



# Event transcript

## Q3 2019 Results webcast

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## KPN Q3 2019 Results

**Operator:** Good day, ladies and gentlemen, and welcome to KPN's third-quarter 2019 earnings conference call. At this moment, all participants are in listen-only mode. We will be facilitating a question and answer session towards the end of today's prepared remarks, at which time if you would like to ask a question, you may do so by pressing star one on your telephone. Please note that this webcast and conference call is being recorded. I will now turn the call over to your host for today's conference Bisera Grubestic, Head of Investor Relations. You may begin.

**Bisera Grubestic (Head of IR, KPN):** Thank you, operator. Good afternoon, ladies and gentlemen, and welcome to KPN's third quarter 2019 results presentation. Before turning to the core of the presentation, I would like to draw your attention to the Safe Harbor statement on page 2 of the slides that also applies to any statement made during today's call. In particular, today's presentation may include forward-looking statements, including the company's expectations with respect to its outlook and ambitions, 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 our CEO, Joost Farwerck.

**Joost Farwerck (CEO, KPN):** Thank you Bisera and welcome, everyone. Jan Kees and I will take you through a presentation on our third quarter results and the outlook for the full year. I'm proud to have assumed the role of CEO of KPN and my focus will be to execute and deliver on the current strategy. In the third quarter, we again made good progress with the execution of our strategy. We introduced new consumer propositions to further focus on household value, and our financial results were solid. We've continued to focus on discipline for strong cost management. The accelerated simplification and digitalization of KPN has resulted in another 37 million of net indirect opex savings in the quarter. The total since the start of the program beginning this year now stands at €103 million.

On the network side, we are further accelerating the ramp-up of our fiber rollout in the Netherlands, and our mobile network modernization is delivering first good results.

We successfully tested our 5G network using our field lab locations in the Netherlands, using a test license for the 3.5 gigahertz band a download speed of 1.3 giga[bit] per second was realized. This shows that we are on the forefront of the 5G in Netherlands.

Finally, I would like to highlight our achievement in being ranked as one of the most sustainable telecom companies in the world. I'm pleased that we are listed in the Dow Jones Sustainability World Index for the eighth time in a row. We firmly believe that being a leader in sustainability is vital to preserving our competitive advantage and securing the long-term interests of all stakeholders.

As you know, our ambition for the coming years is based on delivering organic growth in a sustainable way. And to achieve this, we are running the execution of our strategy through three pillars. The best converged smart infrastructure, focus on profitable growth segments, and acceleration of simplification and digitalization. Jan Kees and I will give you an update on our progress in these three pillars throughout the presentation.

Currently, we are ramping up our fiber rollout and at this moment we are working in more than 60 areas throughout the Netherlands. As of end of September, we had connected approximately 70,000 households to our state-of-the-art fiber network. This is an increase of 30,000 compared to the end of Q2. And we will continue to further ramp up and rollout in the coming quarters since it is our plan to reach 1 million additional households by end of 2021.

In the beginning of October, we also commissioned our first operational DSLAM with PON technology, G-PON, XGS-PON, supporting our fiber strategy. Our efforts mean that more and more households are

getting efficient access to a super-fast gigabit connection. This underlines our ambition to build the digital highway of the Netherlands.

We started the modernization of our mobile network, swapping equipment in the The Hague area. And there we have installed the latest Huawei RAN equipment enabling the use of 6 to 8 spectrum bands. So, we are upgrading our network with future-proof technology and other areas will follow soon.

We upgrade our sites with four by four or higher order MIMO and we are moving the backhaul to 10 gigabits per second. First results are very encouraging, with download speeds significantly increasing. We are confident that ongoing upgrades in the coming years will result in a further improved customer experience and a stronger KPN.

Let me now say a few words on our new fully converged proposition KPN Husel. In Consumer, we focus on converged households to drive growth, and we do this by: building the digital highway of the Netherlands and offering the best customer experience, growing our converged customer base and increasing product penetration for households, and we do this while always making sure we focus on value.

We have announced a new converged proposition for Consumer and SoHo customers named KPN Husel and this proposition ticks all three boxes. It adds to customer experience. It is designed to grow the converged customer base and product penetration, and we are confident that the new proposition will add value for KPN.

Modern society brings ever-changing demands. People marry, divorce, decide to have children, they move, go abroad, they start new businesses, etc. And we designed a proposition that can be tailored to everyone's needs. That can be changed as our customers lives change. Therefore, we present the first fully flexible household solution in the Dutch market. A one-stop-shop for broadband, mobile, TV and entertainment. And, we introduced new converged benefits, discounts on mobile remains and in addition, we offer a €5 discount when customer combine fixed, mobile and entertainment such as Spotify, Fox Sports or selected other OTT services. Further information can be found on slide 27 and 28 in the appendix of our presentation.

We also introduced unlimited mobile data bundles for the higher end of the market. However, only available when a customer also takes fixed services. And we launched a mobile proposition, especially designed for kids, available only as additional SIM in a household.

The KPN Husel proposition is aimed at: first, become attractive for a larger number of households by offering complete freedom to mix and match services to the specific household needs. Second, increase product penetration in households and thus maximize the share of wallet in a specific household. Thirdly, it is positioned to be competitive in the premium segments for households that have all of their Telco services with KPN. And finally, full convergence benefits are only available if customers have both KPN Fixed and Mobile, so we are steering towards maximum value.

This next push into converged households will positively impact NPS, churn and results in a higher customer lifetime value.

Our Net Promoter Score remains best in class. Consumer NPS rose to a record of +18 in the quarter. KPN is especially valued for its network, its services and converged and IPTV services.

In Business, we've made further progress and NPS improved from -2 last year. On top of that, we are improving our delivery chain and reducing our time to market and the number of products. And this makes us confident that we can further improve the experience for our B2B customers going forward.

In the quarter, we received several awards. We are recognized as the strongest Dutch Telco brand by independent research from brand finance. Our brand strength was triple-A, an award to be proud of. In addition to our strong brand, we were also awarded best Dutch retail chain scoring well price, quality,

expertise, customer friendliness and ease of shopping. And this is a recognition that our shops showcase the strong KPN brand.

