

Telenor Group Q2 Conference Call

Thursday, 20th July 2023

# Telenor Group Q2 Conference Call

*Participants*

Sigve Brekke – CEO

Tone Hegland Bachke – CFO

**Frank Maaø:** Welcome to the second quarter results call on webcast of Telenor. I'm Frank Maaø, Head of Investor Relations. Today with me is Sigve Brekke, our CEO, along with Tone Hegland our CFO. Within today's presentation, references to growth rates will be made on an organic year-on-year basis, unless otherwise stated. Margins will be excluding other income and expenses as described in our Q2 report, unless otherwise stated. Please note that both the report and the presentation that accompanies this call are published on our website. In terms of the agenda for today, Sigve will give an overview of our strategic and financial progress for the quarter. And Tone will go into a bit more detail of the key factors that are impacting our financial performance, as well as giving an update on our outlook. After that, we will open up the dial for analyst questions. With that, I'll now turn over to Sigve.

**Sigve Brekke:** Thank you, Frank, and welcome Telenor. Good to have you on board. Good morning, everyone, and I hope that you all are doing well in the midst of the summer. This was another strong operational quarter for us with a solid growth momentum. This quarter we saw mid-single digit service revenue growth across our business areas. Within AMP, we even saw growth rates in the double digits. EBITDA and CapEx numbers are in line with our overall ambition and plan. In the Nordics, we saw a solid service revenue and EBITDA growth, and also a sound underlying growth on both these two drivers in Norway. Our team in Asia delivered nearly 6% EBITDA growth against a very challenging macroeconomic backdrop, especially in Pakistan. We are further shortening our focus on our transformational agenda, both operationally and strategically. We have been doing this structural transformation projects for several years now to simplify our operations and reduce costs. On an operational level, this includes completing the shutdown on legacy copper infrastructure and related cost basis in Norway. But it is only a part of the work we are doing to transform our company towards becoming a truly digital telecom. On a strategic level, we continue to pursue structural alternatives, especially with regards to Asia, as we have talked about before as well. The objective here is to unpack values through transactions that could be transformational for the company and mitigate the risk in the region.

Although operational execution has been strong, this is not equally reflected in our free cashflow for the quarter. This is partly due to where we are in the telecom investment cycle. Still the main reason is two special items in Bangladesh as well as timing effects, and we will come back to that. We remain confident in our financial position and the outlook. Looking then at the growth in the Nordics, I'm pleased to see mobile service revenues grow for our Nordic businesses at 5% for the third quarter in a row now, which I see as a proof point of the growth strategy represented at our Capital Markets Day last year. The mobile option was up between 4% to 5% in Norway, Sweden, and Finland. The main reason for that is because we have done price increases across all our markets and across most customer segments. This demonstrates our ability to make price adjustments when we are delivering quality connectivity and value-added services to our customers. We are following more for more concept, and we have not seen down selling or increased churn. We saw positive customer intake in Sweden and Finland and only marginal organic declines in Norway and Denmark.

In addition to price increases, a significant portion of the auto-growth in the Nordics continues to come from upselling to value-added services. And as we have talked about before, that includes safety and security services. However, this is starting to get harder to quantify because of the bundling we do. While our mobile business is growing very nicely, we see that our fixed broadband business in Norway has been facing tough competitions in selected parts of its footprint. We look forward to more level playing field in the fixed business. With the last latest deregulation proposal from the Norian regulator, this would open up local fibre monopolies for us to access. EBITDA in the Nordics grew 2%. adjusting for the positive effects relating to the swap comprehensive financing programmes we had in the second quarter last year, the growth was in fact quite a lot higher at 5%. 2 million on Norway. I have used this slide for several quarters.

We saw another quarter of a solid underlying EBITDA growth, adding back the dimension handset swap impact from Q2 last year and adjusting for a negative impact of the copper shut. We see an underlying growth of 7% in Norway. I believe this demonstrates the underlying momentum since the copper headwind will be phased out in the second half of this year. Then going back to the Nordics, we see a solid momentum into the second half of the year based on the trends that I just described. We now have a healthy subscriber and pricing environment, and we see the positive trends are continuing. In addition, the headwinds from declining copper revenues, including wholesale, will soon be almost completely gone. We continue to look for price adjustments including bundling or value-added services. Based on this, we believe that the sound top line trend will be sustained into the second half of this year. We also see improving operating results in the second half with EBITDA growth to approach service revenue growth. This will come on the back of improved gross margins and Opex efficiency.

Finally, our capital intensity will be reduced in the next six months. Rollout spending has been pro-loaded this year and running at 18% in the first half. In the second half, we expect around 16%. We're also taking measures to further optimise working capital in the Nordics. All in all, we are confident about solid cashflow improvements in the second half of 2023.

Then looking beyond 2023, we will execute a forceful transformation to proceed with our [inaudible] ambitions in the Nordics. Our focus is to deliver on customers evolving needs and expectations and to improve our performance by taking down Opex in the range of minus one to 3% in the period 2022 to 2025. For the tech and IT, we are moving from a decentralised way of organising to an operating model with more shared solutions. Example, are a common mobile core and across the Nordics accelerating cloudification both within the network and the IT domain as well as common data and analytics setup. We are using many types of deep learning AI technologies across domains and businesses. Recognising the fast development and large potential of generative AI. We have pilots ongoing now in Denmark and Finland, both within network experience, customer analytics, customer care, and we are also exploring other use cases across our portfolio. In the commercial transformation area, we are implementing common solutions. In the B2C segment, our safe product is an example of that. B2B examples are mobile 5G private networks, and software defined networking. When it comes to support functions, we see a significant cost reduction potential with standardisation, centralization, and automatization across the four Nordic business units. With that, let me then turn to our Asian portfolio.

