Telenor Q3 2024 Results | October 30, 2024

Frank Maaø:

Good morning, and welcome to Telenor's third quarter results call. I'm Frank Maaø, head of Investor Relations. And joining me today, I have Sigve Brekke, our CEO, as well as Acting CFO Kasper Kaarbø. As always, in our presentation today, all growth rates are referred to on an organic like-for-like basis. We have a short and sweet agenda today, along the same lines as usual. And using a new format for our Q&A this time, we would appreciate if analysts would turn cameras on when asking your question. And with that, Sigve, the floor is yours.

Sigve Brekke:

Thank you, Frank. And good morning to everyone. Welcome to a sunny day here in Oslo. In the third quarter, we continued to execute on our strategy. We delivered steady financials, while also navigating the challenges we have had in Bangladesh. We continue to grow in the Nordics, and we were delivering a growth of close to 5%. Our transformation program is progressing well, and we have a good momentum now for SIM OpEx going down already, now going into the fourth quarter, and further into 2025.

In Asia, True Corporation, where we own 30.3%, continue to be on track following the merger last year. Both their second quarter report in August, where the financial outlook was raised, and their third quarter report, which was out last Friday, were testaments to steady progress on realizing the large-scale merger benefits that we planned for two years ago.

And as I will come back to in a minute, Grameenphone in Bangladesh faced tough macro headwinds in the quarter. This was a drag on the overall group growth. However, we believe that this is temporary. Nevertheless, we generated free cash flow of 2.8 billion in the quarter, totalling 8.3 billion year-to-date. A final highlight is that with now three quarters of the year behind us, we have tightened over 2024 financial outlooks. Most importantly, I'm happy to say that we are now able to narrow in the free cash flow guidance to the upper half of the previous interval, and that we're indicating an EBITDA growth for the Nordics of around 6% for the full year. And Kasper will talk more about this later. So, let me dig a bit into the Nordics.

At our Capital Markets Day back in 2022, we set a bold ambition of growing service revenues in the low-to-mid-single digit. We also said that we plan to take out structural costs and generate mid-single digit EBITDA growth. Two years later, this is exactly what we have done, and this also goes for the third quarter. We have kept developing and monetizing our strong networks and brands, while creating growth on top of connectivity through our capital-light, value-added services in areas such as security, safety, and TV.

In the third quarter, while meeting tougher comps from last year, and a much lower inflation economy, we generated 4% mobile service revenue growth and 5% EBITDA. We did this by offering our customers more value, more volume, speed, and features. And also charging accordingly higher prices, which has resulted in an upper growth across the region. We call this more-for-more pricing logic. We also did this while turning in positive net subscriber addition in all our four Nordic country operations, close to 60,000 net subscribers now in the quarter, as customers saw the value and strength of our offerings. And finally, we did this while, at the same time, continuing to take out structural costs and drive operating leverage.

Executing on this strategy also prepared the ground for even better efficiencies in the current quarter, and for '25, and for the next years ahead. This is why we expect OpEx reductions now going into the fourth quarter and a full year reduction in 2025. Going forward, I'm confident that the transformation strategy we have in place paves the way for sustaining growth even in a lower inflationary environment. I also see the potential for a multi-year period of lower and lower OpEx and for also lower capital intensity than we have today. Let me enter to Asia and this time, I will spend a little time on Bangladesh.

As I stood here in July, presenting the second quarter results, large scale student demonstrations were about to break out in Bangladesh. This developed into widespread social unrest that was met with violence from police and security forces. All of this led to the country coming to a standstill, including the forced closure on the mobile data networks, and also imports and exports. On August 5th, the military stepped in, the prime minister left the country, the government being toppled, and a new interim government were being announced.

In the weeks following this, there was a lack of law and order in the country. Many business sectors, including the big garment industry, remained closed. And as they started to gradually reopen, the country was also, on top of all this, hit by flooding. Since the unrest, we are seeing lower circulation of cash in the economy than what we historically have seen. But we're also now seeing a gradually more stable situation.

Into October, we have noted some early signs that the economy may be starting to pick up again. And in previous crises in countries, mobile communication services have always proven to be crucial for both businesses and individuals. This being said, looking at our daily revenue development, our daily revenues were 10% below trends in the latter half of Q3. But moving into October, we saw an 8% below trend. We do think that this is macro-driven setback, and that is temporary.

Our experiences, 25 years experiences, in this country is that interim technocrat governments can be a source of stability. We also saw this some years ago when we had a similar situation. We now observe a climate for renewed optimism in the country, politically, socially, and by extension, also economically. And I have witnessed it myself during my recent two visits to Bangladesh.

So, what are we then doing to mitigate the situation and protect our cash flow? The team on the ground in Bangladesh is moving full steam ahead in terms of revamping the marketing mix and adopting offerings to the more prudent and spending situation, as well as stimulating for higher spending customers. While Grameenphone is a very efficient operator, there is still, and there are always, things to do on the cost side. And in addition, we will be extra prudent with how we allocate CapEx in the current environment. And we do this to protect the cash flow and our ability to continue the dividend takeout.

While it may take a few quarters, potentially even a full year, to get fully back to the growth we used to have in Bangladesh, I'm confident in the strength and the flexibility of the Grameenphone organization.

