OVERVIEW:
Co. reported 4Q15 results.
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PRESENTATION

Wouter Stammeijer - KPN - Head of IR

All right. Good afternoon, everyone, and welcome to KPN's Q4 and full-year 2015 results presentation.

Before turning to the core presentation, I would like to draw your attention to the Safe Harbor statements on page 2 of the slides. 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 were 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 - KPN - Chairman of the Board of Management and CEO

Thank you, Wouter. Good afternoon and welcome to this presentation of our results for the fourth quarter and full-year 2015.

With me today is the full Board of Management: Jan Kees de Jager, our CFO; Joost Farwerck, our Chief Operations Officer; and Frank van der Post, Chief Commercial Officer.

Before we go through the details, I will summarize the highlights of the year. We've made substantial progress through 2015 from a commercial, operational and financial perspective. In the fourth quarter, we continue to see very good operational achievements with high customer satisfaction.
Headline financials were weaker compared to previous quarters, but this was mainly related to less favorable year-on-year comparisons and higher costs related to customer growth.

Looking back on 2015, commercial momentum in consumer and financial results for the group tell a story of successful delivery. Combined with a strict cost discipline, we managed to deliver a stable adjusted EBITDA in 2015 compared to last year, and we showed strong free cash flow growth. We made good progress with our simplification program and have consequently upgraded our savings targets.

The investments in our network, products, customers and simplification have delivered record-based growth in 2015 with the highest broadband and retail post paid net adds in the last 10 years, and our differentiating fixed mobile propositions continue to be very successful. We will continue with our firm focus to innovate our services and technologies, offer a differentiating user experience, and keep exceeding expectations for customer service. So we’re very pleased that our consumer businesses are showing growing customer numbers, increasing customer satisfaction, lower churn and improving financial results.

Conditions in the business market remain challenging. We are in the middle of the transformation of this segment as we transition from traditional to IP-based and new services.

Stabilizing the performance of the business segment is one of our highest priorities. Our main levers to do that are a strict cost focus and execution of our simplification program and growth in multi-play and new services. With new management in place for the business segments, I’m confident that we can improve the performance here as well.

In 2015 we agreed to sell BASE Company and remain confident about obtaining regulatory approved clearance for this transaction. In November, we announced to distribute approximately 70% of the proceeds from the sale of a 5% stake in Telefonica Deutschland in the form of a capital repayment. This amounts to EUR0.13 per share, which we expect to pay in June 2016.

Now let’s look at some of the key features of our consumer businesses in 2015. Over the past years, we’ve built a leading innovative interactive TV platform, which through continuous innovation is one of the main drivers behind the success in the consumer market. Over 80% of our TV customer base is now interactive, and the use of interactive features such as TV, pausing and start-over-TV has grown exponentially.

To address the shift in consumer behavior, we’ve made a wide range of over-the-top applications accessible to our customers, including YouTube and Netflix. KPN is currently the only provider in the Netherlands offering Netflix via its own TV platform, and the uptake by our customers has been very encouraging. Roughly 50% of the illegible TV base, meaning KPN customers that are also Netflix subscribers and have the right set-top box, are already actively using Netflix via our IPTV platform. We believe this will further enhance customer experience and reduce churn.

Our leading innovative TV services are driving a further increase in customer satisfaction. Our latest net promoter score of plus 16, by far the highest in the Dutch market. Furthermore, the continuous high IPTV adds led to a TV market share of 29% at the end of the fourth quarter.

In the fourth quarter, our end of contract base for the KPN brand was higher than in previous quarters. Combined with the launch of the iPhone 6S in October, this has led to a doubling of the number of handset transactions compared to last year. This, in turn, was the main driver for around 20% higher total subscriber acquisition costs year on year.

In mobile we continue to focus on upselling our existing customers to higher data tiers, and this strategy is paying off. Average data uses has almost doubled year on year to around 1.5 gig. Coupled with our attractive data-centric propositions, where a higher data tier means a EUR5 uplift per customer, the uptake of our premium 5 and 10 gig bundles has risen to 50% of total sales compared to 30% last year. The continuous inflow of these high-value customers helped to improve the financial performance of consumer mobile.

Over the past two years, our differentiating fixed mobile bundles have been very successful in the Dutch market. At the end of 2015, one-third of our postpaid base was already part of a fixed mobile bundle, representing roughly 1.5 SIMs per fixed mobile households. But more importantly, the performance of our KPN brand which focuses on high-value customers is even better. 45% of the KPN brand postpaid base is now part of a
fixed mobile bundle, for which churn is only around 5%. This was one of the main drivers for the 3 percentage points year-on-year reduction in postpaid churn to 9%.

And customer satisfaction for KPN's fixed mobile bundles at an MPS of plus 25 is even higher than the already strong net promoter scores for KPN's fixed and mobile services individually.

Going forward, we will continue to focus on deepening our relationships with Dutch households by growing the number of fixed and mobile services they take from us. Increasing share of wallet per household will be one of our main priorities in consumer.

In business, we are operating in a challenging environment as the size of the business market in the Netherlands continues to decline. We see that the structural decline of traditional voice is being driven by line loss, and that starts to slow down. The decline in single play wireless was impacted by repricing of the base, migrations to multi-play, and around EUR10 million higher hardware revenues in the fourth quarter last year.

The performance of network and IT services was impacted by phasing out of legacy networks in 2015 and lower hardware revenues in the fourth quarter. However, we expect this business to return to growth in the medium-term due to its cyclical nature and less impacted from phasing out legacy. Customer needs are changing from traditional to new services and multi-play, and we continue to focus on growing in those areas. All in all, we remain confident to stabilize revenue in the medium-term.

