Company: **Flik Media Group Oy**

Conference Title: **DNA Oyj - Half-year Report for January–June 2018**

Moderator: **Peter Westerlund**

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Marja Mäkinen: Good afternoon, everybody. This is Marja Mäkinen from DNA's Investor Relations, and I would like to welcome you all to this conference call regarding DNA's January-June 2018 half-year results.

With me here are DNA's CEO, Jukka Leinonen, and CFO, Timo Karppinen. Jukka and Timo will go through the result presentation, which can also be found on our investor website.

And just to remind you, we will be making forward-looking statements during the presentations, and we have a disclaimer on the second page of the presentation set for that.

And again, please note that it's possible for you to ask questions through the webcast portal as well, and you can send your questions all the way during the presentation. We will then take those online questions after the presentation on the Q&A session, once we take the questions also from the telephone lines.

So please, Jukka, we are now ready to start.

Jukka Leinonen: Okay, thank you, Marja. So this is Jukka Leinonen, and I will be taking the first part of the presentation, after which Timo will be then continuing on the financial side.

So let's go into the page 5 and look about the key financials related to the second quarter. All in all, net sales were positive, fuelled by the mobile device sales and mobile service revenues. The total growth in sales was 2.8%. We had a very excellent mobile device sales growth, more than 20% from the reference period. But also, when we look about the mobile service revenue, which is growing about 6%, we had a very nice growth there. It was mainly coming from the increase in number of subscriptions on the customer base, but also the demand on the mobile broadband subscriptions was excellent.

When we look about the profitability, we are very pleased with the EBITDA increasing 6.8%. That was mainly coming from the growth in mobile service revenues, but also the operational efficiency was increasing, meaning that we were able to kind of manage the higher number of customers and subscriptions with the smaller fixed cost compared to the last year's figures. Operating result increased 13.1%, and that was actually 15.7% from sales. So all in all, very strong development in profitability.

When we look about the operational KPIs, we clearly saw that there was some slowdown in the growth of the ARPU, which remained at about the same level compared to the reference period. That was mainly to do with the fact that we have been seeing intense competition during the second quarter and first half, which has been leading to the, let's say, aggressive pricing in the so-called under-the-counter pricing when we have been defending our customers.

The churn was extremely low, which is very positive for us. We believe that the excellent customer experience, customer satisfaction and our ability to attack and answer to the different campaign changes by our competitors is very kind of good. And therefore, we clearly see that we can be very happy with the churn. It's also very clear that one part of the improved profitability was coming from the low churn, which typically is very expensive if it's on high level.

The mobile subscription base was growing at 2.7%, so we were able to get 73,000 new mobile subscribers compared to the last year. And also, the subscription base for the fixed network, mainly coming from the fixed broadband, was growing 12,000. So all in all, when we look about the revenues, when we look about the profitability or the increase of the customer numbers and the central KPIs on the customers, we are quite satisfied with the overall result in Q2.

On page 6, when we look about the longer trends in revenues, we clearly can see that we have been able to maintain the steady growth in the revenues quarter by quarter. Also, when we look about the EBITDA, we can clearly see that the trend, what we have been seeing from the last couple of years is still continuing, so we are having very nice EBITDA growth compared to the last year.

Operative CAPEX was clearly higher this year compared to the last year, but this is still within the kind of guidance of the full year CAPEX being at about the same level than last year. Operating free cash flow at about the same level than last year, so higher EBITDA and the higher CAPEX was resulting into the operative CAPEX, which was about the same than last year. So all in all, I think that we can clearly see that there are no – any trend changes in terms of our revenue development or EBITDA accrued development from the previous quarters.

When we look about the first half-year on page 7, we can see that the revenues were increasing 3.5%; EBITDA was growing 8.2%, which is very strong growth; operating free cash flow, up almost 6%. Net debt to EBITDA was at the fairly low level of 1.45, of course, increased from the change of the year because of the dividends we paid in April.

As said, mobile communication subscriptions were up 73,000. But also, the fixed network, especially on the fixed broadband side, was very strong. And on fixed broadband, we were growing 26,000 subscribers compared to the last year. And as said also, the mobile churn on the half-year period was significantly lower compared to the last year. As you remember, we had the lower churn in Q1 compared to the previous year, and now we had a same very low churn figure for Q2 than we had last year. So all in all, we think that we had a very strong half-year, and it's a good start for the year 2018.

On page 8, you can see the trend figures from the subscription growth. So when we look about the mobile communication network subscriptions, we clearly see that there's a steady growth still continuing, 16,000 new subscribers from last quarter. We are very happy with the result. Also, when we look about the other subscribers, on fixed voice, the steady trend-like decline was continuing at about the same rate what we saw in previous quarters.

On our fixed broadband, as said, very nice 4.7% growth compared to the reference period last year. And also, the cable TV subscriptions, which is the basis for the largest part of fixed broadband, but also enables the cross-selling of the TV and video services, was growing by 5,000. So we are basically expanding our footprint – or, within our footprint, our customer base, also on the cable network. So all in all, I would say that the growth was both in mobile and fixed side according to our own expectations and continued at about the same rate what we have been seeing in the earlier quarters.

