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TNET.BR - Full Year 2011 Telenet Group Holding NV Earnings Conference Call

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PRESENTATION

Operator

Good afternoon, ladies and gentlemen, and welcome to the FY 2011 Telenet Group Holding NV earnings conference call. The presentation will be followed by a question-and-answer session from the phone lines only. (Operator Instructions). Just to remind you that this conference call is being recorded.

I would now like to hand over to the chairperson, Vincent Bruyneel. Please go ahead with your meeting and I'll be standing by.

Vincent Bruyneel - *Telenet Group Holding NV - Head of IR*

Thank you. Ladies and gentlemen, a very good morning or afternoon to you and welcome to the investor and analyst call for the full year of 2011. My name is Vincent Bruyneel and I'm the Head of Investor Relations at Telenet.

I trust you all received our earnings release last night and were able to access the website to obtain our PowerPoint presentation that will be used for this conference call and to join the webcast.

Before we start, as usual, I'm obliged to advise you that certain statements in this conference call are forward-looking statements. These may include statements regarding the intent, belief or current expectations associated with the evolution of a number of variables that may influence the future growth of our business. For more details on these factors, we refer to the Safe Harbor disclaimer at the beginning of our presentation.

Let me now hand you over to Duco Sickinghe, our CEO, who will provide an overview of the full-year results. Renaat Berckmoes, our CFO, will provide you more details on the financials, and later on will come back on the outlook for the year. Afterwards, we'll all be pleased to receive questions.

Duco Sickinghe - *Telenet Group Holding NV - CEO*

Vincent, thank you very much. Good afternoon to everybody on this call. On page four, I'd like to start with comparing our latest outlook as per Q3 last year with the actual results.

As you can see, we succeeded in beating the revenue growth target by putting down 6% compared to 5.5% in the guidance. The EBITDA finished at about the same as we indicated, around 52.5% became 52.6%, and, similarly, for the CapEx, around 22% translated into 22.5% of revenue.

The bottom line of all of that is that the free cash flow that we thought would look at EUR240 million became EUR246 million as the actual result, which we think is very good for the overall year.

On page five, I can take you to our main drivers. Revenues are up year on year 6%, the adjusted EBITDA by 8%, the accrued capital expenditures are up by 9% when we include special items like the DTT license, the spectrum we acquired, and the Belgium soccer rights in 2011.

In the lower right hand, you can see that we have a slight decrease in year-on-year free cash flow as a result of the special items I just described, and, also, I should indicate the increased interest payments we have made on a larger (inaudible) debt.

On page six, I'd say a very important sheet because it summarizes a number of our main product developments and other innovations of last year that I think have been key and will be key for our revenue growth, going forward.

On Internet, we have put the benchmark at 100 megabits per second. We have provided several upgrades to our other Internet specifications (inaudible). We have shipped a new home gateway, including DOCSIS 3.0 and WiFi technology.

On digital TV, we introduced Sporting Telenet associated with the acquisition of the Belgian soccer rights. We activated the search and recommendation function of our set-top boxes and, not unimportantly, we also activated the PVR share function, which allows people to have recorded content of one set-top box to be shared with another, elsewhere in the home.

For fixed telephony, we made another step with FreePhone Mobile, which means that we now have three flat-fee rate plans, even including mobile so you can call whatever line, fixed or mobile, and still pay one fixed amount per month.

For mobile cell, we marketed last year the iPhone and, later on, the iPhone 4s. We introduced, also, next our subsidized offering, a mobile data and chip-only version and we also coupled our mobile smart phone together with the home phone and we're also building more than 0.5 million WiFi spots this year.

In the business area, we launched business and corporate fibernet on coax. Those are very successful products serving large and smaller customers alike in the B2B space and we decided to integrate all of our business-oriented divisions into one group called Telenet for Business.

On page seven, we get an indication of our operational performance. On the left hand side, you see that even though the number of calls increased by 7%, our RGUs at the same time increased by 14% and that translates, therefore, into number of calls per RGU to go down by 6%.

On the right hand side, you can see that we answer our Written Care, 80% in two days, 100% in five days. We answer our calls, on average, in 30 seconds. We answer, also, 90% of calls in less than 120 seconds.

For people who do not want to wait 15, 30 or 45 seconds, they can all benefit from our call-back option and will, then, be called back by Telenet at the time that is convenient to them.

We have also installed our (inaudible) called Smartspot, a video access point through which customers can enter the store and have access to the full scale of services that we provide at Telenet.

On the social media front, we've been very active. I think we have received a lot of praise for being a company that achieves -- that aims to be as transparent and forthcoming as possible, (inaudible).

On page nine, important progression and very well known statistics for our Company. We are now 64% to our installed base on multiple products, providing a very nice progression to triple-play customers, 9% up, and services per customer relationship is 5% up at almost 2 and, very important, ARPU per customer relationship is up to EUR3.3 and 9% and, as you'll see in a second as we turn to page 10 right now and you are looking at the middle-lower part of that sheet, you will see that only in Q4 year on year that take number increased by 10% and moved up EUR4.

You can see the lower left of that page that the triple-play customers increased by 9%. Actually, as you will later see, we continue to gain very solid new orders with regard to triple-play customers.