As I said earlier, the ongoing transformation of the business segment is one of our main priorities. We are virtualizing and standardizing the organization and our services portfolio to deliver: one, an improvement in customer satisfaction; two, capturing growth in new services; and three, a strict cost discipline. We will provide further details on the transformation of the business segment at our Capital Markets Day in March.

It will take some time before the cost benefits will be reflected in EBITDA. However, we’ve already seen that our fixed cost base is lower compared to last year. This was driven by cost savings related to SDE reductions. Although these savings were partly offset in 2015 by simplification investments and investments in new services, these will drive further cost savings and bring new revenue opportunities.

Our strong focus on offering an excellent customer experience has delivered positive results in terms of customer satisfaction in 2015. Net promoter scores for our consumer segments increased by 7 points to plus 9, while MPS levels in the business market improved by 3 points year on year.

Further improving our customer satisfaction levels remains one of our key priorities in 2016.

In 2015 we continue to increase the capacity and speeds of our networks to maintain our leading network positions and accommodate strong data usage growth while staying ahead of customer demand.

In fixed, fiber households coverage increased to 65%, which mainly was driven by investments in Fiber-to-the-Curb. In combination with innovative corporate upgrade technologies such as vectoring and VPlus, this drives higher bandwidth for our customers. At the end of the fourth quarter, we reached nearly 70% coverage of Dutch households with access to speeds of at least 100 megabits per second.

Supported by further fiber penetration, this is expected to increase to around 85% at the end of this year. At our Capital Markets Day, we will update you on the latest roadmap to reach even higher speeds and increased capacity at relatively low costs.

The introduction of 4G in 2014 has boosted mobile traffic within our network. Since the launch of 4G, mobile data volumes has doubled each year. As data usage continues to grow exponentially, we keep investing in capacity and speed for our mobile network to differentiate our network quality and user experience. We’re strengthening our leading 4G position by aggregating 800 and 1800 megahertz spectrum. This has supported the steep increase of the average for download speed to 50 megabits per second.

We made good progress without simplification program in 2015 and have now realized run rate savings of approximately EUR280 million. Given this progress and the potential for IT savings in 2016, we’ve upgraded our annual run rate savings target to approximately EUR450 million by the end of 2016 compared to full-year 2013. Our target for FTE reductions remains at [2 to 2500] by the end of 2016.
We're simplifying our operating models step-by-step. This quarter we will finalize the migration of our residential customers to one single future proof order management system with harmonized and standardized processes for all copper and fiber services. This will drive a reduction of leadtime and lower cost to serve as we improve customer satisfaction. We will also be able to phase out legacy IT systems, which deliver around EUR30 million annual savings.

I will now hand over to Jan Kees to take you through our operational and financial performance.

**Jan Kees de Jager - KPN - Member of the Board of Management and CFO**

Thank you, Eelco, and good afternoon, everyone. As Eelco has clearly demonstrated, we have made good progress with the execution of our strategy, and I believe our financial performance substantiates this improved position with growing free cash flow, stable adjusted EBITDA and significant financial flexibility. Let me go into some of the details.

Increasing the penetration of fixed mobile bundles in consumer is one of our main priorities. In the fourth quarter, we have seen that a take-up of fixed mobile bundles has accelerated compared to previous quarters, which is a key value driver for us. We more than doubled the net adds of previous quarters and added 142,000 fixed mobile bundles for households, leading to a penetration of 28% of the broadband customer base. In mobile, we added 175,000 SIMs in Q4 compared to roughly 100,000 in previous quarters. As a result, a third of the postpaid base is now part of the fixed mobile bundle. Let’s now move to consumer residential.

In the last few years, we built a strong market position in consumer fixed on the back of investments in network quality and our innovative IPTV platform and also due to the introduction of our differentiating fixed mobile bundles. This has driven continued good commercial momentum with strong base growth. We added 139,000 broadband and 265,000 IPTV customers in 2015.

The growing penetration of triple play supported a 5% increase in revenue-generating units year on year to 2.29 per household, which, in turn, supported ARPU per customer.

On this slide, you see a stable ARPU year on year; however, around it we continue to see growth.

Also in mobile, we leveraged our excellent market position, which is built on a leading network and attractive propositions, including benefits via fixed mobile bundling.

In the fourth quarter, we added 80,000 postpaid customers, resulting in a total of 289,000 retail postpaid net adds for the full-year 2015. The vast majority of these customer additions were at a high-value KPN brand. And even though ARPU declined by about EUR1 year on year, we have now seen retail service revenue growth for three consecutive quarters. The tax benefit included in service revenues in previous quarters was not recorded in Q4 2015 following a change in lower legislation. We have adjusted Q2 and Q3 2015 ARPU and service revenues on this slide to show a like-for-like trend throughout the quarters.

The challenging market environment in the business segment continued to impact both our operational and financial performance. The wireless base showed a small decline in the fourth quarter as a result of price competition. ARPU was about EUR4 lower year on year, mainly driven by repricing the base.

In wireline we continued to see a decline in access lines, although the line loss slowed down somewhat in Q4, and the divisional voice ARPU remained stable year on year.

We have made good progress to grow multi-play. 21% of our mobile customer base and business is now part of a multi-play proposition.

Moving to slide 19. Let me now take you through our financial results. For the following – for the full year, our strong operational performance and strict cost discipline have clearly led to improving financial results. The adjusted revenue trend improved somewhat compared to last year. Adjusted EBITDA was stable year on year at an adjusted EBITDA margin for the Netherlands of 39.6%, and free cash flow showed strong growth.
Please note, that unless stated otherwise, all financial results in this presentation are based on continuing operations so excluding base.

In the next slides, we will discuss our Q4 financial performance. Let’s start by looking at the revenue breakdown.