As you may recall, the integration of Telfort positively impacted our convergence KPIs in Q2. Convergence performance has normalized again in the third quarter. We added five thousand converged households, meaning that now almost half of our broadband customers take a combination of fixed and mobile.

And we added 15,000 converged post-paid customers, which means that 62% of post-paid customers also have fixed services. And that is even 73% for our high-value KPN brand. And we further grew the number of SIMs per household. We are confident that the new fully converged KPN Hussle proposition will also contribute further to our convergence performance.

Since we integrated Telfort, we have no acquisition on the lower end of the markets, and this is reflected in our broadband net adds in Q3. We saw a decrease of 17,000 broadband customers during the quarter. Our value focus is also reflected by our fixed ARPU which increased more than 5% year-on-year. And this is mainly driven by price adjustments in Fixed as of the 1<sup>st</sup> of June, higher inflow ARPU a consequence of integrating the Telfort brand, and a continued declining legacy base for our fixed voice and DVB-T customers. Overall, this resulted in flat Fixed revenues in Q3 compared to last year.

In Mobile, we have seen strong inflow on KPN brand customer base, while outflow was mostly visible at our no-frills brands. The postpaid customer base across all brands saw a slight decline in the quarter. The strong net adds at our high-value KPN brand contributed to an improvement in our inflow ARPU. Total postpaid ARPU remained stable sequentially at €17 but year-on-year it declined by more than 6%. As explained during our previous quarterly result presentations, this decline in APRU is partly related to those customers that renewed relatively old propositions with much higher ARPU levels.

As a result of lower ARPU and a lower customer base, we saw mobile service revenues decline by 7.6% year-on-year.

In Q3 2019, Business revenues declined 3.6% year-on-year, which is a slight trend improvement compared to previous quarters. We believe that the strategic actions we have undertaken to transform this segment will drive improved performance in the years ahead. Pro-active migrations to our target portfolio KPN EEN, small business or Smart Combinations, in combination with the shutdown of ISDN per September 1 caused an accelerated decline in Fixed Voice services. This decline is mainly driven by rationalization. In addition, we continue to see a highly competitive mobile market in the B2B space. However, mobile service revenues slightly improved compared to the previous quarter.

On the other hand, we saw strong growth in our Internet of Things business where we were able to sign several new deals and growth improved sequentially. Growth in IT services was mainly driven by Security and Workspace services. Growth in Professional Services and Consultancy was mainly driven by new customers and more cross and upsell on existing customers.

In the business segment, we continue to pro-actively migrate customers to our target portfolio, the KPN EEN platform, our small business proposition or smart combinations. Currently, 68% of SME customers and 45% of LE customers have migrated away from our traditional fixed voice or legacy broadband portfolio. We aim to migrate all SME and LE customers in a smooth way. For the remainder of LE customers, we have introduced smart combinations, and this means we offer our services through standardized building blocks to remove complexity and improve efficiency for our customers. When we migrate customers to an IP based solution, they often rationalize the number of ISDN lines they use because customers don't need the same volume of fixed voice seats on the target portfolio to run their business.

Some companies even are moving completely to mobile-only. The KPN EEN platform offers substantial potential to up and cross-sell additional services to our customers. And this is also what we see happening.

Our proposition for small business owners continues to perform well. We added 8,000 customers to this proposition and 35% of all customers are currently in a converged portfolio. Our new KPN Husel proposition is also available for our SoHo customers. The possibilities, freedom of choice and the flexibility of KPN Husel, combined with unlimited data assure that businesspeople can work anywhere, anytime and carefree.

And with this, I would like to end my part of the presentation and let me now add over to Jan Kees.

**Jan Kees de Jager (CFO, KPN):** Thank you, Joost, and good afternoon, everyone. Looking at the main financial metrics for the quarter, we are reporting revenues 26 million euros lower than last year. A solid year-on-year growth in adjusted EBITDA after leases of 2.9%, and free cash flow of €226 million, reflecting sequentially increasing free cash flow through the year because of intra-year phasing and in line with our guidance. I will explain each of these figures later in the presentation.

So, from this table, I would like to point you towards the row for adjusted indirect opex after leases. Now that we have closed the sale of our data center subsidiary NLDC and announced the sale of our international network, this line includes a cost decrease that is not fully indicative for the progress of our current cost savings program. Of course, we will continue to disclose the net cost savings on a quarterly basis, so the cost savings excluding the effects of lower cost because of the sale of NLDC can be tracked. This quarter, the difference between the indirect opex and our cost savings is approximately €4 million of depreciation right-of-use assets, which we stopped amortizing since we reported NLDC as an asset held-for-sale.

That said, let's look more closely at our revenues. In Q3, our revenues declined 1.8% year-on-year. In Consumer, the decline was fully driven by lower mobile service revenues and mobile handset sales. As we have already explained, we expect to see the mobile ARPU at €17 for the rest of the year. Therefore, this negative year-on-year impact on mobile ARPU and mobile service revenues will also be visible in the fourth quarter.

Fixed revenues remained stable. Increasing revenues from bundled services were offset by lower revenues from legacy services. Business revenues were considerably impacted by our strategic actions and by ongoing competition in mobile in particular. Business revenue decline is expected to continue, mainly driven by migrations and ongoing competition.

Wholesale revenues grew 5.2% year-on-year, mainly driven by higher fixed revenues from wholesale broadband access and higher mobile service revenues. This was partly offset by lower revenues from our traditional fixed and international terminating traffic.

In the third quarter, adjusted EBITDA after leases grew by 2.9% year-on-year. As a result of accelerated simplification and digitalization, the effect of lower revenues was more than offset, mainly driven by lower personnel expenses and IT/TI costs.

Personnel expenses were 10% lower compared to Q3 last year. This strong performance was mainly driven by a reduction in our own and temporary personnel.

Expenses related to IT/TI were 12% lower year-on-year. This was mainly driven by the simplification of networks and IT and contract renegotiations with suppliers. Overall, we've seen solid growth of our EBITDA after leases and a 200 basis point margin expansion.

As Joost explained, we launched a new proposition KPN Husel, and as a result, we expect to increase our marketing efforts in Q4. This will impact marketing expense reflected in indirect opex, which will help to drive the performance of this proposition next year. Our strong cost control is the result of the

ongoing simplification and digitalization of our company. In the third quarter we generated €37 million of net indirect opex savings, bringing the year-to-date total to 103 million euros. We reiterate our cost savings target today. We expect to save approximately 350 million euros of net indirect opex by the end of 2021.

