Event transcript KPN Capital Markets Day 2023

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DISCLAIMER

KPN Capital Markets Day 2023

Joost Farwerck: Hello everyone. Thank you very much for coming to Rotterdam. And welcome to everyone connected via the webcast.

It's been three years since we unveiled our 'Accelerate to Grow' strategy, and today I am excited to share the positive progress we have made and how it has built a robust foundation for the future of KPN.

Before we start, I would like to handover to Reinout to give you some details about today's agenda.

Reinout van Ierschot: Good afternoon everyone and welcome to KPN's Capital Markets Day 2023. Great to see that you joined us here at our Headquarters in Rotterdam. Also, a warm welcome to those joining us via webcast.

We have an extensive agenda for today. Our CEO, Joost Farwerck and CFO Chris Figee will walk you through the presentation.

First, we will reflect on where KPN stands today. We will then discuss the market landscape and dynamics. After that, we lay out our vision and plans for the next four years. This focusses on completing what we started in 2020 and further activating our capabilities to grow. Finally, we share with you our financial ambitions.

After this, around 3pm, we will have a 30-minute break before starting the Q&A with our full Board of Management.

Please note that the PDF of this presentation will be uploaded to our website during this break. And for everyone here in the Auditorium, we will provide you with a hard copy before starting the Q&A session.

As usual, before turning to the core of the presentation, I would like to draw your attention to the Safe Harbor statement included in the press release published this morning. This also applies to any statements that will be made during this event.

In particular, today's presentation may include forward-looking statements and ambitions, which were also included in the press release. All such statements are subject to the Safe Harbor statement.

We are now ready to present our Connect, Activate and Grow strategy. We will start with a brief video, after which I would like to welcome on stage KPN's CEO, Joost Farwerck.

Joost Farwerck: Hello everyone, I would like to start with setting the scene. Our purpose is clear. We will continue to go all out to connect the Netherlands to a sustainable future.

Over the next four years, we will focus on execution to secure our long-term competitiveness. That is the foundation of our strategic plan. We will continue to Connect our customers to the digital future. We will strengthen our focus to Activate those connections, customers and our own organization. And finally, we will continue driving sustainable Growth.

The evolution towards Connect, Activate and Grow also underlines a shift in focus from rolling out fiber, to connecting customers on this network, and activating them to unlock the value potential of our networks.

First, let me take a step back and walk you through our achievements over the past three years.

Quarter after quarter we have shown delivery against the ambitions of our Accelerate to Grow strategy. We are more than halfway through our large-scale fiber roll out plan and continue to be a front-runner in ESG. We have delivered sustainable service revenue growth with increasing productivity, resulting in strong and attractive margins. Our dividends to shareholders have been growing 5% annually, being complemented by share buybacks. All in accordance with our attractive shareholder remuneration policy.

We are the largest fiber player in the Netherlands, offering connectivity that clearly outperforms competing technologies. We now reach 55% of all Dutch households with fiber and we continue to build. We have fully modernized our 5G network, making us ready for the 3.5 Gigahertz spectrum auction to unlock a range of new 5G capabilities for our customers. The investments we have made in our networks are paying off. We won multiple awards over the past years for having the best mobile network globally and the best fixed networks in the Netherlands. Security is of central importance to us, and we have invested significantly to safeguard privacy and security. And, we established a stable regulatory framework for fiber until 2030, ensuring long-term clarity in the Dutch market.

We continue to grow and strengthen our customer footprint. Our Group service revenues inflected back to growth in 2022, with all our segments contributing as of this year. Over the last three years, we were able to improve top-line growth by more than 6 percentage points, now well above 2%. This growth was mainly supported by price increases and a growing customer base across all segments. Our customers are our top priority. We have proudly attained industry-leading Net Promoter Scores, demonstrating our commitment to customers across all segments. Moreover, our Consumer NPS rebounded in October from the dip in September.

The third pillar of our strategy was about simplification of the company to create better customer experiences, more committed employees, and cost savings. Revenues per FTE increased by 5% annually, delivering increased productivity hand in hand with high employee engagement. We digitized significant areas of our operations, resulting in savings and an enhanced customer experience. In 2023, we launched KPN TV+ based on the Android platform. And we deactivated around one-third of our copper network and moved applications to the public cloud. Over the past three years, we have been able to decrease our absolute indirect cost base, despite strong inflation headwinds.

These accomplishments have translated into solid financials and returns. We delivered consistent EBITDA growth at strong, industry-leading margins. Our free cash flow per share has grown by 7% a year, despite being at the peak of the investment cycle with our once-in-a-generation fiber investments. Return On Capital Employed improved 360 basis points compared to 2020, a clear indicator that our long-term value creation model is working. And we significantly outperformed most of our peers on total shareholder returns over the last three years.

As a single country operator in a mature market, we will now have a brief look into the overall industry dynamics and the Dutch market landscape.

The Dutch economy continues to be one of the strongest in Europe. And the Netherlands outperformed the Eurozone's GDP by about 1 percentage point in 2022. The Netherlands is considered a highly digital and – digital-savvy country. It ranks number three in the European Digital Economy and Society Index.

The high density in our country is one of the key ingredients for a successful telco. All this makes the Netherlands an attractive market to operate in.

We live in interesting times. We see geopolitical pressures, increasing inflationary pressures lingering, interest rates at higher levels, and we are faced with a tight labor market. However, the good news is that solutions to many of the world's major challenges will critically rely on excellent communications infrastructure.

As more and more people spend most of their days online, new solutions are being developed and make use of connected devices, real-time data processing and low latency communications. Having access to a superior digital infrastructure is more and more important than ever. KPN plays an important role in facilitating this.

Our networks have been well capable to handle the significant increase in traffic growth and are ready to support the future demand. And this is important for our customers, as we are building a future-proof and secure infrastructure for the next generations in the Netherlands. We maintain a very strong position in a competitive Dutch market, and we are well-positioned to deal with the key industry trends.

Let me now walk you through our updated strategy: Connect, Activate and Grow.

To evolve as a Telco, we need to connect our customers to the digital future, activate those connections and continue to drive sustainable growth. This strategy will guide our journey over the next four years and translated into three ambitions we aim to achieve by 2027. We aim to reinforce our position as the number one internet company in the Netherlands, lead in mobile revenues market share growth and be the preferred partner for digital services and innovations.

Through effective network management modernization and simplification, we will ensure the best digital experiences for our customers. And our people-centric culture will foster sustainable growth, and our commitment to ESG will make us a force for good in Dutch society. In essence, we will shape the future where KPN stands at the forefront of innovation, connectivity and sustainability.

We see KPN as a company that provides connectivity and empowers all our customers to fully capitalize on the opportunities offered by the digital world. And we're creating “A Better Internet” where everyone in the Netherlands enjoys seamless access to an always-on, high-quality and secure internet powered by fiber and 5G.

To ensure our digital transformation, we will improve, streamline and modernize our network assets and offer a broader range of digital services.

Today, we have co-existing fixed networks through fiber and copper, including legacy real estate, a mobile network based on 2, 4 and 5G technologies and a large office footprint.

By moving to a fiber-only network, we will be able to offer a sustainable, always-on network. And with the copper network gradually being decommissioned, we will realize savings. Our mobile network will be centered around 5G technology, and we will ensure seamless customer experiences by further adopting key innovations such as enabling OTT services through our edge locations, leveraging Cloud RAN, and KPN Campus Networks to maintain 5G leadership and expanding our portfolio with new and relevant digital services for customers that unlock the full potential of our networks.

We will provide a full omnichannel experience through a ‘digital-first’ approach as customer journeys will be integrated across all touch points.

As we embark on this exciting journey, we will be the leading Telco of the future, a future where innovation, convergence and platforms play a fundamental role.

ESG is at the heart of what we do, and it's linked to our strategy. And we are a proud leader in ESG in Dutch society. This imposes a duty on us, but it's also a key area of differentiation for us. We believe that a sustainable business is a better business, and we are truly committed to creating long-term sustainable value for all our stakeholders.

We focus our efforts in three areas clearly linked to seven United Nations Sustainability Development Goals.

We are a responsible corporate entity. We prioritize reliability and security and uphold fundamental human rights across our entire supply chain. We will strengthen our commitment to diversity and inclusion in all respects, both as an employer and as a service provider. And we will continue to be a front-runner in achieving net zero emissions and circularity. We will continue to reduce our energy consumption even in the phase of upward pressure from data volume growth.

Now let's move forward to a deep dive per segment, starting with Consumer.

We have been a front runner in Europe in terms of convergence and built a strong position in a competitive environment. Dutch consumers recently recognized this all, as the best all-in-one broadband provider. And we were also named the best fixed and mobile provider by Tweakers.

This recognition is a great sign of our value propositions. Consumer service revenues have now sustainably inflected. We see consistent mobile service revenue growth, driven by good postpaid inflow and an improving ARPU. And we also managed to turn the tide in broadband with healthy base growth over the last two quarters and positive service revenue growth in the third quarter.

In Consumer, our strategy remains centered around households. To enable to serve the household of the future, we have outlined three strategic priorities to drive market share gains. We want to lead the upgrade of the Netherlands. We finish what we started, and we deliver the fastest, most reliable fiber and 5G networks.

Secondly, we will redefine convergence from fixed mobile converged to Household 3.0, giving all our customers access to an even broader range of digital services.

And finally, we will further personalize our customer interactions. And this should result in us becoming the clear number one in the Dutch market in terms of service revenue market share.

At our previous Capital Markets Day three years ago, we announced an ambitious plan to build the digital infrastructure of the future by accelerating our fiber roll out. And we've achieved success in the past three years. And together with Glaspoort, we added nearly two million households to our fiber footprint. We have significantly scaled up our fiber roll out, and we have increased our production to more than 550,000 homes passed per year. Setting up this fiber engine has been an important operational achievement for us. And with this, we continue to lead the Dutch fiber market.

Commercially, we've seen a significant uptick in market share growth in new fiber areas. With around two million households remaining, our fiber roll out has entered its final phase. Capacity for the next years has been secured, and we are on track to reach our target of approximately 80% fiber homes by 2026. And this will deliver a sustainable and long-term competitive advantage for KPN.

In recent years, the fiber market has experienced increased competition with other players also starting to roll out fiber. And when comparing KPN to other fiber initiatives in the Netherlands, it is evident that we have a completely different strategy and end goal. We pursue a volume-driven approach with homes passed and homes connected closely tied to one another, while other players are mainly focused on passing households.

And as a result, we now have four times more households connected to fiber than all other players together, and we produce by far the most connected homes in the Netherlands. We are further optimizing the way we roll out, connect households and the way we activate our customers.

And we streamlined the entire end-to-end fiber chain to ensure a seamless hassle-free experience for all our customers. This approach is delivering tangible results with strong delivery of homes connected and new fiber broadband net adds showing improved momentum.

Let's dive a little deeper into our fiber business case. On penetration, we continue to see a significantly higher network penetration in fiber areas over time. Typically, one year after the first connection in an area, the penetration rate increases by about 8 percentage points. This rises even further after six years, reaching approximately 60% penetration for Retail and Wholesale combined. So it's clear that fiber technology is superior to alternatives in the markets.

Our growing fiber footprint will therefore result in an improved penetration rate for Retail and Wholesale in the long term. Older fiber areas give a good indication of where our network penetration may end. Also, fiber customers generate a higher ARPU as they buy higher access speed levels and more content packages. We are encouraged by the fact that almost 50% of new fiber customers buy our one gigabit per second proposition. And given these dynamics, we feel confident in continuing our roll out and delivering more homes connected in 2024 than ever before.

In fact, we expect that as of 2024, fiber will exceed 60% of our broadband portfolio. This is – and will be reflected in our financials. Fiber broadband service revenues are growing at double-digit percentages and are already delivering €1 billion annually. And while our fiber product has been showing positive net adds for a long time now. So this clearly demonstrates that our fiber business case continues to work well and delivers attractive returns.