On page 9, we can look a bit further into the mobile growth. We clearly see that most part of the yearly growth in mobile subscriptions was post paid, which is, of course, very positive. When we look about the division between the business units, 25,000 new consumer business subscribers and 48,000 corporate business subscribers.

When we look about the figures compared to the last quarter, we were able to increase the consumer subscribers by 5,000 and corporate subscribers by 11,000. So all in all, we can clearly see that the trend is about the same than we have been seeing earlier. And we are clearly growing in both business segments, as we can see from the figures.

On page 10, we can see the steady development on the penetration of the smartphones and mobile broadband. We still have about one fourth of the customers in feature phones. And this, of course, is a clear potential for the future growth in mobile data, since almost all of the new sales in phones is smartphone sales.

On page 11, we can see the development in mobile data usage. The development was about the same than we saw from Q4 last year to Q1 this year, so overall growth about 34%. And in 4G, which really is the driver for the mobile service growth, the growth was 43%. So we are clearly now seeing that the relative growth is now starting to be a bit lower than what we used to see in the previous years, but of course we have to remember that the absolute amount of data increase in the network level is significant because of the bigger starting levels.

So this, of course, we feel is a very positive thing because it tells us that the customers are willing to use mobile data services, which is then driving the growth in the future for the higher speeds and higher ARPU subscribers. Clearly, it of course means also the higher investments into the capacity. As we have been saying earlier, increasing the capacity is much more effective than building the coverage, so we see no problems in terms of within our own CAPEX guidance.

On page 12, we can look a little bit deeper about our churn development. As said, the churn was very low in Q2, 15.4 percentage points, which was exactly the same level than Q2 last year. And this level is one of the lowest we have seen during the last three years. So, all in all, this tells about the high customer satisfaction and also our ability to react fast to competitors' campaign changes.

The ARPU is remaining at about the same level than on reference period. And we clearly saw that this was due to the fact that these under-the-counter prices offered during Q2 were more aggressive because of the high level of competition. Otherwise, we saw the 3G to 4G migration continuing at about the same rate than earlier. And we are still expecting that to continue, since we only have 57.9% of the 4G subscribers – on subscribers on the 4G, so there's still a significant potential on that area.

So, all in all, when we look about the figures, I think the churn was excellent. And on ARPU side, we had a stagnation at the moment, and we'll see that – what will be the competitive environment in the second half. I think that a positive thing is that the underlying customer demand for the higher-speed services is there, and the question now is that how we can monetise that most effective way on the second quarter.

When we look about the fixed broadband development on page 13, there we can see also a very steady growth, as said earlier. In terms of the fixed broadband, we're actually very happy with the growth on a yearly basis. Also, the cable TV subscribers, they're growing, as said earlier. So this is actually giving us a good base in the future to monetise the customers' desire to up-sell into the higher speeds. What we are already seeing more and more currently happening, and I think that the underlying demand for the highest speed fixed broadband services is increasing due to the fact that the TV and video services, which are driving the capacity needs, are more and more HD 4K and higher-quality services demanding higher bandwidth.

On page 14, we have a short road map related to the 5G. We actually believe that the 5G is a logical continuation of the mobile data growth in the future. It will multiply the data transfer speeds for the users, and it will also bring the low latency, which opens up new possibilities for new types of applications and content, especially related to the areas of virtual reality and augmented reality services. We have been preparing our network for the 5G era since 2016, and we are expecting that the first commercial 5G services will be offered to the customers during the 2019.

In Finland, one of the very important decision was taken just a few weeks ago. The Ministry of Transport and Communication and the Government was basically making a decision that the 5G frequency auction on 3.5 gigahertz area will be starting on 26th of September, this fall, so that the frequencies are available for the commercial use starting 1st of January 2019. And this, of course, is the very important basic decision, which then enables us to kind of go forward with the concrete build-out of the networks and service offering for the customers.

As said, we believe that there is a 5G launch commercially happening 2019. At the first phase, 5G services will be more kind of a capacity layer on top of the 4G networks. We also are starting to kind of implement the core functionalities of the – of the 5G on mobile broadband. In 2020, we are expecting that there is a further use of 26 gigahertz frequency band in the Finnish marketplace. Also, we are starting to see the significant coverage expansion within the big cities and main roads between the big cities. And of course, the new functionality will be coming step by step as the technology is maturing.

Even though we see 5G as a significant opportunity for us, it's very clear that penetration of handsets and terminals will take some time, and 4G services will be the mainstream services in terms of the revenue generation up until 2025. So we are clearly seeing that 5G is not kind of replacing the 4G, but it's kind of adding to 4G, and both will be significant in terms of the importance for the coming years.

On page 15, just to recap about our kind of key strengths as a company. We clearly see that basing our operations into the high competence of our people, keeping the networks updated and being able to offer, both in fixed and mobile side, the high-speed, high-quality network services, implementing more and more modern data analytics services, functionalities, robotics etc is going to be a key element for us to kind of improve the efficiency of our operations in different processes. And as said, we clearly see that the way we operate, speed, cost-effectiveness is a key value for DNA, and we are going to continue to build our operations based on these core values also in the future.

