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PRESENTATION

Operator

Good day, and welcome to the Tele2 Q4 Interim Report 2018 Conference Call. Today's conference is being recorded.

At this time, I would like to turn the conference over to Anders Nilsson, President and Group CEO. Please go ahead, sir.

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

Thank you, and good morning, everyone, and welcome to the Q4 and full year report call for Tele2.

With me here on this end is Mike Larsson, our CFO; Samuel Skott, EVP for Sweden Consumer; and Erik Strandin Pers, who is Head of IR at Tele2.

Following the merger with Com Hem, we have changed the way we report results. The most important change is the new segment space in Sweden, where we report consumer and business separately. We do this because these 2 segments have different dynamics and require different strategies, which we will get into later.

In addition, we want to be more transparent so that you can accurately track our progress, as we build on great momentum in some parts of the company and execute on improvements in other parts.

Please turn to Slide 2 for a brief summary of the Q4 results.

On a pro forma basis, including Com Hem for the whole quarter, the Tele2 group revenue grew 3% on an organic basis. End-user Service revenue was up 1% organically, driven by a 3% increase in Mobile, while Fixed declined by 2%, due to decline in legacy services.

Adjusted EBITDA increased by 4% to SEK 2.2 billion, adjusting from nonunderlying items in Sweden and Croatia.

Now let's look forward. Over the next few slides, I will walk you through our main strategic initiatives and how they will help us reach our new guidance.

So please turn to Slide 3. The most important segment in this company going forward will be Sweden consumer, because of its size and potential.

As you all know, the consumer market in Sweden is no longer a high-growth market. However, we believe that we can grow faster than the market by driving FMC through the more-for-more strategy, reducing churn and growing ASPU by adding value to increase customer satisfaction.

We will do this in 3 different ways. First way, give benefits to the existing Mobile and Fixed customer base. We launched an offer already 10 days after the merger closed, giving customers higher speeds and more data. And so far, around 28,000 customers have opted in. We believe that this will reduce churn significantly over time.

Secondly, sell Mobile into the Fixed base. In about a week or so, we will start marketing Com Hem Mobile, introducing a new major brand in the mobile market, the only brand that can offer both Fixed and Mobile services on the same bill in Sweden today. This will help us to grow volume and reduce churn.

The third way is to sell Fixed into the Mobile base. We expect to gradually ramp up penetration over time to increase volume and reduce churn.

The underlying proven principle here is that the more RGUs a customer buys from us, the lower the churn will be, and naturally, the higher the ASPU.

In addition, by giving the customer something, such as higher speeds and more data, we increase customer satisfaction, which reduces churn and increases pricing power.

This is how we achieved the revenue synergies, which we expect to add an annual run rate of SEK 450 million in adjusted EBITDA for 5 years.

In Sweden B2B, our goal is to turn around the negative revenue trend and improve profitability. We have appointed a new strong leadership that are tasked to take market share and focus on revenue, where we actually can make a very good margin on our own network while moving away from low-margin products. We will also do restructuring in B2B to increase efficiency and improve profitability.

In the Baltics, we will build on the great growth momentum we already have there. As these markets evolve, we will look into the possibility to drive mobile-centric convergence or potentially go FMC here as well.

The final box in this slide is what you all have been waiting for. We are upgrading our cost synergy target by 100% to an annual run rate of SEK 900 million. We are also aiming to achieve this in less time, now within 3 years rather than 5, and we aim to achieve 50% of the run rate already by the end of this year.

The cost reduction will mainly come from simplification of the corporate structure and overlapping functions. Over time, we will look at more fundamental change to turn the company into a truly integrated challenger.

This would involve areas like the IT structure, network and the brand portfolio. Since changes in these areas are more complex, this would likely take some time, but the payoff would be great, both financially and operationally.

Through the operational initiatives that I just mentioned, we will reach our financial guidance, which is on Slide 4. And on Slide 4, you will see that we have updated our 2019 and midterm guidance for the combined company. 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 aim for mid-single digit adjusted EBITDA growth in 2019, and over time -- and over the midterm, mainly driven by front-loaded cost synergies in 2019 and a combination of revenue growth and cost reduction in the coming years.

For CapEx, we guide to SEK 2.9 billion to SEK 3.2 billion in 2019 and SEK 3 billion to SEK 3.5 billion per year in the midterm, excluding spectrum. This includes the 2 major investments that lie ahead of us, namely 5G for the Mobile network and Remote-PHY for the Fixed network.

While this is higher than the current level, as we have not had to invest into the Mobile network in recent years, it is significantly lower than the sector average, even at the top end of our guidance range.

Through revenue growth, OpEx reduction and low capital intensity, we will continuously increase our cash flow that we intend to return to shareholders.

The Board has proposed to increase the ordinary dividend by 10% and payout SEK 4.4 per share this year corresponding to SEK 3 billion.

We also intend to distribute proceeds from the sale of the Netherlands and Kazakhstan, once the Kazakhstan sale is final some time midyear.