Our free cash flow generation in the third quarter was 226 million euros. The small decline compared to last year is mainly driven by a more negative impact from change in provisions, higher cash interest paid and slightly higher Capex. The effects from change in provisions is partly driven by a large contribution to restructuring provisions in 2018. The higher cash interest rate is related to the coupon on our September 2024 Euro bond, which has a coupon on September 30. Last year, this occurred over the weekend and the coupon was paid in October. These effects were offset by higher EBITDA and a positive effect from change in working capital.

Now let's look at the year-to-date progress of our free cash flow. The year-on-year decline in free cash flow in the first nine months of 2019 was mainly caused by a negative impact from change in working capital, higher Capex and a negative impact from change in provisions. The working capital effect is partly driven by installments paid to fiber contractors, by lower opex due to continuous cost savings and by higher Capex in Q4 2018, leading to additional payments in the first six months of this year.

As we have only just started to ramp up our fiber rollout, the effect of these instalments will remain going forward. And as I explained last quarter, significantly lower opex translates into a higher EBITDA, but not fully into cash conversion that same year.

I would like to emphasize that we expect this negative change in working capital to partly recover in Q4.

Net debt was 248 million euros lower compared to Q2, bringing the leverage ratio down to 2.3 times. This was mainly driven by free cash flow generation during the quarter and the book profit on the sale of NLDC, partly offset by the interim dividend payments of 4.2 cents per share in August. We remain committed to an investment-grade credit profile and aim for a leverage ratio of less than 2.5 times in the medium term.

Now let's turn to the outlook for the full year and ambitions for the 2019 to 2021 period. We maintain our outlook for slight growth in adjusted EBITDA after leases compared with 2018. This is in line with our ambition to deliver organic sustainable growth in the 2019 to 2021 period. Capex outlook for 2019 is stable at 1.1 billion euros. For 2019 free cash flow, we expect at least 700 million euros. The year-on-year decline is mainly driven by higher restructuring charges and adverse phasing of working capital compared to 2018.

We expect the change in working capital to keep recovering in the fourth quarter. However, to remain negative for the full year. In the third quarter of 2019, we saw solid EBITDA growth, and we see that structural free cash flow drivers are intact. Our year-to-date cost savings are developing as planned and similar to the benefits of restructuring, these cost savings will be visible as a free cash flow improvement with some delay. Let me stress that it is very important to look at our free cash flow performance in 2019 as part of our three-year strategic ambition.

And for the full three-year period we reiterate free cash flow growth as a CAGR in mid-single digits driven by growth in EBITDA after leases. We intend to grow the regular dividend over 2019 to 12.5 cents per share. This progressive dividend underlines our confidence in the execution of our strategy for the coming years, which will deliver organic, sustainable growth.

So, let me briefly wrap up with the main takeaways. First, our performance in the third quarter reflects the progress we made with the execution of our strategy. On the network side, we have accelerated the ramp-up of our fiber rollout and started the mobile network modernization. In Consumer, we launched KPN Hussen; a fully flexible household solution positioned to drive growth. In Business, strategic actions

continue to impact our top line, but migrations to a future-proof platform offer significant up and cross-sell opportunities going forward. We achieved significant cost savings in the first nine months, driven by the accelerated simplification and digitalization of our company. And we recorded, as a result of that, solid growth in adjusted EBITDA after leases and we expect full year free cash flow of at least 700 million euros. Now let's turn to your questions.

**Bisera Grubestic (Head of IR, KPN):** We are ready now to start with the Q&A. Before I hand it over to the operator, I would like to point out, please limit your questions to two each and in case there are still questions left there will be some time left at the end of the call, and you can raise a question again. So, operator, you can open the Q&A line.

## Questions and Answers

**Operator:** Thank you, ladies and gentlemen, we will start a question and answer session now. If you would like to ask a question, you may do so by pressing star one on your telephone. So, star one for your questions. Please go ahead. The first question is from Mr. Polo Tang, UBS. Your line is open. Please go ahead, sir.

**Q - Polo Tang (UBS):** Yes, hi. I've just got two questions. The first one is really about the competitive landscape in consumer mobile because we've seen lower prices in the high end and price increases and the low end for mobile. So, you know, what's the overall net effect on KPN and how do you see the competitor dynamics in consumer mobile?

The second question is really about mobile network sharing. So, we've already seen a move towards network sharing in other European markets. But is this something that KPN could benefit from? And do you think there'll be any anti-trust or regulatory issues? Thanks.

**A- Joost Farwerck (CEO, KPN):** Yeah. Let me first take the first question: the Consumer mobile landscape in the Netherlands. We come from a very competitive environment. As you know, T-Mobile and Tele2 consolidated and we see slight improvements in the whole market, which is also based on our strategy. It is our firm belief that we should focus on value instead of volume. And so first good signs, we see that T-Mobile has stopped its zero and 2-gigabyte plans and they cut price for Unlimited plans, etc. So, they moved up in pricing. We took out Telfort, so that resulted in a higher price point at the low end of our proposition range. T-Mobile has increased prices and now has taken out that bundle I just mentioned.

So, it's early and it's too early to be extremely positive on this, but we see a positive trend. That's what I wanted to say about the mobile competitive landscape.

And related to that, your question on network sharing. Well, over the last, what is it, 10 years, I looked at network sharing quite a couple of times. In the Netherlands we have three mobile networks. We are modernizing our mobile network. When it comes to real 5G out roll in a couple of years from now, and all these networks have to be upgraded to go deeper in the country, I think that would be only doable if we combine forces. So, we now have VodafoneZiggo, T-Mobile and us, a network with more or less 5,000 sites. But if it would ever be needed to go deeper in the country with more sites, then I think it would be wise to combine forces there. And sometimes we already do. On Schiphol airport we have a combined network and it's on infrastructure situations in tunnels, railroads. So, if it is interesting for us, and if it's leading to efficiency, I would not be against it.

