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DNA.HE - Q2 2017 DNA Oyj Earnings Call

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## PRESENTATION

### Operator

Good day, and welcome to the DNA January-June Financial Report 2017 Conference Call. Today's conference is being recorded. At this time, I would like to turn the conference over to Marja Mäkinen. Please go ahead.

### Marja Mäkinen

Thank you. Good afternoon, everybody. This is Marja Mäkinen from DNA Investor Relations. And I would like to welcome you all to this conference call regarding our January-June 2017 results.

With me here, I have DNA CEO, Jukka Leinonen; and CFO, Timo Karppinen. Jukka and Timo will go through the presentation, which can be found on our investors website. And just to remind you, we will be making forward-looking statements during the presentation. And therefore, we have a disclaimer on the second page of the presentation. After the presentation, Jukka and Timo will answer your questions. So please, Jukka, we are now -- we are ready to start.

### Jukka Leinonen - DNA Oyj - CEO and President

Okay. Thank you, Marja. Good afternoon, everybody. This is Jukka Leinonen, the CEO. I will start with the business review, and we can go straight to the Page 5.

So all in all, we can say that second quarter's excellent -- both from the revenue and profitability perspective. Net sales and profitability continue to increase. Our net sales increase was 4.3%. That was mainly coming from the mobile service revenue growth, which was at the very high level of 14%. Also, we were able to continue the device sales at a reasonably high level, which has also contributed to the growth to a certain extent. A major part of the mobile service revenue growth was really coming from the increased number of mobile subscriptions and also the increased sale of 4G subscriptions, which was then serving the growth of ARPU that we will see at a later stage.

When we talk about the profitability, the EBITDA increased 50.5%. And that was mainly due to the fact that the service revenue was increasing. But we can also say that a significant part of the improvement in profitability was coming from the improved cost efficiency of our modern network platforms. We clearly see that the investments we had been doing into our 4G cable platforms are now creating an environment where we are having a very much lower cost in terms of operating the networks, which is a very important element going forward.



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When we look at our operating results, there, we had a great increase of 36.8%. And also the operating result, as a percentage of net sales, was increasing to 13.9%.

When we talk about the most important operational KPI [stat]. First of all, ARPU was increasing EUR 1.3 per subscription and was EUR 18.5. This was mainly to do to -- to do with the fact that we were able to increase the sale of 4G subscriptions, but also the fact that we were increasing the prices in the second half of last year and first quarter of this year with the certain subscription sites with the low ARPU. That was increasing the average ARPU as we see it now.

A very important element was that the CHURN was decreasing now to the normal level as we were indicating in Q1 when we made some price increases with the certain subscription sites. We had a temporary increase in CHURN, and we were expecting that the CHURN will be coming down in Q2. That was exactly what happened, maybe even at the faster rate than we were expecting. So CHURN in Q2, 15.4% was really a great achievement in our thinking.

We also saw the growth in mobile subscription base, which grew at 3.2%, meaning 86,000 new customers since the Q2 2016. Also in the fixed site, we were basically seeing that the fixed subscriptions were increasing by 9,000 from the Q2 last year. So all in all, when we look about the revenues, when we look about the profitability and when we look about the most important KPIs, ARPU, CHURN and the number of subscriptions, we are very happy with the performance in Q2.

When we go to the Page 6. We can see the quarterly development from the last 2 years. And as you can see from the figures, we have been kind of continuing the steady growth in revenues in EBITDA. We also see that the operative CapEx, where you can see a significant fluctuations between the quarters. But if we compare the current quarters with the same quarter in previous years, we are seeing the declining rent in absolute numbers. And of course, since we have the growing revenues, it means that the, kind of the CapEx for sales figure is also improving. And in the low right corner, you can see the operating cash flow, which of course was significantly improving due to the increased profitability and very low level of investment.

On investments, we have to say that the Q2 investment level was fairly low. And we are expecting that for the second half, the investment level will be increasing. But on a yearly level, we will be at the lower level than 2016. So we are going forward in terms of the CapEx and investments according to our guidance and what we have been giving earlier.

On Page 7. When we look about the first half year, we can say that it was a really strong one. Net sales increasing 5% compared with EBITDA increasing 7.5%; operative free cash flow increasing more than 44%; net debt-to-EBITDA, 1.43 at the very, very low level. We were able to increase the mobile subscriptions by 86,000 as said; fixed-network subscriptions, 8 -- 9,000. And maybe one important element in fixed side is that since we have this [rent-wide] decrease in fixed-voice subscriptions, we can say that we were increasing the number of customers and subscriptions on fixed broadband and cable TV, which are the growth business, by over 21,000, which is a very good result from Q2.

