Event transcript

KPN Q4 2021 Results

Monday, 31 January 2022

Operator: Good day, ladies and gentlemen. Welcome to KPN's fourth quarter and full year 2021 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 *1 on your telephone. Please note that this event is being recorded. I will now turn the call over to your host for today, Reinout van Ierschot, Head of Investor Relations. You may begin.

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 2021 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 would like to remind you of the Safe Harbor on page 2 of the slides, which 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 are also included in the press release published this morning. All such statements are subjects to the Safe Harbor.

Let me now hand over to our CEO, Joost Farwerck.

Joost Farwerck (CEO, KPN): Thank you, Reinout and welcome everyone. I hope you are doing very well, and I hope to see you soon in person as we gradually return to the office. Now let's start with some highlights from the fourth quarter and full year results. In 2021, we continued to make good progress against our strategic and financial ambitions. We delivered growth in mass market service revenues supporting overall group service revenues.

SME service revenues grew for the second quarter in a row, providing momentum and confidence that we can stabilise our total business segment service revenues by the end of this year.

Consumer, fiber and our converged portfolio are delivering revenue growth every quarter. Mobile service revenues are growing and in fixed the trend is stabilizing.

Wholesale continues to make a strong contribution thanks to our successful open wholesale access policy.

As a result of all that our EBITDA generation is becoming less dependent on just cost cutting, as we are now delivering sustainable mass market service revenue growth. We were able to grow adjusted EBITDA in 2021, supported by improving group service revenues and a lower cost base.

We added a record number of households to our fiber footprint in 2021 and we will at least maintain the current pace in the coming years. We were also rewarded for having the best mobile network in The Netherlands for the third time in a row.

We reiterate our EBITDA Free Cash Flow ambitions for 2023 and at the end of the presentation, Chris will give you more details on our financials and walk you through our outlook for this year.

Finally, the confidence in our strategy and the successful execution enables us to pay out a progressive dividend and allows us to structurally return additional capital to our shareholders. We completed a € 200 million share buyback last year and we now intend to execute a share buyback program of € 300 million in 2022.

We delivered on our 2021 outlook. EBITDA came in at € 2.35 billion in line with the outlook we gave at the full year 2020 results. Capex was around € 1.2 billion and Free Cash Flow came in at € 784 million, slightly ahead of our outlook. We reiterate our dividend commitment, and we will pay a regular dividend per share of € 13.6 cents over 2021.

We have made strong progress in the first year of our Accelerate to Grow strategy. As a reminder, I give you the three key pillars of the strategy. First, leverage and expand our superior networks. Secondly, grow and strengthen our customer base and thirdly, continue to simplify and streamline our operating model. I will touch upon our progress on these pillars in today's presentation.

So, let's start with the first one.

We realized the greatest ever annual fiber roll-out in the Dutch market. We connected 433,000 households and if you add the Glaspoort joint venture to this, it was over half a million homes in The Netherlands.

In the meantime, and visible in our homes activated, we continue to add new retail and wholesale fiber customers and we upgrade existing customers from copper to fiber.

Today we cover more than 40% of the Netherlands and jointly with Glaspoort we expect to reach approximately 80% of Dutch households by the end of 2026, and after reaching that point, Capex will come down to a much lower sustainable level.

Let's delve a little deeper into our fiber business case. First on penetration. We see a significantly higher network penetration in fiber areas over time. Typically, one year after the first connection in an area, the penetration increases by about 7 percentage points. And this rises even further after seven years, when our average network penetration reaches over 60% for retail and wholesale together. On ARPA, while we do not directly charge a premium for fiber, it is clear that today fiber customers on average have an almost 11% higher ARPA, and that is because fiber customers buy higher access speed levels and more value-added services such as content packages. As we continue to roll out fiber, we expect that the growing fiber footprint will result in an improved penetration rate for retail and wholesale. In fact, our retail fiber base is likely to surpass our copper base mid this year. Finally, on spend related to fiber, alongside lower maintenance and service costs, we also foresee savings as we gradually shut down our copper network in the coming years, starting early next year. All in all, fiber is clearly at the heart of our strategy to create long-term value for all stakeholders.

In our mobile network we have modernized over 4,000 sites to date and our 5G network already covers more than 80% of the population on 700 megahertz spectrum. We also made preparations for the 3.5 gigahertz spectrum, allowing for an even better 5G experience as soon as it becomes available, which is most likely to be early next year. Finally, we are also proud to announce that Ookla named us the best mobile network with the best coverage and the fastest 5G in the Netherlands for the third time in a row.

We will discuss our performance by turning to our second pillar, enhanced customer focus.

Customer satisfaction remains a top priority and our efforts are paying off. In 2021, our consumer Net Promoter Score increased to plus 16, as we successfully invested in quality improvements and in the customer journey. The Net Promoter Score of the business segments increased to plus 4, our best result ever as customers value KPN for its quality networks and quality services. We believe that customer satisfaction goes hand in hand with employee satisfaction, and as such I am pleased with the outcome of our employee engagement survey, which shows that 82% of our employees feel engaged at KPN despite the Covid-situation and within the market this is a top tier level of employee engagement.

In the Consumer market our focus is on delivering the best digital access and the best customer experience.

To provide the best digital access, we continued our successful Super Wi-Fi campaign. In 2021, we made the 1 Gig proposition more accessible by lowering the price point while doubling the upload speed. We also introduced better hardware, for example, a new more energy efficient version of the 4K settopbox. Furthermore, we successfully invested in quality improvements in customer journeys, such as the introduction of a new app, the MijnKPN app, and a new online shop. Recently we announced an extended new entertainment partnership with Viaplay and ESPN and earlier this year we integrated the Microsoft Game Pass Ultimate into our offering. These long-term distribution partnerships across a range of products enable our customers to have access to the best content and games.

