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DNA.HE - Q1 2017 DNA Oyj Earnings Call

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### Operator

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## PRESENTATION

### Operator

Good day and welcome to the DNA Q1 Report 2017. Today's conference is being recorded. At this time, I would like to turn the conference over to Marja Makinen. Please go ahead.

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### **Marja Makinen** - *DNA Oyj - Head of IR*

Thank you. Good afternoon, everybody. My name is Marja Makinen, and I'm from DNA's Investor Relations. And would like to welcome you all to this conference call regarding DNA's first quarter 2017 results. With me here are our CEO, Jukka Leinonen; and our, CFO, Timo Karppinen. Jukka and Timo will go through the presentation, which can be found on our investor website.

And just to remind you that we will be making forward-looking statements during the presentation, and therefore, we have a disclaimer on the second page of the presentation set. And after the presentation, Jukka and Timo will answer your questions. So, please, Jukka, we are now ready to start.

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### **Jukka Leinonen** - *DNA Oyj - CEO*

Yes. Okay, thank you. So this is Mr. Jukka Leinonen, CEO for the DNA. Nice to meet you all on the other side of the line. So let's go directly into page five on the presentation, where we have the summary about the first quarter results.

So, DNA's year started strongly, according to our plans. Net sales improved very nicely and went up 5.7% and totaling [EUR213.4 million]. The growth was really related to the very strong growth in service revenues, which was coming from the mobile service revenues, but we basically had the combined impact of increasing number of subscribers, up about 100,000 from the last year's quarter. And also we had the significant increase in the average revenue per user, which was basically related to the fact that the share of 4G subscribers was increasing due to the increasing usage of mobile data. We also had very nice development of mobile device sales, which also was affecting positively to the net sales. So, all in all, I would say that we have had a very strong revenue development in Q1.



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That was then reflecting to the very nice improvement on the profitability. EBITDA was growing 9.7% from the same quarter last year and was totaling to EUR65.9 million; that was driven by the increasing sales of the service revenue and the service revenue growth, which of course is very profitable when it's basically bringing revenues on top of the existing volumes. Also, we were improving the operational efficiency and these two elements were basically combining this 10% growth. Operating result was improving 14.9% and was totaling to EUR28.9 million.

When we look about the operational metrics, the revenue per user was increasing to EUR17.8 per month per subscriber, which was a significant 8.5% growth from the last year's first quarter. And that was really related to the fact that this year, of course, the subscribers was increasing. Customers are clearly willing to pay more for the better user experience what they are getting with the 4G subscribers. We also made certain price increases in certain older DNA subscription. These price increases were not affecting significantly into the ARPU development, but of course, the price increases we were making in the Q3 and Q4 last year had the full impact for the first quarter. So this was the other element for the increase in ARPU.

Churn was very high in Q1, 21%, but that was really related mainly into the price increases we were making into some of the old kind of the subscriber types. We actually increased the prices for about 220,000 subscribers and we had about 10% churn, which was totally as we expected, and that was basically the major reason for the increase in churn. So we are not concerned about this, because it's not going to be a continuous increase in churn level, but was related to this kind of a one-off price increases, as I explained.

When we look about the mobile subscription base from a year's development, we basically were growing 3.8%, which was 100,000 new subscribers in the mobile network. So, on a yearly basis, the development was very, very positive, even though we had a slight decrease from the previous quarter, due to the fact of these price increases.

Also, the subscription base was increasing very nicely in fixed broadband and cable networks, where we basically were seeing like 20,000 increase in terms of the subscribers. The fixed voice subscribers went down about 12,000. So when we look about the overall result on the fixed subscribers, that was up 8,000, but I think the most important thing is that when we talk about the growing business areas, which are based on data, which are based on different type of content, the video, on those areas the fixed broadband and cable TV subscribers went up steadily.

When we look about the business segments, we had a very, very positive development in the Consumer business. EBITDA was increasing more than 20% and that was really related to the fact by the positive development of service revenues coming from the mobile service revenues and also the mobile device sales. In Corporate segment, the EBITDA was declining 15%. That decline was mostly affected by the decrease in service revenue, which was including the price changes in leased masts and equipment sites. And this was related to the fact that we have been negotiating with the other operators about the lower tariffs related to these prices on the leased masts and equipment sites. And since we are a net buyer, this is on the DNA level, a positive effect, but because we are booking the operator business as part of the B2B business, we see a decline at the Corporate level. But I want to stress the fact that this is positive on the DNA level and that's the reason why we basically did it.

