OVERVIEW:
Co. reported 3Q15 results.
CORPORATE PARTICIPANTS

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Eelco Blok  Koninklijke KPN NV - Chairman & CEO
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PRESENTATION

Operator

Ladies and gentlemen, thank you for holding and welcome to the KPN conference call. (Operator Instructions).

I would like to hand over the conference to Wouter Stammaijer, Head of Investor Relations. Go ahead, please sir.

Wouter Stammaijer  Koninklijke KPN NV - Head of IR

Good morning everyone, and welcome to KPN’s Q3 results conference call. Before turning to the core of the presentation I would like to draw your attention to the Safe Harbor statement on page 2 of the slide set. That also applies to any statements made in this presentation. In particular today’s presentation may include forward-looking statements including the Company’s expectations with respect to its outlook, which are also included in the press release published this morning. All such statements are subject to the Safe Harbor statement.

I would now like to hand over to Eelco Blok, CEO of KPN.

Eelco Blok  Koninklijke KPN NV - Chairman & CEO

Thank you, Wouter, and good morning and welcome to KPN’s third quarter 2015 results conference call. With me today is Jan Kees de Jager our CFO.
Let’s start with the highlights for this quarter. When we look back at the third quarter of 2015 we see the positive trends from the previous quarters continuing.

Our focus on an excellent customer experience combined with a full range of innovative and differentiating services again resulted in customer base growth.

The good operational performance, in combination with strict cost discipline, resulted in year-on-year adjusted EBITDA growth in the third quarter, and strong free cash flow growth year to date.

The sale of BASE Company has entered the phase 2 process and we remain confident that the transaction will be cleared by the European Commission.

Furthermore, I’m quite proud that our initiatives in the field of corporate social responsibility are being recognized. For the fourth consecutive year KPN has been included in the Dow Jones Sustainability Index.

First I will present what we have been doing this quarter to further strengthen and develop our services and network, and then Jan Kees will comment on the operational performance and take you through the financial results. I’ll finish with my concluding remarks. Thereafter there will be plenty of time for Q&A.

Data traffic continues to grow strongly within our network. Today 60% of the data traffic over our fixed network relates to our IPTV product which delivers high quality linear TV, on-demand services and a large number of interactive features.

The remaining 40% of traffic is driven by fixed internet. A breakdown of the 40% is shown on this slide. In the third quarter half of the fixed internet traffic was related to video streaming, up from 40% a year ago, which has mainly been driven by Netflix.

To address the shift in consumer behavior KPN launched Meer TV in the third quarter. Meer TV aggregates and provides access to a wide range of over-the-top applications including YouTube and Netflix. We make this accessible to our customers in a smart and cost-effective way and believe this will further increase customer satisfaction.

Customers no longer need Chromecast or Apple TV to be able to log into Netflix but will be able to access it on their TV set via KPN’s IPTV menu or via a dedicated channel.

Also in mobile, data usage continues to grow, strongly driven by video streaming. Our data bundles offer carefree usage for our customers and we’ve seen average data usage doubling year on year to 1.3 gigabytes already. We continue to see strong interest in KPN’s premium data bundles, as 45% of sales consisted of 5 and 10 gig data bundles.

Upsell potential remains as 55% of KPN postpaid customers still have bundles of 1 gig and lower. This compares to 65% 12 months ago. Therefore, we continue to focus on upselling our existing base to larger bundles.

Furthermore, a couple of weeks ago we increased prices at the low end of our SIM-only propositions for the KPN brand. As a consequence, the price gap between high- and low-end bundles has been reduced, which should further drive upsell to higher value bundles.

Our unique position as the only truly integrated player in The Netherlands enables us to offer our fixed-mobile customers significant additional benefits at limited marginal cost. A strong focus on growing our fixed-mobile base resulted in very good uptake in recent quarters.

As well as increasing the fixed-mobile penetration within our broadband and mobile base, we also focus on deepening our relationship within households by upselling additional SIMs to drive a further reduction in churn. Over the last quarters, we’ve been increasingly successful in growing the average number of SIMs per household.
There are now, on average, approximately 1.5 SIMs per fixed-mobile household. We continue to focus on growing this number to increase share of volatile households and reduce churn.

In the business segment, we continue to operate in a rapidly changing market environment. The size of the business market in The Netherlands continues to decline. The decline of traditional voice is structural, mainly driven by line loss due to rationalization by our customers and migration to multi play, which includes lower margin voice-over-IP solutions.

Decline in single play wireless, which was mainly driven by re-pricing, is expected to bottom out in the medium term. In the third quarter, we made good progress. 80% of our mobile base has now been re-priced, versus about 60% last quarter.

Performance of network and IT services was impacted by the slow economic recovery in The Netherlands as well as phasing out of legacy networks. In the medium term, we expect this cyclical business to return to growth.

At the same time, we are pushing hard to grow multi play and new services to retain customer value. Therefore, we remain confident to stabilize revenues in the medium term.