On page 16, just to recap about our targets. Most satisfied customers. DNA is going to be, also in the future, the great place to work and attractive for the existing people to stay with the company and attractive place for the new people and new competence to come to the company. We are planning to kind of also in the future grow faster than the market. And we are clearly targeting to have the higher relative profitability development in terms of the free cash – operative free cash flow than our competitors. And when we look about the first half of this year, we believe that we have been very well achieving all these key targets as a company, and it's a very good place for us now to continue for the second half of the year.

When we look about the market outlook on page 17, we see no significant changes compared to the outlook we saw after the Q1. We believe that there is an underlying demand for the higher mobile service speeds, which basically should be able to kind of accelerate the growth in terms of the higher-speed 4G services. Of course, the competitive environment is going to remain very intense. We are prepared for this one. And this, of course, plays some uncertainties, for example, for the ARPU development and mobile service revenue growth levels on the second half.

Otherwise, we see that the mobile data usage in terms of the new devices, new services, will be increasing. Generally, IP-based services, OTT services, cloud services are increasing. Traditional voice, both fixed and mobile, as well as SMS, will go down. On the corporate side, we clearly see that the industrial Internet and also the cloud services are driving also the need for the higher-quality, higher-speed corporate networks in the future. So, all in all, pretty much the same outlook compared to the Q1 outlook we saw.

So this was basically the business review part, and I will now hand over to Timo Karppinen for the financial review.

Timo Karppinen: So good afternoon from my part. So we'll start now with – in slide 19 and go through the key financials. The financial result here presented is with the IFRS 15, and then excluding the 15. The development compared to the last year numbers is without IFRS 15 impact.

So we had, in Q4 and first half, positive development in all financial KPIs. The sales and profitability was highest in the history of DNA. The sales itself, I will go through in more detail in the next slide.

The EBITDA growth in Q1 was 6.8% – sorry, Q2 6.8%, and in the first half, 8.2%. This is mainly coming from the two sides of the impact. One, we had a continuous strong service revenue growth that came especially at the mobile service revenue. And then secondly, this is then – was then supported by the improvement in operational efficiency. We're still leading to the fact that – the growth in profitability gain.

On operating result, growth was 13% in Q2 and 18% in the first half. So operating result is EBITDA, including depreciation. And here, we can say that depreciation has been around the same level as it was a year ago.

The net result growth was 15% in Q2 and 16% in the first half. So the net result is EBITDA, including depreciation and financing expenses. Here we see, in the Q2, cost decline in our financing expenses due to our successful refinancing that we did in Q1 '18 for our old bonds. The first half itself then saw the one-off cost that we booked due to the buyback of the old bonds.

Operative CAPEX was somewhat higher level in – both in Q2 and first half than what we had a year ago. Here we have an impact from the timing of the operative CAPEX, as this year they are more up-fronted towards the beginning of the year, rather than towards the end of the year as it happened in 2017.

Operating free cash flow is strong. But here we have an impact from the timing of the operative CAPEX itself. Net debt to EBITDA was impacted by the dividend payment that we made in April but stayed in a healthy level of 1.45.

On page 20, we'll go through in more detail the revenue breakdown. We had a strong development in all the areas that are contributing to our margin. Mobile service revenue growth in Q1 was 6%, and for the first half it was 8.2%. The growth here is due to the increase in the subscriber base and in the continuation of the migration to 4G customers. The consumer mobile 4G customer base is now at 58% level.

In addition, the growth came from up-selling within 4G to new roaming packages, higher-speed subscriptions and somewhat due to the fact that we have made increases – price increases to the – our low-end packages. And then it was negatively impacted by somewhat from the more intense competition that was – where the promotional aggressive prices have been used.

ARPU itself, ARPU growth was quite modest. The main negative impact to the ARPU is coming from the corporate side, which I will go through in more detail in the next page, but also the fact that we are facing quite strong comparable quarter in Q2 '17. The interconnection tariff declined as well. That has contributed negatively to the ARPU.

Mobile equipment sales was very strong and was up by 22%. The key drivers here are our good ability to sell our customer base. That is part of the customer loyalty programmes, and also because customers are more willing to upgrade mobile phones. That does seem to be in the kind of fact that there's increase in the market overall. Interconnect and roaming was up by 1.4%. And here, all the increase is coming from the roaming tariff – roaming traffic.

Revenue value decline at the fixed voice was quite marginal and is declining as we have been estimating. Fixed non-voice revenues were still impacted negatively by the pay-TV decline in the terrestrial network due to the geographic distribution reduction that we did in Q2 2017. But within this segment, the fixed broadband sales is developing positively and growing, but the pay-TV overall is declining and continue to decline in the coming months. The pay-TV decline basically has neutral or a small margin effect.