If we then can go into the page 6, there we can see some of the graphs related to some of the metrics. Our net sales have been growing steadily quarter-after-quarter for the last years and there you can see actually a very steady growth and we have been actually having higher revenues in each quarter, when we compare to the same quarter in the previous years, now for two and a half years. So very strong growth there.

When we look about the EBITDA, there we can see the same trend, each quarter we have been having the higher EBITDA compared to the same quarter in the previous year, and this almost 10% increase, that is really a great result and we are very happy with this one.

CapEx has been coming down. We were basically indicating already in the end of the last year that we have been now getting the coverages built out ready. So the 4G network is fully ready in terms of the coverage and we have been now moving into the capacity increase phase, which is significantly more cost effective in terms of the CapEx and we already are seeing now a decline in Q1. So, almost 20% less CapEx in Q1 compared to the previous year, where we still had activities in terms of increasing the coverage.

And this, of course, is then serving very nicely improvement in operating cash flow, which was growing very nicely, increasing EBITDA, decreasing CapEx, is an equation, which is serving well the operative free cash flow. That was almost EUR50 million, which is very excellent result.



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When we go into the page 7 and look about the subscriber developments, which is really important in terms of reflecting how the customers are seeing the competitiveness of DNA. We basically saw a 3.8% increase, which is about 100,000 subscribers, in mobile subscribers. We had this 10,000 decrease from the last quarter, but on a yearly basis, we still were increasing the subscriber numbers in the mobile by 100,000.

Also, when we look about the other growing business areas, fixed data, we had a steady growth of 12,000 subscribers and also on entertainment business, cable TV business, we had a growth of 12,000 new subscribers from the last year's quarter. So, all in all, all of these areas, which are growing; mobile, fixed data, cable TV, entertainment, we are seeing a steady growth, which is continuing.

On fixed-voice side, the trend-like decline is continuing and we were basically coming down, as expected, [above] 16% in terms of subscribers from the last year's first quarter.

Then if you go into the page 8 and look about in more detail the development subscribers on mobile, we can see that we basically had the certain type of decrease in the subscriber numbers compared to the fourth quarter last year. So we basically went down 10,000 and that was really related to the fact that -- most of that can be explained by the fact that we were making these price increases to this base of low-cost subscriber, totaling about 220,000.

If you look about the overall development from last year's first quarter, we were up 100,000, and which is important; almost all of this growth came from the postpaid subscribers. And, of course, as you know, the postpaid is much more higher ARPU products and much more profitable than prepaid. So this is one of the reason for the significant increase in the mobile service revenues.

When we look about the business segments, the growth came almost equally from Consumer segment and Corporate segment, and this of course is important, because we are seeing that the competitiveness of DNA's mobile services are equally good in the Consumer segment and in the Corporate customer segment.

When we look about the change from the last quarter, we went down about 22,000 subscribers in the Consumer segment and that was related to the fact that we made in the Consumer business these price increases I was explaining earlier. But on the Corporate side, where we did not have any price changes, we were basically increasing our subscribers by 12,000, which basically is a very good result.

So, all in all, we are quite satisfied with the development of the mobile subscribers and this temporary decrease in net numbers is not anything we are worried about, because it is related to this price increases and performed more or less as we were basically planning beforehand.

On page 9, you can see the development of the smartphone penetration and also the mobile broadband penetration, which are steadily increasing. Maybe important thing here to note is that we still have more than 30% of the customers with feature phones and those customers will be moving into the smartphone, which of course makes room for the further increase in mobile data-driven subscriptions and especially in 4G. So we see lot of opportunities on that area also in the coming future.

When we look about the page 10, we can see that the mobile data usage continues to grow. We are now starting to see a slightly slower growth than in the previous years, where we almost doubled the growth in each and every quarter. Now, we have about 63% growth from the last year's first quarter. It's still significant and this of course is related to the fact that the share of 4G subscribers is increasing and already today, more than 80% of the data used is with the 4G subscribers. So we still are expecting that the total data used will be increasing in the future when the share of 4G subscribers is increasing. So this is a very clear development.

We also have been starting to do activities related to the future technologies with Ericsson, which is our kind of current mobile equipment vendor. We were basically testing the potential of the new 4G radio technology and we were achieving 25 gigabits per second, the speeds with 3 millisecond latency, which really shows the potential of the new technology in the years to come after 4G.