To compare like for like, we first have to take out a tax settlement benefit of EUR44 million recorded in the fourth quarter of 2014 as this was related to the full-year 2014. On a comparable basis, adjusted revenues decreased by 5.9% year on year.

Continued base growth resulted in growing revenues in our consumer segments. However, this was offset by three factors: first, lower revenues in business due to the impact of the ongoing decline in the business market size; secondly, lower revenues at high basis, mainly driven by less traffic and a lower average price per minute in a competitive market; and finally, around EUR20 million impact from the divestment of SNT Deutschland at the end of the first quarter of 2015.

Now moving on to slide 22, which includes our EBITDA for the fourth quarter. We excluded the tax settlement benefit from last year’s adjusted EBITDA. On such a comparable basis, adjusted EBITDA in the fourth quarter was relatively stable year on year. Our strong base growth in consumer in the last quarters and positive impact of cost savings offset the revenue decline in business. Let’s look at some of the main cost drivers for the adjusted EBITDA trend this quarter.

The line item SAC/SRC and cost of goods sold shows lower expenses year on year. On the one hand, it was due to lower cost of goods sold as a result of the consolidation of Reggefiber and a lower SAC/SRC level at business. This was partially offset by higher subscription and retention costs in consumer mobile due to the introduction of the iPhone success and a higher end of contracts base, driving a significant increase in handset transactions.

Cost savings from the simplification program were the main driver for lower personnel costs and lower costs related to IT and telecom infrastructure and housing in Q4 2015. All in all, the OpEx savings supported a small year-on-year increase of the adjusted EBITDA margin for the Netherlands of 37.8%. The EBITDA margin in the fourth quarter is usually somewhat lower than for the rest of the year due to seasonally higher marketing activities and other investments in the customer base.

Let’s move to CapEx on slide 24.

CapEx for the full year amounted to EUR1.3 billion. If we compare this on a like for like basis with 2014, so excluding Reggefiber CapEx for the full-year 2014 as well, CapEx was EUR140 million lower year on year. This was mainly driven by a lower Fiber-to-the-Home rollout, partly offset by increased investments in Fiber-to-the-Street covenants. We still have several CapEx projects running and continuing in 2016 to invest in capacity and speed of our networks, mainly via Fiber-to-the-Curb and fixed and the rollout of LTE 1800 megahertz sites in mobile. Nevertheless, we expect that CapEx levels will continue to trend down.

Finally, we continue to invest in simplification of our business, mainly through investments in IT. We expect these investments to be lower in 2016 compared to last year. Free cash flow in 2015 amounted to EUR552 million, excluding the EUR146 million dividend we received on our stake in Telefonica Deutschland.

A number of nonrecurring items had impacted free cash flow in 2014. Excluding these EUR574 million of nonrecurring items, normalized free cash flow for 2014 was EUR423 million. The improvement of free cash flow in 2015 versus normalized free cash flow 2014 was mainly driven by lower interest payments as a result of reduced gross debt levels in 2015 and more cash from change in provisions. This was due to higher restructuring costs in the P&L in 2015, while the cash (inaudible) the restructuring was at a similar level compared to last year.

Furthermore, in 2015 there were lower payments related to pensions. And this was partly offset by higher CapEx year on year, which reflects the Reggefiber consolidation 1 November 2014. Let’s now look at our financial position.

At the end of the fourth quarter, net adds was EUR6.5 billion, EUR1 billion lower compared to last quarter. The decrease in net debt was mainly driven by EUR805 million proceeds from the sale of 105 million shares in Telefonica Deutschland and also because of free cash flow generation in
Q4 2015. As a result, the net debt to EBITDA ratio was lower at 2.5. However, if you will take into account the intended distribution of 70% of the proceeds from the sale of Telefonica Deutschland shares to our shareholders, the leverage ratio would've been around 2.7.

The bond redemptions of roughly EUR800 million in January and March of this year are repaid from our available cash balances. These will support next year’s free cash flow as interest paid will decrease by around EUR50 million in 2017. The remaining 15.5% stake in Telefonica Deutschland and expected cash proceeds from the sale of BASE Company provide us with significant financial flexibility.

Now let me hand back to Elco for the outlook and the concluding remarks.

**Eelco Blok - KPN - Chairman of the Board of Management and CEO**

Thank you, Jan Kees. At the start, I said that we are pleased with our performance in consumer. Our strategy is delivering, and we are fully focused on continuing that successful delivery in 2016. We’ve built some of the best networks in Europe, and we will keep investing to stay ahead of the curve. Driving ahead with simplification gives us the flexibility we need to keep upgrading our customer propositions and experience and to build an efficient and lean operating model and to keep innovating with new technologies, great services and compelling content.

This will be the basis for increasing the penetration of multi-play, accelerating up and cross sell to consumer households, and growing in TV and new services such as cloud, security and Internet of Things. We’re not there yet in business, and the ongoing transformation of the business segment organization remains a key priority.

On this basis, we expect to deliver an adjusted EBITDA in line with 2015 and further free cash flow growth in 2016. We are targeting an increase in free cash flow to over EUR650 million, excluding any Telefonica Deutschland dividends. Free cash flow growth will be driven by about EUR40 million lower interest payments and lower CapEx as we expect a reduction in CapEx to around EUR1.2 billion in 2016.

Our growing free cash flow is the basis for confirming our intention to pay a final dividend of EUR0.05 in respect of 2015, making EUR0.08 regular dividend for the year in total. We’re confident of delivering continuing growth in free cash flow, so we’re giving an outlook today for an increase in our regular dividend by 25% for 2016 to EUR0.10 per share. Going forward, we intend to grow our regular dividend in line with our free cash flow growth profile. The regular dividend does not include amounts related to dividends received from Telefonica Deutschland or disposal proceeds. In Q3 2015, we passed through to KPN shareholders the cash dividend we had received.

