Event transcript KPN TowerCo call

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KPN and ABP join forces through new TowerCo

Operator: Good day, ladies and gentlemen. Welcome to KPN's Investor Relations conference call. Please note that this event is being recorded. 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. I will now turn the call over to your host for today, Michael Schenk, Investor Relations Officer. You may begin.

Michael Schenk: Good morning, ladies and gentlemen, and thanks for joining us. Unfortunately, Matthijs will not be able to join us today due to personal circumstances. That is why I am your host today. Welcome to this brief call covering this morning's announcement that we will form a strategic partnership with ABP, represented by its asset manager, APG, to create a new tower company. With me on the call today is our CFO Chris Figee and Frederik van Heel, our head of M&A, who's available during Q&A. As usual, I would like to remind you of the safe harbor on page two of the slides, which also applies to any statements made during today's presentation. Let me now hand over to Chris.

Chris Figee: Thank you, Michael, and good morning to you all. We've been pretty busy at KPN for the last two weeks. Last week Glaspoort announced the acquisition of 200,000 homes passed from Delta. Tonight, the Boston Celtics are facing off the Dellas Mavericks. Intense but good weeks for KPN. I am sure that you have all looked at the materials we published this morning. They are complicated, so I will give you a quick summary of it all and leave time for questions and answers at the end. We announced that we have signed an agreement with pension fund APG - we know them well from Glaspoort - to jointly create a new tower company. This strategic partnership is aligned with our recent connect, activate and grow strategy to optimize the value of our passive assets and have the best digital infrastructure in the Netherlands.

Through this transaction, we drive strategic flexibility over a substantial part of our mobile sites, enabling strategic and material synergies regarding the deployment, maintenance and optimization of our passive mobile infrastructure. The solution also provides a new framework agreement for our tower leases, fully geared towards the future, both financially and technically, and which supports KPN value creation. It has a positive impact on EBITDA cash flow and earnings. Taking out any ambiguity or uncertainty is a positive impact on the group finances. At our recent Capital Markets Day, we announced that we are continuously looking for ways to optimize ownership of our passive network, and we're specifically looking at our mobile site ownership.

This transaction clearly demonstrates KPN's intent to optimize the value of our passive infrastructure, leverage the value of our networks, whilst retaining strategic flexibility and long term operational stability. Allowing us to operate the best digital infrastructure and retain network leadership in the Netherlands. Let's move to the rationale in a little more detail. We executed sale and leaseback transactions in the past and as a result of that a significant part of KPN’s passive mobile network is currently owned by third parties, whose interests sometimes diverge from KPN as an MNO and result effectively in complex terms and conditions across a myriad of contracts. That's the reality.

Under current contracts, lease fees are relatively high and inflation exposure is often uncapped, resulting in high and fluctuating lease expenses for KPN. Following KPN's continued demand for network growth and densification, amplified, and more important by the upcoming spectrum auction. Having more operational influence over this infrastructure is imperative to our strategy. That's why we've signed an agreement with APG to create a new tower company. The new entity for now labeled as TowerCo - we might call it Open Dutch Towers, but that's something to think about in the future - basically consists of the following three elements: first, the contribution of assets. TowerCo as we will call it right now, will hold the passive mobile infrastructure assets of KPN, as well as those of Novec and OTC. As such, KPN contributes about 250 own towers, about 1850 rooftop contracts, plus a build to suit commitment for the first ten years.

Novec and OTC, already key partners of KPN as we currently rent about 1100 locations from them, contribute about 900 towers, 11 broadcasting masts and access to 750 high voltage pylons, HVPs. Second, there is an integral reset of all the current contracts with Novec and OTC into a simplified, but made more effective single framework agreement for all passive mobile infrastructure involved, with more fitting commercial terms and limited risk for escalating prices in the future. Thirdly, KPN pays a small equalization fee and acquires 51% of the combined business with corresponding consolidation control as majority shareholder. Hence, this transaction allows, on the one hand, to renegotiate terms and send a set of contracts into a single and more attractive framework agreement.

