



Event transcript

KPN Q4 2020 Results

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KPN Q4 2020 Results Conference Call

Operator: Good day, ladies and gentlemen. Welcome to KPN's fourth quarter and full year 2020 earnings webcast and conference call. At this time, all participants are in listen-only mode. We will be facilitating a question and answer session towards the end of today's prepared remarks. If you would like to ask a question, you may do so by pressing star one on your telephone. Please note that this event is being recorded.

I would now like to turn the call over to your host for today, Mr Reinout van Ierschot, Head of Investor Relations. Go ahead please sir.

Reinout van Ierschot (Head of IR, KPN): Good afternoon, ladies and gentlemen. Thanks for joining us. Welcome to KPN's fourth quarter and full year 2020 results webcast. With me on the call today are Joost Farwerck, our CEO, and Chris Figee, our CFO.

As usual, before turning to our presentation, I'd like to remind you of the Safe Harbour on page two of the slides that also applies to any statements made during this presentation. In particular, today's presentation may include forward-looking statements including KPN'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 Harbour.

I would now like to hand over to KPN's CEO, Joost Farwerck.

Joost Farwerck (CEO, KPN): Thank you, Reinout. Last year was dominated by COVID and we were able to make a valuable contribution to people, households, businesses, and governments in the Netherlands by keeping everybody connected. And at the same time, we delivered on our full year outlook. And that's what we're going to tell you about today, welcome.

Our networks were ready to accommodate the significant increase in traffic. And our people, people in the shops, in service centres, in operations, sales, our field engineers had to adjust the way of working and I'm grateful to all our colleagues, our KPN colleagues, for making this possible.

We're now in 2021 and the virus is still not under control. Same for the Netherlands. But we know and we have shown that we are a robust and resilient company. Also during the pandemic, we are prepared and we are executing and delivering on our strategy, which we shared with you at the end of November, 'Accelerate to Grow'.

Now, let's start with some highlights from the fourth quarter and the full year 2020.

In the fourth quarter, we saw encouraging developments in our mass-market service revenue trends, driven by Wholesale and we managed to further stabilize our broadband base and grow in postpaid.

This quarter, growth in fiber revenues outweighed the loss on copper service revenues for the first time. And we added close to 320,000 households to our fiber footprint in 2020, and we reached the required weekly rollout speed to deliver half a million homes passed this year. Our efforts in modernizing our mobile network have paid off and our 5G network was recognized as the fastest and most innovative 5G network in the Netherlands and yesterday, we were officially announced as being the best mobile network in the Netherlands by Ookla.

Today, we reiterate our ambitions for 2023. And at the end of the presentation, Chris will give you more details on our financials and walk you through our specified outlook for 2021.

Let me highlight a few key figures for the fourth quarter. Corrected for a number of divestments, revenues declined by 1% year-on-year. Growth in Wholesale and Consumer Fixed was offset by lower revenues from Business and a bit Consumer Mobile. EBITDA increased 1.2% year-on-year as the effect of lower revenues was more than offset by continued progress in our cost savings.

Full-year Free Cash Flow increased 6.6% year-on-year to € 765 million. And Return on Capital Employed improved significantly to over 10%.

We delivered on our outlook. EBITDA came in at € 2,320 million in line with the specified outlook we gave at the Q3 results. Capex was just within the € 1.1 billion bounds, and Free Cash Flow came in at € 765 million, a bit ahead of our outlook. We reiterate our dividend commitment and we will pay a regular dividend per share of 13 cents over 2020.

Our 'Accelerate to Grow' strategy is supported by three key pillars as outlined during our Strategy Update. And let me briefly remind you of the highlights.

First, we leverage and expand our superior networks. The fiber business case has proven itself, so we will ramp up further and cover the Netherlands with fiber. Second, we grow and strengthen our customer base in Consumer and in Business, supported by differentiated services and an outstanding digital customer experience. And third, we will further simplify and streamline our operating model, supporting new ways of working digitally and we will – we launched a next wave of cost savings. And together, these strategic priorities support our ambition, our ambition to connect the Netherlands to a sustainable future, to grow mass-market service revenues by the end of this year and to grow EBITDA and to provide attractive shareholder returns covered by a growing Free Cash Flow.

Now, let's start with the first pillar, which is our focus on the leveraging and expanding our superior networks. Fiber is at the heart of our strategy to return to growth in the mass market. And investing in fiber creates value for KPN as it sees attractive returns driven by increased network penetration, more loyal customers who are increasingly willing to pay for quality and lower maintenance costs.

And this year, we will ramp up our fiber production further to a run rate of approximately 500,000 households. And this means we will cover more than half of the country with fiber in 2023 and almost two-thirds by the end of 2025.

Then let's look at the details of the acceleration. In fourth quarter, we expanded our fiber footprint with 112,000 homes passed. That means an average of more than 8,000 homes passed per week and exceeding over 10,000 homes during some weeks. So, we reached the required run rate to deliver on our target of approximately of half a million per year.

We activated our 5G network in July right after we obtained the spectrum licenses. We modernized more than 2,800 sites to date and our 5G network already reaches 70% of the Netherlands on 700 Megahertz spectrum, the real 5G. And we're proud that Ookla awarded us, as I just mentioned, as the best mobile network in the Netherlands, being the fastest, the fastest download speed, the fastest upload speed, the best coverage. So, that is quite important for us as a company. After a couple of years, the best network in Netherlands again.

So outperforming on all main metrics when it comes to networks. Download speed of 90Mbps average, above 90Mbps, upload speeds of average 20Mbps. And our coverage is more than 30% better than the number two.

So next to this, our brand new 5G network is recognized as the most innovative by Umlaut Connect and this is an excellent position to provide differentiated 5G services to our customers and the first we launched already in the fourth quarter.

So we will discuss our segment performance by turning to our second pillar, enhance the customer focus.

In Consumer, we focus on delivering the best digital access and best customer experience. Our ambitious fiber plans are fuelling base growth and the ambition is to grow service revenues by the end of this year. In Q4 last year, we saw an improving trends in fixed service revenues, declining a bit less than 1% year-on-year.

Growing service revenues from fiber were offset by declining service revenues from copper and the continued decline of legacy services: traditional voice and digitenne mainly. So we're although still declining at 2.1% year-on-year in the fourth quarter, we see the trends for mobile service revenues steadily improving.

In the fourth quarter, our net promoter score stood at plus 11 and has come down during the year. As customer satisfaction is one of our main priorities, this result is, of course, disappointing, and we have taken actions to restore customer appreciation. We saw increasing WiFi usage and rising customer expectations now the majority in the Netherlands is working from home, resulting in pressure at our customer service centres.

And during the fourth quarter and into Q1 of this year, we invested to increase capacity to improve the customer satisfaction. We also experienced some technical issues with the changed interface of the IPTV product. And we have updated our software to resolve this.

Now let's take a deeper look into Consumer KPIs. We've seen solid fiber inflow reflected by 20,000 new customers on fiber, fuelling a further stabilization of broadband net adds. Fixed ARPU increased 4% year-on-year in the fourth quarter. Postpaid net adds were in positive territory for the second quarter and at the same time, we kept the postpaid ARPU broadly stable at € 17. And that's despite a lot of roaming as a result of COVID-19. We see a higher inflow ARPU and driven by increased demand for unlimited bundles.

Now we see fiber clearly outperforming copper, confirming our decision to accelerate our rollout. In fact, fiber revenues grew more than 8% in the quarter. And for the first time, the year on year improvement in fiber revenues more than offset the decline in copper revenues, and this led to higher total on broadband revenues.