In the past, business in our Asian markets has been about staying competitive with promotions and new price offers. Our teams in Asia have now worked to turn around this historical pattern of ever falling pricing and done a tremendous job to implement price increases. They have done this while at the same time driving data growth and new services. On the business side, our focus on SME and the business segment is starting to pay off in Asia. I recently saw this myself some weeks ago when this picture from Bangladesh was taken. Our team in Remington continue to drive growth. They are bouncing back now from the sim card ban that negatively affected the customer base in the second half or last year. In this quarter we added 1. 1 million new subscribers.

I'm also impressed with our team in Pakistan who delivered an 8% EBITDA growth in the quarter. They did this despite very high inflation in implementing price ups on a regular basis and driving data growth. However, and unfortunately, the underlying uncertain outlook remains for Pakistan. Our strategic review of this business is ongoing, as you know, and we expect to conclude in the second half of this year. In the associated part or Asian footprint, we now have number one mark position in both Thailand and Malaysia. Having just come back from the Asian region, I saw continued positive effects of the return of tourism in Thailand. I also noted that some of the most aggressive unlimited offerings have been pulled from the market. I think the first quarter results of the new true corporation shows room for improvement. The work is now to address this. The company has now started the execution of the merger integration programme that we have talked about. I remain confident that we will succeed in capturing the synergies in line with our outlined ambitions. In Malaysia, SCOM Digi continues to deliver solid performance and pay a quarterly dividend. We will see 300 million now in the quarter. I therefore look forward to seeing the continued solid execution of Synergy plans in Malaysia as well.

Moving to Telenor infrastructure and our AMP portfolio. Telenor infrastructure and AMP continued to contribute solidly to the underlying growth of the group. Both areas grew revenues of around 5% in a quarter, despite a tough comparable quarter last year in AMP. Within AMP, I am pleased to see that we continue to see solid growth in our IoT business. We also continue to refine our execution plan for AMP in line with developed or the best strategy. For infrastructure, we recently signed a partner agreement to develop green and secure data centre in the Oslo area. The aim is to establish Norway's most secure commercial data centre operator with a strong focus on sustainable solutions. And on that note, let me briefly summarise the key milestones for our ESG agenda this quarter.

In Q1, we communicated a commitment towards net zero in line with our science-based climate target. In Q2, we are taking important steps to deliver on this commitment. 70% of Telenor's total carbon footprint come from the supply chain. We have been engaging with our suppliers to drive environmental awareness. Now, we are taking the next steps by requiring our suppliers to also set their own science-based targets to reduce their carbon footprint. We have previously entered into power purchasing agreement for our operations in Norway and Denmark and I talked about that before. In the quarter we signed a wind based PPA also in Finland. As mentioned at the previous slide, I'm satisfied with the green data centre deal we have landed in this quarter.

In conclusion, we are executing on the strategy we laid out at our capital market day last year. For us, Q2 was an operationally strong quarter. We saw a mid-single digit revenue and EBITDA growth across our business area. I'm pleased to see that we continue to drive a healthy 5% mobile service revenue growth in the Nordics and also that the market in Asia are back to growth after a long pandemic period. In the Nordics, I truly believe that profitable growth is much linked to the security of the network quality that we have and our customers enjoy that. In Norway, we just won the price for the fastest network. That's the fifth year in a row we win that study. Still, I see further opportunities to drive our transformation agenda. Applying new technologies helps us to reduce costs, pursue efficiencies, simplify our operations, and transform our businesses.

In the next quarters and years to come, the cashflow generation to support our dividend policy will continue to be a top priority. This obviously includes trick capital allocation. We are at the peak case of the longer industry investing cycle with our 5G and fibre roll off. I would like to repeat what we have previously communicated. We guide for reduction in the CapEx intensity thoughts to 2025. CapEx in 2025, as earlier communicated, shall be 2 billion lower than the 10 billion CapEx we had in the Nordic in 2022. During this period, we have regulatory requirements in all our markets. In Sweden, as you know, there are deadlines for what equipment we are allowed to use in our network after 2024. This will be offset by measures we are taking to ensure efficient capital location throughout the Nordic as market realities change. We have therefore decided to push out the upgrade or commercially less attractive sites. In Norway, we will complete the 5G rollout later than previously communicated. We will take similar approach focus capital education approach across the Nordic region. In conclusion, I confirm our message of reduced capital intensity throughout the medium term. With that, I will turn over to Tone to walk through the financials.

**Tone Hegland:** Thank you Sigve, and good morning, everyone. We saw solid operational momentum across the group in the second quarter. We were pleased to see both revenue and EBITDA increasing with 4%. CapEx, both for the group and for the Nordics, were in line with our plans at 17%. However, free cashflow was weak. Partly due to the settlement of old disputes in Bangladesh as well as periodic payments. Cashflow is as Sigve just said, a top priority for us, and we do expect significantly stronger free cashflow before M&A in the second half of the year. I will reverse to this later. First, let's take a look at the performance of the business. In the Nordics, performance is tracking in line with our outlook. As Sigve mentioned, mobile service revenue's growth was 5. 1%. And as you can see from this slide, service revenue growth came in at 3. 5%.