To offset the pressure on top line, we are actively transforming the business segment organization. We do this by simplifying our portfolio and processes and implementing a rigorous cost discipline approach. Last quarter we reached an agreement with the works council on the planned FTE reduction, and we’ve started to implement the reorganization this quarter. However, it takes some time before these cost benefits will be reflected in EBITDA.

Our focus on providing an excellent customer experience is delivering positive results, evidenced by another year-on-year improvement in net promoter scores this quarter. Further improving customer satisfaction levels remains one of our key priorities.

Let’s move to the next slide, our networks.

We continue to invest in capacity and speed to further strengthen our leading market positions and to enable exponentially rising data usage. In fixed, fiber households coverage increased to 59%. The increase was mainly achieved through investments in fiber-to-the-Curb, which now covers 31% of households.

In combination with vectoring and pair bonding, this drives higher bandwidth for our customers. 28% are covered by fiber-to-the-Home.

In mobile, we continue to strengthen our leading 4G position by aggregating 800 megahertz and 1,800 megahertz spectrum. This almost doubles the average download speed, and allows us to differentiate on network quality and user experience in times of exponentially growing data usage.

Our simplification program remains on track with run-rate savings now approximately EUR250 million. The number of FTE reduced by 200 this quarter, and we’ve now seen approximately 1,350 FTE reductions since the start of the program. In recent quarters, we invested in a simpler and digitalized customer-centric operating model.

In the third quarter, we took further steps towards simplification of our front-end and back-end processes. This enables us to further improve customer experience and, at the same time, phase out legacy systems.

At the front end, we introduced a single KPN customer ID. Password-related questions at customer contact centers are currently leading to about 5,000 calls per week. The single ID is, therefore, expected to lower call center expenses and, at the same time, increase customer satisfaction.

At the back end, we recently introduced an improved order management system. Today, around 40% of our consumer residential base has been migrated towards this future-proof IT domain. This leads to a reduction of lead time and lower cost to serve, as we improve customer satisfaction, and we’ll be able to phase out legacy IT systems.
I would now like to hand over to Jan Kees to take you through our operational and financial performance. Jan Kees.

Jan Kees de Jager - Koninklijke KPN NV - CFO

Thank you, Eelco, and good morning, everyone.

Increasing the penetration of fixed-mobile bundles continues to be our main strategic focus, as it increases customer satisfaction and significantly reduces churn. In the third quarter the penetration of fixed-mobile bundles increased by 2 percentage points for both our broadband and postpaid customer base. Nearly one million postpaid subscribers are now part of a fixed-mobile bundle. Churn for these packages is only around 5% annually.

Let's move to the residential segment. Our strong market position in consumer fixed is a result of our investments in network and services, which led to a competitive high-speed network, an innovative and differentiating IPTV service, and the success of our fixed-mobile bundles. This has driven continued good commercial momentum with strong base growth.

Revenue-generating units increased year on year by more than 5% to 2.26 per household, supporting ARPU per customer. On this slide, you see a stable ARPU year on year. However, unrounded, we continued to see growth.

Mobile. This quarter we see a continuation of the positive trends of the past quarters. Our high quality network and attractive propositions, including fixed-mobile bundles, have driven continued growth and lower churn. This quarter we added 80,000 postpaid customers, driven by a large proportion of new high-value KPN brand subscribers. Combined with a stable ARPU, which was somewhat supported by the tax benefits, service revenues increased by 4.6% year on year.

As Eelco explained, the market environment in the business segment changes rapidly. This continues to impact both our operational and financial performance. Wireless service revenues show a somewhat improving year-on-year trend, which was mainly driven by base growth, although still offset by a lower ARPU, driven by re-pricing.

In wireline, we continue to see a decline in access lines as a result of customer rationalization and migration to multi play. At the same time, we made good progress to grow multi play. 90% of our mobile customer base is now part of a multi play proposition.

In Belgium the market remained competitive but the service revenue trend improved, driven by a better customer intake as a result of new tariff plans. The EBITDA margin improved in the third quarter versus the same period last year. This was supported by the phase-out of our SNOW products and the absence of site tax expenses this quarter compared to the third quarter last year.

BASE Company’s network investments led to more than 88% 4G coverage of the Belgian population at the end of this quarter. As such, BASE Company is well positioned to benefit from data usage growth.

Let me now take you through our financial performance for the third quarter.

Our strong operational performance and strict cost discipline are clearly leading to improving financial results. Please note that, unless stated otherwise, all financial results in this presentation are based on continuing operations, so excluding BASE Company.

In the third quarter, adjusted revenues were down year on year but adjusted EBITDA was growing. Let’s start by looking at the revenue breakdown.

