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KPN.AS - Q3 2014 Koninklijke KPN NV Earnings Call

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OVERVIEW:

Co. reported 3Q14 YonY adjusted revenue decline of 4.9%.



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PRESENTATION

Operator

Ladies and gentlemen, thank you for holding, and welcome to the KPN conference call. (Operator Instructions). We'd like then to offer the conference to Mr. Hans Soehngen, Head of Investor Relations. Go ahead please, sir.

Hans Soehngen - Koninklijke KPN NV - Head of IR

Good morning. I would like to welcome you all to KPN's third quarter 2014 results conference call. 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.

Eelco Blok - Koninklijke KPN NV - Chairman and CEO

Thank you, Hans. Good morning. Thank you for joining us in this call about our third quarter results. With me, for the final time as our interim CFO, is Steven van Schilfgaarde, who has done a great job. As you know, Jan Kees de Jager will take over as CFO on November 1.

Let's now look at the main points for the quarter. I explained to you, at our Capital Markets Day back in February, our strategy to deliver improving operational performance for the Netherlands and Belgium. Our operational KPIs for the third quarter show that we are well on track.

In the Netherlands, because we own and we continue to invest in the best fixed and mobile networks, and market-leading products, we are the clear leader in converged services. That's why we are growing in 4G; growing in IPTV; growing in broadband; and across all these product lines, growing in multi play. And in Belgium, we continued a good momentum on postpaid and data.



At the same time, we are driving ahead with the Simplification program. The total run rate savings reached about EUR100 million at the end of Q3; up from EUR75 million the previous quarter.

We are doing this while at the same time improving our customer satisfaction. The net promoter scores have continued to trend up, and we are now well above market average, both in the consumer, as well as business market. This is the result of all our investments in networks and market-leading products.

The results for the quarter were broadly in line with our expectations. For KPN as a whole, the financial performance again gradually improved in Q3. Adjusted revenues were down 4.9% year on year, compared to minus 7% in Q2; while adjusted EBITDA, excluding handset lease, was down by 12% compared to the same quarter last year, and somewhat better compared to the second quarter.

And the E-Plus sale has been completed. We received EUR5 billion in cash, and a 20.5% stake in Telefonica Deutschland.

Following completion of the transaction, the DTA related to the sale of E-Plus has now increased to EUR1.2 billion, based on the fair value of our stake in Telefonica Deutschland. This will limit the tax cash out in the Netherlands in the coming years.

The sale of E-Plus closed an important chapter in KPN's history. I've always said that we manage our portfolio for value, and we believe this final outcome is a good result for all stakeholders.

We told you over the past month that we would use most of the EUR5 billion cash proceeds to increase our financial flexibility, and that's exactly what we are doing. This morning, we announced a bond tender for an aggregate consideration of up to EUR2 billion for all outstanding euro and sterling bonds maturing before the end of 2024.

This year, we've seen EUR1.4 billion of regular bond redemptions; and next year, in June, we'll see a regular senior bond redemption of EUR1 billion.

Furthermore, if the ACM approves the increase of our stake in Reggefiber to 60%, we can use another part to pay the exercise price of EUR161 million, and potentially take out a financing at Reggefiber.

Furthermore, on pensions, we expect to make a one-off lump sum cash payment of EUR200 million to KPN's main pension plan in the Netherlands by the end of this year. This is part of the implementation of the collective defined contribution pension plan we announced earlier this year.

Following completion of the sale of E-Plus, we fulfilled our promise to restart dividends with an interim payment in respect of 2014 of EUR0.02 per share on October 13. This amounted to a cash out of EUR85 million.

For the full-year 2014, we've reiterated our outlook of a total dividend per share of EUR0.07.

We now own 20.5% of Telefonica Deutschland, for which we have a six-month lock up. As I've said consistently, we are treating this stake as a financial investment and keep our options open. Any future decisions will be taken with a view to create shareholder value.

And to remind you of our outlook, this is unchanged from previous quarters, and we remain on track, driven by the good strategic progress.