On page 11 you can get a fresh look at how the order rate platform compared to 2010 in 2011 and what you can take away from this picture is that people who order from a direct triple-play combinations have increased from 20% of all orders to 26% of all orders. And, of course, the growth drives home our focus on our shakes.

You see also bottom half triple play net additions, 15,000 in absolute terms. It may seem a bit modest, but, actually, if you take into account the overall slowing growth we have seen last year in the market, it is a very notable result.

On the right hand side, we have summarized, once again, for you our offering, which consists of HD digital TV with a base offer of 70 channels -- with HD for many of those channels -- FreePhone Europe, FreePhone Mobile and then, of course, our Internet variations, ranging from 20 to 100 megabits per second.

On page 12, you can see our progression in broadband. We are now over 1.3 million customers. On the right hand side, you can see that we have arrived at 75% penetration and, as I'll later explain to you, we believe there's significant growth remaining to exploit in the next few years and at the same time, you can see that the overall market grew 1% less at 7% instead of 8% last year.

Important to note in the text bullets at the lower end of that sheet that EuroDocsis 3.0 was now commercialized on a much larger scale in 2011 than we had before and that compared to neighboring countries we still have a lot of untapped growth.

Page 13 gives you a straight view on our net additions for Internet, 24,000, I think very good results, given the fact that the market was much slower in the previous quarters, so a nice finish of the year. The annualized churn reduced in Q4 after we took a little increase in Q3 due to the price increases then announced and 73% of all of our customers have now ordered speeds of 30 megabits per second or more. As important, Fibernet now already accounts for 20% of our installed base in less than one year after its launch.

Page 14 you can see that the average speed improved by 27% from 25 megabits per second to 32 megabits per second. This is something we believe very strongly in, not a few happy customers, but many, many customers of Telenet with very high speed rate and it makes using the net a very pleasant experience.

On the right hand side, you see a similar picture, but presented in different fashion. Here we took some data from the independent ISP Monitor, which monitors from all the local ISPs in Belgium their performance throughout the territory, and you can see that Telenet tops the bill for occupying four out of the five top spots and the other spot goes to our fellow cable operator [VOO A La Folie], underlining, once again, that the investment in cable over the last many years have clearly paid off.

Page 15 -- fixed telephony. We have reached 880,000 customers. Fixed telephony market as per Q3 last year is now more than 38% and this is sort of an evergreen product. We continue to see a very nice progression of fixed telephony. As I said before, the introduction of FreePhone Mobile as part of our flat-rate plan really will help, I think, drive this business in the coming months, as well.

Page 16 -- you get a snapshot of the net additions, 16,000, so a fairly stable level. The overall subscriber base went up by 8%. We saw a slight uptick on the right hand side in annualized churn, but if you were to turn back a few pages, you will see that corresponds to the churn when we recorded for Internet and I think that that is because more and more of our products are sold in a shake, in a package combination and, therefore, those churn rates should converge, over time.

On page 17 you can see that our mobile telephony subscribers over the last two years grew by 85%. Also very important, our ARPU grew by 58%. As many of you may remember, we started launching our mobile telephony plan with actually the usage or packages that were only based on usage and no fixed subscription. Over time, we have moved away from that and moved to subscription packages that are payable on a monthly basis, plus the usage component, of course, and that has allowed us to drive up the ARPU very nicely and provide a much more robust business to the basis to our customer base.

On page 18, we see here the actual results, 239,000 subscriber base. The net addition of 8,000. There is there an adjustment of 2,000 for the cleanup of inactive subscribers, but, in reality, we had 10,000 net adds, but if you were to net it for the cleanup, it is 8,000. I have said publicly that we haven't been very satisfied about our mobile performance over the last year and we believe that we're going to do a better job this year, going forward, given all the things that we have invested in and improved in terms of operations.

If you look at the right hand side, our overall fixed voice business grew by 3% and, thanks to the contribution of mobile, it has grown at 5%, which I think is a very nice evolution from a conventional point of view.

Page 19 -- basic cable, very good quarter. We managed to defend our customer base against very fierce competition from several players here in Belgium, and we ended the quarter with a (inaudible) loss of minus 16,000. We still enjoy one of the highest (inaudible) penetration levels for our basic cable TV services compared to other cable operators and we continue to anticipate the gradual decline of our total cable TV subscriber base because of competition (inaudible).

On page 20, you can see that we converted last year 19% of our remaining analog base, which is very much aligned with the guidance that we have given for the last years that we would convert every year about 20% of the remaining analog customers to digital.

Interestingly, maybe, on the lower half of that page that the PVR penetration in Flanders is now 50% higher than the United States. The video-on-demand revenue is two times than the UK household usage today and, very important, that local relevant content is all important because 19 out of the 20 top TV shows are locally produced and people, on average, watch 80% of content which is local.

And on the next page, 21, you get a straight view of the net additions for digital TV, 50,000, I think a very good result, very nice addition for the year. 64% now digital. Our installed base, I think, all in all, is a very good result and I should also not fail to mention the growing importance of Yelo, our multi-screen experience or, if you will, of the top application and that performance is very satisfactory results for our viewer base next to our set-top-driven TV business.

Page 22, the video on demand generated a record 68 million transactions for the year. The last quarter we reported the ever highest buy rate of 4.7 transactions per month.