In addition, as we grow EBITDA, we will use our balance sheet to lever up within our target range of 3 -- 2.5 to 3x and distribute more cash to our shareholders.

Now that you have the overarching strategy and financial guidance, I would like to take a moment to zoom in on the most important segment: Sweden consumer.

On Slide 6, we outlined the current position strategy and goal for each of our services. The goal for Tele2 is to become a truly integrated FMC challenger.

The Swedish market is -- now we are starting to become an FMC market with 3 operators all focusing on a more-for-more strategy by adding value rather than discounting. This is a very positive development for the Swedish market as it will, over time, lead to more stability and growth for the operators and improve services and satisfaction for the customers.

Now let's take a look at our core services, which is the foundation of the FMC strategy. In Mobile Postpaid, we are #2 in the market, with 2 strong challenger brands. In addition, we are about to launch a Postpaid Mobile Service under the Com Hem brand. Focus here is to reduce churn and grow ASPU through more-for-more FMC by selling more RGUs to each household.

In Fixed Broadband, we are also #2 and challenger. The strategy here is to continue upgrading our network to extend our speed leadership and deliver the capacity that consumers demand, as they increasingly use broadband to watch -- streaming the video.

Within TV, we are the market leader with the widest range of distributed content. Our task here is to adapt our offering and transition into modern platforms to capture the change in viewing from traditional linear TV to OTT and we have already started by launching the TV hub last year and there is certainly more to come.

In addition, we have customers on legacy services such as DSL, BTT and Prepaid. It is our job to migrate as many of these customers we can to the core services, as we then provide them with a better service, which increases customer satisfaction and thus, reduces churn and increases ASPU while making them eligible for FMC benefits.

On Slide 7, you can see that we already have good momentum in our core services with 29,000 net adds, mainly driven by Fixed Broadband in both Com Hem and Boxer and Comviq Postpaid sales, which saw a record quarter.

Along with positive development in ASPU in Postpaid Mobile and Fixed Broadband, this drove growth in End-user Service revenue, which you can see on Slide 8.

End-user Service revenue for our Core Services grew by 5%. This was offset by continued decline in the Legacy Services of 12%. This led to a total decline of 0.5% in End-user Service revenue in the segment.

Adjusted EBITDA, which was helped by lower expansion costs and some initial cost synergies, rose by 3% or 6%, excluding the SEK 36 million of negative one-off items.

Let's switch to Sweden B2B on Slide 9. As I mentioned, within B2B, we are looking to take market share and we do this by growing through volume rather than price. You can see signs of this in Q4, where our Mobile RGUs, which is the main driver of B2B growth, increased by 8% while Mobile ASPU declined by 4%.

This led to a 4% growth in Mobile End-user Service revenue, which was offset by a decline in Fixed [and] Solutions, leading to total 1% decline.

On Slide 10, you can see that total revenue increased by 1% in the quarter, while adjusted EBITDA declined by 12%, entirely driven by wholesale, while B2B, excluding wholesale, was flat.

In a business where revenue is flat while EBITDA is declining, there is certainly room for improvement. And that is why we are restructuring the business to take our cost and focus on profitable revenue growth.

Please go to Slide 11 for an overview of Sweden as a whole. Adjusted EBITDA was flat as declining B2B offset growth in consumer. Excluding one-off effects of net SEK 46 million, mainly related to provision for copyright levies, adjusted EBITDA grew by 3%.

As you can see in the chart on the right, our rolling 12 months OCF was impacted by SEK 721 million CapEx related to the 700-megahertz spectrum auction, which was booked in the quarter and paid out in Q1.

On Slide 13, you can see that in the Baltics, we have continued great momentum with a 5% growth in ASPU, due to migration from Prepaid to Postpaid and successful back book repricing in Lithuania. Mobile RGUs continue to grow, up 1%, despite challenges in Estonia.

On Slide 14, we see the effects on Mobile End-user Service revenue, which rose 6%, while adjusted EBITDA grew by 10% organically. This resulted in continued strong cash generation, as you can see in the chart on the right.

Kazakhstan, on Slide 15, continued to grow very nicely, driven by volume, pricing and cost efficiency. We received another SEK 246 million of cash from repayment of the shareholder loan in the quarter and expect further repayments of the remaining SEK 2.1 billion until we close the sale of the assets.

We served the put option to Kazakhtelecom at the end of 2018 and expect the sale to close around midyear.

And with that, I would like to hand over to Mikael.

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

Thank you, Anders. Please go to Slide 17, where you will find the legal profit and loss for the quarter, including Com Hem from 5th of November, when the merger closed.

As you may see on the slide, we have 3 large items, of which 2 are of one-off nature, affecting the profits for the quarter.

Firstly, we recorded costs related to the merger and integration of Com Hem of SEK 243 million, of which SEK 141 million were related to integration.

Secondly, we have approximately SEK 160 million of additional amortization of surplus value from the Com Hem acquisition, a run rate which will increase going forward, as Com Hem was only included from 5th of November. This amount is still subject to final purchase price allocation.