Finally, I also want to mention Pakistan. The strong effort by the team on the ground has led this operation to swing back to profitable growth, despite the inflationary environment, and despite the ongoing merger process. And thus, offsetting some of the setbacks we saw in Bangladesh this quarter. The divestment approval process is ongoing, quite in line with our plan. For process reasons, we now expect closing to slip into the early start of next year. Although it's taking a little bit more time than we had hoped for, I'm not concerned about the outcome.

And by that, I hand over to Kasper to take us through the financials.

Kasper Kaarbø:

Thank you, Sigve. And good morning, all. We saw group service revenues growing by 2.1% and EBITDA by 1.8% in the third quarter, as the 3% negative top line growth in Grameenphone weighted on our numbers, driven by what Sigve just described. This being said, I'm happy that we once again are able to report a set of numbers from the Nordics, and for the rest of Asia, that supports our outlook and medium-term ambitions.

CapEx sales are at 14%, was also slightly lighter than we originally anticipated for the quarter. Following strong commercial and cost execution, together with some pushing forward of CapEx-related payments, we generated 2.8 billion in free cash flow in the quarter and 8.3 billion year-to-date. Including also M&A proceeds, the year-to-date number is 10.3 billion. Let's take a closer look at how we are performing.

For Telenor Nordics, service revenue growth tapered off a little bit in the third quarter, quite in line with the previous outlook commentary, as we met tougher comparables from last year. The growth of 3.2% was mainly driven by consumer mobile, with ARP growth coming from our more-for-more price increase execution. On the B2B side, we see the same trends as in previous quarters in Norway, Sweden, and Denmark. There's reasonable growth in the mass market B2B, with tough competition and continued ARP erosion in the enterprise segment.

In Finland, the situation is a bit different. The DNA is a challenger in B2B, growing service revenue in this market segment in the double digits also in this third quarter. We had positive net mobile subscriber additions throughout the Nordics in Q3. While fixed, the growth of fiber connection was offset by decline on the cable side.

In Norway, brand surveys showed that Telenor has a superior network and security position among customers. This, together with otherwise solid commercial execution in Q3, also manifested in lower churn. In Finland and Sweden, growth was relatively broad-based across segments. DNA was again the main contributor to the top line growth, delivering another strong quarter, and service revenue growth of 6%, driven by both mobile B2C and B2B. In Sweden, B2B and fixed was a creative for overall growth, while mobile B2C also contributed decently.

In Denmark, following a tough first half with new consumer credit regulation, subscriber growth was reignited with new financing and distribution partners contributing to stronger sales.

In Q3, we also saw satisfactory operating leverage in the Nordic business. The combination of continued service revenue growth and just a modest OpEx growth of 1.4% for Telenor Nordics generated EBITDA growth of 4.6%. All business units grew in at least the low-to-mid-single digits, with DNA in Finland leading the growth in relative terms, growing close to 7%, while the biggest absolute contribution came from Norway.

Then, turning to Asia, where the impact from Bangladesh is particularly visible in our numbers. While Pakistan grew both service revenues and EBITDA and thus partly of offset this effect, Asia's service revenues contracted 1.2% and EBITDA came off 3% in the third quarter. As you might recall, we report our listed Asian-associated companies with a one-quarter lag. Among them, I would like to highlight the performance of True in Thailand.

There, we saw strong effects from synergy and integration efforts in the second quarter, which was reported in August, and in the third quarter, which was published on Friday last week. With EBITDA growth of 17% in Q3 and making solid headway on network reduction, leverage is already below the company's target level for year-end '25. With this continued progress, we find True well-placed to deliver on its full year outlook and ambitious medium-term goals.

For CelcomDigi, the dividend continues to be paid on a quarterly basis. As for performance, we expect the company to work actively on revenue growth, and get improving in net benefits of the synergies going forward. Last month, CelcomDigi won the award for Best Mobile Coverage by Ookla Speedtest, showing their progress on the network integration.

Then, zooming back out at the group level, we see a solid service revenue performance across the group, except for Grameenphone in Bangladesh. The growth of 2.1% was mainly driven by our continued execution of more-for-more price adjustments across the portfolio. Looking at group level OpEx, this increased by 2%. In the Nordics, OpEx came in as 1%, as mentioned already. Although we saw a slight increase in OpEx this quarter, the time phasing of sales and marketing spend we have talked about in the previous earnings calls materialized as expected.

Still, we have a good starting point for seeing OpEx going down in the fourth quarter and in 2025 for Nordics. I'm happy to say that also this quarter, we see the effects from our transformation efforts in Nordics coming true, and once again resulting in a decline in operation and maintenance expenses. This more than offsets the increase within that category from Asia.

Finally, the strong energy headwinds in Asia seen in the first half have calmed down a bit, although we expect this could pick up again for the last part of the year.

Moving to group EBITDA, we continue to see Nordics being the main contributor, with 4.6% organic growth. AMP continues to soft-trend, with a 0.8 percentage point negative contribution, where Linx continues to be the main drag. In addition, the impact of Bangladesh also weighted on the group numbers. As we see it, both AMP and Grameenphone are temporary drags, given quite unusual conditions. All in all, the...

Kasper Kaarbø:

... quite unusual conditions. All in all, this led to an EBITDA growth of 2% this quarter.

Next, let me highlight the most notable items affecting the profit and loss statement, as well as our balance sheet and cash flows. Looking at the P&L, we have another quite clean quarter with only one item to comment on.