Sweden and Finland showed the strongest growth, whereas Norway's numbers still reflect the headwind from copper. Despite this, EBITDA growth for the Nordics came in at 2%. Operating expenses were up 2% in the quarter. However, adjusted for the positive one of effect in Norway last year, OpEx for the Nordics were actually flat this quarter. This is despite a higher inflation across the Nordics than we were assuming when we set the target to reduce OpEx by 1% to 3% after CMD last year. In my view, this is a strong proof point of our ability to manage the cost base in the current inflationary environment. Moving to Telenor Asia, we see 5% organic service revenue growth for our two consolidated businesses of Gramin phone and 10 Pakistan. We also grew EBITDA 5. 5% year on year. These growth rates are the result of consistent work to drive data volumes, new services, and prices.

We are also bringing in more customers in Bangladesh with a net additional 1. 1 million this quarter. Finally, we continue to keep a very tight management of the cost base to safeguard the performance of results and cashflow. As I will get back to, we have made payments relating to spectrum and tax disputes in Bangladesh for a total of 1. 7 billion this quarter. The financial import performance in Pakistan was particularly strong this quarter, but please note that the 8% EBITDA growth will not be possible to sustain in the third quarter. This is mainly due to the large positive one-off in the third quarter last year, but also due to the prevailing macro trends in the country. In our associated companies, we received a dividend of 300 million kroner from Southcom Digi again this quarter. Then moving to infrastructure [inaudible]. Both business areas showed solid performance also this quarter. Infrastructure grew revenues by 5%, supported by external revenue growth of 10%.

EBITDA increased by 16. 2% supported by lower energy cost. The AMP team also grew their top line by 5% while EBITDA declined by 22%. However, please note that the year on year growth rates were negatively impacted by a contract settlement that brought in 145 million region kroner in the second quarter last year. We recorded this item in the other segment last year in that period. Further to this, we see currency effect impacting the AMP numbers positively also on an organic basis, given the multicurrency nature of several of these companies. Removing the settlement of the one-off from last year, as well as these mentioned FX effect, we saw double digit online growth across connection, maritime and links. We also see connection contributing meaningfully to the group service revenue growth, which we will take a look at next. So summing up service revenues for the group, we grew 4. 4% in the quarter with the Nordics being the largest contributor follow by Asia. While this graph only shows service revenue, I would like to note that also as I just said, in infrastructure also showed healthy growth and at most units post growth in the mid single digits or better. Norway was the main exception. This, as we have talked about, was mainly due to their continued copper headwind seen in the second buffer.

Turning to cost, we saw 4. 4% Opex increase at the group level. In the Nordics, we saw Opex reductions in Norway and Denmark, whereas we saw higher Opex growth in Sweden and Finland. As said, adjusting for dimension swap gain in Norway last year, OpEx in the Nordics was flat. In Asia, Opex was up 8. 4%, but note that roughly two third of that increase reflects higher energy costs in the region. Related to this, we currently see inflation running at the 30% level in Pakistan. This leads us to group EBITDA, which increased by 4. 1%. EBITDA in the Nordics were overall up 2. 1% with Sweden, Denmark, and Finland making up for the 1% decline we saw in Norway. As Sigve said, EBITDA growth in Norway would've been 7% if normalising for the last year effect, Asia was the largest contributor to EBITDA growth with solid growth both in Bangladesh and Pakistan. In Gramin found the EBITDA growth is driven primarily by the improved top line growth and in Pakistan, we believe the very strong performance this quarter is not truly sustainable in the current environment. AMP posted a year-on-year negative development that this was, as I said, due to the one of last year. On a comparable basis, AMP is continuing the solid trends that we saw in the first quarter.

As said in my introduction, pre cashflow has not developed in line with revenue and EBITDA, coming in at the negative 200 million for the quarter. In relation to this, we had two special items in Bangladesh weighing on cashflow this quarter. Pre cashflow before these two items was 1. 5 billion. We see this 1. 5 billion as a level which is affected by three things. Firstly, the peak stage we are at in the investment cycle. Secondly, we are front and loaded rather than backend loaded on CapEx this year. And thirdly, there are timing effects and periodic payments in this particular quarter. So moving to the two special items in Bangladesh that brought the free cashflow into negative territory in Q2. The first item of close to 1 billion is a consequence of the final verdict in the Supreme Court, which we reported and provisioned for at the fourth quarter. This relates to a claim from the authorities that goes back more than a decade relating to VAT on the 2G auction.

We note that while the principal has been paid, there are still ongoing dialogues related to late payments that could potentially impact in the second half of the year. The second item is the payment of close to 800 million following a settlement of a multi-year corporate income tax dispute. We believe this settlement reduces the historic corporate tax risk in the business in Bangladesh. Of other more regular items, as you see on the slide, we had a cashflow effect this quarter. I would like to mention particularly two items. One is the 700 million of spectrum instalments made in Asia and also payments of dividend to minorities in Grameen phone of 600 million. We expect significantly improved free cashflow before m and a in the second half of the year. Key elements of expected improvements are stronger results, lower CapEx, and lower effects of special licence. We have shared with you earlier that cashflow in 2023 will be lower than what we saw in 2022. With the Bonoff we've seen in the first half of the year, the decline will be steeper than previously anticipated.