As of the first quarter, we will improve our Consumer segment disclosure to better reflect our focus on convergence and on households. We've identified fixed-mobile, fixed-only and postpaid-only households. And reassuringly, we see an increasing number of fixed-mobile households as we improve our convergence penetration. And we measure the value from each household by Average Revenue per Address or ARPA, next to ARPU, which is based on products. And the added value of using ARPA besides ARPU can for instance be explained by example our kids SIM. This product might not seem attractive based on a € 9.5 ARPU, but it's significantly increasing customer satisfaction, lowering the churn and improving ARPA.

So in addition, we will clearly identify revenues from our so-called legacy portfolio, including PSTN, digitenne and prepaid services in our disclosure.

Now let's now move over to our B2B segment. The organic revenue trend in B2B has gradually improved over the past years. In 2019 and 2020, this was impacted by self-inflicted strategic actions such as the migrations to target portfolio and our "value-over-volume" focus. In 2020, the performance was, of course, also impacted by COVID, as we've seen limited roaming revenues coming in. Underlying, we can see the performance steadily improving.

In the fourth quarter, revenues from Communication Services were impacted by customer migrations to target portfolio and loss of roaming revenues, partly offset by favourable base developments in mobile and fixed and increased take-up of unlimited data in mobile.

Revenues for IT services declined, mainly driven by delayed IT projects due to COVID-19.

Revenues for Professional Services declined in the fourth quarter. The fourth quarter is usually a strong quarter seasonally for our Professional Services, but this year was impacted by different phasing off for the quarters. But for the full year, revenues from Professional Services increased. And full year non-service revenues declined over 7%, indicating an improved revenue mix compared to last year.

NPS on B2B improved year-on-year to -2, came down a bit versus the third quarter. And this was like in Consumer, mainly driven by rising customer expectations, putting pressure on our customer services centre and then also there we took actions to improve our NPS.

As you know, we have a clearly segmented focus in B2B when it comes to customer segments, SME, LCE and Tailored Solutions. In SME, we expect to stabilize service revenues by the end of this year, by finalizing migrations and cross-sell opportunities from the KPN EEN platform. The speed of migration has slowed somewhat in the last quarter due to COVID, making it harder to physically perform migrations at customer premises. At the end of the fourth quarter, 76% of LCE customers have been migrated. The LCE strategy is fully aligned and the transformation is lagging SME by one or two years as we planned for.

In Wholesale, our revenues increased 10% in the fourth quarter, supported by our attractive open access policy. This quarter we added 30,000 broadband lines and 8,000 postpaid customers.

And in December, the European Electronic Communications Code was implemented and BEREC issued guidelines on the application of symmetrical access. And in our view, these guidelines suggest symmetrical access obligations cannot be used to replace nationally binding regulations like significant market power, and it has a clear local focus.

And we continue our open wholesale policy, built on reasonable and non-discriminatory terms. And as such, we believe to offer an economically viable alternative for current and future wholesale partners. And we therefore believe we operate in line with the new legislation on symmetrical access. And our open wholesale policy is also important for competition in the Dutch market. And the growth numbers of our wholesale partners show this open access policy is working quite well.

Now let me turn to our sustainability achievements. The pandemic has prompted us to reflect even more on our role in society. We've crossed some important milestones and we have an ambitious agenda for the years to come.

During the fourth quarter, our efforts were again recognized by several benchmarks. For the fifth year in a row, we are in the top five most sustainable telecom operators worldwide according to Dow Jones Sustainability Index and we are on CDP's Climate Change A-list. So these are very important results for us and to our stakeholders.

Now let me hand over to Chris to give you more details on our financials.

Chris Figeo (CFO, KPN): Thank you, Joost. As Joost mentioned earlier in the presentation, we delivered on our outlook for the year and we are confident that we will continue to do so going forward.

Now let me start by summarizing some key figures for the year. These figures are adjusted for divestments. First, our adjusted revenues declined by 2.4% compared to last year, mostly driven by B2B and reflecting solid growth in Wholesale.

Secondly, the adjusted EBITDA after leases increased by 1.4%, where lower revenues were more than offset by cost savings, mostly on staff expenses, whereby COVID gave us a bit of a tailwind in terms of costs. EBITDA margin improved 180 basis points year-on-year to a good 44%.

Thirdly, Free Cash Flow grew by 6.6% versus last year. And finally, our net profit was € 54 million lower year-on-year impacted by several incidentals, both in 2019 and 2020. Excluding these incidentals, net profit would have increased by about € 42 million.

At the Strategy Update in November, we indicated that we expect mass-market service revenues to grow by the end of 2021. As a reminder, mass-market service revenues represent our [Consumer] base, SME segment and our Wholesale segments. As Joost already said, the mass-market service revenue trend in the fourth quarter is encouraging. We must say though that the reported number is supported by a very strong fourth quarter in Wholesale due to several smaller one-offs that were not adjusted. Still, we see the underlying trend improving versus the third quarter. Our momentum is there.

By the end of this year, we expect service revenues for B2C to grow, for SME to stabilize and we see continued growth in Wholesale. And let me stress, this is a significant and very important development for KPN, since we have seen declining revenues for past decade. This change requires a new mindset and I truly feel this greatly invigorates morale and excitement within the company.

We're proud of what we're achieving and the momentum is on our side. We are continuously digitalizing and simplifying the company in order to deliver improved services, a better customer experience and more efficient operations. After two years with approximately € 140 million savings in each year, we've made strong progress this year and further optimizing our cost base. We're very well on track to reach and exceed the initial € 350 million savings target with about 80% of the target met already after two years out of the three years total.

In 2021, we expect a somewhat lower run rate in cost savings since 2020 was supported by COVID related savings. As was stated during our Strategy Update, we now move forward with a new cost program. For the coming three years, we expect to save at least another € 250 million, driven by a combination of portfolio simplifications, digitalizing our customer journeys, rationalization of legacy IT systems and technical infrastructure and executing on further COVID related opportunities, such as reducing our lease fleet and more working from home.

Now turning to Capex. To accelerate the rollout and preparing for the years to come, we more than doubled our fiber Capex in 2020 to 5.6% of revenues compared to 2.4% in 2019. We even came in ahead of the homes passed range that we communicated at the end of November due to very strong rollout numbers in December. On the other hand, we've been quite successful in lowering non-fiber Capex with just over 16% of revenues from 18% last year. Fiber generates long-term value for KPN and all our stakeholders and shareholders. We strongly believe that accelerating the fiber rollout is the best decision we can make for our customers, society at large and of course for our shareholders.

In the coming year, we expect another a step-up in fiber Capex as the rollout will ramp up further to approximately 500,000 households. However, we keep a strict eye on Capex and to not let it exceed the hard line of € 1.2 billion.

During the year, we've worked really hard to further improve our working capital position and we successfully mitigated the effects of accelerated fiber rollout. Most notably, we further optimized our payment terms for suppliers, moving more to 90 days which is also more in line with industry average. And we're keeping a keen eye on prepayments, especially with our fiber contractors.

In addition, working capital improved as quite some invoices were already paid early in December. Our working capital program has delivered strong results and we're confident that this will continue in 2021. For the coming year, we'll keep an even closer eye on the ball, amongst others by additional actions to improve payables, optimizing receivables terms, optimization of our inventory, and lowering our bad debt. We run a list of initiatives that makes us confident to further reduce our investment in the working capital despite our strong step up in fiber rollout.

Operational Free Cash Flow for the year was just shy of € 1.2 billion and stable around 22% of revenues. In 2020, we've seen a healthy increase in Free Cash Flow despite higher Capex. Our Free Cash Flow of € 765 million was 5% higher than last year. And our Free Cash Flow margin improved to 14.5% of revenues. This was mainly a result of lower cash restructuring [and] lower interest costs. And we ended the year with a strong cash position, despite having paid more than € 400 million in spectrum and missing the cash in from divestments and the sale of our stake in Telefónica Deutschland last year in comparison.

