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# EDITED TRANSCRIPT

KPN.AS - Q3 2013 Koninklijke KPN NV Earnings Conference Call

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## OVERVIEW:

KPN.AS reported 3Q13 YoY total revenues (excluding E-Plus) decline of 7.6%.



## CORPORATE PARTICIPANTS

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

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## CONFERENCE CALL PARTICIPANTS

**Polo Tang** *UBS - Analyst*

**Dimitri Kallianiotis** *Citi - Analyst*

**Paul Sidney** *Credit Suisse - Analyst*

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## PRESENTATION

### Operator

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

I would like to hand over the conference call now to Mr. Hans Sohngen, Head of Investor Relations. Go ahead, please.

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**Hans Sohngen** - *Koninklijke KPN NV - Head of IR*

Thank you. Good morning, everyone. Welcome to KPN's third quarter 2013 results presentation.

Today, our CEO Eelco Blok, and Interim CFO, Steven van Schilfgaarde, will take you through our results and address your questions during Q&A.

Let me briefly point out that the safe harbor statement applies to this presentation, and that any forward-looking statements made in this presentation do not differ from those already made in the press release published this morning.

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

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

Thank you, Hans. Good morning, ladies and gentlemen; thanks for joining us. With me on the line is Steven van Schilfgaarde, who was appointed as our Interim CFO in September.

This call is to discuss our results for Q3 and the first nine months of the year. You should note that the discussion of our results is mainly focused on the continuing operations of KPN Group. So that's excluding E-Plus, which is now classified as discontinued operations under IFRS.

Let's start with the main points from Q3.



I will come back to the operational highlights in more detail later. If I had to highlight one, it would be the continued good momentum in triple play which is driving growth in revenues and profitability at consumer residential.

Also, I would like to highlight that even though Germany is classified as discontinued operations, we are still actively pursuing our postpaid and data strategy, underscored by another quarter with high postpaid net adds now combined with an increasing EBITDA margin.

The financial results for Q3 were in line with our expectations. The market conditions stayed pretty much the same as in Q2; that is to say mostly challenging. That continues to put pressure on top line and EBITDA.

Also, the year-to-date free cash flow reflects intra-year phasing and was impacted by lower EBITDA, year on year; and by higher CapEx related to 4G; and increased customer-driven investments in the Netherlands.

We have nearly reached the finished line of the cost reduction program we announced in April 2011. By the end of the year, the cumulative FTE reductions will be around 4,500 to 5,000. The structural decline of Dutch personnel costs is around 10%, as we guided last quarter.

But we're already looking ahead to the next steps. Joost Farwerck and his team are finalizing plans for a centralized approach towards simplification of products, client processes, networks and IT to kick off in early 2014. This is expected to deliver significant gains in operational effectiveness and financial performance; for example, significant CapEx reduction.

We were delighted that our shareholders gave nearly unanimous approval to sell E-Plus at the EGM three weeks ago. It's a great deal that creates value for all parties. So now, we are working with Telefonica Deutschland to get the transaction through the regulatory clearing stage. We are confident about the regulatory process and expect regulatory approval around the middle of next year.

Furthermore, the tax agreement we reached with the Dutch tax authorities, which will enter into effect upon the sale of E-Plus, will offset KPN's taxable income in the Netherlands in the coming years. As you have seen last Wednesday, AMX formally withdrew its unsolicited intended public offer for KPN.

Numerous discussions between KPN and AMX took place since announcement of the intended offer by AMX on August 9. With its intended offer, AMX was looking for control at a EUR2.40 price and low acceptance threshold. This was not an offer the KPN Board could recommend to our shareholders.

Furthermore, no acceptable proposal on content, firmness, duration and enforceability of AMX's non-financial commitment to KPN stakeholders and on governance was received.

Finally, my operational management teams will, of course, remain fully focused and committed to execute and deliver on our strategic plans. We will continue to pursue our successful operational strategy in the Netherlands where we are the market leader, and in Belgium where we are a strong challenger.

The investments we have made in the last few years in our networks and our customers are delivering and improving operational performance. We are confident that this will lead to an improving financial performance.

In Germany, we'll continue to focus on completing the intended sale of E-Plus. KPN Group will have a strong financial profile following the sale of E-Plus, and a 20.5% stake in Telefonica Deutschland offers attractive synergy and growth potential.

We remain fully committed to shareholder value creation and will resume dividend payments for 2014 following completion of the sale of E-Plus next year.

Let's now move to our outlook.



We have reconfigured our outlook for the intended sale of E-Plus and revisited our CapEx forecast for the continuing businesses. The main measure is that the continuing operations are on track.

We have stabilized our market shares compared to the same period last year, and even see growing market shares in some parts of our business.

The Netherlands is delivering operational improvements in 2013 that will be the platform for stabilizing financial performance in 2014.

Second, KPN Belgium will continue to do better than competition in a tough market environment.