Moving to the balance sheet. We have seen currency effect with a particularly weak Norwegian corner impacting our leverage. As a consequence, the leverage ratio was slightly above our targeted range at the end of Q2. Since then, the NOC has recovered somewhat and we are now close to the range. We remain comfortable with our financial position and expect the leverage ratio to return to the range as we continue to execute on our strategy over the coming quarters and years. Rounding up, we maintain our outlook, which as you know, is related to the Nordic part of the group. Both organic service revenue growth, and EBITDA growth is expected at low to mid-single digit in 2023. We expect opex improvements to drive EBITDA growth to mid-single digits in the midterm. CapEx to sale was around 18% in the Nordics for the first half of the year, and we then expected to be around 16% in the second half. This supports the full year CapEx outlook of 17%. As Sigve said, we will keep a stringent focus on efficient capital allocation over the meeting term leading to a CapEx reduction of 2 billion Norwegian kroner into 2025 from last year's levels, as we also stated half a year ago.

With that Sigve, I think we're done and we open for questions.

**Sigve Brekke:** Yes.

**Operator:** Thank you. If you would like to ask a question, please press star one on your telephone keypad. To withdraw your question from the queue, it's star two. Again, please press star one to ask a question over the phone. Please allow yourself one question and one follow-up question. Thank you. We will take the first question from Titus Krahn from Bank of America. Please go ahead.

**Titus Krahn:** Good morning, everyone. Thanks a lot for hosting the call and for the information. My main first question would just be a bit of a follow-up on your comments around a bit more cautious CapEx spending going forward, just because that sounds a bit different to what your Swedish peer competitor slash partner had announced on Tuesday. Can you comment in any way around any CapEx inflation that you see and on your thoughts around being a bit more prudent and maybe pushing out some of these 5G upgrades over the next years?

**Tone Hegland:** Yes. Thank you, Titus. Yes, you are correct that we are now using the full capacity of the Nordic portfolio when we are allocating our CapEx spend for the quarters. From an overall perspective, we are using, as you know, the Telenor procurement company to negotiate and do the procurement for the group. This leads us to being less exposed to inflation than many other competitors, we believe. It is also a fact that we are also impacted by inflationary pressure on certain elements of the CapEx spend part. This is why we are now signalling to you that we will be very prudent when we allocate CapEx to ensure that we remain prudent and that we have profitable investments going forward.

**Sigve Brekke:** Maybe just add to what said, we have over the years modernised our 4G network. The 4G network is actually serving us very, very well with the demand we see from our customers. On top of that, we are then upgrading to 5G. And we have done that across the Nordics. What we're saying is that we see that we can push that 5G upgrade a little bit out in time due to the very good position we already have with the 4g faulty network.

**Titus Krahn:** That's very helpful and very interesting for you and I guess for the sector as well. Maybe then a very, very brief follow up question just because you haven't mentioned it at all in the presentation on your mobile infrastructure and across the Nordics. Just given that you kind of have breached your leverage target at least for the quarter, but you're confident to go back into the 1. 8 to 2. 3 times range. Do you look at your Nordic towers and potential monetization differently, given that leverage situation? Or would you rather say in the current macro environment, it would be more prudent to maybe keep on to the infrastructure for some time?

**Sigve Brekke:** I think I can address that one too. We are not looking differently on that than we did in the past. As we have talked about, and we did that in the capital markets as well, we are following a three-step process. First was to split out the passive infrastructure. We have done that across all our four Nordic markets. Then it was to drive the infrastructure to business more efficiently and we see that we're now able both to bring down cost and also to attract more external customers. Then step three will be then to look at potential monetization of it. As we said at the capital markets day, we expect that to happen in a 12-to-24-month period, which means during next year. Those plans that we have communicated they stand, so we are not going to change that.

**Titus Krahn:** Super helpful. Thanks a lot.

**Operator:** The next question comes from Andrea V. Olsen from Danske Bank. Please go ahead.

**Andrea Olsen:** Yes. Good morning, everyone. Just on back of what you said, Sigve, on the value-added services and the upsell in in Norway, I'm just curious of where you see, if we look longer term, the main growth drivers for further service revenue growth, if it's additional price increases, additional upsell within the existing subscriber base, or actually also taking market share on back of your strong networks, so to say. Just curious on how you see which of these are the main driver for additional service revenue growth?

**Sigve Brekke:** Let me start with the last part of your question. We see that the Norwegian customers are really enjoying the strength of the network they have in Norway. That being superior coverage, but also superior quality in the network. That's why we are able to continue to then upsell in Norway from 4G to 5G. And that's also why we are able to then drive the auto. We had a very healthy auto growth in the quarter. The revenue development we see now across the Nordics is coming from three elements. One is what I just said, continuing to upsell, especially in Finland and also Norway. Two, it's to the price adjustment that they've done. And as I said in my intro, we will continue to look at potential for adjusting prices in a more, for more concept also in the coming month. And three is devalued services.