Consumer residential revenues continued to increase, driven by base growth whilst service revenue growth continued in consumer mobile. However, this was still offset by the impact of the ongoing decline of the business market size, a EUR20 million impact from the divestment of SNT Deutschland at the end of the first quarter of 2015, and the phase-out of [Auto] France.
Our strong operational performance in the last quarters and positive impact of cost savings led to a 4.6% year on year growth in adjusted EBITDA in the third quarter. The main delta was visible in the line item SAC/SRC and cost of goods sold. Cost of goods sold were lower due to the consolidation of Reggefiber last year and SAC/SRC levels decreased as a result of lower churn and fewer handset transactions.

Personnel costs in Q3 2015 were lower year on year, driven by FTE reductions as a result of simplification and the reduction of management layers. All in all, the OpEx savings supported the adjusted EBITDA margin for the Netherlands which increased to 41.7% this quarter.

Please note that the adjusted EBITDA year-on-year comparison will be more challenging in the fourth quarter due to several effects.

Adjusted EBITDA in the fourth quarter of 2014 included a one-off VAT tax benefit of EUR44 million relating to the full year 2014. SAC/SRC levels are expected to be higher in Q4 due to more handset transactions as a result of a higher end-of-contract base and the new iPhone, and Reggefiber was consolidated as per November 1 of last year already.

CapEx in the Netherlands amounted to EUR937 million in the first nine months of 2015, which was EUR121 million higher than last year. If we compare this on a like-for-like basis with the first nine months of 2014, so including Reggefiber in 2014 as well, CapEx was EUR51 million lower year on year.

We expect to continue to see less elevated CapEx levels going forward, although we still have several investment programs running to invest in capacity and speed of our networks.

In fixed, investments in fiber-to-the-Curb and fiber-to-the-Home will drive fiber penetration to approximately 80% of Dutch households at the end of 2016.

In mobile we are rolling out carrier aggregation of the 800 megahertz and 1,800 megahertz spectrum to increase capacity and speed of the network. This is expected to be completed by the end of next year. Customer-driven CapEx was higher year on year due to our strong commercial momentum.

Finally, we continue to invest in simplification of our business, mainly through investments in IT. We expect these investments to yield savings in 2016.

Free cash flow. Free cash flow has grown strongly year to date. Free cash flow for the first nine months was EUR329 million, which is excluding the EUR146 million dividend received from Telefonica Deutschland. Please note that on this slide we have excluded the EUR451 million pension provision released last year from reported EBITDA and change of provisions.

The improvement in free cash flow was mainly driven by lower interest payments as a result of reduced gross debt levels in 2015. The higher cash from change in provisions was due to settlement of various legal claims and additional pension payments in the first nine months of 2014 and higher restructuring provisions this year.

There was also EUR79 million more cash from change in working capital compared to last year, as a result of different inter-year phasing and some structural improvement. This was partly offset by higher CapEx year on year which reflects different CapEx phasing in 2015 versus 2014.

Let's now look at our financial position.

In the third quarter net debt was EUR7.5 billion, somewhat higher than last quarter. The distribution of EUR0.034 related to the Telefonica Deutschland dividend and the payment of EUR0.03 interim dividend in September were partly offset by cash flow generated in the third quarter.

The net debt to EBITDA ratio was stable at 2.8 times. The 20.5% stake in Telefonica Deutschland, together with the expected proceeds from the sale of BASE Company, provide us with significant financial flexibility.

Now let me hand back to Eelco for the outlook and concluding remarks.
Eelco Blok - Koninklijke KPN NV - Chairman & CEO

Thank you, Jan Kees. Our positive operational performance and strict focus on costs continue to support our financial performance. We are on track for our full-year outlook which we strengthened at the second quarter results.

The performance in consumer was very strong, driven by our excellent market position. The main challenge remains in the business segment where we are transforming the organization and over time this will be reflected in our financial results. Our simplification program is well on track.

To conclude, the third quarter was another good quarter for KPN with improving financial results on the back of strong operational performance. Our growing free cash flow and solid financial position will drive growing shareholder remuneration going forward.

Thank you and now we are happy to take your questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions). Polo Tang, UBS.

Polo Tang - UBS - Analyst

I just have a few different questions. The first one is on Tele2 Netherlands. Can you give us your thoughts in terms of how disruptive you think they could be to the market and specifically we've noticed that -- you mentioned, actually, in your call that you've actually raised the pricing of mobile at the lower end.

So does this present more risk, given Tele2 is in the market, or how do you think that your price rises will impact the market? How will Tele2 react? That's the first question.

My second question is really just in terms of your comment on SAC and SRC. So it seems to be coming down noticeably and is helping to drive EBITDA growth but how much room is there for SAC and SRCs to fall further, given that there is growing uptake of converged bundles?

And my final question is really just on CapEx because in your CapEx slide you outlined that you have EUR200 million of simplification cost year to date in your CapEx numbers but after the simplification program is over, will this all drop out?

Or another way to ask the question is you have EUR1.2 billion per annum of CapEx guidance for about 80%/90% CapEx to sales. Is there scope for this CapEx to be lower than the EUR1.2 billion that you've outlined going forward? Thanks.