This year we achieved consistent mobile service revenue growth supported by a strong customer inflow, particularly on our unlimited data proposition. We intend to broaden this trend to Fixed service revenues as well. The underlying trend in Fixed is improving as fiber broadband service revenue growth is more than offsetting the copper decline. And combined we are well on track to grow consumer service revenues in 2022.

Now let's take a deeper look into our fourth quarter KPIs.

We have seen solid fiber inflow reflected by 43,000 new customers, offsetting churning proper customers. This led to 3,000 broadband net adds. Fixed ARPU increased 0.9% year on year. Combined and excluding the impact of the revenue correction earlier this year this led to stabilizing Fixed service revenues in the fourth quarter. We see continued solid trends in Mobile. Our postpaid base increased by 17,000 and postpaid ARPU grew 0.8%. Combined this led to continued growth in Mobile service revenue.

Let's now move to the B2B segment.

At our strategy update in November 2020, we committed to stabilization of SME service revenues by the end of last year. We delivered on this a bit ahead of the plan already last quarter, and this trend continued in the fourth quarter with SME service revenues increasing almost 5 percentage points year on year, a very good improvement on the decline seen in the first half. The performance in LCE and Tailored Solutions was in line with our expectations.

In SME, we have seen solid mobile and broadband based trends supported by our attractive KPN ONE platform and KPN ONE proposition. This also provides a strong platform to increase the density of product take-up by our customers as we leverage and cross sell opportunities.

This year, we implemented a clear segmented customer focus in our B2B approach with SME, LCE and Tailored Solutions. The strategy of SME and LCE is pretty much aligned, but they are in a different stage of transformation. LCE is lagging SME by about one to two years, so we are on the right track, but it will take some more time to turn LCE around. That being said, we delivered service revenue growth in SME in the second half of 2021, and this was an important milestone for us. We are now confident that we can stabilize business service revenues by the end of this year.

Wholesale showed a strong performance during 2021 supported by Mobile and Broadband growth and reflecting the attractive access terms we offer to other service providers in the Netherlands. As you all know, our regulator ACM, is currently still conducting its fixed access review, and it expects to start their consultation before the end of this quarter. From our perspective, we believe that we are operating in a highly competitive market where Wholesale providers continue to outperform the market in terms of subscriber growth. With our open Wholesale access model, we guarantee sufficient room for Wholesale providers to grow and to compete and still offering customers in the Dutch markets a wide variety of high quality, affordable services.

Finally, I will turn to sustainability. As highlighted by Chris during our virtual ESG webinar last month. ESG is at the heart of our strategy. In 2021, we published our ambition to become net zero by 2040 and also incorporated ESG into two core financing instruments. Our commitment to sustainability is evidenced by several important independent ESG benchmarks. For example, in November, we were recognized as a member of the Dow Jones Sustainability World Index for the 10th year in a row. Looking back over the past ten years KPN is the only telecom that has been mentioned every year.

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

Chris Figee (CFO, KPN): Thank you Joost.

As Joost mentioned earlier in our 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. First, our adjusted revenues increased by 0.3% in Q4, supported by sustainable mass-market service revenue growth. Second, the adjusted EBITDA after leases, our operating profit increased by over 4% in Q4 and 1.2% for the full year 2021, driven by service revenue growth and a lower cost base. Our EBITDA margin was up 70 basis points to 44.7%. Third, our Free Cash Flow increased 2.5% compared to 2020 and exceeded our target due to higher EBITDA despite higher Capex and taxes paid. Our Free Cash Flow margin improved 40 basis points to almost 15%. Finally, our continued focus on shareholder value creation is paying off, as evidenced by another solid improvement in ROCE – return on capital employed -- to 11%.

The adjusted group revenues were slightly down year on year, but we are encouraged by the gradual improvement throughout the quarters this year. And within the mix, consumer revenues were broadly flat, as growth in Mobile service revenues and Fiber revenues was offset by declining legacy services. Business revenues declined 4.3%, mostly driven by our LCE and Tailored Solutions performance whereas SME moved to substantial and structural revenue growth. Wholesale revenues grew by 6.3%, mainly driven by Broadband and Mobile. Other revenues were mainly supported by lower intercompany charges, higher non-recurring benefits paid to intellectual property rights and some fiber roll-out related revenues.

Mass-market service revenues continued to grow, plus 1.5% in Q4, driven by healthy trends across all segments. Please note that the mass-market service revenue growth number is negatively affected by the revenue recognition issue in last year's numbers. On an underlying basis the growth rate was close to 2% year on year. This also led to group service revenue growth, which was up 0.2% compared to the previous year.

Wholesale service revenue growth was really solid at 4.7% and SME service revenues grew by 4.8%, driven by continued good momentum in our basis. In Consumer, Mobile service revenues continued to grow. In Fixed, fiber revenue growth is outstripping the declining copper revenue since two quarters. However, this was still offset by declining legacy services. We are now moving to sustainable mass-market service revenue growth across all segments. Within B2B service revenues are expected to stabilize by the end of this year and we are on the verge of sustainable top line growth for the group.

The decline in total revenues was fully offset by lower indirect opex, leading to an increase of 1.2% in our adjusted EBITDA in 2021. Full year 2021 net indirect opex savings amounted to € 47 million, supported by lower personnel and IT and TI expenses. The cost savings were relatively moderate compared to previous years, mainly due to additional costs to support revenue growth, higher employee-related provisions, and less tailwind from COVID savings than in 2020.

That being said, it is important to highlight that if we look through the specific effects, we see a continued structural decline in our cost base and a structural increasing productivity, as is evidenced by the continued decline of the number of FTEs employed by KPN. For example, our own staff base is now 4% lower than last year whilst our revenues are broadly stable. For this year 2022, we expect to see roughly the same pace of cost savings as in 2021, mainly due to some additional costs to support revenue growth, inflation and costs related to services for Glaspoort, our joint venture with APG.