The Return on Capital Employed for KPN improved 80 basis points year-on-year to 10.1%. This is notable as the accelerated fiber rollout merely adds to our Capital Employed base. But operating profit is not instantly generated. It takes a bit of time. Our ROCE has moved up due to increased operational efficiency, which was driven by strong cost control and lower restructuring charges. This is fully consistent with our increased operating margins.

Capital efficiency was somewhat lower than last year, mainly driven by increase in Capital Employed as a result of the acquired spectrum licenses. For the coming years, we see scope to further optimize our ROCE, as evidence of our continuous pursuit of shareholder value creation.

We ended the year with a strong and resilient balance sheet. From Q3 to Q4, net debt declined € 250 million, mainly driven by Free Cash Flow generation during the fourth quarter. At year end, we had a leverage ratio of 2.3 times, well below our ceiling at 2.5, and we further enhanced our interest cover. Our total Group liquidity is very strong at the end of the year. It consisted

of € 864 million in cash and short-term investments and an undrawn revolving credit facility. With this, we cover debt maturities for the next three years.

At the Q1 results, we provided a disclosure agenda for the year. We've consistently delivered more disclosure on critical items, and I'm proud that as of today, we fully delivered on this agenda. Even though some of these KPIs required hard work to deliver in an auditable way. And some of these new KPIs will be part of our structural disclosure as of Q1 2021. For instance, the new revenue breakdown for Consumer ARPA, some fiber KPIs, and a new revenue breakdown for Business, that we will continue to report on.

Now let's turn to our outlook for the year and ambitions for 2023. We further specified the 2021 outlook provided at the Strategy Update. We now expect the adjusted EBITDA after leases to come in at least € 2,345 million, a broadly 1% improvement versus 2020. We're encouraged by mass-market service revenue growth trends of KPN. We also expect another solid round of cost savings. However, we will not limit our commercial success by underinvesting in it. So we anticipate also some higher direct costs related to our commercial organization and some additional costs for our service centres.

Compared to 2020, we see revenue and cost improvements phasing in during the year. We therefore expect EBITDA growth to be most visible in the course of the year with Q1 to be relatively subdued versus quarters 2, 3 and 4 on a year-on-year growth basis. We will ensure Capex does not exceed € 1.2 billion, € 1,200 million. We expect Free Cash Flow of € 765 million, in line with this year, and an increase versus our earlier guidance. As a growing EBITDA and less interest paid are largely offset by higher Capex. And we expect to pay a regular dividend of 13.6 cents per share over 2021, which is up almost 5% compared to the 13 cents that we pay over 2020, and at the upper end of the 3-5% annual growth rate target.

In addition, we reiterate our ambitions for 2023 as outlined in the Strategy Update. All in all, a clear outlook for the year, with Free Cash Flow somewhat higher compared to the outlook provided in November.

So to summarize, KPN had a healthy financial quarter, showing an improved revenue trend, growing EBITDA, and we delivered on our outlook for this year. We see an encouraging trend for mass-market service revenues with positive signs in Consumer, with fiber fuelling a stabilizing broadband base, and continued postpaid base growth. In B2B, we continue to face revenue headwinds due to ongoing migrations in COVID. In SME, we're on track to stabilize service revenues by the end of this year through finalizing migrations and cross-sell opportunities.

And at Wholesale, we had the ongoing success of our open network policy, leading to continued growth. We have significantly accelerated our fiber rollout with an attractive return profile. And our return on capital employed increased significantly. We updated the outlook for the coming year with growing EBITDA, clear Capex and somewhat higher Free Cash Flow than earlier anticipated.

And finally, we expect our dividend to grow almost 5% in 2021, which is at the upper-end of our range.

Thank you for listening. Now let's turn to your questions. Back to Reinout.

Questions and Answers

Reinout van Ierschot (Head of IR, KPN): Thank you, Chris. We will now start with Q&A. I'd like to ask you to limit your questions please to two. If there's still time at the end, you can always ask more questions. Operator, over to you.

Operator: Our first question is from Mr Simon Coles, Barclays. Go ahead.

Simon Coles (Barclays): Hi guys. Can you hear me?

Joost Farwerck (CEO, KPN): Yes.

Chris Figee (CFO, KPN): Yes.

Simon Coles (Barclays): Great. The first question is on Mobile. I guess it showed quite an improvement in Consumer this quarter with ARPU only declining 1%. Just wondering if you can talk us a little bit through around how much of that is washing through that repricing pressure we saw over the last few quarters? And how much is the uptake of Unlimited having an impact on that? And then I'll ask my second question after that. Thank you.

Joost Farwerck (CEO, KPN): Yes so we've been in some decline over the last years in Mobile. And like you said, it's all about repricing the back book for the main part. And I think we did a good job there, stabilizing things when it comes to revenues, not completely, but we see the positive trends coming in. And we launched Unlimited couple of quarters ago. And we see a strong inflow on Unlimited as well.

So the combination of things works when it comes to base growth but especially when it comes to the service revenues, we see the trend improving. So for us, Unlimited is important like fiber is important in the Netherlands. We are a super digitalized country. We think we're typically a country for Unlimited, especially in the bundle. In the bundle it's cheaper, but otherwise it would be around € 30 or € 32. These are high ARPUs and even in the bundle is still € 25 or a bit higher.

So we see the success of the launch of Unlimited and we will focus on pushing Unlimited more in our base.

Simon Coles (Barclays): That's great. Thank you. I guess my follow-up is, you highlighted that you're making great progress on upgrading your network to 5G and you're pushing Unlimited more and more. Does it mean that you're potentially going to be need more sites in the coming year? So if you could give us some colour around what your plans are there? And then I guess we've seen T-Mobile sell their towers to Cellnex. So does that make it easier for you to add coverage and capacity for your network than maybe in the past?

Joost Farwerck (CEO, KPN): Well, in November we launched our – or we updated our strategy in the Capital Markets Day. And there we said first focus point is superior networks. That fits us. And for the last three years, we were number two when it came to mobile and network quality. This year, we outperformed all the other players big time. Upload speed, download speed, coverage is much better than the number two and the number three in the Netherlands. And that is because we think it's important for a company like KPN to attract more customers, especially on the B2B side I must say. Our customers are very much focused on service and high quality of the network.

So when it comes to Unlimited and when it comes to future 5G services, and especially when it comes to B2B, I think we will benefit from all the investments we did last year in the upgrade of our network. And currently, we can all serve 70% or more of the country based on the investments we did in 2020.

Simon Coles (Barclays): Okay, but do you need more sites, or is the network fine as it is? And this is an upgrade process focus at the moment?

Joost Farwerck (CEO, KPN): Well, I must say we really invested a lot last year, so we're not planning to do that much. Every year, of course, we invest in our networks and every year we invest in our mobile network. But last year was higher than usually I should say. So I expect, I know that in our Capex steering, we will step down in investments in our mobile network. And like I said, we're number one. We want to be number one. We want to stay at number one. But we did a good job last year.

Simon Coles (Barclays): Okay. That's great. Thank you very much.

Operator: Our next question is from Mr Steve Malcolm, Redburn. Go ahead, please.

Steve Malcolm (Redburn): Yeah. Good afternoon. Can you hear me guys?

Joost Farwerck (CEO, KPN): Yeah.

Steve Malcolm (Redburn): Yeah. Just a couple. First of all, on Consumer NPS. I noticed that it drifted down a little bit on the quarter in Q4. Just update us your thoughts on how you're performing there? And I think you're investing a bit more in customer service. How you intend to see that move through 2021?

And maybe just a question on leverage. You've obviously flagged the ceiling of 2.5 times. Can you give us some steering on whether you see a floor on leverage going forward and when you reach that floor, what you might do? Thank you.

Joost Farwerck (CEO, KPN): I'll take the first one. Chris, you take the leverage question. Yes, of course, net promoter score in Consumer came down. Well, it's related to a couple of items. First of all, by the way, NPS is super important for the whole company. We're all rewarded when we do a good NPS.