Also, we are seeking AGM approval to distribute to shareholders EUR0.13 per share from the proceeds of selling down part of the Telefonica Deutschland sale. This will be distributed in the form of a capital repayment.

Following AGM approval, there will be a two months creditors notice. And, therefore, we expect to return this to our shareholders in June. The total distribution we announced today in respect of 2016 will, therefore, be EUR0.23 per share.

So in conclusion, we are confident as we look forward. We hope that you will join us for the Capital Markets Day on March 7 at the (inaudible) in Amsterdam where we will give you a detailed update on our progress and plans for the medium-term.

Now we are happy to take your questions. Thank you.

**QUESTIONS AND ANSWERS**

**Wouter Stammeijer - KPN - Head of IR**

Okay. We will open it up for Q&A. And Reinhold will walk around and hand over the microphone.
Fred Boulan - BofA Merrill Lynch - Analyst

Thank you. So Fred Boulan from Bank of America Merrill Lynch. Thank you very much for coming over here.

First question please on the business side, which, as you say, remains a bit focused. If you could shed a bit more light on what’s driving the trends, I think your fixed access lines are down 17% year on year. Is this business mix, is this competition, is this macro, and if you could give us a bit more visibility on what makes you confident in the stabilization of the business in the medium-term? Thank you.

Eelco Blok - KPN - Chairman of the Board of Management and CEO

Frank, will you take this question?

Frank van der Post - KPN - Member of the Board of Management and Chief Commercial Officer

Sure, sure. Yes, we do, indeed, see the structural decline in the traditional wireline services, as well as the lower traffic on those lines. At the same time, though, we see the rate of decline slowing down a little bit.

The second product in the business segment is the repricing of the single-play wireless and an ongoing migration to the multi-play.

Lastly, we see a little bit of impact in the hardware sales in the Q4 over last year’s Q4. We are confident, however, that we at some point will see that the single wireless will bottom out following the repricing, and then as the economy improves, we should see an improvement in the network and IT revenues and see that return to growth. The advantage for us on moving people over to multi-play is that will give us further opportunities for cross and upsell.

Polo Tang - UBS - Analyst

Yes, hi. It’s Polo Tang from UBS. Just a few (technical difficulty) questions. The first one is on competition.

So we obviously had news yesterday that Vodafone and Liberty are thinking of merging their assets in the Netherlands. So what do you think the impact will be on KPN? And then just looking currently today, what are you seeing in terms of tele to Netherlands and also the particular (inaudible), what do you see in terms of the competitive environment?

And then my second question is just really on cost savings. You obviously upgraded cost savings for this year, but how do you think about the cost savings beyond 2016? Thanks.

Eelco Blok - KPN - Chairman of the Board of Management and CEO

Joost, will you take the question on the cost savings?

Joost Farwerck - KPN - Member of the Board of Management and COO

Yes.
And I think, Frank, you can share our view on the competitive dynamics today. And I will take the question about Vodafone, Ziggo. So Joost, will you start with the cost savings?

Joost Farwerck - KPN - Member of the Board of Management and COO

Well, as you know two years ago, we started our simplification program. And like Eelco said, it's all about building this new operating model. Now I know lots of telcos are talking about simplification. But for us looking back two years from now, we’ve really made some significant steps. Then we said we wanted to reduce spend EUR300 million compared to 2013, end of 2016. We raised the bar to EUR400 million. Then today we raised the bar to EUR415 million end of this year.

We really focus on simplifying products and services in parallel with simplifying the whole IT and TI environments. I think doing that in parallel is very important to not first do this and then that. So that’s where we are now. For us, this year is fairly important because we will make this step to a new customer environment with all the supporting IT in a residential business, fixed copper and fiber. All brands will be in the same environment which enables us, not only to serve our customers in a much better way, but also to switch off all the legacy around it. That’s one big important step.

The other one is in mobile. We also are finalizing building the whole new mobile environment. So that’s a whole new mobile step we will use in the first half of this year. We will migrate all our customers to that environment also to serve our customers in a better way, but also to switch off the legacy in mobile.

So it is an important year, and that’s why we made such a significant step into simplification. It doesn't mean simplification program will end in 2016. We will continue simplifying the organization, and I'm convinced that we will build a new plan, but we will come back to that on our Capital Markets Day not far from today.

Eelco Blok - KPN - Chairman of the Board of Management and CEO

Then on the Vodafone/Ziggo announced -- well, potential announced transaction, first of all, it's -- while there is no transaction announced yet. As a team, we are focused on continuing the good performance of KPN. We really believe that we not only have a strong market position, but that the investment class strategy is also delivering clear results. We have very competitive networks, both fixed and mobile. We are already able to offer 70% of the households at least 100 megabits per second. By the end of this year, it will be 85% 100 megabits per second and 70% already, 200 megabits per second. And also looking at our mobile network, it’s nationwide, the highest average download speed and very good customer experience. We have invested in innovative products and services both on fixed mobile but also looking at our TV services, rated the number one TV products in the Netherlands. And last but not least, also our customer satisfaction looking at our net promoter scores are by far outperforming in all elements, competition driving the growth in -- well, the individual customer bases, and next to that, we are able to offer bundles fixed mobile services helping us to increase growth, increase net promoter scores, and reduce churn.

So we believe that the combination of this not only gave us good results in 2015, but also going forward, we believe that the advantage we have will give us the momentum to continue the good growth. We have today already everything in place. So that’s about the Vodafone/Ziggo transaction that has been announced.