The cost target of € 250 million in the 2021 – 2023 period is expected to take a bit longer to realize, as the mix of KPN's EBITDA-generation is changing. On the one hand, KPN's revenue performance is better than expected. On the other hand, the run rate of cost savings is expected to be lower than initially anticipated in the next years. However, the changing EBITDA mix is not impacting the outlook for EBITDA growth as such in the coming years. Our 2023 ambition has been reiterated, as many of the cost headwinds are actually reflections of higher revenues.

Now turning to Capex. As indicated, we stepped up our investments to € 1.2 billion, driven by our accelerated fiber rollout. This is partly funded by continued decline in non-fiber Capex. Fiber Capex amounted to just over € 400 million and was up almost 40% compared to last year, representing about 8% of revenues. Non-fiber or other Capex declined to about € 800 million, 15% of revenues. It is important to realize that this bucket also contains customer-driven Capex like CPE, Consumer Premises Equipment. If we strip out customer-driven Capex, non-fiber Capex is seeing an even steeper decline. Capex overall is expected to remain at a peak level of € 1.2 billion, or about 23% of sales in 2022. Within the mix, fiber is expected to rise even further to about € 450 million, while other Capex is expected to come down a bit further, to around 14% of revenues. Customer-related Capex may be stable or even go up, but that will be good news because that would indicate stronger sales growth. Fiber Capex thereafter is expected being stable for the 2022 – 2026 period.

Our cash generation remains solid, and we have been able to grow our Free Cash Flow. With this we outperformed the outlook, despite a significant step-up in Capex and taxes. The higher Capex caused our operational Free Cash Flow to decline, but this was countered by several other line items: more favorable developments in working capital, lower interest paid and lower cash restructuring charges.

Taxes of € 77 million were a bit higher than planned, but this is due to the fact that we were not able to fully utilize the liquidation losses in 2021, as the German tax authorities have not yet concluded the 2014 tax audits. This we will follow up in 2022 and for 2022 we already have an agreement with the Dutch tax authorities on this matter. Therefore, we expect cash taxes of up to € 100 million in 2022, lower than the original expectations we provided to you a year ago. In 2023, we will see a further step-up in cash taxes to at least the original level we guided for. So effectively we stepped up our investment in fiber rollout and customer Capex, have funded these through a lower mobile, IT and network Capex, lower restructuring charges and lower cash interest paid. Working capital was no longer a drag on Free Cash Flow, and we managed to increase our Free Cash Flow despite the planned increase in Capex. Our Free Cash Flow margin improved 40 basis points to almost 15% of revenues and is on a clear path to improve further, in line with our guidance. We feel cash momentum is strong in our Group.

KPN focusses to create long-term value as evidenced by a strong return on capital employed. Our ROCE – return on capital employed – improved by 90 basis points this year to about 11% ROCE has moved up, due to increased operational efficiency and a more efficient balance sheet. For the coming years we see scope to further optimize ROCE as part of our continuous pursuit to create shareholder value.

We ended the year 2021 with a strong and resilient balance sheet. From Q3 to Q4, net depth increased by € 14 million, driven by a share buyback and tax payments, partly offset by strong Free Cash Flow generation. At year end, with a leverage ratio of 2.3 times, we are comfortably below our ceiling of 2.5. Also, our interest-covered ratio remains strong. Total liquidity at KPN is at more than € 2 billion and covers debt maturities for the next three years. Finally, KPN issued a € 700 million sustainability-linked bond in November 2021. This, as Joost already mentioned, underlines our commitment to a sustainable future and climate change mitigation by integrating our target to reduce carbon emissions across the entire value chain into a core financing instrument.

Before moving to our outlook and ambitions, I would like to say a word on inflation. While we do see some inflationary pressure from rising costs, we expect to be able to mitigate most of this, as the majority of our revenues have some sort of CPI-linked features in place. Therefore, we target no material impact on our EBITDA, as lower cost savings are expected to be offset by our revenue growth. Regarding Capex, we have limited exposure to inflating outsourced labor costs, as our fiber rollout capacity has been contracted for the coming years with no link to inflation. That said, there may be some small downside risk to working capital from supply chain shortages, which may require us to do some additional stocking. But this already is reflected in our outlook, and we keep a strict eye on Capex to ensure it does not exceed the € 1.2 billion level. In fact, if the strategic stocking requirement stays contained, we see some further upside to our Free Cash Flow guidance for 2022. The bottom line is, that KPN is well shielded against inflation and therefore not considered to be a major concern.

Let’s turn to our outlook for 2022 and the ambitions for 2023.

For this year 2022, we expect the adjusted EBITDA after leases to come in at around € 2.4 billion, just over 2% growth, supported by sustainable mass-market service, revenue growth, and continued cost control. Capex is expected to remain at a peak level of € 1.2 billion. We expect Free Cash Flow of more than € 825 million, which represents an increase of at least 5% compared to 2021. There are likely to be some small movements in most FCF-items, but all in all the delta Free Cash Flow from 2022 to 2023 is likely to be very close to the increase in EBITDA. We expect to pay a regular dividend of € 14.3 cents per share over 2022, a 5% increase. Finally, we reiterate our

EBITDA and Free Cash Flow ambitions for 2023, as outlined at the strategy update. For Capex, we expect to remain at the upper end of our initial guidance or € 1.2 billion.

The execution of our strategy is on track, and we are focused to deliver long-term value to all our stakeholders. At our half year results, we already indicated that we were confident that a progressive dividend policy could be complemented by structural incremental capital returns, and we are committed to return excess cash to our shareholders going forward. In 2021, we completed the first € 200 million leg of a share buyback program. The almost 74 million repurchased shares will be cancelled this week. For 2022, we intend to execute a share buyback program of € 300 million. This means, we will distribute more than € 850 million to our shareholders in 2022, which represents a yield of about 7% at today's share price.