The EBITDA before other income and expenses landed at 9.2 billion in Q3, as the divestment of satellites offset the underlying organic growth. As for the previous quarter, we have on the net financial income and expense line a fair value adjustment related to our indirect ownership in True Corp of 615 million kroner. Measured in Norwegian kroner, the share price of True was up 44% during the quarter, which in turn impacts this indirect portion of our ownership. Mark that a part of this was converted to direct ownership back in July. The revaluation adjustment was also the key factor behind the EPS increase to 2.39 kroner this quarter.

As for cash flow, we have another solid quarter. So far this year we have generated free cash flows before M&A of 8.3 billion, 2.8 billion of which were made in the third quarter. This was driven by strong operational performance in the Nordics, also helped by seasonally low interest payments in Q3, dividends received from [inaudible 00:17:35] and CapEx numbers, both booked and paid, which was slightly lower than expected in the Nordics.

On the working capital side we saw, as indicated in Q2, a negative impact from working capital due to phasing from the previous quarter. Continued working capital management helped limit the unwinding of the large improvements seen in the first half.

There was also an outflow of 0.7 billion to non-controlling shareholders of Grameenphone this quarter as we repatriated the first half-year 2024 net profits as dividends in Q3. Note that 0.2 billion of the 0.9 billion in minority payouts we talked about in the previous quarter will be paid in the Q4 due to the timing of local withholding tax.

The balance sheet of the group remains strong with 83.5 billion in net interest-bearing debt and a net leverage ratio of 2.3 times. The favorable FX impact on net interest-bearing debt of 2.3 billion Kroner we saw in Q2 was reversed as the quarter closed with a weaker NOK. This led to a 2.4 billion increase in net debt in the third quarter.

As always, there are several factors which can lead to net leverage fluctuations between quarters, including to a level above the leverage range as happened in Q-two last year. This time factors such at the speed of recovery in Bangladesh, back-end loaded CapEx spent, the volatility of the Euro/NOK, and the second tranche of the full year dividends will be key factors impacting whether net leverage is going to end up at year-end.

This brings us to the financial outlook. With solid performance in the first three quarters of the year, we have narrowed and updated our overall outlook. For Telenordics, based on a service revenue growth of 4.1% for the first nine months, we narrow our 2024 service revenue outlook to 3 to 4% growth from low to mid-single digits previously.

In line with what we stated in the second quarter report, growth in the last part of the year is expected to be lower than in the first half due to tougher year-on-year comparables. We also noted that inflation in the Nordic region has come down from the mid to high-single digits in the first half of last year to low-single digits levels at present. For Nordics we expect around 6% organic EBITDA growth. This compares to our previous guidance of mid-single digit organic growth.

We foresee CapEX of sales of slightly below 17%, and this is a minor change from around 17% in our previous outlook. CapEx was somewhat behind plan in Norway in Q3, of which we are aiming to catch up a fair chunk. And we have significant regulatory obligations in Sweden ahead of us for completion in Q4.

For the group we expect 3 to 4% organic EBITDA growth before other items in 2024. This has changed from mid-single digit growth due to the macro headwinds in Bangladesh that we discussed in depth earlier. On free cash flow we have tightened the range towards the upper half of the previous nine to 10 billion target, based on the solid performance so far. Still, I would like to emphasize that there was still a bit of uncertainty as to exactly where the year ends up. Our CapEx is not only back-end loaded in a year, but from a payment perspective also back-end loaded in the fourth quarter.

With high investment activity in Q4 there will always be some uncertainty related to external factors, such as permits as well as the exact timing of project milestones recognitions, which in turn is impacting supplier invoicing. In addition with typically 60 days payment terms, there will always be some uncertainty whether the cash effect will impact the cash flow in Q4 this year or Q1 next year.

And with that I hand the word back to you Sigve for some concluding remarks.

Sigve:

Yes. Thank you, Kasper. This is my 37th quarterly call as the president and CEO of Telenor. Wow. It has been a while. And this is also my last result call as I will soon pass on the job to the new CEO, Benedicte Fasmer.

But before I'm going into my final stretch in November, let me wrap up on where I think we stand today. First, our strategic operational and financial progress over the last couple of years, including also this third quarter, shows that our strategy is working.

Second, in July I said that the whole organization at Telenor is systematically working to meet our strategic and financial targets. And I believe the performance in the third quarter is a good testament to exactly that. Far from slowing down, we are stepping up.

And third, we have been building a foundation for a stronger company over the long term. And in the years ahead I believe we are set to deliver better customer experiences, better services, significantly leaner constructors and an even stronger financial performance.

And with that I think we are ready for questions. Operator, can you please open up for the first question?

Operator:

Thank you. At this time we invite those analysts wishing to ask a question to click on the raise-hand button, which can be found at the bottom of your screen.

When it is your turn, you'll receive a prompt to be promoted as a panelist. Please accept, wait a moment, and once you have been introduced, you may unmute yourself, turn your video on and ask your question.

As a reminder, we are allowing analysts one question and one related follow-up today. We will wait one moment to allow the queue to form.

Our first question will come from Ondrej Cabejsek at UBS. You may now unmute your audio, turn your video on and ask your question.

Ondrej Cabejsek :

Hi, everyone, good morning. I hope that you can hear me.

Sigve:

Yep.

Ondrej Cabejsek :

Good. Hi. So first of all congratulations to Sigve on your successful time at Telenor. It was great to have all the conversations with you. Thank you. Good luck in the future.

And then I guess my biggest question relates to Bangladesh obviously. So first of all, you reiterate the 2025 guidance, which obviously I guess includes the impact from Bangladesh. I just want to ask about some of the mitigating factors, because obviously this is the biggest unit in Asia. So how are you bridging any gap you might have in '25 from the previous plans?