If you take a step back, you would see that on a monthly basis about a little less than half our customer base will make use of the (inaudible) video-on-demand transaction, but if we measure that throughout the year, you would see that we now reach 80% of our unique customer base that will use, at least once a year, this feature.

Very good result, 30% growth and thanks to all broadcast partners and our own contribution in terms of movies that we were able to deliver this result.

If you look at page 23, an update of Sporting Telenet after the first strong increase in Q3, 51,000, we continued to grow this by 5,000 and, of course, we hope we will be able to grow this base this year again, as well.

We also launched day passes and we see a very nice growth in the uptake of day passes for soccer, so that's another added feature for our customer base for those people who don't choose to subscribe to the monthly package.

We have a high-definition box penetration of 73% and the PVR has now reached 82% for our installed base.

I'd like to take a sort of pause there, because very often we read in the press that PVR may lead to a different usage or a different viewing behavior. And when we look at the statistics, we see that despite the arrival of video on demand and the PVR, the linear number of minutes that is watched on a daily basis is stable and, in many cases, growing. On top of that, we have the video-on-demand usage, from which most broadcasters in a revenue-share fashion and people also, in addition to that, use the PVR.

I think so often in the media industry over the last decade we have seen that new services will typically add more business and not necessarily replace past business models.

Telenet for Business, page 24, a very good year, 7% growth, I think, is very good results in this sector. The Q4 results were a little down because that should be attributed because Q4 of 2010 we took in a very big order for security coming out of our then recently acquired C-CURE business and they got a big order in Q4 2010 that has a little negative effect in Q4, but on the right hand side, you can see for the full year it's a pretty impressive performance -- Internet up 4% compared to 1% for the market; voice only down 8% compared to 11%; data up 7%, 7 times better than the market; hosting 12%, whereas the market did 15%. So that's a little less. I think we should be able to do more. In the last half-year we have increasingly focused on our cloud services and we will rollout more services in that respect in the course of 2012.

Page 25 merely seeks to give you our view and tell you that, you know, at the level of transport connectivity, we have value-added services, we really have the full suite of services we can offer. Now we offer this in very small companies to very big companies. In the past we have discussed AXA as a big account where we provide connectivity services to 900 of their offices in Belgium and that has been a very big success. And we continue the take up at the high end of the market, as well as the low end.

If you look at page 26, a quick update on our most important CapEx project, that's the Pulsar project, which consists of node splitting and pushing more fiber forward into our network and taking our amplifiers and reducing the numbers of homes per node. As you can see on the next page, this project can be divided into four phases from design, physical switch, logical switch to the activation phase and we will do, this year, 60% more of those physical and logical switches compared to last year.

You've seen that in last year we built up a very nice [pending] supply of nodes that have been physically and logically switched and that will go into activation this year.

All of that adds up to the fact that by the end of this year, we expect to have covered half of all the nodes that we anticipated for the Pulsar project. We believe that the Pulsar project will have over 6,000 nodes at the end and half of those will be done by the end of this year.

So, I think that we'll see more activity there, but good progress and all of that should translate into good support for our Company.

On page 28, timing of wholesale of certain cable services. What can I report there? Next week, as scheduled, will be the pleadings in front of the Court of Appeals. We don't know, of course, when the Court of Appeals will issue its ruling, but that is anticipated in April, maybe late, of this year.

At the same time, we submitted our reference offer to the VRM and the [BIPT] and the [TSA] and they are reviewing that and we expect that to imminently publish that to the industry for further consultation. And that process is ongoing as we progress.

As you will later see, we have included some CapEx costs this year as we thought it would be prudent to incorporate that into our overall guidance (inaudible).

With that, I'd like to turn it over to Renaat.

Renaat Berckmoes - *Telenet Group Holding NV - CFO*

Thank you, Duco. Good morning and good afternoon to all of you.

Telenet can look back at solid financial results for both the fourth quarter and the full year of 2011. Our revenue for the full year increased by 6% year on year to EUR1.38 billion despite the EUR8 billion negative impact from the reporting change on certain premium telephony services as (inaudible) during several previous occasions.

More importantly, we have recorded a consistent improvement in our organic revenue growth rate throughout the year, reaching 8% in the fourth quarter. This improvement was driven by a high contribution from our pay-TV business, including the success of Sporting Telenet, higher stand-alone handset sales in the Christmas period and a positive impact from the selective price increases on certain broadband tiers and basic cable TV.

The next slide, 31, shows you the various revenue drivers in 2011 and for the fourth quarter they have basically remained the same as in the previous quarters. Our premium TV, cable TV, revenue grew 25% year on year, driven by increased video on demand and pay TV, including Sporting Telenet revenues, as well as set-top box rentals as a result of more RGUs.

Our residential telephony revenue increased by 9% or EUR23 million, mainly driven by our mobile business, which combines RGU and ARPU growth, as we have shifted our focus from -- sorry, to customers with a higher lifetime value.

Also, broadband and our B2B business contributed to our overall 6% revenue growth.