On the other hand, the majority share drives control over the heart of our passive mobile infrastructure asset base. Let me now touch on the operational side of the strategic partnership. TowerCo will hold the passive mobile infrastructure assets of KPN, as well as those of Novec and OTC, leading to a portfolio of about 3800 mobile sites in the Netherlands. The number of sites is expected to increase, driven by KPN's build to suit commitments for about 550 sites for the next ten years, and by third party replacement sites. Telco will build, operate and maintain the passive infrastructure through an open access model - which is very important as an open access business - and have about 60 FTE' s. Towerco and KPN has entered a new long term master service agreement regarding the provision of tower infrastructure services for an initial period of 20 years. The average tenancy ratio today is about one and a half, and expected to improve over time as new sites are built along with adding up of existing sites. Again, this is an open access tower company, which is important to underline.

Let's move to the new structure. In this transaction, KPN will hold a 51% consolidating stake in TowerCo and APG will hold the remaining 49%, with Tennet selling its stake in Novec as part of this transaction. KPN has agreed an upfront cash equalization payment of about €120 million to Novec and OTC's current shareholders for the majority stake in the company. The transaction is subject to regulatory approval, with this strategic partnership expected to start operations in the fourth quarter of 2024. One way to look at is to think of this business as an enterprise value of 600 or 700 million, taking typical powerful multiples and the EV of this business. Plus the reset of terms, plus a de-risking of KPN's future lease commitments so the access to a business that's worth probably 600 or 700 million in that order of magnitude, plus a reset of terms, plus a de-risking.

Also, against that KPN faces a equalization fee of 120 million and inserts about 250 towers and 1900 rooftops and gets access to about 1000 towers and a bunch of high voltage pylons and broadcasting masts. In that, there's a build to suit commitment over time. In the combination of the two for KPN means a return on invested capital well north of 10%. If you go a bit out in time, the ROIC moves towards our current ROIC estimate. So when it comes to the financial terms, we as a shareholder own 51%, plan to fully consolidated this tour company which adds positively and on a pro forma and full year basis, about €30 million of reported EBITDA to KPN in 2024. Over the 2025 to 2027 period, the EBITDA is expected to grow at more than 3% on average per annum, and incremental to a CMD target of about 3% gain in EBITDA growth. Capex is expected to decline over the coming periods. It should be in the mid-teens in the early years. Operating free cash flow is about €20 million pro forma in the full year 2024, and will show a decent 10% growth on average per annum in 2025 to 2027, driven by EBITDA growth and gradually declining Capex.

FCF on a performance basis and on a fully consolidated basis, is about 10 million in the first years, growing to 15 to 20 million in the back end of the plan period. The delta between the operating free cash flow and the full free cash flow is mainly due to interest expenses. For conceived purposes, you can include 50% of your free cash flow in your contribution to KPN. These are all pro forma 2024 numbers. Obvious transaction is subject to regulatory approval. We hope and expect closing in the fourth quarter of the year to really start to add to KPN for one quarter this year or a full year 2025. Net debt on a consolidated basis increases by €300 million to about 0.1 times impact on KPN's leverage ratio, driven by the equalization payment and the impact from refinancing TowerCo, based on the leverage ratio of about five times net debt to EBITDA.

As mentioned, note that a 100% is consolidated, so KPN owns only 51%. KPN Group fully loaded leverage ratio is expected to stay within a 2.5 times net debt to EBITDA ratio that we stand for. To summarize: if you take a step back, over a decade ago, KPN sold its tower portfolio to maximize upfront value. Actually, in exchange for relatively higher entry fees. We felt that a key digital infrastructure, mainly towers and are locked with a bunch of third parties at relatively unfavorable terms and rooftops at risk of moving in the same direction, and it is becoming a highly competitive market. With the consolidating markets and KPN's requirements for new locations in coming decades, KPN was to a large extent depending on third parties for one of its key infrastructure networks.

