have in the Baltics, and we look forward to closing the sale of Croatia later this year. Later this summer, we will distribute the proceeds from the sales in Kazakhstan and the Netherlands through an extraordinarily dividend of SEK 6 per share if approved by the EGM in August.

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

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Our first question comes from the line of Stefan Gauffin from DNB Bank.

Stefan Gauffin ***DNB Markets, Research Division - Analyst***

I have a couple of questions, first relating to the room for pricing in the Swedish market and start with Telia now have acquired a company called Fello and will keep this as a fighting brand, and now you're the only operator without an ultra low-cost fighting brand in the market. What's your view on this? And also relating to this, you said that you see a more benign pricing environment on SME and SOHO. Have you here considered the latest price move by 3, which launched unlimited usage for SEK 249, whereas, you charge SEK 299 for 1 gigabyte of data. And then just a question on the IoT business, which we have seen quite significant sequential improvements in profitability 2 quarters in a row. What should we think about this business going forward in terms of both growth and profitability?

Anders Nilsson ***Tele2 AB (publ) - President & CEO***

Stefan, thank you very much for your questions. So let's kick this off with the fighter brand end of the market. And it's quite correct. We don't have a brand in there. Comviq is the closest we have, but that's more a mainstream, a middle of the market brand and a kind of a market leader in that segment. And we are looking at the fighter brand end of the market to see if it make sense for us to establish ourselves there, and we will come back to you on this if we decide to do so and when that happens.

If we go then to your question on pricing in SME and SOHO versus large enterprise. It's clear that we have seen a price move from 3 during the quarter where they lowered their price to the SME and SOHO segment. We have, however, seen very limited impact on that on our sales and our customer base. And if you compare the pricing in SOHO and SME as current market prices to what you get in large enterprise, there is a significant upside in SME and SOHO compared to large enterprise. And if you further consider that we are significantly underrepresented in SME and SOHO in terms of market share, this leads to a big opportunity for us going forward.

Then the second question when it comes to IoT, it's as you spotted it, Stefan. You're absolutely correct. We -- you could say, we changed strategy a bit end of last year where we went from trying to grow this business very, very fast all across the world, the globe and investing heavily into it to making it more a kind of service which we treat as a part of the B2B portfolio with less ambitious growth targets but, on the other hand, burning less cash and, in fact, coming to profitability. And -- so that's what you should expect going forward. You should expect lower run rates of revenue increases but you should expect a much more profitable business than having been run in the old kind of way of doing it. So that I hope answers your questions.

Operator

You're next question comes from the line of Lena Osterberg from Carnegie.

Lena Osterberg ***Carnegie Investment Bank AB, Research Division - Head of Research of Sweden, Head of Technology Hardware & Equipment and Financial Analyst***

I have 2 questions. First, I would like to ask you about the reinvested synergies into Tele2 brand. You said it was a substantial campaign. So I was wondering if you maybe could say something about how much extra you've done on sales and marketing and what we should expect into Q3. Will the campaign still have spillover effects? Or will it be back to a more normalized level for Q3?

And then also on the price increases in Swedish mobile, given now that Tele2, you've listed it out to be more of a premium feel, the same look and feel as the Com Hem brand, do you still -- when you look at your price position relative to Telia, do you still envision that you'll have a similar pricing difference as you had in the past when it was sort of less of a premium feel to the brand? Or do you think it can narrow the price gap between you and Telia when you now do your price adjustments on mobile?

Mikael Larsson ***Tele2 AB (publ) - Executive VP & Group CFO***

Thank you, Lena. It's Mikael here, and I will try to respond on the first question. You're correct. We spent extra marketing on the Tele2 brand in the second quarter, and this affects profitability, of course, short term on the negative side. We haven't mentioned any specific amount, and you should also factor in what we spend on the other brands where we have on the Com Hem and Boxer and Comviq brands. So -- but it has affected profitability. This in combination with us investing into FMC capabilities in the organization has affected profitability somewhat, which goes -- takes down the effect from the synergy realization in Q2. But I can't -- I'm sorry, I can't be more specific with -- on the definite amount. And going forward, I should mention that then for Q3, we will continue to invest into FMC capabilities, marketing spend without comment on it per quarter.