Eelco Blok - Koninklijke KPN NV - Chairman & CEO

I will deal with the question on Tele2 and then Jan Kees will answer the questions on SAC, SRC and CapEx.

We are very well positioned in the Dutch mobile market, looking at the performance of the last six quarters in a very competitive market. Next to that, our fixed-mobile penetration is, at the end of the third quarter, 28% of our postpaid base. We see very low churn, now only 8% for KPN postpaid, and postpaid customers that are in a multi play offering are at a 5% churn level.

We have the highest customer satisfaction levels and there is a very large gap between KPN and Tele2. We believe that a combination of the best 4G and the upgraded fixed network will really help us, also in the future, to position us very well in the Dutch mobile and fixed market.
Yes, the current market is challenging, but as I said, we are convinced that we continue to be very well positioned and will be able to compete with everybody in the Dutch market. Jan?

**Jan Kees de Jager - Koninklijke KPN NV - CFO**

Yes, thank you. As for the SAC/SRC question, on the short term, actually, we expected higher SAC/SRC levels because more end-of-contract base is growing, there the contract bases will be growing on the short term and also the introduction of the new iPhone will add to higher SAC/SRC levels.

But on the longer term, yes, because of fixed-mobile bundles, we expect there is room for SAC/SRC levels to trend downwards in the longer term because churn is lower and the fixed-mobile bundles add to that.

Then to CapEx; please note that the simplification CapEx also includes innovation CapEx which will be ongoing, so it’s not that all CapEx simplification will fall out. And there is also possibility, of course, that we continue to work on the simplification also when this program is ending at the end of 2016.

However, also there, in the long term, as we have noted earlier, we expect CapEx levels to trend downwards because we have seen elevated levels CapEx because of the investment program, both in the fixed network, as well as in the mobile network which – most of the investments are also coming to a conclusion in 2016.

So there is room for CapEx levels to trend downwards, but on the simplification program, we expect also at least innovation CapEx to continue.

**Polo Tang - UBS - Analyst**

Thanks.

**Operator**

Keval Khiroya, Deutsche Bank.

**Keval Khiroya - Deutsche Bank Research - Analyst**

I’ve got two questions if I may. Firstly, on the residential business, obviously we’ve seen a bit more promotional activity in the broadband segment overall in Q3. And I think it’s fair to say that judging by your own broadband additions this quarter, cable probably hasn’t had too much of an impact with their more aggressive moves.

When it comes to the start of Q4, have you seen any incremental promotional activity or any signs that cable has improved its momentum at all versus yourselves?

And then secondly, just on the Telefonica Deutschland stake, you’ve obviously labeled this is a financial investment and you’ve had the stake for approximately one year now. Do you still see upside in holding on to the stake? Thank you.

**Eelco Blok - Koninklijke KPN NV - Chairman & CEO**

The promotional activities in the third quarter were somewhat improved by us after noting that Ziggo continue to increase their -- to continue their higher-level promotions in the market.
We took that decision somewhere in the middle of the third quarter and we expect similar levels of promotions in the fourth quarter to be able to continue the good customer growth as we have seen in especially the second part of the third quarter.

You need to take into account that Ziggo at this moment is at a six-month EUR30 level monthly subscription and we are at a EUR35 level, also for the same six months. So there’s still a gap in monthly discount when you compare KPN with Ziggo, but with this promotion, we were able to increase the sales of our residential business.

Then the question on TFD. The stake is, indeed, treated as a financial investment and that means that, from time to time, we will review our position in Telefonica Deutschland. I can assure you that any decisions related to the 20.5% stake will be taken with a view to create shareholder value. You also need to know that we are convinced that Telefonica Deutschland will be able to deliver at least the synergies they have announced at the announcement date of the deal.

As I said, we are strongly committed to generate shareholder value, as evidenced by our decision recently to pass through the dividend of Telefonica Deutschland to our shareholders.

Keval Khiroya - Deutsche Bank Research - Analyst

That’s great. Thank you.

Operator

Fred Boulan, Bank of America Merrill Lynch.

Fred Boulan - BofA Merrill Lynch - Analyst

A couple of questions, please. Firstly, to follow up on the previous question on promotional activity in broadband, it looks like right now, as per a different website, you both charge EUR35 for six months. Liberty doesn’t seem to be very happy about all that. Is there a hope in the midterm for a slightly more constructive environment and less of a focus on net additions?

Secondly, in mobile, we saw this quarter flat mobile service revenue if you adjust for VAT. What’s your outlook on that? Can you discuss some of the dynamics you’re seeing in mobile data upsell between the different packages and do you think that can lead to some growth in the medium term above the current level?

And lastly, on the content side. Can you discuss your basic content strategy in the light of some more active moves to content from cable operators in Europe, especially Liberty in some geographies? Thank you very much.

Eelco Blok - Koninklijke KPN NV - Chairman & CEO

Looking at the promotions in the residential market. In the second quarter, we took the decision to lower the promotions from six-month discount to three-month discount. And then looking at the third quarter, Liberty did not make any change in their discounts; they even became, especially below the line, even more aggressive on promotional discounts.