**Polo Tang (UBS):** Thank you.

**Operator:** The next question is from Keval Khiroya, Deutsche Bank. Your line is open. Please go ahead sir.

**Q - Keval Khuroya (Deutsche Bank):** One question on restructuring charges. On mobile, you highlighted the impacts of customers on old expensive tariffs migrating down, and we have seen that in the impact and the service revenue trend. How should we think about that drag going forward? Do we think that drag will start to improve or do we think that drag will still, if anything, get worse? Given the postpaid ARPU decline was worse in Q3, year-on-year when compared to Q2.

And then second, restructuring charges. When you had the qualitative guidance for 2019, you had guided for front-end loaded restructuring charges for 2019. Can you provide us with an update on how you now see the phasing over the three years and whether we should expect 2020 restructuring charges to be lower than in 2019? Thank you.

**A - Jan Kees de Jager (CFO, KPN):** Yes, so, well, first on revenue, I can be sure that you know we do not give that much guidance on revenue. We are happy that we see that more than the revenue trends offsetting, we are able to decrease our costs and our cost base, and we expect that to keep happening. Of course, at some point in time also revenue will inflect and then still we have a lot of cost reductions reserve at the same time. So, then you will have a double effect helping EBITDA first on revenue and continuing also on cost reduction as well. But we are still not there obviously on the revenue.

Then on the restructuring costs, we have P&L impact and a cash impact. The cash impact this year will be a bit larger than the P&L impact, and it's important that you see that as we have indicated, that the restructuring charges this year, as known to the market as we have been guiding that on the Capital Markets Day, they will be larger this year than in 2018.

So, although we are helped somewhat in restructuring charges by natural attrition, but also, we have the working capital effect explained in free cash flow because of the fiber rollout as well. So, the restructuring charges of 2020, we do not guide on yet, but we know of course, that everything will have a positive effect structurally on 2020 in EBITDA and going forward also on cash generation in the future of the company. I don't know if that is helpful or do you have any remaining questions? Because I did not get the full - because you had a lot of sub questions on restructuring. But does that answer your question?

**Q - Keval Khuroya (Deutsche Bank):** Yes, no, no I think it does. Can I just go back to - on mobile. Maybe just ask it in a different way. You know, you've obviously got customers who need to be re-priced because they're on old legacy tariffs. Do you think most of those customers have now been re-priced? Or do you think this would be a continued drag as we go into 2020?

**A - Jan Kees de Jager (CFO, KPN):** In Consumer or in Business?

**Q - Keval Khuroya (Deutsche Bank):** In Consumer.

**A - Jan Kees de Jager (CFO, KPN):** In Consumer. Well, in Consumer, you have several effects. Actually because of the - we see some small remaining old - which is called Green 3.0 customers at higher ARPUs, but they are almost out. So, that's a good thing. But still we see, of course, also some inflow of a year ago, roughly a year ago at the beginning of this year at some more competitive levels. But we have - we see, as Joost also indicated, some very early positive signs in our KPN brand as to inflow value. But we also have the Telfort effect as well. So structurally underlyingly, we see in Consumer some positive elements. On the total, again we do not guide yet exactly. Still in Q4 for sure we still have some drag on the effects as explained. In Q4 for sure we still have some drag, but 2020 could be - we could - well, perhaps pocket some of the early signs of improvements.

**Keval Khuroya (Deutsche Bank):** Okay, that's clear. Thank you.

**Operator:** The next question is from Mr. Sam McHugh, Exane. Your line is open. Please go ahead, sir.



**Q - Sam McHugh (Exane):** Yes, hi everyone. It's Sam here. Two quick questions. First on mobile wholesale. The ARPU's look really good. I just wondered if you could give a bit of context around the mobile wholesale market and what's kind of driving the strength there? How you see that market fitting into your strategy.

And then secondly, we're all getting to grips with IFRS16 accounting. And when it comes to modelling your lease payments, I just wondered how much of the cost reduction plan relates to lease costs? So, I think you paid something like €150 million of lease payments last year. When we look forward, should we expect these to come down or broadly remain stable? Thank you very much.

**A - Joost Farwerck (CEO, KPN):** Thank you. Yes, Wholesale in general is growing. We do more or less three things there. There's a regulated part, and we do commercial deals on broadband and we do mobile. Our mobile wholesale is the MVNO business in the Netherlands. We do not serve all of these players, but most of them and that is a solid customer base we serve but we are prudent in deal-making there. So, we're doing okay. We're doing good and we have a solid loyal customer base. What we do see is that the mobile services revenues in wholesale are driven by a higher number of data users and increasing data usage per customer. That's mobile wholesale. Jan Kees who you like to -

**A - Jan Kees de Jager (CFO, KPN):** Yes. I think you ask about whether or not and to what extent the lease costs are in the €350 million opex savings. They are part of the field because we see lease costs, lease payments as costs. For example, the Telfort shops that are closed down that face us on leases. You can find leases in the factsheets also at the line on page 7 below the adjusted EBITDA after leases. You see also lease costs. And it's part of the €350 million. But we do not track separately in the 350 million euros the lease costs. So, it is part of that, for example, the Telfort shops and you can also see the total lease spend at KPN in the factsheet, and it is a significant part of it. And I also expect that also to be improving a little bit.

**Sam McHugh (Exane):** Cool. Thank you very much guys.

**Operator:** The next question is from Mr. Luigi Minerva, HSBC. Your line is open. Please go ahead.

**Q - Luigi Minerva (HSBC):** Yes. Thanks for taking my two questions. The first one, Joost is just going back to your comment that you made when you were appointed, you mentioned about ways to accelerate the Capital Markets Day strategy. And I was wondering now if after a few weeks in the job, you are able to provide more details about how you plan to do that.

And my second question is on the Professional Services & Consultancy, which is growing very nicely, and I know it is helping significantly the improvement in trends on the business segment. I'm wondering how, you know, if we can have more details about that business? How sustainable it is. I presume it's quite project-driven and lumpy and therefore maybe the trends we are seeing are not necessarily sustainable. Thanks.