We always want to stay relevant to our existing and potential new customers. And we pursue this through a multi-segmented strategy, including the use of multiple brands to ensure full appeal across all our customer demographics. Our segmented approach takes several forms, such as flanker brands to target underserved customer segments. Segmented offers addressing more on households and regionalized offers based on local competitive dynamics to carefully respond to customer expectations.

KPN has a strong position in the more mature customer segments, and we see ample growth opportunities in no-frills segments and amongst youngsters. With the intended acquisition of Youfone, we further strengthened our positioning in these segments, especially in mobile.

And this enables us to play a more effective base management strategy. By positioning the brand alongside flanker brands, such as Simyo next to our main brand, KPN. Beyond that, we see room to create interesting combinations and propositions that differentiate premium propositions from no-frills offers, which should help stabilize the pricing dynamics.

Unlimited will be the new standard for the KPN brand. And at this point, more than 40% of new mobile postpaid sales are from Unlimited plans.

Now we are in a great position to take the next step in convergence with our Household 3.0 approach. We will give access to an even broader range of digital services. Partnering is key to offering the best services at speed to fulfil customer expectations. Fiber is especially relevant when using services that require higher quality. And these can be included as value-added services on top of our connectivity offering. For example, next-generation TV, I mentioned the Android platform, gaming, security, cloud, smart home and hybrid working.

By selecting third-party partnerships, we are prioritizing services with high relevance for our customers that also highlight the specific qualities of our fiber network. And by doing this, we will redefine the meaning of converged from fixed mobile convergence to any connectivity with a value-add service.

As a result, customers can freely combine our high-quality broadband, mobile and TV services and enrich their experience with services from premium partners for content, gaming and smart home solutions.

Customer experience is supported by a broad entertainment and sports content offering, and we have signed more partnerships with content and entertainment providers, including gaming and video streaming companies. By offering these new services, we fully leverage the symmetrical bandwidth, that fiber offers and differentiate ourselves in the marketplace.

Our next-generation Android-based TV+ product which offers linear TV and OTT streaming together is based on 4K and 8K technology, and that requires more bandwidth for a great customer experience and fits our fiber products perfectly. And next to this, online gaming requires reliability and low latency. And we signed a cooperation with NVIDIA to offer their GeForce gaming product to our customers.

Also here, fiber is key, as it has superior upload capabilities compared to other technologies for a fuller and better gaming experience. And these offerings are, therefore, completely supported by the recent introduction of our 4 Gig broadband proposition.

The journey to become a truly digital company has already started long ago and is not complete. Moving ahead in this journey is key to our customer-centric mindset and our quest for simplicity. Our customers expect the certainty of failure-free and secure networks, easy-to-use products and processes and good online and offline customer service. And they also want their loyalty to be acknowledged and appreciated through proactive advice about best possible subscriptions that meet their growing needs. To meet these demands, we are increasingly using and testing AI to increase customer knowledge and help them to have an even better customer experience.

And based on customer data, we can provide our customers with personalized offers to improve or upgrade their services as well as offer additional services based on their needs. Our digitalization efforts have succeeded in delivering operational cost savings as well as better customer experience. Our MyKPN app is becoming the main entry point for the digital customer journey, achieving more than 60% penetration and it will keep on growing.

Now let's move to B2B.

Three years ago, we presented a plan, which would get B2B back to growth. I'm pleased that we have delivered on that promise and we have shown sustainable service revenue growth since the second quarter of last year. This has mainly been driven by growth in our SME domain, which represents about 40% of B2B's revenues and more than half of its EBITDA.

LCE showed clear inflection signs, but still requires work to deliver sustainable growth. This will be one of the priorities for us in the coming period. At the same time, we have seen that our Net Promoter Score not only has improved but also continues to be at a leading level in the Dutch market.

In B2B, we have these key priorities. We remain the leading provider in the Netherlands, offering secure and reliable access and connectivity services and IT solutions, further developing our digital ecosystem, enabling us to accelerate the onboarding of partners and services, and we want to leverage our cloud-based platform play and increase our share of wallet and benefit from this through improved sales and channel steering.

We have a segmented approach, and that has proven to be successful. We've been able to share the moving parts in B2B in a better way with you with everything in place to serve our three segments in the right way with targeted propositions. In the past three years, we've simplified our portfolios. In the coming years, we will add adjacent services to fulfil customers' needs with security playing an important role and grow our share of wallet as well.

Additionally, we will enrich our offering with new solutions using developments in 5G, in cloud, Edge, and we will partner smartly to offer third-party services.

KPN is a trusted brand and positioned as a reliable and secure partner for its SME customers. And we've seen strong growth in SME in recent years. This has been driven by standardization of our mobile and broadband products, combining both at KPN ONE. And we've seen good base inflows in these domains, and our market shares are solid.

Many smaller businesses are taking fiber in residential areas, and the roll out to business parks will be scaled up now through our joint venture, Glaspoort.

Our KPN ONE subscriber base has grown more than 40% over the last three years, and we are focusing on building and bundling services to offer value for our customers and to reduce churn.

Our SME service revenue growth has likely peaked at nearly 12% last quarter. And in relation to that, about two-thirds of this growth was generated by the higher margin Telco services and the remainder in ICT.

And the latter is important for cross-sell and includes, for example, stickiness, creating services like Security, Workspace and Cloud.

KPN SME offers a one-stop ecosystem for small businesses through our KPN ONE proposition with standardized ICT and security building blocks. And this is a platform play for SME geared towards cross and upsell for higher penetration of our products in this portfolio. Customers will be served in the most efficient and highly digital way, which best suits their needs. And by using our partner network strength to accelerate distribution, while we ensure relevance to customers through the right channel, via partners, or, if viable, directly through KPN-owned channels.

We continue to work on simplifying and improving customer experience in our direct channels, and we expect to deliver sustainable growth in SME going forward, and we should be able to continue to outpace GDP growth.

In the last few years, we cleaned up a big part of LCE's legacy portfolio, enhanced focus on sales of relevant and future proof propositions and improve the service revenue trend. And in the near future, we plan to deliver sustainable growth in LCE as well, like we did in SME. To achieve this, we will leverage our new KPN Smart Combinations propositions and add new services that address concrete customer needs and focus on our go-to-market strategy.

Our Smart Combinations are composed of modular building blocks that can be combined and configured easily to suit specific customer requirements. And we have two core approaches to enhance our LCE connectivity in a way that makes us unique. Our LCE market portfolio will be reshaped to focus on both the enterprise itself and the end user of the services.

The connected employee and the connected organization combines each – and each will have about eight or 10 products underneath. And in addition to the existing portfolio, we are launching a number of unique and value-adding solutions: KPN Multi-cloud, Next-Gen Home solutions, KPN Campus Networks and the KPN CPaaS Suite. Let me give you an example.

KPN Campus combines 5G connectivity with Local Edge in private near sovereign cloud. We have the digital infrastructure to offer this. First use cases to enable end-to-end business and mission-critical services are being explored with customers today.

Also, in LCE, Internet-of-Things has been a very successful part. And over the last years, it has been growing and now representing almost €100 million of annualized revenues.

We have delivered strong growth with good contribution margins. The number of IoT SIMs in our base has grown to more than 11 million, with data usage increasing massively. In the Netherlands, we're making clear that we are the market leader. And internationally, we see ourselves as a connectivity challenger. We see a fast-growing market for IoT and machine-to-machine connectivity. And to capture this, we will continue to leverage our domestic networks, unique global roaming partnerships and dedicated customer solutions.

We intend to further accelerate our IoT platform play through specific vertical propositions with an integrated portfolio for IoT & Data.

And for our largest customers in B2B, we offer Tailored Solutions to support our core business based on connectivity. This business is labor-intensive and has a lower margin profile, mainly related to project and service management. Our margins in this segment have already improved. And in the last few years, we see scope to further enhance them through focus and tight cost control. We manage Tailored Solutions separately in dedicated teams for selected customer groups and supported by our competence centers, Cloud, Workspace and Security.

And we deliver value-adding solutions to our largest customers on top of our high-margin Smart Combinations portfolio.

So to conclude on B2B,

I'm confident that our strategy will continue to deliver sustainable service revenue growth in the years ahead, and we are laying the foundation for future new network services. The combination of IoT, Secure Networking, 5G slicing, KPN Campus and Edge capabilities are unique and will serve to our enterprise customers' needs.

Now we'll move to Wholesale.

Our Wholesale activities allow us to further optimize network utilization. Last year, we introduced a new and improved fiber wholesale offering which the Dutch regulator, ACM, declared binding until 2030. So that gives a long-term clarity and stability for the market. This supports our successful open network policy and enables us to roll out fiber at a fast pace.

Today, more than 12% of our fiber network is being used by third parties and growing fast.

Our Wholesale strategy has three key elements. First, we stay the preferred partner for wholesale customers by focusing on operational excellence and connectivity. Secondly, we have the right building blocks in place to serve our wholesale base that also can be used in other segments. And finally, we leverage innovation by exploring new markets with industry partners here.

The continuous investments in the quality of our fixed and mobile networks make us a highly attractive wholesale partner. And we've extended wholesale contracts with nearly all of our business partners for a longer duration. We expect to see a steady revenue growth trend going forward.

We’ve built a strong foundation of access services driven by our best-in-class networks and services that we can now focus on selling.

We will increase our focus on new B2B2X proof solutions that can be distributed through a platform to end users via KPN to Wholesale partners. These building blocks can be combined and sold directly to Wholesale partners or distributed via B2B customers. The ability to adapt and leverage strengths from both our network assets as well as our market insights give us a unique position to enable growth and create greater resilience across the spectrum.

In Wholesale, we also leverage the network knowledge and the technology of NL-IX, our own internet exchange to drive growth in the corporate segment. NL-IX is in the top five of the internet exchanges with approximately 550 connected networks that is ‘the’ gateway for OTT services for KPN with a distinctive distributed architecture. NL-IX’s solutions are distributed directly to customers, using the existing network of connected data centers, combined with the technology and intellectual property, we can offer a variety of products that especially serve today's security needs.

For example, our multi-cloud solution, Elastic Interconnect, has become a fixture in our B2B and in our wholesale portfolio. It offers companies and their employees, direct, stable and secure connections to all their cloud applications and is particularly relevant to companies enabling their employees to access their workflow in the cloud securely.

So this becomes increasingly important because of the substantial growth of mission-critical applications in the cloud. So all in all, we believe the Business market is an untapped opportunity for interconnecting businesses to their critical Cloud infrastructure.

Now we move to the foundation of our competitive advantage.

Our commercial ambitions and customer needs drive the ambitions we have for our technology. We connect our customers to and through our market leading infrastructure, and we deliver secure and reliable connectivity. We're going to activate our customers by offering excellent digital experience throughout all relevant customer journeys, and we will grow by leveraging our valuable assets through targeted strategies per asset class.

To enable our plans, we focus on the following three elements. We leverage the power of our leading infrastructure. The core of our business is delivering connectivity that simply works. Our primary focus will be to continue building out our Mobile and Fixed network leadership, including our multi-cloud infrastructure.

Delivering the best digital experience – ensuring the best digital experience is key. And our strategy is to offer the best digital experience enabled by customer-centric and data-driven design, combined with a product and IT rationalization agenda. And maximize the value of our Passive infrastructure assets as the deployment of fiber, the move to public cloud and copper simplification will lead to a more rationalized asset portfolio. More on this later with Chris.

Like I said, an important task is to complete the fiber roll out. And alongside our leading fiber roll out investments, we also offer the best customer experience. As indicated at the start of the presentation, data demand is ever increasing and that is what we offer. We will turn our fiber network into XGS-PON infrastructure, capable of handling symmetrical speeds of 10 Gigs per second. And we also move from an order-driven activation and configuration process to an always-on on-demand concept leading immediately to better customer journeys. So an always-on network, that's what we're building.