To summarize, today's results are an important proof point of the success of our strategy. We delivered on our 2021 outlook, showing improving revenue trend, growing EBITDA and growing Free Cash Flow. We see a sustainable trend from mass-market services revenue growth with positive signs in Consumer, SME and Wholesale. With this KPN has now put itself on a clear path towards growing revenues, growing EBITDA, and growing Free Cash Flow and notably also growing shareholder returns. Thank you for listening and let's turn to your questions.

Questions and Answers

Reinout van Ierschot (Head of IR, KPN): Thank you. I would like to ask you to limit your questions to two each. Operator, over to you.

Operator: Thank you, sir. Ladies and gentlemen, we are starting the question-and-answer session now. If you have a question or remark, please press *1 now on your telephone. Please go ahead.

Our first question is from Andrew Lee from Goldman Sachs. Please go ahead

Andrew Lee (Goldman Sachs): Good afternoon, everyone. I have a couple of questions. There is an echo on the line, by the way. Now it is better. I have a couple of questions on revenue growth. Just firstly on the B2B revenue growth stabilization. There is a little bit of a deterioration in your LCE revenue growth in the quarter. We are pretty close to that point of stabilization that you are guiding to now, so what exactly are you seeing and what is giving you the confidence that this will materialize by the end of the year?

Then on Consumer revenue growth. You have described sustainable mass-market service revenue growth in the presentation. Is the Consumer side sustainable or is there upselling that can accelerate that growth? What exactly are you factoring into your guidance for 2023, given you have lowered your cost cutting but kept the EBITDA guidance the same? Thank you

Joost Farwerck (CEO, KPN): So, on B2B, the most important milestone for us was to turn around SME, not only because we were far on the road by migrating our customers to the new environment but also because SME represents the most important part of the B2B EBITDA. We have succeeded in that, and we are doing exactly the same on LCE, but we started later. It is a bit more complex market as well, larger customers and not that easy to migrate but having said that, we have done approximately 80% of all the migrations and we know it works. So, after we migrated 95% of the whole base, we expect that revenue to inflect and grow exactly like we did in SME. So, the whole idea is the same, we only follow SME one year or maybe two years later but all in all we expect that the total B2B service revenue at the end of this year is bottoming out and starting to grow as a total. That is because we are very sure, because of the program we have in place for our B2B business.

In Consumer, of course also a good trend. Especially in Mobile, the growth is now a couple of quarters in the base and in the ARPU, which is reflected in the service revenue. We also see the trend improving on broadband. That is very important. We had only slight growth last quarter. So, it is not enough but the trend again is moving in the right direction. Also there, we see ARPA improving by the move to fiber. This year, we will cross the level of fiber-based compared to copper-based customers, so all in all we expect that to work in a positive way as well.

Andrew Lee (Goldman Sachs): Thanks. Is sustainable mass-market services revenues growth not a little conservative given what you just laid out? What exactly are you anticipating within your 2023 guidance, just in terms of the balance between the revenue growth and the cost cutting, even if you have lowered that cost cutting or extended the timeframe for the cost cutting?

Chris Figee (CFO, KPN): When you look at the underlying, where could mass-market service revenue grow, we think it is good for 2% per year. We will be there in Q1, but that will be a bit flattered because of the comparison to last year when we had the revenue correction. So, the base year-on-year comparison will look good on Q1. I think Q1 could become at around 2%, underlying it is going to be a bit less, but I think gradually we should be able to move our mass-market service revenues to 1.5% - 2% growth year on year. As said, we will report around 2% in Q1, underlying a bit less, but I think we should move there gradually overtime. We are encouraged by the early signs of the broadband base developing, encouraged by the signs that fiber, the higher speeds are becoming more and more bought by customers when you look at fiber sales. At the same time, we have to deal with some legacy that is in decline. If you look at what happened in Consumer, it is mostly the legacy decline cause a decline in service revenues. But 2023, if I add it all up, we think mass-market service revenues will be between 1.5% - 2% growth.

Stabilization of B2B service revenues, cost cutting at least € 50m is the current trend and some rising direct costs might possibly be the cost of content and direct consumer equipment grew up a bit. That together drives the base assumption for 2023. We want to reiterate our outlook for the year. I hope that gives you some more color.

Andrew Lee (Goldman Sachs): Yes, really helpful. Thank you very much.

Operator: Our following question is from Mr. Luigi Minerva of HSBC. Go ahead please.

Luigi Minerva (HSBC): Yes, thank you, thanks for taking my questions.

The first one is on page 8 of your presentation, and I think the chart on the upper left side is very interesting. It looks like you are projecting a significant increase in your network reach of up to exceeding 60% in year 7. I am wondering if this means essentially a significant market share gain and how do you expect your competitors to react? In other words, whether this may trigger a tough pricing reaction from your competitors.

Secondly, thanks for giving us an update on the timing on the ACM review. I was wondering if you know why it is taking so much longer and what is your base case, whether you think that essentially the right incentives to protect your fiber deployment will still be there in the new regulatory framework.

Thank you.

Joost Farwerck (CEO, KPN): So, first on the picture on slide 8.

What we show you there is based on our experience, how we see our penetration grades improving over time, rolling out fiber in areas, which is also including Wholesale. The 60% we show there is our retail performance including what other service providers like T-Mobile for instance are doing on our network. We have a Wholesale/Retail strategy. It is always a balanced strategy, and we believe that by that we can leverage our network value best. But of course, it is always interesting to see what happens in the market and that is that in year one – year seven and above that framework, you see for instance other service providers on our network growing faster – net – than we do. We migrate a lot of our customers to fiber and of course see also new inflow of new customers on our fiber network, but we also see decent growth from other players. We did not decide to start a price fight on that, so we think there is room for a lot of players on our network and that fits our strategy. I think for this year, we should pick more or less in growth our fair share from the market, and we understand that we should not push the market to a limit because in this way we think we create most value.