**A- Joost Farwerck (CEO, KPN):** Yes. So, three weeks ago, I mentioned the word acceleration. The way I meant this and still mean this is, first of all, I'm part of the team that built the strategy. We launched the strategy and we're now in full execution in the first year, and I work already longer years in KPN. And the way I look at things is that when we have a strategy, it's extremely important to focus on the execution and all items that are important for the execution, to measure where we delay and where we can go faster and where we can repair and where we can accelerate. So, on all the items we now have in our strategy, I always focus on how to accelerate the execution of the current strategy. And all the items, we see sometimes some headwinds and sometimes some backwinds. Let's say cost-cutting, say fiber rollout, say network modernization and broadband steering. All these items for me are important to check and yes, you could see from a negative way that I am looking for risks, but you can see from a positive way I'm looking for opportunities. But then after three weeks, I'm happy to say that we booked a solid result in Q3 and that we confirmed our outlook on Q4 because that means that at least we're on track.

**A - Jan Kees de Jager (CFO, KPN):** Yes, as to the Professional Services in Business, I can reiterate indeed that they've done well in Q3. They onboarded new customers and they up and cross-sell good revenue to existing customers. But as you also indicated, in Business there is lumpiness. So, for example, in Q4 2018, we saw in Business an exceptionally good strong quarter and now we see in Q3 this year a good quarter. So yes, there is some seasonality in that. Not necessarily to extrapolate, but it was a good performance, but also some seasonality.

**Luigi Minerva (HSBC):** Okay. Thank you.

**Operator:** The next question is from Miss Siyi He, Citi Group. Your line is open. Please go ahead.

**Q - Siyi He (Citi):** Hi. Good afternoon. Thank you for taking my questions. I just have one please. I just noticed that your fiber rollout, you have done 70,000 year-to-date and to meet your 1 million target it suggests that the rollout rate is going to accelerate quite a lot in the next two years. So, I'm wondering, how should we think about the potential impact to your 1.1 billion Capex budget and allocation for the coming two years? And if I can just ask a broader question? I wonder if you could give us updated thinking about your fiber plan post the current 1 million target. Thank you very much.

**A - Joost Farwerck (CEO, KPN):** Yes, so our 1 million ambition in three years is, of course, our plan and you're quite right. Until today we did 70,000 to this year. So, from a distance, one could say that we are not really speeding up, but the thing we do is that we are ramping up the fiber production in quite a strong way in the Netherlands. Currently, we are working on overlay fiber rollout. So that's not for new-build houses but overlay in the 60 different areas. 60. six zero. And that's completely different than the previous years. So, we need time to ramp up this production. So, we think that already in Q4 we do more than the average of what we have shown year-to date. And of course, for the coming years, we will ramp up the fiber rollout, and we will start working in more areas, also in the fourth quarter. So, it will be a rollout scheme that will be much stronger the second year and especially the third year, I think we will do far more than again.

So, that's how it works. Still, there's a lot of production capacity needed for that. We have a lot of contractors hired in the Netherlands. We try to suck up all capacity, to put it that way and our Capex envelope is designed for that. It is our ambition and our plan to move Capex, we use for large IT programs, we're finalizing currently more to the production of fiber-to-the-home as an example. So, within the current Capex envelope of 1.1 billion, we will do this rollout.

**A - Jan Kees de Jager (CFO, KPN):** Yes, so the Capex envelope shifts accordingly what Joost explains into the rollout phasing. So, you see progressively that the Capex envelope will shift. So, already now we are going €1.1 billion but with much more fiber than last year and also with mobile network modernization. This year that also requires actually quite some Capex as well. This year and next year. But we will do that as part of the €1.1 billion as we shift gradually, I, for example, IT Capex towards access Capex. And this will be done progressively. So, the Capex envelope will remain stable at 1.1 during the phase-out.

**Siyi He (Citi):** Thank you very much.

**Operator:** Next question is from Mr. Usman Ghazi, Berenberg. Your line is open, please go ahead sir.

**Q - Usman Ghazi (Berenberg):** Hello. Thank you for allowing me the opportunity. I've got two questions please. Firstly, the – on fiber again. I guess the – we've seen the ACM issue some proposals to encourage kind of, co-investment in the Netherlands. It seems from the outside at least a no brainer for – you know, if the smaller players are now struggling to build fiber because KPN has accelerated, you know, the rate. Why is it not a good idea potentially for KPN to, you know, do some co-investment with them? So, you are able to reduce your Capex that you're deploying here and accelerate the run rate? So just any thoughts on that would be helpful.

And then the second question was just on the PSTN and ISDN shut down in the B2B segment. I guess we're pretty much – we'll be pretty much there in Q1 next year. So, I mean, do the cost savings from that shutdown start to flow through with a lag or will we start to see that very early next year? Thank you.

**A - Joost Farwerck (CEO, KPN):** Yes. So, on the – your question on the report of our regulator ACM and about fiber rollout in the Netherlands, which I discussed with ACM last week, by the way, and I told them the same thing. I and KPN, we do not recognize ourselves in this report and we are investing a lot in the Netherlands and rolling out, like I just said, in more than 60 areas currently. And we are speeding up the fiber rollout. Sometimes, but that's in less than five situations, we meet another initiative, and we try to make a deal. So, leading to co-invest and sometimes we do not make a deal and we roll out jointly. And that is what ACM was pointing out, that that would be inefficient. We are an infrastructure company, so we benefit from yielding our infrastructure. And every now and then – we have an open infrastructure, by the way. So, we have also a lot of third-party players on our network. But sometimes we do it the other way around. So, there are small areas in the Netherlands where we are on fiber of small initiatives because of efficiency, especially in rural areas, we have done that three or four times.

But like I said, we are rolling out fiber and we're not focusing on frustrating third-party rollout initiatives and we will continue to roll out fiber for the coming years.

**A - Jan Kees de Jager (CFO, KPN):** Yes, and as to the cost savings, they will come in later, related to the shutting down of copper. We can do that per region. We do not necessarily have to wait for the whole country, but for the whole region, we have to shut down all copper legacy services to enable us to pocket the cost savings for that. So, this year, for sure, but also even next year, not much cost savings yet related to the shutting down of copper. And even most of the cost savings related to the shutdown of copper will actually be after the €350 million period. So actually, that's also positive news. So, it will be on top of that. But we'll start seeing that probably, no, perhaps later next year, but especially the year after that and then progressively we see the results of shutting down copper.

