THOMSON REUTERS STREETEVENTS

EDITED TRANSCRIPT

DNA.HE - Q4 2016 DNA Oyj Earnings Call

EVENT DATE/TIME: JANUARY 31, 2017 / 10:00AM GMT

©2017 Thomson Reuters. All rights reserved. Republication or redistribution of Thomson Reuters content, including by framing or similar means, is prohibited without the prior written consent of Thomson Reuters. 'Thomson Reuters' and the Thomson Reuters logo are registered trademarks of Thomson Reuters and its affiliated companies.

CORPORATE PARTICIPANTS

Marja Makinen *Head of IR - DNA*

Jukka Leinonen *CEO - DNA*

Timo Karppinen *CFO - DNA*

PRESENTATION

Marja Makinen - *Head of IR - DNA*

Hello, everybody and welcome to DNA's Fourth Quarter and Full Year 2016 Result Publication.

My name is Marja Makinen, and I'm from DNA's Investor Relations. I have here with me our CEO Jukka Leinonen and CFO Timo Karppinen presenting the results. The presentation is also available on our website. And after the presentation, there is a session for questions and answers. And just to note that we will be making forward looking statements during the presentation and there is a disclaimer on the presentation for that.

So now, I think we are ready to start the presentation, so Jukka, please the floor is yours.

Jukka Leinonen - *CEO - DNA*

Okay, thank you, Marja.

In this presentation I'm happy to basically go through the results from Q4 2016 and of course mainly for the full year 2016. I'm going to go through some of the operational KPIs and development of subsistence numbers, also we are going to go through some investment issues relating to our network improvement aspect and position, and then we will basically go through also the strategic positioning of DNA. And then Timo will be going through in more detail the financial review to date results of 2016.

So, let's start from Q4 results, we basically had a very nice Q4, especially the mobile service revenue growth was really - really kind of high, and that was also boosting the profitability. So, the EBITDA was increased into the level of 25.5 percentage points. And that was mainly driven by the service revenue growth, especially mobile asset, but also the improvement into operational efficiencies.

The items affecting the comparability going into Q4 were totaling to 6.3 million euros, and that was totally - almost totally related to the listing of DNA. We had a very strong growth. The EBITDA was increasing in Q4 5.2 percentage points, totaling to 225.2 million euros, so we clearly saw that the sales growth was accelerating towards the end of the year, the full year growth was at the level of 3.6%.

When we are looking about the operational metrics, for into Q4, we basically saw the mobile subscription base growth by 4.6%, which was of course, a very high figure in the market where the total growth was very modest. We also saw a fairly stable and increasing steady growth in the fixed broadband subscriptions and cable internet subscriptions and we also saw a decline in the fixed voice subscribers, which basically is the trend that has been for many years.

When we are looking about the demand on the 4G that was really high, so we are seeing that the increase in users of different types of services, it's really driving the growth of 4G subscriptions, and that of course, was also a big factor in terms of higher RPU and growth in the - in the service revenues since customers were basically moving more and more into the 4G subscriptions.

We also saw a slight increase in turn in Q4. We feel that this is mainly temporary which is related to the changes in some of the kind of local subscriptions we made to our customer base. Mainly we are seeing that when we were basically informing customers about the changes, a certain number of customers were at - who had - who had unused mobile subscribers in these locals levels, they were basically terminating contracts.

©2017 Thomson Reuters. All rights reserved. Republication or redistribution of Thomson Reuters content, including by framing or similar means, is prohibited without the prior written consent of Thomson Reuters. 'Thomson Reuters' and the Thomson Reuters logo are registered trademarks of Thomson Reuters and its affiliated companies.

THOMSON REUTERS

When we look across the business segments, we saw a very positive development in consumer business segment, but we also saw that the corporate business revenues were less stabilized and we see a very - kind of potential growth in the future on that area, especially when it comes to the service revenues.

When we are looking about the key final metrics in Q4, we basically saw a continuous growth in the revenues in Q4, and as you can see from the slide, we basically have been having the very kind of a positive development quarter by quarter, in terms of the total kind of sales growth, which of course is positive because it's mainly coming from the service revenue growth, and that actually has been serving for the profitability.

We also saw a very strong EBITDA growth when we talk about the comparable EBITDA. And as you can see from the graph, we have been having the higher level of absolutely EBITDA quarter by quarter during the whole year. And that was of course then leading to the very nice growth of EBITDA. On comparable terms, the growth was 6.1% in Q4 and in full year 2016, we saw a 9.0% increase in EBITDA, so we are very pleased with that one.

We also started to see a decline in CAPEX. As you all know, we have been having a significant investment program for the last four - three years, where we have been building a nationwide 4G network, and we have been earlier informing that we are seeing the growth of that build out by the end of the year, that we saw in the end of 2016. At the same time, we also saw that the joint network operations, we have been building together with Sonera that was basically reaching a full coverage in the - in the latter part of the year. So, we already saw a fairly significant decline in CAPEX levels for end of Q4. The Q4 CAPEX was 12 million euros less than what we saw in Q4 a year ago.

So, now we are basically starting to see a decline in the - in the CAPEX levels on a yearly basis. And of course, increase in EBITDA declining CAPEX that was serving very nicely the growth in the cash flows. And we already saw a significant improvement in cash flows in earlier quarters, and that continued in Q4 this year. So all in all, we can see that the Q4 figures were very much in line with what we were expecting ourselves and basically continue the trends, what we have been seeing in the early part of the year, both in terms of the sales EBITDA development and cash flow development.