On ACM, yes, they announced just before Christmas that it will take longer. At the end of this quarter, we expect the consultation document. As you know, we have been deregulated after a debate with our regulator, so we think we have a clear and strong position, also supported by the picture you were referring to. We think that the Dutch market is working very well. There is a lot of investments. We are investing in fiber, but others are rolling out fiber as well. There are a lot of service providers in the country offering broadband against different price schemes. And the competition is there. So all three points regulators should look at work quite well in the Netherlands. And having said that, of course we also understand that they will look at our pricing framework on the Wholesale side of fiber, and perhaps we have to lower a bit on the especially high speeds part of our propositions. But we feel confident that we can have a good discussion with ACM whenever they are ready for that.

Luigi Minerva (HSBC): Thank you very much if I may just briefly follow up on the first question? Do you think that your competitor's infrastructure, so the cable, will be a push to, you know, expand their footprint with fiber in order to match your ambition, as from slide 8?

Joost Farwerck (CEO, KPN): Well, that is a bit late in the process because we organized so much capacity to rollout fiber. We crossed half a million this year, so we connected the half million households. It is a record in the Netherlands. Looking at others that are rolling out fiber that is more below 100k or around 100k. So, there is not that much capacity left over in the Netherlands. On the other hand, cable is doing quite well with the upgrade to DOCSIS for the short term. So, looking at the Netherlands, the infrastructure in the Netherlands is quite well. We are number 4 on the index, number 4 in Europe. So, I think it is a bit late in the process for cable to move to fiber. You never know, but of course they are also more than welcome to join us on our fiber network.

Luigi Minerva (HSBC): Thank you so much.

Operator: Our following question is from Mr. Usman Ghazi of Berenberg. Go ahead please, your line is open.

Usman Ghazi (Berenberg): Hello everyone, thank you for the opportunity. I just have two questions, please. Firstly, T-Mobile Netherlands was just about a week or so ago significantly increased the broadband pricing for the first time in a while. There are two aspects to that question.

Firstly, do you see the retail kind of a competitive environment shifting in your benefit as a result of that, and, if not, why? Secondly, do you see any regulatory implications of the price increase and can you let us know what the lobbying locally has been in the press and stuff from them? That would be helpful.

My second question was on the service revenue growth. You indicated 1.5% roughly in 2022 for mass-market service revenues. Is that assuming any return of roaming revenues, or would that be an upside?

Joost Farwerck (CEO, KPN): On T-Mobile, it was not a surprise for us since three years ago they consolidated Tele2, and they came up with the voluntary remedy to keep the prices low. They promised no increases for the first three years. Now that period passed a couple of weeks ago and they now increase tariffs, so that is not a real surprise. They only did a CPI correction until now. Of course, they blame it a bit on KPN because of our expensive access fees, but we also see price increases not related to that. I think that it is up to them how they communicate it. I would discuss these matters with KPN or ACM, not with my customers, but all in all the price increase after three years was expected.

Chris, maybe you on the service revenues?

Chris Figee (CFO, KPN): Yes, on service revenues on roaming. The last time we had a normal roaming year was 2019. In 2020, the EBITDA from roaming halved, meaning that our roaming revenues dropped by 30%, our EBITDA from roaming halved. This year, we saw a bit more and today, we are running about 60% of pre-Covid normal roaming revenues. Our plan assumes that is stable to slightly up, not material. So, if roaming were to normalize that could be upside, but I cannot bank on it. I cannot plan it. Currently running about 60%-70% of pre-Covid roaming earnings.

Usman Ghazi (Berenberg): Right, thank you very much.

Operator: Our next question is from Mr. Georgios Ierodiaconou of Citi. Go ahead please. Your line is open.

Georgios Ierodiaconou (Citi): Good morning, thanks for taking my questions. I have just a couple of points on your guidance and specifically the target for 2023. And thank you for giving us an indication around roaming. I wanted to ask two follow-up questions on that. Firstly, around the ACM decision whether your 2023 numbers have already made some assumptions of perhaps a slightly less favorable outcome than what you have now, or whether your base case, the continuation of the current rates?

The second question is around costs, and I appreciate you already mentioned that you can offset it with the revenue actions. I guess not all companies can do that in this sector, so I just wanted to get a bit of context as to where you are seeing inflation and if you could give us any indications of the quantity of inflation you are seeing. And then specifically on energy. I just wanted to clarify, if in 2023, do you still have futures in place or would that not be the case?

Chris Figee (CFO, KPN): On the first question on ACM and 2023, I refuse to speculate on the outcome of what the ACM review could do. So, our 2023 outlook is guided on the same presumptions as before. That shows also a bit of confidence. We think there is not a material issue. There is nothing wrong in the market. Again, if you look at Consumer retail prices this is a report that was produced by an Analysys Mason. We sponsored it, but it was an independent report that showed that the retail pricing is in line with where Europe is. We see sufficient infrastructure competition on infrastructure as such, and attackers, the Wholesale parties on our network, that actually could still grow faster than KPN or Ziggo. We think that is not on the issue in the markets and if you look at the T-Mobile pricing announcement it appears that, especially on the passive lines, there is not an issue. If anything, it could be on the VULA/PON side of things but on the passive lines not at all. So, at this point we have kept our assumptions stable. We see no need to adjust them.

When it comes to inflation, inflation shows up on a couple of points. We see wage inflation, given what we have in terms of CLA agreements. It is between 3.5% - 4% per staff member increasing salary costs. There is some energy price inflation, but you know, by luck or skill – that remains to be decided – we have locked about 80% of our energy costs through forwards, so only 20% is spot and 80% has been locked in. So, at this point a manageable quantum of increase. And then we see some inflation in for example CPE-equipment and in Capex. But on the cost side of things, I think it is well contained, and it is certainly not more than we can price to our customers. So, the EBITDA mix will be flat because wage increases of between 3.5% - 4% and energy was shielded from our long-term energy buying contracts. If anything, it will show up in Capex, not in fiber, because our most of our fiber contracts are fixed price and locked in for years, so it should be on the non-fiber part for example, in Consumer Premises Equipment. But we see a number of opportunities to counter those and still stay within Capex very close to or at the € 1.2bn.