**Usman Ghazi (Berenberg):** Thank you.

**Operator:** The next question is from Mr. Michael Bishop, Goldman Sachs. Your line is open, please go ahead sir.

**Q - Michael Bishop (Goldman Sachs):** Thanks. Just two question firstly on the cost-cutting. Just following up on a couple of the previous questions. To what extent where you are ahead on the cost-cutting run rate? Is it quicker execution or you're finding new opportunities beyond the original identified €350 million?

And then secondly, a broader question on fixed competition. You highlighted the impact of the brand strategy, but I was just wondering away from that how much impact you saw from the price increase or what the impact was limited in terms of churn? Thank you.

**A - Jan Kees de Jager (CFO, KPN):** On the costs again. Well, mainly, for now, it's acceleration of the cost programs but we know, of course, after each cost program, we see another – the horizon shifts again for another cost program. So, we are clearly, not anywhere near that ultimately, we want to be as a cost-efficient operator. We want to be the most - one of the most efficient and class-leading operators in Europe. And we still see a lot of potentiality also after, behind the €350 million cost programs for that. For example, related to the shutting down of legacy and all IP software-defined networking company can still – we still see a lot of benefits there and also fiber. Fiber actually runs which we are now progressively rolling out - fiber rolls out is maintained and operated as the least cost operating infrastructure for moving a gigabyte around any network. So now we are in our copper network we are operating one of the most expensive - after mobile, one of the most expensive networks to move a gig. Coax clearly being more efficient, but fiber is even much more efficient than coax. So, we are moving towards a much more

efficient - also in opex terms - infrastructure. But those benefits will take years ahead. So partly it's accelerating. But of course, it also creates new cost savings opportunities after that horizon as well.

**A - Joost Farwerck (CEO, KPN):** And on your question on fixed competition, of course, we show a broadband-based decline of 17,000 users, which is better than the previous quarter, but still. But let me explain. We focus on value steering. And we stopped in the no-frills segment. So no longer we acquire customers in the Telfort brand. And that effect is mitigated by adding more loyal converged customers in the KPN brand. So, we see a much higher ARPU inflow in the broadband base. We also, of course, push our fiber-to-the-home rollouts, and adding to this is that we see also a strong broadband inflow on the wholesale base of plus 24,000. So, all in all, our network penetration on broadband is doing good. Of course, we have a retail strategy and it's extremely important for us to avoid the base to decline, but on value creation we did good last quarter.

**Michael Bishop (Goldman Sachs):** Thank you very much.

**Operator:** The next question is from Mr. Konrad Zomer, ABN AMRO. Your line is open, please go ahead, sir.

**Q - Konrad Zomer (ABN AMRO):** Hi, good afternoon. Thanks for taking my questions. I have just one question which is on KPN Hussel. The flexibility and the mix and match nature of the product sounds very appealing, but can you maybe explain to us if that has any impact on the efficiency benefits that you've put through? Can it lead to higher costs to operate this given the network modernization that you're putting through? And will this become more difficult to manage or is this fully automatic in your systems? Thank you.

**A - Joost Farwerck (CEO, KPN):** Yes, so KPN Hussel. A strange name for non-Dutch users, but yes, we did three things at the same time. So, it was a challenging program. We built a complete software back-end for this proposition. Second, we launched the new proposition, and we started the campaign around it. So that was a lot in the same time. But your question is spot on. This is not a proposition we have to serve in the old back-end. But we've built a new back-end. So, everything is automated. Customers can click what they want. They can adjust their needs, and it will be done fully automated. And that's why it took us a while. That was why we were delaying this program even a couple of months because we wanted to be sure that the full automation end to end value chain, and service chain to our customers would work. And it does. So, no. No additional cost expected on Hussel.

**Konrad Zomer (ABN AMRO):** Thank you.

**Operator:** The next question is from Mr. Guy Peddy, Macquarie. Your line is open. Please go ahead, sir.

**Q - Guy Peddy (Macquarie):** A point of clarity, please. You talk a lot about cost-cutting, but so far this year, EBITDA is up cumulatively €36 million and we've had €93 million of P&L restructuring costs. So, can you give us a sense of when we will actually get payback on that €93 million this year? So, I can understand better the scope of the cost-cutting.

Secondly, and small thing, you talked earlier about ARPU deflation from sort of, back book customers migrating to cheaper price points. Can you sort of give us a steer of quantity of, you know, what proportion of your base is still on legacy expensive contracts and you expect to roll through in the coming months and quarters? Thank you.

**A - Jan Kees de Jager (CFO, KPN):** Yes, so on cost savings, we report this year already €103 million net opex savings. And yes, we have a restructuring P&L impact to €93 million related to FTE reductions. Not all opex savings, of course, are related to FTE reductions, but most are so but not a one-on-one relationship. But generally, the cost reductions of a certain year already are beneficial after roughly a year or a bit more than a year. So although you cannot see directly a relationship between the €103 million net opex savings and the €93 million P&L impact, it is roughly also true that with a bit of a delay

of a bit more than a year, you see already both in cash flow and EBITDA, well EBITDA actually of course earlier, you see already the benefit of restructuring going on. So, in the Netherlands, although not the most flexible labor market in the world, compared to most continental - western continental European countries, we are a bit earlier in taking the benefits of restructuring.

**Guy Peddy (Macquarie):** Thank you.

**Operator:** The next question is from Mr. Frederic Boulan, Merrill Lynch, Bank of America. Your line is open. Please go ahead, sir.

**Q - Frederic Boulan (Bank of America Merrill Lynch):** Hi. Good afternoon. Two questions for me, please. Firstly, if you've seen any impact from the cable wholesale regulation, either in terms of renegotiation attempts from your customers or some volumes started to shift to that offer.

And secondly, if you can share with us your expectations on the 5G auction in terms of timing and structure. Thank you.

**A - Joost Farwerck (CEO, KPN):** Yes, cable regulation. No, we do not see a negative impact on the mid-term for KPN for two reasons or more. It's still not happening, really. It's a debate ongoing. Secondly, the cable wholesale pricing is in line with more or less our fiber pricing now fiber is the superior infrastructure, so I don't think that will be a risk. And on copper we are much cheaper. And thirdly, our customers are fully connected to our network in different locations. So, it's easier said than done than swapping suddenly your whole way of working to cable. So, to my opinion, it will be very difficult for a third-party player being on our network with serious numbers of users to just start using cable as well.