When we are looking about the full year results, we clearly see that the improvement in profitability was the key item when we talk about the comparable EBITDA margin that was increasing at the level of 28.8%, so the kind of base was about the same level than in the previous years, of course the main reasons being, the positive up in economics, meaning mainly for the fourth increase for subscriber numbers. We also had a very kind of clear course control, and we also see that the revenue mix was affecting the increased EBITDA percentage margin, mainly because the service revenues were increasing, and we saw a slight decline in the very low margin in the connection that they use.

All in all, a strong growth in net sales on a yearly level, 3.6%, and I want to emphasize here that this is totally organic growth, so no acquisitions or anything like that behind this because - and one thing which is extremely important is that the service revenue growth during 2016 in mobile was 9.1%. And as we discussed earlier, the service revenue growth in mobile in Q4 was 12.5%. So, we are very happy with the - with the developments on that area.

When we look about the full year operational metrics, we had a very nice growth in terms of the mobile subscriber base, totally 121,000 new customers compared to the year before, raising more than 2.7 million subscribers. We also had a very stable development, in terms of the fixed broadband and cable customers, and declining number of fixed voice customers as we - as we have been expecting due to the change in the - in the development of the markets.

So, all in all, I think that we can see that we are clearly a winner in this marketplace when it comes to the both fixed and mobile subscribers, which of course in the future will be serving the growth of the - of the revenues. 4G was the name of the game during 2016. We saw an increase in demand of 4G subscribers. People are using more and more different types of content, OTP services, premium services, which is basically driving the demand for the 4G, and people are clearly willing to pay a little bit more for the 4G since they are getting a much better customer experience when using the different types of services.

On a yearly basis, we clearly see that the mobile churn was very, very stable, more or less at the same level than last year. So, we see that this also demonstrate that the customer satisfaction in our customer base all in all is in good position. And in full year also, we see a very strong year from

©2017 Thomson Reuters. All rights reserved. Republication or redistribution of Thomson Reuters content, including by framing or similar means, is prohibited without the prior written consent of Thomson Reuters. 'Thomson Reuters' and the Thomson Reuters logo are registered trademarks of Thomson Reuters and its affiliated companies.

THOMSON REUTERS

the consumer business segment, and we see a also a stabilization in the - in the business segment, and we are pretty much seeing that the development was as we were planning within the company in last year.

When we talk about the network development, there we saw some significant and very important developments. First of all, we basically more or less finalized the coverage of 4G network, so currently, we have more than 99% coverage in terms of the 4G in very high speeds and through the data network. As part of this development of 4G, we also basically have been concluding the build out of the joint network, together with Sonera, so more or less the network was basically finalized in the - in the early part of the Q4. And now we are also moving that area more into the kind of a capacity increase mode, according to the increased number of customers and usage. But the - but the main investments have been done on that area.

And maybe the third area, which is also important for the future is that we won in the 700 megahertz auction, two times 10 megahertz band for the 700 area. And this is of course, very important in terms of being able to serve the customers in the rural areas, also in the future when they're increasing amount of data - data is increasing.

And when we talk about the 2016 all in all, I think that we can say that the cash flow development is very positive. We saw a 40% increase in comparable cash flows really as a combination of increase in EBITDA and the comparable level, and also the decrease in - decrease in CAPEX, which we saw, especially in the Q4 last year. So all in all, I think that we are very - very happy with the achievements we made during 2016.

When we are looking about the final operating KPIs, I think that we see a very strong performance in all different areas, net sales, asset up 3.6%. We saw the comparable EBITDA up 9%. We saw the operating free cash flow up 40%, net debt to comparable EBITDA also went down to 1.4 - or 1.3%. it is a fairly low number. We also saw a major growth in mobile subscriber numbers, 130 - 1,000 up. We saw a growth in the important and pro and business areas of fixed growth and cable to get up about 6,000 subscribers. And we basically had a churn on mobile network at about the same level as last year.

So, all in all, I think that we see a very, very strong performance in all areas of our operations when it comes to KPIs.

When we look about the finals of performance of 2016 in the longer term, here you can see that we have been actually able to grow our revenues several years in a row very steadily. We also have been especially increasing our profitability and we also see that there's room to improve our profitability even further, but from the last four years, we have been increasing the EBITDA margin by 3.3 percentage points, which is a fairly significant increase in short time.

Also, when we look about the next of CAPEX, we clearly see that especially the 2014 and '15 were very high in the CAPEX when we had the big in terms of building the 4G penetration and coverage, and now I said during the Q4, we started to see a decline on that area, when the network was starting to be finalized.

And now, when we are moving into the capacity increase mode, we clearly see that we don't need to be spending that much CAPEX in order to maintain the growing traffic in the network. And of course, asset they were serving the growth in the cash flows and operative cash flow growth was really tremendous. And we reached 110 million euros on the yearly level, which is a change to more than 40% compared to the previous year. So all in all, very strong figures.

When we look about the subscription base, we see a very steady increase both in mobile subscriptions and fixed subscriptions. When we are looking about the mobile network subscriber base, we actually added the total number of subscribers by 121,000 subscribers, but it's important to notice here that we had a fairly significant decline in prepaid, which is a very low margin business, and we actually had a growth of 139,000 in post paid mobile subscriptions, which is extremely important in terms of serving the revenue growth.

We are also very pleased that the growth was more or less happening in the same level, both in consumer segment and in corporate segment, so we had a 79,000 net adds, in terms of the consumer business and we had a 42,000 net add in the - in the corporate business segment. So, we are very pleased with this balanced growth, and it basically shows that the demand for the high quality mobile services is equally important, both in the consumer segment and in the - in the - in the B2B - B2B segment.

