



# Q3 2018 INTERIM REPORT

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OCTOBER 18, 2018

# DISCLAIMER

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# SUMMARY AND OUTLOOK

## COM HEM GROUP ON TRACK FOR FULL YEAR GUIDANCE

### SUMMARY OF Q3 2018

#### Reduced churn and improving volumes

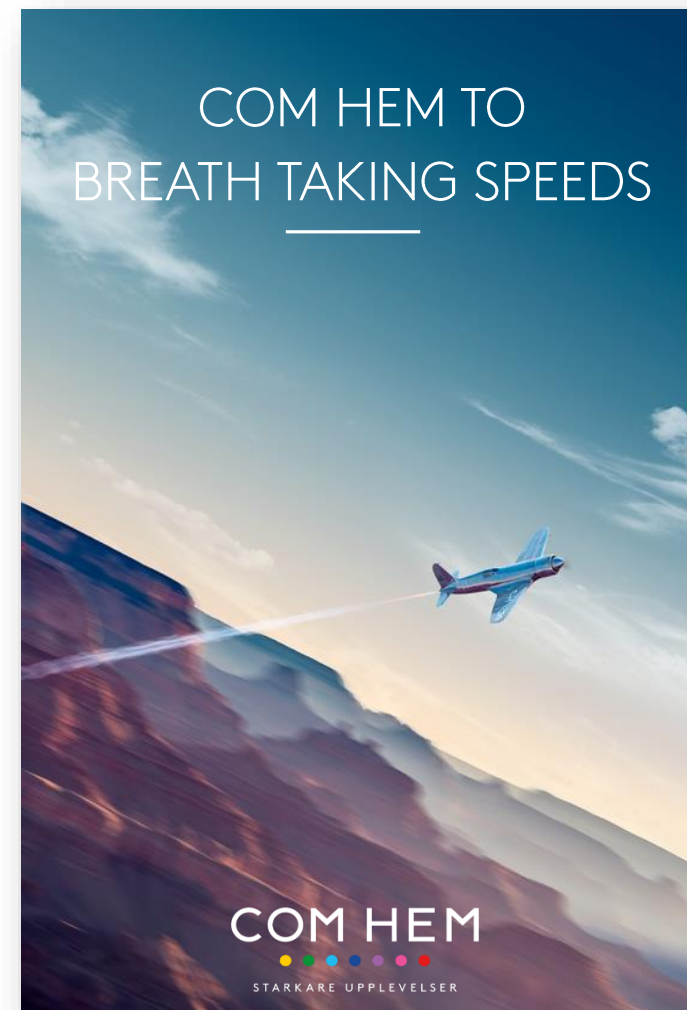
- Com Hem consumer churn at record low 12.4%, consumer ARPU down SEK 3 sequentially to SEK 375
- Com Hem added 7,000 unique subscribers – a slight improvement from previous quarters
- Boxer broadband net adds of 5,000 – an improvement from previous quarters
- Boxer subscriber and RGU decline of 6,000 and 4,000, respectively – an improvement from previous quarter
- Boxer consumer ARPU down SEK 3 sequentially to SEK 306 as lower-ARPU broadband grows while DTT declines

#### Financial growth in-line with guidance

- Group revenue decline of 0.2% driven by Boxer decline of 7.0% offsetting 1.9% growth in Com Hem Segment
  - Continued good growth in Com Hem Consumer revenue, up 3.7%
  - Turnaround in B2B revenue, up 0.7%
  - Network Operator revenue decline of 7.5% offsetting Consumer growth
    - Timing of low-margin fibre connection fee revenue
    - Expect headwind through 1H19 – minimal effect on underlying EBITDA
- Group underlying EBITDA growth of 4.2%
  - Com Hem Segment growth of 4.5% - margin at six-year-high
  - Boxer Segment growth of 1.9%, record margin – full benefit from synergies
- Group operating free cash flow growth of 17.3%

#### Commercial update

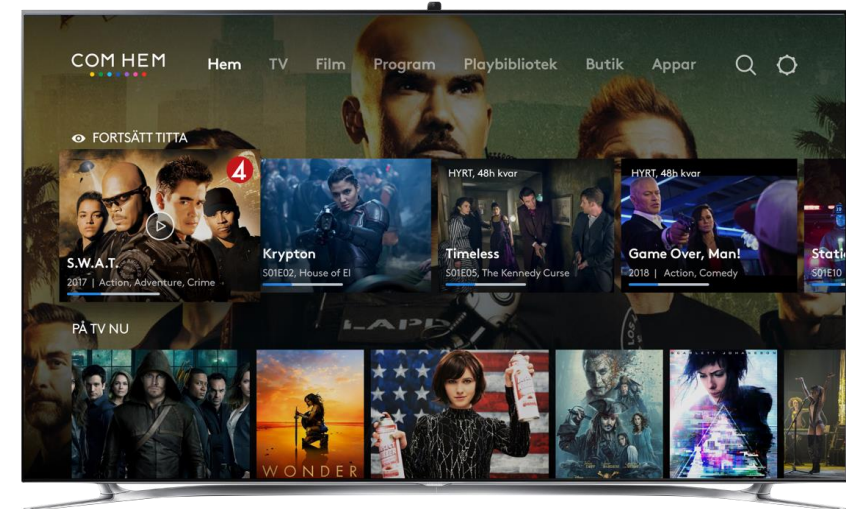
- Commercial launch of 1.2 Gbit/s for 600,000 households
- New speed tiers introduced and customers upgraded to higher speeds
- Strong start to TV Hub with great demand and customer feedback in both brands