The CapEx outlook has been lowered to reflect expected CapEx from continuing operations.

The outlook for 2013 is now below EUR1.7 billion for the -- and for the three-year period 2013, 2014, 2015 we expect no more than EUR4.7 billion CapEx. Please note that we have assumed that Reggefiber will be consolidated at year-end 2014. I will get back to the CapEx outlook for the continuing operations in more detail later on in the presentation.

We already told you that we would resume paying a dividend for 2014 once E-Plus is sold. And I confirm that E-Plus is on track with the guidance for growth, but at the lower margin level, especially this year.

Now Steven will summarize the Group financials; Steven?

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**Steven van Schilfgaarde** - Koninklijke KPN NV - Interim CFO

Thank you, Eelco; good morning, everyone.

As Eelco already indicated the Q3 results are mainly focused on the continuing operation of the KPN Group, excluding E-Plus. However, for the financial profile of the Group we have to take into account the discontinued operations. And we'll also provide you with the pro forma figures, which are just for the sale of E-Plus.

In the third quarter our net debt level has remained relatively stable Q-on-Q at EUR9.6 billion. The slight increase is mainly related to the seasonality in cash flows, such as interest payments and the first coupon payments on the euro and US dollar hybrids, which has been made in Q3.

On a pro forma basis, including the expected net cash proceeds of the sale of E-Plus, net debt at the end of Q3 2013 was EUR4.8 billion. Please note that if you look at our gross debt level reported in the press release and the fact sheets this has only marginally decreased in Q3. The EUR545 million bond redemption in September was partly offset by the issuance of the preference shares B to the foundation, which are recorded as current debt. Gross debt should decrease further in the first half-year of next year as we have EUR1.4 billion of bond redemptions coming up.

Net debt over EBITDA, including E-Plus, at the end of the third quarter was 2.4 times. The increase compared to the second quarter is mainly due to the EUR210 million lower 12-months rolling EBITDA.

Looking at our current financial profile pro forma, the cash proceeds of the sale of E-Plus and adjusting for the last 12 months E-Plus EBITDA our net debt over EBITDA ratio would be around 1.5 times at the end of the third quarter.

Let's now move to the Q3 results. Total revenues, excluding E-Plus, for the third quarter were down EUR171 million or 7.6% year on year. The revenue decline was attributable to our business, consumer mobile and NetCo segments. This was partly offset by the continuous positive revenue increase of EUR32 million in our consumer residential business.

Operating expenses, excluding D&A, were down 3.4% in the third quarter, mainly due to the lower personnel costs in the Netherlands, EUR39 million, which are partly offset by a EUR19 million impact from a change in handset proposition at the KPN and Hi brands, which do not offer handset leasing any more.



EBITDA, excluding restructuring costs decreased by EUR180 million or 13% year on year, mainly driven by the decline in revenues. The higher depreciation is a reflection of the significant consumer driven investments that have been made across the Group in 2012 and 2013.

Please note that we booked impairments related to the sale of E-Plus, which I include in the results for discontinued operation. This consisted of an impairment of EUR529 million as the share value was lower and is gaining value; and an impairment to deferred tax assets for tax losses going forward of EUR747 million. This was partly offset by the recognition of a EUR932 deferred tax asset resulting from the announced agreement with the Dutch tax authorities on a tax book loss of EUR3.7 billion.

Let's now move to the OpEx development in the Netherlands. Total OpEx, excluding D&A and the restructuring cost, continued to decrease in the third quarter by 2.7% year on year. Let me explain the main elements which contributed to this decline.

The underlying structural decline in personnel cost remains around 10% year on year, similar to the trend in Q2. Cost of materials were flat year on year as the increased OpEx, as a result of the change in handset proposition at KPN and Hi brands, was offset by lower hardware sales and some other smaller effects.

Work contracted out increased by 6.3% year on year as our TV and fiber-to-the-home base continued to increase, leading to a higher content cost for TV and higher fiber excess cost to Reggefiber. Outsourcing costs were higher. This was partly offset by lower traffic across all segments.

We continue to make good progress with our FTE reduction program. The total restructuring cost since the start of the program amount to over EUR341 million. This includes EUR57 million provision for rental contracts related to the empty buildings.

Let's skip two slides now and move to the Group cash flow year to date.

In the first nine months of 2013 our continuing operation generated EUR225 million in free cash flow; EUR176 million less than the same period last year. This delta can be explained as follows.

EUR224 million lower EBITDA; EUR126 million higher CapEx, due to the increased customer driven and 4G mobile network investments in the Netherlands; and EUR93 million higher interest paid, mainly related to bond issues in 2012, with first coupons in 2013; a shift of Group bond payments from Q3 to Q4 2012, as the payment was due to the end of September, which was not a business day; and the first coupon on the US dollar hybrid issued in March this year.

These negative effects were partly offset by a EUR240 million positive change in working capital year on year.