Now, I will hand over to Steven for the financial review.

Steven van Schilfgaarde - Koninklijke KPN NV - interim CFO

Thank you, Eelco. Good morning, everyone. I will start with the financial profile of the Group. As Eelco already indicated, the completion of the sale of E-Plus has significantly strengthened our financial position. However, this is not yet reflected in our Q3 reported numbers, as the deal closed on October 1.

In the third quarter, our pro forma net debt level decreased slightly by about EUR152 million compared to the end of Q2 2014. The decrease is mainly related to the positive free cash flow generated in Q3, partly offset by additional Reggefiber shareholder loans.

The pro forma net debt figure includes the expected net cash proceeds of the sale of E-Plus, and the expected consolidation impact of Reggefiber. For Reggefiber, this includes the exercise price of EUR161 million for the second option, and the consolidation of around EUR550 million of bank debt. We will also consolidate roughly EUR100 million of EBITDA.

At the end of the third quarter, pro forma net debt-over-EBITDA was around 2.3 times. This is slightly higher than in the second quarter, due to EUR108 million lower 12-month rolling EBITDA, partly offset by the lower net debt.

We allocate up to EUR2 billion for the bond tender announced this morning. This will somewhat impact our reported leverage in the short term, but will support free cash flow generation in the longer term, as interest payments will be significantly lower going forward.

Let me now take you through our Q3 Group results. The adjusted revenues for the third quarter were down 4.9% year on year, which is an improvement compared to the minus 7% in Q2. The EUR102 million year-on-year decline was mainly driven by EUR53 million lower revenues in the business segment; EUR26 million revenue in NetCo; and EUR21 million lower revenue in consumer mobile.

The OpEx, excluding the impact phasing out of the handset lease, continued to decrease, mainly as a result of lower external personnel expenses and somewhat lower marketing costs.

The adjusted EBITDA, excluding the impact from phasing out of handset lease of EUR21 million, decreased by 12% year on year, as a result of lower revenues. Again, a slight improvement compared to the minus 13% we showed in the second quarter.

In Q3, net profit was negative due to a lower EBITDA and higher finance costs. This was driven by an increase in the option liability for Reggefiber, whereby KPN's best estimate for the likelihood of approval has been reassessed, based on the progress of the approval process. Excluding this impact, net profit would have amounted to EUR38 million, positive.

Let's skip two slides and move to the year-to-date Group cash flow. The free cash flow from continuing operations for the first nine months was EUR30 million. This was lower than free cash flow from the same period last year, as 2013 free cash flow was supported by EUR167 million of prepayments made in the last quarter of 2012.

Please note that the numbers of the first nine months of this year reflect usual intra-year phasing. Free cash flow is largely generated in the second half of the year. Q3 free cash flow amounted to EUR250 million, supported by normal working capital movements. The effects of intra-year phasing should further support free cash flow in the remainder of the year.

Now let me hand over to Eelco, again, for the operation review of the Group.

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

Thank you, Steven. We've made, and are making, continued good progress in the Netherlands. Q3 showed a continuation of the gradually improving financial performance, driven by the good strategic progress.

In consumer, our KPIs are moving in the right direction. However, business remained difficult due to the continued impact of the decline of traditional services, and the decline in overall market size.

We continue to make good progress with the Simplification program. In the first nine months, we already realized about EUR100 million year on year, split 50/50 between OpEx and CapEx, driven by FTE reductions and reduced IT spend.



The simplified product portfolio, combined with improved client processes, supported further quality improvements; these led to increased customer satisfaction.

All of our IPTV brands had a higher NPS than our two main competitors. KPN is also ahead of the market in terms of mobile and business. This is clear evidence that our investments in our networks, products, and services are valued by our customers.

Q3 has again shown a good take up of multi play by consumers. Our traditional fixed triple-play offering continued to gain customers, leading to an increased penetration by 5 percentage points year on year.

We are leveraging our unique position in the Netherlands as the only integrated access provider by combining fixed and mobile services. Supported by the introduction of our new fixed mobile bundles for KPN and Telfort, where customers can combine at least one fixed product and one mobile subscription, we see further growth in fixed mobile bundles to 14% of our broadband base.