# LOOKING FORWARD

## OUTLOOK FOR THE GROUP

- Continue to execute more-for-more strategy, adding value to our customers
- Expect to deliver in-line with full year guidance
- Continue network upgrade rollout – 1.2 Gbit/s speeds enabled in part of network
- Finalize the merger with Tele2 – closing on November 5
- Prepare the merged entity to execute on cost synergies and launch FMC offers as soon as possible
- Expect to provide guidance for combined entity in the beginning of 2019



### REITERATING FINANCIAL GUIDANCE FOR THE GROUP – 2018 AND MID-TERM

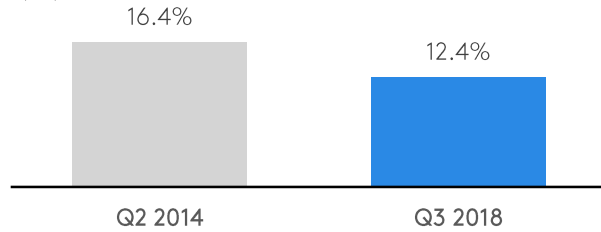
<b>Underlying EBITDA</b>	We aim to deliver mid-single digit underlying EBITDA growth for the entire Group annually. We expect growth to be skewed toward the Com Hem Segment in 2018 as we continue necessary efforts to execute on the turnaround of Boxer
<b>CAPEX</b>	We expect Capex for the entire Group to be in the range of SEK 1.0-1.1bn annually
<b>Leverage target</b>	We aim to maintain our leverage within the interval of 3.5-4.0x underlying EBITDA LTM

# ACHIEVEMENTS SINCE IPO

Tripled shareholder value since listing

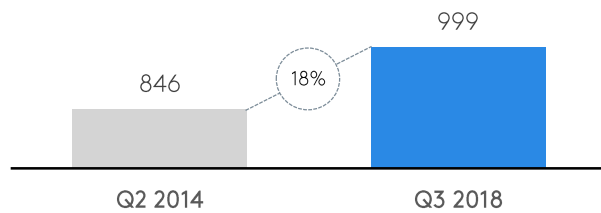
1

Com Hem Segment consumer churn (%)



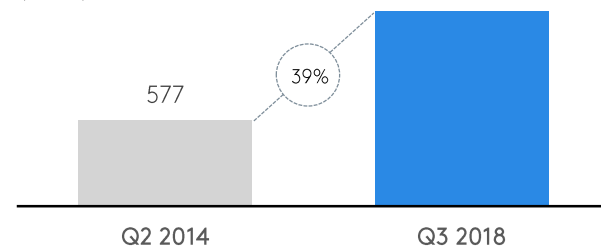
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Com Hem Segment unique subscribers (000')



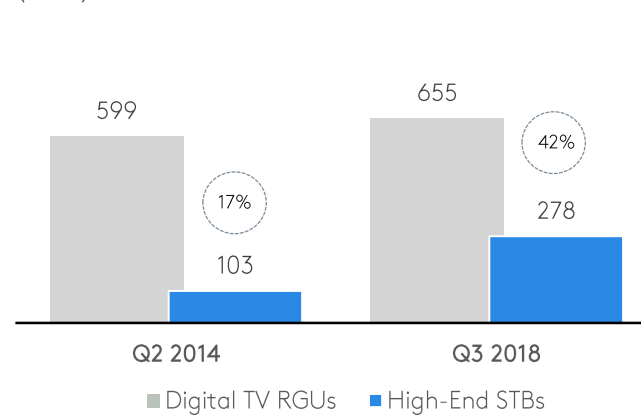
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Group Broadband RGUs (000')\*



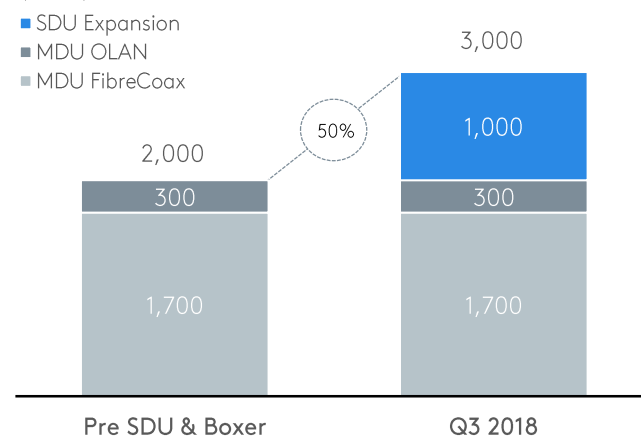
4

Com Hem Segment Digital TV RGUs (000')



5

Group Addressable Households (000')



- 1) Churn has declined by 4 percentage points to 12.4%
- 2) Unique customers have increased by 18% to almost 1 million customers
- 3) Broadband RGUs have increased by 39% organically and the average speed in the broadband base has increased by 130%
- 4) Digital TV RGUs have increased by 9% in the Com Hem Segment and penetration of high-end set top boxes has increased from 17% to 42%
- 5) The Group has reached its target of 1 million addressable households in the SDU market, expanding its footprint by 50%
- Shareholder value almost tripled with a TSR of 197% between the IPO and the 2018 EGM\*\*
- During the same period, the OMX Stockholm 30 index had a return of 39% and the Stoxx 600 Europe Telecom index had a return of -3%
- We believe no other investment in any publicly traded European telecom company during this period would have offered a greater return

\* Q3 2018 number includes organic growth of 29,000 Boxer broadband RGUs since the acquisition of Boxer

\*\* Com Hem TSR calculated based on IPO offer price (58.00 SEK), and Tele2 merger offer price of 153.78 SEK on 21-Sep-2018.