We have not taken what they're done in Norway out in the other Nordic markets as well, and especially on the security and the insurance. We have a pipeline now on new services that are similar to what they're done on security and inference. What they're trying to do here is actually to work together with partners and then bundle this and distribute it to our customers. You can expect us to continue to focus on what we call value added services or beyond connectivity services. We see that there is an appetite for this with our customers. And also then because of that, a willingness to pay. This will continue to drive the outlook we have on revenue development across the Nordics.

**Andrea Olsen:** Very clear. Thank you.

**Operator:** The next question comes from Peter Nielsen from ABG.

**Peter Nielsen:** Thank you very much. Morning, Sigve and Tone. I think the first question relating to the Nordic growth, which as you highlighted is quite strong. Your comments aren't quite optimistic and confident of maintaining that high growth backed up by the strong investments. Are you confident, Sigve, that you would be able to monetise 5G in the coming years? And can I just ask, is the slight postponement or delay in the 5G rollout, is that related to the move to 5G standalone? Is it simply not necessary for you at the moment? Are you seeing strong enough underlying growth on the bag of these sort of upgraded 4G network that you're seeing today? Any comments here would be appreciated. Thank you. Then just a follow up to Tone, if I may. Tone, you've highlighted your outlook for an improved cashflow in the second half, and you've given us details on the CapEx guidance. Do you feel you have good visibility on the remainder of the cashflow, working capital, the risk of unexpected one-time items, etc.? You feel you have good visibility on that part of it going into the second half? Thank you.

**Sigve Brekke:** You start over?

**Tone Hegland:** Yes, I can start. Good morning, Peter. Yes, from the operational side, as we have said, we have a solid underlying operational performance. From the operations, we believe we have a fairly good visibility. But then there are, as you are aware, there are all also elements which in the second half could impact either also the operational cash flow. This could typically be, as you are aware, we won the tax case again now in Norway, and the appeal deadline is the 24th of August. That is quite a big swing. Another potential positive swing, another element is of course, the upcoming Sweden auction taking place now in the second half of the year. These are elements which could impact the cashflow. But the underlying operational cashflow we feel we have a fairly good visibility on. Then there are some special items that could impact in the second half hopefully in a positive way, for instance, related to the tax case in Norway.

**Sigve Brekke:** To your first question. Let me start with talking about what we already are doing on monetizing 5G. We are upselling on speed. We do that in Finland and we do it in Norway, as I said. Very basically are coming out with new offers unlimited offers, and we are selling on speed. Secondly, we are using 5G for fixed wallet access in Norway, and we see that out in more remote areas in the vacation home areas. That product is equally good as a fibre and gives us a better return. Then thirdly, we now start to see commercial cases on mobile product on 5G networks. We are working together both with the public sector, so hospital sector in Louis, for example. We have secured some commercial contracts, but also with the private sector.

We now start to see that we have monetization cases for 5G. It has taken longer time than what we expected if I look back the last three, four years. We have spent quite some time on piloting this, but now finally it's starting to take off. However, we also see that it'll take time for us and for our customers to get their arms around what are the good use cases here. That's also one of the reasons why we do not see a need to rush or even speed up the 5G roll out more than what our original plans were, rather than looking at it to postpone it or push it out in time. It is to combine the commercial cases with an actual rollout. That's the background from what we said about pushing out the rollout somewhat in relation to what we previously had left.

**Peter Nielsen:** That's perfect. Thank you, both. Thank you.

**Operator:** We will now take the next question from Andre Beshek[? ] from UBS. Please go ahead.

**Speaker:** Hi, and thank you for the presentation I would like to ask, Sigve, you spend a good deal of time talking about structural cost takeout opportunities. I was wondering if we look at the building blocks of EBITDA growth over the next couple of years, we obviously got energy tailwinds from here on out. We've got a lot of MNA costs coming out. Then there's a lot of the cost take out related to the copper, which obviously we can brand as structural. I was just wondering in terms of the quantum of potential structural course takeout, which historically you've been running it between 1% and 3% of Opex per year, beyond the kind of copper takeout, what is the quantum that you think you can extract? Is it significantly bigger, for example, then what you're doing on copper? Any comment on that would be very helpful. Thank you.

**Sigve Brekke:** It's really hard to hear your question. Was it about structural opportunities or was it about the [inaudible]?

**Speaker:** Yes, the structural cost efficiencies beyond the copper cost takeout. Because copper is obviously structural. But then you spent a lot of time talking about other efficiencies. How big is the opportunity beyond just the kind of legacy cost takeout in Norway especially? Thank you.

**Sigve Brekke:** Well, the ambition here, as I said, is then to continue to take down Opex costs in the range of 1% to 3% over the '22 to '25 period. Of course, that's a quite bold ambition, knowing also the inflationary pressure that we now have. But we keep on that as an ambition as we also communicated at capital market day. Where that is coming from is basically several areas. The first one it's to deal with our technology and IT legacy. The copper decommissioning was the networking part of it, the network part of it. We are also doing - we are also now working with taking out some legacy in the IT stack and trying to utilise more platform based software based solutions. Another part of it is to continue to digitalize the customer journeys to save costs both on distribution, not on the distribution part, but also on customer care.