As Eelco indicated earlier the year-to-date free cash flow reflects an intra-year facing. Historically, most of the free cash flow is generated towards the back end of the year.

Finally, a quick word on the status of our pension funds. At the end of the third quarter the coverage ratio of the KPN pension fund was at 108%; meaning no recovery payment is expected to be made in the first quarter of 2014; [its] coverage ratio increase to an increased value of the pension fund investments, as well as a slight increase in the interest rate.

I would now like to hand over to Eelco for the operating review; Eelco?

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

Thank you, Steven. We have a consistent and clear operational strategy in the Netherlands. We aim to give our customers the best services on the best networks. That's how we reduce churn and optimize customer lifetime value.

The significant investments we have made in our mobile and fixed networks, in the last three years, have put us well ahead of the curve, not just in the Netherlands, but Europe-wide. And bundled services are at the heart of our strategy.



With quad play we are standing into mobile with converged bundles. Our bundle product in the business market, KPN ONE, is also showing an encouraging take up after its introduction in June. Let's look at our simplification agenda on the next page.

We are coming to the end of our FTE reduction program in the Netherlands, which has already delivered structural gains in efficiency and lower costs. But although we've come a long way, there's still a lot more to do in streamlining and reducing complexity in our business processes, and improving how we interact with our customers. So now we are starting the next wave of initiatives, which we group together as simplification.

We'll tell you more about this, and give you some specific details in the coming period. Let me give you a flavor of where we are going.

We've appointed people to run the project on the central level, and are currently finalizing the plan. We'll focus on reducing the number of products to provide a clear product line-up for our customers. Now we are extending our converged offers for retail and business customers, for example, with Hi joining KPN Compleet.

We are also simplifying client processes to improve customer satisfaction.

With respect to networks and IT, we'll be removing legacy IT systems and cutting complexity of our networks. That will give us flexible, scalable, and much more future-proof platforms that will allow a faster time to market for new products.

One of the measurable benefits of the simplification agenda will be to reduce CapEx and OpEx going forward.

The investments in our mobile fixed networks, and in our products, such as IPTV, excellently position us to offer seamless quad-play services to our customers. We have invested heavily in our fixed and mobile networks in recent years, especially compared to European peers. But a lot of that is now behind us. We'll continue to make significant investments to further expand our leading network positions, though at a less elevated CapEx level.

In mobile, we'll finish rolling out nationwide 4G in Q1 next year. In fixed, we're ahead of the curve in Europe, with our future-proof hybrid fiber-to-the-home copper network. About 70% of Dutch broadband households now get a minimum guaranteed speed of 40 megabits. And in fiber, we have reached 1.5 million homes passed, or about one-quarter of relevant households.

Based on the success of our VDSL upgrades, pair bonding and vectoring, we are reviewing the number of homes per year we will roll out fiber to.

So that feeds into the revised CapEx outlook we published this morning for the continuing operations in the Netherlands and Belgium. Let's go through the sectors, starting with consumer residential.

Revenues at consumer residential increased again by 7% year on year in Q3. This was driven by the growth of our customer base, growth in revenue generating units per customer, as well as the average 3% price increase we implemented on July 1.

EBITDA was supported by these growing revenues and a number of actions we implemented earlier to improve profitability, such as FTE reductions and quality programs. This resulted in an EBITDA margin, excluding restructuring costs, of 21.9% in Q3.

Despite cable competitors making some aggressive promotions in Q3, and the price increases we implemented, our operational KPIs continue to grow, albeit at a slightly lower level than previous quarters. By the way, our year-on-year revenue generating unit per customer growth is higher than competition, and we aim to continue that trend.

Overall, we are pleased to have got to inflexion in EBITDA, excluding researching costs, now growing at 7% year on year. And we think we have a good balance right now between growth and margin.

We showed you at Q2 what the positive effect of bundling services was on churn. The increase in penetration of triple play, and leveraging that into quad play, are right at the heart of our strategy for the Dutch market. We are the only player in the Netherlands offering quad play over our own fixed and mobile networks.

We reached 86,000 activations at the end of Q3, based just on KPN triple-play customers who also have a KPN mobile contract. This quarter we will extend the offer to cover Hi customers as well. Eventually, all our mobile brands will likely become eligible for quad play.

Finally, our triple play penetration was at 43% at the end of Q3, an increase of 11 percent points, year on year.

Let's move to consumer mobile. Underlying service revenues at consumer mobile were down by 7.4% year on year, as the mobile market in the Netherlands remained competitive. The margin was mainly impacted by the introduction of new mobile propositions for KPN on July 1, and Hi on September 2. These propositions don't include the handset lease any more.

We are pleased with the first mover momentum we are getting in 4G, where we have seen a significant step-up in customer numbers this quarter.

Our propositions are transparent with great available speeds, capacity, and reliability. And we are getting excellent feedback from our customers. We continue to target high-value customers through our KPN and Hi brands. We focus on offering the highest quality 4G and quad play services.