On page 11, some words about the revenue and churn. We had a very positive development of postpaid ARPU. As discussed earlier, this really was related to the fact that the share of 4G subscribers was increasing and also we were starting to see some impact from the price increases in [low



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tariffs] we made in the Q3 and Q4 last year. We are expecting that this year of course the subscribers will be also increasing further this year. And we are also expecting that the price increases we make this first quarter will be having the full impact at the later stage of this year.

These price increases were, of course, then increasing our churn in Q1. But, I said earlier, we are quite comfortable with these figures, because these were exactly according to our own plans, when it comes to the churn of these subscribers, where we raised the prices, so nothing surprising here, and this of course is a one-time development and we are not expecting that this will basically have the effect on the continuous churn levels when we go forward.

Then on page 12, when we look about the fixed side, we had a very steady growth in the Consumer fixed broadband subscriptions. We basically have been now finalizing our upgrade on our Fibre Plus network, and basically, the total network is now about one quarter before our original target, fully capable to 1 gigabit per second speeds. And there we are now seeing that the competitiveness of that network is extremely good. We have been increasing the number of subscribers by 12,000 compared to the first quarter of last year.

On the Consumer side -- on the B2B side, we are seeing a slight decline; that's related to the fact that the small business customers -- small office/home office customers are switching from DSL-based fixed broadband connections into the mobile broadband, which basically is offering better performance at the lower price. So there we are seeing a slight decline. On TV subscriptions, the steady growth also continues. We have been getting about 8,000 new subscribers since last year and also the development of our OTP DNA TV service subscribers have been developing very nicely, almost 90,000 new subscribers since the first quarter of last year. So, all in all, very strong development on the subscription development on the Customer side in all these areas where we see growth potential in the future.

Then when we go into the page 13, just to remind you about our strategy, we will continue to execute our current strategy, which seems to work quite nicely. We continue to strengthen our foundation for the business. We really believe that the personnel is a key element in terms of being able to deliver a great customer experience, so we will continue to develop our personnel competencies. We will also continue to maintain and further develop our 4G fibre optic and cable networks and service platforms, both in the Consumer and Business segment and we believe that we are able to, also in the future, be very competitive in these core platforms.

When we talk about being a service operator, differentiating with the best customer experience, we see that the IT systems has a critical element in terms of serving this one. So we will continue to basically IT transformation and develop new data analytics capabilities. We will put more efforts into the online capabilities. We will streamline our BSS architecture and we see that this will be giving us a further foundation in the future. And as a company, we are challenged, so we believe that the speed and cost effectiveness is a key element of ours, and in our DNA and we think that we beat the competition in terms of this element, which will be giving us a very nice competitive positioning also in the future. So, all this will continue.

And on page 14, when we look about our four Corporate-level targets; most satisfied customers, great place to work for our employees, growing faster than the market and improving our relative profitability, which we are measuring based on the operative cash flow, we basically can see that during first quarter, all of these we are going into the positive direction. So we see that we are on track to achieve our goals and our objectives. So from that perspective, very happy with the strategic development of the Company.

Page 15, when we look about the market outlook, I think that all in all there are some positive signs in the Finnish economy. The consumer confidence, the business confidence is growing, but we still see a very tight competition and expect that this will continue all along during 2017.

There will be a strong growth in mobile data, which will be basically moving customers into the 4G, which will be the platform of choice for these mobile data users in the future. At the same time, we see a slight and steady decline on SMS and mobile voice traffic, but we see that the demand for higher speeds, both mobile and fixed broadband connections and also the entertainment and video services will be a great potential for the future growth in the Consumer segment.

When we look about the fixed network, there still, of course, the fixed voice will basically go down, but as you know, our market in fixed voice business is fairly limited. So we are not suffering all that much from this development. On Corporate side, we see increasing demand for the Internet of Things services in different parts of the customer processes. We also see that more and more customers are moving their business into the



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networks. They will be using more and more remote working, flexible working. They will be using the cloud services and all these are basically increasing the demand for the security services capacity of the networks and the mobile data services.

So this is the outlook for the 2017. And now Timo will continue on more detailed financial review, after which we can then take some of the questions. Please, Timo.

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### **Timo Karppinen** - DNA Oyj - CFO

Yes, so, good afternoon from my part as well. So, let's go to the page 17 and have an overview of the financial results.