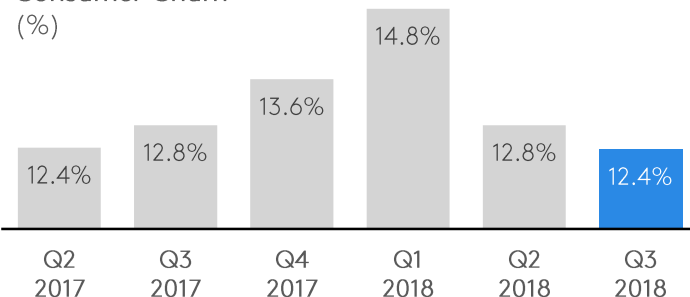
# OPERATIONAL UPDATE

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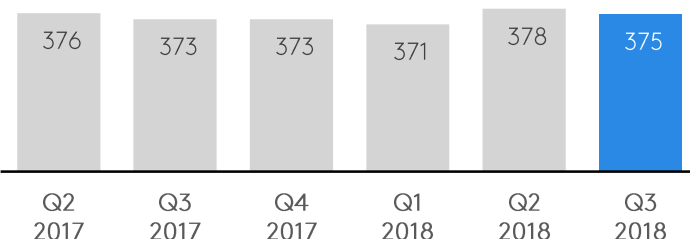
# OPERATIONAL HIGHLIGHTS

## COM HEM SEGMENT

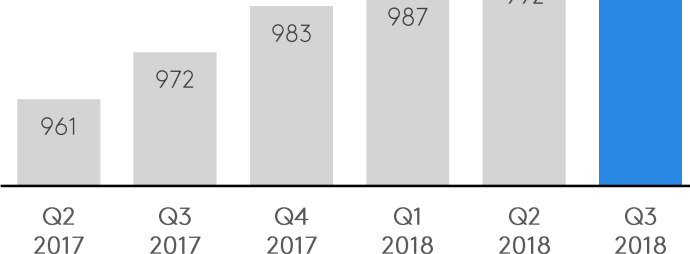
Consumer Churn (%)



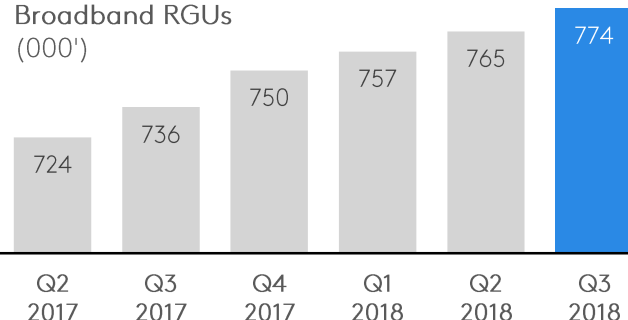
Consumer ARPU (SEK)



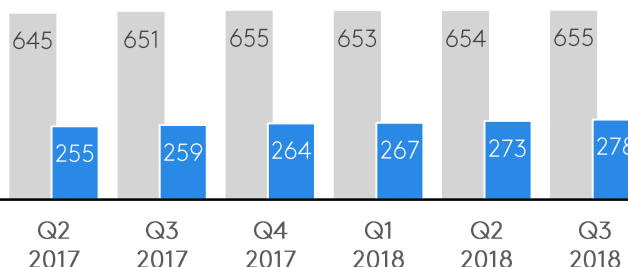
Unique consumer subscribers (000')



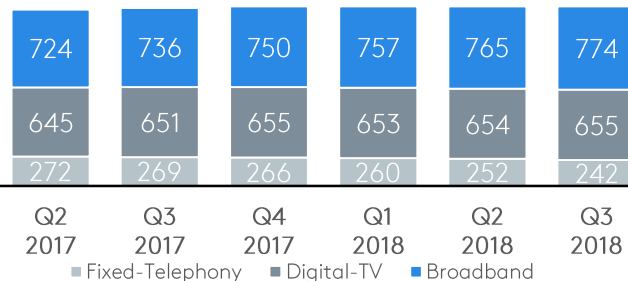
Broadband RGUs (000')



DTV and High-End STBs\* (000')



Total RGUs (000')



### COM HEM SEGMENT OPERATIONAL HIGHLIGHTS:

- Churn down 0.4 p.p. to 12.4%
  - Record low as price adjustment-related churn subsides
- ARPU down SEK 3 to SEK 375
  - Similar trend as previous year
  - ARPU spike from price adjustment in Q2 unwinds throughout the year
- Slight improvement in unique subscriber net intake
  - Up 7,000 to a record high 999,000
  - Sequential increase due to lower churn and improved sales
- Broadband RGUs up 8,000 to 774,000
- DTV RGUs up 1,000 to 655,000
- High-end STBs\* increased by 5,000 driven by launch of the new TV Hub
- Fixed Telephony RGUs declined by 10,000 due to price adjustments in the quarter