Telfort and Simyo continue to target volumes and growth in the value-for-money segment, mainly competing with T-Mobile and Tele2.

Once again, I have to report no improvement in the climate in the business market. Despite this, we have maintained our stable market positions. We're doing three things to protect the revenue base.

First, as we told you in July, we introduced a one-stop model with KPN ONE, offering a full range of fixed, 4G mobile, and ICT services, all in one bundle.

Second, we are migrating customers to our 4G proposition, and saw a large step-up of 4G customers this quarter. Of those 4G customers, two-thirds take a data bundle of more than 1 gig.

And, finally, we are migrating our business customers to flat fees, to increase the percentage of committed revenues within our base.

Let's look at Germany now on slide 25. The main message here is that Thorsten and his team are doing a great job in running the business, while they are working towards closing the sale of E-Plus.

The operational strategy hasn't changed, and is delivering the targeted results; stripping out the hit from regulation, service revenues declined by 2%, an improved trend versus the first half of the year, which was around minus 2.5%. Our market share remained relatively stable in Q3.

EBITDA fell, year on year, mainly due to higher commercial investments to support the uptake of postpaid and data propositions. But you will note that the EBITDA margin was higher than in the first two quarters of 2013. This is in line with our statement earlier this year.

The success of our network strategy is confirmed by the results of the latest market-leading CHIP network test; it showed that E-Plus currently holds the number 3 position in terms of network quality in the German mobile market, and is on par with Vodafone on HSPA+ data speeds. Test results published by Computerworld magazine a few days ago confirm this ranking. More than 80,000 readers of the magazine have voted the E-Plus network as the number 1 in terms of mobile data availability.

We are continuing the strong growth in postpaid net adds and data revenues. As you can see in the graph at the bottom left of this slide, this is resulting in underlying postpaid service revenue growth, while prepaid is stabilizing.



Let's now move to Belgium. Underlying service revenues, in the third quarter in Belgium, declined by 7.1% year on year. However, BASE expects that it has, once again, outperformed competition in this highly competitive market.

EBITDA margin was 26%, slightly down versus last quarter, but well below the comparable quarter last year, due to lower revenues, higher commercial costs, and regulation.

The new mobile propositions, introduced in Q2, are delivering continued strong operational results with 46,000 postpaid net adds in the quarter. Our churn rates have fallen back to levels where they were before Telenet launched last year.

Also, in terms of customer satisfaction, BASE currently has the highest net promoter score in the Belgium market.

We have a strong focus to have an excellent network position. We are the number 1 in voice quality, and joint number 1 in data quality, according to a recent net-check test. BASE commercially launched 4G in 15 cities on October 1. We stepped up the rollout, and now aim to get the majority of the population covered by the end of 2014.

Finally, BASE will be one of the three participants in the auction of three blocks of 800 megahertz spectrum, which is due to start on November 12.

To wrap up, the sale of E-Plus, at an attractive price, will provide increased financial flexibility to support our long-term strategy as the market leader in the Netherlands, and a strong challenger in Belgium. Our investments in our networks, products and customers are delivering clear operational results.

We continue to focus on providing our customers the best services over the best quality networks.

Our FTE program is nearly finalized, and we are launching its successor, simplification, to support profitability and reduce CapEx in 2014, and onwards.

And we are on track to realize our outlook with a reduced guidance for CapEx for the continuing businesses in the next years.

Now we will take your questions.

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## QUESTIONS AND ANSWERS

### Operator

(Operator Instructions). Polo Tang, UBS.

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### Polo Tang - UBS - Analyst

Just a few different questions, the first one is about your new simplification program. You've talked about it leading to significant OpEx savings, as well as significant CapEx savings.

So today it looks as if you've announced about EUR200 million per annum in CapEx savings for 2014 and 2015. But could you give us maybe some idea of the quantum of the new OpEx savings that we can expect? Will it be as big as the current FTE reduction program? So that's the first question.

The second question is really about consumer residential. We've seen good revenue growth and also good EBITDA margin improvement, so I just wanted to know how confident you are that this can continue. And are you concerned about more aggressive promotional activity from cables?





And the final question is really just about -- on Dutch mobile, can you talk through whether Ziggo, in terms of the launch of its new mobile service, is having any impact on your business? Thanks.

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

Okay, let's start with the simplification question. As I said, now that we are reaching finalization of the FTE reduction program, the simplification program will be an important step to reduce CapEx and OpEx, going forward, and a part of that we have already taken into account, in the CapEx revised outlook, we announced this morning.

Through this program, we will streamline the complexity in our business processes and we will reduce -- and we will focus at reducing the number of products simplifying client process, reduce the number of faults we are making, and reducing complexity in our networks and IT systems.