Thirdly, we recorded positive as well as negative one-off adjustments of deferred tax balance in countries outside Sweden, of which SEK 1.1 billion relates to historic tax loss carryforwards in Luxembourg. Due to the reduced footprint of the Tele2 Group, we have assessed that the majority of our tax losses in the country will not be utilized in the coming years, while we took this write-down in Q4.

Let us look at the cash flow for the quarter on Slide 18, also negatively affected by one-off costs for the Com Hem acquisition, including costs for financing the acquisition and refinancing of the Com Hem debt as well as other acquisition-related costs.

In the quarter, we also saw a SEK 500 million negative movement in working capital, of which approximately SEK 300 million related to the Netherlands and will be part of the post-closing adjustment in beginning of this year.

For continuing operations, there are initiatives ongoing to counterbalance the negative effects we have seen on working capital throughout 2018, related to higher accounts receivables stemming from volume growth and higher equipment sales.

Please go to Slide 19. We ended 2018 by delivering on previously issued guidance for both Tele2 and Com Hem on standalone basis. In Tele2, Mobile End-user Service revenue grew by 5%, adjusted EBITDA reached SEK 7.2 billion and the Com Hem underlying EBITDA grew by 4.3%, and CapEx levels were also within the ranges guided towards for both companies.

Looking forward into 2019, delivering on synergies out of the Com Hem merger will be an important contributor for us to deliver on the new guidance for the combined company.

On Slide 20, you will find a summary of the today's updated solid synergy target.

We are now confident the merger, in combination with transformational cost savings, will result in run rate cost savings of SEK 900 million to be delivered within the coming 3 years, of which 1/2 to be realized already by the end of this year on a run-rate basis.

The cost savings will come from almost all parts of the Swedish operation, with a significant portion of the initial saving to be seen in the administrative and support functions, where we have overlapping organizational systems and processes.

We will already, in this quarter, reduce consultants working for the company, and we are also in the process of reducing the number of fixed-term employees.

Cost savings are also seen in external sourcing contracts that are now being renegotiated. To realize these cost savings, we expect one-off integration costs of approximately SEK 1 billion over the coming 3 years, of which SEK 210 million were recorded already in 2018.

On top of the cost savings, we expect SEK 450 million of revenue synergies to be realized over the coming 5 years. This target is unchanged from what has previously been communicated.

In 2019, we expect modest contribution from revenue synergies with gradual ramp up to drive growth in coming years.

This is also reflected in the new financial guidance, you may find on Slide 21, where you may see we expect End-user Service revenue in 2019 to be in line with 2018 with ambition to grow low single-digits over the midterm.

Adjusted EBITDA is expected to grow mid-single-digits from the underlying level of SEK 9 billion pro forma for 2018, with the majority of the growth coming from cost savings in 2019 and through a combination of revenue growth and cost savings in the coming years.

CapEx, excluding spectrum, is expected to be in the range of SEK 3 billion to SEK 3.5 billion during the rollout phase of 5G and Remote-PHY in the Fixed business, slightly up from an expected range of SEK 2.9 billion to SEK 3.2 billion in 2019.

To put expected increase in CapEx in the midterm into a broader context, please go to Slide 22. CapEx goes through different phases, as we roll out new generations of technologies over time, in order to deliver on a superior service to our customers.

On the left-hand side of the slide, you see an illustration of the CapEx to revenue level in Sweden in recent years including both Tele2 and Com Hem.

During the rollout of 4G, we saw an increase for a couple of years and then a reversal back to a lower level. 5G and Remote-PHY, which will again enable us to increase the value of the service we deliver to customers, should be seen in this context.

We always aim to be CapEx efficient, mostly through network sharing, which remains at the core of our strategy, as we now head out -- head into the 5G rollout.

Our CapEx-to-revenue level has been low in the broader European context, illustrated to the right. And our ambition is to keep CapEx at competitive levels, also going forward.

Please go to Slide 23. At the end of the year, the group had a leverage of 2.8x economic-net-debt-to-adjusted EBITDA in the middle of the target leverage range of 2.5 to 3x.

With a strong cash generation in the business, we expect to stay within target range, also after paying this year's proposed ordinary dividend of SEK 4.4 per share to be paid in 2 equal tranches in May and October.

In addition, we'll come back regarding additional shareholder remuneration from the proceeds of the Dutch merger and the sale of our business in Kazakhstan, all through adjusting for loss of future adjusted EBITDA contribution. We expect this will be around mid-2019, when the sale of Kazakhstan is expected to be completed.

As all of you know, we will, from 2019, have a new accounting standard for leases, IFRS 16. We have estimated to record a lease liability of SEK 5.8 billion when this new standard is implemented, as of 1st January, 2019, relating to lease contracts that were previously reported as operating leases.

Approximately 1/2 of this additional lease liability relates to uncommitted future lease payments. That's with a contract which we are not legally obliged to extend when they expire, but which we, under the IFRS 16 standard, have assessed will be extended based on expected future usage of the assets.

IFRS 16 will have a positive effect on reported adjusted EBITDA and also leading to higher CapEx levels in the books.