With his infrastructure being paramount to KPN in the coming decades. Think about densification, the 3.5GHz roll out, the strong desire to bring this partially back to KPN, creating a fully aligned and future proof situation for key KPN digital infrastructure. Basically, we have a transaction where an integral reset of all the current contract with Novec OTC, into a single framework agreement. Both parties contribute assets. Novec OTC about 900 towers, KPN 250 towers and 1800 rooftops and a build a suit commitment. This allows, on the one hand, to reset the terms of contracts into a single framework agreement. On the other hand, get the majority share to drive control over passive mobile assets and increase EBITDA and free cash flow through consolidation.

The solution provides a new framework agreement, fully geared towards the future, both financially and technically, and allows to optimize operations for a business that will have open access for the towers. There's a long term agreement ensuring adequate provision of locations over a 20 year term and substantially lower fees to KPN and adjusted inflation amendments. With that, I will leave the floor for some questions. Michael, can you share the instructions?

Michael Schenk: Thanks, Chris. We will now open the floor to questions. As a reminder, please limit your questions to two, please. Operator. Over to you.

Questions and Answers

Operator: Thank you. Ladies and gentlemen, we will start the question and answer session now. If you would like to ask a question, you may do so by pressing star one on your telephone. The first question comes from Andrew Lee of Goldman Sachs. Your line is open. Please go ahead.

Andrew Lee: Good morning. I had two questions. The first one is hopefully pretty straightforward and the second one may be slightly more complex, but I will give it a go anyway. The first one is: how does the cash commitment of 120 million as part of this deal, feed into your decision making on future buybacks and dividend payments? The second question is a kind of: what now? Thanks, Chris. You clearly articulated why you've done the deal today. I am just trying to get an understanding of why your partner, ABP, went into the deal. Who started the decision or the process of doing this deal? The reason I'm trying to get an understanding of that is to know if you expect to build your stake further in the TowerCo from the 51% today? I am also trying to get an understanding as to how this pertains to any kind of thoughts on your fixed network ownership, given you currently have 100% ownership of that. Thank you.

Chris Figee: Andrew. Good morning. Yes. Thank you. The first question: this is completely separated for both dividend and buybacks. There is no impact. Any dividend or buyback plans are unaffected by this transaction. This is fully inside our cash story and our leverage limits of two and a half times net debt to EBITDA. We're fully committed to return our full free cash flow to shareholders. You might argue that our free cash flow goes up to shareholders a tiny bit for the coming years. This is no risk for our cash flow going forward and there's no impact or whatsoever. Also, on any follow on buybacks or follow on decisions, et cetera. This is fully into the existing cash that we have.

How did this start? This is a debate, discussion that took us quite some time to work out. It was quite a complex transaction. Obviously, we know APG very well through our Glaspoort joint venture. Tennet was a shareholder in Novec OTC and is looking for a redirection of its strategic investments. We're thinking whether they want to be a long term owner of this asset in the long run, given their other priorities. We came to bear that we thought that in the future of this company, we think it is a strategic importance to have control over your core network, right? Even if you have a passive network, you want to own control and have more strategic flexibility. Something we didn't have at this point. Who started it? I think we started it is such a long time ago. I think we launched and floated the idea with APG, thinking that at some point Tennet would probably be willing to engage in discussions.

We kind of hypothesized that Tennet would probably wanted to exit. This is a strategic move for us. We floated the idea at APG. It then it hit home and all three parties got together. It took us quite some time to work out, first of all, because we had to renegotiate all the lease contracts into a new single framework arrangement. Then there was a fair degree of valuation discussions. The icing on the cake was the accounting technology to make sure that we could consolidate the transaction. I can write a PhD on consolidation from now on. I am actually seriously thinking about doing it when I retire. I do not, but there was a long discussion on that. It took a long time. Has this further implications on our fixed network?

We own all the urban fixed broadband and fiber assets. On the semi-urban we've got a deal with APG, in which we have a 50/50 joint venture, which at some point we will control and will consolidate. On towers, we now have something similar. Is there further read across? Not that much, except that we think it is imperative for Telco to have majority ownership of your core assets. Not necessarily a 100% ownership. It doesn't mean that we immediately intend to sell our fixed assets in the short term, but at least we want to control as a principle, there is no plan for us to go up from 51%. On the other side, our partner is here too as an investor, so we think we go from 0 to 51% and that's where we will stay.