Resulting in a much faster time to market and higher customer satisfaction on the one hand, so that will help us to reduce churn and, of course, to reduce the OpEx related to churn. And it will also help us to reduce operational costs, and partly driven by a reduction of the numbers of FTEs, but not at the level that we have seen in the previous program. It will be a significant number, but as I said, not at the same level as the previous program, in absolute terms.

And it's too early to give you any guidance on the impact on OpEx, but when we share with you the Q4 results, and the outlook for 2014, we will share with you more details on the results of the simplification program. So that's one.

On residential, we are convinced that we have now the right balance between growth and profitability, and that we will be able to continue the positive trend in this part of our business. Yes, we have seen cable becoming somewhat more aggressive in the third quarter, but we are convinced that, quarters going forward, we will continue to see, in general, rational behavior of the cable TV operators, with some quarters, they somewhat more aggressive than we, and some quarters, the other way around.

On mobile, the impact of Ziggo, so far we see no real impact on Ziggo. But looking at the trends in the Dutch market, we will see a continued challenging environment, looking at price, and ARPU, mainly driven by Tele2 in the value for money segment; and, of course, the shift from voice SMS to mobile data.

And in that respect, we see an increasing relevance of 4G, with mobile data becoming even more dominant over mobile voice, the quarters to come, resulting in a market where subscriptions are differentiated on data allowance and speed. And, given the fact that we are a frontrunner on 4G, we believe that we are well-positioned to monetize this change in the mobile market in the Netherlands.

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**Polo Tang** - UBS - Analyst

Thanks.

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**Operator**

Dimitri Kallianiotis, Citi.

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**Dimitri Kallianiotis** - Citi - Analyst

I have three questions please. The first one is regarding your lower mid-term CapEx guidance. Just wanted to get a bit more explanation as to why you believe you can cut the CapEx, in particular with respect to fiber. Reggefiber was running out I think about 250,000 -- to 250,000 household per year. I was wondering if you could give us an indication if that coverage, if you're going to reduce it significantly.



Second question was regarding the quad play, which you've been -- you've got some offers, but you're not really pushing them very aggressively. Now, in light of Ziggo launching its mobile offer with quite a significant discount for quad play, is it something you would follow, basically? So are you going to give a discount to your quad play offer, which is something you haven't really done in the past?

And my last question was regarding the offer from AMX, if AMX -- I was just wondering if AMX were to come up again in a year's time, with a new offer, if you would recommend it, even if the price is the same, but if they change the structure, or if the price is the main issue there? Thank you.

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

Let's start with the last question. I really don't know if they will come back. They don't have the opportunity to come back to us in the next six months. And when they come back, we will have exactly the same position that, for us, it's about a balanced offer, where we will balance price, governance and non-financial commitment; and price will be an important element that we will assess as at two Boards.

On quad play, at the end of the third quarter, we were at 86,000 customers. We will add the Hi brands to the KPN Compleet offering.

We really believe that we don't need to add additional discounts to our KPN quad-play product. We really believe that we have an attractive offer, offering the customers free TV channels; free calling within the family; and double the credit on voice, SMS, and data. And when you add a second mobile subscription to KPN Compleet, you will get an additional EUR10 discount related to the family discount we have already in the market.

And from a pricing perspective and from a value-add perspective, we really believe that this will be enough in the Dutch market; well, especially for the time being.

When necessary, we can always take the decision to add additional discount to KPM Compleet, but today we believe it's not necessary. Often, our quad-play product is compared with Telefonica's quad-play product very successful take up. But I think we can copy the same success without having the necessity to add additional discount to the product.

Then on our mid-term CapEx guidance, we, well, have guided the market now, with EUR1.7 billion, for 2013, and less than EUR4.7 billion in total for the 2013, 2014, 2015 period; so, resulting in less than EUR1.5 billion for 2014, and 2015. And that's, in 2015, including the Reggefiber CapEx.

And then back to your question on the numbers of the Reggefibers, this year we are rolling out approximately 350,000 home passed. For next year, we have taken the decision to reduce that number to, well, around 250,000 additions to the footprint.

And you also have to take into account that the CapEx per line is trending down, and will also, the years to come, continue to trend down. As you know, we started that EUR1,000 per line. We are now at approximately EUR800 a line, and trending down in the next two years.

And together with the fact that we will finalize our 4G rollout, at the end of the first quarter of next year, and some simplification measures we will take, and the fact that the handset lease CapEx will be gone, we really believe that it is possible to reduce the CapEx with numbers we have guided the market this morning.

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**Dimitri Kallianiotis** - *Citi - Analyst*

Thank you. May I just come back on that last question, or last answer?

Why did you decide or what did you want to lower the number of household you are going to route fiber to? Is it because you see a bit less demand from fiber, or because you think your copper upgrade is good enough to compete with cable, bearing in mind Ziggo is talking about increasing CapEx next year? Thank you.