Samuel Skott ***Tele2 AB (publ) - EVP of Sweden Consumer***

Okay. Lena, Sam here. On the second question, I think what we are seeing is on the back of a very successful repositioning and for us campaign of that for Tele2, we definitely see pricing being part of the strategy going forward as we move Tele2 to more premium position. The exact details of that plan is, of course, not something we can disclose, but it's definitely part of the strategy.

Anders Nilsson ***Tele2 AB (publ) - President & CEO***

And I think it's fair to say also in addition that, I mean, we now have started to build pricing power by introducing offers repositioning Tele2 and so forth and so on. And already in the second half of the year, we'll start the pricing cycle, which then will be initiated and run throughout second half and into the beginning of next year, which leads us to believe that we will start seeing effects on our -- in our numbers from pricing as we progress and come later in the second half of the year.

Operator

Your next question comes from the line of Maurice Patrick from Barclays.

Maurice Graham Patrick ***Barclays Bank PLC, Research Division - MD***

Couple of questions from my side, please. Just on the B2B side, I mean your number show a solid net intake of customers, but the ARPU does look weak as you've called out. Just wondering where that sort of front book and back book differential in pricing sits. Are you seeing pressure on existing contracts? Or is it new contracts that are bringing down the ARPU or maybe both? And where do we sit in terms of that back book/front book differential? And then just sort of reask the previous question in a slightly different way. So Telia's put their pricing of a mobile quite significantly. You've been quite consistent talking about fixed line price increases. And this year, years before, well-traveled path, but I wonder about your thoughts in terms of if there's scope putting up price on the stand-alone mobile brands?

Anders Nilsson ***Tele2 AB (publ) - President & CEO***

Thank you, Maurice. So on B2B, I mean what you see is basically pressure, especially in large enterprise when it comes to government contracts. And that is both when you renew and when you bid for them for customers we don't have. So that's why you're seeing the big pricing pressure. And then when it comes to back book/front book, we do not really comment on that, and we haven't disclosed that yet. So I'm not going to touch upon it. But the whole dynamic here is that, as we -- as these contracts are basically bids you do in a kind of a probably a procurement process, it's very price sensitive, and right now, there is a big -- and has been for quite some time, big price pressure when you go into these kind of bids. That's not the same dynamic you have when you go into private large enterprises. So therefore, we'll focus more on those and get higher prices there.

And it's absolutely not the same when you go into the SME segment where we have not been focusing nearly enough historically. And that's something where we built a lot of capabilities and still are in order to get our fair share of that market. So it's a combination. It's not one answer, but if you -- if we do this in combination, I'm sure that we will lead to -- it will lead to us being able to take in more RGUs and not see the same pressure on ASPU that we see currently. And that will then ultimately lead to us being able to turn into growth on end-user service revenue.

When it comes to pricing on the B2C side, you called out that Telia has done price moves. What we are doing right now is that, I mean, as you know, we have repositioned the Tele2 brand. We have introduced other kind of FMC capabilities. We have now 93,000 people on our benefit packs and so forth. And we'll continue to do more for our customers, and therefore, we think we are now ready to start the pricing cycle also for mobile. And that's what we're going to start the second half of this year. And the way this works normally is that you -- we will -- I am not going to do the timing because it's kind of sensitive. I'm not going to talk magnitudes, but it's something that's going to be initiated during the second half of the year. And we expect it to have impact on our revenues towards the end of this year and obviously be a component for turning into growth in 2020 in line with our guidance.

Operator

Your next question comes from the line of Siyi He from Citigroup.