Andrew Lee: Thanks very much. That was really helpful.

Operator: Thank you. We will now take our next question from Luigi Minerva of HSBC. Your line is open. Please go ahead.

Luigi Minerva: Good morning and thanks for taking my questions. Just a clarification on slide six. If I look at the assets under the KPN perimeter, particularly the third party towers, only 1100 will fall into the perimeter of the TowerCo. I just wanted to understand what happens to the 1900 that are excluded from the TowerCo. Will you no longer use them? Have you have negotiated yourself out of the agreement on these towers? What happens to those 1900, really? Secondly, I am trying to get to the bottom of the impact on earnings as you were suggesting in your remarks, Chris. What is the dividend that APG will get from TowerCo? You've given us an idea of interest charges. About 10 million, I guess, but if you can give us some colour about incremental D&A and taxes as well. Thank you.

Chris Figee: On the remaining towers, we have contracted other tower providers, other tower companies and other colleagues, so they are operated by third parties. Basically, we adhere to the contracts that we have with them, and they will remain active and remain part of our network. Obviously, going forward, priority for new tower developments will be at this new TowerCo. They are operated by a number of third parties, with which we have contracts, and they are important to us. They will continue to operate to serve our mobile networks. Then again, new build to suit commitments are in the new TowerCo. When it comes to how we look at the business at this point, there's a bit of work to be done to the running about the closing of this transaction.

What we have shown to you is that when you consolidate the impact on EBITDA, on operating cash flow and free cash flow. The company has the intent to roll out a five times net debt to EBITDA leverage and excess being distributed to both shareholders. You have a situation where probably the cash that being upstream is higher than the free cash flow reported. At this point, we focus on the reported free cash flow. The actual cash in might be a bit higher. Think about this business. About 2024/25 EBITDA of around 35 million.

Net interest, about 11 million, taxes around 4, Capex around 10, which brings you to around 10 to 11 million free cash flow in this business. That's how the math works, but then again, the way we think about it today is that we report the consolidated number. The actual cash into KPN might be a bit higher, simply because of the maintenance of a leverage target into this asset.

Luigi Minerva: Okay. That's very helpful. Thank you.

Operator: Thank you. We will now take our next question from Georgios Ierodiaconou of City. Your line is open. Please go ahead.

Georgios Ierodiaconou: Good morning, and thank you for taking my questions. The first one is on the deal itself. I am just trying to understand if there are any benefits you may have in the future, beyond the savings from the renegotiation of the existing leases? I am trying to understand if the build to suit program is just for expansion of the network, or could you use it to replace some of the existing lease arrangements with third parties? Going forward and renegotiate better terms? My second question is around the comment you made earlier is around consolidation. Should we assume that other and potential assets, whether it is data centers or other infrastructure you may have options to monetize in the future, will be preferably structured in a similar way where you keep control? Or do you look at each asset in a completely different starting point? Thank you.

Chris Figee: Those are good question. On the first one on the savings. There is indeed the renegotiation of the lease contracts. The build to suit is primarily around new towers, but there will also be opportunity for replacement. When towers and other operators come up for renewal, we will try to think through if we renew or replace. This his gives us a fair degree of optionality. Of the 550 towers build to suit, I think that about 80%, so the majority, will be around densification and new towers. We do see opportunity for replacing existing contracts with new towers and more favorable terms. That is not yet actually modeled in the plan. The plan is not supposed to do that, but that's an additional upside in the numbers we gave. On the upside we believe that tenancy ratio is good to up.

At this point, the tenancy ratio on KPN's towers is lower than the tendency ratio in a typical tower company. Opening up our towers to third parties should give additional benefits that are coming to earnings. It are savings through the new MSA and new renegotiated terms. There is an assumption to some alignment of tenancy ratios between KPN towers and what OTC has. We think that the 5G roll out will require more densification. There is already a search for new locations, so we think that's a valuable asset that increases in value. Thirdly, we get the optionality to replace existing tower arrangements in more favorable terms in this new company. What does it mean for consolidation?