Georgios Ierodiaconou (Citi): I could ask for a follow-up on energy comment you made this 80%-20%. I guess that is the ratio for 2022. Is it possible to even have an indication? Is it more or less a changing rolling strategy or 20% every year, so it would take four or five years before you see the full impact?

Chris Figee (CFO, KPN): We pay about € 60m in energy expenses. The big chunk of it, almost half of it is taxes and the rest is pure energy. We have a policy of 80% fixed buying and 20% on the spot market. We are a little bit overexposed at this point in spot because we did not want to lock in at current energy prices for long-term buying but effectively, our strategy is around 70/80% long-term buying so, as you say correctly, any energy increase, price increase will feed in gradually over time as we really strive to have 70% to 80% bought into forward contracts.

Georgios Ierodiaconou (Citi): Thank you.

Operator: Our following question is from Mr. Ulrich Rathe of Jefferies. Go ahead please, your line is open.

Ulrich Rathe (Jefferies): Thank you. I was wondering just for the overall shape of the B2B revenue stabilization and inflection, whether you can give us any indication when the LCE service revenues separately might bottom out at all, or if you do not want to do that what the drivers for that could be, separately.

The second question is where do you see the market set-up settling down with T-Mobile? It is pretty clear how KPN is positioned vis-à-vis Vodafone and Ziggo but what role do you think T-Mobile will play in the market? I am thinking about this going to be a mobile-centric play with also run convergence offers just to the to the extent that they needed to support the market share they have. Or do you think is a more strategic effort on their end to reposition and then what implications has that for your market approach in the mass-market? Thank you.

Joost Farwerck (CEO, KPN): Well like you say, of course Ziggo is the largest consumer service provider in the Netherlands with a market share of above 40% retail and T-Mobile operating around 7.5%. So yes, they are growing, but they also have a very small market share, and it is all on our network. We expect them to keep on doing what they are doing, but we also should keep an eye on the total market I would say. Of course, they have a very strong position in Mobile. They consolidated other providers in the Netherlands, and they have the largest base postpaid consumer mobile in the Netherlands. So that is where their strong position is, and that is where they really make their money. What will they do on broadband? The question is out. There is just a change of ownership in the company, so we will find out and of course follow that. But it is very important to also take a look at our position against Ziggo in the broadband market.

Regarding B2B, we said that LCE will follow SME, probably in a year. It is a bit too close, so we think it will happen in the second year that LCE will inflect. The total of things will improve end of this year. But we are pretty confident because we follow exactly as we did in SME the migrations of the base to the future lower price bonds, but very future proof.

Chris Figee (CFO, KPN): You take the non-SME part of the Business market, that is LCE and Integration together. We still have hope that by Q4 this year we get to a bottoming out of that business. So, 2023 will enable the entire B2B market to start to show stabilization and growth, but by Q4. We are looking very much at Q3, but like Q4 you can see the real bottoming out of LCE and Integration.

Ulrich Rathe (Jefferies): That is helpful. Thank you very much.

Operator: Our next question is from Mr. Polo Tang of UBS. Go ahead, your line is open.

Polo Tang (UBS): Hi, thanks for taking questions. So, I have two. The first one is really just coming back to cost savings. I think you have made it very clear that net savings are taking longer to realize. Could you expand a bit more on why this is the case? So, one side is it because you are investing more in specific areas? And can you maybe just give a bit more color? You have mentioned the Glaspoort joint venture; could you expand on that? Alternatively, is the delay in terms of net savings because the gross savings are taking longer to realize? That is the first question.

The second question is about competitive dynamics. Could you talk a bit more about what you are seeing in terms of the broader market? I appreciate you have already talked a lot about T-Mobile Netherlands, but has there been a change of approach from Vodafone Ziggo, given that they have lost exclusivity on content like Formula 1 and HBO? Also, are you seeing any impacts from Delta Fiber, given that they are expanding their footprint?

Joost Farwerck (CEO, KPN): Before we move to the cost saving parts, on the whole competition landscape in the Netherlands we are improving our position. But to mention that I am satisfied now, no, because we are not even growing our fair share in the market. It is not that we are super aggressive out there. We are really balancing our actions out and we also see strong growth on our network from others. It is true that probably Ziggo lost some customers, and we did grow a bit in the fourth quarter but if you take into account what happened over the last years, I think that we are all trying to create value in the Netherlands. It is true that we improved ourselves on the content part. We are very happy with the Viaplay deal we made, and we have recently seen good inflow of new customers who want to watch Formula 1 races. We also improved the ESPN deal, we introduced gaming, so we are not only a FiberCo, but we are also adding value for our service providers from home. I think there we really improved our position in the Netherlands compared to the others. So, I expect value to come from that as well. So, we all have to find our new position, but it is a delicate balance and I do not see super aggressive behavior from our side at least.

Cost discipline remains super important for KPN, and we will stick to our indirect cost saving target of € 250. Maybe it takes a bit longer. That is also because of new costs coming up, like the cost related to the joint venture, inventory cost, reinvestments in top line growth. But although this is indirect cost, it is also what we call ‘healthy’ indirect costs because they are all related directly to revenue growth. For the cost part I will now give the floor to Chris.