In addition, the percentage of retail postpaid customers having a mobile subscription as part of a fixed mobile bundle increased to 16% at the end of Q3; up 12 percentage points from one year ago.

Let's move to consumer residential. In the third quarter, we implemented several commercial initiatives to support broadband and IPTV base growth. These initiatives included a new integrated fiber-to-the-home copper line up; new fixed mobile bundles; and increased promotional activities to counter the ongoing promotional activities by competition.

Combined with continued copper upgrade, these initiatives have led to a return to growth of our broadband customer base net adds, and continued good IPTV additions.

We are on track with our copper upgrades and continued fiber-to-the-home rollout to have 50%, or about 4 million households, connected to a speed of 100 mega bits per second by the end of the year.

In terms of financial performance, the price increase implemented on July 1, was offset by our increased commercial initiatives and the ongoing decline of traditional voice. We expect to continue these commercial initiatives in the remainder of the year to support our broadband and IPTV base growth.

In Q3, the EBITDA margin was supported by lower personnel expenses.

On the next slide you can see our progress in broadband and IPTV, for which we reached more than 1.5 million customers.

Let's move to mobile. The underlying service revenue trend at consumer mobile improved to minus 6.9%, driven by our high postpaid net adds, which, in turn, was supported by lower churn across all brands. Service revenues were still negative, driven by lower above bundle usage and lower price levels compared to last year.

The year-on-year decline in adjusted EBITDA was largely driven by phasing out of the handset lease, and lower service revenues, but also by higher SAC/SRC as a result of a higher number of new handset subscriptions.

In total, Dutch mobile market share was somewhat lower at 43%, due to the challenging business market.

In Q3, we managed to get very good commercial traction with our propositions again, leading to record high retail postpaid net adds of 84,000; and a 4G consumer base now at 1.1 million subscribers.

The continued good uptake of our mobile propositions and lower churn are supported by the new fixed mobile bundles and our leading 4G propositions.



Moving onto business, the challenging environment impacted our financial performance in the business segment. We've seen continuation of the trend we've seen in the first half of the year, as the size of the business market continued to decline.

In Q3, we've seen a somewhat better EBITDA margin. However, this was mainly driven by several small positive one-offs.

We're implementing structural improvements in the business segment by rationalizing legacy services, which will lead to efficiency gains going forward. This has led to the release of some smaller provisions in Q3 related to these services.

In terms of operational performance, the number of access lines continue to decline and the wireless base was stable, although wireless ARPU remains under pressure.

Last quarter, I mentioned the acceleration of the Simplification program in our business segment. I'm please to say that we are making good progress. As an example, we managed to reduce external personnel costs, mainly related to IT, by around EUR10 million year on year.

Furthermore, our simplified portfolio and client processes have led to a 20% reduction of inbound calls, thereby reducing costs.

Additionally, we reduced about 350 FTEs, and are on track for our full-year target of 400 FTEs to 500 FTEs.

We will implement additional cost measures in the coming period to offset continued revenue pressure.

In Q3, we continued to make good strategic progress by growing multi play and 4G. Our 4G customer base continued to grow and now amounts to 612,000 business customers, representing 36% of our business mobile base.

The number of mutli-play seats also grew by 37,000, or 17%, quarter on quarter, with 12% of the mobile base now part of a multi-play offering.

The top-line performance of NetCo is reflective of the trends seen across our segments, mainly at business and lower wholesale revenues.

Although the revenue decline impacted EBITDA, we were able to drive OpEx of our NetCo segment down by good progress of the Simplification program. For example, we made good progress in reducing complexity of our networks and IT infrastructure.

In the third quarter, the mobile IP backbone networks were phased out and migrated to a fixed mobile converged network. Furthermore, we also phased out obsolete DSLAMs and an Ethernet network.

To conclude for the Netherlands, we've made continued good operational progress across all segments, and the financial performance is gradually improving.