We actively migrate our customers from copper to fiber, and we continue to phase out our copper network. And we expect that by 2027, 65% of our copper network has been switched off.

As our customer base moves to mostly fiber, we will be able to reconfigure and simplify our operations. And with this, we are moving towards a fiber-centric operating model.

So far, we have switched off around one-third of copper connections. We're aiming to reach over €3 million by year-end. And over time, this will result in significant quality improvements and spend savings related to reduced costs to serve, lower energy usage, higher reliability and a reduction of our technical building footprint.

Now on mobile, we have a road map towards a 5G-centric mobile network. We won multiple awards for having the best mobile network in the Netherlands and even in the world, and we aim to keep delivering an excellent mobile experience. We completed our network modernization program mid this year. And as soon as the 3.5 Gigahertz spectrum becomes available, we will start covering the country with the full 5G experience. Customer experience and business requirements will drive the pace of our 5G roll out plans.

We will continue to invest in our mobile core and leverage the innovation capabilities that 5G brings. For example, network slicing will enable differentiated experiences for consumers, and businesses like Cloud Gaming, Campus, 5G, like I mentioned, Low-Latency services and Ultra-Reliable services.

As we move towards the end of the strategic period, the 5G network will be exploited as a platform, exposing standard APIs that can be monetized through our Digital Platform capabilities.

As we transition towards a 5G-centric network, we will simplify our core network architecture and a high degree of automation will allow us to plan, build and run our networks in a more efficient way.

Through dedicated investments in the core infrastructure, we will ensure our networks are ready for strong traffic and usage growth in the next years. And these investments should enable broadband access speeds well beyond 1 Gig per second and increase the level of redundancy and automation.

In 2027, the default landing platform of our IT applications will be cloud-based, with around 85% of our own applications moved to the public cloud. And this transition will allow us to innovate at a higher pace and radically simplify our data center infrastructure.

Alongside our own cloudification, we will also continue to allow our customers to take control of their data by providing them with multi-cloud networking propositions. For those customer services that require proximity, we bring computing power and data storage closer to the location where it is needed. Typically at the edge of the network rather than relying on a centralized cloud infrastructure, which results in an omnipresent computing landscape, enabling any cloud everywhere.

And like I said, we aim to deliver the best digital customer experience.

Therefore, we're investing heavily in our digital front end to deliver an omni-channel and app-centric experience where customers can be fully in control and capable of easily activating and managing products and services themselves. This will be complemented by a partner-centric design that will allow us to leverage the power of partners through a digital platform, speeding up OTT, on-boarding and supporting enhanced services.

To fully enable and facilitate a true data-driven personalized experience, we will further simplify our Fixed and Mobile BSS stacks based on a convergent product model. We will further improve customer experience through personalization, enabled by unlocking relevant data sources across the company, as well as leveraging the power of AI. To achieve this, we invest in dedicated programs that fit into our overall Capex envelope.

We will be able to stay ahead of competition and reduce time to market and costs. It also opens new business opportunities for superfast local compute solutions or the delivery of local and sovereign cloud solutions.

Now thanks so far for your attention. I would now like to hand over to Chris.

Chris Figee: Thank you, Joost. Now let me start by looking at our operating model.

Our aim is to deliver the best digital customer experience, and we do this by leveraging our leading networks and lean operating model. As part of our strategy, we will reconfigure our operating model to support our commercial ambitions in the most modern, data-driven, simple and cost-effective way. To give you some more flavor on our efficiency program, we've identified a series of cost-saving opportunities.

First and foremost, we'll leverage the power of data, automation and AI across our company for efficiencies. To achieve this, we'll invest in our data capabilities. We continue our portfolio simplification, mainly in LCE. We started phasing out copper on a large scale, which will contribute significantly to cost and capex savings. We'll automate more of our operational processes, specifically moving towards highly autonomous always-on networks.

We will digitize more customer journeys across all channels, which enables us to reduce costs on disruptions, onboarding customers, service calls and many more areas, while at the same time, significantly improving our customer experience.

IT rationalization has been a substantial part of our cost savings program and will remain so. We'll leverage KPN Ventures to gain access to co-owned scale-ups that provide innovative state-of-the-art solutions and thereby accelerate innovation. We will lighten our organizational footprint through our simplification and automation drive, making us much more agile. And we intend to reduce our office footprint, facilitating collaboration and internal connection.

And finally, we will reduce our energy consumption and source energy from alternative sources that are both cheaper and more sustainable.

Let me now take you through some examples that demonstrate how these initiatives will help improve customer satisfaction and drive down costs.

The first is the deployment of a fully autonomous network that's ‘always-on’, which can predict and self-optimize. Currently, we have a network-driven activation process where each order requires a customer-specific configuration of the end-to-end network. With our new reversed on-demand access concept, a new customer simply logs on and the network is automatically updated for specific customer services, leading to a better customer journey as well as a more robust and efficient delivery.

This approach enables us to deliver better time to revenue, lower friction in migrations, more Do-It-Yourself possibilities and new sales opportunities. It also supports digitalization and ultimately driving higher customer satisfaction.

Greater levels of digitalization and the wider use of artificial intelligence is already in full development. Through our Gen-AI Lab, we've identified several use cases to transform KPN's end-to-end value chain.

We are aiming to reduce more than 50% of current operational activities through automation by 2027, and we will reduce many manual activities, for example, by automatically generating summaries of service calls. In planning, we'll use AI to improve trend analysis and forecast of KPIs.

And next to this, large-scale automation will improve reliability of our networks and services, driving down costs over time. We will also focus on customer experience management. This involves, for example, combining customer, operational and network data to create highly personalized and relevant experiences in real time. And by using data and generative and traditional AI to predict customer needs, we can proactively address issues at each step of the customer journey.

As a result, we can streamline operations, reduce costs, and most importantly, provide a superior and far more personalized customer experience. This, in turn, will lead to increased customer loyalty and satisfaction.

We have been able to reduce our energy consumption over the past years, despite the exponential rise in data traffic through network modernization and our simplification programs.

Going forward, we continue to reduce our energy consumption by around 8% by 2027, more than absorbing the growth from increasing 5G data usage. And as part of our ambition, we are modernizing our networks and phasing out other - older generation technologies like copper. In addition, as Joost said, we are migrating our IT stacks to cloud solutions.

Further energy savings will come from optimizing our office footprint and the deployment of more energy-efficient equipment. And next to this, we're looking at alternative energy sources. For example, in December last year, we signed an agreement with Eneco that from 2027 onwards, we'll purchase green wind energy from a new to-be-built wind farm in the North Sea. And by then, more than half of our electricity will come from this farm at much lower cost, which is aligned with our ambitious sustainability targets and helps de-risk our long-term energy exposure.

Solar energy may be another option for us to source cleaner and cheaper energy going forward. We're also exploring new smart energy storage technology that allows us to store and manage energy in an efficient and a responsive manner, reinforcing our commitment to sustainability.

Besides lowering energy consumption, we also have a clear ambition towards reducing our carbon footprint and achieve Net-Zero emissions in 2040.

Our own operations, Scope 1 and 2, constitute less than 25% of total emissions, while Scope 3 emissions in the value chain represent about 75%. We have been using 100% green electricity in our own operations since 2011. They have been climate-neutral already since 2015. And to achieve our ambitious targets, we are – for example, we're actively engaging with customers and suppliers for carbon reduction in the value chain and reduction in energy material use.

We are introducing energy-saving features for customers using our equipment, for example, on modems and TV receivers. And we are reviewing international and local transport modes for our local products and business travel. It is clear that an important part of our Scope 3 reduction will be achieved by challenging and changing the way we do business. And this is exactly why moving to circular operations is such a key component of our journey to Net-Zero.

All in all, we have an ambitious agenda and strong foundation to further simplify and streamline our operating model, also contributing materially to the next wave of cost savings.

Joost talked about Edge. Edge applications are an emerging business opportunity that form a natural extension of our core services. Our Metro Core locations are a strategic asset for KPN. These locations are now mainly built for data transport and not for processing. Over time, we will transform them into KPN Edge locations, offering companies local edge computing solutions.

Edge computing allows data processing to occur closer to where data is consumed or created, reducing latency. And this can be particularly important for ultra-low latency applications like IoT, autonomous vehicles, and augmented reality, where real-time processing is crucial.

Next to this, Edge computing allows data to be processed locally, which can enhance data privacy and security. KPN can capitalize on the growing demand for data privacy by offering secure Edge computing solutions.

Another aspect is Content Delivery. We think it improve this through Edge computing, ensuring faster and more efficient delivery of digital content, which is especially relevant in the age of streaming services and online gaming. Actually, currently, we're using Netflix streamers in our network at metro core locations to give our customers already a better feed video experience and offload from our core network.

Our full fiber core network consists of four core locations and 160 metro core locations. Through these locations, we are handling traffic closer to the customer, and as a result, have ultra-low latency in our network. We are already receiving first incomings from larger corporate customers that wish to leverage our assets for video and AI-based solutions that need stable and very low latency connections.

All in all, we are well-positioned to provide these crucial and sensitive services, thanks to a highly distributed infrastructure, and are in the process of developing our value proposition in this space. These will be unique to KPN as they leverage assets that our competitors do not have access to.

Over time, actions like fiber deployment that move to the cloud and copper phase-out will lead to reduced utilization of our passive infrastructure asset portfolio.

At the same time, KPN's distributed assets are increasing in strategic value. This creates scope to capture latent value of these assets. When we look at our digital infrastructure, we will smartly optimize our capital allocation and economics. For our core networks and services layer, we work with partners but will always remain the owner of our networks. In the passive part of the network, we believe that we should find business and capital partners for different subsegments of digital assets. For example, in our fiber business, our FiberCo, as we call it, we own the vast maturities of the network, but formed a 50-50 JV with APG, back in 2021, for the semi-rural part of our networks.

Therefore, the pure rural space, we believe alternative solutions will become available in the long term.

In terms of mobile sites, we executed sale and leaseback transactions in the past. We will continuously look for ways to optimize ownership of mobile assets here.

The copper decommissioning program will free up real estate that we do not need to own and can be monetized over time. Here, we look at the easily accessible above-the-ground copper, the redundant. We've done a number of exchanges, etc. We see opportunities to simply sell in units or in pools, but also develop e-Infra opportunities like EV charging or battery hubs.

And finally, in the Edge space, which I just elaborated on, we are contemplating whether we should be sole owners of all these assets or can speed up the deployment by working with partners that can provide both capital and commercial capabilities.

Now let me walk you through our financial ambitions, and I would like to start with one of the key messages from today, which is the number 3, 3, 7. So what do we mean by this? As you probably now have understood, our strategies are to Connect, Activate and Grow abbreviated to CAGR, or average growth rate. We aim to create value by growing our business whilst delivering returns that are well above our cost of capital. And it's our ambition to grow our service revenues and adjusted EBITDA by 3% per year and our free cash flow by an average 7% per annum in the coming years.

Now let me start by highlighting some key figures in our financial results. We have delivered on nearly all of our promises, reflecting our strong focus on execution. As promised, we returned to Group service revenue growth driven by all segments as of 2023. Service revenue growth accelerated throughout the strategic period. And moreover, we were one of the first players in Europe to turn our B2B business into growth with our SME segment, especially delivering double-digit revenue growth rates.

And into 2024, we see positive growth rates in the Consumer segment as well and expect Business and Consumer growth rates converging towards similar levels. All our segments will be contributing to service revenue growth. Our contribution margin decreased slightly, mainly driven by third-party excess costs and service revenue mix effects. Our net indirect cost saving was somewhat lower than planned mainly due to well-known inflationary pressures and energy and labor costs.

Underlying, we reduced our total staff levels, and we reduced energy consumption by 50 Gigawatt hours versus the start of the period. Through this, we have delivered adjusted EBITDA growth of 1.3% per annum. And notably, in the second half of this year, we see H2 to H2 EBITDA growth recovering from the inflation-driven dip in the first half and accelerating H2 to H2 towards 2% again.