Moving over to our expenses now, excluding the EUR28.5 million DTT-related impairment, our expenses grew 7% year on year, predominantly because of higher depreciation and amortization charges as a result of the pro rata amortization of the acquired Belgian broadcasting rights -- Belgian football broadcasting rights. As a reminder, under IFRS, these rights have been capitalized and will be amortized on a pro rata basis as the season progresses.

Elsewhere, we incurred higher network operating and service costs, as you would expect, given the continued growth in our RGU base, a growing share of installed customers and handset costs. Yet, our network operating and service costs grew less than our overall revenue, as a result of an increase in operational leverage.

Our advertising, sales, and marketing expenses for the full year [lost] by an impressive 12% compared to 2011, driven by overall, a lower level of customer growth, but, more importantly, by a successful switch to lower-cost sales channels.

The 20th decrease in the fourth quarter was mainly the result of the fourth quarter last year carrying higher marketing expenses for the launch of our fibernet and Yelo marketing campaign.

This leads directly to adjusted EBITDA. In line with seasonal patterns in our business, Q4 typically is the weakest quarter in terms of margin constitution that you clearly see on the left hand chart. Yet, our adjusted EBITDA in the fourth quarter grew 12% year on year to EUR183 million, implying an underlying margin improvement of 140 basis points, despite a higher level of low-margin handset sales.

For the full year, we generated an EBITDA of EUR723 million, up 8% year on year. Despite faster growth in lower-margin activities such as digital TV and mobile, the adverse impact of the wage indexation and high football-related production and marketing expenses, we succeeded in expanding the underlying margin by just over a full percentage point to 52.6%.

On slide 34, we work our way further down the P&L and we see a 31% increase in our net interest expenses, which you can see in the yellow bars. This increase is the result of three elements, being an overall increase in our net debt by 17% year on year as a result of higher leverage and the capital reduction, higher (inaudible) as a result of our debt maturity expenses, and finally, the impact from the shift from floating to fixed rate debt following the various bond issuance we did over the past 12 months.

We also incurred a non-cash loss on our interest derivatives of just below EUR63 million for the full year, which reflects the lower mark-to-market valuation of these instruments following the strengthening of the interest rate curve, especially in the outer years.

And this brings me directly to net profit on page 35. Excluding the losses of our derivatives that I've just mentioned, the loss as the result of the early redemption of term loans -- of certain term loans in 2011, and the impairment of the DTT license, our net profit for the year amounted to EUR119 million, EUR17 million lower as compared to last year. This decline can be attributed to the higher depreciation and amortization charges, as mentioned earlier, plus the impact of our higher finance expenses.

On a reported basis, our net profit shows an 81% decrease year on year to EUR17 million.

Let's now turn over to the CapEx for a moment on page 36. The first point I want to make here is the success-based and scalable nature of our CapEx, as you can see in the left hand chart.

For the whole of 2011, around 71% of our investments were either driven by subscriber growth, including set-top boxes, DOCSIS 3.0 home gateways, and customer install costs, our network investments such as Pulsar and the node-splitting process. The remaining 29% represents maintenance CapEx, such as refurbishment and replacement of network equipment, broadcasting rights, and investments in our IT platform (inaudible).

Going forward, we will carefully manage our capital expenditure levels in order to make sure that they drive incremental returns to our business, as we've done before.

On the next slide, you can see a more detailed view of our CapEx spending for the year 2011. Both on a reported basis, which includes, as we have discussed during the Q3 call, the recognition for the Belgian football rights and the 3G mobile spectrum for an aggregate amount of EUR160 million and, on a normalized basis, excluding these one-off impacts. On a normalized basis, we spent EUR310 million of CapEx for the whole of 2011, equivalent to 22.5% of our revenue and in line with guidance in Q2.

As for the main deltas, you can see on the right hand side a clear increase in the yellow bars, which is our network-related CapEx, primarily on Pulsar, our node-splitting project, that Duco already alluded to, and the pink bar which relates to the success of our fibernet offers and the overall growth of our subscriber base.

On the next slide, you can see the translation of all this in our free cash flow. For the full year, we generated a free cash flow of EUR246 million, in line with our guidance of around or in excess of EUR240 million. Compared to [2011], our free cash flow showed a slight decrease of 4%, which can be explained by higher cash interest payments, the payments related to the DTT and mobile licenses, and the cash payment for the Belgian football rights.

In the fourth quarter, we generated EUR76 million of free cash flow, up 50% year on year, and propelled by a 12% growth in our adjusted EBITDA, lower cash capital expenditures, and a strong improvement in our working capital, which we expect to partially reverse in the first quarter of this year, 2012.

I would like to conclude my financial overview with a few words on our debt profile. The past 12 months we further optimized our debt maturity profile by further pushing out our maturities at benign market conditions. Hence, we do not face any amortizations before 2016 and we now have an average tenure of eight years, which is a very healthy profile, we believe.

Our leverage ratio came in at 3.2 times at the end of the year. This is slightly down as compared to the third quarter. Our leverage compares favorably to the our covenant at 6 times and remains at the low end of our leverage target, which ranges between 3.5 and 4.5 times EBITDA.

We believe that our leverage framework provides for an optimal balance between growth and shareholder returns, on the one hand, and attractive access to the capital markets on the other hand.

On my last slide, you can see our pro forma debt maturity profile at year end, including the recently announced issuance of the EUR175 million term loan (inaudible), which, in the meantime has been closed earlier today and had a very healthy takeup.