Mobile CHURN for postpaid subscriptions was 18.1%. And as I was saying earlier, we had a fairly high level, almost 20% in Q1. But now in Q2, we were returning to the more normal level at 14 -- 15.4%. But still on the half year, CHURN was still elevated to the higher level compared to the last couple of years.

On Page 8, you can see the -- along with the development in terms of the subscriptions. So also you can see here in the same way that you saw in the revenue that we have been having a very steady development in terms of the mobile subscriptions, fixed broadband subscriptions, TV subscriptions, all growing steadily. And then on the fixed voice, we have the declining trend, which will continue as the people are moving away from the fixed voice services, which is insignificant for us in terms of the business figures.

On Page 9, when we look about the mobile subscriptions development in more detail, we are very happy with the figures. I said the total number of mobile subscriptions was increasing 86,000. But it's important to notice that the mobile value of our postpaid subscriptions were up 107,000 in the last year. So we had a decrease of 21,000 prepaid mobile subscriptions. So development was even stronger because the value of the postpaid subscriptions.



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When we look about the increase in terms of the business units, we can see that most of the growth came from the Corporate Business unit, where we had a very strong growth of 70,000 subscriptions compared to the last year's second quarter. On consumer side, we had an increase of 16,000. So we can clearly see that our Corporate Business is now picking up what we had been expecting due to the good sales in the previous quarters. Now we are able to kind of turn those customers into the active customers. And this will be also kind of conserving the growth in the revenue.

When we look about the mobile subscriptions compared to the last quarter, we can also see that we had a net additions of 22,000, which is basically more or less on the normal level. If you look about the last -- the previous quarters, and we are very happy with that result, 34,000 of those came from the corporate customer subscriptions. And we were down 12,000 the consumer side. But it's important to notice that also the computer -- consumer side, we were basically having on postpaid subscriptions, net additions, more than 6,000 in that area. So the loss on the consumer side was really about the prepaid, which I said are having a very low ARPU and is insignificant in terms of the revenue. So we are very happy with the developments of the mobile subscription development.

Then on Page 10. You can see the steady development and growth of the penetration of mobile broadband and smartphone penetration, still 30% of the customers are having only feature phones, which basically is an upside potential when we go forward.

Page 11, mobile traffic continues the growth. On 4G network, we were seeing an increase of over 90% from the Q2 last year. In total numbers, the total data volume in our mobile, it's obviously increasing 65%. And we will continue to make investments to make sure that we have the good quality in our service when we get more customers, and customer usage of data is increasing. We also took another step toward 5G by testing 1 gigabit speeds on our 4G mobile network, which is a good example that the limits of 4G technologies are not either closing.

On Page 12. When we look about the revenue per user or ARPU development in mobile communications side, we saw a almost 10% increase in ARPU, which is a great [esteem], that's EUR 1.7 per subscription. This is to do with the fact that the sale of 4G subscriptions was increasing. And we also see the effect of the price increases we were making in the last 2 quarters of last year and first quarter of this year. So all in all, a very nice development of ARPU.

When we look about the CHURN. We already talked about this one. We were returning in Q2 to the normal level, and the CHURN was decreased to 15.4% where we are very happy, especially taking into account the fact that there was a very fierce competition on the marketplace during Q2.

When we look about Page 13, we can see the subscription development on the fixed side. So fixed broadband, we had some increase of 12,000 subscriptions. And this is very important because this base is going to be the platform for the up-selling and cross-selling in the future. We also see that customers will be kind of moving also in the future towards the housing association contract, which basically gives us a good possibility to exploit our Fibre Optic Plus network, which is already today supporting 1 gigabit speed.

The TV side, we had a stable and steady cable TV subscription base growth of 9,000 subscriptions. And we clearly see that the customer usage of video is increasing. Although we are seeing that more and more of the users is streaming and on-demand video services. On antenna DTT network side, we made a significant change in the distribution technology by moving into DVB-T2 technology. And that actually led to the situation that the coverage area compared to the old DVB-T technology was decreasing.

And therefore, we have to terminate the contracts from a fairly significant number of customers. And that was also one of the reason for the decrease fixed nonvoice services, which we will explain later on. DNA TV subscriptions decreased also by 17,000. A major part of this was related to the fact that our DVB-T subscription's process is multi-access privacy, which means that customers can select the content they want. And they can consume the content via cable network, antenna network or IP network. And of course, since we make this change in antenna technology, where we basically decrease the coverage area, those customers also were terminated concerning the DNA TV subscriptions, which was one of the major reasons for the decline in TV -- DNA TV side.