And your second question was, if I'm not mistaken, about the auction, spectrum auction, right?

Ok I assume it is. So, next year we have an auction coming up, but not on 3.5 gigahertz, we need for 5G, that will be probably two years later. So, it's the spectrum we currently use and the 700 megahertz. We can also use for 5G to cover in the Netherlands in an efficient way. But it's not the real 5G spectrum operators use in other countries.

So, we think that it will be a - the way I look at it now, a transparent auction with already I know for sure, the right caps in place. So, we wait for confirmation from the ministry, I expect it to happen within a couple of weeks, and then we know for sure. But if I'm not mistaken, it will be a transparent design.

**Operator:** Let's move on to the next question, Mr. Paul Sidney, Credit Suisse. Your line is open, please go ahead, sir.

**Q - Paul Sidney (Credit Suisse):** Yes, thank you very much. Good afternoon. Just a couple of quick questions from me, please. Firstly, really a couple of follow-ons, I guess. But on the discontinuation of the Telfort brand, what are you generally seeing in terms of behavior from the Telfort customers that are coming out of contracts? Are most of them happy to go onto a KPN package? Just wondering what you've seen over the last few months.

And then secondly, another follow-on from the wholesale revenues question. You're clearly benefiting from rapidly growing data usage among your wholesale mobile customers. I just wondered, going forward, does that really put these MVNOs under more pressure, and do you think they'll have to raise price in order to, you know, be able to cope with these rising costs? Thank you.

**A - Joost Farwerck (CEO, KPN):** Telfort, yes. Well, you know, it's a very delicate program to migrate your customers in a customer-friendly and commercial way to a new brand. And that's what we do with Telfort users because before you know, competition starts hunting for them. So, we approach our customers based on their current use. And we try to tailor make the propositions for them to move them into KPN Huis. That will be the trick for the coming period and the customers that move are the real, yes, low price fighters - seekers, sorry. And that's where we make the choice, yes, to go for the more value

customers. But of course, you're right. This is a very important program to make sure that all or Telfort customers will migrate to KPN.

On wholesale revenues, yes MVNO data usage - yes, we have a price scheme in place that they pay for data usage. And that is a very important point of negotiation every year, of course. People start to use more and more mobile data. And so, in KPN, much more and probably on T-Mobile and VodafoneZiggo as well than these MVNO players do. But still, we see a strong growth of data. But that, of course, for us, is always a balancing act between value creation on the financial side and managing your network capacity. So, until now, we do good. And we have the deals in place for a longer period of time. And every now and then we renegotiate. But yes, we look very carefully at this.

**Q- Paul Sidney (Credit Suisse):** And presumably, it puts you in a stronger negotiating position, the more data usage grows?

**A - Joost Farwerck (CEO, KPN):** Yes, but of course, there's always a market there so, we're not the only network in the Netherlands, so - but it's not that easy for an MVNO by the way, to just swap network, but I think the play - the way we do it currently is good and every year or every two years, we renegotiate. It's also dependent on what we see on data usage. And we will follow this. But we have a good position. That's true.

**Paul Sidney (Credit Suisse):** Yes. That's very helpful. Thank you very much.

**Operator:** The next question is from Mr. Roman Arbuzov, JP Morgan. Your line is open. Please go ahead sir.

**Q - Roman Arbuzov (JP Morgan):** Thank you very much for taking my questions. The first one is just on your €350 million cost-cutting guidance. You have clearly been delivering very strongly year-to-date. And just now, Jan Kees, you've also mentioned that there are additional opportunities that you are discovering as you are executing and embarking on this on this cost-cutting journey. So, I guess from multiple directions and angles, one can argue that your guidance is now starting to look conservative. And I was wondering if there are any particular reasons that are making you cautious or if there is any evidence that you see that makes you think that the pace of cost-cutting will slow down for whatever reason. So, if you can just clarify, you know why essentially, you're not upgrading your guidance, that would be extremely helpful.

And then the second one is just on the balance sheet. So, in terms of the balance sheet, your second quarter running now, you know, within your guidance range of below 2.5x. But at the same time, you continue to generate a healthy amount of free cash flow, which is set to accelerate in the following two years as well. And your dividend pay-out remains modest. So, I was just wondering, what are your plans and current thinking for the extra capital that you are generating? And also, perhaps within that answer, if you could give us perhaps some indication of where precisely or roughly even, where you would like to be within your guidance range of below 2.5x. You know, it's closer to two or any other point? Thank you so much.

**A - Jan Kees de Jager (CFO, KPN):** Yes. Thank you. Well, first of all, on the cost savings, I wouldn't say it's conservative, perhaps prudent, yes. But there's always some seasonality in cost savings. Obviously, we do feel strengthened, obviously, that we will be able to reach the target. At the same time, we also are not in the business of revisiting every quarter the target to upgrade or not. So, it's a multiyear target that we have, just three quarters ago, have been indicating. So, but, yes, we do feel confident very much about it. There's no particular reason why structurally we do - we see less cost savings ahead. But also, a lot of the cost savings on the longer term will be again fueling a second program off of this program also. So, not necessarily everything that I have indicated that can, of course, will be in this program, obviously, for example, related to the shutdown of legacy, a lot of it will fuel after this period and be able to fuel another program after 2021.

Then to the - your balance sheet question. Yes, we are at 2.3x at the moment, which is a good position at the moment obviously to be in and no need at the moment to be nervous of - to be - to be too low-levered I think, at the moment. But of course, we will see - we always see it as a mid-term target below 2.5x. And if we have any excess cash, we will utilize it according to our excess cash policy that we have been reiterating every quarter for many years. So excess cash could be utilized for operational and financial flexibility and also shareholder remuneration.

As to the long-term shareholder remuneration dividend policy, we have also said it will be progressive. So, dividends will have a progressive future as well. So, I wouldn't say that we have a conservative dividend policy at all, but it's prudent, of course, as well.