Then we move onto the page 21 and go through the segments in – of the consumer and corporate in more detail. Let's start from the consumer side. And here, in Q2, all indicators in the consumer side were actually positive. Net sales improved by 4.2%, which was driven by mobile service revenue and mobile equipment sales. ARPU itself increased by 3.4% in Q2 and 5.9% in – during the first half. EBITDA itself improved by 13.2%. And here, the key drivers for – were the service revenue growth and, again, operational efficiency improvement.

On the corporate side, the operative results both in sales and EBITDA remained in the reference period level. The sales here was impacted by customer departure and new customer intake timings that we had in Q2. There were certain customers whose subscription started, and relevant sales was recorded in Q2, but due to the project nature of this new customer intake, the invoicing will only start fully at the later part of the year. We actually see that this ARPU will go back to the normal level during the second half.

On the corporate side, EBITDA was down by 11%. But as said earlier, it was operatively at the same level as the reference period, Q2 last year. And here, there's a reduction of the provision for premises, gave a positive impact in Q2 '17, which then was impacting this comparability.

Then moving on to the page 22 and a look into the operative CAPEX. So, in the second quarter, the operative capital expenditure grew by 27% from the reference period last year and came up to this 31 million, which was 14% of the net sales. In the first half, the operative capital expenditure increased by 14%, and it was this 10.4% of the net sales. As said earlier, the increases compared to the last year are coming from the timing of the investments. We still estimate that the whole year operative CAPEX will be around the same level as it was in 2017.

Then, on page 23, we see how the operating free cash flow and the free cash flow to equity has developed. The operating free cash flow in the first half this year was at the good level. The cash flow growth basically in the first half came fully from the higher EBITDA. The free cash flow to equity strengthened more than 30 million during Q2. When comparing to the first half 2017, the change is coming from the higher interest cost due to the refinancing of the old bonds. And then the net working capital change, that is due to the high investments at the very end of 2017, which basically reduces trade payables during the first half of 2018.

On page 24, we're then looking to the capital structure itself. The cost of our capital is decreasing significantly with the help of the refinancing of the old bonds that we did in Q1. This low cost of debt is now visible, and it was in first – or second quarter of this 1.53%, actually for the whole loan portfolio. Last year, the compare in cost was this 2.33%. The level of debt increased in Q2 due to the dividend payment that we did in April. The net debt to EBITDA ended at the healthy level of 1.45 at the end of Q2.

Then finally to page 25, where we have the – I can go through the guidance for this year and our midterm targets. The financial guidance for 2018 remain unchanged. Both the net sales and operative result will grow this year, but will remain at – within the limit that we have set for our guidance as being in the same level. We will revisit this during the remaining of the year and update guidance if needed when we have more visibility for the full year. One of the elements that we will wait and see is how the competition will develop during the second half of this year. When looking at the midterm financial guidance, we are very well developing towards all of the targets in all aspects.

Okay. This is the end of the presentation part.

Marja Mäkinen: Thank you, Jukka and Timo. And, operator, we are now ready to take the questions from the telephone lines.

Operator: Thank you, Madam. Ladies and gentlemen, if you wish to ask a question, please signal by pressing star one on your telephone keypad.

Our first question comes from Peter Nielsen from ABG. Please go ahead, Mr Nielsen.

Peter Nielsen: Thank you. A couple of questions, please. Your net adds have been quite strong in this quarter, as you discussed. Do you have an ambition or target to increase your subscriber market share?

And then just secondly, please, you discussed the mobile service revenue trends, which have obviously come down significantly quarter on quarter in this quarter, and you also discussed some reasons why the ARPU would come up again in the second half. Would you or could you give us any indications of what kind of growth levels on service revenues mobile we should anticipate for the second half of the year, please?

And then could you perhaps tell us a bit about your digital services business? What – how big of – what share of revenues does that make up at the moment, and is it growing? Thank you very much.

Jukka Leinonen: Okay, thank you. First, concerning the kind of market share targets. We basically have stated earlier that we don't have any specific market share targets, as such. We clearly are working in terms of increasing the cross-selling and up-selling, increasing the share of wallet of our customers. But of course, when you think about the nature of cross-selling, for example, it, of course, means that if and when we are successful in that operation, it will mean un-direct – indirect kind of a growth in some component markets. But as said, we are not targeting any kind of specific figure in terms of the market shares.

We of course believe that we are able to grow in the future, and also, one part of the growth will be adding new customers. But, as said, the idea is to kind of more target the growth via up-selling and cross-selling, increase the share of wallet. And as we have been seeing in the past, it seems to be so that our basic value proposition for the customers, which is based on the excellent quality of the networks, excellent customer satisfaction and different customer interconnections is very much valued by the customers. And it seems to be so that irrespective of the price level, customers are voting towards DNA, and we have been able to grow. So I hope this answered your question.

Concerning the mobile service revenue growth, we would say so that if you think about our growth, it was 8.2%. It's – in the first half, it was slightly declining into the 6% in Q2. And one reason for this was that we had a fairly high comparable level in Q2 last year. Now, when we look about the second half, I think that it would be fairly kind of logical to assume that, since we have even higher comparable levels in mobile service revenues on the second half, to meet that our kind of mobile service revenue growth is going to be somewhat lower than what it was in the first half of this year. Then what that means in absolute figures is, of course, very difficult to say because a lot of things are depending on the kind of competitive environment. But I would – I would say that it will be – it will be kind of lower than on the competitor first half of this year.