For 2019, it is our intention to continue disclosing adjusted EBITDA, CapEx as well as assets and liabilities, excluding IFRS 16 impact. And this will be done for year-on-year comparison to 2018 and also for comparison to the new financial guidance given today.

What is important to note is that the new accounting standard that, of course, not have any impact on cash flows and the performance of the business, while it is our ambition, it should not have any impact on our shareholder remuneration capacity.

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

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

Thank you, Mikael. And please turn to Page 25 for our key priorities going forward.

One of our top priorities is to reignite growth in Sweden. We will do this by launching Com Hem Mobile and drive FMC in the customer base, in the consumer segment, which we expect to ramp up to run rates of SEK 450 million per year in adjusted EBITDA in 5 years' time.

We also aim to turn the Swedish B2B business into growth by taking market share and improve profitability by focusing on high-margin on-net growth.

On the cost side, we will now start executing on the restructuring process to reach the SEK 900 million of cost synergies within 3 years, with roughly 1/2 already by the end of this year. In addition, we will investigate the potential for more structural change over time to turn Tele2 into a true integrated challenger.

Outside of Sweden, we will build on the momentum we have in the Baltics, and we look forward to close the sale in Kazakhstan, marking a major step towards optimizing our footprint to focus on the Baltic Sea region.

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

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) We will take our first question from 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***

First of all, thank you for the illustrative slide picture showing the last sort of main 4G rollout, CapEx level. So I was wondering should we expect a similar timing of 5G. It was done in a big burst last time, so should we expect 2 to 3 years now as well? Then also maybe to clarify a little bit more, if you could say something about more mid- to long-term equity free cash flow level, once the 5G rollout is completed and you're done with the cost saving?

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

Lena, it's Mikael here. I will try to answer and then Anders can fill in. I mean, we have not set a definite time line for 5G. We have set the auction here in Sweden and it's now -- the plans are now being made for -- when to start the rollout of 5G. If we come, you will see perhaps a minor impact late this year, and then it will be coming in during the coming years. But this will -- it will continue for several years, not just 1, 2, 3 years. This will be more gradual than the 4G rollout. That is how we look at it today. Did that answer your question?

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

Yes, maybe the first one, but not the second one: the target equity free cash flow level? Once you...

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

It's all right. And that one -- it's still too early to say exactly on equity free cash flow for this combined company. You have seen that we have the headwind with working capital last year. I think we, today, gave you the first component for the cash flow with guidance on revenue and EBITDA and CapEx.

And then we would, over time, work on improving all the other metrics in the cash flow statement as well to give you more firm guidance, both on operating cash flow and equity free cash flow over time. But it's a clear ambition to increase, of course, the equity free cash flow stronger over time. But we have no defined target as of today.

Operator

We will now take our next question from Stefan Gauffin from DBN (sic) [DNB].

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

Stefan from DNB. A couple of questions. First of all, how much of the cost reductions are driven by headcount reductions? Secondly, Com Hem has a history of price increases in Q1 and Q2. What is your plan for this in 2019? And what magnitude of price increases as compared to 2018? And also, do you see price increases only for the Com Hem segment and not for the Boxer segment?

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

If I start with the cost reductions for FTEs, it will be -- FTE system involves employees, personnel and also consultants, the way we calculate it, look at it, and it will be 1 major component in the SEK 900 million of savings over the coming years. I don't want to give a specific figure or amount, because that is a bit sensitive when it comes to employees, but it is 1 significant portion.

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

Yes. And then, Stefan, it's Anders. And then for the second question related to annual price rises on the Com Hem base, we will continue doing that. Obviously, it's a part of the strategy. It will be a smaller price rise this year than last year. Last year, if you remember, was the largest price rise in history, we do a smaller price rise this year and it's skewed towards the Com Hem base. That's why we have the best pricing power. So that's where we're going to take pricing. But it's not going to be in the same magnitude as last year. These, you have to remember, going to vary between years. So I wouldn't be surprised, that we, for next year, would come back with a larger one if we think that is the right thing to do. I hope that answers your questions.

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

Yes. Can I just follow up on why -- I mean, if you look at the churn increase last year, it wasn't that big churn increase, despite a quite hefty price increase. So why are you doing a smaller price increase this year?

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

Well, it's a tactical decision. We can utilize the increasing customer satisfaction, either by doing pricing, either front or back book or through a churn-reduction benefit.

And now we did -- I think it was 5 consecutive years of quite high back book and front book repricing. And we thought it was time tactically to go easier for 1 year. We could have continued, but we thought it was the right way to close this year. The key point, there's no drama behind it.

Operator

We will not take our next question from Nick Lyall from Societe Generale.

Nick Lyall ***Societe Generale Cross Asset Research - Equity Analyst***

Just a couple of quick ones, please. You seem quite conservative on your consumer market share target, so just -- could you explain a little bit more what your expectations are for the Com Hem Mobile brand? I mean, is this a sort of substitutionary brand for customers who already have Com Hem Broadband and Tele2 Mobile? Will you just be swapping quite a lot of these Tele2 customers initially into the Com Hem Mobile brand or is it more expansionary than that? And secondly, on business, where do you think the opportunities are in market share, please? What segments of the market?