©2017 Thomson Reuters. All rights reserved. Republication or redistribution of Thomson Reuters content, including by framing or similar means, is prohibited without the prior written consent of Thomson Reuters. 'Thomson Reuters' and the Thomson Reuters logo are registered trademarks of Thomson Reuters and its affiliated companies.

THOMSON REUTERS

When we talk about the B2B segment, especially there we are seeing the growth in the mobile data, so corporate customers, public sector is more and more now moving into utilizing the mobile data as an element in the ICT environments. We are also seeing that the flexible work is increasing the demand. And additionally, we have been launching the new B2B communications platforms, which is adding to the increased interest of customers, also in the B2B segment. And we see that this potential is still there in the coming years.

We saw a steady growth in terms of the mobile broadband penetration of Smartphone penetration, but especially when we are looking about the Smartphone penetration, we clearly are still seeing that almost one third of the customers are still without smart phones. So, when we know that the Smartphone is driving the demand for mobile data, and especially 4G data, we see that there's a strong potential still left in our mobile base in terms of market and customers from 2G and 3G to the 4G, with increased RPU and increased service revenues in the future.

So, from that perspective, we clearly see a growth potential in the future. Mobile data users still almost doubled, 75% growth on yearly basis, the main part of the data usage is in 4G network, more than 40 - 80%, and the 4G data usage was increasing 120%. So, we clearly see that 4G is the driver for increased usage of data. And since we still have the penetration possibilities left, we see that there is a strong potential for the - for the future -positive development on that area.

Also, when we look about the fixed network, the growing areas in our case were the fixed broadband. As you know, we were investing last year heavily into this HFC network with capable of supporting one gigabit speeds. We clearly see that the competitiveness of that offer and platform is very positive. We have been able to increase, especially in the consumer marketplace, a significant number - of new subscribers. And we see that there's a huge potential left in future in terms of upselling and upgrading customers into the highest paid.

When we look about the corporate segment there, we are clearly seeing that the small office sites are moving more and more from ADSL pace the very low speed, low cost corporate subscriptions into the mobile broadband, and that is actually then decreasing the DSL space, the fixed corporate and corporate side, but then we are seeing the growth on the - on the mobile broadband area. This is really a trend of business customers migrating more and more into the mobile environments.

On TV side, we basically have been making the decision that we are not actively expanding the footprint of our HSC network, and we were able to basically - within our current existing footprint, increase the number of subscribers by about 2,000 subscribers. But the other area which is relating this transformation of the video and TV services, where people are using more and more video content from different types of IP based OTP platforms, we saw a very significant growth in our DNA TV subscriptions and applications.

And it's - of course it's important because this way, we are able to kind of give a customer a possibility to use whatever content they want via whatever network they want. So, they can consume the content via traditional cable, traditional antenna TV network, but also via OTT application, via both IPN mobile fixed - fixed and mobile IP networks. So also in that area, we saw a increased number of customers moving towards this kind of a hybrid solutions in the customer usage.

Another element which is fueling our growth in the mobile service revenues is the increasing RPU. So, we clearly saw that the RPU growing from last quarter - last year's fourth quarter by about 3 percentage points to the end of this year. And we saw this acceleration starting this summer or last summer, so we clearly see that we are now in the positive mode, and this of course has been another reason for the increased mobile service revenues.

As said, on the annual level, the churn was more or less the same level than last year or in - or in the year 2015, so we are also very happy with that figure, especially when we know that in the - in the - in the latter part of the year, Q3 and Q4, we made some changes in the local subscribers, and we're moving customers up into the new offerings, which was constituting to the - to the - some increase in demigration of subscribers and that was increasing churn slightly. We feel that this is a temporary effect, which will be stabilizing when we are basically done with the exchanges.

As said earlier, the mobile network is extremely important element in our business as a base platform in order to enable us to offer to the customers a high quality customer experience. We reached 99% penetration. Our net coverage is almost fully done. We were finalizing the joint network coverage as said, together with Sonera in the early part of the Q4.

©2017 Thomson Reuters. All rights reserved. Republication or redistribution of Thomson Reuters content, including by framing or similar means, is prohibited without the prior written consent of Thomson Reuters. 'Thomson Reuters' and the Thomson Reuters logo are registered trademarks of Thomson Reuters and its affiliated companies.

THOMSON REUTERS

We basically had last year, according to the studies, the fastest mobile network in ten largest cities, and we were basically able to add 2.10 megahertz spectrum plan on the 700 auction, now our spectrum position is extremely good in terms of enabling the future growth, both in the number of customers, but also in the - in the amount of usage in mobile data.

We see that we are on the right track, in terms of going - taking the DNA forward. We basically will continue to strengthen our foundation for our competitiveness. We believe that everything's really related to the team of top experts. We want to create a company where people are happy working, they're motivated, they are skilled in every position they work. We will continue to expand our platforms and invest into the 4G fiber networks, cable networks and different types of service platforms to enable the streaming services for the consumers and also for the business services for the business customers.

We have been running now, for last few years, IP migration, which has been progressing very nicely. And we will continue to invest into the modern IP systems and analytics, especially we see that the data analytics capabilities - online capabilities are the key, in terms of increasing the efficiency of the operations, improving the customer satisfaction and also enabling the upselling and cross-selling better and better when we go forward.

And finally, we see that we are a very modern company. You know, one of our values is speed, flexibility, and we clearly see that having this kind of additive in the company is something that customers are valuing, and we believe that this is really the strength, and we want to continue on building on that strength also in the future.