We come to the conclusion that you want to control core assets to your network. We do not need to own everything, but you want to be in control of the core assets that are imperative to your strategy. You do not need to own a 100%, but you also want to own 51%. You mentioned edge computing and it’s really early days. In all fairness, we have not started on this yet, except through sketches. If we do anything here, probably this deal is a fair blueprint for what we do there, because I think that's an asset that you want to keep control of. Now it is slightly less complicated, because you do not have to resolve anything that is existing.

In the way you think about optimizing the value of your network I think that it is helpful if you can bring in third party ownership, third party financing or third party skills. However, you want to own and control strategic assets.

Georgios Ierodiaconou: Very clear. Since you mentioned the Celtics, I hope you are ready for tonight.

Chris Figee: Let's talk about it separately, but Jrue Holiday and Derrick White should be able to guide you tonight. That is the plan. We will wear them out.

Operator: Thank you. We will now take our next question from Titus Krahn of Bank of America. Your line is open. Please go ahead.

Titus Krahn: Good morning, everyone. Thanks so much for taking my questions. Two on the towers. The first one is kind of a follow up question on the existing MSA you have with third party towers. Is there any color you could give us of how far off it's when they're expiring? You are talking about the potential to replace some existing contracts. Is that something over the next couple of years or on a much longer term when those existing third party contracts expire? Secondly, just on the potential increase in the tenancy ratio of your TowerCo. Could you talk more about how you have incentivize this, given that there's always some governance difficulty between the MNO having a majority stake, but the minority partner potentially wanting to increase tenancies. Even if there was a fourth entrant or anything in the Dutch market, how do you manage to make sure this is aligned? Thank you.

Chris Figee: We do not want to go into the details of the first one, the one on the MSA. It is going to be a multi-year, gradual process. We have existing contracts we will adhere to. There might be a fair amount to renew actually. We will be opportunistic to say so renewed with existing owners, but there will be a gradual process over time when it comes to tenancy. It is an independent TowerCo. We hold a control of 51% share, but we have a partner that has certain interests as well. Our interest is to improve tenancy. We are not here to limit tenancy and to limit others. This is an open access tower company, which we want to make sure we consolidate the results and we have protection of our own private agreements. There are clearly incentives to the management team to improve tenancy. The objective is to improve tenancy, not to prioritize KPN to others. It is truly an open access business. We run an open access wholesale model with pretty happy open access wholesale customers. We are used to this business, we as a partner have an interest and the management team is really incentivized through increased tenancy. In the end I'm a financial guy. More tenancy is more income, is a happy CFO. I live on that very simple presumption. That is also how we think and try to incentivize this business.

Titus Krahn: Thank you.

Operator: Thank you. We will now take our next question from Nuno Vaz of Bernstein. Your line is open. Please go ahead.

Nuno Vaz: Hi. Good morning. Thank you as well for the opportunity to ask questions. Two for my side as well. One is a clarification on the debt and on the holding. You talked about raising more debt. Just for me to understand more clearly: is there any debt in the holding that is not part of the 120 million that you will be taking over as well? The second question is on the Capex side. These 550 sites on the BTS side, I assume that is also a significant amount of Capex.

Is this included in the annual 10 million that decreases to 5 million guidance you provided today? Could you tell us what is the total amount of Capex for the BTS? What would be the negative run rate impact on EBITDA from this? Thank you.

Chris Figee: Here is the plan. On the cash, we are paying 120 million out of KPN Group cash onto the shareholders. TowerCo itself will be relevered in essence. We can initially buy it debt free and then relever it. There will be leverage inside the entity of around 200 million gross debt into the entity, and there's a 100 million cash out. The 300 million net debt impact is a payment of 120 million, about 200 million of gross debt in the assets. That is a 300 million impact, so that is one. There is a thing on the Capex impact. We have 250 towers in our own business. If we had not done this deal, it would be counterfactual. This is a very legalistic competition term, but the contract means if nothing would have happened, we would have owned 250 towers and spend money building probably 550 towers ourselves.