Then when we look about the digital service revenues, we basically are having most of our services related to the kind of infrastructure services. So we are selling to our customers smart connectivity services and, let's say, platform services, which are directly related to those ones. When we think about the digital services, I think that largest element on that area is basically coming from the pay-TV or video-on-demand services. And as we have been seeing during the last quarters, the negative trend in pay-TV is still going to continue. But as Timo said, it's not having all that significant impact into the profitability. So we see that more as a trend-like environment. We are not kind of giving out any specific numbers about the size of that business, but let's say that we see that as an add-on element of our offering, and not a core element which is affecting to our kind of profitability significantly.

Peter Nielsen: Okay. Thank you. May I just follow up and ask, what is driving the negative trend in these pay-TV and video revenues? Is that customers leaving or downsizing in terms of their packages?

Jukka Leinonen: No. I think that we – when we look about the number of customers who are basically kind of paying – buying their pay-TV services from us, we are not seeing any significant decline in number of customers. But we are clearly seeing that customers are now – they have been moving, and they still are moving, more and more away from the, let's say, pay-TV packages, which are including movies and different type of series, and they go into the services like Netflix and others. So it's more about kind of a decrease in the share or the value of the pay-TV, not so much that they would be terminating the pay-TV totally.

Peter Nielsen: Okay. Thank you very much for that.

Operator: Once again, ladies and gentlemen, star one if you would like to ask a question.

Our next question comes from Simon Coles from Barclays. Please go ahead.

Simon Coles: Hi, guys. Thanks for taking my question. I guess I'm looking for a bit more colour on competition, because clearly we're seeing fewer flash promos than we saw at the end of 2017. And also, your churn has started to come down. So is it that you're just fighting harder to retain customers? Just any more colour around what's happening in the market, that would be really helpful.

And then just one quick clarification on the corporate ARPU. I think you said that that should return to stable 1Q levels, it was a bit of a one-off, that billing of the customer was late in the quarter. Thanks very much.

Jukka Leinonen: Okay, thank you. When we look about the kind of competitive dynamics, I think that what we have been seeing in Q2 was pretty much the same kind of a behaviour than we saw in Q1, meaning that there was no, let's say, significant aggressive public campaigns on the market all that much. But what we have been seeing is that there has been fairly kind of aggressive, so-called under-the-counter offers for the customers. And of course, we have been also defending our customer base by responding to those customers.

And when we now see the kind of share of our sales in different kind of a price packets – brackets, I think that we can see that this fall – this spring, there has been more sale happening in these kind of lower under-the-counter offers, which are typically related to responding to offers coming from our kind of customers. So this is, of course, kind of then driving the growth in the mobile service revenues slightly below or to the smaller level than what it would be otherwise.

When we look about the current situation, I think that the first weeks of Q3, we have not seen any significant changes on the market behaviour during the summer times. But as Timo said, we are following very closely that what is happening on the market. And our strategy as a company is very clear. We are not trying to add our customers by pricing, but we are defending our customer base. We clearly believe that the good customer satisfaction, great quality of the network is something that is really kind of the way we want to compete on the marketplace.

When we talk about the corporate segment, there was a fairly significant drop in the ARPU. But, as Timo said, it's related to the fact that we had a significant amount of subscribers what we lost with some of the customer cases. I think that we reported in Q1 that we had, for example, one customer case alone which was about 6,000 customers. So when you now look about the Q2 net adds of 11,000, it effectively means that we have significantly more new customers coming, because there is a certain churn element.

And typically those customers – we have been getting lots of customers where we have this kind of a project approach, and we have been now in a situation that we have been delivering a significant number of subscriptions to those customers. But the major part of the billing will start when the project is finalised, meaning in the second half of this year. And this is now impacting on the kind of Q2 figures in terms of the ARPU on corporate side. But we are confident that the ARPU will be coming back to the normal level on the second half, so this is kind of a one-time effect as we see it.

Simon Coles: That's very clear. Thanks very much.

Operator: We will now take our next question. Please go ahead, caller, your line is open.

Speaker: Hello. Thank you for taking my question. I have two on the same lines, I think, as was already been asked. But I wanted to just understand – on the service revenue growth trajectory for the second half of this year, I didn't quite understand your answer in that, if you think about the first half, you grew mobile service revenues, I think, 10.5% in Q1 and 6% in Q2 pre-IFRS 15. And I think you guided for the second half being lower than the average of the first half. But if I look at the comparables, it seems to get easier than what you faced in the first half. So in H1 of '18, you were facing a 14% service revenue growth, and then that started falling, actually, in the second half of '17. So you – second half of '17, you only grew 10%, so the comp gets a lot easier, and you also have the tailwind of the higher post-paid base. So I just struggle to understand why service revenue growth can't be at a 10% level in the second half of this year. I'm just – I must be missing something, so I just would appreciate sort of how you get to such a slowdown in the second half.