When we are looking about 2016, we can clearly say that we are on the right track to achieve our strategic goals and objectives in all four areas, to be a best kind of company to work with for our employees, to have the best customer experience and customer satisfaction, having the highest growth - relative growth in the market in terms of the profitability and growing faster than the market. We were basically achieving our targets for 2016. And we will continue to drive these targets through to 2017, and we see that there's a lot of potential also in all of these areas when we go forward.

And so, thank you from my part.

Timo will now continue on the financial review in more detail, and then after that, we will take the questions. Thank you.

Timo Karppinen - *CFO - DNA*

Thank you, Jukka. And good morning from my part as well.

In this financial review I will cover the actual results the way that - revenue has developed and then the segment results, CAPEX and our actual cash flow results and then the guidance for 2017.

So, the Q4 was a - was a continuation of our strong growth in net sales and profitability and in cash flows. In terms of the net sales, the - in Q4, the net sales grew by at least 5.2%. It is actually accelerated from the - from the yearly level of 3.6%. And then when it comes to the profitability increase, it's comparable EBITDA in whole year increased by this 9%.

In - and the Q4, the increase was 6.1%. Q4 is typically a quarter where the costs are higher than the other quarters, and then therefore the result of that quarter is typically quite low, compared to other quarters. Q4 was also in August, impacted by the provision change for the unused premises, and that had a negative impact of 4.3 million in the Q4 results. So, without that impact, actual EBITDA - comparable EBITDA margin would have been around 27%.

The comparable EBIT grow this - 42% in whole of year 2016, and actually in Q4 are 7.6%. And that's really the - the greatness of this growth is coming from the fact that EBITDA is growing and that our depreciation came down last year about 10 million, so that -that's fueling the EBIT growth. We are online in our reduction of relative CAPEX, and that CAPEX came down by 12 million in actually Q4 last year. And the whole year, operating CAPEX raised it to say is now 15.9%.

©2017 Thomson Reuters. All rights reserved. Republication or redistribution of Thomson Reuters content, including by framing or similar means, is prohibited without the prior written consent of Thomson Reuters. 'Thomson Reuters' and the Thomson Reuters logo are registered trademarks of Thomson Reuters and its affiliated companies.

And actually then in - when the EBITDA is growing and the profitability overall and a lower CAPEX is - this then resulting in a extremely good growth in our free cash flow, which then, in whole year, grew this 40%.

Net debt came down, is now 322 million and net debt to - net debt to comparable EBITDA is now 1.3. When the local payer and how the revenues develop, so the main driver really for the net sales increase is coming from the mobile services revenue. The mobile services revenue improved in a whole year base of this 9.1%. And it was really accelerated in Q4, when the mobile service revenue itself grew by 12.5%.

The main driver for this mobile service revenue is coming from the bigger subscriber base and the fact that we are having more - 40 subscriptions is bringing more billing per unit continuously than what we have in the base.

Mobile equipment sales as well increased significantly over the last year. The increase for the whole year was 21.6 % and the last quarter it was 18.7%. And really, the main drivers for this good mobile equipment sales is coming from good subscriber sales and also fact that we are doing very effective promotions.

The fixed non-voice revenue was fairly stable around the same level that it was last year. The decline is much - mainly resulting from the fact that in - we see a trend from the corporate customer that they are moving away from the fixed broadband end to end and mobile broadband by proposed solutions. And then the - and when it comes to fixed voice, and inter - mobile interconnection revenues, these are actually in according to our sort of plan, and that they were decreasing in last year. And of course, this mobile interconnection revenues have very small and margin impact.

When look at the segments, the consumer segment was the segment that was growing the fastest, and our overall increase in consumer side in terms of net sales was 5.9%, but again there, we saw an accelerated growth in Q4, where the consumer side increased by 8.3%.

In corporate side, the sales revenue was about the same level as it was a year ago. And we - our view is that in the - this decline was around in the same level that was the market in corporate side in total.

When looking at the segments, so - in more detail, so consumer business, like I said, net sales improved 5.9%, compared to 2015. Comparable EBITDA itself improved by 14%. And in terms of the sales revenue, the really - the main drivers of that is coming from the positive development in subscriber sales, the growing use of mobile data, which then give - and a - and a larger share of 4G subscribers are of - in total base, and that sort of is increasing the service revenue sales in consumer side.

And then we saw - and like said, positive development in mobile devices sales. And then, some negative impact from lower interconnection prices and weaker demand on the Pay TV services.

The EBITDA - the improvement really is coming from the fact that the service revenue is growing, and that gives us on a continuous basis of operational efficiencies.

In terms of the corporate business, the net sales was stable and about the same level that it was year ago, and the comparable that EBITDA itself was again about the same level as it was year ago. There was all - like said, there's an increase in the mobile broadband subscription base in - on the corporate side, and this on a reduction in interconnection prices and a lower voice traffic volumes.

In terms of the corporate EBITDA, we see there are continuous - and again same way and improved operational efficiencies. And we had some provision change in - over the year, which then gave some negative impact to the comparable EBITDA itself on the corporate side.

When looking at this - the EBITDA growth over the years, we really have seen a continuous improvement over the last - let's say three years. The EBITDA margin itself in 2016 improved by 1.5%. The EBITDA margin over the last three years has been increasing by 3.3%. And -you know, average growth in the EBITDA itself has been around 8.2% over the last four years.

©2017 Thomson Reuters. All rights reserved. Republication or redistribution of Thomson Reuters content, including by framing or similar means, is prohibited without the prior written consent of Thomson Reuters. 'Thomson Reuters' and the Thomson Reuters logo are registered trademarks of Thomson Reuters and its affiliated companies.

THOMSON REUTERS

The main driver there really is the fact that our service revenue is taking bigger part of the - of the total revenue, and also the fact that this service revenue itself is growing - growing all the time and has been growing over the years.