Chris Figee (CFO, KPN): Polo, on the cost side let me give a few points of color. FTEs continues to decline, so productivity goes up. We dropped about 4% of FTEs, about 700 FTEs last year. I think our labor capacity will still decline again this year, maybe not 700 but at least a 3-digit number again, 400 – 500 FTEs possibly. Natural attrition is quite high and that means at the good side of things that we spend much less on restructuring charges. So, structurally we see our labor cost basis declining. Where do we see some headwinds? Is that inflation? 80% is hedged but still, energy costs could go up between € 5m and € 10m. If you add it all up, energy prices deltas, looking at the non long-term forward-bought part of energy, on Glaspoort, if you remember, we rent lines from them, so we actually pay passive fees to Glaspoort for their lines. That is an opex charge that was not there when we started the plan, but the Glaspoort lines that are in fiber we rent for them, charging ODF-fees. And in revenues, as Joost said, we are investing in growth. There is a bit more investment in marketing communications because we want to keep this growth momentum up. Secondly, we have more customers and more customer activity, and you will see somewhat more call volume in your call centers, more service tickets. We are trying to get customers to move to self-service as much as we can but when you grow your volumes you will have a little more support cost, so a bit of inflation shows up in energy. It is a manageable amount, but still. For Glaspoort we actually rent, we pay ODF fees for passive lines and there are costs that come with higher revenues. It is a bit limited because of higher marketing and communications spend and somewhat higher support costs. Again, that does not affect EBITDA. Our EBITDA remains unchanged because all these elements are reflected into higher revenues, but it means that they come on top of the savings that you expect if you were to just look at the FTEs.

Polo Tang (UBS): Clear, thank you.

Operator: Our next question is from Mr. Joshua Mills of BNP Paribas Exane. Go ahead please. Your line is open.

Joshua Mills (Exane): Hi guys, thank you. A couple of questions from me related to Capex and then the guidance. If I start on slide 25 you have moved the 2022 guidance towards keeping several at the top end of the € 1.2 billion. I would just love to know how you are thinking about the 2023 Capex guidance as well, which is also now at the top end. Is that because you are planning to accelerate the pace of the rollout of fiber to the home or are there other reasons why we are maybe seeing a bit more expenditure there? If I take consensus at the moment, looking at the 2023 Free Cash Flow, consensus is already quite a bit ahead of the € 870m. I know that is a minimum target, so are we eating into the upside opportunity on Free Cash Flow to 2022 versus a higher Capex number?

The second – a kind of follow-up – question would be again going back to that fiber slide; you are talking about lower fiber Capex after 2026. If I look at consensus, by that point, although there are fewer numbers, I suppose people are thinking that could be a number below € 1.1bn. Given the message you have just laid out around continuing the pace of the fiber rollout for good commercial traction you have seen, would be more realistic to think about € 1.2bn is a stable Capex level going forward, even beyond 2023? Thanks very much.

Chris Figee (CFO, KPN): Joshua, on Capex, on slide 25 you can see fiber Capex next year moving to € 450m. I think next year KPN will get to over 500,000 homes passed rollout. I think Glaspoort will get to also big numbers. KPN plus Glaspoort together, if you wanted to add them up, you will probably get to about 650,000 fiber to the home connections rolled out. So, Fiber moved to 450. That will be our cruising speed for the years thereafter. I think you see some little bit more Consumer Capex, which I think is good Capex. That is a function of new sales in Consumer Premises Equipment. We will continue to see some downward slide in like the other Capex, mostly non-mobile Capex, we see some savings in our network Capex. This year, in 2022 we have a significant spending program on an ERP-solution for corporate functions. That will be done after 2022 and 2023. It is fair to assume, also add a bit of inflation to the mix, we are humming around € 1.2bn for the next two years. Beyond that, allow us to give you further guidance when we get there. But it is fair to assume we stay at that level, driven by especially our fiber and Consumer Capex cruising at a higher speed than fiber to € 450m as we depicted here.

We feel strong in our Free Cash Flow this year. Our cash momentum is good. We outperformed our cash guidance, as you wished, in 2021. Then from 2022 it will be € 825m or at least € 825m. We feel we are doing good on cash. The implied step-up in 2023 will come from a couple of things. There will be another leg down on interest rate payments in 2023. That is almost inevitable, given our book and given where our rates are. We see by that time working capital is no longer a drag. It was already a positive in this year and in 2022 working capital could be flat to a small negative. It depends a bit on our strategic stocking, whether that is required or not, but we do not see it continue in 2023. We continue to see low or lower restructuring charges, as we find other ways to increase our labor capacity. So, even at € 1.2bn on Capex; we still feel confident on the cash flow guidance that we have. The cash momentum is strong at our group. As I said, interest expenses will come down, I do not think working capital will be a drag in 2023 and it could be a small support in 2023 and restructuring charges will be lower as well. It all fits together into continued good cash momentum and maintain our Free Cash Flow targets for 2022 and 2023.

Joshua Mills (Exane): So, the difference between the guidance last quarter – € 1.1bn to € 1.2bn – and the € 1.2bn now, it sounds like it is mainly coming from other Capex, which is slightly higher for a number of reasons but you believe that can be offset in your own Free Cash Flow guidance by lower interest and working capital costs.

Chris Figee (CFO, KPN): Fiber is up to € 450m. It is consumer Capex, which is going up notably and all the other teams we are managing and will not impact our Free Cash Flow guidance. We find ways to counter that.

Joshua Mills (Exane): Thank you.

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

Steve Malcolm (Redburn): Good afternoon and thanks for taking the questions. Just a couple on the revenues. We have been through the cost inflation in some detail, and you are clearly telling us that whatever rising costs you expect to see it is almost equally matched by rising revenues, which would come in ahead of where you thought or coming in ahead of where you thought you would be. Could you shed some color on what the sources of that extra revenue growth is? Is it just prices? Is it just the fact that CPI is going to be higher, so when customers get their new bills in June/July the CPI number will be higher? Any color on this would be great.

And then just on the timing of the price raise. Can you just tell us at what point you strikes CPI for the June price rises and the positions of your competitors with regards to CPI at vision whether they are likely to follow suit, have they written into their contracts? I mean, I think we can all guess the Vodafone Ziggo almost certainly will and I guess T-Mobile under new ownership and being five times levered might well be but is CPI actually a part of their pricing? It would be good to know on that front. Thank you.