\* Refers to customers with either a TiVo or a TV Hub set top box

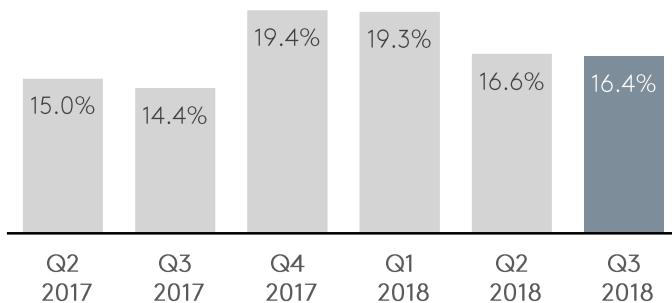


# OPERATIONAL HIGHLIGHTS

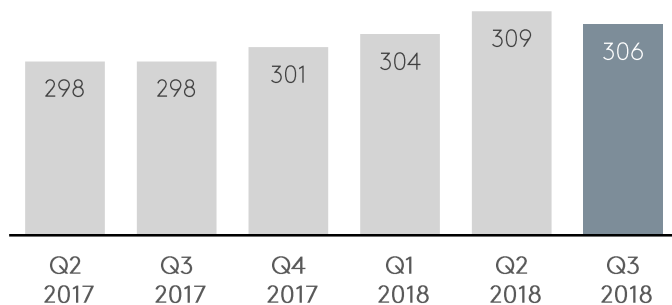
## BOXER SEGMENT



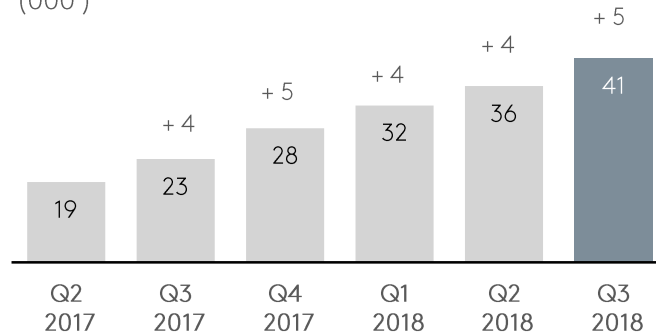
Consumer churn (%)



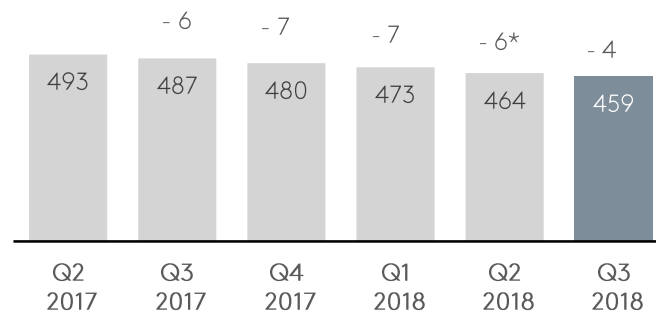
Consumer ARPU (SEK)



Broadband RGUs (000')



Total RGUs (000')



### BOXER SEGMENT OPERATIONAL HIGHLIGHTS:

- Churn down 0.2 p.p to 16.4%
- ARPU down SEK 3 to SEK 306
  - Churn of DTT remains high and lower-ARPU broadband net adds increase
- Improving volume growth
  - Decline in RGUs of 4,000, slight improvement from previous quarters
  - Decline in unique customers of 6,000, slight improvement from previous quarters
  - Broadband RGUs up 5,000 to 41,000, slight improvement from previous quarters
- Structural headwinds in DTT remain, focus to drive down churn and reach RGU equilibrium as broadband RGUs increase
- Continue the work to reduce cost base

\* Opening balance for Q2'18 adjusted due to database cleaning in connection to system migration of Boxer customer base. Q2'18 KPIs calculated based on adjusted opening balance.