Last year, we increased the NPS big time. So also when it comes to the benchmark with competitors in the markets. But now we decreased. And it's related to, first of all, we're in a lockdown, so all our customers are working from home. We serve B2B customers on work space. We moved to work spaces in home. Children, the schools are locked down in the Netherlands, are at home. So there's a huge increased request on WiFi services.

We launched Super WiFi, which is a success, sold out twice. But it increases the load on our service center, especially since we closed almost all our shops. We have 110 shops in the Netherlands, and only 30 are open today. So that combination is increasing the calls in our service center and that's why we upscaled last quarter there.

Second, we launched a new interface or we upgraded our interface IPTV in the Netherlands. That's related to some issues on recording and other services, so we had to upgrade our software there. That's done. That's solved. But that was leading to more calls coming in.

And, you know, we migrated the full Telfort base to KPN. And the NPS is not about customer satisfaction because our customers are, I must say, satisfied, especially today under the COVID

situation. But the NPS is really if you want to advise spontaneously KPN to your neighbour. And for Telfort customers, that question is difficult to answer, because they need to be in the KPN base for a couple of quarters. So also related to that, we see some pressure on our NPS.

We are focused on quality steering as a Board, as management, and as the whole company. And I'm confident that we will increase NPS again, like we did last year. But this is where we are and fair to say that we have to repair there.

Chris Figee (CFO, KPN): Right. Steve, on your question on leverage. I think as a background, if you look at our financials, we tend to reduce a normal year leverage by 0.1 to 0.15 turns, the Free Cash Flow minus dividend. So if you don't have anything weird you shave off 0.1 to 0.2 of leverage every year. It fluctuates a bit around spectrum for last year with a spectrum auction. This year with none of those. This year there will be no spectrum auction.

We've got a few redemptions coming up. So it's fair to assume that leverage will gradually decline during the year. Next year there will be a spectrum auction. But first of all, let me say if we don't act, leverage will gradually decline by like 0.1, 0.2 per year, depends a bit on some fluctuation on the quarters.

Is there a formal floor? It's hard to give a formal floor. We really need to take into account the market environment, macro environment, your balance sheet, so the more fiber could sustain more leverage. So the safe answer is it depends. But when you get close to 2, you know, I think our balance sheet would look a bit more – less efficient. So no formal floor when you start to approach two times, ceteris paribus in terms of circumstances, you might think about doing something else because then your balance sheet starts to become a bit more, you know, inefficient.

Steve Malcolm (Redburn): Okay. Can I just ask a quick follow-up just on IT cost? You just mentioned the investment in customer interface in Q4, to help improve the customer experience. Does that explain why the IT costs were up in the fourth quarter because they have been trending down?

Joost Farwerck (CEO, KPN): Yeah. So we've done a lot on IT investments, but in the fourth quarter we made more cost to upgrade software, to scale up on service centers. We also booked a lot more opex for this year to serve all our customers, sorry, colleagues, employees at home. So we have now in the workspace service for our employees at home, that one was booked in the fourth quarter as well. So there are different reasons why our costs went up in the fourth quarter.

But on IT, I must say we used to run these large projects programs to improve things on the BSS, on OSS, on customer journeys. This year, we moved to smaller, faster programs. And we will lower our spend on IT.

Steve Malcolm (Redburn): Okay. So you think there's more further IT savings to come or should we think the well has run dry given the need to invest in customer interface and stuff like that?

Joost Farwerck (CEO, KPN): In our investment pattern you see a clear shift from IT/TI kind of investments we did over the last year and in the past, to fiber. So less small investments, less IT and TI spent will support the fiber investments.

Steve Malcolm (Redburn): Okay. Thanks a lot.

Operator: Our next question is from Mr Konrad Zomer of ABN AMRO. Go ahead please sir.

Konrad Zomer (ABN AMRO): Hi. Good afternoon, gentlemen. Two questions please. The first one on your outlook for Capex. It suggests that in 2023, it might be somewhat lower than in 2021. But given the acceleration of fiber that is expected to continue, can you explain why Capex would be down in 2023 from prior years?

And my second question is on your Wholesale business. You indicated that the 10% growth in Q4 was positively impacted by a few one-offs. Can you maybe share with us what the underlying growth rate of that business was in Q4? And what is probably a more sustainable level going into 2021? Thank you.

Chris Figeo (CFO, KPN): Look, Konrad, on your Capex question, we've said on our Capital Markets Day that our Capex is between € 1.1 and € 1.2 billion. € 1.2 is a pretty hard upper ceiling. Next year it'll be at € 1.2 billion. We see scope for the coming years to not reach that ceiling in the years to come, not so much at the detriment of fiber, but we should save back on non-fiber Capex. So we'll continue to rollout fiber Capex, fiber 500k a year, spending about between € 450-ish million a year as we indicated in our Capital Markets Day. That belief is unchanged. I think it's our duty and our strive to reduce non-fiber Capex and make sure we stay as far away as we can in the future from the € 1.2 billion upper ceiling.

When it comes to Wholesale, I mean I can see in the fourth quarter, three types of incidentals. A couple of those typical provisions that were released for all the right reasons. Secondly, change in roaming revenues. And thirdly, higher interconnect revenues as our clients started calling 0800 COVID information numbers. I think when you strip those out, I would estimate that the underlying profit growth in Wholesale, I'm looking at profit growth rather than revenue growth, is probably about 4-5% per annum. That's a sustainable profit growth in the Wholesale business.

But Wholesale as a business that has, by its very nature, somewhat more incidentals than the others. But that would be my estimate on the underlying structural EBITDA growth.

Konrad Zomer (ABN AMRO): Okay. That's very helpful. Thank you.

Operator: Our next question is from Mr Paul Sidney, Credit Suisse. Go ahead please, sir.

Paul Sidney (Credit Suisse): Yeah. Good afternoon. Can you hear me, okay?

Joost Farwerck (CEO, KPN): Yes, we can hear you.

Paul Sidney (Credit Suisse): Great. I've got two questions please. Firstly looking into 2021, is KPN happy to keep its Consumer mobile postpaid and Consumer broadband base broadly stable while the mix within both of the bases improves? In other words, I'm just wondering how you view the balance between retail and Wholesale market share.

And then a second question looking into 2021. I just didn't hear your comments, Chris, on EBITDA growth phasing over 2021. I think you said you'd be more subdued year-on-year growth in Q1 and then higher in Q2, Q3 and Q4. I was just wondering is that right, and why is that? Is it just a tougher comp, or is it linked to any commercial initiatives or other expenses that you've got planned? Thank you.

Joost Farwerck (CEO, KPN): Yeah. Thank you. So, first of all, it is very important to stabilize our base. We didn't like the idea of the decline we were in 2019 and 2018 and that doesn't feel

good for a company like KPN. On the other hand, pushing the growth too aggressively could lead to all kind of market reactions. So it's very important that we all understand we want to create value. And we expect the other players in the market to focus on that as well. So we understand that value creation is the most important thing now and not only focus on net adds growth, which is a bit traditional telco kind of running your business.

Having said that, I think, on broadband, the market is growing every year, 60,000 new build houses, 40,000 new broadband users still growing in. So the market is growing roughly, I think, with 100,000. And at least we should pick our fair share there. That is not too aggressive for a company like KPN.

And when it comes to Mobile, it's more important to have the base a bit growing, but focusing on a good ARPU inflow than focusing on strong net adds growth. So you're quite right. In Q3, we did plus 9,000. In Q4, plus 1,000. So the plus is important, but more important is the total things on value.

And Chris just mentioned Wholesale, strong growing. Over 51% of all the households from a broadband perspective now are served via our network, retail and wholesale together. So also there, it's certainly important that we look at the total of things and the total value we can create. So it's a balancing act. But decline is not in our plans. That's for sure.