**Roman Arbuzov (JP Morgan):** Thank you so much.

**Operator:** The next question is from Miss Nawar Cristini, Morgan Stanley. Your line is open. Please go ahead.

**Q - Nawar Cristini (Morgan Stanley):** Thank you very much. I have two quick follow-ups on the Telfort rebranding, please. So, we see negative impact from that on Fixed net adds. But the mobile net adds have been quite resilient. So, could you elaborate a little bit on this different picture? Is it just a reflection of the fact that the mobile competitive environment is a bit better? As you said, or is there more? And secondly, on the fixed net losses, could you talk a little bit about how much of these net losses you get back to KPN through wholesale and discuss a little bit the net impact on profitability from those net losses? Thank you very much.

**A - Joost Farwerck (CEO, KPN):** Yes, on Telfort, so like you said, we lost customers on the broadband side, and we did better on the mobile side. Yes, that's it. It's also a little bit the different environments, of course. In Telfort we managed an acquisition and churn rates and on broadband this was relatively on the lower-priced part of the market. So that is what we took out. And I think that the difference between KPN pricing on broadband in that segment and the difference between KPN and Telfort in the mobile market is bigger, so that's why we lost a couple of customers. But that was not – or let's put it that way, that was in our strategy to do that. So, of course, now we saw a strong inflow of KPN customers with a higher ARPU. And of course, it's now our job to push the inflow of customers to KPN. But you're right. We equalized this more or less with wholesale inflow. So, I mentioned 24 or 26,000 broadband customers came to our base on the wholesale side. And we don't give really insights in the margin there, but this effect is of course, value-creating. But still, like I just said, as well, we have a retail strategy that's in our goal to first stabilize the base and then grow again.

**Navar Cristini (Morgan Stanley):** Okay, thank you very much.

**Operator:** The next question is from Mr. Mandeep Singh, Redburn. Your line is open please go ahead sir.

**Q - Mandeep Singh (Redburn):** Thank you. I have two questions, please. The first question is on fixed wholesale. It's been running quite steadily to around €125 million per quarter. Quite a big step up to I think about 130. Can you sort of, just explain the drivers? Are there any, sort of one-offs and then in terms of upfront connection fees or is it just like you're selling bigger volumes? Just give us an idea and on the sustainability of that new level, you've got about €130 million.

The second question is coming back to the sort of, potential acceleration of strategy. Obviously, you're reiterating 2019 guidance, you're reiterating three-year targets. But as a new CEO and with a new incoming CFO, clearly, you're also evaluating how you may accelerate the strategy. The question really then is, should you choose to accelerate the strategy, should - are the mid-term targets set in stone or could they also be reviewed if you accelerate the strategy? Thank you.

**A - Joost Farwerck (CEO, KPN):** Yes, fixed wholesale. We – so, we have an open network strategy and a couple of years ago these players were more on the regulated level. So, best of access to our network

regulated services, and they started to deliver wholesale themselves. Now, for two reasons, we tried to change the model. First because we want to rationalize our own network. So, we had to move the third parties out of our number exchanges. Secondly, I actually believe that it's a fact that this service would also make it more profitable for our customers. So, we moved up to the active layer and we made a commercial service called wholesale broadband access, and that is what most of the players in the market – so on our network currently use, which has a high ARPU for us. So, most of the wholesale broadband base moved from passive to active access and that increased the ARPU heavily and it's still ongoing.

The second thing we see is this strong inflow which is larger than the net loss on our side. So that means that we lost some retail customers in the no-frills segment. But we saw a strong growth of more than that on the wholesale side. So, if you look at our network penetration, we do something like 51% of all the households in the Netherlands, including the wholesale players. So, on the wholesale side, we do good: strong inflow and ARPU improvements.

**Q - Mandeep Singh (Redburn):** And, sorry, my second question, please.

**A - Joost Farwerck (CEO, KPN):** Oh, sorry, yes. Yes, so as I said, my focus currently now primarily will be to execute and deliver on our strategy, current strategy, which I'm a board member - I already was a board member when we built the strategy. I fully support that. And also, for Q4 and the coming year, it's really important to focus on that. It would be quite disturbing and not good for the company if I would come up with all kind of new plans and by the way, I like I just said, I was one of the board members that built the plan in the first place.

So – and like I also said for me, it is always, and I did it over the last seven years as a board member as well, important to explore how we can accelerate the execution of our strategy, and that is what we always will do. So, on all the strategic items we have in our plan, we are checking if we can accelerate.

**Mandeep Singh (Redburn):** Okay. Thank you.

**Operator:** There's an additional question from Mr. Usman Ghazi, Berenberg. Your line is open.

**Q - Usman Ghazi (Berenberg):** Hello there. Thank you for allowing me the opportunity again. I just wanted to touch on T-Mobile specifically on the fixed side, I guess. You know, apparently the deal - and you probably can't comment on specifics, but they seem to be agitating for better wholesale rates on the KPN fiber network. You know, and I guess there is a risk that you know, the regulators are asked to intervene then they might intervene with a cost-plus kind of analysis on fiber. So I am just wondering how do you see the risk of letting them have more share, which they can use to scale up in the fixed business and they agitate for better prices on fiber and you end up creating something of a Frankenstein in the market, in what is in a market concentrated between KPN and Vodafone. Thank you.

**A - Joost Farwerck (CEO, KPN):** Well, I can't elaborate on T-Mobile here because that is a wholesale customer of ours and it's up to T-Mobile to explain on that. But in general, players in the market can complain about fiber tariffs on our side, that they are too high. They are, by the way, much lower than wholesale fiber pricing in Germany, but – and of course, they complain at the ACM. There are all kinds of processes for that and we have these discussions more or less on a yearly basis. Every year we explain how it works, why they work like this and part of the wholesale deals are not regulated but more commercial, so then it's just up to us and the customer on our network to negotiate the deal. So, yes, we do this for a very long time already. I think our - our fiber case always was based on the combination of retail and wholesale. That's the way to get to the highest penetration on the fiber network. So, we are moving according to plans, but it's not our intention to make an extreme step down on fiber pricing.

**Usman Ghazi (Berenberg):** Great, thank you.



**Bisera Grubestic (Head of IR, KPN):** Okay, this was the last question for today's call. Thank you everyone for joining us. If there are any further questions, please contact our investor relations team. I would now like to hand over to the operator to close the call.

**Operator:** Thank you. Ladies and gentlemen, this concludes today's presentation. Thank you for participating. You may now disconnect your line. Have a very nice day.

[END OF TRANSCRIPT]