For 2012, our guidance, on which Duco will commence in a minute, assumes a EUR15 million increase in interest -- cash interest expenses because in 2012, we will pay a full-year interest on the recently acquired mobile license as compared to just one quarter in 2011, and the recently issued EUR175 million term loan.

To a minor extent, this increase will be offset by the interest income that we aim to generate on our outstanding cash balance prior to repayment of the shareholder disbursement.

With that, let me hand it back to Duco to comment on our full-year 2012 outlook and the proposed shareholder remuneration.

Duco Sickinghe - *Telenet Group Holding NV - CEO*

Renaat, thank you very much. I'd like to take you to page 42. On page 42, we have summarized for you, once again, what we believe to be the key drivers of our top-line growth.

The first factor continues to be the broadband penetration, which, as I said before, we believe can still (inaudible) from 75% to 80% go up to 95% as see in other European geographies. And on the right hand side, we believe there is continued potential to increase the 64% penetration of digital and [creep] on the 36% remaining analog subscriber base.

The lower left is sort of a new image to share with you and that is actually the number of SIM cards per unique cable customer and we have reached 11% there. We believe that as we start to drive more and more mobile, this should also give us another good layer of business cost.

On the lower right hand side, you see an overview of our (inaudible) coherent and cohesive B2B offering for small and very large businesses and I think that with that offering we should be very successful in this year.

Page 43, another view on our strategy, as we do talk a little bit more about mobile and WiFi and (inaudible) and other multiple services, it shouldn't be lost on your that we continue to focus very much on the network as a key base differentiator for the Company. The Pulsar project, of course, is a good witness of that.

And we will continue to invest in the network. We will upgrade it as needed to make sure that we keep a very competitive dimension in that space.

The service layer would allow us to differentiate our aggregator in terms of functions across our devices and the content we provide. We will, over time, go to a full IP layer as we do more and more on our network to provide more video-on-cloud services and, as I said before, we are very much focused on integrated B2B services in terms of (inaudible) security and smart metering.

The excellence -- nothing of the above will work unless we are capable of providing competitive (inaudible) commercial propositions, we have good customer care operations, and shops where people can easily find our products or otherwise (inaudible) and all of that should help improve customer retention for the year.

On page 44, I would like to give an overview across our product lines. You see a number of initiatives or, I'd say, aspects, where we put a lot of emphasis and that will give you an insight into where our priorities for this year.

On page 45, I'd like to present you our outlook and our shareholder remuneration shortly afterwards.

The coming year, 2012, will be another year of solid growth. We expect to deliver a 5% to 6% top-line growth, similar to last year, but which includes some caution as we are only at the beginning of the year and we see that the economic climate hasn't yet stabilized. Growth will be generated by more triple-play and more mobile and, of course, our digital migration, as I explained just before.

EBITDA just yield a stable margin, as further efficiency improvements in our fixed-line business will yield (inaudible) growth and lower-margin-generating products (inaudible).

CapEx is expected to come in between 22% and 23% of sales, which is a little higher than 2011. The key reasons are more set-top boxes as a result of the further push in the analog-to-digital TV migration increase and the Pulsar node-splitting projects, as I've highlighted before, as we approach a more labor-tense phase now and IT investments, which for the potential implementation of wholesale. This will only happen, however, if the court does not rule suspension in April.

It's also important to note that the cash CapEx is about 1 percentage point lower versus accrued because of the Interkabel lease agreement.

Our free cash flow generation is expected to be stable versus last year. Anticipated 5% to 6% growth in EBITDA will be offset by somewhat higher cash CapEx, EUR10 million more in payments for Belgian soccer, which is now accounted for a full year, and about EUR10 million more in cash interest expense. Nevertheless, I think our free cash flow will still yield more than 17% of revenues in 2012.

On the next sheet, number 46, you can see a breakdown of our anticipated CapEx for the year. Almost 70% will still be related to subscriber growth of network upgrades, which both support our long-term top-line evolution and confirms our position as the leading ISP operator in Flanders in terms of product and service.

40% of the CapEx has a one-on-one link to subscriber growth and could vary, depending on our success. Another 30% is reserved for the network upgrade (inaudible) more fiber and (inaudible) Pulsar, which will be executed in a more efficient way, allowing us to speed up the physical switches in 2012.

On top, we will also start the node split in the Interkabel area this year. This year, we also reserve CapEx for the preparation of a wholesale offer, if the case is not suspended.

The remaining part represents content rights, IT enhancement, and various equipment replacement.

Shareholder return spending -- before jumping -- on page 47, I am now -- into the payouts for this year, I'd like to remind you of our shareholder return policy which we introduced two years ago.

We aim at maintaining a leverage ratio between 3.5 to 4.5 times EBITDA, which is prudent considering our subscription-based business model. In the absence of (inaudible) acquisitions, excess cash will be returned to our shareholders. On a long-term basis, this implies that we will return at least our free cash flow and on top of the difference in leverage to reach approximately 3.5 times. The combination thereof will allow for a sustainable, solid level of shareholder return.