Siyi He ***Citigroup Inc, Research Division - VP***

I have 2 questions please. The first one, I just want to follow up on the pricing powers. I wonder if you can comment on what you see the pricing power on your fixed business. I understand that you only increased 1/3 of what you increased last year and whether you see now you have a better pricing power on the fixed side. And the second question is, you talk about you are investigating the further cost-saving opportunities. I wonder if you can give us some flavor on what that would be and what other safeguard measurements in place to ensure that it's not going to affect the ambition to return to top line growth?

Samuel Skott ***Tele2 AB (publ) - EVP of Sweden Consumer***

It's Sam here. So let me start with the first question on pricing on the fixed side. I think it goes -- what we will see going forward, it's a very similar look for both fixed and mobile. We are building an FMC capability that benefit customers both on mobile and fixed world. We're working hard on improving customer experience and product quality. And that together with the successful branding campaigns we are doing will build pricing power over time. And as Anders said, we see that we can start working with this already this year and then going into next year.

Anders Nilsson ***Tele2 AB (publ) - President & CEO***

Yes. And then for your second question, which comes to additional cost opportunities above and beyond the SEK 900 million synergy target, we call that the integrated operator. So what we have now in Sweden are basically 3 separate organizations running parallel. We have a B2B setup. We have a mobile consumer setup. And we have a fixed setup -- fixed consumer setup.

And what we intend to do now is to blend them together into one operation covering all 3 segments in as large extent as possible. And that will lead to efficiencies. Let me give you one example. If we take the network side of the equation, then we basically have today 3 network organizations. If you blend them together into one network organization, you will find synergies. You don't have to have triple functions -- 3 functions doing the same thing. It normally is enough with one or something like that, and that will lead to further cost opportunities. And you can do that across a number of the functions, and then you create a kind of a more agile company, run much more efficiently and being able to service our customers faster and better and at a lower cost base. And this is the opportunity we're sizing up right now. And we hope to be able to come back to you later this year with what we think is possible to do and then start executing on it. I hope that answers your question.

Operator

Your next question comes from the line of Ulrich Rathe.

Ulrich Rathe ***Jefferies LLC, Research Division - Senior European Telecommunications Analyst***

My first question is sort of a bit of a follow-on on what Lena asked about the reinvestment of synergies. The synergy guidance has been raised quite a bit for the year. I know that's the run rate, but still, you would expect some of that to stick also on sort of a higher net effect. On the other hand, you're maintaining the EBITDA guidance. I understand, Croatia is a bit of a drag, but still, it just feels as if you have changed your plans a bit in terms of how much you want to reinvest in the business. On the other hand then we see the top line outlook essentially unchanged. So all of this sort of together feels as if, if I want to say very crudely, as if you find yourself having to invest more commercially in order to maintain the same top line. How would you sort of frame that question? That would be my first question.

The second one, on the business mobile front, is there any element on your top line decline of you consciously walking away from business, in particular, in these more price-aggressive areas now you're willing to sort of quantify that? So I'm talking about really sort of decisions to essentially not bid rather than sort of getting into these price pressure situations.

And potentially, third question, if I may, you are, of course, sort of having a lot of upheaval in the organization as opposed -- because of these synergy realizations. Now you're sort of hinting at more synergies which ultimately means job losses. How do you sort of maintain the motivation in the company? How do you see that? Is this -- is -- those job losses mainly in the legacy businesses where sort of -- just going to spend on anyway? Or is there really an element here that people are essentially having to fear for the jobs on a continuous basis now that you're hinting for further cuts beyond the ones you've announced earlier?

Mikael Larsson ***Tele2 AB (publ) - Executive VP & Group CFO***

Thank you. It's Mikael here, and I will try to respond on and comment on your first question or area for this discussion. I think you -- the way we look at this is -- the guidance we gave you, that is first of all on the yearly basis, and what you refer to is probably the -- it's a mid-term guidance. And that's where we have the low single-digit growth for end-user service revenue, mid-single-digit growth for underlying EBITDA and mid-single-digit -- there's of course a range to both of these targets. And these are the mid-term and also the guidance for this year, but it's on a yearly basis.