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

Thank you very much, Nick. So I'll try to address that. So the Com Hem Mobile service, it's for expansion purposes. It's not about converting existing customers under other brands into Com Hem. This is about acquiring customers in the market and driving our customer or RGU base on the whole at the company. Then the question is, how successful this will be? I mean, you could have -- you could look at it in different ways, I think it will -- I mean, we will have a very good chance of making a quite significant customer acquisition here over time. But we haven't launched it yet, and we haven't seen the traction yet, so it's a bit early to make bold statements, and that's why we haven't done that. So based on our learnings here and Samuel is in the room here, he's executing on this. So based on the learnings we're going to get, we will probably be able to come back with you with better guidance on what to expect from Com Hem Mobile going forward. I may also say that this is one of the 3 revenue synergies, which we talked about when we announced the merger a year ago, and the target is unchanged since then. So we haven't touched it by purpose, and we want to see how it actually works in the -- real life before we do that. But we will, for certain, not hold back. That I can tell you.

Nick Lyall ***Societe Generale Cross Asset Research - Equity Analyst***

All right. So on the business share, do you have an answer on any specific segment you might be aiming at?

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

No. [Exactly], Nick. So I think we have opportunities across the board. It's not limited to a specific segment across the board. We punch below our waist when it comes to network-based ICT services. There is significant room for us to take market share over time.

Operator

We will now take our next question from Terence Tsui from Morgan Stanley.

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

I had a few questions, please. So firstly, around shareholder remuneration, I was just interested in your thoughts around the use of share buybacks, particularly around the closure of the Kazakhstan put option? Once that closes, do you think you'll be in a position to execute on share buybacks and do it in quite a quick and speedy manner? And then secondly, just a couple of quick clarifications. So could you provide us the latest valuation on your equity stake in Kazakhstan? I know you gave us a shell, the [length], but also interested in the equity value. And then finally, on CapEx, the higher medium-term outlook on CapEx, is that baking in any possible restrictions in the use of Huawei equipment in the future?

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

Hi, Terence. So thank you very much for your questions. So if we go back to the Kazakhstan, there are quite many questions about Kazakhstan, but first of all, shareholder remuneration. And I mean, it's basically not decided how we are going to return the cash we get from Netherlands and Kazakhstan. The Board has not proposed anything. So we'll have to come back to you on that one. And buyback is certainly one way of doing it. Or it's to do it in other ways, like an extra dividend for instance or other ways as well. So we'll have to return to you on that one. Then you have questions on shareholder loan and equity and so forth in Kazakhstan, which we'll hand over to Mikael.

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

Yes. Shareholder loan was SEK 2.1 billion at end of this quarter, with roughly SEK 150 million -- sorry, SEK 250 million amortized in Q4. The valuation with -- the valuation is more or less in line with what we set in Q3, which -- where we have valued our -- the earn-out liability to the former partner at around SEK 700 million, SEK 750 million, SEK 800 million. So that's where we are on the valuation. We don't -- that is the value for the earn-out. We have -- do not expect any value on the -- on our own shares in the books. I hope that answers your questions.

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

We have another question, as well, if I remember, which came back to the CapEx guidance and if that's included funds to shift out equipment, if I understood it correctly, Terence, from certain vendors, and it does lots. And there are no such provisions for that at this point in time.

Operator

And we will now take our next question from Andrew Lee of Goldman Sachs.

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

I just had a couple of questions on the scope on your perception for scope for the Swedish market to support growth. Firstly, just on your top-line guidance, the growth in FY '19. Do you incorporate an expectation of Swedish price rises in that guidance, both price rises by yourselves or -- and/or by Telia? And I just wondered if you, concerning on your expectation of the market, following price rises by yourselves or Telia. And then the second question, which is a slightly bigger picture, but since -- I think since we last spoke, we had the Dutch market consolidation, so I wondered if you saw any read across from that consolidation to Sweden.

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

Thank you very much, Andrew, for these questions. So the first one is related to -- if we have factored in price rises, [frantic] price rises of ourselves or other ones in the market into our guidance for flat revenue, and the answer is no. We look at the market as it is today, and it's historically not been a market where you have seen frantic prices -- price rises, unless in the -- except for the fixed market. We are not seeing it in the mobile market, for instance. And it was quite some time since the soft price rises in the fixed markets at that. If that, say, if the market's conditions change, then it's a different story, obviously. And we'll have to come back to you on that one. And then your second question was what, Andrew? Remind me?

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

Yes. It was on Dutch consolidation and whether you thought -- I think most -- a lot of people saw that as very market-specific. Just wondering if you saw any read across from the approval without remedies to the Swedish market.

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

No, we see it as a very specific Dutch issue. I don't see any read across personally.

Operator

We will now take our next question from Siyi He of Citigroup.