When we go into the Page 14, we also see a continuous growth in data demand in our network. Data traffic grew 65% in our network. We are still #1 in Finland and DNA's #1 in Finland and in the world in terms of the data usage. Last year, our average data use per subscriber was 10.7 gigabytes per month. Q2 average was 15.2 gigabytes. So this explains pretty much that -- how the data usage growth is developing.



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Most of the data is used in the 4G networks. Today, over 40 -- 80% of the data in our network is 4G network. And this is growing at a very fast rate. We also see the growth in data usage in fixed network side. So our customers are using more and more video, which is HD, 4K video. And we clearly see that this is basically driving also customers for the higher speeds. So we are very happy with the upselling on the fixed network. We should be basically continuing also in the future.

On Page 15, the new EU-roaming regulation came into force on June 15. And as you know, we have been having a lot of discussions about EU roaming effects from last year and early this year. Basically what this means is that we are using the domestic rates for roaming calls and messages in the EU area. And the unit price of the EU data, been down more than 90%. And of course, these prices are valid only within this fair use limit for the periodic roaming.

DNA also launched new subscriptions in June that include fairly significant amounts of 10 gigabytes per month EU data package with a higher price than what is the previous unlimited packages. What we can see from the first few weeks related to the customer usage, we can say that the usage of Finnish customers of EU roaming data has been multiplied many times. We also see a certain increase in voice calls and text messages. But there, we are talking about some tenths of percentage fees. We also see that foreign customers, who are coming to Finland, their use has been also increasing, but significantly lower amount than what is the increase in the Finnish customers.

After the few weeks, we can confirm that it seems to pay clearly so that our roaming costs can be compensated by the EU baseline tariff of all subscriptions and the higher price of the new subscriptions with the EU data package. So it seems to be so that the development and the effect of EU roaming is exactly as we have been anticipating from the last 12 months when we have been discussing about the possible effects of EU roaming.

On Page 16, we will continue on our selective path. We are clearly seeing that we want to kind of emphasize the importance of our personnel. We'll make sure that our network platforms are going to be also in the future competitive, and we will invest into the capacity as the customer number of the usage increases. We have been also running a multiyear program to modernize our IT systems and analytics, especially putting efforts into the data analytics, online services. And we also have programs to consolidate [the as a] systems.

And finally, I think that it's fair to say that DNA is a challenge as a company. We have the advantage of having a speed and cost-effectiveness, and we clearly believe that this is something that works for us also in the future in a very competitive market of -- the Finnish operator market.

Then Page 17. When we look about our corporate development goals, we can clearly say that first half of this year, we have been succeeding in reaching our targets. We have very satisfied customers based on the customer satisfaction indexes, recommendation indexes, we can clearly say that the customers are very happy. We also see that the employee satisfaction is at very high level and improving still, which is a great news for us. Because I think that the satisfied customers and motivated employees are really the key in terms of achieving the financial targets.

When we look about the financial developments, we clearly see that on the profitability perspective, the relative improvement has been losses in DNA during the first half of this year, especially when we are measuring that with the increasing cash flow. And clearly, when we are looking about the organic growth in the marketplace, we believe that we have been growing fastest in the markets -- or fastest in the operators in the Finnish market, if we don't take into account the acquisitions [that can] marketplace. So all in all, we are on track to achieving our goals this year.

On Page 18. When we look about the market outlook, we can clearly say that the Finnish economy has been improving. And we are basically having the positive feeling about the second half. We clearly see that this positive sentiment, both on the consumer side and corporate side, should be kind of playing positive for us when it comes to the future development. However, we believe that the competitive situation will be very tight in the second half. And we are basically preparing for that one.

Mobile traffic will be increasing. 4G penetration will be increasing. And the uses of mobile services will be increasing, which will be also in the future, the major driver for the growth for DNA. We clearly see that the increasing number of different types of IP-based devices are being used in the consumer marketplace and corporate -- and business marketplace. Then on the other hand, we see that the traditional voice calls, SMS messages and also the fixed-voice services are declining. Then on the other hand, the usage of video service is increasing, but the growth will be the -- mainly coming from the OTT services, streaming services, video-on-demand services.