Page 48 -- looking into the details of 2012, the Board has approved to make approximately EUR533 million available for shareholder return, which is 5% more than last year's (inaudible). As we believe that a payout (inaudible) over the year will increasingly support our (inaudible) story, rather than a high single payout, we are a proposing a capital reduce of EUR3.25 early December and an earlier payment of EUR1 dividend in May.

Both will have to be approved by the AGM in April and the capital reduction will have to follow a certain procedure, as was the case in the past.

On top of that, the Board has also authorized a share buyback of EUR50 million, representing EUR0.45 per share, which starts today until the end of the year. Based on today's share price, the total return represents a yield of 60% or more.

To conclude this presentation on page 49, on the back of our growth prospects and leverage policy, we believe that our Company, Telenet, is really well positioned to deliver strong shareholder value in the future, as outlined on this slide. The combination of growing customer value, driven by more upsell to triple play, selective investments in long-term growth, a strong focus on our customer simplicity, and a total financing and shareholder return (inaudible) will continue to support our long-term equity story.

With that, I would like to hand over to the operator for Q&A.

QUESTIONS AND ANSWERS

Operator

Thank you. (Operator Instructions). The first question comes from the line of Dimitri Kallianiotis. Please go ahead with your question.

Dimitri Kallianiotis - *Citi - Analyst*

Hello, it's Dimitri from Citi. I have two questions, please.

The first one is on mobile. I just wanted -- I know you are still currently negotiating about your extension of your MVNO, but I just wanted to ask you if you could give us, maybe, a little bit more indication in terms of the extra CapEx that you will need to spend, now you acquired some mobile spectrum and if that CapEx is already included in the guidance and in terms of what it means for your mobile business, going forward? Shall we expect a big -- a much bigger push this year and, therefore, much higher net adds or is it just going to be business as usual with just, maybe, slightly lower tariffs?

Then my second question is on Sporting Telenet. I mean, from the slides you mentioned that you had 16,000 net adds this year, sorry in 2011. What's your kind of expectation for 2012? Do you expect -- is it fair to say that most of the people who wanted to move to watch domestic football have already moved to your -- to Telenet, or do you expect a lot more people to come in, once you're able to broadcast all the football games? Thank you.

Vincent Bruyneel - *Telenet Group Holding NV - Head of IR*

Hi, Dimitri. Vincent here. In terms of mobile, it's indeed sort of the, let's say, approaching now the final phase of the negotiations with the MNOs in Belgium. So, we're looking to see some improvement there of the MVNO terms and also to look into how we can cooperate more on spectrum.

At this point in time, there is nothing foreseen in the guidance in terms of CapEx for spectrum, but we also do not anticipate spending anything on, let's say, the spectrum rollout, because we're going to look for capital efficient ways to operate that. So, it should be limited anyway, but all 2012 we don't expect to spend anything, so it's more going to be 2013 and '14, onwards. But, again, as we said, in a very limited fashion.

With regards to Sporting Telenet, well, of course, we have -- we believe that the majority of the own customers have now, let's say, joined or, let's say, have subscribed to Sporting Telenet in the third quarter. The customers that we acquired in Q4 were predominantly customers coming from competition and we expect that we will even further increase the customers base for Telenet Sporting in the course of 2012 as we will add on, also, the third lot, so the remaining five matches, which are currently still only viewable at Belgacom, and we will welcome them, also, on our platform as of next season.

So we believe this will also generate an additional push in terms of subscriber update.

Dimitri Kallianiotis - *Citi - Analyst*

Thank you. That's very clear.

Operator

And the next question comes from the line of Emmanuel Carlier. Please go ahead with your question.

Emmanuel Carlier - *ING Financial Markets - Analyst*

Yes, hi. Emmanuel Carlier from ING. I have two questions.

The first one is related to the shareholder distribution policy. So, you have indicated many times that you target a net financial debt over EBITDA ratio between 3.5 and 4.5 times. But if I would include the current shareholder distribution for the next five years, then the net financial debt over EBITDA ratio would amount, according to my estimate, to around 4 times. So, this is still quite well in the range.

But if I look at the consensus estimates, post-2013, the analysts are really expecting a big cut in the shareholder distribution. So, could you provide, maybe, a little bit more guidance on your anticipated shareholder distribution in the longer term?

So, that's one. And then the second question is on the margins. So, I remember from previous conference calls that you expected that there was further upside on the margins. But if I look at the guidance, then I see that you expect a stable margin. Of course, I know that the main top-line growth will come from lower-margin activities, but could you maybe give a little bit more feedback why you expect that margins can no longer grow and if this is just something that you expect in the short term, but that you believe there's more upside in the longer term? Thank you.

Renaat Berckmoes - *Telenet Group Holding NV - CFO*

I'll start with the distribution question. I think when we talked to the market, historically, we were always referring to a three-year potential payout of EUR1.5 billion. So, including this announcement, we have made, then, two-thirds of it and still EUR0.5 billion to come in 2013.

We have no -- made no specific guidance between that, because we don't have a distribution or a dividend policy, as such, but we have a combination of cash flow and levered payout of mobile, which we keep on enhancing.

Why most analysts in their reports are, I think, less positive on the future payouts has mainly to do with their appreciation of the tax situation. And as we have explicitly stated, also, I think, in the earnings release, you should not expect us to pay any tax before 2016, which in the end means that there will be more potential for payouts going forward, also beyond 2013. I think that explains why there is a difference in what you have in your calculations and the analyst consensus.