Let's skip one slide and move to Belgium. We continue to enjoy the benefits of our successful Challenger strategy, combining a high quality network with price and service leadership.

We already offer 4G to 63% of the Belgium population. Our price leadership has been recognized in the market for many years, and the gap with competition remains large.

Over the past years, many new propositions have been introduced in the market, and BASE Company moved from a prepaid focus to data-led postpaid offerings, but this never impacted BASE Company's market perception. We consistently challenge the market.

Our service leadership is reflected by our NPS level; the highest, and also only positive, NPS in the Belgium mobile market.

Let's look at the financial trends. Underlying service revenues continued to improve towards minus 1.3% in Q3. On the one hand, we see still the effects of customer optimization. On the other hand, service revenues are supported by positive trends in postpaid, both in consumer, as well as B2B.

Cost efficiencies remain a high priority for us. To support our margins going forward, we have started several initiatives. For example, in Q3 we closed 27 [Allo] shops, and we'll focus on increasing online sales going forward.

The operational trends remained solid in Q3 with continued good postpaid net adds, and this quarter also high prepaid net adds.

Let's now move to my concluding remarks. We continue to make good strategic progress in the Netherlands, supported by our market-leading products and successful commercial initiatives. This is evidenced by record-high postpaid net adds, and a return to growth in broadband.

In Belgium, our high quality network, combined with price and service leadership, puts us in exactly the right position to stay successful as a mobile challenger.

Our financial performance is gradually improving, supported by the good strategic progress.

Finally, the successful sale of E-Plus has created a solid financial profile for the KPN Group, and allowed us to start paying a dividend again.

Thank you. We are happy to take your questions.

QUESTIONS AND ANSWERS

Operator

Ladies and gentlemen, we will start the question and answer session now. (Operator Instructions). Polo Tang, UBS.

Polo Tang - UBS - Analyst

I just have a couple of different questions related to mobile. Just in terms of the pricing environment for mobile, can you give some color in terms of what you're seeing in the market? Have you put through any price increases recently?

The second question is really just about subscriber momentum in terms of mobile. It's obviously been very strong and accelerating, so can you tell us which operators your net adds are coming from? And is this postpaid net add moment continuing into Q4?

And related to this question, is there a risk that if you do so well in mobile that this encourages an aggressive response from the competition?

My final question is just in terms of end-market mobile consolidation and a potential take-out of Tele2 Netherlands. What are your latest thoughts on the topic? And do you need to acquire them if your mobile momentum is so strong? Thanks.

Eelco Blok - Koninklijke KPN NV - Chairman and CEO

The Dutch mobile market has a clear growing segment for no frills and SIM-only, but we also see an increased focus on quality and service, driven by 4G.

In total, going forward, we expect that the declining consumer mobile revenues and ARPU trend will improve.



We have seen, in the third quarter, an increasing share of our high-value brands, KPN and [high], looking at the net adds.

Looking at the pricing of our low end SIM-only offerings, we have increased the prices of our low end SIM-only offerings to further reduce the gap between the higher and lower priced segments of the market. And we have seen a similar trend with our competition.

We also see a decrease in churn by a growing number of customers that are moving to our multi-play fixed mobile packages.

And what we also see going forward is the up-sell potential to our higher data bundles, driven by the higher data usage on 4G compared to 3G; two to three times higher as on 3G.

And, looking at the committed revenues and other important KPI, we expect the percentage to grow to over 80% in 2016, thereby [de-risking] our ARPU profile going forward.

So then about the pricing. In mobile then, talking about the competitive landscape, in Q3 we have seen a continued, very competitive mobile market. But we have seen the first signals that are pointing in the direction that we could start thinking of some stabilization in the mobile market.

As I explained earlier to you, we have seen the churn going down across all our brands. Also, in the higher- and mid-value segments we have seen some stabilization of competition; and in the low-value segment, we saw stable activity in the third quarter in advertising and marketing.

We believe that we are very well positioned in the mobile market with our nationwide 4G network, unique fixed mobile bundles, and a leading family proposition, and this has led to the record-high number of postpaid net adds.