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

I just have 1 question on synergies. I think your new synergy guidance suggests that you're targeted to achieve probably 100% of the original cost synergies in 2019. I wonder if you can elaborate on where do you see the additional synergies coming from and whether those incremental numbers incorporate potential better pricing powers after your merger.

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

Good morning. It's Mikael here. I will try to answer that one. The -- where we see that the additional cost savings come from is throughout the company. And we have more -- you can call these synergies or you can call it transformational cost savings in both companies, but we see the opportunity to bring down the overall cost level in the company as bigger and -- than we did when we looked at this a year ago. And that goes mainly within all kinds of support functions, and you [will] see about the potential when it comes to expanded sourcing to get prices down. So we have it across the line. And we have not -- this is pure cost synergies. So it's nothing about the change to pricing or anything in it. It's pure cost. And it's not, with all that -- in the last round, we said that the minor portion would come from CapEx synergies. Those are more difficult. We have, this time, chosen not to specify CapEx synergies. There will definitely be, but since CapEx is a one-off nature per year, we don't have them on a recurring basis. But you will see cost savings -- or the CapEx savings in coming years. CapEx not made now, which would have done -- be done in a -- on a standalone basis. But these are not classified. It's an additional upside.

Operator

We will now take our next question from Johanna Ahlqvist of SEB.

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

Can I ask a question related to the guidance? You mentioned flat Service revenue for 2019. I'm just wondering, in Sweden, in particular, do you expect flat Service revenue in Sweden as well? And sort of what -- where do you see the mix? Do you expect consumer to grow and then business to continue to deteriorate? Or how do you see that mix? And then second question, if I may, a detailed one. On -- I saw that fixed telephony, the subscriber intake, well, it looks rather accelerated in the quarter. Is that a new level, and that you see this shift sort of increasing so that we should -- that this is the new level of 27, I think, telephone customers you lost in the quarter?

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

Hi, Johanna. Thank you very much for your questions. So I mean, flat -- I mean, it doesn't have to mean flat as a pancake. I mean, it would be roughly about where we were in 2018. And I think the -- what we're trying to achieve here is to get our FMC offers out working in the markets on the consumer side, and that will then gradually lead to that. We'll see an acceleration in the growth on the consumer side, which we think will be fully visible in 2020. And then on the business side, you see that we have a negative trajectory, but with a positive momentum, and that the target here is to stabilize and hopefully be able to, at some point during the year, turn the corner and go into growth. And -- but it may take a little bit longer time as well, who knows. But those are the ways we think about consumer and business in Sweden. When it comes to telco, I will ask Samuel to answer that one.

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

Yes. Hi. Samuel here. So on the fixed telephony, the acceleration we saw this quarter was mainly due to our -- a price increase that we did. We're continuously working with this legacy portfolio to simplify the number of price plans and to make sure that it is treated in a correct way. So I don't expect this to be the number we will see going forward, but it will be going up and down as we continue working with optimizing that product and that product portfolio.

Operator

We will now take our next question from Ulrich Rathe of Jefferies.

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

I have 2 connected questions. The first one is you're designating some of the merger-related costs as just sort of one-off items, around SEK 240 million. I'm wondering, are there other costs within adjusted EBITDA that are merger-related but for accounting reasons are not designated one-offish? And is there a way for you to sort of give us an order of magnitude [item] in the fourth quarter or for 2019, what these sorts of activities sort of would cost potentially or weigh down the adjusted EBITDA potentially? The second question is, on the sort of meaning of this midterm guidance, is it correct to assume that by midterm, you effectively sort of mean the period during which you will realize synergies, now roughly give and take. You haven't made it down to a year, but it's sort of the 3-year period, give and take? And if yes, so that mid-single-digit growth, I'm not quite sure how it sort of stitches together. Tele2 and Com Hem, both standalone, had about mid-single-digit EBITDA growth in 2018. And you're now guiding for mid-single digit for the combined entity. But on the top of that, you're guiding very significant cost synergies to be realized over the period that this medium-term guidance is sort of active. So I'm wondering how does it sit together? Is it essentially that there's a very significant slowdown in the standalone entities that you're just making up with the synergies? Or is the guidance conservative? Or am I missing something big?

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

Good morning. It's Mikael here. I will try to answer the questions, and then Anders might fill you in on the second one. The merger-related costs, I mean, you have them -- I mean, they are both -- that they're the ones within operating process, and they are all reported as one-off items related to both the integration and also the -- and the acquisition. And you'll find them in the report for different reporting levels, periods -- in all the reporting periods, but they are all in one-off items. So there's nothing which is in there outside the -- outside that in the adjusted EBITDA. And then you also, of course, have financial one-off items in this quarter, and they -- we presented them and we had them in the presentation as well, that they are significant full refinancing of the Com Hem debt and the proceeds to the Com Hem shareholders. Then coming to the midterm guidance we gave on adjusted EBITDA. If it's -- we are -- you are right that we have -- the previous guidance was similar on the Com Hem side. On the Tele2 side, we have a number of different items affecting the previous historic items and the guidance going forward, with a change in footprint we have on the Tele2 side. And so the comparison is not that easy to make. On the Com Hem side or fully combined company, I will say that this is -- this gives us a much better opportunity to grow EBITDA mid-single digit, mid- and longer-term than we would have done on the standalone basis. So it will be -- this will drive growth, and it will be profitable growth in over a longer time, more sustainable.