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On the P2P side, we see a continuous increase of interest of customers in different types of industrial internet solutions, which will be basically serving the growth in the M2M subscriptions. And also, we see that the increasing use of versatile [ver] mobile work. Cloud services will be increasing the demand for the highest speed and highest quality networking services. So all in all, we have a fairly kind of a positive view about the second half, when it comes to the Finnish operator market.

Basically, Timo will now continue with a more detailed financial review.

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

Yes, good afternoon from my part as well. So let's start with the -- going through the key financials.

And we are now in this Page 20. So in short, the net sales in the quarter grew this 4.3%; and on a half year level, the 5%. And this shows the more details, the sales breakdown and the development of each of the items, I will cover later, actually in the next page.

When it comes down to the EBITDA growth, this is -- this too is significant and one of the, for the record growth that we have had in the near history of DNA. So in EBITDA growth was this -- in the quarter, 15.5%; and on a half-year level, 12.5%. So here, the main drivers for the EBITDA improvement really is coming from the continuous strong growth in our service revenue, where the mobile service revenue is the key -- sort of key item. And this, as we go forward in this service revenue growth, we get overall this operational efficiency improvement as we grow.

Another sort of key item, like Jukka mentioned earlier, is that really our network, and especially, on the mobile network where the 4G rollout was completed by the end of last year. And we have sort of completely modernized the whole mobile network. And we clearly see there an improving efficiencies coming out all the time.

Key areas are coming in areas like we see less failures, less energy consumption in the [IDRU itself, which is actually a -- good news in terms of this is in a platform that we can continue to achieve these gains as we go forward. The margin improvement itself was again one of the best that we have had, so that in Q2, the EBITDA margin itself improved by 3%. And in the first half, another -- improved by 2%, so we think this 30.9% in first half is best that we have had in many years.

Then go to the other items. So of course, a good EBITDA itself then goes into the operating result itself. And when it goes to the net result, we have the impact in [items that can deice] which in the first half of this year has been around EUR 3 million more than it was first half last year. But like we have said earlier, we estimate the depreciation in second half of this year to be flat or lower compared to the second half of last year. There are certain items in the -- especially in the fixed network that come to the end of depreciations.

Then in CapEx, EBITDA clearly was in less CapEx than needed for the first half of this year. And we are lower level clearly than it was a year ago. But here, we have to say that we will estimate that this second half of this year, the CapEx spending will increase. But on a whole year level, the CapEx -- operative CapEx will be somewhat lower than it was without 2016 in total. And of course, this improved profitability. And then a declining spend in the CapEx is a resolving -- the factor. Our operating free cash flow's growth was really significant of this 70 -- almost 75% in Q2 and 44% in the first half. And that is then resolving that our net debt levels are declining. And actually here, we got a significant improvement in the net debt-to-EBITDA itself of -- in the first half of the year, it's only at 1.34 level. And year ago, it was somewhat more than 1.7.

If we then go to next page, it's now Page 21. So this is giving that the breakdown of the, of our sales items. And it starts from the, we'd say the most significant area, which is the mobile service revenue. So here again, we continued in the same growth path as we had in the Q1. So the growth in the mobile service revenue in Q2 was this 14%, so same as it was in Q1. And here clearly, the reasoning for this is the fact that we are moving our customers more towards the 4G. And now in end of first half, the share of 4G customers is at 50.5%. So that was roughly about 2% more than it was -- 2% increase than to the level that we had in Q1 this year. But this overall is then increasing the ARPU itself. And again, the ARPU growth was truly exceptional. So it was 9.7% in Q2. And that's again an increase to what we had in Q1, which was 8.5%.



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Other revenue items. So if you look at the fixed voice revenue, so that continued to decline of the fact that people are moving away from the fixed telephone subscriptions. And then interconnection continued to decline as well. The main reason there is still with the fact that we see a decline in the units of voice and text messages that continue to decline.

The mobile equipment sales itself was flat. And we had an extremely strong equipment sales during first half last year and then we see the same sort of trend continue in this first half of this year. We can say we actually sold more volumes, but the average prices of these handsets are declining, so that is not bringing the revenue for itself that much anymore.

We then move on to Page 22 and then -- and this is giving the -- some details of the business segment that we have. And here, the -- sort of the, strong sales growth in the Consumer Business continues, but now the Corporate Business itself is starting to improve. The Consumer Business itself, the sales improvement was this 5.2%. And here again, same way that the improvements are really coming from the mobile service revenues. And there, the key driver is the share of the 4G subscriptions due, which is increasing. And on the consumer side, we see an extremely strong ARPU improvement, which was this almost 12%. And on the consumer, ARPU is now at 19.7% -- EUR 19.7.