And then secondly, on fixed non-voice revenues, I was surprised by the decline in the second quarter. And I understand the DVB-T2 headwind. But as we look towards the second half in fixed non-voice revenues, I think on the last call you indicated that we should return to growth for the overall fixed non-voice revenue segment, or at least that's sort of what I've put in my own notes. Is that still the case? So we should be looking at flat to even small positive growth in that segment in the second half.

Jukka Leinonen: Okay, thank you. Okay, I will take this mobile service revenue question, and Timo will then continue with the fixed non-voice side.

When we look about our kind of thinking around the mobile service revenue growth, I think that you are quite right that when you look about the last year and what was the growth in different quarters, that's one thing. But we have to remember that when we had a very nice growth in the first half of last year and then we had a very nice growth in the second half of last year, that means that the base is actually kind of increasing in terms of the mobile service revenue. So now, when we are adding customers, we are comparing that growth against the kind of a base which is significantly higher in second half compared to the first half. And that, of course, means that even if we would be absolutely growing a certain amount of millions in mobile service revenue, the relative growth basically would be smaller.

And then I think that the other element, what we are now – maybe we are conservative, but what we are counting into this view is that we clearly have been seeing in – now in Q2, that the competitive environment has been quite tough. And that has been now leading to the situation that some of the subscriptions we are selling to the customers or renewing to existing contracts against the attack from our competitors, we have been kind of selling the new deals with the kind of lower prices when we are defending our customers.

And now we are basically kind of preparing to the future in the second half that this behaviour will continue. We haven't at least seen any significant changes in the market behaviour in the first weeks of July. So when we look about this kind of environment, we clearly are seeing that it's very tough to basically forecast that we would have a similar or higher mobile services revenue growth which we could achieve on the second half compared with the first half.

So our current view, which might be conservative, but it's still there, is that we are expecting to have the slightly lower mobile service revenue growth in second half of this year compared with the first half, which was this 8.2 percentage points.

So, Timo, if you take this fixed non-voice.

Timo Karppinen: Yes. So fixed non-voice in, like said earlier, is that there's this on pay-TV side, the terrestrial network reduction, it happened in Q2 last year. And then basically, what in practice means that there are subscribers leaving, but the invoicing still continues for some time. So we will still have the kind of full effect of the invoicing in Q2 last year, and we will start seeing a reduction in Q3 onwards, which would be then comparing to the kind of situation that we have this year.

And now then, looking at the kind of second half this year, the fixed non-voice have two elements. One is the fixed broadband business side, and then this pay-TV business side. So we clearly see – clearly see – and also the B2B side, which is there. So clearly, when we look at the kind of B2B side and then the fixed broadband side, we will start seeing, as we already do see now, kind of positive development, and we will see sales increases happening over there in – as we – the second half this year like we did see in the first half. But then, when coming down to the pay-TV side, they are basically, like Jukka explained earlier, we see now a kind of stronger trend in terms of the pay-TV revenues also with the second half. So these have somewhat changed our views for the second half. But the main thing here is to understand that these pay-TV revenues and/or declines out there would have no or minor impact to the profitability.

Speaker: Can I just clarify this, right? And I just looked at the transcript of Q1. I mean, I think, Jukka, you said quite clearly that – you said that you expect a slight increase in the revenues of fixed non-voice services in the second half. Is that still the case? Are you saying that your view is that that may not be the case now? I'm just not very clear if anything's changed from sort of growth guidance.

Jukka Leinonen: Okay, yes. Yes, I think that – as Timo said, when we look now about the situation, I can say that it's slightly changed. So we are expecting to have a minor growth in the consumer fixed broadband. We are expecting to have the minor growth in B2B. But now we are basically seeing that, even though the effect of this DVB-T2 change will go away, we basically will have a kind of a slightly higher decline in, I would say, normal B2B pay-TV revenues. And that equation will lead to the situation that, when we were basically in Q1 thinking that the overall fixed non-voice could be slightly growing, we believe now that it is flat or slightly declining as a overall result.

But as Timo said, the important thing here to understand is that even though there is this kind of change, the fact that this kind of increasing reduction of pay-TV revenues is not all that much impacting into our kind of a profitability. So the quality of the revenues is going to be slightly better in terms of the portions of these different revenue segments.

Speaker: That's very clear. Thank you.

Operator: We will now take our next question. Please go ahead. Your line is open.

Speaker: Just one question on cash flow. Do you expect the impact on – from net working capital to be positive this year? I think after Q1, you mentioned that it would be. So is this still the case? Thank you.

Timo Karppinen: Yes. So we are – this very much then depends on how the CAPEX timing will be going in second half of this year. As we look it now, the CAPEX spending was higher in the first half than it was like a year ago. And so that would – should be leading that, in the second half, there would be somewhat less CAPEX spending than it was a year ago. But, then again, here it would impact that how much is going to be the Q4 accumulation of the CAPEX or not. But as we are here now, it looks like that the net working capital sort of change will not be big this year compared to the last year, overall.

Speaker: Okay, thank you.