Therefore, we have taken the decision, mid third quarter, to again introduce the six-month discount, but on a higher level and not a discount on a higher level, the discount on a lower level than Liberty.
So Liberty has today six times EUR30 monthly subscription as its promotion in the Dutch market; and we have a six times EUR35 discount and as we have shown that we are willing to make some changes to this in the second quarter, yes, there’s room for improvement, but we don’t want to end up in a situation as we were in a few years ago where we are not in the lead of the growth.

Then on content strategy -- Jan Kees will deal with the consumer mobile growth question. On content, we have a very clear strategy. We are working closely together with strategic partners that have a proven track record in content to be able to meet the customer requirements on content. Our exclusive agreement with Spotify is an example, but also, our exclusive agreement with FOX Sport, helping us to offer our mobile customers exclusively soccer content. And recently, we have announced a deal with -- an agreement with Endemol to develop a KPN original TV series that will be launched next year.

Jan Kees, will you deal with the consumer mobile growth question?

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**Jan Kees de Jager - Koninklijke KPN NV - CFO**

When you exclude the VAT benefit this quarter, consumer mobile service revenues were flat year on year.

You also asked, if I am correct, if this is sustainable. Yes, we do believe so because we see an improved value mix within the customer base. We also see that 45% of our current sales is a 5 gig or 10 gig bundle; and as I said, also relatively high share intake to contribute to partly offset negative trends at the base also. So we do feel that this is a stable position at the moment.

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**Fred Boulan - BofA Merrill Lynch - Analyst**

Okay. Thank you very much.

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**Operator**

Daniel Morris, Barclays.

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**Daniel Morris - Barclays - Analyst**

I've got three questions, please. Firstly, I wonder if you can give us some thoughts on the overlap between the 45% of customers which are taking more than 1 gigabyte on mobile and how that correlates with the 28% which are now on fixed-mobile bundles.

I suppose what I’m trying to understand is -- is it fair to say that it’s your best value subs which are already in the bundles, and therefore, the amount of your revenue and EBITDA, which is locked in, is rather higher than that roughly 30%.

Second question is on the incidentals between reported and adjusted EBITDA. I think consensus is looking for something less than EUR50 million in 2016 on that delta. Can you give us some thoughts on whether that’s a reasonable number to be going for? Obviously it’s running a little bit ahead versus consensus this year.

Finally, third question on the corporate trend, you’ve obviously got a little bit of a tougher comp in Q4 but obviously the momentum has been quite strong, relatively, again in Q3. Can we look for another improvement in the corporate business in Q4? Thank you.

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**Eelco Blok - Koninklijke KPN NV - Chairman & CEO**

Let’s start with the last question about the business market. The transformation plan is in place. Execution is on track, and going forward, and will it be the fourth quarter or the first quarter of next year, we expect improved trends on the financial metrics in the business market.
We are confident about the execution in the second quarter. We shared with you that we have reached an agreement with the workers council, so we are able to -- we have been able to start the additional restructuring progress in the business market, and that will result in improved growth levels going forward.

Also looking at the different top-line buckets, we see small improvement in the different buckets. Therefore we are confident that the trend will improve going forward.

Then your first question, the clear simple answer to that question is, yes. The KPN brand, and the most valuable customers in the KPN brand, are driving the good performance in our multi play offerings.

Jan Kees, on the incidentals, you will take that question?

Jan Kees de Jager - Koninklijke KPN NV - CFO

So we have a EUR38 million difference between adjusted EBITDA and reported because of incidentals. Two figures there: the largest is EUR32 million reorganization. We stepped up reorganization somewhat compared to last year because we are also stepping up our FTE reduction program because of simplification, de-layering of the management layers, and the reorganization in the business market.

That's the most important reason for the [ROI] to be somewhat higher, but it will generate better EBITDA margin going forward, obviously. Then EUR6 million incidental is related to KPNQwest. A remaining claim there with the banks and we have settled that for EUR6 million; so that's the total, EUR38 million.

Daniel Morris - Barclays - Analyst

That's clear. Thank you. Just as a brief follow-up, are you comfortable with where consensus is sitting on those incidentals for 2016, which I think is a little less than EUR50 million? Thank you.

Jan Kees de Jager - Koninklijke KPN NV - CFO

We are not giving guidance at the moment on the incidentals at the moment. That's very difficult because it can be -- either way, there can be incidentals. So giving guidance on incidentals is always quite tricky. So I'm afraid, we're -- again, not helped you much with that.

Daniel Morris - Barclays - Analyst

No, no problem at all. Thanks.

Operator

Joshua Mills, Goldman Sachs.