Then you come back to how we play this tactically from quarter to quarter. If we invest into extra marketing to grow top line, and that is what we have done in Q2, and you see the results in the customer intake we have in this quarter but negatively affecting profitability short term. And these tactics will continue to play each quarter. And that's why I don't comment specifically on marketing spend in one single quarter in the future.

So short term, I agree with your conclusion. But if you look forward into the coming quarters, we will play this tactically different from quarter to quarter depending on the opportunities we see. So I agree with your conclusion about the performance for this quarter. But it doesn't mean that we have to do the same in the coming quarters.

Anders Nilsson ***Tele2 AB (publ) - President & CEO***

So -- and to add on that, let's go back to the first question we had, for instance, from Stefan Gauffin on -- the question was if we were -- if we consider going into the fighter brand end of the market, let's assume that we would do that, and so that was a great idea. That will take some investments in order to get there, which are of a temporary nature.

On the other hand, it will lead to revenue opportunity if successful, which are bigger than what we see today. So it's also a tradeoff of what kind of revenue initiatives we go for and when we do it. And I don't think you will at any point in time see the full effect in the guidance of everything we're doing. And so therefore, my take is that we are investing in the way -- right now, we're investing what we need to invest temporarily in order to get to the guidance for next year, which is in line with what we have talked about before because what we're investing in is into the 3 buckets where we see revenue synergies coming through. And I stress once again, these are temporary effects. It's not an ongoing increase in OpEx or CapEx. It's a temporary effect, while the synergies we take out are of a permanent effect. That effect you will have over the long period of time.

Then the second question is -- was on B2B and solutions basically. Are we -- basically, are we walking away from deals where the price is so low that we say no to it. And we have made a deliberate choice to try to focus on products where we have a good margin. And we have found that some products have a bad margin, even negative margin, and we have stopped selling products with negative margin and only sell products we actually make money on, which I think is good business sense.

And that will have some effect on the margin of our growth aspirations. But on the other hand, we're taking the efforts -- or the sales efforts that we historically spent on selling these solutions which we didn't make money on and focusing them on selling stuff where we have a good margin. So ultimately, I don't think this will lead to a better -- or a worse growth profile or growth opportunity. It will most likely lead to the same growth opportunity but with a better profitability.

Then when we come to the third question, which is about motivation, how do we motivate a company where we go through so drastic transformation? And I think it's fair to say that change takes a lot of effort and you get quite tired of making this amount of change, and the change we've gone through the last half year or 8 months is on the scale that I don't think this company has ever seen before. So I think there's a lot of people who now need to go on vacation in order to get some rest and perspective and then come back and fight when we fight for the second half of the year. And we're actually happy to send everybody or most people off on vacation now.

What I think we have gathered around here is the idea that we can take a very good company and actually build it into the challenger it was meant to be when it was launched in the '80s, namely, to challenge the incumbent here in Sweden. And now we, for the first time, have all the capabilities in order to do that. We have fixed. We have mobile. We have video. So we can challenge the household for the telco services. And this is something that is a very positive thing and something that is -- something that it was created to do. And therefore, it's something that people feel is motivating.

On the other hand, we need to do is and be more agile and faster than our competitors. And I think there is an understanding that this will mean that we will -- have to become more effective -- cost effective, and that ultimately leads to losses of jobs. And this is something that the organization has been aware of since I think the beginning of this year when we start talking about this actually. And with the effect that we have not seen morale go down from that point, I would say. I think it's been rather the opposite that we see that we can gather around something that actually is positive in the end. So I believe this is manageable to do in the way we have set it up and are executing.

Operator

Your next question comes from the line of Terence Tsui from Morgan Stanley.

Terence Mun-Sion Tsui ***Morgan Stanley, Research Division - VP***

I've got another question about reinvestment opportunities, I'm afraid. Looking further ahead, are you confident -- or still confident that the move towards FMC will mean that you'll see less need to reinvest in the brand, less need to chase customers and more price -- and more rational pricing dynamics in the future so we should be able to see the realization on the synergies and EBITDA and cash flow further out?