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

For the short term, the results of our copper upgrade with VDSL, fiber to the curb, pair bonding and vectoring, is -- will give us the opportunity to continue to be competitive compared to cable. So that's the reason why we have taken the decision to balance the investments in copper and fiber in the way we did, the years to come.

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**Dimitri Kallianiotis** - Citi - Analyst

Thank you, very clear.

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**Operator**

Paul Sidney, Credit Suisse.

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**Paul Sidney** - Credit Suisse - Analyst

Just two quick questions please. In terms of your outlook, you say, in terms of your Dutch business, you want -- you see it stabilizing by 2014. Could you really just set out what that exactly means in terms of growth, profitability and free cash flow trends of your Dutch business?

And just secondly, assuming the E-Plus deal completes, how should we think about your target leverage ratios, going into the medium term, in terms of where you'll be comfortable? That would be great, thank you.

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

Okay, we believe that we can stabilize the performance in the Netherlands [towards] 2014, meaning a continued operational improvement in 2013, resulting in the financial performance stabilizing in 2014 and a first segment where we have proved that we are able to make these changes, the consumer residential segment. And we are convinced that this continued investment in the market will lead to a new balance of profitability and stable market positions in the Netherlands in 2014.

And drivers to stabilize the financial performance in 2014 are, as I said, a continued good performance in residential. And, at consumer mobile, our multi-brand strategy allows us to target different market segments. And of course, the new mobile proposition to be launched this year, together with 4G, will support the ARPU trend and will help us to reduce churn.

That's the most important factor in this part of our business, and the churn reduction will also be supported by an increased focus and accelerated marketing and sales effort on our quad-play product.

The business market we managed to maintain stable market positions in the past and we believe that that will be also possible in the near future, despite the unfavorable macro environment and, related to that, the competitive pressure (technical difficulty) [offering] 4G proposition, (technical difficulty) this year with a very, very promising update in the first few months.

And, of course, the benefits from the FTE reduction program that we have started in 2011 with still at least 300 FTEs to go this year. And, of course, the positive impact of the simplification program we just have started and will start to help us already in 2014.

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**Paul Sidney** - Credit Suisse - Analyst

So sorry, just to follow up, so if we pull it altogether, is it really profitability within the Dutch business, year in year, being flattish, or actually getting less negative as we move forward?

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

Yes, so we will see the change during 2014; so less negative and then flat and then starting to increase. So that is the meaning of the stabilization over 2014.

And then your second question about the E-Plus, after the E-Plus transaction, we will have, as Steven already mentioned, have a very strong financial profile and we will give you more clarity on the financial framework and details of the shareholder remuneration in the coming months, at the latest when we present the Q4 numbers to the market.

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**Paul Sidney** - *Credit Suisse - Analyst*

Great, thank you. That's very helpful.

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**Operator**

Sam McHugh, Sanford Bernstein.

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**Sam McHugh** - *Sanford Bernstein - Analyst*

Just a couple of questions please. The first one is a follow-up on the fiber-to-the-home one. Can you just remind me whether the reduced number of homes passed could potentially change the timing of the consolidation and the payment of the final option on Reggefiber?

And then secondly with regard to AMX, I was just wondering, with them not being able to come back for six months, which is what you just said, do you still need the preference shares? And could you give us any kind of idea around the timing of when those shares could be canceled, if at all canceled? Thank you.

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

Okay, on the first one, the reduced numbers for 2014 and onwards will not have any impact on the timing of the consolidation. So, we will meet the threshold shortly and then we will start the consolidation process by asking approval with the regulatory body; so no change in timing.

On the preference share question, given the fact that the foundation is an independent foundation we can't speak on behalf of the foundation. But we could, however, imagine that the foundation feels that the interest of KPN and its stakeholders are not at risk any more, and could ask for redemption of the preference shares B.

According to the KPN articles of association, an EGM needs to be convened in order to redeem the preference shares B. And, given the legal boundaries in the Netherlands, you need to take into account that the period between calling an EGM and having the EGM is a period of 42 business days, at a minimum.

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**Sam McHugh** - *Sanford Bernstein - Analyst*

Fantastic, that's very fair.

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

But, of course, when the foundation takes a decision to support a redemption of the preference shares, we will make an announcement as you can imagine.

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**Sam McHugh** - Sanford Bernstein - Analyst

Yes, great. Thank you very much.

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**Operator**

Tim Boddy, Goldman Sachs.

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**Tim Boddy** - Goldman Sachs & Co. - Analyst

I just wanted to, again, look at the decision to scale back the rollout of fiber-to-the-home. On my math, you've got just over 4 million homes passed by cable, who are likely the double speeds in the fairly near future; well, really, they have just double speed and they're likely to continue with that trend.

And at the current rate, even in 10 years' time, you would only just have passed all of those homes. I think you're in around 1.5 million homes today. So by lowering the rate, and I don't think you've said how much you're going to lower the run rate to, are you pushing that out to maybe more like a 15-year time horizon? Do you think that's a sensible long-term risk to take, that you -- the copper network will be able to withstand that?