The EBITDA margin of 20.8%, we see that is in - actually growing in the future. And here we can say that we are fairly confident that we can maintain this - our longer term guidance of EBITDA margin of more than 30%.

Like said, the high peak of our investment is now coming to an end, and during this peak investment cycle that we had over the last close to three years, is now mostly completed, and this investment program included the fact that we have now roll out the whole of 4G network on our own area and also in this current operation area. And this investment program also included the fact that we have increased the 1 gigabyte of speeds in the fixed network, and that that investment is largely completed by the end of the year.

So, we saw the total operating CAPEX now to come down like say 12 million in the Q4 and now on whole year level, we are now at this 15.9% when you - when you compare that to the sales. And again, there we are keeping the same guidance that this in the near future, we'll see that the operative CAPEX to come down to below 15% of sales. And like said, the 1,700 megahertz spectrum was completed by the end of the year, and you will start seeing - and this - that this payment of this spectrum happening in Q1 this year and these payments will continue for five years, a total amount of that is at 22 million.

When it - look at the cash generation, so really with the help of this increase in our comparable EBITDA and at the same time, decrease in our operative CAPEX, we saw a record level of free cash flow generated in last year. And this total amount was 610 million. And then - so it - there was about 30 million increase compared to the year ago, and actually our cash conversion percentage then increased by 10%.

And this is then supported the fact that we have very highly sort of attractive capital structure, and which then brings in a low cost of interest and the - and also the tax levels that we are paying are quite low. So, the free cash flow to equity resulted in this 93 million - with this quite the same level as it was year ago. And there we saw that the minor - sort of decline in there is coming from the fact that - sorry, that this - that met this networking capital change was quite minor last year because of the high CAPEX payment extent we had to do over the last year because of the - CAPEX was high in 2015.

But again here we see when we - in the coming years, the EBITDA to grow and CAPEX to come down, we see the cash flow continue to grow in the coming years.

The capital structure improved in Q4, the - basically with the help of the strong cash flow and the fact that is - we got some proceedings from the listing, so now, the net debt EBITDA is 1.3 and the whole net debt is now at 321 million level. And the whole - so the maturity of loans is very stable and the only bigger sort of loan payback is next year when we have to refinance the bond that we have over there, but we see no problem of doing that next year.

So, when look at the requirements for this year, we see the net sales to - are expected to stay at around the same level. The comparable operating result is expected to improve somewhat in 2017. And the group financial process and the liquidity is expected to remain at this healthy level. And all this - loan - so midterm financial targets will - we'll - we keep that the same. So, our net sales growth, part of the average market growth EBITDA margin of at least 30% and operative CAPEX less than 15% of sales. And the level policy of below 2.

And the dividend policy that we'll keep the target dividend payout of 72 to 90% of free cash flow to equity. And from yesterday's board meeting, the board proposes of this dividend payment of 55 cents per share with then total into 73 million with then actual or roughly about dividend yield of 5.4% when you compare the sale price as it was at the end of last year.

So, thank you.

This was the presentation part, and now we can take some questions if you have any.

©2017 Thomson Reuters. All rights reserved. Republication or redistribution of Thomson Reuters content, including by framing or similar means, is prohibited without the prior written consent of Thomson Reuters. 'Thomson Reuters' and the Thomson Reuters logo are registered trademarks of Thomson Reuters and its affiliated companies.

THOMSON REUTERS

QUESTIONS AND ANSWERS

Marja Makinen - *Head of IR - DNA*

Yes, thank you, Jukka and Timo for the presentation.

And now we are ready to take the questions. And we start with the audience here in DNA House.

And before stating your question, so please say your name and the company.

So, let's take the first question here.

Unidentified Participant

Okay, thank you. [Sam Sarkomes], Nordea Markets. I have three questions, firstly, can you say whether Q4 was in line with your own expectations or were there something where you were not fully happy with the performance? Then secondly, on the competition, your rival Elisa talked about somewhat unhealthy competition in mobile at the moment, can you talk about this from your own perspective? And then thirdly, can you talk about the upcoming data roaming changes and how you expect that to impact your financials this year? Thanks.

Jukka Leinonen - *CEO - DNA*

Okay, if I start with the - with the - first question, Q4 was actually more or less exactly as we we're planning on our own - on planning. From the profitability perspective, it was just in line with our expectations, and we had a slightly higher revenues than we were expecting, but more or less in line as we were planning.

When we talk about the - the second question was about...

Timo Karppinen - *CFO - DNA*

Was about competition.

Jukka Leinonen - *CEO - DNA*

... competition and that - and I can basically say that what we are seeing right now is that there is a slightly more intense competition, which we can see as a increased kind of a sales support and sales promotion by the competition, but we haven't really seen a - any significant indications that that would be seen as the end surprising, which is very positive, but yes I think that - I can confirm that there is more kind of a higher kind of a sales caused by the competition and promotion by the competition.

On roaming issue, as you know we basically have been getting out the figures as policy - the financial out from the EU. We are still waiting for the kind of roaming charges. I think that from our perspective, we are seeing that the way going forward is to use the sustainability mechanism, which was basically stated in this year's policy. And we are stating basically still, as we expected earlier, that this will lead to the situation that we are not expecting to have this significant impact on our cost base because of this roaming.