Joost Farwerck (CEO, KPN): I will start and then I will hand over to Chris on revenues. It is not only a CPI correction that is supporting service revenue growth, but also a mix of migrating customers to fiber where we immediately see higher revenues on the fiber base. That is an important one. Also, by introducing better packages on content for our customers, we expect more from that. Migrating our customers through the higher speeds is very important. Mind you, a year ago it was below 10% that bought 1 Gig. On fiber, in fiber areas we currently see inflows of around 20% on 1 Gig, so that is an improvement and that of course is against a higher price. On Mobile we are improving. We are working on the base, but we are also working on the ARPU because of Unlimited, which is against a higher ARPU than the average, so that whole Unlimited market is now really ours and we see a healthy inflow there.

So, we really work on the mix of things, the base, the ARPUs, the ARPA, to improve service revenues and somewhere mid-year we always take the decision to increase prices related to CPI, CLA increases, purchase power in the Netherland. It is a bit of a call we make at the beginning of Q2.

Chris Figee (CFO, KPN): Steven, when you look at our cost base of course we are affected by inflation, but not every euro of cost will be affected by the headline CPI number. As I said, wage increases will be around 3.5% to 4%, which actually is a bit less than CPI. Energy is locked in and only a chunk of that will be affected by energy price increases. The rest will not and will only gradually feed in over time and possibly be a bit less as energy prices normalize and where other cost sources that are basically fixed in. So, you cannot multiply our cost base by 5%; it is more nuanced than that. There will be some chunks where we get infected by higher pricing, other areas where it is not or where there is a different price increase. When we look at our prices charged to customers, some of them are linked to CPI, some of them are not and related to CPI, or there is not a one-on-one link. So, during the year, mid-year, we can and will decide what we do. It does not mean we necessarily push through all the CPI increases automatically to customers. We will make a balanced trade-off also looking at what actually happened to our cost base, what is happening to purchasing power with our customers, where is the competitive environment? We may or may not follow the full inflationary impact. We may do a bit less if it is not needed but that is also because not all of our costs one on one interact or move with inflation.

Steve Malcolm (Redburn): That is great. Can I ask one quick sort of follow-up, just on the comments you made on Wholesale pricing and the ACM consultation? Can you give us a flavor of the current mix of products in terms of speed take-up and cost differential between your lowest speed and your higher speed products and maybe how we should think about that differential changing? It sounds to me like ACM is going to push for lower prices on the 1 Gig and above products? Any kind of color you can provide on that would be very interesting.

Chris Figee (CFO, KPN): On pricing you can refer to our website. Our prices are public, so you can look at those prices. The discussion is mostly on the PON areas I think, and less on the passive area, at least if I read the press and if I look at what our competitors are putting into the news. So, I think the discussion will center around the PON areas and possibly higher-speed pricing.

Joost Farwerck (CEO, KPN): It is more about the new fiber areas we are building than the older ones. We moved from point to point to a new architecture – PON – which is more or less a worldwide industry thing. That is what happened all over the world, all telcos were moving to PON. For that reason, we can only sell virtual local accesses instead of real passive accesses like we see in the other areas. Meanwhile, it is also important that customers migrate to higher speeds and therefore the discussion on the Wholesale pricing will take place around what we ask for higher speeds. So, the whole debate is more about future fiber than the fiber we built until today.

Steve Malcolm (Redburn): Okay. Thank you.

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

Keval Khiroya (Deutsche Bank): Thank you, I have two questions, please. Firstly, you talked about the strategy of Unlimited up to Mobile, but do you think the mobile market can sustain price increases given the Unlimited mobile price points are lower than where they were two years ago, so could we see price increases in Mobile as well?

Secondly, the copper switch-off should be mature by next year, so can you share more on how we should think about the related opex savings and the phasing of those as well? Thank you.

Joost Farwerck (CEO, KPN): All these incumbents are talking about the copper switch-off. Last year we piloted that in a couple of areas and succeeded quite well there. So, we really switched off a couple of number exchanges to pilot for 2023. We announced it a couple of years ago, following ACM guidance on that. So, we really will start to clean up the copper network in a lot of areas as from the beginning of next year. We are a bit prudent on predicting how much opex and Capex we can save there because the first year it will be less than a couple of years on the road, but still, we do a lot on copper when it comes to services, service tickets, additional Capex on new houses, et cetera. So, it is about tens of millions we can save by moving the copper base for 100% to fiber, because fiber is far more efficient not only to deliver but also to maintain. It is far more sustainable and future-proof as an infrastructure. We really expect a lot from that.

On Unlimited, of course we hesitated long, but I think we waited too long to be honest, by introducing Unlimited. It is priced in such a way that we give discount to customers in a full package, but it is still above € 25, and I think it is important to keep it there. So, when we will increase mobile tariffs, that is what we more or less do on an annual base as well but that depends a bit on what is happening in the market. The good news is that we move to Unlimited. We are now moving in fiber to 1 Gig, so the Netherlands is really about high-speed access. But also, against a higher price. I also think the whole market understands that because we need to create value and we do a lot of investments there. So, I would say that we do pretty okay, and we can increase there, but let's see.

Chris Figee (CFO, KPN): The good news is of course that in Mobile the Unlimited inflow is now above 30% of new customers for some time. We see the Unlimited equivalent, which is the 1 Gig speeds in Fiber is also significantly going up. In fiber only it is going towards 30% of Unlimited inflow. That is the original source of the potential ARPA or ARPU uplift from clients moving to higher speeds. What is means for pricing, let's see. We have set a CPI-component in our Mobile contracts, and we will see what we do. We will make sure there is a balanced price response, not necessarily pushing all the CPI-increase into our prices but looking into our cost base as well. But there is some pricing headroom there and we will see throughout the year how we actually materialize that. To me the good news is that a big chunk of our customers both in Mobile and in Fixed are moving towards the upper end of bandwidth and paying for that.

Keval Khiroya (Deutsche Bank): That is clear. Thank you.

Reinout van Ierschot (Head of IR, KPN): Thank you very much. That concludes the webcast for today. If there are any further questions, please contact the Investor Relations department.

Thank you very much!

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End of call.