Frank, can you talk about (multiple speakers)?
Frank van der Post - KPN - Member of the Board of Management and Chief Commercial Officer

The Tele2 part. We obviously anticipated them to come in with lower prices and bigger bundles. But I think if you look at it in our competitive position within the KPN complete, where we offer certain benefits to our customers and across all our brands, I think we were -- we are in a very good competitive position to counter their offer.

Yes, I think the results show that we've had 80,000 net adds in the last quarter, and I think a good part of that is that a lot of that is a high-value intake for us. If you couple that with the low churn we have and the high customer satisfaction, together with the strength of the networks, I think so far we've been well able to compete and hold our own, and we're confident that we can continue to do so.

At the same time, we do realize that it's not a reason for complacency. They've only really been aggressive in the market for the last two months. So we're closely monitoring the situation, and we will act if and when necessary.

Keval Khiroya - Deutsche Bank - Analyst

It's Keval Khiroya from Deutsche Bank. I've just got two questions. First, again, as you just highlighted, your fix and performance is excellent. As we look through to 2016, do you think we should expect similar fixed line price rises we saw in 2015, or is it an argument to say that actually maybe you can push up pricing even more given your performance is so good?

And then secondly, mobile. Could you give us a rough idea of what you expect the impact of the new roaming regulation to be in 2016 and 2017? Thank you.

Eelco Blok - KPN - Chairman of the Board of Management and CEO

So the impact for roaming will be on revenue 1% to 2% and on EBITDA 2% to 3%. That will be the impact on roaming when the new regulation will be in place. On fixed line prices, we have no intention to do something else as we did in the previous years.

Paul Sidney - Credit Suisse - Analyst

Thank you. It's Paul Sidney, Credit Suisse. Just a couple questions, please, and mainly follow-on questions from questions we have already had. Just looking at the mobile repricing in the business market, what really prompted you to do this? You mentioned competition increasing in that area. Where is this competition coming from, and did it just really start in the quarter?

And then just a second question on the EBITDA guidance, what are your key assumptions in that flat EBITDA guidance? So on VAT, competition from Ziggo, and also Dutch mobile pricing? Thank you.

Eelco Blok - KPN - Chairman of the Board of Management and CEO

On the EBITDA guidance, while it's our firm ambition to continue the good financial and operational programs combined with the strict cost discipline Joost just shared with you, we expect a continued good performance in the consumer segment, but we need some time to transform the business segment reflected, of course, in the finances of the business performance. And that's the main driver behind the EBITDA guidance we have shared this morning with the market, and we expect no changes in the tax situation compared to the fourth quarter in 2016.

And then on mobile repricing, Frank, maybe you can take that question.
Frank van der Post - KPN - Member of the Board of Management and Chief Commercial Officer

Yes, on mobile repricing, the -- part of that is the move to multi-play where we are moving customers to multiple services, and then there's a part in there which is the decline of the bundle in the roaming charges which should just have some effect, and obviously there's some competitive pressures in the market on the single line wireless services pricing. We think that that is slowly bottoming out. No, it's across the board.

Eelco Blok - KPN - Chairman of the Board of Management and CEO

Maybe to add to this, we have -- and that was already in the past taking position to decrease the gap between the business market and the consumer market because that was partly driven -- driving the higher churn in business market. And after we have taken the decision to close the gap or decrease the gap, we've seen improved underlying numbers in the business market next to the competition element Frank just shared with you.

Dimitri Kallianiotis - Redburn - Analyst

Hello, Dimitri Kallianiotis from Redburn. Just three questions. Just coming back on the B2B market, you said you were midway through that transition. I'm just wondering how long is that transition, do you think? Are we talking about one year, five years? I don't know if you can give us any indication.

Then regarding Tele2, clearly your numbers were very good. So it sounds like there's no impact. But just wondering do you see an impact on maybe some the lower end brands, or actually across the board do you see basically no impact from Tele2?

And my last question is regarding the proceeds from the sale of BASE in Belgium. Shall we expect you to return about 70%, so similar to what we've done with the set of the Telefonica stake part of the selloff -- Telefonica Deutschland stake? Thank you.

Eelco Blok - KPN - Chairman of the Board of Management and CEO

So on the basic market, we expect in the medium-term similar trends as we see today in the consumer market, but already in 2016, we will see improved year-on-year trends in the financials from the business market, given all the measures we've taken in the business market, which Frank shared a few of them with you.

On the BASE proceeds, well, I can't share with you the details, but you should think of the following reasoning that we're going through. First of all, we have to compensate the loss in EBITDA from BASE. So that amounts somewhere between EUR400 million and EUR450 million. So that means EUR900 million left as access cash. Partly we will use that to lower our debt, and the remainder will be paid to the shareholders. And there's no reason to assume that we will take major different positions as we have taken with the 5% stake in -- the sale -- the proceeds of the sale with the 5% stake in Telefonica Deutschland.

Tele2, Frank?

Frank van der Post - KPN - Member of the Board of Management and Chief Commercial Officer

Shall I pick that up? Yes. Well, basically this entire year we've been very successful in the mobile market with about 289,000 net adds. So we've picked up a large proportion of the acquisition share. Based on the successes that we had, we decided to focus on the high-value intake for the latter part of the year, and what we've seen is that the majority of the growth has been in the KPN brand.

At the same time, Telfort and Simyo have shown stable results for last year. And again, the high-value intake is what we will see translated to higher ARPUs in the future.
Guy Peddy - Macquarie Research Equities - Analyst

Hi. It's Guy Peddy from Macquarie. I'm just wondering if you could give us a little bridge on your cash flow guidance for the year because we talked about a EUR40 million to EUR50 million cut in interest. Your CapEx guidance would suggest something broadly around EUR100 million cut give or take, but you are -- and your EBITDA is flat. So what is -- what are the potential negative drivers that you've got flexed in your number of EUR650 million? I know it's EUR650 million and above, but you have obviously set EUR650 million for reason. So what are you -- what is your volatility exposures and risks in there?