The third part of it is to continue to modernise our organisations. As I talked about when we announced the fourth quarter, we said that we are going to reduce FDs in Norway with the 200 plus, another 200 on consultants. So 400 FDs, Norway have done that. That's an example on how we can run a more efficient operations with actually taking out legacy and utilising more digital tools. Those are the areas that we know are working on across our four Nordic markets. I must give credit to our Danish operations. They have been doing this for quite a while now, due to trying to make money in this very competitive market. We are learning from that and bringing that back to Norway. And then trying to benchmark across our portfolio. These structural elements we will continue with. After Norway had no finalised, almost finalised the copper decommissioning, then now they're using their forces and resources to take the next steps into their transformation agenda.

**Speaker:** Thank you very much. If I may have one follow-up in terms of just regulations. We're now going into the consultation period of the potential regional regulation on fibre in Norway. You've been designated as an SMP and just a fraction of basically the 17 regions that the country has been divided into. Is there any kind of read across that you think you can share with us in terms of your plans, for example in terms of fibre upgrades, what this means for potential market share gains on the back of wholesale, etc.? Any comments would be helpful. Thank you.

**Sigve Brekke:** I don't have any numbers to give you on this, but of course, we are welcoming the change in regulation. The previous regulation, also the current regulation came in place just before we announced that we are going to go out on cover. That's where we, that regulation, I think it was just some few quarters actually before we announced that back in 2018. Because of the position we had on the copper fixed, we were regulated as a monopoly player. Now, when we have put that behind us and now when the fixed is all about fibre, we are welcoming them that not only us will be having an access regulation, but all our competitors will have that as well. That gives us an opportunity to also sell our products in other networks. That is what we are preparing for. Of course, that could also give opportunities on the MNA side, some of the smaller fibre players in Norway could be up for grab, and this is something we now are looking at in relation to that proposed regulation. We look at that as positive.

**Speaker:** Thank you very much.

**Operator:** The next question comes from Oliver Pisani from Carnegie. Please go ahead.

**Oliver Pisani:** Thank you for taking my question. I think most of my questions have been taken. Sigve, you commented early on on generative AI and that you're running various pilots with this technology. Would it be able for you - would you be able to elaborate a bit on your thoughts about the specific use cases for this in Telenor and also in terms of potential for cost optimization and automation going forward?

**Sigve Brekke:** I cannot give you a lot of details on that other saying that AI related tools we have been using for quite a while now. And as I said in my intro, we are doing that on distribution. We are doing it on customer care. We are doing it on predictable and network maintenance. We are doing it on making our infrastructure more energy efficient, so that we all do. Now, we are starting with this piloting. What that piloting will means in terms of accelerating what we already do. that, I don't know, that's a little bit too early. But of course, we are prepared to take this opportunity to drive both simplicity but also to drive further cost reductions. I cannot tell you the effects of that, but just refer back to our ambition to continue to drive our own Opex with using all the new technology tools that is available for us.

**Oliver Pisani:** Very clear. Thanks.

**Operator:** We will take the next question from Christopher Bjornson from DNB Markets. Please go ahead.

**Christopher Bjornson:** Yes, hi, thanks for taking my questions. Most of my questions are already been answered, but I guess maybe you could talk a bit about the sustainability of the underlying growth trajectory that you've been on there, and what you think will be the biggest growth drivers of the next year or so. Thanks.

**Tone Hegland: What** we talked about at the capital markets day, was that the focus for AMP would be on IoT and security going forward. In relation to this, we are of course particularly pleased to see now that the growth in the connection, which is our IoT company, is continuing to be solid and very competitive in the industry. We also see that the other businesses in AMP are coming back, for instance, from the pandemic where tele maritime, as one example, was materially significantly impacted. Then we will going forward, continue to maintain the focus on IoT and security and these are expected to be the key focus areas, while at the same time we are managing the full asset space with solid operational results as we have demonstrated today. But it's not necessarily that all of these companies will be in our portfolio going forward. As Sigve said, we will look where are we the best owners or where could other be better owners than us? But we believe that the start of AMP and how the companies are performing operationally is very strong and solid. And that is the basis for how we see the business also going forward.

**Sigve Brekke:** Maybe add to what Tone said, that we also said when we launched AMP, that AMP for us will be the develop services that is close to core. Don't expect us to go out there and invest in something we are not capable to create value out of. That is the focus we're going to have in the developed part of what Tone said on the vest or develop.

**Christopher Bjornson:** That's Clear. Thanks.

**Operator:** The next question comes from Francesca [inaudible].

**Speaker:** Great. Good morning, and thanks very much for taking the question. I've got a question on lead sheathing, given recent reports in the U. S and concern that operators may need to replace infrastructure or face fines, so my question is, is there a similar issue in any of your Nordic markets that you operate in? Was lead cabling used in terms of network and has this been replaced over time? I'm interested in both the lead and telecoms where I know you're already decommissioning copper, but also interested in the cable side of things. Thank you.

**Sigve Brekke**: This is not an issue in Denmark because we don't have a fix there and it's not an issue in Sweden neither. It's a very small issue in Finland because we have had quite limited fixed business in Finland. It's Norway. We have gone into this and looked at it, and this is not a big problem for us in Norway. We are now taking out all the couple we have up in the air that's a part of the cleanup they're doing. The copper duct is in the ground, and the lead part of that is basically the copper we rolled out before in 1960. It's a relatively small part of the copper infrastructure that we have. All of that that has some lead in it is actually captured in ducts. So it is protected around the copper. I don't see that this is a big issue for us.