Our EBITDA margin is around 45% and is best-in-class from a European perspective. And mind you, if you strip out Tailored Solutions business, which is a lower margin profile, and look at the pure Telco or connectivity business, our Telco-only margin becomes even more attractive nearing 48% of revenues. And whilst we are in the middle of a fiber investment cycle, and running with a relatively high Capex-to-Sales ratio, we manage to comfortably place ourselves at the top part of Europe in terms of operational free cash flow generation at around 23% of revenues.

Our operating margins and overall Capex discipline enable us to invest heavily and still deliver solid Free Cash Flows. We have delivered 6% free cash flow growth per annum and effectively met our guidance that was set during the 2020 Capital Markets Day. Our Free Cash Flow margin of revenues has moved up 150 basis points since 2020, despite this higher Capex and move towards 16% of revenues.

Now let's turn to our ambitions for the coming years, where we've set out clear goals. On average, our Group service revenues will grow by around 3% per year. Within the mix, we are targeting continued growth in Consumer Mobile and further improvement in Consumer Fixed service revenues. B2B is expected to continue to grow with a clear inflection in LCE and Tailored Solutions and continued solid growth performance in SME, though probably not the double-digit growth rate we've become used in 2023.

Our direct costs are impacted mainly by third-party access costs as Glaspoort and service revenue mix effects and inflationary effects. Through our Modern Operating Model program, we will revitalize the cost-cutting progress within KPN to counter inflation and maintain our best-in-class Telco margins. And as we discussed before, we will modernize our operating model, which will truly enhance customer experience, accelerates KPN's time to market and contribute to the next wave of cost efficiencies.

The total of our cost ambitions, including, for example, tangible energy and office footprint savings from 2026 onwards should enable us to deliver a lower indirect cost base at the end of the strategic period versus today. Some of these savings will be back-end loaded, but surely will support our EBITDA growth.

With this plan, we aim to achieve an acceleration in our adjusted EBITDA after leases growth towards about 3% per year on average over the next four years, supported by sustainable and durable service revenue growth and continued cost control.

Our Return on Capital is solid and is industry-leading, at least by today's standards. We intend to keep improving our ROCE, like we've done over the past years, underpinned by our investments, cost savings and expanding growth profile.

Good margins translate into good returns on capital. And we foresee to achieve a ROCE of around 15% in our plan period and thereby maintain about a 700 to 800 basis points spread over our cost of capital, again, evidence of KPN creating value.

All in all, KPN is a healthy company, with a strong balance sheet, generating strong margins with a track record of consistently delivering operationally and creating value.

Capex is expected to remain broadly stable at around €1.2 billion until 2026, despite some upward inflationary pressures, and these will be managed inside a typical operational bandwidth.

In 2027, after we finalize the bulk of the fiber roll out program, we will foresee a material step down in our Capex dropping to below €1 billion. Within our Capex envelope, we see a stable mix between fiber Capex and non-fiber Capex at '24 to '26 period. Our fiber Capex is expected to remain between €450 million and €500 million per year, or 8% of revenues going forward until 2026.

Our investment focus will gradually move from passing homes to connecting homes with Fiber Capex making a significant step down in 2027 and beyond as we finish the Homes Connected components of our projects.

Within our non-fiber Capex, representing about 14% of revenues, we foresee a small increase in consumer related Capex, mainly related to our expanding fiber footprint. However, this would be a good sign for the business as that would indicate stronger sales growth.

Mobile Capex is expected to remain relatively stable between €100 million to €150 million. Other Capex is expected to decline due to rationalization and increased effectiveness into infrastructure and IT. And after the fiber program has ended, we plan to run our business at around 15% to 60% Capex to sales ratio, which enables us to materially increase our free cash flow margins while staying fully and responsibly invested.

We just extensively talked about our 3% EBITDA growth and a flat to declining Capex. With this, our operating Free Cash Flow will show a decent mid-single-digit growth on average at '24 to '26 period, fully driven by EBITDA growth. Including 2027, when we expect to see this material drop in Capex, we expect a CAGR of around 10% for the entire '24 to '27 period.

Now let's focus on some of the moving parts of our Free Cash Flow for the coming years. The attractive Operating Free Cash Flow profile does not immediately trickle down into Free Cash Flow. And this is because there are a number of factors at play here.

First, cash taxes are set to increase in the coming years. In 2024, we expect a step-up of about €50 million to €60 million with two more steps to absorb in 2026 and '27 when we are fully utilized our deferred tax assets. After that, our cash taxes are expected to move in line with our P&L taxes.

Our interest expenses are expected to increase by around €35 million in 2024. And after that, we foresee broadly stable interest costs. So together, our cash taxes and interest costs will increase by about €230 million in 2027 versus today, which will be absorbed by an underlying increase in cash generation. Our working capital initiatives will be delivering a small positive contribution in 2024, after which we foresee a steady state.

So to summarize for 2024, our Free Cash Flow will be in line with this year, despite the around €100 million headwinds from higher cash taxes and higher interest costs. After 2024, our Free Cash Flow will grow gradually in line with EBITDA with another tax step-up to absorb in '26, which implies low-single-digit CAGR until 2026. And as from 2027 onwards, when our fiber project is finalized and our capital intensity drops back to normal levels, we expect a material inflection in our Free Cash Flow, which will then increase to well above €1 billion, representing a CAGR of about 7% over the entire ’24 to ’27 strategic period.

We have a very solid balance sheet. Our exposure to floating rates is only 15%, and the average cost of senior debt is 4.1%. Our liquidity remains robust at about €1.6 billion in cash and short-term investments, including our undrawn revolving credit facility. This provides ample flexibility to pursue bolt-on growth investments as they may arise and to acquire spectrum in the upcoming 3.5 Gigahertz auction, expected to take place next year.

Leverage has been broadly stable at 2.4 times, and Credit Rating agencies acknowledge our strong balance sheet and market position, which is evidenced by solid ratings and a stable outlook. We expect and plan to run with a Net Debt-to-EBITDA ratio below 2.5 times in the medium term.

Now let's turn to our outlook and financial ambitions. We reiterate our 2023 outlook, like we did at Q3, two weeks ago. Taking what we shared today, we now come to the following financial ambitions for 2024 to 2027 period. For next year 2024, we expect adjusted EBITDA after leases to come in at around €2 billion and €480 million, signaling accelerating growth compared to 2023, mainly driven by service revenue growth.

For the strategic period, we're targeting EBITDA after leases growth of about 3% per year on average. Capex will remain stable at peak level of €1.2 billion until '26, after which we foresee a material step down to less than €1 billion. Free Cash Flow will remain broadly stable in 2024 despite around €100 million headwinds from higher taxes and increased interest costs.

Over the 2024 to '27 period, we're aiming for a CAGR and free cash flow of about 7%. Obviously, on a per share basis, things are different because our ongoing share buyback program that reduces the number of shares.

Our financial framework is aimed at long-term value creation for all stakeholders. In this respect, we are committed to returning our excess cash to our shareholders. Going forward, our cash margins and our strong financial position enables us to continue to deliver attractive shareholder returns from growing dividends, supplemented by share buybacks. And maintaining our progressive dividend policy is sacrosanct to us. Importantly, we see the dividend being comfortably covered by our Free Cash Flow, ensuring a healthy pay-out ratio which hovers between 70% and 80% in terms of our Free Cash Flow in the coming period.

In order to minimize tax leakage, there will be a change in the shareholder distribution mix. And as a result, there will be an immediate uplift of 13% to €17 dividend per share in 2024 and a 7% dividend per share CAGR thereafter. And the remainder of our free cash flow is paid out via share buybacks.

Over the past three years, we bought back €800 million in shares in total. For 2024, we intend to execute a share buyback program of €200 million to ensure we distribute our full free cash flow to shareholders. And over the entire plan period, 2024 to 2027, we expect to deliver a total cumulative buyback of up to €1 billion. This means yet again, we will effectively distribute 100% of our Free Cash Flow to shareholders, or alternatively stated, the distributions are fully covered by the cash we generate.

Cumulatively, our growing dividends and planned buybacks will allow us to return around €3.8 billion in total or about 30% of our current market cap to our shareholders in the next four years.

Now let me briefly wrap up the highlights of our Capital Markets Day before we go to our break.

Today, we've set out clear goals for the next years, reflected in our 3, 3, 7 CAGR model: 3% service revenue growth, 3% EBITDA after leases growth and 7% free cash flow growth until 2027.

And to summarize, in essence, our initiatives and plans will shape a future where KPN stands at the forefront of innovation, connectivity and sustainability. We are building and monetizing a long-lasting, future-proof network, and will support our competitive position for years to come, enable us to create value for all our stakeholders.

We are well underway to cover 80% of the country with fiber and are increasingly successful in monetizing our investments here. Combining that with new partners, outstanding customer experiences and digitized customer journeys, we will offer our customers the best quality networks and services in the Netherlands. And we are already laying the foundation for future network services that others cannot replicate.

And to speak in ice hockey metaphor, we are keen to skate there where the puck is going. The combination of IoT, NL-IX, 5G slicing, KPN Campus and Metro Core Edge capabilities are unique and will cater to our future customer needs. In other words, we've already painted the picture of what our next CMD will probably cover. These investments will help ensure we continue to become less sensitive to price competition and protect the high margins whilst playing a major part in our strategy to Connect, Activate and Grow in Netherlands.

Financially, we expect to achieve growth in service revenues and profitability, maintain a disciplined approach to Capex, cost reduction. And as a consequence, attain an industry-leading ROCE of about 15%, while providing attractive returns to our shareholders.

We've reflected our confidence in this approach by clearly committing to growing dividends and cumulative shareholder returns over the strategic period.

And to wrap up, we are immensely proud of our journey to-date, and I want to make sure that KPN continues to be viewed as the leading company, the leading telco, that provides connectivity and the power to customers to fully capitalize on the opportunities offered by the digital world.

Thanks for listening to our story. We'll now take a 30-minute break before we start the Q&A session with our Board of Management colleagues. Thank you.

Questions and Answers

Joost Farwerck: I would like to briefly introduce the team that delivered the results. Together, we built a plan and together we will execute the strategy for the coming years.

So first half of this year, we announced the appointment of two new Board members. First of all, Chantal, responsible for B2B, and Wouter, responsible for the technology part of the business. And then we have Marieke, who is responsible nowadays for B2C. Over the last four years, she was running the B2B segment. We've had Hilde already for four years as our Chief People Officer. And together with Chris and myself, we will deliver on our Connect, Activate and Grow strategy.

So that's the introduction. Now over to Reinout for your questions.

Reinout van Ierschot: Thank you, Joost. Before we move to the questions, I would like to ask you to limit your questions to two. Like usual, we've got two ladies in the middle and at the left-hand side with microphones. So once I point to you, the microphone will come to you, and then you can ask your questions to the Board. Keval, can you start, please?

Keval Khiroya (Deutsche Bank): Sure. Thank you. It's Keval Khiroya from Deutsche Bank. And I have two questions, please. So firstly, your guidance implies stable margins over the guidance period despite opex savings from fiber and the copper switch-off. So to what degree will we see indirect savings from that over the guidance period? And to what degree will they flow through beyond?

And secondly, your free cash flow CAGR will be a bit more back-end loaded. But when thinking about EBITDA growth, will that be relatively stable over the period, or is there anything we need to take into account with respect to the phasing of direct and indirect costs? Thank you.

Joost Farwerck: Chris, will you take these?

Chris Figee: On our margins, also a question with the break on the perceived lack of operating leverage, the fact that our cash – earnings growth is the same as our service revenue growth.

Well, two factors at play here. One is, of course, we've got more cost allocated from Glaspoort. So imagine that the Glaspoort cost allocated KPN increased by about €25 million to €30 million next year and will grow up to about €150 million at the end of the plan period. So €27 million more cost to Glaspoort, which is kind of a 1% of EBITDA growth.