And just to zoom in on the recovery, I just want to clarify that you said you expect maybe one year to get back to growth. So does this... I want to make sure that I understood correctly. So you mean we're seeing a step down that's going to last for a year, and only 3Q '25 we're going to get back to the same, at single-digit growth rates. Or how do you see the shape of the recovery basically in Bangladesh is the question? Thank you.

Sigve:

Yeah, great question and good seeing you on the screen also. I think the new technology works here. No, I think what I said was that we already see some early indications that the economy is coming back. That's why I also pointed to that October. It's a little bit better in September.

So I think you will see a gradual coming back in the macro economy, exactly as we saw six, seven years ago when we had that similar situation in the country. So what I said was that I don't know how fast that will happen. It could happen in two, three quarters, but it could also eventually be even a year before we are fully back to where we were. But this will be a gradual step-by-step increase.

In that period we will try to protect our cash flow with doing something on the OPEC side and also holding back CapEx, such that the cash flow and the dividend that we plan to take from Bangladesh is as normal as possible. So I think that's where we are.

And we do see that this is an organization which have the ability to actually take out some of the dynamics when the top line is not performing as it used to be, with then cutting costs and changing market tactics. So that's what we see.

Kasper Kaarbø:

Maybe just to add, Sigve.

Sigve:

Yeah.

Kasper Kaarbø:

So just on the CapEx side, we should just remember that we have invested significantly in that market for many years, and we have also invested quite significantly this year, preparing for a much higher traffic than we have now seen. So we have now some spare capacity in that network which will also make us able to take down the CapEx for next year. And also in the current uncertain environment, we will, as Sigve said, be very disciplined with respect to further investments in that market.

And then we should also remember that we have a minority part of that shareholding of around 45%. So that's also an important part of the, call it, causal impact for Telenor Group. And also remember that there's a tax shield of 40% in that market, which will also take off some of that impact we see on the top line in Grameenphone.

Sigve:

And then just to add to Kasper's add. We are not guiding on 2025. That the company will do when we announce our Q4 numbers. But we don't see that the situation in Bangladesh now is going to have any effect on the overall ambition we have to gain [inaudible 00:27:57] cash flow to cover our dividend next year.

Ondrej Cabejsek :

Great, thank you for clarifying that. And within that guidance for 2025 to cover the dividend, how is the Asia five billion looking in the light of Bangladesh, if I may, one follow up please?

Sigve:

Yeah, as I said, we are not guiding on 2025. But the five billion we talked about at our CMD in 2022, that's still the ambition that we have, including Bangladesh, including Selcom Ditchi and also the dividend coming from our Thailand operation.

Ondrej Cabejsek :

Thank you very much.

Operator:

Our next question comes from Christopher Wang Bjornsen at DNB. Please unmute your line, turn your camera on and ask your question.

Christopher Wang Bjornsen:

Good morning, can you hear me?

Sigve:

Yes.

Kasper Kaarbø:

Yes.

Christopher Wang Bjornsen:

Great. Thanks for letting me on and congrats on a great quarter. So in light of the lower CapEx than expected and you guys lowering your guidance for the current year, I was just wondering if you could give some color on your thoughts on the fixed broadband space in Norway, which just from... So from the numbers from ENCOM, that you are seeing more losses on the cable side, and you're adding on the fiber and the fixed wireless.

So how you're thinking about the competitive dynamics there? Do you think that you will increase investments there to make sure that you maintain your core [inaudible 00:29:16] customers, as competitors are going after them? So that's just the first question.

Sigve:

Yeah, let me start, before I answer the question, just to remind you about the upcoming regulatory changes in the fixed market in Norway. And as you know, currently we are the only one that are being regulated. Now the regulator says that they want to break up the country in 22 regions, and in those 22 regions we will be regulated only in two of them.

I think that will change the dynamic in the market in two, three areas. One is that we can get access to 400,000 fixed line customers that already have the fiber with some of our competitors. And we can consider to sell our TV and the security product on that.

Two, I think you will see that some of the smaller players, and there is around 70 of them, will start coming up for grab. And we already have seen that. So this dynamic will change in the market.

But then to your question. Yes, we do see now that cable customers prefer having a fixed line, an SRA fiber connection instead. We are not currently overbuilding with fiber on our cable position, we are rather focusing now on areas where there is very limited overbuilt.

So going forward this is what we're going to do; trying to figure out can we do something on that wholesale opportunity with getting access to other fiber? What can we do on grabbing new market share? And what can we also continue to do in more remote areas on fixed wireless?

So there's a lot of dynamics in the market, but we have absolutely not given up on our position on the fixed side going forward.

Kasper Kaarbø:

Maybe if I could add on that as well, Sigve. So I think as for mobile we will also have a, call it, value-driven approach to what we do on fixed. It will be a balance between number of connections and how we drive ARPA growth in this market.

But that being said, the CapEx in fixed will still be meaningful also in '25.

Sigve:

And there are opportunities also to drive ARPA on the fixed side. And I think we grew ARPA 2.7% now in the quarter. And we do see both an upselling opportunity and we also see a product opportunity, so for more in the fixed line business, with selling TV products and security products.

Christopher Wang Bjornsen:

Great, thanks. And then the follow-up on True. So stellar numbers from True last week. It seems, based on the accelerated write-downs of the sites, that they're going to turn profitable on a reported basis earlier than previously expected.