**Speaker:** Thank you. If I may just one quick, sorry, one quick follow up on the capital intensity. You're talking about slow pace of 5G rollout. How does that change the path to get the 2 billion lower CapEx in '25? Does that mean it's steady for a couple of years and then it's cliff edge in '25, or is it gradual? Thank you.

**Tone Hegland:** We have said at the capital markets stay that the capital intensity would decrease over time, and then we supplement the death with the 2 billion decline we see for 2025. We are guiding this year for 17% CapEx to sale. But I will not provide now any guiding for 2024. We will come back to that at the end of this year.

**Speaker:** Okay, thank you.

**Operator:** The next question comes from Nick Lyle from Société Générale. Go ahead.

**Nick Lyle:** Morning everybody. Hope you're well. Just a quick one on, especially on dividend cover if I could, but just the, you look as if you're on track for about 7 billion free cash flow for the year, so about half of the dividend for this year. I wanted to understand how you're thinking about dividend cover and also about gearing. How long do you give yourself before you have to reconsider the dividend if the cashflows stay weak, or where does the leverage have to get to before you consider the dividend as well, please? Secondly, Tone, can you just clarify a couple of comments you made on Bangladesh? I think you said there was still things outstanding in Bangladesh. Could you maybe tell us the size of any outstanding claims still in Bangladesh? And you mentioned that might hit in the second half, so is there any sort of timing for the court cases as well? Thanks very much.

**Tone Hegland:** Let me start with Bangladesh. Yes, as I said, there is a dialogue ongoing in relation to the late payments. This could conclude in the second half of the year. It is not possible or desirable for us to comment on this at this stage as the dialogue is ongoing. We find it prudent to make you aware that this is still an ongoing discussion while the main, the principle amounts have been settled. So it's only this late payment part that is outstanding. Then to your bigger question on financial capacity and dividend, we said at the capital markets day that we had two main ambitions in our plan towards 2025. Those ambitions were to create the profitable growth in the Nordics and also realise the synergies in Asia. Both of these elements are now as we see them well on track, and we remain confident on the trajectory we have there.

Then as you see, there will be, have been in the first half one of Opex that has materialised, and this could then also potentially come at some point in the future, we don't know. But from an overall perspective, we remain confident, and when we look into the period towards 2025, we see us coming back to within the leverage range. I can share with you if we had used the interest rates as of yesterday on the debts, we would've been at the range. It is quite nuanced in relation to the Norwegian corner. In addition to the operational performance, there is also the Norwegian FX topic. We have said once the financial policy was established in 2019, and we repeat that it at the captain market state, that we could for periods go outside the range but then we would have a plan to come back in. This plan is what we see now both in the operations and then we see the volatility in the Norwegian corner as one element that is also impacting this. But as of where we stand now, there is no change to the strategy. There is no change to the dividend policy.

**Nick Lyle:** Okay, thanks very much.

**Operator:** The next question comes from Usman Ghazi from Berenberg. Please go ahead.

**Usman Ghazi:** Hi, everyone. Thank you for the opportunity. I was just wondering if you could remind us of the Huawei situation in the rest of your Nordic portfolio. Obviously, it's an issue in Sweden right now where you have to rip and replace in a defined timeline. But could this become an issue in some of the other markets? Just any clarification on that would be helpful. If I could just on, add a kind of a housekeeping question on the infrastructure side of the business. In the report it says that external leasing revenues were up 10%, but if I look at the mobile site build and the site tenancy growth, that's flat basically. Where is this 10% kind of growth coming from? Is it just energy pass through or is it something else? Thank you very much.

**Tone Hegland:** I can take that last question with money and then Sigve take the first. In the infrastructure part, we do see although the tenancy ratio remains flat, we do see a positive development and we also see that the price increases and also partly energy is contributing positively. But it's not energy that is driving the revenue growth in the infrastructure in the Nordic. It is more related to getting more tenants on, but it's not to an extent that it moves the 1. 6 ratio.

**Sigve Brekke:** On regulations, of course, we are following up regulations in all our for Nordic markets. I can just comment on what those regulations says. In Sweden, as you are aware of, there is a time line on this that we need to finish our swap during 2024. In Finland, there are no regulations on different vendors. In Norway, the regulations says that we are not allowed to have more than maximum up to 50% Chinese members in our network. That's the way we are following this up.

**Usman Ghazi:** I see. Can I ask a follow up perhaps? I guess there is some speculation that when the new EU parliament is elected next year, that they might legislate for a rip and replace in a more defined timeline than currently is the case where the member states kind of have defined their own policy. In the event that there is a more defined rip and replace across the EU that forces you to replace Chinese equipment sooner than you expect, how much flexibility do you have then to kind of continue to delay the 5G rollout in order to take on board that headwind without risking your CapEx guides, please?

**Sigve Brekke:** Well, your course is all a bit hypothetical. But of course, we will continue to follow what regulations says on this. However, I'm not so worried about that. Sweden, we are taken care of. Norway, we are now replacing Chinese vendors when they're upgrading to 5G. We will continue, we do that, and even though they are pushing it out a little bit, I don't see any time issues on that. Finland, we have Huawei, and so has our competitors. I don't see that a new regulation or a time decision on that will affect us very much because we are now following an upgrade and a replacement of Chinese vendors in most of our Nordic portfolio.