Operator: Once again, ladies and gentlemen, it's star one to ask your question.

We will now take our next question. Please go ahead.

Roman Arbuzov: Hello, it's Roman Arbuzov from JP Morgan. I actually had three questions, and they actually all relate to mobile service revenue.

So the first one is just to elaborate on the previous discussion. So you've said it's going to be – you know, there's – 2H mobile service revenue growth is lower than 8% in the second half. So is it fair – or slightly lower, you even said. So can I just perhaps get additional colour and just clarify that you're confident that mid single-digit is absolutely doable for you and you are comfortable for the next few quarters, including some of the quarters in 2019 – you're comfortable with at least mid single-digit. And would you say that we should rule out high single-digit growth completely or that's still a potential scenario, at least on the table? That's the first one.

The second one is, I was hoping maybe you could clarify something Elisa couldn't quite clarify for us. And the question is, how much of the slowdown in mobile service revenue growth this quarter relates to the competitive dynamics of this quarter, and how much of it relates to the events of previous quarters and sort of the cumulative impact since competition hasn't been quite normal since 3Q '17? Could you perhaps just give us some colour how much of it is just kind of spill-over effects from previous quarters?

And also, I guess that will impact your recovery rate? So if competition suddenly switches to normal in 3Q, do you think mobile service revenue will rebound quite quickly, or do you think there's a lot of kind of negative inertia built up in your previous quarters that will continue to weigh mobile service revenue growth?

And then the final question is just around the structural drivers versus temporary drivers in terms of a slowdown of the mobile service revenue growth. I think, in terms of what you've been saying today, it's quite clear that you're talking about more temporary factors. You're talking about some attractive under-the-counter offers, which should, in some – at some point, normalise and hopefully, you'll be able to re-price those customers. Is that it? Is that kind of the story, or is there actually more structural drivers there as well? You know, for example, we're clearly seeing the upselling of 4G and sort of 4G+ continuing. But then the absolute ARPU – sort of the incremental ARPU that you're getting from these upsells has been somewhat lower. You know, is that a factor that's impacting your performance?

And also, in terms of kind of more structural headwinds, I think one of the slides that Elisa really likes to present is the return on capital that they're generating and the return on equity and the return on assets, which is one of the best in the industry, in Europe at least, and it's been going up and up and up over the last few years. And it's one of the things that makes the Finnish telco industry so attractive, I suppose. But, I mean, do you see any sort of structural reasons for – or any structural reasons for incentive for competition to change because the returns on capital in the industry are getting to such attractive levels? Or it doesn't really matter, it's all about sort of incremental, you know, ambitions around market share, and the returns on capital only really affect the potential prospect of a new entrant, for example? Apologies for the lengthy questions, but hopefully you'll be able to provide some colour. Thank you so much.

Jukka Leinonen: Okay, thank you. A lot of questions. Let's start with these mobile ones. You know, as I was saying earlier, our current view is such that the mobile service revenue growth on the second half will be somewhat lower than what we saw in first half, when we had this 8.2%. The question whether it's high or mid single-digit, I think that it is pretty much depending on the kind of the competitive environment. So it's something that we are not able to control ourselves, and therefore I think that we are not able to kind of take a stand and give any kind of a specific number. We believe that it's going to be lower than the first half, but it's really depending on the competitive dynamics.

Of course, if the competitive situation would suddenly change and go more what we saw in first half of 2017 and 2016, then of course it would have a fairly weak positive impact into the mobile service revenue growth. Then if we are going to see the similar type of competition what we have been seeing in the first half continuing to the second half, that would be, of course, a negative kind of effect to the overall competition. So I think that this is the – this is the only answer I can give you. It's going to be lower than first half, but pretty much depends what is happening on the competitive dynamics.

When we then think about how much of the slowness is coming from the previous quarters and how much was coming from the first quarter’s – or the second quarter new sales, I would say – I would say that it is kind of impacted, of course, by both. When you typically look about the mobile sales, we, of course, are seeing that the mobile revenue generation is starting within days from the new subscribers coming in on kind of consumer side. And that, of course, means that when we think about, for example, the overall mobile service revenue growth in Q2, I think that it's fair to say that we are seeing a full impact of the kind of lower-price sales from Q1 affecting the total time in Q2, and then we are basically seeing that maybe the full impact of the Q2 will be coming in Q3.

So there's a slight delay there. But I would say that recovery, on the other hand, would be then also fairly quick. So we are talking about maybe a couple of months timing when the potential new pricing on the market is happening when we are starting to see it, either as an increase or decline on the mobile service revenue growth. So it will be kind of affecting fairly quickly to the both sides.

Then when we talk about the – whether we have this kind of tactical pricing or more structural drivers affecting to the pricing, I think that it's fair to say that most part of the slowing down of the mobile service revenue growth this first half, I think that it's happening because of the competition. It's of course very clear that – and this is something that we have been flagging also earlier, that when you think about the 3G to 4G migration, it's very clear that it's the advanced users who are first migrating into the 4G, which means that the increase in revenues for those customers in the migration is going to be bigger. And now when we are starting to see laggards moving into the 4G, of course, they are basically taking this lower-speed 4G subscribers, and the kind of add-on revenue effect is smaller. And now when we are approaching the 60% penetration in 4G, it's very clear that there are some structural elements also there.