Unidentified Participant

Thank you. It's [Pano Rikinen] from Danske Bank. I would have three questions as well, first of all, related to this Q4 item, the provision of 4.2 million, so this is something that won't reoccur going forward, as the first question. And then two questions related to your guidance, first of all the sales

©2017 Thomson Reuters. All rights reserved. Republication or redistribution of Thomson Reuters content, including by framing or similar means, is prohibited without the prior written consent of Thomson Reuters. 'Thomson Reuters' and the Thomson Reuters logo are registered trademarks of Thomson Reuters and its affiliated companies.

growth guidance for flat - could you talk about the assumptions behind that. You had very strong mobile performance so do you expect a slowdown? And what are the kind of headwinds?

And the second question, you decided to guide on EBIT, but you have targets for EBITDA margin, do you think - well you could reach that about 30% level already in 2017, given that 2016 was pretty good at charting for the provision you mentioned? Thanks.

Jukka Leinonen - *CEO - DNA*

Okay, Timo you take the first one.

Timo Karppinen - *CFO - DNA*

Okay.

So, this - the provision is related to this unused premises and is coming from the (inaudible) acquisition that we did where we got quite a large office building. And the base - really based there that when you do that that house was more or less half empty when we got it, and we've been sort of releasing it and according to the sort of IFRS rules, you had to make first a provision for unused premises for the remaining period of the lease, and then start putting new tenants into place, then you can start releasing the provision.

And what happened in Q4 really was that in - it was - last year in Q4, we were able to rent these premises and again, and this year, some of the tenants left, so change of the provision of all together was 4.3 million. But this is not - and we do not expect such a big fluctuations on going forward.

And then it was question about...

Jukka Leinonen - *CEO - DNA*

Revenue finance.

Timo Karppinen - *CFO - DNA*

... revenue finance, so that - what's impacting the revenue, of course is the fact that the interconnection revenues and fixed voice revenues are - continue to decline, but at the same time, we'll see increases in the service revenue, all in all kind of happening in this year.

Jukka Leinonen - *CEO - DNA*

Yes and maybe to add to that one - then there are kind of a slight influence of course, with this kind of roaming revenue loss on the EU levels, so there are bits and pieces there which are declining, but I think that all in all, we can say that the service revenue will grow, but then there's some decline elements and the total growth will be - will be somewhat at the same level than this year, that's the - that's the kind of estimate.

When we talk about this EBITDA guidance, I think that we are basically just speaking with the guidance that we are targeting midterm for more than 30% - and you saw the 28.8% from 2016, we are going to improve that one, and we'll see that where we are ending up, but we are not giving any more insight into the guidance.

©2017 Thomson Reuters. All rights reserved. Republication or redistribution of Thomson Reuters content, including by framing or similar means, is prohibited without the prior written consent of Thomson Reuters. 'Thomson Reuters' and the Thomson Reuters logo are registered trademarks of Thomson Reuters and its affiliated companies.

THOMSON REUTERS

Unidentified Participant

[Artemis] from [SB], also three questions from my side. And continue on this provision topic, could you maybe clarify, this possible 3 million euros impact is it year over year or negative impact seen on standalone basis - seen in Q4 basically, so that's the first one? And the other one is when it comes to mobile service revenue growth you have been showing quite impressive development what comes to Q3 and Q4, do you think that - I know that second half of this year is pretty challenging due to roaming situation, but do you think that that is kind of double digit development could be maintained during first half of this year?

And the last one is on operative CAPEX outlook, so you clearly stated the 4G investments are pretty much done and on peak sides there will be less investments going forward, looking at just kind of 15% target ratio what you have, do you think that it could be reached already this year, in light of these kind of clear trends, which are visible for this year?

Jukka Leinonen - *CEO - DNA*

I'll take the first one...

Timo Karppinen - *CFO - DNA*

Yes, and then ...

Jukka Leinonen - *CEO - DNA*

... so in this provision change really is the highest impact happened in the Q4. Over the whole of year is - do you see up and down of these things, but I - it didn't have such a big impact over a few million over the year.

Timo Karppinen - *CFO - DNA*

Okay, then if I start with this CAPEX question, I've said we basically are targeting midterm to be less than - less than 15%. Last year we basically were recently 15.9% and also the absolute number of operative CAPEX will be decreasing and of course the ratio will be decreasing, but I will not give you any kind of firm confirmation that that - what will be the figure in exact numbers in 2017.

And then the second question was...

Unidentified Participant

Revenue growth.

Timo Karppinen - *CFO - DNA*

Yes, we basically are expecting that the mobile service revenue growth will continue in very good healthy level, but maybe I should say so that we are not expecting that for example, for the first half year. We would be expecting as a compound the growth which - which would be double digit.

Unidentified Participant

Okay, it's [Kimo Stemo] of [Golbe Corporate] Bank, I have two questions, first on the EBIT guidance, as said, you chose to guide with the EBIT, so how much are the depreciations coming down this year? So - and how much is the underlying profit growth that you are estimating for this year?

©2017 Thomson Reuters. All rights reserved. Republication or redistribution of Thomson Reuters content, including by framing or similar means, is prohibited without the prior written consent of Thomson Reuters. 'Thomson Reuters' and the Thomson Reuters logo are registered trademarks of Thomson Reuters and its affiliated companies.

THOMSON REUTERS

Timo Karppinen - *CFO - DNA*

Okay, the depreciation is more or less in same level as we have had in this year - as 2016. So, there will be a small decrease into that part and not a big cascade.

Unidentified Participant

Okay, thank you. Then other question on the cash flow, I noticed that you had very low paid taxes previous years due to some previous losses, so how much is the tax rate in cash flow for this year?

Timo Karppinen - *CFO - DNA*

Well, this - that is related to the - to the past acquisition that we did for Plus TV. That was about three years ago. And that came and that tax credit is - are now - was used in 2015 and then actually completed the usage in 2016. So, on - from 2017 and onwards, we - you should see in a more normalized tax rate, which is close to the Finnish tax rate of about 20%.