Chris Figuee (CFO, KPN): And your question on the EBITDA in Q1 for the rest of the year. There are couple of things at play. On the positive side, I think we ended the year with pretty encouraging base developments [in] general in retail corporate market and in Wholesale. So that is actually on the good side.

There were couple of things at play in Q1. First, of course, roaming. Last year, in the first quarter we had two more months of roaming, January and February and the early period of March. That roaming we don't have, it's completely fallen flat because travel has been completely subdued even more than we've had in the past. And also we see a little bit less support from out of bundle calling. People are working from home and calling on their WiFi network. So it's a roaming delta that hurts us somewhat.

Secondly, we have continued spend on NPS support measures, so an increase in Consumer support staff and mechanics. I would expect and hope that to be scaled down somewhere in Q2, but we have a backlog and a big amount of work to do to reduce the amount of customer calls. So it's a roaming delta. It is NPS. And you're correct, the investments in consumer support staff.

And thirdly, when it comes to COVID savings, so on the – like the easy savings have been grasped and are turning around. So we still have, of course, people working from home, less travel. But we've given like everybody else in the Netherlands, a work from home allowance of a couple of euros a day per employee. That has caused a bit of higher spend.

And then we see a new wave of savings but those require investments. So for example, we're trying to reduce our lease fleet. We're one of the largest lease fleet operators in the country, supporting and encouraging our staff to give back their lease car. That costs a bit of money. That is a positive NPV case, but the spend will be in Q1 and the results will be later.

So you see a combination of, I think, the roaming delta in Q1. It's the Consumer support spend to support our NPS, which will wind down in Q2, but will cost us money in Q1. And thirdly, on

COVID savings, some of the benefits of last year will not be as prominent this year. And we're investing in the next wave of savings. And costs go first, revenues go later.

It's that set together that makes us - we're so confident on the year. We commit to our outlook. But the timing will be Q1 subdued and the higher growth in the back end of the year.

Joost Farwerck (CEO, KPN): Well, let me add to that, that KPN is always focused on cost reduction. We have a strong cost reduction program ongoing. We expect this year to step down on the indirect costs, as we mentioned earlier, roughly € 100 million. In total, we were at € 250 million in the three years. And we're pretty good on track. So cost reduction, opex reduction and making the whole operating model leaner and meaner is very important. And we will keep our focus on that.

Paul Sidney (Credit Suisse): That's really helpful. Thank you very much. Appreciate it.

Operator: Next question is from Mr David Vagman, ING. Go ahead please, sir.

David Vagman (ING): Yes. Good afternoon, everyone. Thanks for taking my question. First on the working capital. Can you update us on your working capital development expectations in 2021, 2022, 2023? And why actually the improvements that we've seen, or let's say, the better results that we see in 2020 would not translate into higher Free Cash Flow expectations for the coming years? And then second question, on the NPS, so the net promoter score. What is your Consumer NPS ambition for 2021? And what would be the trigger that you would be ready to make financially to reach this ambition? I remind you the, let's say, the cost savings trade-off versus investment in call center, customer journey, support services and solving maybe technical incidents and so forth. Thank you.

Chris Figee (CFO, KPN): Good. David, let me take the first question on working capital. This year we spent or invested € 34 million in working capital. That was actually quite a good result because as the fiber rollout increased the working capital because typically fiber rollout requires earlier payments than traditional Capex. We countered that through a working capital program. The net capital commit or cash commitment was € 34 million.

In our Capital Markets Day, we said, look, for next year we expect another € 30 odd million, which then gradually goes down to flat thereafter. So depending on if you build an EBITDA bridge to set your Free Cash Flow, then from EBITDA to Free Cash Flow, we tend to invest about € 30 something million. If you build a year-on-year Free Cash Flow bridge, the working capital delta will be zero, right? This is the same amount as last year.

And thereafter, there will be Free Cash Flow support from working capital. Having said that, € 34 million is a safe really conservative estimate. If I look at the measures we're taking right now, I see a bit of opportunity to have some little bit more support for working capital, that also is behind the increase in cash from € 750 million to € 765 million, that we may have the opportunity to have a little bit benefit from working capital. Safe to be on the € 34 million as of this year and then release the working capital in the years thereafter, also 2021 and release in 2022. But we see a bit of upside there, which supports our commitment and increased Free Cash Flow guidance.

David Vagman (ING): Thank you.

Joost Farwerck (CEO, KPN): And your question on NPS. First of all, NPS is an interesting tool, especially when it comes to one strong brand in a country. We serve more than one brand.

So we're focusing on NPS per brand and per customer segment. Blended, it doesn't say that much. But for us the most important thing is to show and improve it in the coming year. So we don't really disclose NPS targets we give to the company. But I can assure you that they are there. And at the end it's all about an increase in NPS in Consumer and in B2B, that is important for us.

David Vagman (ING): And about that the trade-off, let's say in 2021. Would you be, you know, is there a point where you would say, okay, that an improvement in NPS would jeopardize our financial target a bit, let's say, it's a bit of a philosophical question here that I'm asking. How would you think about this trade-off?

Joost Farwerck (CEO, KPN): Yeah. I expect NPS to be a little bit lower in the months to come because it's a rolling forecast mechanism. At the end, I've been in the company quite a while and I know exactly that end-to-end steering of the main service channels is very important. So it's really about us as a company running the whole end-to-end chain on broadband as an example, people at the service centers, people in the middle, our field engineers, our shops. That's what we're running.

Every Wednesday morning as a Board, we have a pretty good picture on what's happening in the market. We identify what the main topics of the calls are that's coming in. And our people are very good at improving the quality. That's why we improved on IPTV as an example.

So, I'm sure that – and we've done it before that with the team in place, the way we are focused on is we can improve our net promoter score. But it takes hard work.

David Vagman (ING): Okay. Thank you very much.

Operator: And the next question is from Mr Polo Tang, UBS. Go ahead please, sir.

Polo Tang (UBS): Hi. Thanks for taking my questions. I have two. The first one is just really clarification around your guidance and specifically the COVID-19 impacts that we should think about for 2021. So can you clarify, for example, what your guidance assumes in terms of any recovery in mobile roaming? On the flip side, what you're seeing in terms of any risks around business revenues? So that's the first question.

And the second question is really about América Móvil. I've obviously seen that the AFM filing earlier today indicating that América Móvil have increased their stake from a 16% to 20%. So what's your perspective on their intentions? And can you remind us how many board seats they're entitled to with a 20% stake? Thank you.

Joost Farwerck (CEO, KPN): Yeah. Well, let me take the second question first. AMX is an important shareholder of KPN already for a long time, with one board member, which is an independent board member appointed by AMX in our Supervisory Board I must say. AMX moved up from 16% to 20% over the last 12 months.

So in the third quarter, we saw that AMX was owning roughly 18% in KPN. And yesterday evening, this morning, they notified the market that it's a bit above 20%. That's all I can say. We have a good relationship with AMX. It's an inspiring company. Every now and then we exchange information. It's a pity we can't visit the company today due to COVID. But I really like the way they run their Claro business. I like the way they digitize their customer processes. So, it's a shareholder on one side, but it's also an interesting company we, every now and then, can learn from. So yeah, and one board member seats in our supervisory board.

When it comes to '21, we don't really anticipate on roaming coming back. We think that COVID will be here for a longer term. When I see what's happening all over the world and when I look at the Netherlands, then we're in the middle of a lockdown, shops are closed, schools are closed. And so we don't expect that to open up soon or that virus under control. That will take a couple of quarters at least.

So, we don't anticipate on the roaming coming back I must say. Our business customers are doing okay-ish, I must say. Of course, we help them here and there. But when it comes to payments, it is clear that that goes well. We're a vital – we supply vital services to SME, to consumers. So it's super important to use that and we did not see a lot of customers switching off until today, right?