And then my second question is just on the network outages. Maybe you can say a few words around the recent outages and reassure us potentially that this shouldn't lead to higher CapEx in the future.

Samuel Skott ***Tele2 AB (publ) - EVP of Sweden Consumer***

Terence. Samuel here. So I'll take the first question. Yes, we're definitely confident that we can do that. I mean we're not the first one pursuing an FMC strategy. And if you follow many other countries, you have a kind of a -- there are 2 parts of FMC. 1 is the volume and the value growth of customers, making them more happy and more loyal, providing more products and working with pricing. The other part of it, of course, is becoming more efficient. And we will work with both, but tactically, short term, we're focused more on the first part. We need to build an FMC customer base. We need to build that loyalty. We need to build that trust in order to do both. But we're definitely confident we can do both.

Anders Nilsson ***Tele2 AB (publ) - President & CEO***

Yes. And there is nothing today that tells us that we should not be able to deliver the revenue synergies of SEK 450 million in 5 years' time. I mean, we're tracking well in all the initiatives we're doing every day. So I think that reassures -- or I hope that reassures you, Terence, that we will -- that so far it looks good at least.

Then on the network outages, and for everybody's information, we have had -- I think it is 3 network issues the last year. And we had one not long ago which was quite severe, I have to say. And on the back of that, we have launched a kind of investigation into our network and how we operate it and how it's constructed and so forth by external experts. And this is something that will go on for a couple of months' time. And the reason we do this is obviously that we need to have the best network quality in the country, and that's what we aim at, and we're not going to rest until we're there. We have got the kind of first feedback from these experts, and the conclusion is that we do not see a need for any major investments. This is not about investments. This is about more how a process is and how we do things when we do change and when we do upgrades and things like that. So it's more operational than CapEx heavy, if you will. And it will not drive more OpEx either because it's how we work rather than how many we are who do these things we do. So our conclusion is that this is not something that's going to change our CapEx guidance at all. And I hope that reassures you, Terence, as well.

Operator

Your next question comes from the line of Andrew Lee.

Andrew J. Lee ***Goldman Sachs Group Inc., Research Division - Equity Analyst***

Couple of questions. Firstly, just kind of tying together I guess all the kind of concerns, which is on -- which is basically whether you see the Swedish market as less supportive to top line growth at Tele2 now. And do you think the legacy headwinds are getting worse just more broadly? Tsui discussed the B2B market backdrop looks a bit worse. TV doesn't look great. So does this mean the burden on price rise is even larger as we go forward in your view? And then second question, obviously, you're in execution mode at the moment but strategically, just wanted your view on the need to own your network and just going to sell the network in the same way that we've seen other challenger operators do in the past year.

Anders Nilsson ***Tele2 AB (publ) - President & CEO***

Yes. Okay. I understand. Thank you very much, Andrew. So when it comes to the market as such, I don't think we see any major changes. There is no fundamental change in the market dynamics. If you go through it, there is big pressure on large enterprise public sector, which we acknowledge, and therefore, we try to sell elsewhere where there is less pressure. We -- on mobile, you see rather the opposite, where it's the increasing prices which I -- Samuel, do you remember when you saw increase in mobile prices last time?

Samuel Skott ***Tele2 AB (publ) - EVP of Sweden Consumer***

Can't remember, to be honest.

Anders Nilsson ***Tele2 AB (publ) - President & CEO***

And you've been here since 1922 or something like that?

Samuel Skott ***Tele2 AB (publ) - EVP of Sweden Consumer***

Exactly.

Anders Nilsson ***Tele2 AB (publ) - President & CEO***

Yes. So it's probably for many years. And then when it comes to TV, I mean it's -- what you see there is the effect of people buying less premium, which is also a thing that has -- we have seen over quite some time, and the effect of us not taking price this year as we did last year, and that's what's hurting us. So I don't really see a major shift in the market. I think it's actually slightly better, given the mobile environment. Or what do you say, Samuel?