EBITDA itself caused all this positive development in the service revenue and the improvement in our operational efficiencies upping the EBITDA good growth numbers into the Consumer Business. It was -- but the EBITDA improved by 17%.

But on the Corporate side, there really -- is the -- we'll see it in the -- change in the trend as we haven't had in the declines in the sales in the Corporate Business in the last quarters. But now, we clearly see this -- an improvement in that area. And the corporate sales itself improved by almost 2%. And this growth really is coming from the fact that we have acquired more new customers. And this growth is coming from the small and mid-sized sort of company segments.

And we have to say that this -- like we said in Q1, the sales announcement that there was this antenna side rental business that is declining. So we are happy to say that now, even that was compensated on the corporate side by the positive sort of service revenue growth. And this service revenue growth is then improving really the EBITDA also on the Corporate Business. So here, we had an extremely good quarter, so the EBITDA on the corporate side improved by almost 12%. And like I said, this improvement is really coming from the fact that the net sales is improving, and the service revenues [stage] of the sales is increasing. Another thing which is this, as we explained, the mobile network cost efficiencies are sort of bringing the improvement into the -- both the Consumer and the Corporate Business.

Then on Page 23, the highlight of the -- how the operative CapEx is developing. So in -- like I said earlier, the Q2 was low in the CapEx spending. And if you look at the first half in total, that again was lower than it was a year ago. So in Q2, the CapEx spending was EUR 10 million less than it was in Q2 a year ago. And in first half in total, this is around EUR 13.5 million less than it was in the first half 2016. But like I said earlier, overall, we are not reducing that much of the CapEx spending. And we expect the second half to -- the CapEx to increase. And the whole year, we will then end up somewhat a few million less than it was at operative CapEx in total a year ago.

Then on Page 24, this is then on -- give you the details of how the cash flow is progressing. And here, really the strong profit growth and then the declining CapEx itself has then resulted into this record operating free cash flow number of EUR 92 million.

On other items here when we compare into the free cash flow to equity result, so interest cost is exactly going as we had planned. Tax rate and tax cost itself is now normalizing. We have had the tax credits in earlier years, which we have used but those tax credits are now, more or less, being consumed. So in terms of taxes, we come into the -- more of the normal level.

And network capital change is -- it's -- so the increase there is coming from 2 areas. One is that receivables for the equipment sales have somewhat increased. And then on this trade payables, on the other hand, are -- have coming down mainly from the fact that the CapEx spending itself has been low. But we see these sales in the network capital then actually to improve towards the year-end.

Then on Page 25. So here we saw and at some peak at the beginning of Q2 where the dividends were paid. But then really with the help of this strong cash flow itself, we've seen the net debt levels to come down. And we then come -- ended up the Q2 with this net debt-to-EBITDA ratio of



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1.43. And the same thing, we have no really big debt maturities is coming up in the near future. We have this EUR 100 million bond to be paid back in, at the later part of next year. And we see really no problems of -- for getting this refinanced when the time comes.

So finally in the last page of 26, so just going through the guidance that we have given. So we keep the guidance for 2017 same as it was before. So net sales to -- expected to stay at the same level and the comparable operating results to expect to improve somewhat in 2017 compared to 2016. All the other sort of mid-term financial targets have not changed. And we continue to keep them.

So actually, this is what we had for the whole presentation. So I think we can go into the questions.

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### Marja Mäkinen

Yes. Thanks, sir. So operator, please, we are now ready to take the questions.

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## QUESTIONS AND ANSWERS

### Operator

(Operator Instructions) We do have our first question from Terence Tsui from Morgan Stanley.

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

So I've got 2 questions, please. Mobile service revenue growth was obviously very strong during the quarter. Can you remind us of some of the drivers for the future? I think in the past you mentioned that there were still a considerable number of customers not on 4G, and there will be still some further upselling opportunities to come. So that's my first question. My second question relates to that, as to the corporate segment. Maybe can you just remind us about what your proposition is in this segment and how this is driving sort of strong customer growth during the quarter?