Joshua Mills - Goldman Sachs & Co. - Analyst

Just two questions from me: the first is on slide 11, the simplification program. It looks like the run rate of cost savings has stepped up a bit less than in the last quarter, at EUR250 million now of the EUR400 million. Should we expect that to accelerate into the year-end, and how will your recent agreement with the works council affect that?
The second question is just regarding your delivered broadband speed. On slide 10, I think you give a quite useful chart showing the average mobile download speeds. I wondered if you had a comparable figure where we could see what the delivered speed on bonded vectoring is across your network today. Thank you.

Eelco Blok - Koninklijke KPN NV - Chairman & CEO

Let's start with the first question. Yes, looking at the Q3 increase of the run rate savings, it was a somewhat lower level than the previous quarters. But that had to do with the phasing of the IP renewals, so I can assure you that the number in the fourth quarter will be much higher than the number in the third quarter.

We continue to deliver very good results on the simplification program going forward. And as Jan Kees already mentioned, we expect to continue to leverage the opportunities we see in the spend days of KPN going forward. We will update you with the numbers and the program in the Q4 result presentation.

Then the broadband speed, it's relatively simple. Today, we have bonded vectoring already commercially available, giving us the opportunity to deliver 240 megabits per second download speed to our customers. In areas where we only use vectoring, it's 120 megabits per second; in areas with VDSL and pair bonding, it's 100 megabits per second; and without pair bonding it's 50 megabits per second.

As of next year, we will be able to launch super-vectoring. And together with pair bonding, it will give us the opportunity to deliver in those areas 400 megabits per second to our end users.

Joshua Mills - Goldman Sachs & Co. - Analyst

Very clear. Thank you very much.

Operator

Paul Sidney, Credit Suisse.

Paul Sidney - Credit Suisse - Analyst

Just two questions, please. Firstly on consumer residential, you've grown your consumer residential fixed line base for the past four quarters. I was just wondering does this give you more scope to put through larger price increases going forward in your fixed line business. Just really trying to understand the balance between price increases and line loss.

Then secondly on consumer mobile, you've guided higher SACs and SRCs in Q4. Should we view SACs and SRCs as your preferred method of reacting to potential stronger competition? Maybe putting it another way, do you feel as though your consumer tariffs are now well placed and where you want them to be, even if competition intensifies? Thank you.

Eelco Blok - Koninklijke KPN NV - Chairman & CEO

On mobile, it's not about SAC/SRC. As Jan Kees just mentioned, we expect this cost line to trend down going forward. Our focus is really on multiplay and getting as much customers in a multi-play offering, resulting in a much lower churn than single-play customers.

We believe that we are really well positioned with the current price levels of today to support this strategy. We recently have extended the EUR5 discount on mobile customers that are part of a multi-play offering to the first SIM in a fixed-mobile bundle and next to that we have increased prices for a selection of our SIM-only propositions.
And together these price adjustments will, in our opinion, drive the fixed-mobile penetration and the number of SIMs per household. That's the real strategy, talking about mobile.

Talking about potential price increases on fixed, we are focused on revenue-generating units per customer, per household, and TV is the driving force to increase the revenue-generating units. And we have no plans to make any changes to the normal way of dealing with prices in fixed, talking about the KPN brand.

When you take the decision we have taken this year on the Telfort brand, we already have increased the Telfort fixed prices two times this year with EUR1 per month.

**Paul Sidney - Credit Suisse - Analyst**

That's very helpful. Thank you very much.

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**Roshan Ranjit - Nomura - Analyst**

Just a quick question regarding consumer mobile. Now, with 55% of the KPN brand base using less than 1 gig in terms of bundles, could you give an idea of their usage so we can maybe get a sense of the timeline to the migration to the 5 gig bundles and maybe even to the 10 gig bundles? Thank you.

**Eelco Blok - Koninklijke KPN NV - Chairman & CEO**

Yes. I don't know the number by head but Wouter is -- Maybe we can do another question and then I will come back to this question.

So up till 500 megabit it's -- around 200 megabits, and between 500 megabits and 1 gig it's, yes, around 650 megabit average usage.

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**Roshan Ranjit - Nomura - Analyst**

So that's, sorry, 650 megabits in the below 1 gig tariff bracket?

**Eelco Blok - Koninklijke KPN NV - Chairman & CEO**

In the tariff bracket between 500 megabit and 1 gig, it's 650, and in the tariff bracket between, up until 500 megabit, it's 200 megabit.

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**Roshan Ranjit - Nomura - Analyst**

Okay, thank you.

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**Operator**

Roshan Ranjit, Nomura.
Jonathan Dann - RBC Capital Markets - Analyst

It’s a question related to slide 13. I think you say you’ve got roughly 1 million mobile customers in a fixed-mobile bundle. Have you estimated the financial impact? Presumably a small proportion of that 1 million are on a EUR10 discount but as you move to the EUR5 for the first SIM, presumably you’ll go from a small proportion getting a EUR10 discount to every -- to a large proportion getting a EUR5 discount. Have you worked out what the net impact of that change is?