We believe that we will continue to grow also in the fourth quarter; probably not as high as in the third quarter. But we expect very good numbers also, looking at the first few weeks of the fourth quarter also in total.

Then your last question about Tele2, from a strategic point of view, in-country consolidation makes sense and is on top of our mind. But we need to be prudent, and we will be prudent, buying assets.

At the moment Tele2, the Netherlands phase, has considerable challenges. Their fixed business in the consumer market isn't in a really good shape, and the mobile opportunity for a new entrant is decreasing, and Tele2 is showing lower net adds in the third quarter.

A couple of key elements in the market for me are the movement to quad play; the improved performance of the high-end brands in the market. And Tele2 is maybe in the low-value segment. And 4G today is becoming a common [good] in the Netherlands with two high-quality nationwide 4G networks already in place.

And ARPU's, looking to the last two years, have already come down a lot. What you see happening today is that the operators are moving to larger data bundles in their propositions. As an example, the Hi brands has already bundles of 8 Gigabyte and KPN Compleet. So our quad-play customers already double their data bundles when they apply for KPN Compleet, our quad-play offering.

And last, but not least, there's no easy solution for the possible network issues looking at Tele2, and looking at handovers between the Tele2 and T-Mobile network.

So we believe that we are very well positioned today. We are convinced that we can continue the strong performance we have delivered in the previous quarters; and, from that sense, don't need an acquisition of Tele2.

Also, from a regulatory point of view, a potential acquisition will be very, very difficult, especially for the business market part and mobile frequency.



Polo Tang - UBS - Analyst

Okay, thanks.

Operator

Paul Sidney, Credit Suisse

Paul Sidney - Credit Suisse - Analyst

Just two questions, please. You gave some very interesting mobile data usage trends on your KPN Hi and Telfort brands three months ago in terms of how customers' data usage consumption changes when they move from 3G to 4G. I just wondered if you could maybe give us an update on that by brand, please.

Then just secondly on consumer residential, your broadband adds returned to positive in the quarter. Line loss improved, as well. Should we think about the strategy in consumer residential as being ensuring you've got positive broadband adds and good line-loss trends, even if that is at the expense of higher acquisition and retention costs? Is the focus on really improving the base? Thank you.

Eelco Blok - Koninklijke KPN NV - Chairman and CEO

On the mobile data usage, we are seeing no change compared to the second quarter. So similar trends across the different brands when customers move from 3G to 4G. On average, two to three times higher data usage on 4G than on 3G and Hi customers, somewhat higher than KPN customers.

Looking at the residential performance, we always will balance base growth and profitability. But as I said during the Q2 analysts' call, after two quarters of broadband base decline we had to respond, and we did, and resulting in a 6,000 broadband base growth in the third quarter.

I can assure you that we will continue the same strategy in the fourth quarter, and that we will see a continued improved performance on broadband and line loss in the fourth quarter. So, higher numbers and improved numbers in the fourth quarter compared to the third quarter.

And yes, that has an impact on top line because of the temporary promotions, but that will phase out after the three, or six, or 12 months. Promotions will be phased out, taking into account the average lifetime of a broadband customer of seven years. So we expect that we are doing the right things; that we will see continued growth and improved financial performance, going forward.

Paul Sidney - Credit Suisse - Analyst

And just a very brief follow on. Do you think that the Liberty transaction closing will also help competition levels in consumer residential?

Eelco Blok - Koninklijke KPN NV - Chairman and CEO

I really don't believe that it will make a huge difference, because for UPC and Ziggo, in their respective areas, have already a cable monopoly position. That will not change.

Of course, there will be synergies, and you can think of using a part of the synergies to increase promotions, or becoming more aggressive. But then looking at the way Liberty is managing their assets, I don't expect a worsening of the market. You could even think of an improved market situation after the merger has been closed.



Paul Sidney - *Credit Suisse - Analyst*

Thank you. That's very helpful.

Operator

Luis Prota, Morgan Stanley.