Can you give just some reflections on how comfortable you are as a shareholder with their debt levels compared to your target range for the group?

Christopher Wang Bjornsen:

... with their debt levels, compared to your target range for the group, and what you think about dividends there as they turn profitable? Do you think they'll be capped by reporting that profit or you see that they can pay more, I guess is my question?

Kasper:

Yeah, I can start and see if there's any need to follow up. So we knew that this company would have a high leverage going into this transaction, had an even higher leverage when they operated before the merger. So this was called part of the assumptions when we decided to merge these two companies. And then we have seen that the leverage has declined much faster than both the company has indicated but also than we had assumed going into the merger. So we see leverage now already below what the company regarded to be at the end of 2025. And then two questions on dividend capacity. So the company has also retained earnings which will also provide some more dividend capacity beyond what they generate in that profits. We see now, as you also said, that the company is about to also report positive net profits that would also add to what's already there in retained earnings. I wouldn't call it reported net profit as a, call it, limit to what they can pay in dividends for next year.

Christopher Wang Bjornsen:

Any chance you share how much dividends you are baking into your ambition to cover your dividend with free cash flow next year? How much of that is going to increase dividend of the product?

Kasper:

I think it would be wrong for us to indicate on behalf of that company, but we have, as we have said for many quarters now, a strong indication that that company will start paying dividends in '25. So let's come back to those details also when [inaudible 00:33:57] is reporting that numbers for Q4 after new year.

Christopher Wang Bjornsen:

Thanks a lot.

Sigve:

Thank you.

moderator:

Our next question comes from Andrew Lee at Goldman Sachs. Please unmute your line and ask your question.

Andrew Lee:

Yeah, good morning everyone. Just had a question just in terms of your reflections, Sigurd, obviously been heading up the company for some time and if we think about the growth guidance you've given for the Nordics in the midterm at 5% EBITDA growth and for this year raising it to 6%, obviously that's a lot higher than we've seen European telcos deliver over a number of years and higher than Telenos delivered consistently over the years. So I wonder if you could just give us your thoughts in terms of your confidence levels in the ability for Telenor Nordics to deliver sustainably in that degree of growth, both from a top line and the cost efficiency perspective. Where are you most confident in that structural growth outlook?

And then I guess a slightly less exciting follow up question would just be on your guidance increase on free cash flow today. I think that partly reflects that you don't anticipate the late payment fees in Bangladesh materializing during 2024. So is it unfair to say that the guidance raise for the full year is basically purely down to that? Obviously your CapEx is low, but then your EBITDA for the group is low as well. It'd just be good to get your reflections on that. Thank you.

Sigve:

Kasper can take the second one and I can think about the first.

Kasper:

Yeah, so I think the second one is an easy one, so it's short time for you to reflect, but so when we guided on the free cash flow, Andrew, we said that that would be outside or without any of these, call it payment related to legacy cases. So it's this late payment that we don't see coming now in Bangladesh this year was anyway outside what we have guided for. So that's not impacting really the guidance for the year and how we have tightened that range. It's really down to what we see where we are now at iceberg Q3 and the remaining quote we have and the momentum we have also into Q4.

Andrew Lee:

Thank you.

Sigve:

On the first question, that's a good one. And I think the short answer to when you ask about is it sustainable, my short answer to that is yes. And let me do a little bit more longer version of that answer as well. I think we are now in well control, good control over transformation programs and that transformation program is both that we're transforming each and one of the four Nordic business units. And we are in the midst of doing that in Norway now. We have initiated a new one in Finland. We are also doing that in Sweden. And what that transformation is all about is to utilize technology to just run the operation more efficiently. And a lot of the cost take out here, it's FTE-related, and I think I talked about that in the last quarter, that we systematically have taken down number of FTEs in the range of six, 7% since 2017 and now we do a bigger chunk of that in Norway.

It's about 10% of the employee base. So this we do, and that's why I'm saying that already in this quarter, you will see effect of that, and then going into the next quarter. We are also then starting to see some effect on what we do on the top. And we think that some of back office functions can be served more efficiently on the Nordic level. But historically we have been very close to the different markets and we will continue to do that. The P&L responsibility will be with our CEOs and the local marketing team, but there are some of those functions on top, being network operations, being HR operations, being finance, and so on, that can do more efficiently. So this part, the cost part of it, I'm very, very certain about. Then you have the revenue part of it, and I'm encouraged by actually what I have seen in the third quarter because I see now that the whole industry in the Nordics, across the Nordics, is actually starting to move in a price increase direction.

We saw for example that the smallest operator in Sweden, they adjusted their prices in the B2B segment. We saw that the smallest operator in Norway did it in the B2C segment. We saw Telia in Norway did the same in the B2C segment in the third quarter. And because of this we also continue to do from book pricing and then potentially also back book prices later. We just came out of a quite significant back book transition in Norway in the second quarter of the year and that's some of the effects that we see in Norway.

So I think that the Nordic telecom landscape is moving into a quite rational pricing environment. And I think we are well positioned then for more concept to leverage on our strength on the network, but also our strength on security. So overall I must say I'm quite pleased with what I see now going into this quarter, but also into next year. So this should be sustainable. And to your point, many people don't understand that the Nordics may be a little bit different from the rest of Europe, and there are differences. The spending power with the Nordic customers are probably different from some of the other European countries. The regulatory framework is probably a little bit better than many other countries. And on top of that, you have a rational competition. So overall the Nordic is sticking out and I think you can expect them to continue to do that in a European landscape.