And then my second --

Eelco Blok - Koninklijke KPN NV - Chairman & CEO

Maybe to answer this question directly, there is no EUR10 discount for mobile customers. There’s only EUR5 discount and we have extended the EUR5 discount offer to the first SIM recently.

Jonathan Dann - RBC Capital Markets - Analyst

So there’ll be some headwind of some of those customers now receiving a EUR5 discount I guess, if they’re contracts?

Eelco Blok - Koninklijke KPN NV - Chairman & CEO

Yes, that’s true.

Jonathan Dann - RBC Capital Markets - Analyst

And a second question. Does the Supervisory Board change now that AMX issued a second convertible?

Eelco Blok - Koninklijke KPN NV - Chairman & CEO

No, because they continue to own almost 21% of KPN and the Supervisory Board positions are related to their ownership that’s still on an above 20% level.

Jonathan Dann - RBC Capital Markets - Analyst

Okay, thank you very much.

Operator

Usman Ghazi, Berenberg.

Usman Ghazi - Berenberg Bank - Analyst

I just wanted to clarify, the 8% postpaid churn that, Eelco, you mentioned, is that relating to retail consumer or is it consumer and B2B, so if you could just clarify that, please?
The second question was just on -- as you’re growing SIMs per household as you push convergence, are you actually creating elasticity or are you taking share from some other operators?

The third question was just on the intra-EU roaming exposure. I don’t know if could share at this point what percentage of EBITDA that is and if you’ve done any sensitivity on what pressure could come on that with the abolition of retail roaming and the price caps? Thank you.

**Eelco Blok - Koninklijke KPN NV - Chairman & CEO**

The 8% is related to retail postpaid.

The growth of SIMs is helping us to increase our service revenue market share that now is at 44%, an increase year on year of 2 percent points compared to last year.

And the roaming is 1% to 2% of EBITDA.

**Usman Ghazi - Berenberg Bank - Analyst**

Okay. Just on the SIMs per household and my question was, are these customers in the household that previously didn’t have mobile and are taking mobile, or are you taking share from other operators?

**Eelco Blok - Koninklijke KPN NV - Chairman & CEO**

So we are taking share off other operators.

**Usman Ghazi - Berenberg Bank - Analyst**

Okay, thank you.

**Operator**

Emmanuel Carlier, ING Bank.

**Emmanuel Carlier - ING Financial Markets - Analyst**

Three questions from my side. First of all, we saw the rumor on T-Mobile. Of course you don’t want to comment on that but let’s assume that LGI would buy T-Mobile, what is the kind of impact you expect on the market? Do you believe it would be positive for KPN or negative, and why?

Second question, how do you balance your top-line growth with EBITDA growth? Because if I look at the market share, I’m very happy that it’s going up. But, yes, you might decide maybe to slow that a little bit down and try to grow EBITDA quicker.

And then the third question is on voice-over-LTE. What kind of impact do you expect from that going forwards on the mobile market and potentially on the fixed market as well? Thank you.
Eelco Blok - Koninklijke KPN NV - Chairman & CEO

The T-Mobile question, as you can imagine, I’m not going to speculate on all kinds of potential scenarios just based on all kinds of rumors. We are very well positioned in the Dutch market. We have invested in the quality of our networks in innovative services, in our customer satisfaction and doing well on all these metrics. And it does not help to start speculating about all kinds of possible scenarios in the Dutch market.

It’s always, for Jan Kees and myself, the challenge to balance top-line growth and EBITDA growth. But at the end it’s a very simple decision because it’s about the creation of shareholder value, not only for the short term but also for the longer term. That’s what we take into account when we assess the different scenarios and take decisions.

As you can see in the consumer market we are now having the right balance; continued customer growth resulting in revenue growth, EBITDA growth and free cash flow growth.

We will launch commercially voice-over-LTE somewhere in the beginning of next year. It will just replace the current voice services at a higher quality level and giving us the opportunity to free up spectrum in the 3G band, helping us to continue to build high quality mobile networks using spectrum that we already own. That’s the major change and opportunity we have with voice-over-LTE.

Emmanuel Carlier - ING Financial Markets - Analyst

Okay, thank you.

Operator

Guy Peddy, Macquarie.

Guy Peddy - Macquarie Research - Analyst

Just a quick follow-up, Eelco, you keep talking about creating value. From your internal perspective, can you tell us what measurements you use to assess whether you’re creating value or not? That would be useful just as a guideline.

And secondly on this issue, more for Jan Kees, on this issue of restructuring costs, your restructuring costs keep going up. And they’re currently running at about 150% of EBITDA improvement. So is there going to be a point when we can actually see restructuring costs as a smaller number than EBITDA growth? Thank you.

Eelco Blok - Koninklijke KPN NV - Chairman & CEO

Let’s start with the first question. Not just a single metric, we are looking at it as a balance between all metrics, free cash flow, return on capital employed, customer lifetime value, and things like that. So it’s not one single item that we are monitoring and using to take the right decisions. It’s a combination of the important metrics that, at the end, result in value creation. Jan Kees.