Chris Figuee (CFO, KPN): Yeah. If you look at – Polo, if you look at 2020, we reported €5 million to € 10 million EBITDA impact negative by COVID, which is roughly made up of revenue headwinds of € 25 million to € 30 million accounted by € 5 million of lower direct costs, and € 10 million to € 15 million savings on indirect cost gives that €5 million to €10 million of COVID headwind. And of course a bit of a – it's more art than science to estimate what the real impact is.

And as Joost said, for this year, we don't – we basically assume continuing of the current situation. So no major return of roaming. That's one. And possibly slightly less cost savings tailwind as – of most countries – companies we give a bit of the COVID savings back to our employees with the work from home allowance and more support for people to buy their own desks and monitors at home.

So similar to this year, € 5 million to € 10 million, possibly slightly more negative given that some of the real COVID cost headwinds – tailwinds may not be there again. And I think it's probably the safest way to look at it right now. We don't also assume major defaults or bankruptcies. We've not seen anything like that. If anything, we see our clients actually quite are cash rich often due to government support programs willing and able to pay their bills on time. So it's kind of continuing as we had this year, but with a € 5 million to € 10 million headwind, possibly more on the upper end and the better end, given the fact that some of the cost benefits may not return on year-on-year comps.

Polo Tang (UBS): Thanks.

Operator: Our next question is from Mr Frederic Boulan of Bank of America. Go ahead please, sir.

Frederic Boulan (Bank of America): Hi. Good afternoon. Two questions, please. First of all on B2C. Good performance in Q4. You seem well on track to grow that business in 2021. What's keeping you from being a bit more bullish? Is it about the roaming delta in Q1? Any other considerations we should have in mind?

And maybe similar question on the EBITDA side. I mean, the guidance you have for 2021, about 1% growth. When we look at the scope of cost cutting that you have in the pipeline for this year, any specific consideration from a mix or phasing of the cost? You seem to be a bit more prudent in terms of timing for 2021. So any colour on this would be great. Thank you.

Joost Farwerck (CEO, KPN): Yeah. So, thanks for your questions. So we're super focused on improving the broadband and the consumer base in B2C. I'm not unhappy with the

developments over the last quarters, but in our business it's all about the trends. And the trend for me, is a couple of quarters in a row. So we're doing good, especially the decline of over 20,000 customers quarter-per-quarter moved to an increase in mobile and an almost stabilization in broadband.

I will be more bullish when the broadband base starts growing, instead of declining minus 3,000. And I give you the promise that we will be more bullish. But, well, I can assure you that we're pushing our people to move in that direction.

Chris Figuee (CFO, KPN): Yeah. When it comes to EBITDA, your point well taken. Look, I think we're pretty okay on the service revenue trend, as said, the momentum is there. Although, we'd be fair, things rarely move in a straight line. So momentum is there. There will be some fluctuations around it. But underlying developments are there with maybe fluctuations from quarter-to-quarter.

Where are we looking at? What are the things that we're looking at? As I told to Polo, costs in Q1 will be little bit higher. The Consumer service costs will be a bit higher. It may take a bit of time for the next wave of cost savings programs to kick in. The year-on-year comps on roaming will work us against in the first two months and be flat on the final months.

So, it's that combination of things where we see the second half of the year doing better, so that's why we stick to our forecast for 2022 and 2023. But it's really about the service revenues to really sustainably grow that will support us. So again, we think the 1% EBITDA is achievable, but yet especially in the first period of the year, we may have some higher costs around investing – almost like investing in the next cost savings wave and investing in consumer support that may counter some of the underlying momentum in revenues. That together builds for a 1% EBITDA growth.

Frederic Boulan (Bank of America): Okay. Thank you.

Operator: Our next question is from Mr Michael Bishop of Goldman Sachs. Go ahead please, sir.

Michael Bishop (Goldman Sachs): Thanks very much. Good afternoon. Just two very quick questions for me. Firstly on slide 17. I thought this was quite interesting in terms of the multi-year B2B development. But could you just give us a bit more colour on what is in the other buckets, because I think it's quite clear you've got COVID migrations, which I presume include the deflationary elements in terms of the B2B pressure and then non-service, but just the other bucket it's still quite large. I'm just wondering what's in that. And whether that sort of phases out over time naturally.

And then my second question is just picking up on a couple of the comments so far around how you're pushing mobile in terms of the Unlimited offers. It looks like since you first launched them in 2019 as we sit here today, they're about € 5 or so cheaper than where they first launched. So mid-to-high € 20 level in terms of converged and then € 32.50 for non-converged. Is that sort of sensible level do you think for Unlimited just more broadly in the Dutch market as we look forward? Thanks.

Chris Figuee (CFO, KPN): Yeah, on the – Michael, on your question what's in the bucket of other. We feel sorry for the head of other at B2B of course. Look, what's in there? A couple of things. One is the structural decline in the traditional voice. So traditional voice is a business

it's in decline. The decline is slowing down. So if you look at the last quarter, the number of seats we lose is actually stable, like it's not declining further, not declining faster. So there's a gradual decline in traditional voice compensated by voice-over-IP but at much lower margin. So first and foremost, it's the traditional voice decline.

And secondly, it is ARPU pressure. There's some ARPU pressure in – especially in mobile for larger customers, whereas some of our competitors are still pushing for relatively low prices. So, it's the ARPU pressure on mobile, and to a lesser extent in networking and broadband. So, the combination of traditional voice decline not fully countered by Voice-over-IP and pricing pressure mostly on mobile, some of it on networking and cloud and workspace and to a lesser extent than broadband. That together constitutes the remaining 2.3% decline.

Joost Farwerck (CEO, KPN): Yeah. When it comes to our mobile base in consumer, we've been in a decline for quite some time when it comes to our ARPUs. So first of all, stabilizing around € 17 was very important for us and we've done that now for seven, eight quarters in a row, and which is all about the repricing of your back book, as you know. And how we do that is that we eliminated the lower price points; not only us, but the whole market started to do that. That's one of the reasons we also took out Telfort out of the market. We saw others eliminating lower price points. Simpel was consolidated by T-Mobile back again. So what we see is that the market is moving in the right direction and us as the high quality supplier in the Netherlands should lead the way to higher ARPUs in the Netherlands to put it that way.

So launching Unlimited, I think it was in the fourth quarter of 2019, we started pricing as pretty strong above €30. And we balanced it now between €25 and €32 depending on the package, but that's really helpful, of course, when it comes to improving the ARPU. So pricing, mobile and the propositions we put in the market are super important for us. And we should be prudent and limit ourselves to go too aggressively. We're not a follower on aggressive price points in the market.

And that works. But it's very important to keep our sales people under control and really talk about the most intelligent price points for KPN in the market. And the higher end, € 25 or above for Unlimited that, works quite well.

Michael Bishop (Goldman Sachs): Great. Thanks. That's really helpful.

Operator: Our next question is from Mr Keval Khiroya of Deutsche Bank. Go ahead, please.

Keval Khiroya (Deutsche Bank): Thank you. You've talked previously about a bit more of an EBITDA focus for Large Enterprise and Tailored Solutions. And can you talk a little bit more about what that could mean for the revenue streams to these two businesses in 2021? I guess I'm trying to think about the overall shape of the B2B revenues in 2021 versus that minus 2.3% underlying we had if you have SME improvement on the one hand, but still these two segments are little bit under pressure. Thank you.

Chris Figeo (CFO, KPN): Well, look, it's fair to assume that in this year on SME, that we'll be moving to stabilization of revenues in the second half of the year. So some small decline in H1, stabilization somewhere in H2, whereas the total of the B2B business will continue to decline, not as much as 5.7% this year.