And then a different question, just also on the CapEx saving, how much of the CapEx saving is a reflection of the increase in subsidies back in the EBITDA line, which I think was some EUR20 million this quarter? Or is that a separate factor? Thanks very much.

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

So, on the last question, 2014 compared to 2013, so the 1.5 -- the [1.7] versus less than [1.5]. The impact of the handset lease is EUR100 million on CapEx, so 2014 compared 2013. And then 2015 to 2014 it's zero, because handset lease will already be gone in 2014.

Then your question on the rollout of fiber, so this year we will add another 350,000; and in 2014, and probably also 2015, the number will be 250,000, so a reduction of 100,000 on a yearly base. So that on fiber.

And then, why have we taken this decision? Because of the success of our copper upgrades; in fiber to the curb areas we are now already on a level of 40 to 80 megabits on copper. When you start using in all areas pair bonding, you can double that speed; and it is not, as in cable networks, a shared speed, but a minimum-guaranteed speed to our household.

So doubling the speed from 40 to 80 is 80 to 160. Then adding vectoring to this, and we will start using vectoring commercially already in the fourth quarter, you can add again another 50%/60% on speed; so meaning over 100 megabits to over 200 megabits on the copper network.

And we really believe that this will be enough for the short term to continue to be competitive to cable operators; and then not even taking into account the G.fast developments that are going very, very fast today, that will help us to increase the speed even more in our copper plan.

So we really believe that the deceleration of the fiber-to-the-home rollout from 350,000 to 250,000 on a yearly base, will not have any negative impact on the competitiveness in our fixed network, and will be sufficient for the medium term.



**Tim Boddy** - *Goldman Sachs & Co. - Analyst*

That's very clear, thank you.

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**Operator**

Akhil Dattani, JPMorgan.

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**Akhil Dattani** - *JPMorgan - Analyst*

Just a few follow-ups, please, to some of the previous questions.

Firstly, on your comment earlier about the shift from capitalizing to expense in handsets in Holland, I think you just mentioned the number of EUR100 million in terms of shift into the OpEx line. But I think in prior calls, the number you were talking about was more like EUR200 million or EUR250 million.

So could you just give us some sense of whether there's still an element of capitalization in here, just so that we understand the moving parts, in terms of CapEx guidance change?

Secondly, on Reggefiber, could you just help us understand what the net debt position would be at the end of 2014, based on your revised rollout target? It sounds like it's probably going to be a little bit less. If we have some sort of sense as to where the debt is in Reggefiber at the end of next year?

And with that, could you maybe also just help us understand why the consolidation is end of next year, not early next year? Because if I remember correctly, I think the put option that Reggeborgh has is exercised early next year, so just keen to understand that.

And then very finally, just in terms of the revenue trend and, I guess, the message you're providing on stabilizing performance into 2014. If we look at the last three-odd quarters, the underlying growth that you provide in your presentation slide is about minus 6% to minus 7% for the Dutch Telco business.

So could you help us understand, do you expect to see a meaningful improvement in that revenue profile over the coming quarters and into next year? Or should we assume that the upper portion of the earnings stabilization next year is driven by the cost cutting, and the benefits of that also comes through into the churn as well? Thanks a lot.

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

Let's start with the handset lease question. We stopped the handset lease mobile and the KPN and Hi brands in September -- in September for Hi and in July for KPN. And resulting in a, approximately, EUR100 million difference on CapEx 2014 compared to 2013. So that's the EUR100 million.

And then, we will continue to offer the handset lease mobile on Telfort, so there will be some CapEx on handset lease in the CapEx number I mentioned in the call; so that on the handset lease shift.

On the Reggefiber timing, yes, we will pass the threshold very shortly. But we have to ask regulatory approval to be able to consolidate Reggefiber. We believe that will take us through the second half of 2014, to have the outcome of the regulatory approval process available.

Looking at the debt of Reggefiber, at the time we consolidate, it will be somewhere between EUR1 billion and EUR1.2 billion.



And the stabilization of the financial performance towards 2014, as I explained, answering an earlier question, it will be the combination of the continued pressure in our consumer mobile business, also continue to impact top line.

And also, the absolute result in this part of our business, because we foresee no real change in the competitive dynamics in this part of our market. And we also have to go through some regulatory decisions, both on MTR and roaming; continued positive trend in consumer residential.

Looking at the business segment and NetCo, a continued pressure on top line, but a positive impact of the cost measures we have taken. That also will have a positive impact on the other parts of the business.

And, combined, we really believe that we see the trend change on the financial results consolidated in The Netherlands, during 2014.

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**Akhil Dattani** - JPMorgan - Analyst

Thanks, that's very useful. I guess it's too early for you to give too much detail on this, but should we assume ongoing meaningful restructuring charges, given a likely further program? Or do you think any subsequent restructuring charges will be very modest?