And Q1 really is a continuation of our strong momentum in net sales, in profitability and in cash flows. Really, the net sales increase of 5.7%, the main contributor for that is the fact that the service revenue is growing and the driver there is the increase, or the positive development in the mobile subscription base. And there we see the share of 4G subscribers grow, which then boost the actual sales as we grow. Another element that was growing is coming from the mobile device sales, which has been really progressing well in our case. So, all of that positive elements are the drivers that drive the Consumer business. And you see the Consumer business share has now increased to 74% and the Corporate business now sort of declining [25%].

When the service revenue grows, as we have said all along, that really give us a great boost into the -- our operative leverage improves and that basically is the leading -- the fact that our operational efficiency improves as we grow. And that is then leading with the fact that our EBITDA in Q1 increased 9.7% when you compare the Q1 last year. And then also this is then leading to the fact that our operating result as well increased 14.9%.

The net result also increased, and there we have to say that in the depreciation, we have given that the guidance that in this year the depreciation will be around at the same level as it was last year, but we see in first half of this year that will be a little bit higher and we'll see in certain elements of our fixed network, the depreciation will go away and we'll see a decrease in the second half compared to the second half of 2016. So, whole-year level, the depreciation will remain flat compared to last year.

So, all in all, when the profitability increases, we have maintained sort of our guidance that the operative CapEx continue to decline and so it did in Q1. And here we saw the operative CapEx actually decreased almost -- more than 19% compared to last year and this is the sort of the trend that we will see during this year. But here we need to emphasize that Q1 typically is a low CapEx quarter out of all quarters, but for the whole year we will see a decline in the operative CapEx level compared to 2016. When the CapEx is decreasing and the profitability increasing, we saw a significant improvement, as planned, in the free cash flow; it's an increase with 25%.

We then go to the next page, page 18, so this is giving you how the revenue split performed in Q1. So, like I said, really the main driver in the net sales increase is coming from the mobile service revenue, which then really continued to grow very strongly in the first quarter. The growth, all in all, was 14% in Q1, which is then accelerated growth from the Q4 last year, when the growth there was 12.5%. And the main driver there really is on the fact that the 4G subscriber base is growing and giving an higher average billing per subscriber than we have in our base. The ARPU increase was very significant, 8.5%. And then we need to remember that this is despite the fact that this interconnection revenues are declining as we go.

The second thing that was increasing was this mobile equipment; that increased by 17% in Q1, and it was really up strongly. And most of this mobile equipment sales is done through our own channels, it is very positive and of course giving us -- and most of the equipment that we sell are 4G equipment. So this is always giving us the possibility to turn the customers into 4G subscribers.

The fixed revenues was down slightly. Within this, we see the fixed broadband business itself growing. We saw some positive declines coming from this, what we call, operator services, which is then related to the fact that this price change is of the leased masts and equipment of sites. Like Jukka said, this has a small decline in revenues, but actually it's a positive impact to the Group EBITDA, all in all. And then also in the fixed revenues, as this pay TV side, it's a small decline in Q1 compared to the last year. And then, as planned, the interconnection revenues declined and also the fixed revenues declined.



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In page 19 is the summary of the business segments. Starting from the Consumer business, there we had extremely strong quarter, and this is all driven by the fact, like I explained earlier, from the fact that subscriber base is growing and is taking more of the 4G subscribers and really that's the main driver of the whole net sales. And, of course, there was the mobile device sales, giving the positive impact to the Consumer business. And the ARPU itself on the Consumer side added 10.5% increase in Q1, which must be one of the record quarters that we have, where the ARPU itself has grown so much, from EUR17.1 to EUR18.9. The EBITDA in the Consumer side was very good increase, so the EBITDA itself improved by 20.3%. Really, there we see then the improvements coming from the service revenue increase, and that's giving us the operational efficiency improvement.

On the Corporate side, there was a small decline in the net sales. On the positive side, we see a growth coming from the small and mid-sized customer segments, where the decline happened was in interconnection volumes reduced, which then reduced the interconnection revenues. And then, like I said, on the service revenue side, we saw a small decline on the voice services, on the mobile network, and then the fact that we had this price changes on the leased masts and equipment sites, which then give us a small decline in the Corporate business sales, but actually in Group level, it has a positive impact on EBITDA. And Corporate business EBITDA had some decline and really the main driver for that is the service revenue decline.