Andrew Lee:

That's very clear. Thanks, Sigurd, and best of luck for the future.

moderator:

Our next question comes from Siyi He at Citi. Please unmute your line, turn your camera on, and go ahead with your question.

Siyi He:

Hello. Hi. Good morning. Thank you for taking my questions. Actually, my question is maybe a follow-up for Andrew's question earlier, but more zooming into Norway. I think at the beginning of the year, when you gave the guidance, you talk about Norway could be flatish in terms of the EBITDA, but then we look at the last three quarters and you grow about three, 4%. Just wondering if you can elaborate on why you think that Norway actually turns out better, given that OPEX seen much of a reduction yet. And also on the top line, the Norway mobile has grown quite significantly and I understand that is backed up by the price increases, but now in the low-inflation environment, do you think that with the help of value-added services, that you can still maintain that mobile ARP growth to be current level? Thank you.

Sigve:

Yeah, I'm very pleased. We're not guiding per country, but I'm very pleased with the performance of Telenor Norway in the first three quarters of the year. And I think it's coming from their market position now and they're really leveraging the strength they have both on network and now also security. It's becoming a differentiator. And this more-for-more concept that they're doing, it's enabling us to increase the prices at the same time. I'm also very pleased, as I also said in my intro, that despite this price adjustment, we are now also adding net new subscribers. So the way we do this is really appreciate by our customers. So that's the reason for that.

The OPEX part of this you will see later for Telenor Norway in the coming quarters when they get more effect out of the transformation program. And the [inaudible 00:42:01] development. Yes, we are really, really pushing the security product now in Norway. We are trying to implement that in other Nordic markets as well. And of course then it's up to us to make sure that we are constantly renewing that. We just upgraded the product we have in the SME segment, the mass market segment, of security as one example.

Siyi He:

Thank you very much. That's very clear.

moderator:

Our next question comes from Keval Khiroja at Deutsche Bank. Please unmute your line and ask your question.

Keval Khiroya:

Thank you. You've signed a new ICE agreement in Norway, which also forces ICE from migrating traffic to its own network over time. So how do you think the mobile competitor environment will evolve as ICE first gets the access to your own premium network, and then migrates to its own network over time as well? Thank you.

Kasper:

Yeah, so what we have said is that this is a contract that will come in place from next year and we have also put some numbers based on the traffic estimates that we have received from ICE and that will represent approximately a gross wholesale revenue of 1 billion over this three-year period that contract is for. And then that impact will obviously depend on how the traffic will be between this year. So that's still an estimate and that might change also from somewhat what we have indicated for '25, into '26, and further into '27. But we'd also said that this wholesale revenue comes with a fairly high gross margin. It's very limited in direct cost related to this, but then what you alluded to on the competitive landscape and how this will impact the market dynamics is obviously difficult to predict. So that's why we are a bit cautious on saying what they call it net impact from this will be. And we'll just have to see how this will impact competition in the years to come. And then your question was... Yeah, I guess that answer the question, yeah?

Sigve:

But I think just to add to what Kasper said, despite that we don't really know if it will impact or how it will impact the market dynamics, it is clearly positive for us in the coming three years. I think that that's for sure.

Keval Khiroya:

And just by way follow up, may I ask on Nordic pricing where you've obviously highlighted very positive prospects and price rises, how do we think about the benefits of Nordic price rises on the 2025 P&L compared to 2024? Because obviously, perhaps the negative you've got less support from inflation, but to the positive, it sounds like all of the Nordic operators are very positive on the extent of price rise. So how do you think about the overall level of price rise support next year versus this year?

Sigve:

Yeah, we are not guiding on 2025, but we do say that we want to continue in the range that we have talked about before, low-single digit to mid-single digit revenue growth. And that is what we saw in the third quarter, and that's what we expect also in the coming quarters. And that's why, as I said, I'm quite encouraged by what I have seen in the third quarter, and the way our competitors also now are moving in the same direction. But of course it's not the same inflationary environment now that we used to have, but we didn't have that in the third quarter, either. So I think we are moving in a good direction on this as an industry.

Kasper:

And then just to emphasize, I mean, we're not only doing a few price increases, it's through what we say this more for world logic, right? And that's really the key driver for driving prices in Nordic markets and we still believe there's potential to do more on that, adding both features and new services to those markets.

Keval Khiroya:

Thank you.

moderator:

Our next question comes from Ajay Soni at JP Morgan. Please unmute your line, turn your camera on, and ask your question.

Ajay Soni:

Hi there, thanks for taking my question. Mine was just on the free cash flow guidance. So obviously at the beginning of the year, you've guided to nine to 10 billion. I mean, since then you've had headwinds from, let's say the dividend leakage as well as the socio-political impact in Bangladesh. If I consider these headwinds, they're probably about 1 billion. So what's really driven that free cash flow upgrade today? And then, will these drivers be the things that help you achieve your 2025 guidance of covering your dividend? Or is there anything else that we need to consider? Thank you.

Kasper:

Yeah, so I guess we're still within the range that we have indicated for the full year and what we said also coming into the year. And then as you said, there has been some elements that we didn't fully anticipate going into the year, but clearly what we see in the Nordics with a very strong performance has been a key component of the cash flow that we see this year. And I think that is also confirming our ability to be more confident now on nudging towards the upper end of that range. That's really, I would say, the key explanation for the stronger cash flow guidance, although within the same range that we set on Q2 and then going into '25. So I think as Sigurd said, that ambition still stands. It's the same kind of elements that we talked about in Q2. It's about containing this EBITDA momentum that we have in the Nordics, which Sigurd just talked about, and which we will see a fairly high degree of confidence now both on the current revenue side, but also what we're now doing on the transformation side. And it's the CapEx plans that we now see is coming down as we are approaching the end of both the network monetization and the 5G rollout in the Nordics.