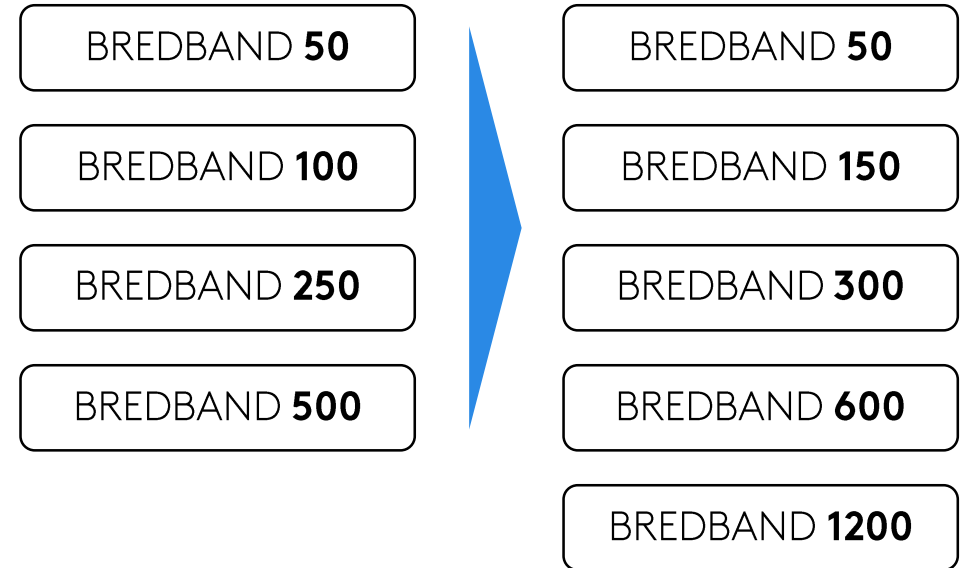
# BROADBAND SPEED LEADERSHIP EXTENDED

1200 MBIT/S TOP TIER SPEED LAUNCHED – FASTER THAN MAJORITY OF LAN NETWORKS



- New top speed introduced in Coax of 1200 Mbit/s downstream, faster than 1000 Mbit/s typical in LAN networks
- New speed available for 600k households so far with rest of the Coax network to follow as DOCSIS 3.1 rollout is completed
- Bundled with our test winning router offering the fastest wi-fi speeds and the best range compared to our closest competitors

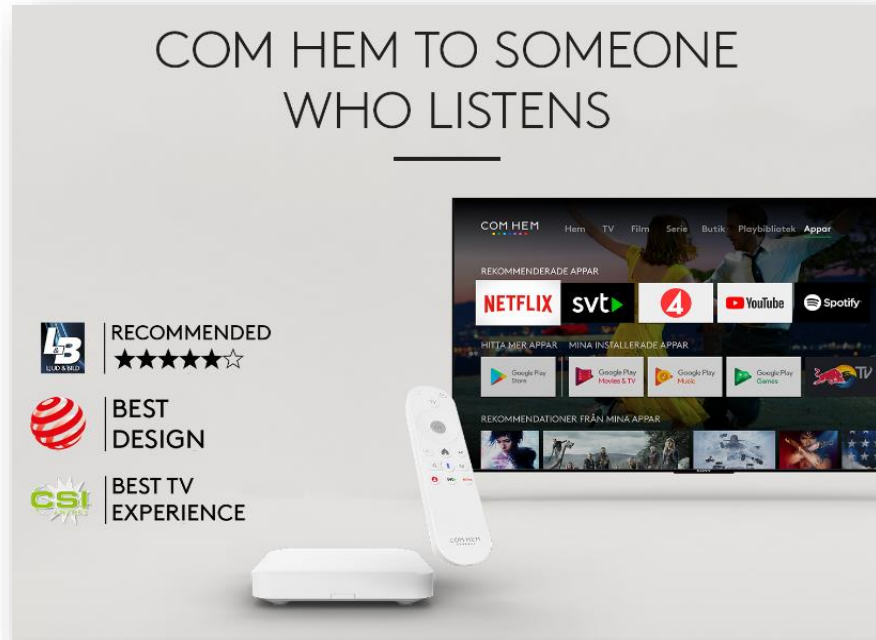
BROADBAND PORTFOLIO UPGRADED TO OFFER FASTER SPEEDS, INTERNET SECURITY AND UNLIMITED CLOUD STORAGE



- Speeds of all Coax tiers above 100Mbit/s increased on the back of network upgrades – faster than equivalent LAN speeds
- Additional services included at no extra cost with 300 Mbit/s tier and above;
  - Internet security for up to 5 devices powered by F-Secure
  - Unlimited Cloud Storage for customers photos, videos and files
- Speed upgrades being rolled out to existing customer base

# TV HUB POPULAR WITH COM HEM AND BOXER CUSTOMERS

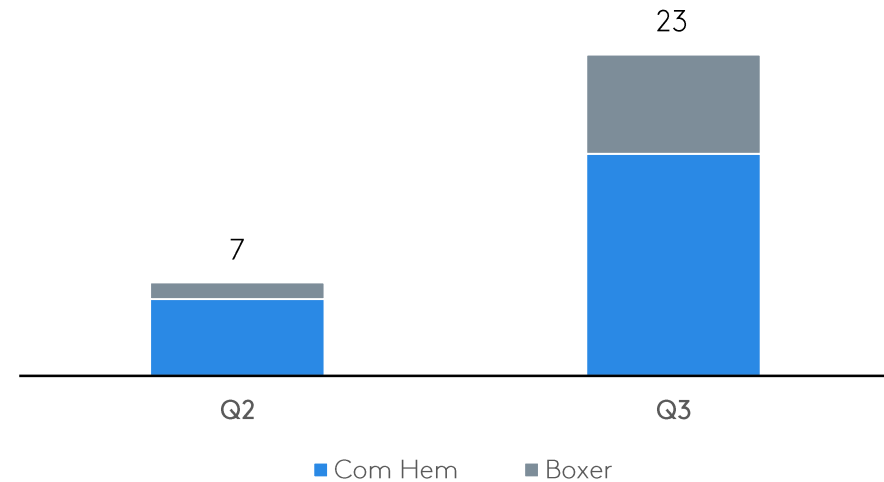
NEW TV HUB NOW WINNER OF MULTIPLE AWARDS



- TV Hub offers best modern way to watch TV with On Demand, apps, voice control and 4K/UHD content
- Winner of the CSI Awards in UX design for “Best TV user experience”, Red Dot Award for hardware design and “Specially recommended” by leading tech magazine Ljud&Bild
- Frequent updates and improvements being made to make the experience even better for our customers