Unidentified Participant

Okay, thank you.

Marja Makinen - *Head of IR - DNA*

All right, so any further questions from here?

So, then operate, we are ready to take questions from phone lines, so please...

Operator

Thank you.

Ladies and gentlemen, if you would like to ask a question over the phone at this time, please press the star or asterisk key, followed by the digit 1 on your telephone. Please ensure that the mute function on your telephone is switched off to allow your signals to reach our equipment.

Again, please press star 1 to ask a question.

We have our first question. It's from [Pija Nilson] from ABG. Please go ahead, your line is now open to ask a question.

Unidentified Participant

Thank you very much. Just a question related to your impressive mobile service revenue growth. Would you care to sort of split that up on consumer and corporate? Obviously, you talk about strong revenue on the consumer side and stable on the corporate side, could you elaborate a bit on the mobile service revenue growth please? And then just could you tell us a bit what you're doing on the fixed fiber side? Have you expanded or are you expanding your rollout here, please? Thank you very much.

©2017 Thomson Reuters. All rights reserved. Republication or redistribution of Thomson Reuters content, including by framing or similar means, is prohibited without the prior written consent of Thomson Reuters. 'Thomson Reuters' and the Thomson Reuters logo are registered trademarks of Thomson Reuters and its affiliated companies.

THOMSON REUTERS

Jukka Leinonen - *CEO - DNA*

Okay, when we talk about the mobile growth, there may be a couple of things which are important. The first thing is that when we are looking about the growth in the subscriber base, there we actually saw a very healthy growth, both in consumer side and also in the corporate side, so 79,000 net adds in consumer side and 42,000 net adds in the corporate side.

When we talk about the service revenues, there we clearly saw that most of the growth came from the consumer side, the main reason being that on the corporate side, we basically have a still significant number of customers with mini space pricing, and we are now seeing a declining levels of minis and messages on the corporate side, and that was basically kind of eating away the growth, which came from the - from the increased subscriber numbers. So, most of the revenue growth on service - mobile service revenue - the revenues came from the - from the consumer side.

Then when it comes to the fixed network, we basically have currently a ongoing strategy that we are not expanding our footprint into the new cities. We are basically of course, connecting new buildings and sites within the boundaries of our existing cable HFC network, but we are mainly concentrating into kind of upselling and cross selling, highest speeds, Pay TV package speeds, and other services for the existing customers, so that's the current strategy.

Unidentified Participant

^ Okay, thank you for that.

Operator

Thank you.

And now we'll take our next question, [Karim Sui] from Morgan Stanley. Please go ahead. Your line is now open.

Unidentified Participant

Yes hello, I've got a few questions please. Just firstly following up on the comments you made at the beginning on the competitive dynamics, just asked another way, how long do you think you can continue to take market share without prompting a more aggressive and sustained response from your competitors? So, that's the first question.

And then the second one is a follow up on regulation and the new roaming updated tariffs, you mentioned in place that there could be a sustainability mechanism. I just wondered how practical is that to implement, given that the onus appears to be much more on the corporate as opposed to the consumer, and whether you have like the sufficient CRM systems to implement this?

And then the third one, just I wondered if you can give us a bit more color about what's going on on your fixed non-voice revenues, just give us an idea of the moving parts, which bits are growing and which bits are in decline? Thank you.

Jukka Leinonen - *CEO - DNA*

Okay, if I - if I start with the - with the last question related to this kind of fixed non-voice service revenues, as you saw, in the yearly basis, we basically having declined in 2 percentage points in terms of revenues. That was basically coming from couple of sources. In TV and video services business, we are in the middle of transformation in the marketplace, where the viewing is moving more and more into the kind of OTT based platforms.

And we are now seeing that especially those pay TV packages which are mainly on movies and serious area, they are basically moving to the OTT video libraries -- Netflix, Via Play et cetera. And there, we actually saw a slightly declining revenues and declining number of customers. Then when we talk about the sports content, there we actually were showing a steady development of the customer base, but also increasing RPU, where

©2017 Thomson Reuters. All rights reserved. Republication or redistribution of Thomson Reuters content, including by framing or similar means, is prohibited without the prior written consent of Thomson Reuters. 'Thomson Reuters' and the Thomson Reuters logo are registered trademarks of Thomson Reuters and its affiliated companies.

THOMSON REUTERS

customers are actually kind of more taking the high speed - or the high value kind of sports packages. So, this is basically as a knit element slightly affecting negatively into the fixed non-voice services.

The other area which is declining on that area is basically the overall B2B or the corporate segment fixed data business, mainly because the low cost small office areas DSL based, fixed broadband connections are transferred into the buy list broadband technology, which of course moved some revenues from the fixed network area into the mobile area.

So, these two elements - the decline in the Pay TV packages or movies and serious side and the decline in the - in the corporate side on the local DSL based fixed broadband connections are basically driving the small growth in the fixed non-voice business areas.

Then when we talk about the roaming issue, we see that in our case, when we think about the BNA, we believe that with the sustainability mechanism, we can - we can kind of effectively cover the potential costs related to the roaming regulation, the main reason being that as you know, from the historical reasons, DNA's revenues are heavily on the consumer side.

So, we have a much smaller share of revenues on corporate side than our customers and most of our existing corporate customers are more on the domestic side than on the international side. So, the roaming revenues from the corporate business is significantly lower than any of our competition. So, we are not seeing this issue as a problem in terms of not being able to kind of utilize the sustainability mechanism on the roaming area.