On page 20, that's going to show you that the historical trend on our EBITDA improvement, and really we have this solid foundation on how the EBITDA has been improving this last three years and now Q1 is instrumental of the fact that we have it in a good path of improving our EBITDA. So the EBITDA has improved in the last three years on average 8.2% per year, and now Q1, we have in the trend of 9.7% improvement. And we are really -- can say here that we are (inaudible) guidance of maintaining or having the EBITDA margin of more than 30%.

On the page 21 is the summary of the capital expenditure. So, first looking at how the operative CapEx evolution has been. So, by end of 2016, we came to an end of the heavy investment cycle and the Q4 last year was time when the 4G rollout was completed. So that leads to then the development starting this year, in Q1, basically in the mobile communication network, our investments have been shifted into capacity expansion. And then we have earlier said about this mobile -- fixed broadband upgrade. So we have completed now the whole 1 gigabyte speed investments. So all of our 600,000 households are now upgraded into this gigabyte speed. So there is no further investments in that anymore. And then just to note that this 700 spectrum license payments started in Q1 for EUR4.4 million.

Then in terms of the cash flow summary. So, in terms of that operating free cash flow, we really had then a record quarter and this is driven from the fact that the comparable EBITDA is growing, CapEx is coming down, as we have guided, and then that leads to the fact that this operating free cash flow was this record EUR49 million in the quarter and basically giving us a 23% margin in itself.

When you look at the free cash flow to equity, there are certain items which are impacting always in Q1, and so it happened here again. So, basically, couple of things. So the interest payments are high typically in Q1. Right now, we paid EUR5 million, when last year -- the whole year was EUR9 million and we expect the whole year interest payments to be less than EUR9 million. So it really burdened mostly in Q1.

Then on this net working capital change, is really driven from the fact that we had high investments in Q4 last year and this came to be paid in Q1, and also the [lifting] costs were really paid in Q1. So both of these items had quite a big impact on our trade payables, which then reduced and had this impact on the net working capital. But we see this as typically a first quarter issue and we'll see that to improve over the remaining of the year.

Then in terms of the capital structure, so our net debt to EBITDA ratio has improved significantly. And we have now ended the Q1 at the level of 1.2x. Net debt itself was only at EUR314 million. And the cash that we hold was EUR44 million. But, all of this was really the preparation for the dividend payments that materialized in beginning of April, and really after the dividend payment, our net debt to EBITDA ratio will go somewhere around 1.6x level. But, all in all, our balance sheet remain at very healthy level and we have no sort of short-term loan maturity payment, in fact, next year -- towards the end of last year. Next year, we will refinance the bond of EUR100 million, which we feel no problem of renewing it when it comes to be done.

So, last page, on 24, this is just summarizing our guidance for this year and then the objectives for mid-term. So, like we said earlier, at the Q4 results announcement, we see the net sales of this year to remain at the same level and then comparable operating result expected to improve somewhat in this year compared to 2016. And we see the Group financial position and liquidity to remain at a healthy level. And all our mid-term financial



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targets; net sales, EBITDA and related to operative capital expenditure remain unchanged. And the leverage policy on net debt-to-EBITDA of less than 2x also remain our priority.

Dividend policy has not changed, so we maintain the same policy. Of course, the payout ratio is 70% to 90% of free cash flow to equity. And then summarizing that in the AGM in the end of March, then confirm the dividend payment of EUR0.55 per share, and that dividend then totals EUR73 million, which is paid on April 7 this year, giving the dividend yield of 5.4% when comparing the share price at the end of 2016.

So, in short, this is our presentation and now I guess we can go into questions, if there are any.

### QUESTIONS AND ANSWERS

#### Operator

(Operator Instructions) Terence Tsui, Morgan Stanley.

#### Terence Tsui - Morgan Stanley - Analyst

I've got a few questions on mobile. So you mentioned that the price changes that you made in Q1, you haven't seen the full impact yet or the full benefit on ARPU and that will come during the rest of the year. I just wondered whether you're expecting also to be some churn impacts, maybe in Q2 as well, before finally it goes down to a more normalized level?

And then secondly, related to mobile, just wondered if you can give us an update on the competitive dynamics. I remember the last quarter you talked a little bit about a bit more competition around third-party sales channels and also operators being more aggressive winning back customers. You said they were going to leave within that 14-day period. Just wonder whether that sort of level of intensity is the same or maybe improved versus Q4?

And then thirdly just on roaming, just give us an update on your latest thinking about the latest EU roaming legislation and just when you expect to hear about the sustainability mechanism and whether that will be allowed?