STRONG DEMAND AND POSITIVE CUSTOMER FEEDBACK FOR BOTH BRANDS

TV Hub installed base  
(000! provisioned boxes)



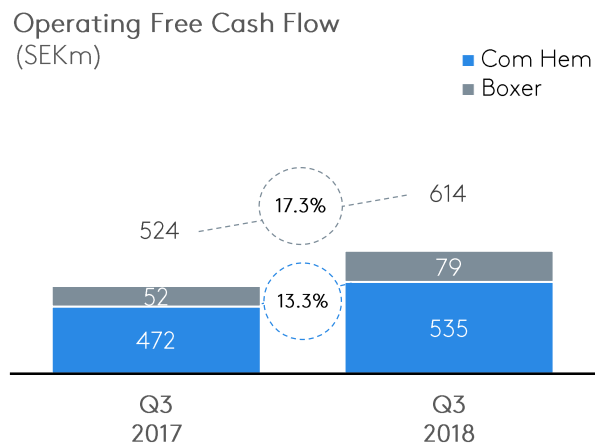
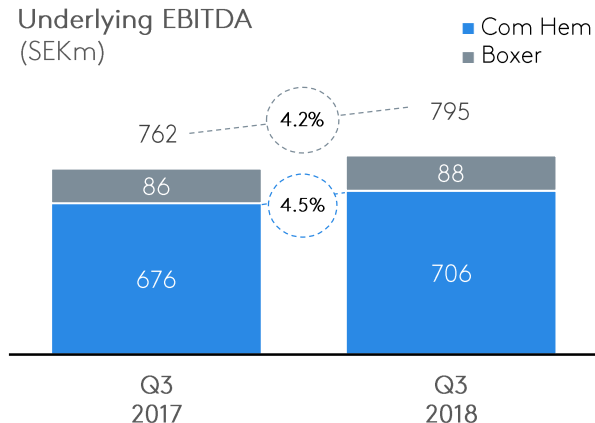
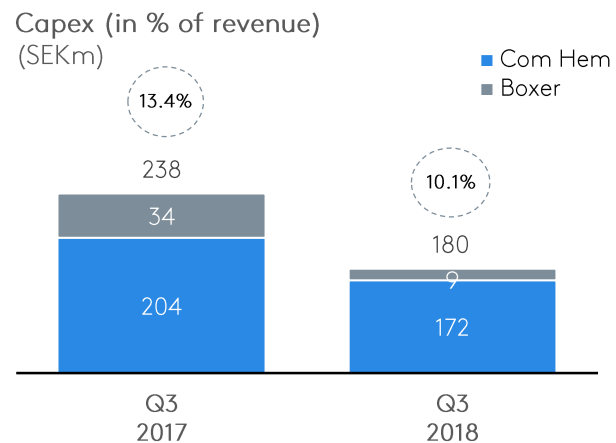
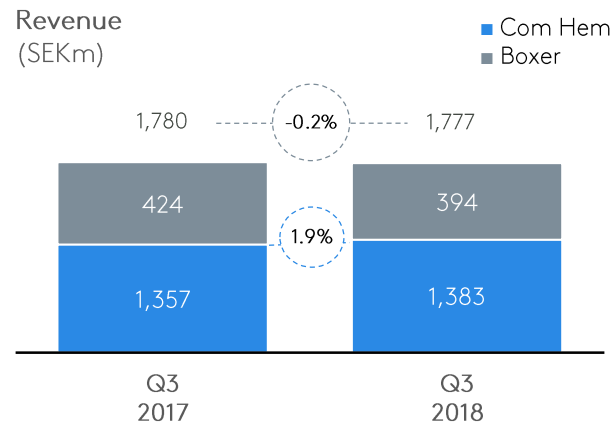
- Strong demand for both brands with Com Hem leading the way;
  - 16k installed Com Hem boxes following ATL launch in May
  - 7k installed boxes in Boxer houses following later ramp up from mid-June
- Very positive feedback from existing customers upgrading to the TV Hub, especially Boxer customers, with 78% saying it is an improvement on the Smartbox

# FINANCIAL PERFORMANCE

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# THIRD QUARTER FINANCIAL HIGHLIGHTS

## COM HEM GROUP



## OUTCOME Q3 2018

- Com Hem Segment revenue grew by 1.9% to SEK 1,383m, driven by growth in the Consumer segment and a turnaround in B2B, partially offset by a decline in Network Operator revenue due to timing of low-margin fibre connection fee revenue
- Boxer revenue decline continued due to DTT churn leading to Group revenue decline of 0.2% to SEK 1,777m for the quarter
- Underlying EBITDA growth of 4.5% for the Com Hem Segment and 1.9% for Boxer leading to a 4.2% growth for the Group, driven by margin expansion in both segments
- Lower capex spend compared to Q3 2017, maintaining guidance of SEK 1.0-1.1bln for full year
- Operating free cash flow increased by 17.3% to SEK 614m in the quarter for the Group due to lower capex and higher underlying EBITDA