That being said, I think it's bit premature to make any statements on future payouts, but you can assure if you just apply the methodology of the leverage, that we will continue to return quite substantial amounts to our shareholders, also, going forward.

With respect to the margins, at least I hope you will appreciate that at the beginning of the year it's bit premature to make very bold statements on margins. I think the fact that we hint on stable margins means that the growth, which will be in lower margin areas, DTV and mobile, will continue to be offset, that margin dilution from the growth, will be continuously offset by further scale and operational efficiency improvements so that we can, at least, guide you to a stable margin.

Of course, if we can exceed this guidance and results represents better the areas, going forward, during the year, we will definitely not hesitate doing so. So, I think for the start of the year, tending to stable margins in a generally quite depressing economic circumstance, if you look all around you, is, I think, quite astounding success.

Emmanuel Carlier - *ING Financial Markets - Analyst*

And in the longer term, do you still see some upside on the margins?

Renaat Berckmoes - *Telenet Group Holding NV - CFO*

I still see improvements in our fixed line business and improved efficiency realization in the way we do our business and thus, combining these efficiency improvements with a better service to our customers, absolutely. But at the same time, I also see that a large part of our growth is coming from lower-margin business and one will at least offset the other.

Emmanuel Carlier - *ING Financial Markets - Analyst*

Okay, thank you.

Operator

The next question comes from the line of Nicolas Cote-Colisson. Please go ahead with your question.

Nicolas Cote-Colisson - *HSBC Global Research - Analyst*

Hello. Thank you. Hi. I have two questions on M&A.

On Mobile, if you can't reach an agreement with MNOs can M&A be a possible route?

And my second question, I was just wondering what is currently missing to get the consolidation in the Belgian cable market?

Renaat Berckmoes - *Telenet Group Holding NV - CFO*

I'll start with the easy question. That's the easy one, the one about consolidation within the Belgian cable market. Well, it's like dancing. It needs two to tango.

I think, first of all, the Walloon cable group is not for sale. So, that makes consolidation a bit tougher.

Secondly, we have -- we had a look at (inaudible) a year ago and we decided not to buy it at the price it was offered us. So, clearly, if we see room for network expansion and in-country cable consolidation we will go for it, but at least we still rational in the acquisition targets we have.

In terms of mobile, I think we have opted for MVNO strategy. We are very well progressed in the discussions we have, as Vincent already explained to you earlier, with the negotiations with both parties we were talking to. So, before we talk about M&A, let's first concentrate on what we do now, that is, finalize our MVNO discussions. And we will roll out new products and new service.

Nicolas Cote-Colisson - *HSBC Global Research - Analyst*

(Inaudible).

Renaat Berckmoes - *Telenet Group Holding NV - CFO*

(Inaudible) so we are independent. We don't to do any M&A on the mobile side.

Nicolas Cote-Colisson - *HSBC Global Research - Analyst*

I see. Thank you very much.

Operator

The next question comes from the of Nico Melsens. Please go ahead with your question.

Nico Melsens - *KBC Securities - Analyst*

Hi. Good afternoon, everybody. Nico Melsens here with KBC Securities in Brussels. I've got three questions, please.

First of all, Duco, during your prepared remarks you talked about not being happy with the mobile performance. Could you also talk a bit about where you are in terms of profitability of that business versus where you would like to be, over time? And suppose that going forward you do notice that you do not achieve those targets, what alternative options would you consider for that business?

The second thing, coming back on the tax question, could you give us an update on what reported tax charges you would expect in 2012? And Renaat talked about not paying cash taxes before 2016. Is that 100% sure right now? I think in the past you always indicated no cash taxes before 2014, so that has definitely changed, apparently.

And then finally, in the beginning of the year the VAT on digital TV has increased. Could you just give an indication as to whether or not that has had any impact on your digital TV conversion rate? Thank you.

Duco Sickinghe - *Telenet Group Holding NV - CEO*

Nico, Duco here. Good afternoon.

On mobile, I think if you look at the numbers, we didn't think that those were numbers to write home about in a big way. Eventually, they will start to contribute very nicely to Telenet through the top line. Even the bottom line starts to really improve.

So eventually, I think we'll be very happy with the mobile contribution. But that was mostly because the ARPU per customer improves (inaudible) as (inaudible) just start to pick up in volume there. But it takes a while before you move everybody to the full MVNO platform because, as you know, Nico, we used to be on the (inaudible) platform.

We migrated last year all of our customers to our own full MVNO platform. We have our own (inaudible), which that involves a lot of work and, I would say, hard work, and we got it behind. So, I'm very happy that we got it executed the way we said we would, but, again, this year I think there is room for improvement. Whether that will happen depends on our competitive environment, (inaudible) environment that other people do.

But those of you who are in Belgium, we launched today a brand new tariff plan to (inaudible) that (inaudible) provided. So, I think we have a real mobile product, including a lot of (inaudible). I think the commercial radio itself, is also a very innovative device and that sort of shows the new style (inaudible) marketing. So, that is how I would paraphrase our mobile evolution from 2011 to 2012.