#### Jukka Leinonen - DNA Oyj - CEO

First of all, when I talk about this price change impacts what we made this first quarter, when we announced the price changes in the end of January, they came into effect March 1. So we are basically just seeing a limited effect of impact of those in Q1. And we will be basically seeing the full impact starting from Q2 forward. I think that the major part of the churn has been seen. We are expecting that when some of the customers are (inaudible) there might be still some minor churn what we will see, but this is the situation concerning how these changes are impacting in the coming quarters.

When we talk about the competitive dynamics, we basically have been seeing that this aggressive dealer compensation and terminal subsidy approach by Elisa has been more or less continuing during Q1. We have not responded to that. We have been doing some activities in terms of defending our existing customer base, but we have not responded in terms of being more aggressive on new sales. We are going to follow the situation very closely and we have prepared different type of activities to respond if that will continue, but so far we are basically being conservative in our approach and hope that the situation will ease off.

Then on roaming, we basically are more or less in the same view that we have seen earlier. We clearly have been having discussions with the Finnish regulators about the issue. We are basically discussing with them about the sustainability mechanism. We have not yet made the final decisions to apply, but that will be probable, and we are also at the same time, preparing for the new offerings to be launched at the closer time to the actual change in the regulation, which will be effective June 15. Our own view at this moment is remaining the same than earlier that with the combination of sustainability mechanism, plus the new offering, the effect of the EU roaming regulation will have a neutral effect into our profitability.



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**Operator**

Simon Coles, Barclays.

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**Simon Coles - Barclays - Analyst**

So on data usage, we see that in Finland roughly 16 gigabytes, when compared to the European average of 3 gigabytes and growing faster. Just wondering if you could tell us a bit more about the key drivers of that. Is it still video and how much long would you expect it to keep growing ahead of the European average? And then secondly on 5G, you mentioned that you're able to get 25 gigabytes speed in your recent trials. Just wondering when you think 5G will be a reality in Finland?

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**Jukka Leinonen - DNA Oyj - CEO**

When we are now looking at the traffic distribution with the mobile network, we can roughly say that 70% of the data used in mobile network is video, is coming from the sources like YouTube, Netflix, [Yule Audreina] in Finland, DNA TV et cetera. What we are basically seeing is that there will be two drivers, which are keeping the growth up. First one is that there will be more and more customers taking the 4G and the 4G customer experience is significantly better in terms of the usage of the video services, which will be basically driving the higher usage. Secondly, we are going to see that the new terminal devices, what we are now seeing coming into the marketplace with the different vendors, they have the better processing power, they have better screens, et cetera, and that will be meaning that the usage of high definition content will be increasing. So we are expecting that the growth in the data usage will be continuing, but it will be starting to slightly bend down, so it's not going to double anymore. As you saw in our Q1 figures, in our network, it has been almost doubling for the last three years. Now, we saw the growth of 63% and we are expecting that the related growth will be bending down, but it will continue to be at the high level.

When it comes to the 5G, our view has remained the same. The standardization will be basically ready maybe 2019, 2020. We are going to see some pilots before that one, but we are not expecting that in volumes anybody would be starting to build commercial networks before we have the standardization ready. That means that the volume built out of the 5G will start maybe late 2019. And that means that 4G will be the major platform for revenues, at least to the 2025, but the major buildout will be starting in maybe three years from now.

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**Operator**

Sami Sarkamies, Nordea.

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**Sami Sarkamies - Nordea - Analyst**

I have three questions. Firstly, you've been mentioning these mast rental agreements that came into place in the beginning of this year. Can you give us the revenue and cost number on what will be the changes on the annual level, does it have any impact on the Corporate segment? And secondly, also on the Corporate segment, I think you mentioned in the earlier meeting that you benefited last year from revaluation of property lease agreements. Can you give us a number on what was the revaluation boost a year ago and what is the effect now in Q1 this year? And thirdly in guidance, if I remember right, after Q4 you were guiding for less than 10% mobile service revenue growth. What changed during the quarter, as we actually ended up somewhat higher than after Q4? Thanks.

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**Jukka Leinonen - DNA Oyj - CEO**

Regarding this rental agreements, these are basically based on the agreement that we have with the other operators and we cannot disclose the exact amount, though they declined. And I would say roughly on a yearly level the impact to the Corporate sales would be around EUR2 million,



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EUR2.5 million, roughly around that. But when you look at the EBITDA, the positive impact on the Group level, it will be higher than that, because we are the net payer when it comes to the rental payments for (inaudible). Then, what was the second question?