# SUSTAINABLE MARGIN EXPANSION

## COM HEM SEGMENT

(SEKm)	Q3 2018	Q3 2017	Change	9M 2018	9M 2017	Change
Network operator	194	209	(7.5%)	622	618	0.6%
Consumer	1,118	1,078	3.7%	3,332	3,196	4.2%
B2B	66	66	0.7%	201	210	(4.6%)
Other	5	4	25.5%	14	17	(19.3%)
<b>Total revenue</b>	<b>1,383</b>	<b>1,357</b>	<b>1.9%</b>	<b>4,168</b>	<b>4,042</b>	<b>3.1%</b>
Production costs	(421)	(414)	1.7%	(1,266)	(1,222)	3.6%
<b>Gross Profit</b>	<b>962</b>	<b>943</b>	<b>2.0%</b>	<b>2,902</b>	<b>2,819</b>	<b>2.9%</b>
<i>Gross Profit Margin</i>	69.6%	69.5%		69.6%	69.8%	
Operating costs*	(255)	(267)	4.3%	(860)	(867)	(0.8%)
<b>Underlying EBITDA</b>	<b>706</b>	<b>676</b>	<b>4.5%</b>	<b>2,042</b>	<b>1,953</b>	<b>4.6%</b>
<i>Underlying EBITDA margin</i>	51.1%	49.8%		49.0%	48.3%	
<b>Capex</b>						
Network related	(54)	(84)	(35.7%)	(214)	(269)	(20.2%)
CPEs and capitalized sales commissions	(63)	(74)	(15.2%)	(250)	(255)	(1.9%)
Product & IT development	(50)	(44)	12.3%	(157)	(158)	(0.6%)
Other capex	(5)	(1)	n/m	(18)	(15)	19.4%
<b>Total capex</b>	<b>(172)</b>	<b>(204)</b>	<b>(15.9%)</b>	<b>(640)</b>	<b>(697)</b>	<b>(8.2%)</b>
<b>Operating Free Cash Flow</b>	<b>535</b>	<b>472</b>	<b>13.4%</b>	<b>1,402</b>	<b>1,256</b>	<b>11.6%</b>

## OUTCOME Q3 2018

- 3.7% growth in consumer revenue driven by growth in broadband and DTV RGUs, improved broadband tier mix as well as price
- Decrease in network operator revenue of 7.5% due to timing of low-margin fibre connection fee revenue. We expect this headwind to continue through 1H19 but no impact on underlying EBITDA
- B2B revenue increase of 0.7% marking a turnaround to growth as the increase in OnNet revenue now fully offsets the decline in the low margin OffNet business
- Underlying EBITDA growth of 4.5% with a six-year-high margin due to cost reduction from restructuring done in late 2017 and early 2018
- Capex on a lower level than Q3 2017 as network related capex is temporarily low
- Operating free cash flow growth of 13.4% for the quarter and 11.6% for YTD

\* Excluding items affecting comparability, write-downs and depreciation and amortisation

# SYNERGIES NOW FULLY REALIZED

## BOXER SEGMENT



(SEKm)	Q3 2018	Q3 2017	Change	9M 2018	9M 2017	Change
Revenue	394	424	(7.0%)	1,208	1,290	(6.4%)
Production costs	(259)	(267)	(3.2%)	(784)	(817)	(4.0%)
<b>Gross Profit</b>	<b>135</b>	<b>156</b>	<b>(13.4%)</b>	<b>423</b>	<b>473</b>	<b>(10.4%)</b>
<i>Gross Profit Margin</i>	34.4%	36.9%		35.1%	36.7%	
Operating costs*	(47)	(70)	32.3%	(175)	(221)	20.6%
<b>Underlying EBITDA</b>	<b>88</b>	<b>86</b>	<b>1.9%</b>	<b>248</b>	<b>252</b>	<b>(1.4%)</b>
<i>Underlying EBITDA margin</i>	22.3%	20.4%		20.5%	19.5%	
<b>Capex</b>						
CPEs and capitalised sales commissions	(9)	(21)	(59.4%)	(61)	(91)	(33.1%)
Integration capex Boxer	0	(13)	n/m	(32)	(31)	4.2%
<b>Total capex</b>	<b>(9)</b>	<b>(34)</b>	<b>(75.0%)</b>	<b>(93)</b>	<b>(122)</b>	<b>(23.5%)</b>
<b>Operating Free Cash Flow</b>	<b>79</b>	<b>52</b>	<b>52.3%</b>	<b>155</b>	<b>130</b>	<b>19.4%</b>

## OUTCOME Q3 2018

- Continued pressure on Boxer revenue and subscriber base, growth within fibre based services is not fully offsetting DTT revenue decline
- Lower operating costs than Q3 last year is fully compensating for the lower gross profit, leading to growth in underlying EBITDA
- Record underlying EBITDA margin with remaining synergies of around SEK 25m on annual basis now fully realized after completion of system integration in Q2 2018. Will offset continued pressure on gross profit from loss of revenue
- Capex materially lower mainly due to no more capex related to system integration
- Operating free cash flow growth of 52.3% in the quarter

\* Excluding items affecting comparability, write-downs and depreciation and amortisation