Eelco Blok - KPN - Chairman of the Board of Management and CEO

Jan Kees, will you take this question?

Jan Kees de Jager - KPN - Member of the Board of Management and CFO

I can give a very long answer, but the main difference if you look at all the comparisons is we expect some more reorganization costs in cash. So in P&L, we had a similar hit on the P&L in 2015. However, in cash, because we had some delays in restructuring, some of the 2015 reorganization shifted towards 2016, and we will continue our simplification program, which partly also is the already announced 2000 to 2500 job cuts where we are a little bit further in half way.

So what in 2016, we expect some more real costs in that. But also to just point out, we said more than EUR650 million. So above EUR650 million, so that's officially our guidance. So I will not give you precise EUR100 million figure bridge. It's more than EUR650 million, but basically the difference is the reorganization -- restructuring costs. Two drivers there, some out of 2015 -- 2016 in cash, which already partly was in the P&L of 2015, and some will be more in 2016.

Joshua Mills - Goldman Sachs - Analyst

Thanks. It's Joshua Mills from Goldman Sachs. Just on the CapEx, so clearly we're guiding for EUR100 million lower in 2016, and that's with investment in place to get Fiber-to-the-Curb and Fiber-to-the-Home up to 80%. So given you are getting over 200 megs on the bonded vectoring technology today, once you get to that 80% coverage, is there much need to push further on Fiber-to-the-Home, or can you see the sequential dropdown in CapEx again in 2017/2018?

The second question, I think it's on the slide to the back on page 61. You talk about bonded VPlus technology getting you to 400 meg speeds. I wonder what the process and timeline of that being rolled out -- actively the network is today. Thank you.

Eelco Blok - KPN - Chairman of the Board of Management and CEO

Okay. Joost will take the question about the new technologies. On the CapEx guidance beyond 2017, as you have heard, we have not given any guidance, but we expect CapEx to trend down beyond 2016 because of the finalization of some of the simplification programs and the high penetration of Fiber-to-the-Curb, Fiber-to-the-Home and the higher speeds we are able to deliver to our customers. And Joost will take the question on the technologies. Joost?

Joost Farwerck - KPN - Member of the Board of Management and COO

Yes, thank you. Yes so like Eelco just said, we will keep investing in the quality of our networks and innovating in speed, but we do it in a more efficient way because we shift from rolling out Fiber-to-the-Home to upgrading our couple networks. Your question was referred to the new technologies in our fixed access network.
Yes, we have a unique situation in the Netherlands that we have this double twisted payer situation, almost 100% in the Netherlands, and we are really together with our technical partners innovating. So we invested the Fiber-to-the-Curb, which means that we rollout fiber lines to all street covenants in the Netherlands and bringing the technology closer to the premises, which doubled the speed more or less. And then we introduced [fee] DSL. We introduced bare bonding, which is doubling the speed by making use of the double payers. Vectoring is a new technology we roll out across that, again doubling the speed, and now we are working on the super vectoring, which is, again, exciting stuff that was somewhere in the outskirts of (inaudible) connecting pilot customer to 300 megabits on one single payer. So doubling that with payer building, it would be something like 600 megabits, a couple of hundred meters from street cabinets.

This is in a pilot phase like fee DSL once was, like vectoring once was, in pair bonding. But knowing that we are innovating this, we assume that in a very efficient way, we can keep on upgrading our copper network for the coming years.

**Luigi Minerva - HSBC - Analyst**

It’s Luigi Minerva from HSBC. Firstly, I wanted to clarify a statement from this morning on the debt. You said you would reduce debt in Q1 by EUR800 million. Does that refer to net debt or gross debt? Because it was reported as gross debt. So if you then could give us an indication on a like for like for a net debt by the end of 2016, excluding the disposal of a base and excluding further sales of Telefonica Deutschland?

**Jan Kees de Jager - KPN - Member of the Board of Management and CFO**

That depends also on decisions – a lot of decisions that we have to make and make official. So I cannot already give that figure, but indeed, EUR800 million is bumped redemptions -- scheduled bumped reductions in January and March. So that will reduce our gross debt because it’s cash on our balances now. And we will use that, so we will not refinance the EUR800 million, and as I said, our -- at the closure of 2015, our net debt over EBITDA ratio was 2.5. But we received already Telefonica Deutschland proceeds of the EUR805 million, the 5% we sold. But we’re going to distribute 17% of that, and that could -- compensating for that net debt over EBITDA ratio will be 2.7 times.

That’s already the decisions that we have made, decisions about base if we have a clearance, we have to announce yet, and also the other decisions will, of course, affect end of this year net debt to the EBITDA ratio. But until now, you can say correcting for the Telefonica Deutschland, 17% that was in our account at the end of December, but we will distribute net debt to EBITDA ratio is 2.7 times.

**Luigi Minerva - HSBC - Analyst**

And my second question is on -- again on Liberty and Vodafone. Arguably, they have more upside in the business segment because they’ve been weak there. So how could that combination affect your plans to recover the strength in the business segment? Thank you.

**Eelco Blok - KPN - Chairman of the Board of Management and CEO**

I think given all the plans we have in place, we will be in place also in the business market before a possible transaction will be cleared by any regulator in Europe. As we shared with you, we expect already improved trends in 2016 given all the measures we have already taken in the previous year. So we have not started the beginning of this year. This year we have already started with implementing a lot of measures at the beginning of last year.