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

And I may fill in. So if you look at the growth on -- in EBITDA, in Tele2 the last years, the strongest growth has come from Netherlands and Kazakhstan. And those countries are no longer -- Netherlands is no longer with us, which we think is the right thing to happen because we were not in a sustainable position to run that business going forward. And Kazakhstan is a country and an operation which has turned into being super successful, and we are happy leaving the country now and focusing back on the core markets. And in the core markets, you know that they are not growing as fast as these other markets, and we have a much more solid position, which means that the underlying operation is not growing at the same pace. That's why by merging Tele2 and Com Hem, we now get the fuel we need in order to get this growth going forward. And so that's the kind of rationale behind the whole story and the guidance. I hope that answers your questions.

Operator

We will now take our next question from Maurice Patrick of Barclays.

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

It's Maurice here from Barclays. Just a question on balance sheet leverage, cash returns. I know you don't want to talk about the size and shape of the cash return post Kazakhstan yet. But just to understand a bit about the premises, you have the 2.5 to 3x leverage target. Will you adjust that for the IFRS 16 moves, so the SEK 6 billion IFRS movement? Can you walk us through some of the moving parts in the cash flow? You ended '18 at 2.8x, if I'm right? I guess you will have a number of moving parts of working capital again in '19, so thoughts in terms of where that leverage will go organically. And just on the working capital, was -- was -- was the half year -- I mean, you talked about the negative results in 2018, which, if I'm right, is mainly growth-related. I mean, is there any structural reason why working capital shouldn't reverse back to being broadly stable, if not a net inflow going forward?

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

Good morning. Thank you, Maurice. I will try to answer this. The IFRS 16 impact, of course, it will have an impact -- negative impact on the leverage ratio, which would -- you can look at in 2 ways. I mean, yes, first of all, it has no impact on cash flow and the business performance of the group. It's only -- this is purely accounting and accounting-related. There are 2 ways to adjust for this. Either you adjust the target leverage range, adjust it accordingly, what the impact will give in terms of increased leverage ratio. Or you exclude the IFRS 16 impact from that calculation. We start to see companies, other telcos, doing -- they go both ways in what I've seen or if you look at other companies who have started to report and comment on this effect. What we can say today is that with our ambition is that it should not affect shareholder remuneration capacity. And then we are in discussions with our auditor and we are in -- with the rating agency on how to handle this in 2019. Until then, we will continue to report all numbers, also excluding the IFRS 16 impact. So that's it. The overall ambition is not -- that this will have no effect on shareholder remuneration capacity. And then other components on cash flow and that the main component, if you put CapEx, Com Hem and the Netherlands and M&A-related items aside, the major component is, of course, working capital. And this went up on the Tele2 side last year, mainly because it's growth-related and it's -- that we sell more equipment. We have arrangements in place for financing this with the external parties, and we are looking at extending that, those kind of arrangements. And that is one way to bring working capital down again or at least not increase it. But at this time, it's too early to say if you will see it reverse back to a positive movement in this year or if it will stay flat. Our ambition is that it should not -- we should not continue to see these negative effects going forward. That is what I have for...

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

And just I've got 1 quick follow-up, if I may. Is there a reason why you chose to wait for both Netherlands and Kazakhstan to complete before giving a shareholder return or rather than, say, doing 1 now for Netherlands and then doing 1 for Kazakhstan later in the year?

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

We thought it was -- I mean, first of all, the Netherlands is still -- we do the post-closing adjustments of the purchase price. We, as you know, we have AGM very late in May, so it's a bit -- it would, in any case, have come in May. And then it's -- we -- then we prefer to wait and look at the total outcome and then come back to you around mid-2019 with 1 plan instead of 2.

Operator

We will now take our next question from Peter Nielsen of ABG.

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

I also had a couple of questions relating to the relatively subdued outlook for growth this year, but I guess you've commented on that to the extent you want. Can I just jump to the comments about Com Hem Mobile? Just to understand, you merged with the second-largest mobile brand in Sweden, and still, you feel the need to introduce Com Hem Mobile brand as well. Why is that, please? And can I just ask about the B2B? You talk about a new strategy. Why do you feel the need for a new strategy in B2B? And what does that entail, so to speak? Are you changing your focus here? Or if you could elaborate a bit on that, that would be very much appreciated.

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

Hi, Peter. Samuel here. So if I start with the first question of Com Hem Mobile, I mean, as we've said before, there are 3 main value pools from -- for revenue, and one is cross-selling Mobile into the Fixed base. And we just saw that the quickest way and also the best way for the customer is getting this proposition on 1 day, and 1 customer service within the same brand, was to do it through Com Hem Mobile. So that was the reasoning. But from an overall perspective, we very much see Tele2 and Com Hem working together from a brand perspective. So we would treat these customers very, very equally, you could say, in terms of FMC benefits and driving FMC penetration.