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### Jukka Leinonen - DNA Oyj - CEO and President

Okay. When we look about the mobile services revenue development, I think that when we look about the past quarters, there has been 2 elements, which are basically serving the growth. The first one is the increasing share of 4G subscriptions, which is leading to the higher ARPU. And we are basically expecting that, that development will continue. Currently, we have the penetration of 4G only at the level of 50.5%, which means that we still have about half of the customers with non-4G subscriptions. So there should be no changes on that area. The other element of course, which is leading to the growth in mobile service revenue is basically the price increases. As you remember, we made price increases at -- for Q4 last year, Q3 last year and Q1 this year. And now we basically are seeing the full effects of those price increases coming into effect Q2. At this moment, we are not doing kind of any significant price increases, at least for the coming quarters. Maybe the third element, which is of course then also serving the revenue growth, is basically the increase in subscription numbers. And as you remember last year, especially the second half, was extremely strong in terms of [Finnish additions]. This year, we had a negative development in Q1, which is now turning to be positive in Q2 for the 22,000. But we clearly have been seeing that the net additional amount is at a smaller level. So I think that we can expect to see a continuous multi-services revenue growth from the continuing 4G migration, and to the certain extent, a slight increase in the subscription numbers. But due to the fact that we are not seeing any price increase potential for the existing subscriptions, I think that we are expecting that the growth will be at the lower level than what we have seen in the last few quarters where it's been exceptionally high. So this is about the mobile service revenues. When we talk about the P2P, on P2P side, we have a very simple proposition. We clearly have been saying that we are a business infrastructure provider, who basically provides our customers networking services on both mobile and fixed data side. And we also kind of provide to our customers communication services, which are currently mainly driven by mobile, but which are more and more including different types of OTT clients, Skype clients, Google Talk clients, et cetera. And we are clearly seeing that by concentrating into these kind of a basic provisional operating services, and especially serving the customers well in terms of the different [fixed type of phone] management customer [can pro] processes, we are able to kind of provide value for the customers. So we clearly see that this is the driver for the growth in the future. We are not expecting to plan [or propo] into



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the different positions in the value chain -- application development, system integration area. But we will stay in this kind of infrastructure area. Then of course, we are seeing that Internet of things, machine-to-machine, will be kind of a growing area which will be kind of a -- then bringing some increase in revenues in the future. But we are very kind of clear that the focused operator is the best way for us to kind of increase the value for the B2B business.

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### Operator

We will now take our next question from Panu Laitinmäki from Danske Bank.

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### Panu Laitinmäki - Danske Bank Markets Equity Research - Senior Analyst

I would have a question on this competition and guidance overall. So I understand that the guidance looks a bit cautious because we have seen intensified competition in Finland. And my current question is really that, what do you think is driving this? Is this a reaction to your own very good market share gains in last year? Or is this a larger trend where operators are, again, stepping up to fight for customers following a couple of years wherein the focus has been on price hikes to existing customers and driving the 4G upselling, which I assume is perhaps slowing down, since that most eager ones have already switched?

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### Timo Karppinen - DNA Oyj - CFO

Okay. So Timo here. So I think what we need to say that in -- and understand here that the competition has always been very tight. So it doesn't matter this year or last year or 2 years ago, that the competition level is very intense here in Finland. And secondly, the main thing is we don't really see a competition to be done on the prices. On the contrary, I think all the players here in Finland have been able to increase their prices in a -- systematically in the last few years, especially in this year and last year and like we did in the beginning of this year. But the competition has really intensified in this year. It was beginning of this year that we see a somewhat slowdown in the middle of the first half, but then actually intensified more towards the Q2. And it's not -- I mean the main things in our competitions are happening in the external channels where we have clearly been -- that we are not going into giving this sort of same aggressive offers over there. But we have really been very effective of -- sort of defending our own customer base. And they so -- thus the CHURN improvement is a good example of that in Q2. But we are cautious on going forward for the rest of the year. If this intense competition continues, we have really good reserves of defending our own customer base.

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### Operator

We will now take our next question from Simon Coles from Barclays.

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### Simon Coles - Barclays PLC, Research Division - Research Analyst

I just had a quick one. So you've confirmed that roaming costs are going to be supplemented with the new sustainability mechanism and the charges that you can do. I was just wondering, do you see the new tariffs as a start of upsell opportunity for your customer base? And -- yes, that's my question.