In the new model, the Capex is spent by TowerCo and 51% is owned by KPN. The build to suit equipment and the Capex are included in the net 10 million. In this transaction we save Capex on the KPN side and Capex increases on the TowerCo side. The net of those two is around 10 million Capex in the first year and gradually going down. That is all embedded in the Capex. What we presenting here is net impact. I do not want to make life more complicated, but we are on the EBITDA impact of KPN. At this point we pay a fee to TowerCo. We are a client to them.

Inside the number we almost eliminate the payments that we make to them, and we get a share under the profits of this business. It is a combination of existing payments, intergroup eliminations and part of their business that leads to this net impact on EBITDA of about 30 million, and net impact of cash flow of Capex of about 10 million. You have to compare the existing situation, where you have payments to a market where you have got no ownership or a leasing plan into, and a new situation where you own 51%. It is a very long story. All I am telling you is that 10 million Capex impact includes the net impact of the build to suit commitments in this business.

Nuno Vaz: Thank you.

Operator: Thank you. We will now take our next question from David Vagman of ING. Your line is open. Please go ahead.

David Vagman: Good morning everyone, and thanks for the information session. First question about the MSA inflation close: how did you renegotiated and can I understand that it might be capped or it might be lower. How did you compensate your partners? What was the mechanism? Could you, related to that, give us an overall understanding of the valuation multiples of the overall deal in terms of multiples easy to operate in free cash flow? The last point: any intention to at some point to buy back a majority stake in the Cellnex towers or others? What are your plans for the remainder of the towers and the sites that you are using? Thank you.

Chris Figee: The reset of the MSA is part of that 120 million. What KPN contributes to the deal is towers and rooftop contracts. It is a build to suit commitment, a long term commitment to this business, and an equalization payment. What KPN gets is reset terms, and improved terms to ourselves. It is 51% of this business, so it is part of the total what we bring in and what we get out. You could argue that is it part of 120 million. That is slightly more complicated because there's also a commitment to sites at the longer term that we need to do anyway.

Right? It is the commitment of part of the towers and workload that we bring in, and you get something back. It is very difficult to say that the MSA is worth x million because it is part of a deal where you enter asset, inject assets and get business back. Then you look at the whole thing. That is an ROIC, well north of 10 to 12% going up or going up over time. On your second question: what do we do with the Cellnex towers? I have no plans. That does not mean I do not want to do anything. We just have not thought about it. We have been focusing on this for now. There is no read through to whatever we do with our other partners. KPN is always open for business, but at this point we focus on this transaction.

David Vagman: Thanks. Maybe on the overall valuation of the of the deal?

Chris Figee: We estimate that the value of this entity, both the assets that we inject into this business and the assets we get back into this business, are around 20 times EV/EBITDA, which is where you see where the market is. It is around where the market rate, slightly below transaction multiples, because we are bringing in 250 towers and get access to 1000 towers. We are bringing in some rooftops with slightly lower margins, but we get access to high voltage pylons and broadcast towers, which is a slightly different margin profile. I think our estimate in total, the assets are roughly valued at 20 times EV/EBITDA, which you see is in line with the market. To me, it is more important that the return on investment of KPN, what we bring in and what we return is well north of 10 to 12% and moving up if you extend the time period. It is not off from where towers typically trade to say it this way.

David Vagman: Thank you very much.

Operator: Thank you. We will take our next question from Usman Ghazi of Berenberg. Your line is open. Please go ahead.

Usman Ghazi: Thank you for the opportunity. I have a housekeeping question. In the 600 to 700 million EV that you mentioned, are you presuming that includes the value of the build to suit commitment as well?

Chris Figee: That is a good question. Probably. I am applying this 20 EV to EBITDA multiple of the business. I think that if you add the BPS commitment, you probably move to the upper end of the range.

Usman Ghazi: So if you move to the upper end of the 20 times range?

Chris Figee: Yes, the 6 or 700 million probably include the BPS and probably moves to the upper end of the range of valuation.

Usman Ghazi: I got it. The two questions I had were that I am wondering how you avoid the conflict of interest. Most telcos have given up the ownership of the tower, because they say to give it to a neutral host because they maximize tenancies, etc. You are maintaining control and you still want to drive tendencies up. What is the governance framework here? That was the first question. For the second question, I wanted to understand the scope of this vehicle that's being created. Is this just a TowerCo or can this vehicle act as an entity into which you can sell other stuff? Maybe your active equipment? Thank you.