So that explains a big chunk of the EBITDA growth and the point when we start – consolidating Glaspoort, that whole picture improves considerably. So the value is there. It doesn't show up.

Second element is, as we said, we've got quite high margins, 48% telco-only margins. We're selling a little bit more lower-margin products to protect those high-margin telco products. So basically investing in stickiness of customers. So you saw somewhat lower margin products to protect the telco margins. But the most important driver that kind of affects the gap between service revenue, EBITDA growth is the Glaspoort thing we achieved about 1%-1.5% of revenues – of margins in the coming period.

And to your point, EBITDA growth is stable. Yes, we plan it to be really close to 3%. If you look at H2 to H2 service revenue growth this year, it's already above 3%. And we see the momentum continuing. So it actually feels like we could be pretty stable. Next year could be 2.5-2.7%, the year around 3.2%, 3.3%, but really hovering around the 3%. There's not very much back-end loaded.

Reinout van Ierschot: Andrew?

Andrew Lee (Goldman Sachs): Yeah. Thank you. It's Andrew Lee from Goldman Sachs. A few things stuck out with your guidance kind of one of them for people that have been covering the sector for a while is 3% service revenue growth. So just the naturally cautious amongst is just wondered whether – what kind of inflation you're factoring into those expectations? Because obviously, it's a high degree of service revenue growth that you're looking for.

And then the second question just relates to your fiber monetization. You put up a slide where you're highlighting how you could generate around €3 extra per customer when you upsell them to fiber. I just wondered if you could talk about how well you think you are delivering to your potential in terms of monetizing fiber and how competition has played into your ability to do that?

Joost Farwerck: Yeah. So first of all, on the fiber case. We changed our strategy over the years. In the past, we only sold fiber to customers really acquiring the higher speeds. And in those days, ARPU differences are much higher between copper and fiber. And nowadays, we have a more proactive approach to migrate the customer base to fiber faster, which enables us to switch-off the copper network faster as well and to sell up in the second phase.

But clearly, when we look at the older fiber areas, the ARPU is higher, but especially the penetration rate is much higher. That's the most important driver for the whole business case penetration. And the – all of the areas are, clearly the higher the penetration is, especially combined with wholesale, we go above 60%. So that's working.

So nowadays, over the last two years, we've been migrating customers more actively to fiber and then sell up in a later phase. But all in all, that's also more efficient for us. We know it works, but it takes a while before we really see these penetration rates grow above 60, but immediately in the first wave, you already go between 5 and 10 up in an area. So yes, that's super important for us.

So it's not – it works. That's for sure. And then your question on inflation rate in our plans.

Chris Figee: So – on inflation, your tea leaves are as good as mine. We're also looking at a bit of fog here. Our base assumption is if you look at the inflation today, headline inflation is negative. Core inflation runs around 5.5%. I mean that negative effect will fade out. So if you do some numbers and you read the reports, you feel like the inflation numbers are converging core and headline towards like 4% next year, then gradually moving down on 3% to 2%.

So that's kind of the base assumption, if you wish. I think the positive side of our revenue forecast, it is less – obviously, the price increases to some extent, baked in there, but it's more driven by volume increases. So we do predict – yeah, plan for base growth across broadband and mobile in consumer and in business, which is effectively extending the – more or less extending the current run rate of base growth that we've seen in the last, say, nine quarters on average. So it feels like feasible to me.

And if you then take a little bit look a bit deeper, we see consumer fixed, especially next year, move to 2% plus. Consumer mobile will be very strong in Q4 and taper off a bit. And then we see consumer going toward 3%, business market to be north of 3%, driven especially by SME. And wholesale next year will be a bit lower on 1-1.5% to some more technical factors and recover afterwards.

So the good thing about our business, you always have the three leavers that kind of dampen out with increasingly all growth rates converging towards around 3% in all businesses. And underlying is an extension of the current – would like, say, commercial and base developments complemented with some price increase, but not – we see this fairly prudent and not assuming very high inflation in the coming period.

Reinout van Ierschot: Maurice?

Maurice Patrick (Barclays): Yeah. Hi. Thanks. It’s Maurice from Barclays. If I could ask a bit about the capital allocation. So I think you talked about up to €1 billion share buyback plan. You've obviously got some M&A you have done and you've in the moment – in the midst of trying to buy an MVNO. Curious as to your sort of thoughts about the trade-off of use of capital to buying assets, for example, MVNOs, which bring in wholesale or makes it more retail than wholesale versus return the cash to – how do you think about balancing those priorities? Thank you. Given there could be quite a lot of M&A in the next year or three. Thank you.

Joost Farwerck: Yeah. So that really depends on the assets we're talking about. So recently, we acquired a company called Primevest, which is mere – yeah, more about fiber than anything else. And the business case works, we compare it to what happens if we have to build it ourselves, customers on the network, penetration, etc. And then we decided to buy it for what we consider a decent price. Same for Youfone. That's also a customer base of about 500,000 customers added to our consumer base. But it's all about the business case.

So if it works, and we can buy for a decent amount of money, we'll do it. And if not, then yeah, we go in ourselves or whatever. So it's case-by-case, we look at these opportunities.

Chris Figee: It’s in our plan to return all our cash flow to shareholders. And if you think about doing these smaller bolt-on, like an MVNO or buying the smaller fiber networks, that should also be – albeit do it from the existing balance sheet, the headroom that we have. Remind me, if you think about our EBITDA development, and have up to 2.5 times ratio. That means a nicely expanding headroom. And we think that headroom should, by and large, suffice to pursue any of these small transactions.

And of course, as Joost said, then you first need to make sure they create value and create an attractive ROIC and don't delete your return – dilute your return profile too much. And when they meet the hurdle, we think it's something that you can fund out of balance sheet and make sure your free cash flow is geared towards returning cash to shareholders. And if it will be a really large transaction, that would all change everything. But the bolt-on ones that you described should all be doable in conjunction with an unparallel with the capital return policy that we described.

Reinout van Ierschot: Russell?

Russell Waller (New Street Research): Thank you. Yes, Russell from New Street Research. Just on your plans to go to 80% of the country with fiber. Could you talk about your plans for the other 20%, please? Could you run through the options that you see it? And which ones do you prefer and why? And then what is your share within that 20% area, please? How many customers does that 20% effect? Thank you.

Joost Farwerck: Yeah. Well, maybe you can – I'll start, then you. So three years ago, we launched the plan to build 80%. And why 80%, why not 100%? First of all, there's super rural areas where the business case doesn't work, we can probably do it with fixed wireless access on 5G, something like that.

And second, others are building in the Netherlands as well, and we don't like a lot of overbuild. Sometimes it's unavoidable. Sometimes it is. So at the end, we decided – and by the way, you also somewhere any time has to stop with a Capex level of where we are today. So that's why we designed the plan around 80%. It's a good question. So outside these areas, there are different solutions, either small acquisitions, fixed wireless access, perhaps we can make use of other networks if the deal is good for us. So that is the design. But for us, it's also important to meet the target in '27 and then step down in Capex.

Wouter Stammeijer: I think this pretty much covers it, right? So it's the large-scale roll out will be done towards the end of 2026. And thereafter, it's on a business case basis. So we look at the white spots that are still there in the country. And if there's a business case roll out, then we'll do that on a smaller scale. And indeed, basically, it's all about connecting homes after that. So there's a lot of rolling out to the streets. So we focus on connecting homes in those areas where we have fiber.

And indeed, there might be small M&A opportunities. What we've seen on the Primevest case, you see that now the market is nearing the end game in terms of the fiber, how the country is divided and some of these smaller players are selling out. So then there is also some acquisition of Glaspoort fiber joint venture. So those are opportunities. And at the end, it's all about connecting customers with the best network of the Netherlands. And I think there we're making good progress and also have a plan for the remainder of the part. So I hope that answers your question.

Reinout van Ierschot: Polo – sorry, yeah, Russell has a question still.

Russell Waller: Sorry. And what's your share of customers within that region? So I mean, does the guidance include wholesale costs going up to cover the customers that are in that area, for example? Or how should we think about those customers as they want to take fiber, but you don't have a fiber product. How will they get fiber from you? Is that all embedded within the guidance is, I guess, what I'm worried about?

Wouter Stammeijer: Yeah. I think if you look at where we are, right, I think quite a big part of the 20% has already been covered by others because you've seen that these Altnets have really started in the areas where we had traditionally low copper speeds, so the more rural areas, it was demand-driven, customers were paying upfront a certain fee to get connected.

So we already lost a big part of market share there. So you see that we kept a steady low share in those areas, and it's not really decreasing anymore. So that's already there. So that's a natural evolution where we have higher shares in the areas where you have fiber and lower in copper areas, big part of the country also have high copper speeds but especially those areas we have lower speeds. So that's implicitly already in there.

And there might be opportunities to get something back with these new technologies or covering the white spots. So that's where we are.

Reinout van Ierschot: Yeah. I already gave it to Polo, this one.

Polo Tang (UBS): Hi. It's Polo Tang from UBS. Two questions. First one is just on service revenues. Just coming back to your 3% per annum CAGR on service revenues. You made it very clear that there were modest assumptions in terms of pricing. You flagged volume growth. But can I just check what you're expecting in terms of the evolution of competitive dynamics? So specifically, I'm wondering about VodafoneZiggo. They're obviously continuing to lose subscribers. So how do you think about the risk of an aggressive reaction from them going forward?

Second question is really just about Capex. Because if I rewind back to the CMD back in 2020, you're originally guiding towards about €1.1 billion to €1.2 billion of Capex. Obviously, the current run rate is €1.2 billion. So can I just clarify what had changed over the years? But can I also just zoom into your non-fiber Capex envelope, because I think you've guided it for it to be broadly stable from where I can see going forward. I'm just trying to understand what are the moving parts in that non-fiber Capex or any elements going down or any elements going up? Thanks.

Joost Farwerck: So on the service revenue development, Chris already explained how we embedded that in the plans. And your question is more about aggressive reactions of competition and how we anticipate on that.

Yeah, I think it's clear that every now and then the Dutch market is pretty aggressive. It's – there's a lot of service providers out there, but three big ones. But it's also clear that we want to create value. So every now and then, we see aggressive discounting in the market, but also, we see firm price increases by all players in the market and the reasonable behavior. So all in all, also for us, it's important not to be too aggressive, but to find a steady pace to grow and not in peaks, but in a steady tempo. And then I expect that we can at least meet the 3% on an average. Capex, yeah?

Wouter Stammeijer: So on the Capex, I think, yeah, what has changed obviously we've seen since 2020, quite a bit of inflation. So what you see in the Capex is that it's composed of infrastructure investments on the one hand and on the other hand, digital IT, which in a lot of instances is also people. You see that with people sourcing on the developments. We have external people that there is inflation also in those labor rates. So obviously, through strategic sourcing, we're trying to mitigate that. And to a large extent, we have been able to mitigate that because if you would just increase the original Capex envelope by inflation, we will be much higher than where we are today. So we've been able to mitigate most of it and not everything.

I think on the other hand, there's an offset in the increased revenues through those inflations. So that is what the business model implicitly assumes is that you are able to capture that inflation on both sides, on the revenue side and on the Capex side. So that is looking backwards.

I think looking forward, you were asking about the moving parts within the Capex envelope, so we have fiber. So if you look at the other buckets, where we've seen, first of all, on the fixed infrastructure that the copper investments will decrease. So that's – that will obviously decrease.

On the other investments, we've modernized the network over the last year. So part of the original plan in 2020 was also to upgrade all the more than 5,000 sites we have in the country. So visited them and upgraded them with the first generation of 5G. So obviously, there is additional 5G coming up with spectrum auction next year in the 3.5 gigahertz. We said we will invest long capacity demands. So we forecast traffic and invest smartly based on that capacity growth.