**Unidentified Audience Member**

It’s (inaudible) from Jefferies. One question on the SACs in the Netherlands and mobile. I think even the -- it wasn’t just the overall SACs, it was also the SACs per gross adds that went up. Could you sort of describe what you’re thinking? Is this simply a tactical opportunity that arises and it’s a question of phasing and that’s it, or is it more strategic thinking behind it that you feel some competitors might be in a position where they could potentially even throw in the towel? I mean this is, of course, a debate in the market.
And how do you think about as a market leader to push the market on the SEC front? Because if you have weak competitors, that, of course, always bears the risk of injured animal behavior.

The second question I had was on MTRs. I think there's still an MTR decision pending, if I'm not mistaken. Do you have any sense where this might come out after the court rejected the original regulatory decision? Thank you.

**Eelco Blok** - *KPN - Chairman of the Board of Management and CEO*

(inaudible) a question about SAC, SRCs, and the position in the market?

**Frank van der Post** - *KPN - Member of the Board of Management and Chief Commercial Officer*

Yes, on the SAC, we had a very successful quarter with the launch of the iPhone 6, which has driven up the SAC quite a bit. Secondly, we had a very high end of base from the two-year contracts of previous years. I think in quarter four 2015, it was about double what it was the year before and about 30% higher than in Q3. So that obviously has driven the cost in SAC.

What we do see is that if we are successful to continue to bring our customers into the copy and complaint offering, there may be opportunities in the future to moderate that a little bit.

**Eelco Blok** - *KPN - Chairman of the Board of Management and CEO*

Can you repeat the second question because I'm sorry I missed it.

**Unidentified Audience Member**

(inaudible) there was some intermediate level setting. I'm just wondering where this is going.

**Eelco Blok** - *KPN - Chairman of the Board of Management and CEO*

Joost, can you share the timing on the MTA?

**Joost Farwerck** - *KPN - Member of the Board of Management and COO*

Yes, that's not completely in our hands, but we are in a good position there. So we're just waiting for the outcome. This is already ongoing for a long time, and we do not expect any impact there on this year. But last thing is that we won the last one, so we are just waiting for the next round.

**Unidentified Audience Member**

(spooken in foreign language) I have two questions. The first one is, can you sell anymore on the launch of KPN Play? How many users do you have, and what sort of feedback you have from that, what is the usage, and do you think the pricing you have is aggressive enough?

My second question related also to that is a content. I think this month you started to discuss about investing a little more in content, and what do you project in 2016 in terms of content?
And my third question is a -- it's a larger question. Where do you see the penetration of your fixed and mobile bundle as a percentage of your customers sort of stabilizing a couple of years from today? We see Telefonica relatively high at around 80%. Is it a level that you think is achievable? Thank you.

**Eelco Blok - KPN - Chairman of the Board of Management and CEO**

Frank will take the first question about Play. On the penetration going forward with our cold play, multi-play bundled offerings. Of course, we expect a continuation of the growth, and on the capital markets day, we will give you some more details of our ambition level on our cold play, multi-play offerings.

On content, as you can imagine, we will not share with you the budget we have allocated in our plan. But as we shared with you last year, we have taken the decision to invest together with partners in our own content to be able to continue our competitive position in the Dutch market. And that's all I would like to disclose. Maybe, Frank, you can give some background about the rationale and what we are doing in content and the Play question.

**Frank van der Post - KPN - Member of the Board of Management and Chief Commercial Officer**

Yes. Pick up the part on the content. I think what we want to provide is a broad access to content by aggregating with the partnerships. I think the exclusive content we developed together with Animal, which is the series which will come later on in copy and pricing tiered, is the first start on one end. Clearly the partnership with Spotify is extremely successful. The majority of the clients who have access to Spotify have actually activated it and are actively using it, which is encouraging to see and a real value add. And lastly, we launched direct access to Netflix through a channel lineup and in the set top box, and I think both Netflix and ourselves were pleasantly surprised by the take-up and the success of that partnership as well.

If we go to Play, we've launched that as a very soft launch. There's a few enhancements we're looking to do later on in the first quarter or early in the second quarter where we will add hi-def and other improvements, and that I think is what we take the learnings from this first four or five months. Really fine-tuning the product offering of Play. The feedback we're getting from the customers who have purchased it is extremely positive. We go for full launch where we have full HD, and we think it will be really successful because it's just a great over-the-top add for customers.

**Unidentified Audience Member**

It's Jonathan from RBC. It's a question about this Capital Markets Day. If the last decade is anything to go by, a couple of years after the rights issue, things stabilize, you regain market share, and then you have a CMD, and you give a three- to four-year plan where you are back to low single digits, mid-single-digit EBITDA growth. Is that something we can expect in March for the older members of the audience?

**Eelco Blok - KPN - Chairman of the Board of Management and CEO**

Interesting question but you'll have to wait until March 7 to know the answer on this question, but we will for sure give you more detail about our plans. Joost and Frank both will share with you much more detail of the plans in the consumer market, in the business market, and Joost will share with you everything we're doing on the network with all the innovative technologies, software defined networks, and of course, we will share with you a medium-term ambition to be able to see if you -- your assumptions are right or not. As I said, you have to wait until March 7th. But it will be a really, really interesting day, not only from a content perspective, but also from an ambition level perspective that we will share with you.
Unidentified Audience Member

Can I ask, I suppose, a slightly more tongue-in-cheek question? Are we at the stage in Holland where customers with the net promoter score has improved, where the value proposition asserts that customers will actually start sharing their expanding wallet with telcos? So 2%, 3% industry growth is the new norm?