Samuel Skott ***Tele2 AB (publ) - EVP of Sweden Consumer***

Yes. If I could add, I think we're seeing improvements in Prepaid, and we're also seeing improvements in the Boxer environment, which is part of legacy. It is actually improving. So I agree.

Anders Nilsson ***Tele2 AB (publ) - President & CEO***

Yes. And then when it comes to the network side of it, I mean what we have done, as you know, we have -- we are big believers in network sharing, and we've built network, 4G and 5G, together with Telenor. So a lot of the benefits that others take out in form of selling their network, we have taken out by operational efficiencies and lower CapEx by doing network sharing. I'm not a stranger to, at some point in time, looking at our network assets together with Telenor and see if there is some smarter way of doing that. But it's nothing that we have discussed with them yet but maybe something we should do in the future. And I hope that answers your question, Andrew.

Andrew J. Lee ***Goldman Sachs Group Inc., Research Division - Equity Analyst***

Yes.

Operator

Your next question comes from the line of Mandeep Singh from Redburn.

Mandeep Singh ***Redburn (Europe) Limited, Research Division - TMT Specialist Sales***

So I'd like to ask primarily on the top line and the sort of synergies growth versus net on the EBITDA growth. I mean your consumer revenue trends have deteriorated sequentially 4 or 5 quarters in a row. Business revenue trends have deteriorated sequentially 2 or 3 quarters in a row. You've delivered SEK 240 million of year-over-year EBITDA growth in the first half. I could annualize that or maybe give it a little bit more run rate. So I'm trying to square top line growth versus EBITDA growth and gross synergy guidance versus net EBITDA growth. And the sector has little bit examples of massive gross energy savings not translating to a strong EBITDA growth as people expect and the culprit is usually revenues. I'm trying to understand confidence around revenue growth, given we've had 4 or 5 conservative quarters of revenue deterioration, so beyond that, you might do some pricing actions. What else can you tell us that will give us more comfort on revenues trends, please?

Anders Nilsson ***Tele2 AB (publ) - President & CEO***

That's a fair and good question. So I mean we -- what we have done now is that we have embarked on the FMC strategy. We started that in November. We have outlined 3 major initiatives that will drive revenues. We have put out a target of SEK 450 million revenue synergies in 5 years' time. They are selling mobile services into the fixed base. It is selling fixed services into the mobile base. And it's reducing churn by having more RGUs on the same customers. And they, on an EBITDA basis, are roughly equal, these premeasurements. And we are -- all of them, we are tracking well.

Price is not one of them, but now we have found another driver, which is price, which we then will start using also. I should also tell you that, in our revenue synergies, we estimate a churn reduction of -- I think it's 1 percentage point in 5 years' time. So in our case, that would mean going from 18% going down to 17% churn on an annual basis, which is not very ambitious if you look at other operators who have done significantly better. Look at KPN, for instance, which are hovering around 10% in terms of churn as an FMC operator. So I think there is much upside to this if we executed well, and so far, for instance, we have done so, I would say. We have 1/3 of the overlap already on FMC benefit packs. And we are actually so far ahead that we now can start taking price on mobile, which was not part of the plan.

Then we have other opportunities which are not part of the original plan either and which we're investigating. I mean, we have already today talked about one of those. That's the fighting brand, which is a part of the market where there is growth, and we are not participating in it. If we were to launch ourselves into that part of the market, that would be an additional growth driver. Then we have, on top of that, going back to video or TV, which Andrew mentioned in the previous question, we have not put into the plan either to go OTT, which is something we probably -- we will do and which we're preparing right now, something for next year, that will help us tap into part of the market where there is growth which we are not participating in and so forth and so on. So we have more growth drivers at our disposal than we have in our guidance, if you will. And that gives me confidence that, over time, I'm sure that we will find enough growth drivers to get us to the growth we're guiding you to. But we're in the ramp-up period. And we also said that this year, 2019 is the year when we build for the future. So don't expect growth this year. We are building so to expect growth from next year.