So the mobile investments will be less than what we've seen over last years. So that is a part. And then the other parts are on the core network, the – what we call the fabric infrastructure. So obviously, through investing huge amounts in fiber and 5G over last years, we're also able to now generate new customers on that network that drives growth. And it also means that we need to cater the core network for that traffic growth. So in the coming years, we also have investments in automation of the core network. So driving down the operational costs there, but at the same time, investing in the feeding of infinite capacity and also higher resolution power in the network automation of the processes so that they help us to also reap some of the benefits through opex.

And the last part is in what I was saying, right, on the digital IT side. A digital experience towards our consumer customers, business customers. There, on the one hand, we will continue to see some inflationary pressure on the IT investments through the people we have working in these development areas. At the same time, by using new technologies such as SaaS, cloudification, automation, the use of AI, where we have been able to source that more efficiently and also make use of more efficient solutions in the digital IT part, which means that we could see a slightly decreasing Capex figure there.

And I think that completes it, and that's all included in this, yes, €1.2 billion guidance for the coming years and a step down to below €1 billion in 2027.

Reinout van Ierschot: Josh, at the back.

Joshua Mills (Exane BNP Paribas): Thanks very much. It's Josh Mills at BNP Paribas Exane. I had two questions. One on the wholesale revenue outlook and then another one just on kind of broader market dynamics. So I think you talked in the presentation around a 1-1.5% growth rate in wholesale kind of converging towards this 3%. But what are the moving parts within that? Because I suppose on the volume side, there is risk from overbuilders taking share from you and a mix shift within the products you're selling from VULA to ODF, which I believe is a lower price point. Offsetting that, there's the inflation linkage. So just hearing how you get to the metric on wholesale revenue growth, would be interesting.

And then the second question is just around the strategy outlining of growing to focusing on base growth more than price growth perhaps going forward. And it looks today like the market is just about holding steady if you can win some share, VodafoneZiggo loses some. But going forward, your strategy is not to see any share and the Altnets will want to grow. That clearly puts your biggest competitor in a difficult position.

So if all of these drives us towards an M&A scenario where we saw the cable operator get together with the Altnets, do you think that would be a good or a bad thing for KPN in the long run? Thanks very much.

Chris Figee: Yeah, Josh, on wholesale, a couple of things at play. We see healthy underlying base growth in wholesale, both in mobile and fixed. At this point, the contract at some of our wholesale customers have with Altnets, we don't see it reflecting into truly in wholesale. We think they tend to be quite careful touching customers, so they first pursue new growth in those areas rather than migrating existing customers. So that's not really an issue we see, at least in the short term. It's more technical one.

Look, the good news in wholesale that basically we renewed the contracts with most of our – nearly all of our MVNOs. So the risk of a Germany style undercutting of a big wholesale customer is virtually nil, because we've renewed all our contracts – in exchange, we sometimes give some marketing fees as one-offs and those come in into next year. So basically, it's the marketing fees one-offs that go into some of our MVNO customers as a part of an extension of their contract.

So the good news is these contracts are all extended and for quite some time to come now, which also brings stability and predictability in the market. And in short-term, you'll see some marketing commitment, marketing fees, we give to them as part of the total arrangement. And secondly, under the ACM framework, the ability in the first years to increase your price in wholesale is a bit less. So that also goes together to 1-1.5% growth in wholesale, which will then recover in the years thereafter.

Joost Farwerck: Your second question was about finding the balance between base growth and – yeah, pricing in consumer market, which is the balancing act. And perhaps you can touch on –

Marieke Snoep: Yeah. So in principle, I think we would love a future where there is no more price increases for our customers. But we will continue to be very moderate like we have been on price increases and also on discounting. Our full focus is on creating value for money in our base. So we've done over a million copper-to-fiber upgrades now, and we've done over 450,000 speed upgrades in our base, to just deliver more value for money, also through combining and get more and a revised loyalty program.

So we'll just give them a great value for money perception in the base, and we have modelled our growth moderately. We'll take our fair share of the market growth in the Netherlands, basically. And as I said, we'll focus on keeping our base and upping the value of our base by also upping the value for our customers, first. So that's basically our strategy. And I think it resonates well with my customers. And I think it's a very healthy strategy.

So back to M&A, Ziggo?

Joost Farwerck: For me, the most important thing – one of the most important thing Marieke introduced over the last six months is the best way to make the base grow, is to focus more on churn instead of acquisition and it's managing the churn is a very important part of our business. And there's – it's always – one can always improve there. So loyalty, as we explained in the presentation and rewarding existing customers in the base is one of the little shifts we make in the market to keep our customers more with us, and in that way, grow the base in a more decent way.

Reinout van Ierschot: Georgios?

Georgios Ierodiaconou (Citi): Good afternoon. It's Georgios Ierodiaconou from Citi. I've got two questions. The first one is on Glaspoort. Because, I guess, you gave us a lot of details, so we can model with a lot of detail, and thank you for that. But one thing that can change the model quite materially is the one – I believe you have the option to buy one share and reconsolidate the asset. Any plans to do that between now and 2027? And if you don't mind, you mentioned €100 million, I think should be kind of the EBITDA generation of the business roughly from what you said have increased. What will be the other implications?

And if you do mind specifying – I know your Capex is coming down in '27. Is that also the case for Glaspoort or is there more of a tail in their investment horizon?

And then the second question is just on energy, and you have a very useful slide, I think, 58 with the energy consumption, also some of the agreements that you have in place. If you could give us roughly in euro terms, what could be the savings between '24 and '27, it would be even better for us. Thank you.

Chris Figee: I guess, they are both to me on Glaspoort. Technically, the arrangement that we – Glaspoort was erected put in place in 2021. So we can get our access by the controlling or consolidation control that the rule says after five years, there's a window of three years and window – in the window, we have to meet 80% completion of the Glaspoort Capex roll out. So after five years, the three-year window and the three-year between '26 and '29 when we hit the 80%. Glaspoort hits the 80% target of its with goals.

At this point, so it's not in the plans as of yet. We just make sure we have a like-for-like outlook in terms of our EBITDA outlook. At this point, we assume that with we do it, we get to proportionate consolidation, so basically consolidate 50%, which means by that time, you probably add between €75 million and €100 million, depending on the year that you actually start to contribute.

And then there will be some final Capex, which is the last 20%, sort of maybe one year or so to go on roll out of Glaspoort. And in exchange for that, we estimate at that time, you get about 0.2 times leverage increase as well, which I think at the time would be very well-supportable, given the quality of the EBITDA, given the quality of the balance sheet that we have. So I hope that gives you sufficient room to finish your model.

And to finalize the cost line in your model on energy costs. Today, we're spending about €100 million, good €100 million on energy costs with basically operating costs under pure commodity and the commodity costs, I think, about this year we're consuming 425 gigawatt hours at about 140,000 – 145,000 per gigawatt hour. Next year, our total energy spend will be roughly stable, meaning our energy spend will be down into the gigawatt hours, 410-ish, 415. Average spend will be up a bit simply because this year benefited from the early payment – early procurement from the previous pre-Ukraine years.

Then you see a step down in '25 and another step down '26, '27. I think when I look at the current – what's implied in the plan, what are we paying today and what's kind of implied in the wind park arrangements, you're looking at a good €30 million of cost savings in '26, '27 million that would show up, possibly a bit earlier depending a bit on how the spot market evolves.

And as we said in the presentation, also looking at solar opportunities, and they might come on steam a bit earlier. So we try to have also add additional energy savings in the coming years. But to finish, your cost line is kind of €25 million to €30 million of the net savings in '26, '27 with the first chunk next year as prices normalize or least the procurement prices go below 100, if you have a look at '25 forward rates that are around €110 per megawatt hour. And then we'll go to – like in the round of the 80s in 2026.

Reinout van Ierschot: Yeah, Konrad?

Konrad Zomer (ABN AMRO-ODDO): Thank you. It's Konrad Zomer, ABN AMRO-ODDO. Two questions. The first one on the return on capital employed of your fiber roll out. You've suggested in previous presentations that the return on fiber is already nearing the average for the Group, which in itself is a very good return. When do you think you will be able to disclose the actual return you do make on fiber? Because it would make it a lot easier for investors to acknowledge the fact that it leads to very good returns, given the high level of investments? And related to that, do you think the €700 to €1,000 per households is coming down over the next few years because of scale? Because I seem to remember that it's broadly similar to what you indicated a few years ago.

And my second question, you've indicated before that the move from copper to fiber can reduce your operating spend by between 30% and 50%. And today, we've learned that you've made very good progress on your copper decommissioning. Is the bulk of those savings still to come through in the next few years or has a lot of it already been absorbed in the current financials that we may not have spotted them because they've been offset by higher costs elsewhere. Thank you.

Joost Farwerck: I'll suggest, Wouter, you take the question on the copper fiber switch and Capex per household on fiber. And then Chris, you can give a lecture on ROCE. Do you want to start? Sounds like a plan.

Wouter Stammeijer: I can start. You can think about the lecture, if that’s okay. Now, I’ll take on your question on Capex per household. I think we've given this range because you see that there's easier areas, more dense, low-single dwelling units, where it's relatively cheaper and the lower end of the range. And when it gets more complicated, getting towards higher end because there's human work involved in the fiber works. So that's why we've given this range.

I think the – also here, a bit of the same story, right? We've seen some inflation in these costs, because it's people. We have 3,000 people working in the country every day on the fiber deployments, both in digging as well as in connecting going into the homes. And that's what we do. We really connect into the living rooms pretty much. So that's the work involved.

And it's really about offsetting – trying to offset that inflationary pressure. So in relatively terms, this number is quite stable over the years also going forward. That's what we expect. And it's a combination of homes passed and homes connect. So – of course, if you have a lower HC percentage, this range will come down, but our ambition is to have high homes connect percentages in the roll out because then it becomes much easier to connect people once people want to become a customer. So you could say that this is relatively stable.

And in terms of the – yeah, the savings in copper, I think part of it is already – we have already banked that because of the switch-off, with millions of lines have been switched off. However, you see that there's phases in the copper switch-off. So the first phase is really switching off lines. That's what you could say, the relatively easy part that gives some energy savings and also less maintenance.

The second phase is in the more complicated copper lines, business market lines, business market portfolio that cannot always be replicated on fiber. So that's the phase where we're now is trying to get – to migrate some of those customers that are still on this complicated lines to fiber.

And then the third phase is really switching off how we're actually decommissioning. And therefore, you need to kind of switch-off real areas. So that's all about lines, but about – also about areas. There is the more – there's the upside in terms of savings because if you really decommission, you can also decommission the infrastructure around that, the buildings save on some of the rents or sell off some of those buildings, that's what Chris talked about in the passive portfolio disposals.

We can save on maintenance costs on reconstruction costs. So that third phase is typically three years after you roll out fiber in areas, then we can really start decommissioning because of the regulatory period in announcements. So that's still to come.

And what we've included in our guidance is what you've seen now is the savings for the coming years until 2027, but there's an upside after that because of the real decommissioning of the copper there and transitioning to a real fiber company in terms of business processes, less service tickets, calls, all of that.

Then Chris to the ROCE.

Chris Figee: So yeah, on ROCE. A few things Konrad on ROCE. Look, if you look at ROCE itself, we're obviously quite pleased with how it's been developing, how it's developed. I mean we aim to deliver 700 to 800 basis points over the cost of capital. Rates have gone up. The cost of capital ultimately has gone up. So moving the ROCE up to 15% helps us get there, before getting to fiber.

You'll see the common dynamics that this year will look pretty good. Then next, you've got a spectrum auction coming up. You see more fiber on your balance sheet with this, which depreciates lower. So I expect this year to see for the full year, ROCE going up nicely. And then the speed of ROCE taper off a bit as you have a spectrum auction, we'll give you a certain amount of additional capital employed, and a bigger chunk of fiber assets that depreciate lower that basically, your denominator works a bit against you in development.

So ROCE won't go down, but the speed of growth will just flatten off a bit. But obviously, we look at it from – to see if we create value.