**Sami Sarkamies** - *Nordea - Analyst*

It's related to these revaluations of property lease agreements.

**Jukka Leinonen** - *DNA Oyj - CEO*

Yes. Basically what we have said in this year, we don't see any big changes in the provision anymore, because the obvious premise itself is almost fully occupied. This is then, as we mentioned here, is related to the Q1 2016, where there was -- I would say, minor, not material provision increase, when the departure of one tenant. So that provision change is valued less than [EUR1 million].

Then you asked about this mobile service revenue increase, in there, we have to say that in [data] this ongoing trend of that 4G subscriber base to increase and that's the main driver of the mobile service revenue growth. And then also we did this price increases to this -- started doing the price increases to this low ARPU subscribers already in Q3 and Q4 last year. So we're seeing a positive impact of that already in Q1 this year. And this further increases when we did -- this year there was some impact already in end of Q1 this year, but we'll see the main impact of that coming actually towards the end of Q2.

**Sami Sarkamies** - *Nordea - Analyst*

So we should expect higher mobile service revenue growth going into Q2?

**Jukka Leinonen** - *DNA Oyj - CEO*

I think that it's so that we are basically seeing that probably, based on the kind of existing customer base, we should have a fairly positive outlook into the mobile service revenues on Q2, but then the question, which is very challenging to kind of forecast is the second half. As you saw, we basically had the decline on the net number of mobile subscriptions because of the kind of price increases and also maybe the better competition of external channels. So the base is a bit smaller. We are expecting that the competition will be tighter, as I said earlier. We are following the situation. We haven't responded so far, but we are preparing to do so, if that is necessary. But, all in all, I think that we are quite cautious about forecasting extremely positively in the second half, because there are so much uncertainties out there, but I think that the second half -- the second quarter should be basically quite nice. But, maybe one thing to say about the Q1 is that I think that it was -- this 14% growth was extraordinarily high. So it was also a positive surprise for us and higher than we were basically expecting ourselves. So that is clear.

**Operator**

(Operator Instructions) [Mathieu Blocksom], JP Morgan.

**Mathieu Blocksom** - *JP Morgan - Analyst*

I've got a follow-up question on roaming and one on the DNA TV trends. So, on roaming, I mean, I kind of understand that you're still in discussions and thinking about what to do, but I guess the question is with Telia having gone with a 10 gig inclusive allowance, to what extent has that not just set the benchmark that you have to follow? So that's kind of one question. And then the second question on DNA TV, you obviously had a very strong growth through each quarter last year. So the year-on-year growth looks good, but sequentially, essentially the DNA TV base is flat, just kind of wondering how we should think about what's being going on in the quarter and the kind of growth potential from here?



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**Jukka Leinonen** - DNA Oyj - CEO

Concerning the roaming, I think that it's, of course, early days to kind of estimate that what is the impact of Telia's offering. We are following, daily basis, the exit reasons for our customers and now they basically have been having this new offering for a few weeks on the market. And, so far, we have not seen any significant impact on that one. Of course, as I said, it's early days, but we will follow that immediately. And I think that you are quite right, it sets a certain type of market kind of level and of course, we will always create our offering, so that it will be competitive in the marketplace. But so far, I think that we are seeing that we have no reason to change our thinking about being able to kind of manage this EU roaming change, so that it is neutral from the EBITDA perspective.

On DNA TV, nothing special. I think that DNA TV sales is driven pretty much with campaigns and maybe only thing which explains this flatness on the Q1 was that some of the bigger campaigns on the high growth volumes, about half a year, those were ending and always when you have first six months offering, a certain amount of customers will basically not continue. And then secondly, since we have this price increases on the mobile customers, we did not want to do any kind of a significant campaigning on the DNA TV during Q1. So these are maybe the clear reasons that it's been flat so far. But, all in all, I think that we are very happy with the longer-term development and we are expecting that there is a lot of potential also to grow that number in the coming year.

**Operator**

Peter Nielsen, ABG.

**Peter Nielsen** - ABG - Analyst

Just a couple, please. Firstly, on your comments on the low-end customers and prepaid customers leaving, yesterday, the market leader reported, and they reported the same trends. So my question is, where are these sort of low-end prepaid customers going? Are they sort of scrapping their SIM cards or are they popping up with yourselves and others as postpaid customers, please? And secondly, on the Corporate decline, I understand your comments about the technical factors, but can I just ask, are you losing market share on the Corporate market in the larger enterprises in Finland?