**Usman Ghazi**: Thank you.

**Sigve Brekke:** Three more, I think, and then we should try to close, Tone?

**Tone Hegland:** Yes, let's do that.

**Operator:** Thank you. We'll now take our next question from Andrew Lee from Goldman Sachs. Please go ahead.

**Sophia:** Good morning, everyone. This is Sophia. I have a question on interest cost pressure on free cash flow. It is an incremental 600 million headwind in 1H '23 versus 1H '22. I was wondering what do you see as a headwind from interest costs into 2H and full year '24? Thank you.

**Tone Hegland:** Thank you, Sophie. Yes, as we talked about in the capital markets day, we have a fairly large portion of our debt on fixed rates. At the time, we had 58% at the 1. 3% for the fixed part. Now we are at around 66%, and the average rate is 2% as we will have it at the end of September. Because we do have some refinancing that we will do in September. That will gradually of course as we roll the fix that and new debt over the years, that could impact that part. But where we are most exposed is then in the floating part, which is slightly above 30%. It is around 30 billion Norwegian corner, depending on the FX rate. We say that approximately 1% increase in interest rates will constitute around 300 million per year. Then in the cashflow statement, we see that it's the actual payments and we always have higher interest rate payments in the second quarter than for instance, in the first quarter. This has to do with the structure of the debt.

**Sophia:** That's very helpful, thank you.

**Operator:** We'll now take the next question from [inaudible] from Citi. Please go ahead.

**Speaker:** Hello. I hope you can hear me well. Thank you for taking my questions. I just have two quick ones. The first one is on the price increases in Nordics. I mean, if I look at the price increase you implemented of the last 12 to 24 months, it seems that you are affecting some of the inflationary pressure on cost, when you think about price increases. Now with inflation is coming down a bit in Europe, and just wondering how do you see the magnitude of price increases going forward? My next question is really on the recovery in Pakistan, which has delivered quite good growth in service revenue and EBITDA. I understand that Q3 will be pressured by one-offs, but I would like to hear your view on the underlying health of the Pakistan business, and do you see that has already recovered from the second half of this year? Thank you.

**Sigve Brekke:** Now, I can comment on the price question and you could take Pakistan maybe. As I said, we have done price adjustments in all our markets and across most of our segments. That is, we have followed a more for more concept, meaning that we haven't just take a strike price increase without offering our customers more. This is really being appreciated by our customers. We will continue to look at those opportunities. I don't want to give any price signalling here on what we do or when we do it, but we will continue to look for those opportunities going forward. Because we see that our customers are expecting even more services from us. That could be more bundles, that could be more upsell, that could be more value-added services on top. This is something we are going to continue with a little bit isolated from what may happen on the inflationary side.

**Tone Hegland:** Yes. And then to Pakistan it was a very solid quarter and we have for several periods talked about how we are impressed with our team in Pakistan and how they are delivering in what is an extremely challenging macroeconomic situation. We have, as you know, we have not invested into spectrum. And [inaudible] of that, we have actually really turned around the portfolio working on the cost base, the portfolio on the revenue side, being able to even drive price increases, taking out the low-end customers to really maximise. But over time, we don't think this is a sustainable business model. And that is why we are currently performing that strategic review of our business in Pakistan because this is, for us, not a level that can be sustained in the next period.

**Sigve Brekke:** Operator. It seems like it's one more left, is that correct?

**Operator:** That's correct. We'll take our last question from Adam Fox-Rumley from HSBC. Please go ahead.

**Adam Fox-Rumley:** That's very kind. Thank you very much. I wanted to just ask about the common solutions about across the Nordic markets that you mentioned, Sigve, in the prepared remarks. I wonder if you feel like you're still underexposed to say the corporate market in Finland, and if that's an area of potential acceleration and portfolio extension. Maybe there's another area similarly that you'd like to highlight. Then just as a final follow-up, I noted in the Grammy phone presentation that they talk about no interim dividend being proposed for the first half. I wonder how you are thinking about the cash flows in that business and whether that's just a function of these payments that have been made in the last, and where that balance sheet is at the moment. Thanks.

**Sigve Brekke:** I missed a little bit on your first part of the question.

**Tone Hegland:** B2B in Finland. I heard it.

**Sigve Brekke:** Okay. I can start with that. This is one of the commercial areas. We are trying to see what we can do across the Nordic portfolio. And Finland, it has been a little bit slower to be honest than what we expected when we acquired DNA back in 2019. But now I see that the team has been reshaped and that we are ready to take our fair share of the market on the B2B growth. This is also part of our 5G journey. We are trying to take the learnings that we have from Norway and then export to Finland, but actually also doing that in Sweden and Denmark. On the B2B side in Finland, we expect to take market share. That's our ambition.

**Tone Hegland:** Yes, and Bangladesh. Bangladesh has a very, or Gramin phone has a very solid balance sheet. They basically have not much external debt. However, it is a fact that these payments made are of a significant nature and they of course needs to be funded in the Bangladeshi financial market. It is on that note and on that basis that the board in [inaudible] decided to not declare any dividend as of the second quarter of 2023. Underlying the business in Gramin phone is, as we show today, trending very positively delivering solid financial results. But given these large one-off payments, that was a prudent decision of the board to take at this point in time.

**Sigve Brekke:** Thank you, Tone. Thank you to all of you for calling in. That ends our Q2 presentation. Have a nice summer.

**Tone Hegland:** Bye-bye.

[END OF TRANSCRIPT]