Unfortunately, we don't intend to disclose ROICs on a different product level, simply also because one with trap of discussing how you allocate costs. Once you start disclosing one product, you start disclosing two products and before you know it all becomes extremely cumbersome.

So our strategy is to give you guys all the tools to do the work. And I think given the metrics that we've given on customer homes passed on penetration ARPU lift up. I think you can quickly run through your own numbers and see that's value creating.

And thirdly, we think for fiber, given there's such a long-term assets, ROCE in itself doesn't really measure the value. It's an IRR thing, right? Because this really is a 20 to 30-year product. So jokingly say, I think the successor of – my successor will still be happy that we made this investment. So with that, we think it's probably more an IRR and payback time thing than a ROCE thing.

But trust me, it is – I would say, it is sufficiently and widely attractively returning for us even if we don't disclose individual project IRRs.

Reinout van Ierschot: Steve?

Steve Malcolm (Redburn): Thanks. It's Steve Malcolm from Redburn Atlantic. A couple of questions. Just to follow up on Josh's question on wholesale. Can you just give us an idea within that, what's happening to your third-party volumes? And within those volumes when they trade up from copper to fiber, what's the average price increase, a lot of mix of products in there, that would be helpful. I know you've got some particular caps at the moment.

And then just coming back to ROCE on that following the question has just been asked, it's a nice problem to have. But when you're looking forward six, seven years to the end of the current regulatory cycle, is there an upward limit on ROCE that clearly you don't directly steer the business on that, but it would make you worried that the regulator might look at you slightly dim with the returns you're making? 15% is great. Twice return on cost of capital is great. But is there a point at which you feel commercially possibly vulnerable you're making too much, or the regulator might look in a slightly less favorable light on your fiber investment? Thanks.

Chris Figee: Well, yeah, should I pick up the wholesale. Basically, the switch on copper to fiber adds a few euros a month to ARPU. So you're looking at probably €4 to €5 a month. But note, most of our clients are pretty picky on picking up relatively cheap wholesale lines that helps them in their margin in the way they price. So when we're switching off copper, you'll see an ARPU uplift that will gradually start to happen in the coming period.

But I said the word gradual is here. We also give them some sort of a marketing compensation to compensate for that loss. So that is a factor that will feature in quite gradually in the coming years, and you'll probably see more of it at the end of the planned period than the front of the period.

On ROCE, is there a time when you have too much? I'd love to live in that period. I think let's first have that problem and then discuss it. But I think also practically speaking, once you get to 15% ROIC, it's very hard to increase it. Simply at some point, your denominator starts to work against you. I think 15% is at the upper end of the telco landscape. It also is featured by cost control. So I would say, look, if our cost control supports, is that something that we earn. It's not something that regulators should be worrying about.

So in my point of view is, when you move to the upper rationale of telcos, driven also cost developments, in spite of investment, that should not be a problem. But also, I think effectively, you don't see the ROCE moving up a lot beyond 15%. At some point, the loss of gravity also stand to account for KPN. So I think that's probably what we should plan for. And that's, I think, where we will stay.

Reinout van Ierschot: Luigi?

Luigi Minerva (HSBC): Good afternoon. Thank you. It's Luigi Minerva from HSBC. One question on Glaspoort. If you can share with us the dividend policy before you consolidate and after?

And the second question is on your share buyback guidance that there is legislation work in progress at the Senate. So, is your guidance based on the current legislation? And how would it change if the draft legislation becomes the new status quo? Thank you.

Joost Farwerck: Yeah. Well, the current guidance is based on the current legislation. We don't know what's going to happen in Dutch Parliament. But of course, we can always react on that. So currently, we do not include future possible legislation into our share buyback policy. But like I said, optimizing between dividend and share buyback is also what we already announced for next year when it comes to existing tax legislation.

Glaspoort?

Chris Figee: I mean the dividend policy of Glaspoort, at this point we see Glaspoort is in fully in investing mode. So as we jokingly say, we added Glaspoort, it would add – if we consolidate it today, it will probably add 25% EBITDA growth. It would also add Capex to it. So in all fairness, there’s – they're in investing mode.

The dividend policy of Glaspoort is to have a target amount of leverage, and basically make sure that the cash generated and leveraged together are met and at all the cash is being paid out to shareholders. So basically, it has a net debt-to-EBITDA ratio. And this is what we want to have and every – all the excess cash is being paid to shareholders.

So at some point, Glaspoort will be quite a nice cash addition to KPN. But effectively, it happens when the cash that Glaspoort generates exceeds some of Capex that Glaspoort produces other needs. So that's probably at just around the consolidation period.

Reinout van Ierschot: So there’s a follow-up from Luigi.

Luigi Minerva: So I presume that will happen once you will consolidate the assets. So APG will get a dividend at that point. Can we roughly quantify it, if possible?

Chris Figee: We’re probably close to 2026. If we can bring it forward, I wouldn't mind. I think this thing normally happens when you – indeed, your Capex needs to hit the 80% mark, that's the threshold for us thinking about consolidation. And then we can time it smartly. So we'll be on when the Capex at Glaspoort is 80% of all the homes passed have been achieved.

Would you get around 2026-2027 in that area. And then at that time, I guess, there will be some remaining Capex that you consolidate. But at that time, I would estimate the Glaspoort is already cash-positive, and it quickly becomes very cash-positive as the Capex unwinds after that.

Reinout van Ierschot: Usman?

Usman Ghazi (Berenberg): Thank you very much. It's Usman from Berenberg. I just wanted to ask regarding the fiber build-out. So the bulk of the fiber build-out in the Netherlands still to come is in the Randstad, obviously, high-rise buildings in that region, where cable has kind of a historic relationship with landlords. So do you see that for fiber builders like KPN to try and persuade landlords to upgrade the building for fiber is more of an uphill task? Or have you already done a lot of the groundwork, so you don't have an issue there?

Joost Farwerck: Well, Wouter just mentioned the difference between SDU and MDU roll out, and that's the way for us to handle now, but.

Wouter Stammeijer: Indeed, it's not that we have done nothing, right, in the big cities. So we've started in The Hague already, years ago in Amsterdam, partly. Eindhoven is pretty much completely done. So we have experience also with multi-dwelling units, and it depends on one constructor is more successful than the other. So it also depends on the part you work with them. There's also innovation in the high-rise blocks and anything around that.

So I think we are getting more successful. It is sometimes tough. There is now inbuilding ducts or anything in a lot of buildings. So it's a lot of – it's any preparation, multi-market – so technical complexity for more the preparation and getting permits to enter the apartments in different corporations, basically permits. So all of that is in good preparation, and we have experience there.

So also in the high-rise buildings, we’re able to reach 50%, 60%, 70% HC. It takes a bit longer. So you need to be a bit more patient also as a customer, but there is experience. I think the benefit there, you – mentioned it's cable is there, right, in the bigger cities. Also in the market shares, we see that that our market share is generally lower in the dense areas and cities.

So it is an opportunity, you could say, because in a lot of cases, customers didn't really have a real alternative to cable. So we see – we're actually building an alternative. And we're convinced that we can get more share because the fiber is a real alternative to in-house cabling as you've seen it historically, especially in the Netherlands with high cable density. So I think it's an opportunity to come. That's hard work, and sometimes complex, but we're convinced we can make it also there.

Usman Ghazi: Thank you. And my second question was just on mobile. I mean your guidance – I mean, if there was to be a Huawei rip and replace kind of mandate in the Netherlands. And obviously, there's a discussion on what the EU might impose next year. But if that scenario was to occur, do you have a buffer within the guidance? Or would that be kind of unexpected negative? And I'd be really grateful if you could maybe answer that in the context of Open RAN/virtualization technologies and what your ambitions are there? Thank you.

Joost Farwerck: Yeah. So Huawei, we already for a couple of years, have a clear strategy or I should say, on our vendor policy. We have multi vendors like Ericsson, Nokia, Huawei as well. We also announced that we only work in the future with, yeah, like we call Western vendors on the critical domains, and we agreed with our government on the – what's critical and what's not critical. So there's legislation.

I think in the Netherlands, we're doing good on the 5G toolbox regulation from EU, at least we do. And we are fully aligned with our government. And having said that, there's always a fallback scenario for unexpected things to happen. So, of course, when we look at the risk analysis in a broader sense, then we do also do what-if scenarios.

So we are convinced that where we currently are and RAN being considered as non-critical, we are doing good. And we – if I could mention a possible fallback, then I would say that's more an operational challenge and a financial challenge. Over the last years, we've been swapping from Ericsson to Huawei. So we had a dual vendor RAN over a couple of years. And so yeah, the main challenge is how to manage that.

Every year, we do like €100 -€150 million in the mobile network. So like I said, I think it's more an operational challenge. But like I also said, I think we are doing good and that we are aligned with our government and that we follow the same route as they follow in Germany, for instance, or the UK.

Wouter Stammeijer: Maybe to add on Open RAN, I think you mentioned those developments, right? I think – of course, we monitor those, and we've said we're also going to launch more private 5G type of solutions. So you could think about the trials there.

But I think if you look at the technology developments, it's - the Open RAN is not super mature yet. We see it's mainly deployed in greenfield deployments in what we've seen so far. It's also mainly for – especially 5G, not so much but we still have 2G, right? So had there might be more mature technologies towards, let's say, the end of this decade, which could indeed be in line with our next swap and then it could play a role.

As you not only talk about Open RAN, but also Cloud RAN and managing the network more efficiently there. So that, of course, is a solution we could take into account for next potential swap in the future towards 6G standardization, 2G phaseout. All of that is becoming more relevant towards those years to come.

Reinout van Ierschot: Nuno?

Nuno Vaz (Société Générale): Thank you. This is Nuno Vaz from Société Générale. Two questions. One on fiber Capex. From what I understood in 2027, it's roughly cut in half. My question is, why does it not reduce further? I understand your point about connecting homes. But my understanding is also that you're connecting homes already quite aggressively. So to understand that a little bit better. And does that imply that fiber Capex would continue to go down in the next years as more and more homes are connected?

And if you could just – if you have a range for what would be sort of a fiber Capex that would keep in line with the organic growth in households in the Netherlands, so you keep your coverage at a stable rate?

And then just a quick follow-up on your points on copper decommissioning. I understood that the cost savings that you disclosed today do not include this last phase when you actually remove all of the infrastructure. I was wondering if you could give us any data points on when that final phase would actually end? And what would be the run rate savings of that? Or any numbers you could give us on that?

And just a quick follow-up is also what would be the benefit of selling the real estate that you mentioned? And when would that happen? Thank you.

Wouter Stammeijer: Shall I take the fiber Capex question? I think, indeed, it's a relevant question, right? I think we've said that there's a material step down towards 2027. There's still some spent in not only HC but also HP because of the payment terms. So you see that with the contractors, once you close the project, there is a final payment in that last period to keep the incentive of finalizing the projects in the right way.

So we have some phase out payments still in the years after 2026 for the projects that run off to complete the 80%. That's one. Then indeed, as you already mentioned, the homes connect. So we still invest what you saw on one of the slides in the deck. You see HC graduate going up, let's say, one, two, three years after finishing the HP. So that is still a part there.

And thirdly, as you also mentioned, there's new build. So we still have growth 70,000, 80,000 homes passed per year in terms of new build, which we typically connect also with a 100% HC connection, and we are quite successful in new build in winning market share there.

So those three type of investments will still be there after 2026 in the fiber Capex.

Then on the copper phase out, I think what you mentioned on this final phase, if you think about the fiber plan we have, basically, large scale roll outs complete in 2026. And you think about, let's say, three years after you finalize the projects, you can start working on this third phase of really decommissioning and really stopping certain areas instead of only switching off the lines.

So then again, towards the end of this decade, 2029, 2030, where you should see the more material savings around that. A specific number there, it goes together also with – it's not only about copper phase-out, it's also about automation and AI in the processes. So we've given also in the presentation some guidance on if you look at our operational tasks, we think we're able to reduce more than 50% of that in the years to come. And that adds another saving potential also after the years '26, '27.