Kasper:

... The end of both the network monetization and the 5G rollout in the Nordics. And then the last element that we also mentioned in July, was the dividends from True that we now expect to come in '25. So that's really the, call it, key building blocks for getting to that level that we have assumed for '25.

Ajay Soni:

That's helpful. Can I just have one follow up which is just around that EBITDA step up that you're expecting. So obviously, this quarter we saw, in the Nordics, the EBITDA grow faster than your service revenue and obviously with the lower OpEx. Do you think we can expect this trend to continue in the coming quarter, then into 2025, where your EBITDA is going to be growing significantly faster than your service revenue? Thank you.

Sigve:

Yeah. I wouldn't say significant, but I would say that you can expect EBITDA to grow faster and that's why we are saying that next year, we should be having minus OpEx development year-on-year next year. And with that driving our revenues, that should result in a faster EBITDA growth than the revenue growth.

Kasper:

And what I've used to say is that the combination of decent service revenue growth and OpEx reduction is a very powerful combination. So I think that's really what's driving our confidence now into '25.

Ajay Soni:

Great, very helpful. Thank you.

Moderator :

Our next question comes from Adam Fox-Rumley at HSBC. Please unmute your line and ask your question.

Adam Fox-Rumley:

Thank you very much. Sigve, you're one of the longest serving CEOs in the sector, in a company that's probably got the most complex macro political backdrops in Europe, certainly. The senior management team and the board on the other hand, are some of the newest in the market. So I wondered, in light of, using your experience in due course, if there are any organizational or oversight changes that are being considered by the senior management team or by the board to ensure there's no gap in knowledge as you move on to do other things? And then my follow-up, I just wondered if you could talk a little bit more about the CapEx underspend in Norway, I don't think you gave any specifics there. But it would be helpful to know a little bit about what hasn't been spent and then kind of what is still to do for the rest of the year. Thank you

Sigve:

Again, I can think about the difficult one-

Kasper:

Yeah, yeah.

Sigve:

And then you can do CapEx.

Kasper:

So, yeah, it's not an easy one, but I mean, we said quite clearly that we saw lower CapEx in Norway and I guess, in Nordics as a whole, than we had planned for and anticipated for Q3. And this is always difficult to predict when that CapEx will be booked and also paid and also when we're able to, call it, phase in some of these activities. Normally, quite a bit of these activities are in the latter half of the second half, given the, call it, vacation time in the Nordics. So it's not very surprising that we have a higher CapEx spend in Q4. But particularly for Norway it's both on the fiber side but also on the mobile network monetization, where we see, call it, lower CapEx than anticipated. And we have a clear ambition to regain most of that in Q4, so we should expect then to see a higher CapEx, both for Norway and for Nordics in Q4.

Sigve:

Yeah. On the first question, the board that we have in place now, several of them were new, one and a half year ago, but they have fully embraced the strategy that we are working on. So there is no doubt that they own the 2022 capital market share strategy that we are executing on now and then we need also to execute on next year. So I think that gives me confidence to talk about also 2025, even though we don't give any clear guidance.

Then yes, there will be some changes in the top management team, but Telenor is an organization with a lot of executors down in the organization. So I think the whole organization is very geared up against, actually now delivering on the targets that we had. We just had a top management gathering just some few weeks ago, where we discussed exactly that. How can we now make sure that we're delivering also on our promises for 2025 and how can we continue to be someone that is a little bit of an outlier, going forward? So I'm quite confident that even with a new CEO and a new CFO, that the execution, drive you see in Telenor is going to continue.

Adam Fox-Rumley:

Okay, thanks very much.

Moderator :

Our next question comes from Felix Henriksen at Nordia Securities. Please unmute your line and go ahead with your question.

Felix Henriksen:

Hi guys, thanks for taking my question. It's been a bit more than two years now since your latest capital market state, where you stated the potential ambition to bring on partners for minority stakes in your tower business. So I just wanted to revisit your thinking on how you currently think about this project. Thanks.

Sigve:

Where you talk about potential M&A opportunities in the Nordic, is that your question?

Kasper:

Towers.

Sigve:

Or towers?

Felix Henriksen:

Towers.

Sigve:

Oh, of course.

Felix Henriksen:

Yeah, tower. Yeah.

Sigve:

Yeah. We're still thinking about that, because we took the position on making sure that our infrastructure, our towers are being run efficiently and I'm very happy to see that OPECs development goes down and then external revenues go up. So we are in a much better position now than we were two, three years ago. So now we are in the midst of trying to answer your question. It's part, a strategic question and it's part, a financial question. We are looking at how does the landscape look like now for potential partners. So as soon as we have talked this through, we will announce it, but now we are in the middle of those considerations.

Felix Henriksen:

Right. And then I have a follow-up, if I may relate it to Norway, where you were able to reverse the negative trend in mobile subscriber net ads. So could you just elaborate a bit on what drove the positive net ad development in mobile in Norway, and how do you see the competitive trends into October and the fourth quarter of the year? Thanks.