If I have to put a finger near there, like 80%, 70% of that number will probably be the remaining decline of the business, but that's going to be seen how the year unfolds. And given the mix I

think you can do your own calculations of what it means for the implied decline on the LCE-Tailored integration. So baseline, less decline, less shrinkage in our B2B business with SME a small decline in H1 and stable in H2 and the remaining means that we can see consistent some revenue decline in the Large Corporate and Tailored integration business, but that's on the revenue side, much less on EBITDA. That's kind of how we steer the business.

Where – how it exactly will unfold, it depends a bit how the economy moves. Of course this was also the business was held back mostly from COVID because of the IT work that we normally do that we can't do right now. So even when the country kind of wakes out of this lockdown and gets to be more economically reinvigorated, we see a bit of upside there.

And secondly, we do have few ideas on how to push for some of the large corporate business going forward, especially that our network is doing so well, we see some increasing inbound, some customers looking at switching back their mobile network to KPN. So regaining some former client losses. But, okay, well, that needs to be achieved rather than promised. So it's fair to assume that with SME declining in H1, flat in H2, B2B as a whole declining but less than this year, you can figure out roughly where the base expectations is for the Large Corporate segment.

Keval Khuroya (Deutsche Bank): Okay. Thank you.

Operator: Our next question is from Mr Emmanuel Carlier of Kempen. Go ahead please, sir.

Emmanuel Carlier (Kempen): Yes. Hi, good afternoon all. My question is on ARPU. And so the question is, if you're getting more positive on ARPU not from a headline price increases but from mix effects, like customers taking more unlimited data, customers upgrading to high speed broadband? So, if the answer is yes or no, I would also be happy to get a little bit more colour on why that is, like maybe you could share percentage of mobile customers that are on unlimited mobile data plans today? With respect to high speed broadband, maybe you could share also kind of percentage shown how much percent of your base is on high-speed? And what it could mean if they would upgrade that? Thank you.

Joost Farwerck (CEO, KPN): Yeah, of course, when we invest in our networks and we invest in the quality of our services, the whole idea is that at the end we can upgrade customers. Lots of customers still on copper are on 50 megabits per second, which is low speeds. The average 70% buys on fiber still around 100 Megabits. But the good news is that the trend is moving more to the higher speeds on fiber especially, so customers are now buying more 200 to 500 Megabits, which is also about how we price it by the way.

So in past, 1 Gig[abits] or 500 Megabits was very high priced by KPN in the Netherlands every year accounts for people. So it's very important that we pick the right price points on the higher speeds. But recently we see an increase of people buying 200 or 500 Megabits on fiber and people asking for upgrades on copper as well.

Our copper network is compared to other countries in a pretty good shape and we can do average 100 Megabits per household on copper as well. So especially supported by the current situation, we're upgrading customers on existing infrastructure to higher speeds. I think that's also one of the reasons why we see the inflow of Unlimited on the mobile side increasing. Two reasons, the way we make it more attractive to buy it in a bundle for € 25, but also people working from home and needing more speed on the mobile side.

So I think the timing is right with all the investments we did in our networks. How we positioned ourselves as a quality player to upgrade customers to higher quality and higher speeds. We talked about it in the past, but it's working this year.

Emmanuel Carlier (Kempen): And I don't know, but have you done any calculations on that, like I think on average you have been raising your prices by 2-3% per annum if I'm right?

Joost Farwerck (CEO, KPN): Yeah, so –

Emmanuel Carlier (Kempen): Yeah. Could that become a tailwind going forward and any way to quantify that? Because it looks a bit like a potential sector trend?

Joost Farwerck (CEO, KPN): You're quite right. We do not increase tariffs, blended € 1.50 for the whole base. It's done service by service. So, on an increase on fiber could be a bit more than on a low speed copper line. So the more customers move to higher speeds, the more potential we see in ARPU improvements of course.

And also when it comes to new pricing, we every now and then investigate. Of course, an increase on fiber is a different thing than an increase on a low speed copper connection.

Emmanuel Carlier (Kempen): Okay. Thank you.

Operator: Next question is from Ms Siyi He of Citi. Go ahead, please.

Siyi He (Citi): Thank you very much. I have two questions, please. The first one is on fiber. And we have seen that you have – you had a huge acceleration in your homes passed, but the activation rate seems to stable – the actual activation seems stable quarter-on-quarter and the fiber customers net adds was down quarter-on-quarter. Just wondering if you can help us to understand why that's the case and maybe a seasonality effect? And also I wonder is it possible to indicate whether there is a target of activation rate or customer take up as you rollout fiber?

And my second question is on the mass[-market] service revenue. And it was down 0.1%, but you still suggest that it will grow early in the second half. I understand that Wholesale went up could impact a little bit. And just wondering if any other headwinds that we should consider why the mass[-market] service revenue could not start to grow from Q2 next year? Thank you very much.

Joost Farwerck (CEO, KPN): Yeah, so first on fiber. I mean, activation rates will continue. We're positive on the results. It goes batch-by-batch. Our experience is that rolling out fiber, the first wave we bring in roughly 30% penetration and it's some kind of an S-curve. Then we – after a certain period of time, we move up to above 50%. And in some areas we now reach a point of 60% penetration.

So, the more we roll out, the lower the activation blended rate will be in the Netherlands because we're rolling out in a speed to 500,000 per year, which is something we never did before. But what we changed is that we're now moving in our commercial people first in the area and then we roll out. It used to be the other way around.

So with the experience from the past and new things we installed today, we think we can go faster from a commercial standpoint. We're building batch-by-batch. Not every region is the same. And we think with the full targeted organization only responsible for fiber only, we think we will do a good job on selling fiber as well.

Chris Figeo (CFO, KPN): Yeah. And your question on mobile mass-market service revenues. I agree that the Wholesale is really growing and will continue to grow. As we said, maybe the Q4 had a bit of tailwinds, one-offs, but the underlying growth is there.

If you look at the Consumer market, in Mobile, we've been growing our base since June. There will be some pressure on ARPU because roaming in year-on-year comps in the first quarter. But we think on Mobile, we could see upside for service revenues. And on fixed, it's almost like the battle between base developments and price developments. At this point, that mix has some positive connotation to it. But that needs to be sustained in the year.

And then on SME, our base has been growing well, but we've seen some ARPU pressure in SME from a combination of intense competition. And secondly, a year-on-year again the bloody roaming comparison that hurts us. So in SME the trick for us to increase our cross-sell if you think with the numbers in clients that have triple-play customers in our SME base, which is what the proposition is all about. It is growing, but it's not where we want it to be.

So could it grow in Q2? We don't rule it out, but it's safe to bet that's going to happen after the summer, where we will have the continued growth of fiber kicking in, the higher ARPUs of fiber kicking in compensating copper churn. That will help the mix of base and price in Consumer broadband. By then we'll have the roaming comparisons no longer working against us. Possibly the increase in share in Unlimited Mobile Consumer. That will continue on Wholesale.

And then also we have in SME the roaming year-on-year comps behind us. Then – and we have made further progress in cross-sell. So that I think safe is better still to think about Q3 next year – Q3 this year. And if it happens in Q2, we'll open at least bottle of champagne but let's plan for Q3 first.

Siyi He (Citi): That's very clear. Thank you very much.

Operator: Our next question is for Mr Ulrich Rathe of Jefferies. Go ahead please, sir.

Ulrich Rathe (Jefferies): Thanks very much. I apologize if one of my two questions have been answered earlier. I had some audio problems. The first one would be the joint dominance regulation attempt that was squashed in court now some time ago. Could you talk a little bit whether you see signs of that coming back through changes to legislation or through renewed regulatory efforts?