Operator

Your next question comes from the line of Frederic Boulan from Bank of America.

Frederic Emile Alfred Boulan ***BofA Merrill Lynch, Research Division - Senior Analyst***

So just a quick focus on the fixed line side. So if you could base this on your plans in the -- as the area whether you think there's an opportunity there to increase share. And secondly, to come back on the previous questions around ASPU dynamics, especially in TV, ARPU is down quite a lot. So if you could explain a bit more what's driving this. Is it mix? Is it, as you were describing, customers taking cheaper packages? And as we think about OTT, we're probably strengthening that move, but what's the impact on ARPU, which was really -- especially impact on profitability versus your traditional pay TV business?

Samuel Skott ***Tele2 AB (publ) - EVP of Sweden Consumer***

Frederic, Sam here. So if we start with the ASPU area, I think we're already now making good progress in this area taking in customers, especially on the broadband side both with the Com Hem brand but also with the Boxer brand. And going forward, we continue to see this as an opportunity as we expand our universe but also with an opportunity to add more of our brands that actually go into that market to take a really good share. If we then turn to TV, I mean the big difference actually is pricing. Yes, there is an underlying trend of consumer viewing habits changing from a linear to a more on-demand habit, but that is nothing new to us. It's been here for a couple of years, and it's changing in the same pace that it's done before. And yes, that is leading to customers buying less premium, but they're still buying TV packages from us. So that's a positive thing. So the change in itself, yes, it is there, and it's putting pressure but not more than before. So the actual difference is pricing. And as we talked about before, as we combine mobile and fixed, as we provide benefits, as we continue to work with quality and customer experience, we believe that we can add pricing into the mix to help with those steps.

Anders Nilsson ***Tele2 AB (publ) - President & CEO***

Yes. And then adding on to that on the OTT side, as we go OTT over time, OTT products are normally sold at a discount to the legacy products, and this will be the case here also obviously. And our business case and experience suggests that if we price ourselves at market for OTT services, we will be able to generate the same cash flow per customer on an OTT service as we do on a legacy TV customer. One of the main reasons is that we do not have to provide hardware to the OTT customer, which you know is quite a significant cost. And therefore, we will be able to lower the price and still generate the same amount of cash flow. On top of it, it's actually much less expensive to operate an OTT business than a broadcasting business for an operator like ourselves, which also helps us on the OpEx side.

Operator

Your next question comes from the line of Keval Khiroya from Deutsche Bank.

Keval Khiroya ***Deutsche Bank AG, Research Division - Research Analyst***

Just going back to B2B highlights, the upside from SOHO and SME but also the downside in large enterprises. Could you just help us understand a bit more on how the timing of those 2 dynamics will play through? So should we start to think about the upside coming through more before we start -- whilst we're still seeing some of this downturn in large enterprise? And should B2B revenue therefore start to improve? Or will this be -- or would that be a slow improvement?

Anders Nilsson ***Tele2 AB (publ) - President & CEO***

So then, thank you very much for your question. The timing of this is very hard to predict. So I mean I'm going to stick with what we believe is that, from next year, we should be able to turn B2B into growth. It's hard to say when we actually turn the corner and see the inflection. But next year, we target to grow the B2B business. And that's what I can give you at this point in time.

Operator

Your next question comes from the line of Johanna Ahlqvist from SEB.

Johanna Ahlqvist ***SEB, Research Division - Analyst***

Just one question from my side. Back to the price increases. As I understand, it's exposed to fixed and mobile. And my question is really, do you expect the price increases on the back book or only new subscribers?

Anders Nilsson ***Tele2 AB (publ) - President & CEO***

So Johanna, this is -- I understand the question, but this is sensitive from a competitive standpoint. So I don't think we will give you more than what we already have given you. And I hope you understand that.