Luis Prota - *Morgan Stanley - Analyst*

Two questions, please. First, on financial expenses in 2015, I don't know whether you could give us some kind of guidance in terms of how much lower financial expenses could be on the back of these redemptions and bond buybacks.

And something similar on CapEx, which seems to be well below guidance for 2014; and also, consensus seems to be well below the guidance you have for 2015. So I don't know whether you are comfortable with the just above EUR1.4 billion CapEx for 2015, and whether we should expect further declines, going forward. Thank you.

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

Steven will answer the first question, and I will start with the second one on CapEx. Our guidance for 2015 was including Reggefiber, less than EUR1.5 billion.

And looking at the breakdown of the EUR1.5 billion, EUR200 million was the Reggefiber part. And as you know, well, we have taken the decision to balance the investments in copper and fiber in a somewhat different way than we had put in the plan at beginning of this year, somewhat lower fiber-to-the-home CapEx, so it will not be EUR200 million but somewhere around EUR150 million.

The Reggefiber CapEx, and looking at the CapEx in the Netherlands and Belgium, Belgium was also somewhere between EUR150 million and EUR200 million as part of the less than EUR1.5 billion.

Given the fact that we are almost done with the rollout of 4G, in Belgium, we expect a somewhat lower CapEx number in Belgium. And on the Netherlands, I expect that we are on track, well, to spend a CapEx that was part of the less than EUR1.5 billion.

So it will be less than EUR1.5 billion, and we will update you in February if it will be -- how much lower it will be then than EUR1.5 billion.

And Steven, on the financial expenses?

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

Yes, if you look at the bond tender, this will lead to a certain one-off financial impact at settlement, which is expected in next week. Of course, the exact amount will depend on the financial take-up of the tender and the mix of bonds accepted.

If you look at financial expenses for next year, we already -- they will be much lower than this year because also we have the bond redemptions this year, next year. [And next year the bond tender and redemptions will lead to between EUR100million and EUR150 million interest savings in 2015.] (corrected by company after the call)



Luis Protá - *Morgan Stanley - Analyst*

Sorry, can you repeat the figure, the last figure?

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

The total amount is EUR100 million to EUR150 million free cash flow savings, and for the bond tender itself it's up to EUR70 million [in] 2015.

Luis Protá - *Morgan Stanley - Analyst*

Okay, thank you.

Operator

Keval Khiroya, Deutsche Bank.

Keval Khiroya - *Deutsche Bank - Analyst*

I've just got two questions on the business segment. When we look at the overall revenue decline for business, it improved quite materially in Q3 versus Q2. Do you see that trend as sustainable?

Secondly, business mobile did deteriorate a little bit in the quarter when we look at the overall revenue growth rate versus Q2. Can you talk a little bit about what is driving that? Is that an impact from the consumer pricing effect in business, or is there anything else going on there?

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

The total size of the business market continues to decline, due to the ongoing customer rationalization and optimization, driven predominantly by the difficult macroeconomic environment, as I explained in my presentation.

And we are making, in the business market, very good progress on the strategic KPIs, looking at multi play and 4G; and we have also made further progress with the execution of the Simplification program.

Going forward, we expect a continued pressure on the market size, and thus pressure on the revenue of business market. And to be able to partly offset this revenue decline, we have taken the decision to accelerate the Simplification program in the business market, to accelerate the OpEx reductions in the business market, because we expect that the operating environment in the business market will remain difficult, going forward.

Keval Khiroya - *Deutsche Bank - Analyst*

That's great. Can I just follow up? But when we look at the overall revenue decline in business it improved quite a bit in Q3. That improved trend, do you think that's sustainable? Or do you see the H1 trend as more realistic for the revenues?

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

The first-half trend is more realistic than the Q3 trend.



Keval Khuroya - *Deutsche Bank - Analyst*

That's great. Thank you.

Operator

Fred Boulan, Bank of America.