We haven't given any specific guidance in the years after that because it's looking beyond the four-year typical period. But really by a combination of rationalization, that's the copper phase out, simplification also in the IT, automation, AI, and cloudification, we're able to definitely have more efficiencies also in the years after that. And that will support the financial developments in those years.

Reinout van Ierschot: Hans?

Hans Slob: Yes, going back to also the automation you're planning in terms of AI, use of chatbots, maybe automating the network and also the switch of the copper network. What are your assumptions in terms of headcount growth during the planned period?

Joost Farwerck: Yeah. So we don't announce a big headcount reduction. It is clear that we will further simplify the company. And today, we work with a lot of hired help as well. So in the future, we will, for sure, need less of that. But if you take into account that we are working to an always-on FiberCo, which is completely different than where we are today.

Today, if we serve a customer, field engineers go out to a number exchange, a street cabinet to a household. And an always-on network, we only have to worry about how to get the hardware to the customers' premises. That is the target. And that will lead to far less people than we have today. But that's a longer-term vision because in between, we're rolling out fiber, connecting households and connecting all these customers, so for the years to come, at least on the field engineers side, we need a lot of hands out there in the market.

But Hilde, yeah, I would say it's a simplification we will follow when it comes to our headcount, right?

Hilde Garssen: Yeah, in the end, we do believe that our people are the most valuable asset, so to say that. So we don't set a target on that. But of course, FTE reduction will contribute to the cost savings, as we always did. But it will come from automation, digitalization and simplification of our organization going forward.

So yeah, and on the other hand, indeed, we still have to invest because of the roll out of the fiber homes passed.

Joost Farwerck: Yeah. So 10,000 people in the company, 2,500 we hire and then a lot of people out there more hired by our contractors is for sure a model we can simplify further in the years to come.

Reinout van Ierschot: Usman?

Usman Ghazi: Hi. Thank you for the follow-up. I guess a question on capital allocation. I mean, you've described today, I mean, ownership of some assets like the internet exchange like 160 metro core locations. There are judging about the commentary of infra funds and the investment going into edge infrastructure and data centers and AI, that could be pretty valuable and potentially in the hands of an infra fund could generate much better utilization rates than KPN can on this infrastructure just using it for CDN. So I mean, how are you thinking about monetization of this? And how advanced are you in consideration of potential monetization of this infrastructure? Thank you.

Chris Figee: Yeah. Very good question, look, it's – first of all, I want to say that for us, like the NetCo, ServeCo it is almost like an obsolete question. So we you think about more optimization of ownership but we think there is an Edge opportunity out there that require some investment it is clear that if we want to be the majority owner it is also from a regulatory perspective. If you are incumbent, if you want to have a quality proposition, if you think a big chunk of the country will run on your assets that you want to have control. I think also the regulator would like KPN to have some control of these assets. But then again, bringing in a partner that brings in capital and knowledge to help expedite the development of those services is something we welcome. It's extremely early days. So it is more of a set up pace than anything else. But it's along the lines of our thinking the same thing we did with Glaspoort.

So I think as you think asset class by asset class, to what extent do you want to fully own or share some infrastructure economics. We're not just looking for capital. If you want to look for capital, it’s also something that brings in business acumen that helps you expedite building this business and business insights. So early days, but it's something that we will explore in the coming periods, I think.

Don't expect an edge deal tomorrow. But as I said, in order to expedite the edge claim in the Netherlands and providing this, if someone can help us with capital and knowledge to really accelerate, that we'll be open to consider.

Reinout van Ierschot: Frank?

Frank Dekker (APG): Execution in AI in the cloud is quite different versus execution in rolling out fiber. How do you manage execution in AI and cloud? And a lot of large corporates are quite poor in IT execution. Why is KPN different?

Joost Farwerck: Well, I would say look at our results. But we're not a kind of company that is talking about AI as a theme up there in the sky. So we have concrete work streams. The way we work is that we always want to measure what we do and then we can follow up on what we measure. And so we're not talking about AI on a very high level. We have currently clear use cases. We're expanding these. And it's all to improve our own operating model. That's what we decided.

AI – telcos are little bit late on that, by the way. AI could be really helpful to improve our operating model. And one of the most important streams is between the back end of the company, what's happening in the network and what's happening in the front end of the company and combine the information. And then we'll come to very interesting conclusions on how to improve the way we run KPN. That's currently happening.

So of course, more convincing story will be if we come up with KPIs for you to explain what we do.

Frank Dekker (APG): Maybe one or two examples?

Joost Farwerck: Well, one conclusion is perhaps – well, you can explain better than I can, like that we found out that how interruptions in our network is often organized by the organization itself. So people – customers calling in for some reason, then it comes out that it's something we arranged ourselves, but maybe Wouter you can elaborate?

Wouter Stammeijer: Sure. There's more traditional AI and the rule-based AI we're already working for that – on that for years, right? If you think about plant build and run, especially in the design of the network – so years ago, it took us months to design a new fiber area. Nowadays, it's a matter of tens of minutes to design a new fiber area. So that is also learning by using all the sources that are there in design. So that's there. In running the network, that's the example that Joost gave. We're able to – and that's more Gen-AI, so that's different than the traditional AI.

We're able to now use the customer sentiment. We see on all the channels, all the sources we have to – well, basically see where we have potential network disruptions, and be much more efficient in finding those disruptions in the network or even preventive communication to customers without sending engineers because we know it's not in the access network, but it's somewhere else. Those solutions are there. They're live. They're in the service quality centers. And that gives us real savings, especially in terms of calls to the call centers, tickets going around in the organization. So those cases are live, both in the network as well as on the customer side. And that's one of the examples that is there.

Marieke Snoep: Maybe to add.

Wouter Stammeijer: Yeah, please.

Marieke Snoep: So our customers' service today is already augmented by what we call a digital coach on both the quality of the answer and the empathy that they show with the customer to learn on both sides. We use AI a lot to get the right offer to the right customer. So we use it a lot in churn production, having relocking in the right customers with the highest churn rates. And we use Generative AI currently already in summarizing the calls to our call center, so that both times saved for the agent in first call resolution, and if they call a second time, a lot of time is saved. But it also gives me the opportunity to really analyze what my customers are calling about.

So it gives us a huge upside to go for a really high perfect start with KPN and a really high first call resolution. And actually next step, which we are already implementing now is preventing the call. So proactively doing mass market communication in case of a disruption.

Reinout van Ierschot: Vikram?

Vikram Karnany (JP Morgan): Thanks. So my question is on the market structure. So trying to understand the consumer market dynamic, both in mobile and fixed line. So when I look at the mobile market dynamic, the market structure kind of looks a bit more rational, at least in terms of market share. Pricing is low. So would you say in terms of your target that you have set out, the confidence is higher probably on the mobile growth outlook and potential for up selling over there versus fixed line, where there is still a bit more tension in terms of how much T-Mobile wants to gain in the market share over there and do want to kind of come into the wrong side of regulators by coming out with bold price increases? So could you kind of just talk about the mix of those two markets?

Marieke Snoep: So indeed, the mobile market seems more rational where the MNOs go for unlimited and Odido is even introducing speed tiering now. We see a huge uptake in unlimited with KPN as well. On the KPN side, we'll make it worthwhile to put all the SIMs in the household with KPN, so through MB sharing. We see that the bulk of the market growth goes to the no-frills and we also have a clear no-frills strategy. And hopefully, at some point, ACM also approve on our Youfone acquisition on that.

On fixed, indeed, we see throughout Europe, fiber is superior to cable. So you see that there is some suffering at our colleagues at Ziggo from going to fiber. I think they have to rethink their value for money. But I do also expect – what you see is that we are able to deliver best on fixed. And I came from one of the competitors.

And with – you can't sort of 140 years of history in fixed, is very hard to copy, on service excellence, on actual internet experience because the customer experiences Wi-Fi or the entertainment they consume. So I'm very confident that we can deliver that value for money. And I see that with the rebranding of Odido, they do give a new feel. You can even hear their Board saying that it was very hard to get the recognition on fiber being called T-Mobile. But let's see how they make it happen.

I think if you want to get some more details there, ask about their call capacity on fiber and see how happy their customers are. For now, we have the highest ranking NPS. So let's continue my own game on that. Is that enough?

Reinout van Ierschot: Russell?

Russell Waller (New Street): Yeah, thank you. Yes, Russell from New Street again. I was just wondering if you could just talk about wage growth, please, for '24 and over the period to 2027. I mean, I guess there's a natural hedge. If inflation is higher than so is your CPI in the contracts. But I just want to check that that's the right way of thinking about it.

And then the second question is just I think ODF has announced plans to roll out in some of the big cities. Do you think that's – there's a credible chance that you're overbuilt in any of those areas? And is that a risk to wholesale revenue? And is that factored into your forecast? Thanks.

Joost Farwerck: On CLA, Hilde, you just started the discussions with the unions, right?

Hilde Garssen: Yes. Well, last year, we increased the wages with 6% on average in the – for our employees. Yeah, actually, we just started the negotiations with our unions this week. So it's actually too soon to give a number at the moment. But of course, we always look at the markets, and trends and also find the right balance of what is needed for our employees versus what we as a company think is the right thing to do.

Joost Farwerck: But you're right to say the hedging the system because we always refer to CPI, of course, when it comes to wages and also when it comes to price increases, especially on the consumer side, that's also the balance we seek also to explain why we increase prices to customers. So in a certain way, it's balanced out in our system. ODF?

Wouter Stammeijer: Yeah. I think that, indeed, if you see what I was discussing, right, some of the Altnets, we've first seen in the rural areas and now indeed in some of the bigger cities because we can't do everything at the same time. But I think we are determined on our plan to reach this 80%. And what we're seeing is that especially also in the big cities, we have a focus on homes connected next to homes passed.

We see that some of our competition is mainly focused on rolling out as fast as possible through the streets. We really see the benefit in connecting homes, apartments, buildings all at once. And as I said, that requires careful preparation by – The advance we have is that we have a certain level of penetration already. So you see that once we upgrade from copper to fiber, the average share we have, let's say, 35-40%. So you already have a lot of customers in those areas, and that helps in getting permits also from living corporations because you have investors in those buildings. So this is the real benefit of being an integrated operator, very strong ISP on one side and the network company on the other. And that's why we're so focused on this end-to-end fiber optimization, especially in the big cities to have this approach. And we also see that when there is overbuilt or there's someone else that has already fiber. And we roll out, typically we lose a bit of share but we're able to get it back once we have our own fiber in one or two years. We're back to the market share that we originally had.

So we're not really afraid of this overbuild, especially because it's mainly for the streets. And we're so much focused on connecting homes and customers. And that's the plan we have and execute on.

Chris Figee: Yeah. Maybe on the wholesale implications questions as Wouter said as well as I said, there's quite a cap, you got homes passed and homes passed. You cover the streets; you can pass a home when you can connect a home. So when your competitors focusing on covering the streets, that means the step from actually connecting almost quite a significant one in terms of cost both in terms of work.

So what we see today is that penetration level of homes connect is actually not that high, but far beyond ours. In the sense, it's not easy if you are on our network to connect your customers. So at this point, we don't see a major shift of wholesale customers being moved away. I think if anything, others on the network are focusing on trying to sell what is connected and trying to sell new customers first and don't really bother about migrating customers away also because the homes connect rates are way too low to put that strategy up at large.

And secondly, I think there's also a learning once you start touching a customer to move from one network to another, there's always the risk of churn. So the combination of low homes connect and the sensitivity of touching a customer makes that migration at this point is actually not visible at all.

Reinout van Ierschot: Any further questions in the audience?

Then I would like to wrap up here. The Q&A is concluded. For everyone on the webcast, thanks for joining us. And if there are any further questions, please contact the IR team. For everyone here, let's have a drink. Thank you very much.

[END OF TRANSCRIPT]