# CONSOLIDATED PROFIT AND LOSS STATEMENT

## COM HEM GROUP

(SEKm)	Q3 2018	Q3 2017	Change	9M 2018	9M 2017	Change
<b>Revenue</b>	<b>1,777</b>	<b>1,780</b>	<b>(0.2%)</b>	<b>5,376</b>	<b>5,331</b>	<b>0.8%</b>
Production costs	(679)	(681)	(0.2%)	(2,050)	(2,039)	0.5%
<b>Gross Profit</b>	<b>1,097</b>	<b>1,099</b>	<b>(0.2%)</b>	<b>3,325</b>	<b>3,292</b>	<b>1.0%</b>
Gross Profit Margin	61.8%	61.7%		61.9%	61.7%	
Operating costs*	(303)	(337)	(10.2%)	(1,036)	(1,088)	(4.8%)
<b>Underlying EBITDA</b>	<b>795</b>	<b>762</b>	<b>4.2%</b>	<b>2,290</b>	<b>2,204</b>	<b>3.9%</b>
Underlying EBITDA margin	44.7%	42.8%		42.6%	41.3%	
One-off items**	(45)	(15)	n/m	(146)	(43)	n/m
<b>EBITDA</b>	<b>749</b>	<b>747</b>	<b>0.3%</b>	<b>2,144</b>	<b>2,161</b>	<b>(0.8%)</b>
Depreciation and amortization	(474)	(492)	(3.6%)	(1,433)	(1,452)	(1.4%)
<b>EBIT</b>	<b>275</b>	<b>255</b>	<b>7.8%</b>	<b>711</b>	<b>709</b>	<b>0.3%</b>
Net financial expenses	(80)	(79)	1.3%	(304)	(309)	(1.9%)
Taxes	(45)	(39)	16.2%	(66)	(104)	(36.6%)
<b>Net result for the period</b>	<b>150</b>	<b>137</b>	<b>9.2%</b>	<b>342</b>	<b>295</b>	<b>15.6%</b>

## OUTCOME Q3 2018

- Revenue decline of 0.2% as decline in the Boxer Segment offsets growth in the Com Hem Segment
- Underlying EBITDA growth of 4.2% due to revenue growth in the Com Hem Segment and margin expansion in both segments
- Increased one-off items, mainly due to costs associated with the Tele2 merger (SEK 23m in Q3 and SEK 59m in 9M18) as well as restructuring and operating currency losses
- Average blended interest rate of 2.5%, the same as in Q3 2017
- Net financial expenses of SEK 80m, stable compared to Q3 2017
- Taxes of SEK 45m in the quarter increased from SEK 39m in Q3 2017 due to higher taxable income
- Net result increased by 9.2% to SEK 150m

\* Excluding non-recurring items, write-downs and depreciation and amortisation

\*\* Items affecting comparability, Operating currency loss/gains and disposals



# CASH FLOW AND CAPITAL STRUCTURE

## COM HEM GROUP

(SEKm)	Q3 2018	Q3 2017	Change	9M 2018	9M 2017	Change
Underlying EBITDA	795	762	4.2%	2,290	2,204	3.9%
Capex	(180)	(238)	(24.4%)	(733)	(819)	(10.5%)
<b>Operating Free Cash Flow</b>	<b>614</b>	<b>524</b>	<b>17.3%</b>	<b>1,557</b>	<b>1,385</b>	<b>12.4%</b>
Change in net working capital	(166)	162	n/m	(176)	(8)	n/m
Taxes paid	(43)	0	n/a	(100)	(31)	n/m
Interest on Loans and Notes	(32)	(35)	(10.0%)	(237)	(180)	31.5%
<b>Equity Free Cash Flow*</b>	<b>374</b>	<b>650</b>	<b>(42.5%)</b>	<b>1,042</b>	<b>1,165</b>	<b>(10.5%)</b>
EqFCF per outstanding share	2.1	3.7	(42.6%)	5.9	6.5	(9.3%)
Dividend	(530)	(359)	47.9%	(1,061)	(725)	46.3%
Share buy-backs	0	(249)	n/m	(209)	(659)	(68.3%)
<b>Total shareholder remuneration</b>	<b>(530)</b>	<b>(608)</b>	<b>n/m</b>	<b>(1,270)</b>	<b>(1,384)</b>	<b>(8.3%)</b>
Change in Loans and Notes	50	46	8.6%	247	288	(14.3%)
Repurchase of warrants	0	0	n/a	(5)	(3)	41.6%
Other items	(67)	(19)	n/m	(368)	(170)	n/m
<b>Net cash generated/used</b>	<b>(174)</b>	<b>69</b>	<b>n/m</b>	<b>(354)</b>	<b>(105)</b>	<b>n/m</b>
Cash balance EoP	236	364	(35.2%)	236	364	(35.2%)
Cash and unutilised bank facilities	1,086	1,464		1,086	1,464	
Net Debt	11,089	10,719		11,089	10,719	
<b>Leverage (Net debt/Underlying EBITDA LTM)</b>	<b>3.7x</b>	<b>3.7x</b>		<b>3.7x</b>	<b>3.7x</b>	

## OUTCOME Q3 2018

- Underlying EBITDA growth of 4.2% and lower capex than Q3 2017 leading to operating free cash flow growth of 17.3%
- Equity free cash flow decreased by 42.5% to SEK 374m, explained by a temporary negative change in working capital
- Leverage at 3.7x net debt/underlying EBITDA LTM, well within our target range of 3.5-4.0x
- Well capitalised with SEK 1.1bn in cash and unutilised credit facilities at the end of September

\* Underlying EBITDA less Capex, interest, taxes and change in net working capital