And just thirdly, quick one, the gigabit upgrade and rollout, could you talk a bit about what benefits you're seeing of this, is this proving a competitive advantage for yourselves?

**Jukka Leinonen** - DNA Oyj - CEO

When we talk about these low-end customers, I think that what we are basically seeing is that historically customers have been having, let's say, a multiple number of SIMs in different devices, because they have been paying like [EUR0.69 or so], it's nothing. So a lot of those SIM cards have been effectively unused. Now, when all the players are basically raising prices to the typical level for EUR4.90, it's just the simple fact that, that many customers are basically then kind of terminating the SIM cards, what they are not using. So they are not going anywhere. So I think that this is the major reason. And we saw that when we made the migration and price increases in the Q3 and Q4 last year, we saw it also at this stage. And I think that the competition has been saying the same thing.

When it comes to the Corporate hit line, no, we are not losing market share. When we look about the market structure in Consumer business, about 80% of the market money is in mobile services, but when you look about the Corporate business segment, it's so that more than half of the market value is in fixed services and less than half is in mobile services. And as we all know, people are now basically moving from the higher-priced fixed kind of services, especially in this small office/home office customers into the mobile broadband, which is half priced. We also see that going into the IP and Internet services, that's basically kind of declining. And if you're looking about the forecast from the market value from Gartner and IDC, for example, they basically are saying that the corporate network services value is declining something between 2% to 4%. So when we eliminate



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this mass and [rough Nielsen] kind of a price decrease from the corporate figures, I think that we are basically declining, at most, at the same level that the market is declining, if not even that. So, I don't think that we are losing market share.

And then on the gigabit side, I think that we are clearly seeing this as a competitive advantage. We are seeing a slight increase in terms of the rate, or the acceleration in the rate that the customers are now buying the higher speed connections. And the fact that we have a network, which is supporting already today 1 gigabit per second speed, up to the 610,000 customers, it gives us a huge upside potential without any significant investments requirement. And when you're looking about the customer use, it's the increase in video consumption, high definition 4K, virtual reality, they are basically driving the need for the higher and higher speeds in the home broadband. And we have the platform, which already is there to support this growth. So we see this as a significant competitive edge when we go further and the demand is increasing.

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### Operator

Artem Bletski, SEB.

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### Artem Bletski - SEB - Analyst

Actually two smaller ones from my side. So first, when it comes to roaming, can you maybe discuss what kind of -- how competitive wholesale agreements do you really have in your view in Europe? And the second one being on equipment sales. So we have seen quite strong developments there over last quarters, and maybe you can comment on profitability level right now in this business?

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### Jukka Leinonen - DNA Oyj - CEO

Okay, basically I don't quite understand, is it a question of our wholesale agreement, or wholesale agreements in general. But if I start from our side, we don't see big differences in wholesale agreements between different operators and now we are quite confident that agreements that we have in place and actually even that will come into force also after this June 15 are very competitive, and as such would not have any impact, positive or negative compared to others, based on our agreement in the roaming. Then in terms of equipment sales, I think what was your question about that?

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### Artem Bletski - SEB - Analyst

In terms of profitability, is it still this kind of single-digit margin business for you, or how it looks like?

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### Jukka Leinonen - DNA Oyj - CEO

Yes, it's around that. So, basically, the equipment sales is not loss-making at all, but we have been able to maintain a low-digit margin in there. And this really we derive from the fact that there are all the time new sort of terminals are coming to the market and also then sort of average price of the smartphones is in a way is increasing, because the sort of higher, better feature phones are being sold. But those typically have a little bit bigger margin than the low-end phones. So, all in all, the equipment sales have some small margin in it.

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### Operator

As there are no further questions in the queue, that will conclude today's question and answer session. I will now like to turn the call back to your host for any additional or closing remarks.



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**Marja Makinen** - DNA Oyj - Head of IR

So, thank you everybody for your participation and good questions. Thank you Jukka and Timo. We conclude our conference call. And I just would like to remind you that our half-year report will be published on July 18. So thank you from our side and have a good weekend, and goodbye.

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**Operator**

That will conclude today's conference call. Thank you for your participation, ladies and gentlemen, you may now disconnect.

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