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

We will give you some more details in the fourth quarter. But, answering earlier questions, as part of the simplification, results will be driven by continued FTE reductions, but, as I said, on a lower level than the current program.

So, restructuring charges will also be on a lower level than you have seen in the past few years.

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**Akhil Dattani** - JPMorgan - Analyst

Okay, thanks.

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**Operator**

Guy Peddy, Macquarie.

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**Guy Peddy** - Macquarie - Analyst

I just wanted to understand your domestic conversion bundled strategy in a little bit more detail. So far, it's been soft touch. So, firstly, what have you been doing this year to enable you to accelerate that process into next year?

And, in your slides, you actually talk about convergence rather than bundles. Is there a product that you envisage is going to be different in 2014, or is that just swapping terminology? Thank you.

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

No, we will not have foreseen any change in the product portfolio. So it's just using different words for the same products and services we are offering.



We have made a decision at the beginning of this year to position KPN Compleet not by offering price discounts, but offering our customers value-added services, such as additional TV channels. 45 free TV channels are added to the KPN Compleet product; free calls within the family; and doubling the data for SMS credits on the mobile subscription.

We started with the KPN branded triple play, and KPN branded mobile subscriptions. And we have worked very hard on the IP systems and the commercial processes to be able to add brands to our KPN Compleet product.

First, we will add Hi to the KPN Compleet product. That gives us also the opportunity to increase the number of mobile subscriptions, KPN Compleet, and offer families that are using KPN Compleet additional discounts. The family discount that is already a discount scheme that's in the market for mobile subscriptions.

So every additional mobile that is added to KPN Compleet, we'll give an additional EUR10 discount on a monthly base, on that specific mobile subscription, next to doubling the credits on voice, SMS and data.

And so, as I said, we have worked on changing the IP, the commercial processes, so we are able to add additional brands. And we will be much more aggressive on marketing and sales, the KPN Compleet product.

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**Guy Peddy** - *Macquarie - Analyst*

Thank you.

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**Operator**

Luis Prota, Morgan Stanley.

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**Luis Prota** - *Morgan Stanley - Analyst*

My question is on the recent talks between Liberty and Ziggo. And I wonder whether you could give us your view on how the landscape might change.

If this theoretical deal or merger eventually happened, whether you see that the mobile risk could be a bigger one due to larger reach, or potential changes that you could anticipate to pricing strategies in broadband and TV? Whether you think that, at the end of the day, this potential combination would be positive or negative for KPN? Thank you.

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

We believe that the competitive landscape will not really change, given the fact that both UPC and Ziggo have a cable monopoly in their regions already today. So, combining those two will not give them any advantage in the regions where they are operating today.

Of course, they will -- due to the scale, will have cost benefits and then it's up to the shareholder to decide if they would like to spend those savings or -- spend those savings to become more aggressive in the market, or use those savings to increase shareholder remuneration.

That's from an outside-in view from a KPN perspective. Maybe it could even give us some short-term gain, because you always know when two companies merge, especially when that will have an impact on the indirect functions, there will be a lot of internal focus trying to protect the individual jobs, etc. So, on the short term, it could even give us some advantages.





Don't forget the regulatory approval process, and that will take some time, and will impact a lot of people at the headquarter to focus on the regulatory approval process. We know that the regulator will have a close look at this transaction when this transaction is there.

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**Luis Protá** - *Morgan Stanley - Analyst*

If I can follow up; don't you think that in a theoretical combination we could see -- or let me rephrase, in a theoretical combination would you expect that the combined entity would reinforce its mobile position? Or rather because UPC has never been such a good fan of mobile maybe, this could become a lower risk for KPN?

On top of this one, when you were saying that it wouldn't change much the competitive landscape; yes, I see the point of not having overlap. But don't you think that a nationwide cable operator could definitely get some synergies from commercial campaigns and things like that that could become a threat for KPN?

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

Yes, of course, there will be synergies, especially on headquarter, marketing, and operational cost. I really don't want to start speculating on what they will do with the additional savings.

On mobile the same, I don't want to speculate. Ziggo has recently introduced their Ziggo mobile offerings. UPC is not really offering mobile subscriptions.

Will they become more aggressive? Also, on this one, I don't want to speculate on this. I believe that we have a very strong position, we have invested heavily in spectrum, in our 4G network, but also in improving our 2G and 3G network. I really believe that we are strong positioned in this very, very competitive market where we already see Tele2 and Ziggo operating.

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**Luis Protá** - *Morgan Stanley - Analyst*

Thank you.

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**Hans Sohngen** - *Koninklijke KPN NV - Head of IR*

Okay, with this last question I would like to close the Q&A session. Please let the Investor Relations team know if you've any further questions. Thank you for joining us today.

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**Operator**

Ladies and gentlemen, this will conclude the conference call of KPN. You may now disconnect your line. Thank you.

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