Chris Figee: There is a clear incentive for management, a clear minority rights and protective rights for a co shareholder. We have consolidation control, but it still means it is an independently run company with KPN having consolidation control and management that has been incentivized to grow the business.

It has a clear plan and a clear ambition to grow this business signed by both parties and will surely not interfere or have any say on third party signing up. Also, it is pretty clear we made arrangements that KPN will not solely determine the location of towers. If a third party wants to have towers and we can support that, we will do it. There is a clear incentive structure in decision making. That means that the location, the search circles are flexible. KPN has given a build to suit commitment. Those towers are open for third parties, but then again we are flexible to third party questions. We do this all the time today as well. That is an important point to make. On the scope of the transaction, there is theoretically no limit. In practice, this transaction is aimed at mobile infrastructure. Could there be further assets being injected? Yes. Why not? If both parties agree this transaction could be scaled up and could be larger. It is not something that is suited to bring in a fixed network or anything else. It is a business circle and a management team centered around mobile infrastructure. Anything that has a relation to that could, in theory, be injected if both parties agree.

Usman Ghazi: Thank you.

Operator: Thank you. Our final question is from Keval Khiroya of Deutsche Bank. Your line is open. Please go ahead.

Keval Khiroya: Thank you for doing the questions. I have two, please. Firstly, can I check what the IFRS 16 lease liabilities will be following this transaction? Secondly, you talked about the existing contracts with the third parties. Are you able to share how mature those are within the existing base of leases, which I think we are just above €140 million in the P&L last year? Thank you.

Chris Figee: Today, we have 130 million assets on our balance sheet. That would fall away because this transaction will be replaced by a new one. I think the IFRS 16 impact on our balance sheet is going to be a bit negative, which would decline the ROU. Is that the current position at 130 million towards this business? The new ROU row will probably be a bit less than this. The exact number to be fine-tuned towards closing. I do not have the number of the existing revenues at hand, but if you think of today for example: if you look at the perimeter of the new entity, the towers that OTC and Novec bring in, have a tendency slightly just above two. KPN just below two. Right? When you look at the high voltage pylon sites, they have a tendency just above one, so there is a certain degree of business.

I do not have the number at hand. Third party revenues are something to work out towards consolidation. We can disclose more about it in the future. Think of a business where, today, tenancy ratio on the rooftops, on the towers that we injected by the other side are above two and KPN just below two. That hopefully gives you a bit of a bit of a steer.

Keval Khiroya: Thank you very much.

Michael Schenk: All right. Thanks for your questions, everyone. I will now hand over to Chris for some final remarks.

Chris Figee: So to summarize, we are setting up a new TowerCo, a combination of Novec and OTC and our own passive mobile network. It is somewhat against the current, but we leave with thinking what we believe it is important that as a telco you have majority control of your strategic assets. With that, we continue to work with our partner APG, with who we worked with very effectively in the past.

We have a transaction that creates a TowerCo that is very material in the Dutch environment. That provides open access to third party. That is incentivized and targeted to deliver that, but then again allows KPN to also reduce risks and increase benefits, increase our earnings from the MSA agreement and where we consolidate the earnings of the TowerCo in the business.

We create more operational efficiency. We reset our lease fees. We drive control over passive infrastructure and add EBITDA, operating cash flow and free cash flow to our numbers, which are to some extent additive to our CMD. The 3-3-7 does not include this, as it is material to be determined that this is additive to our 3-3-7. This should be allowing us to slightly outperform the 3-3-7 numbers, given the fact that we are adding additional EBITDA, which is growing faster than the 3% that we aim for. All and all a new framework agreement geared towards the future, financially and technically. Thank you very much for your time. Fingers crossed for the Celtics tonight. My story is Celtics in six, but we will talk about it in a few weeks when we are done. Thank you very much for your attention.

Michael Schenk: If you have any further questions please reach out to the IR Team. Thanks a lot.

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

[END OF TRANSCRIPT]