Sigve:

The competitive trends are unchanged. Norway is a competitive market, with three players, but also with several service providers. If there's any change at all, then it is that there are fewer service providers now than it used to be, if I look back a couple two, three years, because some of them has been bought from Ice or from Telia. And that's also why I'm encouraged that both Ice and Telia, now, is starting to move their prices, so it enable us to continue our more for more concept.

But to answer your question, we really, now, see a benefit out of a clear differentiation we have in the market on network and on security. And those are the two things we are able now to monetize when we do the price adjustment. So that's a reason and that's also the reason why our most valuable customers, the post-pay customers are really appreciating what they're delivering to them. And then we also had some additions in the B2B segment, we got Aker companies decided to use Telenor. So we got, how many was that? Four or 5,000?

Kasper:

6,000

Sigve:

6,000 new additions also in the B2B segment. Wow, there are five more in the queue here-

Felix Henriksen:

Thank you and best of luck for the future.

Sigve:

So I think we need to speed up for Kasper.

Kasper:

Yes, let's be quicker on the [inaudible 00:55:51].

Sigve:

Yeah, right.

Moderator :

Our next question comes from Oystein Lodgaard at ABG Sundial Collier. Please unmute your line and ask your question.

Oystein Lodgaard :

Good morning. I was wondering, on the OpEx side, you had some pretty ambitious numbers that you presented on the Q2 presentation, about how many employees you expect to reduce going forward. Can you say something about the timing of this? Are there concrete initiatives now already in place that could have an impact from the beginning of 2025 or is this more from 2026 and onwards?

Sigve:

No, these plans are very concrete and it's happening as we speak. So some of it will happen now in Q4, some of it will happen in Q1 and Q2. So everything we talked about in the second quarter is going to happen. And some of it will also be going into 2026, so you will see the effect of this in the coming quarters.

Kasper:

And I guess what you said on Q2, Sigve, was that this is not something new, right-

Sigve:

No.

Kasper:

This is something we've be doing for many years, this is more about accelerating how we now-

Sigve:

Yeah.

Kasper:

Run transformation across Nordics.

Oystein Lodgaard :

Okay, thank you. And a fault on the CapEx, you said there could be some payments or something that would slip to 2025. You have, from previously, had a very concrete CapEx guiding for '25, 2 billion less than in 2022. How will that potentially impact that guiding for 2025 if some CapEx slips over to '25 from '24?

Kasper:

Yeah, so let's come back to the guiding in February when we see now how the full year for '24 ends up. But we have a clear ambition of pushing as much as the planned CapEx and activities into this year. But then we said that it's sometime difficult to predict exactly when that payment and booking will happen, that depends on the number of elements. So we not fully in control of all those elements, but we have a clear ambition to do as much as possible within this year. So then we just have to see now, how, if anything, is moved into '25 and how that will impact the guiding for '25 when it come to February next year.

Oystein Lodgaard :

Okay, thank you very much.

Moderator :

Our next question comes from Usman Ghazi at Berenberg. Please unmute your line and ask you a question.

Usman Ghazi:

Hi everyone. Thank you for the opportunity. Sigve, I just wanted to wish you the best in your future plans. I have kind of two questions, but I'll see how it goes. One, was big picture. Sigve, I mean, I think one of the kind of big unfinished projects while your time as CEO, has been this prospect of a nation carve out. And I just wanted to understand if the new management also kind of bought into that idea or is their focus going to be a little bit different to that kind of ambition that you had for the group? And then, I'll ask the second question, you don't have to answer it. But just on Swedish regulation with regards to the municipality networks and the SDU market, where it seems like they're going in a similar way to Norway with regional, or they could go in a similar way to Norway with regional regulation. Are you kind of looking to position yourself for M&A in the Swedish market as well or is it just too early in that market? Thank you

Sigve:

Yeah, very short on that one. Yes, the structural process in Asia, it's not unfinished, it's unconcluded, I would say. So I have been working on this and I assume the new management team will do that the same, because it's a value creative. In Sweden, yes, we think that the Swedish regulation is moving in line with the Ruler regulation we have for Telenor in Norway. And we see that as positive for us, it's an upside for us if that is to happen.

Usman Ghazi:

Thank you.

Moderator :

Our next question comes from Jorgen Weidmann from Pareto Securities. Please unmute your line and ask your question.

Jorgen Weidmann :

Hello, and thank you so much for taking my question. So my question is specifically on the Pakistan operations. You previously said that the Pakistan divestment will not affect your free cash flow guidance for the group, materially, in 2025. But with an almost 2 billion in EBITDA, I was just wondering if you could give some color on what cash outflows you see that bridges this to a minimal free cash flow contribution. Thanks.

Kasper:

Yeah, so let me at least cover the key elements. So obviously the tax rate in Pakistan is higher than we see in the Nordics, but maybe more importantly, the lease payment. So we lease access to towers in Pakistan and that's a significant part of the, call it, cash outflow in Pakistan and that explains a meaningful part of that bridge. So I think the combination of lease, tax and then also what we do on CapEx now, which is limited, but still, we need to continue to do some selected investments. So that really explains the key elements of that bridge you're alluding to.

Jorgen Weidmann :

Okay, thank you.

Moderator :

This concludes today's call. Thank you for your participation. I will now hand back to Telenor for closing remarks.

Sigve:

Yeah. Where is this?

I think I already did my closing remarks. So to all you, thanks for listening in to this call and thanks for listening in to all my 37 calls and I hope to see some of you on the road. And have a good day.