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

And also, I mentioned another thing, where we'd be -- we're using, obviously, the whole Tele2 infrastructure in order to provide these services, which are branded Com Hem. So it's more kind of a branding exercise in order for the Com Hem customers to feel that they get the service from the brand they know and love, than to get it from another brand. And so it's -- and it's shown that this is a very effective way of selling into a fixed base, who buy many other cable operators across Europe, as you know. And then when we come to B2B, so what are we doing there? Well, it's B2B, it's an area where we are basically in every segment. We are providing almost every service there is to a B2B customer. And what we want to do going forward -- and we have no growth, by the way. We have negative growth. And what we want to do is obviously to get into growth, and then we would like to focus on the area from the segment where we have margin and good margin. And the closer they are to our own network, being mobile or fixed, the better it is. So that's why the idea is to focus less on selling things that are not driving margin of the larger extent and focusing more on selling network-based services. So that's what we're doing. And the reason and the rationality is to get growth, not only in the top line, but also in the bottom line and not at least on the cash flow level. And then this is the right way to do it.

Operator

We will now take our next question from Adam Fox-Rumley of HSBC.

Adam M. Fox-Rumley ***HSBC, Research Division - Analyst, Global Telecoms, Media and Technology Research***

Just a very quick follow-up to that B2B question, really. Can you help us with where you think you are today in market share and what a reasonable target might be over the next, I guess, 2 to 3 years' time frame that you're talking about?

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

Hi, Adam. No, I'm not willing to give market share targets at this point in time. We are #2 or #3 in the market, depending on how you're looking at it and which market segment to go after. The focus now is to turn this around into growth. And once we get there, I'll be able to give you some more guidance on what you could expect going forward. Sorry about that.

Adam M. Fox-Rumley ***HSBC, Research Division - Analyst, Global Telecoms, Media and Technology Research***

That's okay. Do you think you are -- do you have better market share in the products where you make more margin? Or are you -- have you a greater opportunity in those areas?

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

Exactly. We have the worst market share in the areas where we make most money, hence, the greatest opportunities in the areas where we make the most money. So that's what we are focusing on.

Operator

We will now take our next question of Usman Ghazi from Berenberg.

Usman Ghazi ***Joh. Berenberg, Gossler & Co. KG, Research Division - Analyst***

I have 2, please. Firstly, on the CapEx. I mean, what will determine whether Tele2 comes in at SEK 3 billion or SEK 3.5 billion over the midterm on the CapEx side? Can you determine is it revenue-related, such that your growth is better than you'll end up at SEK 3.5 million? Or is it not related to the growth? And just the second question is related to Slide 3. I mean, does -- I mean, the CapEx guidance has been given. Does that incorporate a 5G strategy based on fixed wireless access in the rural areas, or is it more small-cell densification? Or what I mean is what is the context of that CapEx guidance, please?

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

So let me try to explain this. So whether we'll end up at SEK 3 billion or SEK 3.5 billion depends on whether we are invest -- how much we invest in 5G and Remote-PHY that year. That, I think, is the way to look at it. And for 5G, I mean, we aim at rolling out a kind of a national network. We do that together with the Telenor, as you know, in net roam mobility. And we do that under a number of years, which has not yet been specified. So that's the way we used to look at it.

Operator

And we will now take a follow-up question from Stefan Gauffin of DNB.

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

Just a couple of questions. The first one relates to Com Hem Mobile. Will this be specifically targeted towards the Com Hem fixed subscriber base, or will this be more broadly to the overall market? And then secondly, in terms of the B2B, is it just a change of offering, or do you need to make changes to your product portfolio? I mean, how fast can you be a little bit more aggressive in the B2B market?

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

Okay. Thank you very much, Stefan. Good questions. So on Com Hem Mobile, everybody who wants a Com Hem Mobile can get it. That's something we're going to go above the line to market and make the brand or service available to everybody. Obviously, our hope is that we'll be able to cross-sell it into the base we already have to quite a large extent, and that's the reason. But going forward, when we acquire new Com Hem customers on the Com Hem brand, I would not be surprised or I hope that we'll be able to sell them a combination of Fixed Mobile and Video and not only Fixed and Video as we do today. When it comes to B2B, this is -- I mean, we're executing this as we talk. We started in November, I would say. We started a bit earlier. Samuel actually started it a bit earlier, but we have new dedicated management in place since November and we're executing as we speak. It's basically about not producing a bigger portfolio of products, rather a smaller one, focusing on the parts in the portfolio where we actually make the margin we're interested in, which makes it easier and faster on the front end.

Operator

It appears there are no further questions. I'd like to turn the conference back to your host for any additional or closing remarks.

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

Okay. Excellent. And thank you very much for your interest in Tele2 and your participation in this call. And I hope to see you all back here next time and wish you all a very good day. Thank you.