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### Jukka Leinonen - DNA Oyj - CEO and President

Okay. Basically, when we look about the current situation, we are using this kind of a sustainability mechanism and EU baseline fee to cover the costs on the existing subscriptions. And then we have been relaunching these new kind of subscriptions, which are having this 10-gigabyte EU roaming data included at the higher kind of a monthly price. And I can say that we are quite happy with the start, starting demand for this new subscriptions. So we can basically state that we are talking about tens of thousands of customers during the first few weeks after the launch of these new subscriptions, which has been kind of taking those new kind of subscriptions, which basically is logical because I think that the Finnish



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consumers have been really enthusiastic about this kind of unlimited fixed prices. And I think that many customers are willing to pay a few euros more per month if they still have the insurance that they can use the EU data with the fixed price. So we are basically happy with the start of the success of these new subscriptions. And we believe that it is quite probable that early significant part of the customers will be upgrading over the next quarters, their current subscriptions into the new kind of offerings. And we basically see that there might be also opportunity for the increasing earnings from that migration. But currently, we want to be fairly cautious. It's been only a few weeks since the launch of the new regulation. And I think that we can say that it clearly seems that our core message, which has been that we can cover the cost, is going to be happening. But yes, I think that we have a potential also for the upselling and upside potential for the -- from the roaming change if and when the customers are moving into the new subscriptions.

### Operator

We will now take our next question from Sunil Patel from Bank of America.

### Sunil Praful Patel - BofA Merrill Lynch, Research Division - VP

I have 2 questions. One is, you reiterated your medium term guidance. But when I look at the margin evolution in the first half, you're already above 30%. So why will you not be hitting a 30% margin in 2017, which is what you seem to be implying? And I think the second question I had is that, on the roaming side, and please correct me if I'm wrong, but you only offer 3G roaming within your all-inclusive plans. And then you have a page on your website that talks about that shifting, I think, to 4G in autumn. But are there going to be higher costs associated with that new agreement? And how are those discussions progressing?

### Timo Karppinen - DNA Oyj - CFO

Okay. So I will take the first question about the finance. And Jukka will then cover the roaming question. So in the mid-term guidance of being, about 30% is really for the whole year. And like we said in -- we announced that at the end of last year. So mid-term guidance for us is something which is -- we aim to do in the period of 2 to 3 years. So here we are -- sort of are saying that in -- we are cautious on our sort of estimate for the rest of the year and that there are 2 main reasons for that. One is that, in sort of our -- we had extremely strong growth in the first -- second half of 2016. And those sort of growth numbers in the second half of this year are -- will obvious naturally then, then come a little bit less than it has seen early part of the year. And then the competition and the impact of those are another item that are impacting to the guidance. But we'll see as it this year goes and then -- when we have a better view of the whole, whole year results, it is then time to also review the mid-term guidance, but it is not time yet.

### Jukka Leinonen - DNA Oyj - CEO and President

Okay. If I continue with the roaming, it's for us, this is only kind of a practical issue. I think that one of the downsides of being the challenged, and lean and mean with the kind of small amount of resources is that this part of EU Roaming Regulation [assistance came sale] so late that we actually had to put all the effort in terms of being able to kind of make the changes into the IT systems, et cetera, which we succeeded. And when we basically then negotiated the kind of agreements concerning the roaming, we did not have kind of the time to kind of open up [what] the agreements on 4G. Currently we have, for example, corporate subscriptions, which are utilizing the 4G. But we have not been able to implement those yet in all the kind of consumer subsystems. But as you said, the plan is basically, after the summer, to open also the kind of roaming agreements for the 4G. When we look about the agreements, there is no difference in terms of the price whether it's 3G or 4G. The 4G will mean that the quality of this service, when customers are roaming, is going to be fast and better. So it basically means that there is probably a higher usage for the roaming customers because they have better ability to use the roaming services, but it will not have any profitability effect in the same as that, for 2 reasons. For the existing subscriptions, we have the sustainability mechanism, which means that we are able to charge whatever amount of data the customers are using. And when we talk about these new subscriptions, this 10-gigabyte a month -- per month kind of a package size is so large that it will basically accommodate very nicely all the usage, what the people are going to use also on the 4G. So this is only kind of a practical issue for us. And we are clearly seeing that it will basically have no effect on the profitability. And we will do it as fast as we are able to do it.



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**Operator**

(Operator Instructions) We now have our next question from Sami Sarkamies from Nordea Markets.

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**Sami Sarkamies** - *Nordea Markets, Research Division - Senior Analyst, Technology*

I have 2 questions. First on the CapEx. Did I understand correctly that you were saying that second-half CapEx will be below last year level, but the full year number will only be slightly below the full year number for last year? And then secondly, on the Corporate segment, you are talking about lower rental provisions in Q2. Can you quantify the amount that -- how much of a tailwind did you get from these rental provisions?

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**Jukka Leinonen** - *DNA Oyj - CEO and President*

I can start with the CapEx. So what we -- in the now first half of this year, the CapEx to -- compared to last year has been EUR 13.5 million less. And what we are saying that in the CapEx -- operative CapEx spending in the second half will be then -- will increase and will be higher than it was in the first half. And the whole year operative CapEx will be then EUR 2 million less than it was in total 2016. So it will be then -- I think that's the best guidance that we can give. So our operative CapEx total is EUR 2 million less in this year than it was a year ago. Was it -- the second question, was it about the antenna rental or the...