Jan Kees de Jager - Koninklijke KPN NV - CFO

Although of course you will always have some level of restructuring cost going forward, we do feel that we are at an elevated level this year and also partly next year because we’re still in a restructuring phase, which will improve our EBITDA margin and get our OpEx also lower.

So, yes, I do feel that, at a certain point in time, you will clearly see the benefits of the restructuring going forward in further improved EBITDA margins, lower OpEx. And also, at a certain point in time, probably also the restructuring cost itself can turn downwards again.
Guy Peddy - Macquarie Research - Analyst

But that’s not until after 2016 by the sounds of it, at the earliest.

Jan Kees de Jager - Koninklijke KPN NV - CFO

I think that’s very difficult for us now to answer. I think when restructuring costs — they’ll improve our EBITDA margin, get our OpEx lower. I think for shareholder value it’s good to do. So we always look at it like this way. But 2016, we will do restructuring, we will do FTE reductions. And it will improve our EBITDA margins going forward. But in the end real costs will turn downwards again.

Guy Peddy - Macquarie Research - Analyst

Thank you.

Operator

Mandeep Singh, Redburn.

Mandeep Singh - Redburn Partners - Analyst

A couple of questions, please. I wanted to ask, first of all, on the actual restructuring. Sorry, I know you’ve been asked a few questions already. But if you have a new agreement in place with the workers council and you are commencing some FTE reductions, why haven’t you changed or improved your guidance, or some phasing of your guidance, with regards to realized cost savings? So I guess it’s a little bit of a follow-up to the previous question.

The second question is really around balance sheet. There’s some quite big items there. We’ve got Telefonica Deutschland. We’ve got BASE Company. Your balance sheet looks very different depending on what you do with those assets, and the proceeds from them. Can you just give us a bit of an idea if you’re confident in EBITDA stability this year, growth next year?

Some idea on capital structure, how should we think about it? Because there’s a lot of moving parts. One of the assets is worth over EUR3 billion. One’s worth over EUR1 billion. And it’s got quite profound implications for what your balance sheet could look like, and your interest costs. So just try and help us a little bit on how we should think about the balance sheet. Thanks.

Eelco Blok - Koninklijke KPN NV - Chairman & CEO

If I start with the first question on restructuring. As I explained to you that in the third quarter we were on a somewhat lower level than the average quarterly level of spend reduction, but that we expect a higher number in the fourth quarter, giving a result that is somewhat above the guidance we have increased beginning of this year.

It’s too early to upgrade the guidance today. But I can assure you that there is continued room for improvement on the restructuring, and that we will update you in the beginning of next year when we share with you the Q4 result, and the outlook for 2016, including the guidance for the simplification program going forward. But as I explained, there’s continued room for improvement looking at the spend level of our Company. Then, Jan Kees, on the balance sheet.
Jan Kees de Jager - Koninklijke KPN NV - CFO

First when following any possible proceeds of Telefonica Deutschland in the future, and the sale of BASE, we expect excess cash as we always have guided. That should be utilized for operational financial flexibility, small in-country M&A, and shareholder remuneration.

Looking at the balance sheet again, then of course when we do have these proceeds, we will then [de-part], that these [are] used for the financial flexibility. We will utilize in a most balance sheet efficient way and we will look at that time. We did not guide yet because it also depends on different metrics, which part could go to shareholder remuneration, which part should be used for financial flexibility. But we certainly will, at that point in time, we will look at our balance sheet, how to utilize it to maximize the efficiency of our balance sheet, which still needs some improvement.

As you know we did make a lot of improvements here with the pension fund, with the redemption of a large bond tender of EUR2 billion. So we made already, we made improvements and we will look further at that point in time.

Mandeep Singh - Redburn Partners - Analyst

Can I just follow up in terms of what you view as a sensible target leverage? 2 times, 2.5 times, what do you think is the sensible range? Your EBITDA around EUR2.5 billion from recurring operation looks roughly stable, maybe it can grow. Should the market think about the EUR5 billion net debt number, a EUR6 billion net debt number? So give us some guidance on an optimal capital structure, please.

Jan Kees de Jager - Koninklijke KPN NV - CFO

Yes, but that's what we always have said, because we have said always that we are committed to maintaining an investment grade credit profile. But we do not provide specific target leverage because then it's always in a too-hard-to-call scenario.

Our current leverage ratio is 2.8 times. But we do have the financial flexibility of the stake in Telefonica Deutschland. So we do feel very comfortable with that. But we do not target a specific leverage ratio. But we are having a strong commitment to investment grade profile.

Mandeep Singh - Redburn Partners - Analyst

Thank you.

Wouter Stammeijer - Koninklijke KPN NV - Head of IR

Okay. Then this was the last question as we're out of time. We would like to thank you for taking time to ask your questions. And see you at the Q4 results moment in February. Thank you very much.

Operator

This concludes the KPN conference call. Thank you for attending. And you may disconnect your line now.
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