Fred Boulan - *BofA Merrill Lynch - Analyst*

Two questions from me, please. First one is you could come back on the fixed environment and dynamic in terms of promotion. So for the fixed revenues deteriorating this quarter, do think this is a temporary phenomenon and we will see revenue getting back to growth, and when do you expect that; or we should expect this pick up in promotional activity to be a reasonably sustainable feature?

Secondly, on the mobile side, what do you make of UPC's new mobile pricing? Do you think it's a threat for the market? And overall, how do you expect T-Mobile and Vodafone to react to your very successful traction you have [with] (inaudible) offers? What kind of reactions should we look for here? Thank you.

Elco Blok - *Koninklijke KPN NV - Chairman and CEO*

Let's start with the fixed question. As I said earlier, we are balancing growth and profitability to maximize value in the market.

For now, we expect to continue, at least in the fourth quarter, our commercial initiatives to support the continued good growth in both broadband and PC as we have seen in the third quarter. And we'll have to see if we continue to be as aggressive as in the third and fourth quarter in the first quarter of next year.

I expect, given the current underlying trends in the fixed market, that we will return to growth somewhere in the quarters to come. So that about our fixed business.

Then, the UPC mobile pricing, it has not started another price war in the Dutch market. We view the UPC mobile introduction mainly as a retention tool and targeted, so far, a limited segment of the market with pricing that is similar as the current pricing in the segment they are targeting, comparable to what Ziggo is offering.

So no additional aggressive pricing in the market, and we don't expect a next wave of major price changes in the market from these tariffs. And you've also seen, looking at Ziggo's mobile offerings, that that's not creating material traction amongst their fixed customer base.

What do we expect from T-Mobile and Vodafone, similar responses as we have seen in the previous quarters. So no real aggressive structural price decreases, but temporary promotions, as we have seen in the previous quarters.

Fred Boulan - *BofA Merrill Lynch - Analyst*

Good. Thank you. Just a follow up on this. So if you -- if (inaudible) [play] becomes a real trend and you start to migrate a significant portion of your broadband base to mobile, their pool of churn will go down quite dramatically. Don't you think that will trigger a different type of action here? Or you think they will just go ahead and live up with a lower market share?

Eelco Blok - Koninklijke KPN NV - Chairman and CEO

It's a good question. And you never know the response of competition. We think we are really well positioned and that especially our multi-play offerings are doing a great job; not destroying value from a discount perspective, but lowering churn, because we are offering additional benefits to our customers, and at almost no incremental cost because we own both fixed and mobile networks.

So that's what we are doing very successful, and it will not be easy for competition to counter this with more aggressive offerings. And we are really focusing on value, we are balancing base growth and profitability very carefully, and we are ready to continue what we have been doing over the last quarters in a balanced way.

Fred Boulan - BofA Merrill Lynch - Analyst

All right, thank you.

Steven van Schilfgaarde - Koninklijke KPN NV - interim CFO

Okay, I just want to come back to your question, Luis, on the cash interest costs in 2015. I meant to say that in 2015, I expect EUR100 million to EUR150 million lower cash interest costs also due to the bond tender, so a positive impact on the free cash flow.

Operator

Emmanuel Carlier, ING Bank.

Emmanuel Carlier - ING Financial Markets - Analyst

I have two questions; one on the cost savings. You used to guide that you would make more than EUR300 million savings by 2016. Year to date, and three quarters, I see that you're already around EUR100 million. Does that imply that next year the savings could potentially be a little bit lower than the EUR100 million, which used to be the run rate?

Secondly, on the market update in the Netherlands from the ACM, is there any comments you could make, or you would like to make, on how things might change from a regulatory point of view?

And then on the impact from the cost savings, could you please repeat that? So is it EUR100 million to EUR150 million lower interest cash costs that you expect by 2015, year over year? Thank you.

Eelco Blok - Koninklijke KPN NV - Chairman and CEO

Yes, to start with the last question, the clear answer is yes.

Emmanuel Carlier - ING Financial Markets - Analyst

Okay, thanks.

Eelco Blok - Koninklijke KPN NV - Chairman and CEO

Then on the ACM outcome, yes, I'm not going to comment before the ACM has announced the new regulatory framework.