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**Sunil Praful Patel** - *BofA Merrill Lynch, Research Division - VP*

No, it was about the rental provisions.

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**Jukka Leinonen** - *DNA Oyj - CEO and President*

What the permit is?

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**Sunil Praful Patel** - *BofA Merrill Lynch, Research Division - VP*

Yes.

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**Jukka Leinonen** - *DNA Oyj - CEO and President*

Yes, okay. So these are really minor. We -- as we have said earlier, so this -- all these rental provisions are related to the -- one of the building that we have in -- which we acquired from TDC and which we rent out and is located here in Helsinki. And this is -- so the premises are now, we'll say, almost fully occupied. And there are some changes, if tenant leaves or -- and then we take a new tenant for that. So the amount that impacted in Q2 was really minor, but it had some impact to the corporate side so therefore we just mention it. But you should not expect again any meaningful or material impact in the numbers for the second half.

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**Operator**

(Operator Instructions) We do have a further question from Sunil Patel from Bank of America.



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**Sunil Praful Patel** - *BofA Merrill Lynch, Research Division - VP*

Just another question. On the fixed-line side, I understand that 100% of your HSC footprint now can deliver 1 gigabit because of your DOCSIS upgrade. But when I look at your fixed nonvoice revenues, I don't see any material improvement in Q2 versus Q1. I just want to understand like, do you think these network investments, the upgrade, will actually drive an improvement in the revenue declines that we're currently seeing on the fixed side?

**Jukka Leinonen** - *DNA Oyj - CEO and President*

So the fixed nonvoice business, which was -- had some decline in the second quarter this year, and actually also for the first half this year compared to the year ago. It's really coming from the pay-TV side. And there in the pay-TV side, the change was this -- is from this antenna pay-TV distribution where the area of this antenna distribution declined. And we therefore, we had to terminate some of the customers over there. And here, we're talking about a few tens of thousands actually that left. But when we look at the fixed broadband business, this is the fixed nonvoice category. So there, the sales [revfrom] has been more or less flat compared to previous quarters and previous years at that.

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

Maybe to continue on this issue. I think that when we think about the, kind of the logic, how do we run basically the business and what's happening in the marketplace. The growth is basically coming mainly due to the fact that we are basically kind of, let's say, losing individual fixed broadband, mainly DSL-based customers, which we don't have all that much anymore. And the growth is coming from these housing association deals. And basically, what happens is that when we see a typical development, we actually are losing a higher ARPU fixed broadband individual connections, which are then replaced by the much lower ARPU Housing Association deals. But we get access to the higher number of customers. And typically, the revenue effect of this change is more or less 0. What happens after this one is that we start active upselling and reselling -- cross-selling to that larger customer base. And I can say that when we are, for example, looking currently at what has been our kind of upselling performance compared to our own target, we have been exceeding those targets for the first half of this year. But typically, when we do the upgrade for the customer from the base speed of 5 megabits per second or 10 megabits per second to, for example, 100 megabits per second, we typically are giving to the customers a few months free of charge as a kind of upgrade offer. That means basically that we believe that we are going to kind of -- having a certain type of deal in terms of revenue development, which is the reason that we are not seeing any kind of a significant growth yet on the kind of consumer broadband, which is based on this cable platform. So this is basically the kind of the short-term view of what we have on the market development. When we look at the longer term, I think that we can clearly see that the customers are use more and more data, also on the fixed network. And we are clearly seeing from the upselling rates that more and more customers are now moving into these higher speeds. And we are expecting that we also should be starting to see increasing revenues on the consumer fixed broadband area when time goes forward. But currently, [it's that] the decline on the fixed nonvoice area comes almost totally from the decline in pay-TV, and in our case, mainly from the antenna side where we have been doing these [distribution] changes.

**Operator**

Ladies and gentlemen, this does conclude today's question-and-answer session. I'd like to hand back to our speakers for any additional or closing remarks.

**Marja Mäkinen**

So thank you, everybody, for your participation and the questions. I would just like to remind you here about the DNA's January-September Report Publication, which will be on the 20th of October. And we have also planned our Capital Markets Day for this autumn, which will take place on the 21st of November here in Helsinki. Thank you, and have a nice summertime. Bye.



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## Operator

This does conclude today's call. Thank you for your participation.

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