And then there was a third question, which I don't remember anymore.

Unidentified Participant

It's just on the competitor dynamics, so how long can you take market share without prompting a more aggressive response from your competitors that's sustained. Thank you.

Jukka Leinonen - *CEO - DNA*

Yes, I think that - first of all, our basic view is such that we don't have, as a company, any market share targets as such. We basically are building our kind of position and differentiation based on the best customer experience, both on the kind of customer interactions level and also in the quality of the networks. And we believe that this will be leading to the increasing kind of a demand or continuous demand for the DNA services in the - in the market, also in the future.

But we are not kind of having a defined market share target, meaning that we are not targeting to basically take customers on price. We are basically taking customers who want to become DNA customers because of our service quality overall. We see it as current that there is a more interest competition, especially in terms of the sales promotions and so on. We are not seeing signs, but that would be going into the actual price levels.

On the contrary, we are continuing ourselves some price increases - we just have introduced some changes in our kind of local customer base, and we will basically kind of target that we would be able to kind of somewhat increase also to prices, especially in the lower RPU level of the market. That probably will be leading to the situation that we have a slightly smaller net app in the mobile, at least in the first half of this year, but we see that this is positive from our profitability perspective overall when we go forward.

Unidentified Participant

That's great. Thank you.

©2017 Thomson Reuters. All rights reserved. Republication or redistribution of Thomson Reuters content, including by framing or similar means, is prohibited without the prior written consent of Thomson Reuters. 'Thomson Reuters' and the Thomson Reuters logo are registered trademarks of Thomson Reuters and its affiliated companies.

If it's okay, can I just ask one further question on cash returns and your policy going forward - I just wondered if you can give us a bit more idea on the use of the IPO proceeds? You've obviously de-levered a little bit. We've had the spectrum auctions where the price was in line with the reserve price, have you got any maybe updates about your M&A ambitions and your - on your cash return strategy in the medium term? Thank you.

Jukka Leinonen - *CEO - DNA*

Yes, so like we have a - ongoing itinerary that we - all the time looking at the - any possible bolt on M&A acquisition, which would not be outside Finland or anything like that, so we keep our eyes open for that and therefore, we also won't maintain our balance sheet in a level that we can do, so if - and act quickly if we can - if you find those possibilities.

Other than that we'll - right now do not forecast any major changes in where the cash generation cost, and what we're going to do with it in the balance sheet, so these other issues, what we will then continuous review as we go forward. And we have stated - as we have stated in earlier, that if we don't also let the balance sheet to go sort of - I wouldn't say weak, but not effective and therefore we can - in the future, if we don't see any immediate acquisition, we'll look into ways of returning more cash in to the shareholders.

Unidentified Participant

That's brilliant. Thank you.

Operator

Thank you.

As a reminder, star 1 to ask a question.

There's no one else over the phone.

Marja Makinen - *Head of IR - DNA*

So is - so operator, is there further questions?

Operator

There are no further questions over the phone line at this time.

Marja Makinen - *Head of IR - DNA*

Good. Thank you, as always.

No further questions, so thank you for all the audience on the lines and over here. DNA's First Quarter Results will be published on the 21st of April, and see you then. Thank you. Bye.

©2017 Thomson Reuters. All rights reserved. Republication or redistribution of Thomson Reuters content, including by framing or similar means, is prohibited without the prior written consent of Thomson Reuters. 'Thomson Reuters' and the Thomson Reuters logo are registered trademarks of Thomson Reuters and its affiliated companies.

THOMSON REUTERS

DISCLAIMER

Thomson Reuters reserves the right to make changes to documents, content, or other information on this web site without obligation to notify any person of such changes.

In the conference calls upon which Event Transcripts are based, companies may make projections or other forward-looking statements regarding a variety of items. Such forward-looking statements are based upon current expectations and involve risks and uncertainties. Actual results may differ materially from those stated in any forward-looking statement based on a number of important factors and risks, which are more specifically identified in the companies' most recent SEC filings. Although the companies may indicate and believe that the assumptions underlying the forward-looking statements are reasonable, any of the assumptions could prove inaccurate or incorrect and, therefore, there can be no assurance that the results contemplated in the forward-looking statements will be realized.

THE INFORMATION CONTAINED IN EVENT TRANSCRIPTS IS A TEXTUAL REPRESENTATION OF THE APPLICABLE COMPANY'S CONFERENCE CALL AND WHILE EFFORTS ARE MADE TO PROVIDE AN ACCURATE TRANSCRIPTION, THERE MAY BE MATERIAL ERRORS, OMISSIONS, OR INACCURACIES IN THE REPORTING OF THE SUBSTANCE OF THE CONFERENCE CALLS. IN NO WAY DOES THOMSON REUTERS OR THE APPLICABLE COMPANY ASSUME ANY RESPONSIBILITY FOR ANY INVESTMENT OR OTHER DECISIONS MADE BASED UPON THE INFORMATION PROVIDED ON THIS WEB SITE OR IN ANY EVENT TRANSCRIPT. USERS ARE ADVISED TO REVIEW THE APPLICABLE COMPANY'S CONFERENCE CALL ITSELF AND THE APPLICABLE COMPANY'S SEC FILINGS BEFORE MAKING ANY INVESTMENT OR OTHER DECISIONS.

©2017, Thomson Reuters. All Rights Reserved.

©2017 Thomson Reuters. All rights reserved. Republication or redistribution of Thomson Reuters content, including by framing or similar means, is prohibited without the prior written consent of Thomson Reuters. 'Thomson Reuters' and the Thomson Reuters logo are registered trademarks of Thomson Reuters and its affiliated companies.