Looking at the UPC/Ziggo merger, what for us is important, that there will be a level playing field. That's the only comment I would like to make upfront.

First, we have to see the draft decisions of the ACM; that will be expected shortly. Then we will look at it, and we'll comment on the draft decisions of ACM after they have made the announcement; shortly, as I said.

On the cost savings, yes, the beginning of this year we announced the Simplification program with at least EUR300 million run rate savings by the end of 2016. Year to date, Q3, in the first year we are already on EUR100 million.

I'm not going to upgrade the outlook on the Simplification program, but I can assure you that in the beginning of February we will update the number; and it will not be a lower number than the EUR300 million. So you -- we don't expect a lower result in 2015 and 2016 of the Simplification program.

Emmanuel Carlier - *ING Financial Markets - Analyst*

Okay, that's very clear. Thank you.

Operator

Usman Ghazi, Berenberg.

Usman Ghazi - *Berenberg Bank - Analyst*

I just have one question, just going back to the regulatory environment. I understand that you can't comment in detail, but were you surprised that the [EC] let the transaction go through without any remedies on cable?

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

Not really, given the position of the EU-related to cable. I was a little bit surprised that there was only a small remedy on content, because Film1 -- yes, well, the forced sale of Film1 is not really a remedy looking at the content position of Liberty and the plans they have on content. So that was a little bit surprise. But on broadband, yes, for us there was no surprise (multiple speakers).

Usman Ghazi - *Berenberg Bank - Analyst*

Okay, thank you. And how much leeway does the local regulator have here to address any view that they might have that there is a lopsided situation in the Netherlands now on the fixed side?

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

That has become smaller. But, of course, they have some leeway, but I really want to wait 'til we have seen the outcome of the market analysis and can see the details of the draft decisions of ACM. As I said, we expect them shortly.

Usman Ghazi - *Berenberg Bank - Analyst*

Okay, thanks. Just one follow up. I just wanted to understand, your view has -- in not saying anything on cable regulation in the Netherlands, has the EEC had -- is it your view that they have not taken a view on that? Or is --?



Eelco Blok - Koninklijke KPN NV - Chairman and CEO

Well, I think that they have a clear view, resulting in the decision the EU has taken. So that's a clear view from the EU. And we have to await what the ACM view will be, looking at the regulatory framework for the next three years in the Netherlands.

Usman Ghazi - Berenberg Bank - Analyst

Okay, thank you.

Operator

Ulrich Rathe, Jefferies.

Ulrich Rathe - Jefferies & Co. - Analyst

Maybe two questions from my side. The first one is on the business segment. You mentioned that there were several smaller one-offs, which, I suppose, didn't qualify as incidentals in your definition. It sounded, though, as if these one-offs together had a visible impact. I was just wondering whether you're willing to give us some indication what the one-off -- supportive one-off in the business segment in total were the impact in the third quarter.

My second question is on the outlook, specifically into the fourth quarter. Usually, this is a marketing-intensive quarter, so usually there is a bit of EBITDA seasonality in the fourth quarter. However, you have, of course, this outlook, and a pretty unusual overall phasing of results in 2014 through the quarter.

I'm just wondering whether you could give us any indications how currently you see the seasonality patterns shaping up in the fourth quarter, i.e., normal seasonality, or something rather unusual, as we have seen unfolding during the year. Any color on that would be kindly appreciated. Thank you.

Eelco Blok - Koninklijke KPN NV - Chairman and CEO

Okay, for the fourth quarter, we expect an improving year-on-year trend, so continued improved year-on-year trend, as we have seen in the first three quarters of this year.

And on the first question about the smaller incidentals, it's they are a few millions.

Ulrich Rathe - Jefferies & Co. - Analyst

Thank you.

Hans Soehngen - Koninklijke KPN NV - Head of IR

Okay. With this last question, I would like to close this Q&A session. Please let the investor relations team know if you've any further questions. Thank you.



Operator

Ladies and gentlemen, thank you for attending this call. You may disconnect your line now.

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