Eelco Blok - KPN - Chairman of the Board of Management and CEO

I mean what we clearly see is that if you look at the -- again, at the copy and complete, the success of that creates the stickiness. Furthermore, we see the RGU growth and more SIMs being folded into the package. What is interesting -- what is an interesting trend at the moment is that copy and complete customers who have still contracts of different operators, as they run out of those contracts, they start to fold them into the copy and complete because that's where you can do the sharing of data. That's where you get multiple benefits on the EUR5.00 off, etc.

And we will be launching a series of new initiatives. Smart Home is one of them where we slowly launched earlier or late last year where we feel that there is opportunities to go from quad play to adding additional service. Clearly the success of the reduced churn of copy and complete customers, which sits around 5%, drives us to believe that stickiness will help getting a higher share of wallet of different expenses. So that's the plan. But you can only do that when you have a good MPS score, and that's why it's important -- that really is -- continues to be a focus and that you can do it because you've got the best networks and also the in-home networks we need to make sure that they are top of the bill because that drives satisfaction and then people will expand their dependency on you.

Simon Weedon - Citigroup - Analyst

Simon Weedon from Citigroup. A couple of pretty basic questions. I think the first is there is quite a long delay between the sale of the Telefonica Deutschland and stake in the distribution. I understand you have to go to the AGM. I just wondered if you had asked for authority to proceed immediately if you have disposal proceeds in the future preempt, if you like, with an approval that allows you to do that without going back to the shareholders each time so you can distribute more promptly the next time you get the money in?

And the second question is, do you think that there is any read across or potential for cable regulation to emerge again in the Netherlands given the progress so far in Belgium on forcing open access on the cable operators? Also interesting, so do you think that would actually be positive for you or possibly not so positive?

Eelco Blok - KPN - Chairman of the Board of Management and CEO

Jan Kees, will you take the timing question of the --?

Jan Kees de Jager - KPN - Member of the Board of Management and CFO

Because we also got a lot of feedback of our investors and the distribution through the means of a capital repayment is by far at these moments for KPN now and our shareholders the most tax efficient one because there is no withholding tax on a capital repayment. And we still have very high reserves that are claimed for tax purposes that we can redistribute without any withholding tax. But there is one disadvantage that you have to go through a general meeting every time you do that. And also, we asked our lawyers but everybody still says the same, we cannot ask for a general kind of exception for this role.

So this time we decided to combine it with the AGM. So next time it could be slightly more promptly if we do in an extra general meeting, but we still have all the regulation to do with the capital repayment. So that's why.

But a slight weight out of the ways detects advantages for many investors, so that's why we did it like this.
Eelco Blok - KPN - Chairman of the Board of Management and CEO

And on cable regulation, yes, so we’re not really busy with it. We have an open network. We have interesting wholesale partners where we have -- with them, we have agreed last year on a commercial basis for the next seven years -- wholesale agreements, and so we’re fine. And if the regulator wants to open up the cable network in the Netherlands, let them fight with Ziggo. Then they can’t spend the time on us. But from a market position perspective, we don’t mind.

Jacques de Greling - Natixis - Analyst

Hi. Jacques de Greling, Natixis. First, a clarification regarding their roaming impact. You said about 3% EBITDA if I’m right. Is this a 2016 impact or the total impact, i.e. including the 2017 effect?

Eelco Blok - KPN - Chairman of the Board of Management and CEO

No, that’s the total impact.

Jacques de Greling - Natixis - Analyst

Thank you. Going back to the MTR questions, I think the MTR debate is currently in the end of the urban court of justice if I’m right. But I think this process started about nine months ago. Is it so long?

Eelco Blok - KPN - Chairman of the Board of Management and CEO

It’s even longer, I assume, but we always have these discussions on FTR and MTR in the past. This is -- in the Netherlands, these discussions take long, by the way. But where there a lot of courts you can go to to fight the decision, and on this MTR, we’re confident that it’s going in the right direction. But I can’t tell you how long it will take.

Jacques de Greling - Natixis - Analyst

But it’s so imprecise?

Eelco Blok - KPN - Chairman of the Board of Management and CEO

I beg your pardon?

Jacques de Greling - Natixis - Analyst

The calendar is so imprecise?

Eelco Blok - KPN - Chairman of the Board of Management and CEO

Yes, as far as I know, it’s not atypical. It will come up soon.
Jacques de Greling - Natixis - Analyst

Thank you.

Unidentified Audience Member

(inaudible). Just a question about leverage and ratings. Obviously you haven't disclosed (inaudible) of the base sale, but is your intention to manage your financial structure within your current rating or you prefer probably improving your leverage maybe to get a better rating over the medium-term? Thanks.

Eelco Blok - KPN - Chairman of the Board of Management and CEO

As I just shared with you, we will -- if the EU approves the BASE transaction, then we will first compensate the loss in EBITDA to lower our debt to stay on a similar level of net debt over EBITDA. And from the remainder, around [EUR900] million, we -- well, there's no reason to think differently about the way we allocate the use -- of the remainder of the use of proceeds of the BASE transaction than we did when we took the decision on the Telefonica Germany sale.

Jan Kees de Jager - KPN - Member of the Board of Management and CFO

And to add on the rating part, we have strong commitments for the investment grade rating. So our current ratings show commitment for that. However, that requires somewhat sliding down path of our top-line level of our leverage ratio because it doesn't take into account the Telefonica Deutschland share, which is, of course, also adding flexibility. But that's also why we -- for example, the first part, the 30% that we will retain on our balance. So our commitment is to the investment grade rating. That's the commitment.

Wouter Stammeijer - KPN - Head of IR

Okay. (inaudible) questions, so I would like to thank you very much for coming and for your questions. And as Eelco said, of course, we hope to see you in March at the Capital Markets Day. So thank you very much.