My second question is, on the dynamic of the fixed-mobile conversions intake. In the first three quarters, I think it was net negative on the fixed side at least. And then there was a strong uptick in the fourth quarter because of the Telfort migration. And the pattern looked similar in Mobile. What's the outlook there? Is the fixed-mobile convergence going to slow from here because it's pretty high already, or do you see a significant potential for that to grow further? How should we think about that? Thank you.

Joost Farwerck (CEO, KPN): Yeah. So on regulation. After 25 years of regulation in the Netherlands, we're in the situation that we're no longer regulated as a company with significant market power. That was a long discussion debate from a legal standpoint with our regulator based on complaints from dear friends doing business on our network, and of course symmetrical access regulation coming from the EU.

The framework is implemented in the Netherlands and now there is a translation ongoing and somewhere mid this year we will have a clear view on how our regulator looks at the

implementation of symmetrical access. Like I said in my introduction, it's clear for us, and not only for us but also when it comes to lawyer – legal professionals that this symmetrical access is really meant for local situations for more than one network situation. So we think that's not replacing a significant market power reasoning.

Our regulator, of course, was very disappointed that we won that case. And they – we know that they are always investigating the opportunities to look at new ways of introducing the whole line of reasoning around significant market power. Yeah, but we are pretty confident that that will not fly for first of all there's the whole reasoning around dual joint dominance was based on the rules and definitions of our regulator. A strange line of reasoning. So, dual dominance did not work in the Netherlands. We're not the largest broadband player, but almost the largest broadband player.

So we think that with the open access model, we did put in place in the Netherlands a long time ago. It was regulated. There was a commercial framework around it and that still is in the country. We didn't shut down the ODF or MDF footprint. We didn't change the pricing on our wholesale framework. And in fact the strongest growth in the broadband market is third parties doing their business on our network. So, what it means is that the market is working in the current framework. We're not against being regulated, but we're – we don't think that significant market power regulation will work in the Netherlands.

I'm pretty confident that the largest player on our network will start complaints against KPN. I would be disappointed if they don't, because they always do. But from a legal standpoint, we think we have a pretty strong case.

Fixed-mobile, like Chris said, it's one of the new items to report on because it's a way of steering that improves our business. Do you want to say something on the –

Chris Figuee (CFO, KPN): Yeah. Well, it's still – it will be still an important priority. I think we're one of the inventors of fixed-mobile convergence in the Netherlands. We see fixed-mobile convergence, I think, higher NPS, much lower churn compared to not converged customers. As you can see that in Q4, we actually accelerated to more on fixed-mobile convergence.

Is this a priority for us? Yeah, absolutely. We see opportunities to add Kids SIMs to households, to have more additional SIM cards to household, Kids SIMs as special offer. Particularly we think selling more mobile on fixed lines as an offer. We still have – when you look at our base clients, some clients that have KPN broadband lines but don't have a KPN mobile subscription.

And if you look at our competitive position, especially our unlimited offer for fixed-mobile customers is quite competitive. It's still actually revealed in ARPU uplift if clients moved in there. So we see fixed-mobile convergence still a priority. It has accelerated in Q4. And we see opportunities, especially adding more mobile on our fixed base. That's where I think the most cross-sell opportunities are on Kids SIMs or on the higher bundles.

Ulrich Rathe (Jefferies): Thank you very much.

Operator: Our final question is from Mr Usman Ghazi of Berenberg. Go ahead please, sir.

Usman Ghazi (Berenberg): Hello gentlemen. I've just got two questions, please. The first one was on taxes. So I guess, I mean, this year, we were expecting around € 15 million of cash taxes. It didn't happen. I know the CMD, you outlined the phasing of payments going from € 50 million to € 150 million. But I was just wondering if anything have changed, which would

suggest that phasing might be a little bit more moderate than you had expected? That was the first question.

The second question was just going back to the B2B segment. I just wanted to understand that the impact that you're seeing on ICT revenues, is it that we're just in a lockdown, therefore your engineers can't go out to client premises, therefore, they can't install, therefore, there's no revenue from this? Or is it that clients are actually in the wake of budgetary pressures, are actually cutting back on spend itself? I was just asking that question just to understand if there would be kind of a pent-up demand here as the lockdowns begin to be lifted. Thank you.

Joost Farwerck (CEO, KPN): Well, when it comes to ICT Services in B2B, there's a delay, like we said, due to COVID. I mean people work from home, so it's difficult to run large IT redesigns for larger institutions. So these are delayed. Sometimes, we do it as well. It is difficult to run integrated projects with people from different departments when they're all working from home, better to start such a thing later in the year.

So there we saw a delay. I don't see companies cutting back. There's another discussion ongoing that the Netherlands should speed up investments in digitalization, in digitalizing customer interfaces and the government is digitalizing a lot. There's a lot to do on cyber security. So, I think in the Netherlands you will see an increase in investments in these kind of programmes, not a decrease.

There's also a third thing and that is our focus on ICT kind of business. On our Capital Markets Day, we made clear that 90% of our EBITDA is coming from mass markets. So that's Consumer, that's Wholesale and the SME business. And 10% of the EBITDA is coming from LCE and Integration kind of solutions. And for us, it's very important that we assure that when we are hunting for a contract, while we're in the tender that we make a decent profit on it, otherwise we will not do it.

We're not interested to be the largest IT player in the Netherlands. Sometimes, we should partner there in a better way, not take the full ownership of the whole contract. We should do what we can do. Our core case is connectivity, workspace, security and things like that. We're not an IBM. We're not a Capgemini. So in the future, we will partner more on these kind of contracts. And there, we focus more on the value of the contracts than on the total of revenues only.

Your first question was about taxes. I'll hand over to Chris for that.

Usman Ghazi (Berenberg): Yeah.

Chris Figee (CFO, KPN): Look, also on taxes, on the effective tax rate of the year, let me walk you through the bridge. I mean, the corporate tax rate is 25%. We have, of course, an innovation box savings as some of our actual activities are just tax-exempt of a lower tax rate because of the innovative nature. That brings you to about 22%. And this year the corporate tax rate was actually increased to 25% as opposed to previous government plans.

And when you don't pay tax and have a DTA, which is good news because the higher corporate tax rate increases the value of your DTA. That brings the effective tax rate to KPN to around 14%, which is of course a theoretical tax rate. So from 25% to 14% is innovation box and delta DTA. And, of course, we don't pay cash taxes because we still have a € 560 million DTA of tax composition losses.

Now shifting to 2021 and forwards, a couple of things at play. As we said on our Capital Markets Day, we're shifting from termination losses to liquidation losses, which is a slightly different application to our profits.

We have different use of or lower use of innovation box, that innovation box uses is going to be more limited. And over time the use of DTA is over time actually limited. You can still use the entire DTA, but the timing of your cash taxes will be different. That latter thing has to be enacted. It is gone through the parliament and to the first chamber, to the Senate. But because the cabinet has now has resigned, it hasn't been officially published and therefore not officially enacted. I expect it to happen, but when it's a bit of a mystery.

Now, as a result of all of this, I expect still cash taxes between € 50 million and € 60 million next year, similar as we outlined in our Capital Markets Day. We are trying to optimize it. We want to pay fair taxes, but not a dime too much. We're in discussion, of course, always with the tax authorities what the right ways to interpret these new tax laws. So there could be some way to shave a bit of those, you know, tax forecasts. But it's fair to say at this point € 50 million to € 60 million cash taxes next year. Zero cash taxes this year and a lower corporate tax rate because of the DTA change. A long technical story, but it helps that clarifies it for you.

Usman Ghazi (Berenberg): Thank you very much.

Reinout van Ierschot (Head of IR, KPN): Okay. With that, we will conclude today's webcast. Thanks for your attention. And if you have any further questions, please contact the Investor Relations team. Thank you very much.

Joost Farwerck (CEO, KPN): Thank you.

Chris Figeo (CFO, KPN): Thank you.

[END OF TRANSCRIPT]