Johanna Ahlqvist ***SEB, Research Division - Analyst***

Okay. But then -- another question, if I may, then. You mentioned this further potential on the cost side and that you will be back to the market later on this year with sort of definition. But can you give us sort of the magnitude of the expected cost savings? I mean is it in line with the current program? Or do you expect this to result in even more cost savings longer term?

Mikael Larsson ***Tele2 AB (publ) - Executive VP & Group CFO***

The idea is to generate more cost savings beyond the SEK 900 million in synergies. But the magnitude is what we will come back to later this year.

Operator

Your next question comes from the line of Jörgen Wetterberg from Nordea.

Jörgen Wetterberg ***Nordea Markets, Research Division - Senior Analyst of Telecom and IT***

I have a question regarding the spectrum auction outlook here both for Sweden coming end of this year and then also for the Baltics. What are your expectations for investments to acquire spectrum in these markets? And what visibility do you have on timing of this?

Anders Nilsson ***Tele2 AB (publ) - President & CEO***

So thank you very much for those questions, Jörgen. It's -- I mean we can't comment on what we expect in terms of pricing in an auction. I think that would not be wise. But what we can say is that, on the auction that is next coming up here, which is in Q1, I think, in Sweden, the more high-band auction, we have different sets of rules which should make prices -- which should make it -- make prices not -- which should not make the auction as competitive as the one we had last year for the 700 band. That's what you can -- that's what I can tell you. And then we also have other auctions coming next year in the Baltics. And they are significantly less costly historically than they are in Sweden. But I -- we'll not comment on specific figures.

Operator

Your next question comes from the line of Peter Nielsen from ABG.

Peter-Kurt Nielsen ***ABG Sundal Collier Holding ASA, Research Division - Lead Analyst***

Just one question left at this stage, please. Anders, you talked about under the CapEx guidance slightly delayed 5G rollout. Could you just elaborate why is that, please?

Anders Nilsson ***Tele2 AB (publ) - President & CEO***

Peter, thanks. So we're in the middle of the procurement process for 5G obviously. And we find ourselves in the middle of a trade war between U.S. and China, and we also find ourselves in a situation where Europe or EU and local governments are looking to include or implement rules for network security. And it's very hard to make a choice on vendor while we have these uncertainties, and therefore, we take it a bit easy when it comes to choosing who to go with at this point in time until we gain more clarity. And what we do instead is that we keep on investing into the 4G network where we need to build capacity and not to make the customer experience worse but at a very good level.

Operator

We will now take our last question from the line of Kristoffer Carleskär from Handelsbanken.

Kristoffer Carleskär ***Handelsbanken Capital Markets AB, Research Division - Analyst***

I just want to go back to the network outages and the roaming problems over the last couple years. So do you see any impact in the customer behavior from these problems? I would particularly think that B2B customers might be a bit more skeptical for choosing your services. So are you experiencing any problems in negotiations? And also on Lithuania, you have increased your margins to 38% versus Q1 in Q2. Are there any nonrecurring items supporting this expansion? Or should we expect for this at a new level for the Lithuanian operations?

Anders Nilsson ***Tele2 AB (publ) - President & CEO***

So thank you. So we have -- of course, when there are network outages, customers are not happy. That's quite clear. But we have not seen any fallouts as a consequence of this, and we have not seen any bids we have not won either as a consequence of this. When it comes to the margin in Lithuania, I turn to Mikael. So 38%, is that the new normal?

Mikael Larsson ***Tele2 AB (publ) - Executive VP & Group CFO***

We can't -- we'll not give you guidance going forward. But what we can say is that, in the first half of this year, there are no material one-offs in the numbers.

Anders Nilsson ***Tele2 AB (publ) - President & CEO***

So I guess that was the last question, if I understood it correctly. And then I would like to thank you all for your interest in Tele2 and for participating in this call. And I hope you all have a great day. Thank you.