But then we have to remember that, at the same time, we are now starting to see increasing trend that 4G customers who have been taking 50 megabit per second or 100 megabit per second subscribers are moving into the higher 4G kind of subscriptions, and these are again these high-end users. So these changes are not happening in exactly the same moments, but I would say that most of the slowdown in mobile service revenue growth in this first half is because of the intensified tactical competition, and there's a small element which is related to the structural elements, as I was explaining.

So hopefully these answers gave light into the mobile service revenue questions. And then I had to say that the last one, I did not exactly get. So if you could repeat the last question, which was related to other issue.

Roman Arbuzov: Sure. So thank you very much for the colour. The last one is kind of a bigger-picture question. So, if you look at Elisa's slides, I think from memory, you know, they're generating about 20% to 30% returns on equity and returns to capital, which are very, very attractive. And they continue to tick up, obviously, as their financial results improve over time. So, you know, these returns on capital are, you know – are very attractive, and A – and B, they continue to improve. So I was just wondering, from – again, from a high-level perspective, these attractive returns, do they, in any sense, influence your, you know, practical daily business decisions? Well, not daily, but, you know, in terms of your marketing campaigns and how you think of how to allocate your capital and how aggressive to be in terms of market share. Do these high returns actually have any influence in your business decision-making over time, or not really? You know, the starting point of high returns on capital is completely irrelevant, and it all comes down to, you know, how ambitious each individual management team, for example, in the market is about their market share, and that's all there is to it. You know, it doesn't matter whether you start with 10% returns on capital or 50%, it's all about sort of incremental ambitions. And I suppose the only risk of high relative returns on capital is that you get a new entrant risk, but I was just wondering if it influences your behaviour as well. Thank you.

Timo Karppinen: Okay. That was a very, very long question, but we can answer this very shortly that, fundamentally, nothing – have not changed. And in, like, our midterm guidance, our targets clearly say we continue to have a profitability increase and that, with EBITDA growing, margin of the EBITDA will be growing. At the same time, our CAPEX needs will remain at this targeted level, and therefore we will continue to have the same amount and same estimation of the cash flow growth going forward.

And this then will lead to that we have the dividend policy which is based on the cash flow targets, and these targets clearly are incentivised for the management and the board and the whole company that we will continue to follow those.

Jukka Leinonen: And maybe I could add to that that – in a way, that when we are looking about how do we actually run the company, I would say so that, and I think that I have said it before also, that we are, of course, kind of sticking with our guidance. That's one thing. But I'm not kind of targeting to minimise CAPEX. I'm targeting to optimise or maximise the operative cash flow. And we clearly believe that – if we believe that there is a very clear business case to use slightly more CAPEX, which then will be leading into the higher increase in EBITDA and gives a positive effect in the free cash flow, this is the way we do it, but of course, within the guidance we have been giving. So I think that this is the way how we are thinking in terms of making decisions in different areas of the company.

Roman Arbuzov: Thank you very much. I appreciate it.

Operator: We will now take our final question. Please go ahead.

Philip Spain: Hi. Philip Spain from JP Morgan. I just have a couple of questions to ask. The first thing I wanted to ask was why the CAPEX was so high in the quarter, and if you expect the full CAPEX to be broadly flat year-over-year in absolute terms? And then – that's it, actually. That's my question. Thank you very much.

Jukka Leinonen: If you look about the CAPEX distribution for the different quarters from last few years, we have been having, you know, a situation that sometimes 40% of the yearly CAPEX has been booked in Q4, which, of course, is not kind of healthy. And we actually have been making a specific programme where we have been trying to kind of balance the investments more evenly over the kind of different quarters in the year.

The reason for this is that we clearly have been seeing that it's also from the operational efficiency perspective much better than we actually have the CAPEX projects distributed over the different quarters, compared to the situation that they would be heavily in one quarter. And I can say that the reason that we have been able to now kind of make more CAPEX programmes in the first half is actually according to our own planning and targets. And we also actually believe that it will have a certain type of positive business impact because now we actually have the, for example, higher capacity in the networks and some programmes ready so that we can actually utilise those already this year competitive situations that they would be just kind of finalised in the last quarter.

So there's nothing kind of special in that. It's just a practical decision we made that we have tried to kind of balance the CAPEX spending more evenly over the year. And now it seems that it's working better than we thought. And that, of course, then means that the CAPEX spending on the second half will be somewhat lower because we clearly see that the overall CAPEX needs for this year are about the same level than 2017.

Philip Spain: Great. Thank you very much.

Operator: As there are no further questions, I'll now turn the call back to our speakers for any additional or closing remarks. Thank you.

Marja Mäkinen: Thank you, operator. Well, thank you, everybody, for your participation and good questions. Thank you, Jukka and Timo. This concludes our conference call today. Next result publication is for DNA's January-September interim report on 19th October. Thank you once again and have a good summertime.