The VAT increase has, so far, not had a very significant impact, if any at all.

And I'll turn to Renaat for the tax questions.

Renaat Berckmoes - *Telenet Group Holding NV - CFO*

We -- when we referred to not paying taxes in 2016, it means that we will be in a tax paying position on the fiscal year 2014. But due to the delay between reporting the tax on the net profit and actually paying the tax there is a time gap of around two years. That's why we now are pretty sure, unless we would dramatically outperform versus our own internal expectations, that we will not pay corporate taxes in 2016 -- before 2016.

Nico Melsens - *KBC Securities - Analyst*

Okay. In terms of reported tax charges in 2012 P&L?

Renaat Berckmoes - *Telenet Group Holding NV - CFO*

In all fairness, I will have to come back on that question, because this is mainly an accounting reference that we don't actively measure, so I would expect it to be a bit higher than in 2011, but if you don't mind, I will come back on the question at a separate location, because I don't have the answer.

Nico Melsens - *KBC Securities - Analyst*

Sure. No problem. Thank you.

Operator

The next question comes from the line of Stefaan Genoe. Please go ahead with your question.

Stefaan Genoe - *Petercam - Analyst*

Yes, good afternoon. Stefaan Genoe, Petercam. I have got, basically two questions.

First on the potential wholesale offer that is coming up this year, if you wouldn't get suspension of it in April, would you become more aggressive in activating the analog or switching the analog TV customer base to the triple-play or multiple-play offers? Because it -- before, I would say, an alternative operating comes on your platform? And can we, then, see additional initiatives on top of the free installation seen today?

And then secondly, on the video-on-demand transactions, have you seen the same increase or trend in the first quarter of this year, in the first months of this year? And then, related to that, can you give us a bit of more color on the financials of the video-on-demand transactions? Which percentage is paying, which is free, et cetera? Thank you.

Vincent Bruyneel - *Telenet Group Holding NV - Head of IR*

Stefaan, the wholesale offer -- well, an acceleration of DTV, I think, is going to be part of the natural evolution as we indicated. Of course, we are working constantly on migrating the annual analog customers to DTV, so we're testing a couple of things. But, of course, it's in light of commercial activities we cannot comment further on how precise or what the TV additional target is going to be, in case the regulator would -- or, let's say, the course case would turn out negative.

But I think we're just executing our plans to migrate customers from analog to digital as part of the overall strategy and not, let's say, directly linked to how the regulator or the court is deciding in this case here.

The VOD transactions, of course, if you look at the first weeks of 2011, you always have to take into account some seasonality, because typically in Q4 you have the Christmas season and Christmas holidays where people are spending more time at home and watching more movies. But if we look at the year-on-year comparisons for the month of January, we see that the same trend is, indeed, continuing.

On the financials or, let's say, the split between paying and non-paying there, we cannot disclose these numbers. The only thing we can say is that we're working, let's say, with both the movie studios and also the local broadcasters. We have a revenue share model in place there, but the real split between those elements is something that we can't disclose at this point in time.

Renaat Berckmoes - *Telenet Group Holding NV - CFO*

Nico, maybe to come back on your earlier question on deferred taxes in 2012, you should expect between EUR70 and EUR75 million of deferred taxes for the year. It depends a bit on the interest evolution and the impact on our actual cost of (inaudible), because those deferred taxes are, of course, calculated on Belgian GAAP, non-consolidated statements.

Operator

The next question comes from the line of Peter Testa. Please go ahead with your question.

Peter Testa - *One Investments - Analyst*

Yes, thank you very much. There's two questions.

Just following on from the tax question, I was wondering if you could give a sense on what you think the cash tax rate would be in 2014 and whether that situation is now relatively fixed or whether there are other avenues still being pursued on that?

And the second was on the CapEx and the comment on making sure CapEx drives incremental returns. Associated with the significant investment in Pulsar, I was wondering if you could help us understand a bit on how you think about the incremental returns that will be driven from the CapEx program? Thank you.

Renaat Berckmoes - *Telenet Group Holding NV - CFO*

On the cash taxes in 2014, I hope you appreciate that it's a bit early days to give you a precise estimate of how much we expect to pay in 2016 based on the fiscal year 2014. But it's not going to be tens of millions of euros. It's going to be still relatively low, because we will have part of our tax shield intact in 2014. So, it's not going to be the full year impact.

In terms of the CapEx and the profitability or the return on the network investments, the problem with selling more and more bundles is, actually, the individual product ARPUs become less meaningful and, of course, the most immediate effect of the return on the network investments is the migration of our customers from the old DOCSIS 2 legacy product to the higher-end DOCSIS 3 products, for which they pay, actually, a higher subscription fee.

But due to the fact that at the same time a lot of those customers move from a dual or a single-play product to a triple-pay product, part of that ARPU uplift is not visible in the broadband ARPU, as such, but you can clearly see it in the quite healthy ARPU per unit subscriber growth that will show in our results.

That being said, the investment is, of course, not only for the current customer base as we have it today, but as Duco also alluded earlier during his presentation on future sources of revenue growth, it's clear as we move further away from the condition usage of Internet or fixed Internet usage into a combination of wireless, mobile, and fixed Internet usage at the same time over multiple devices on one and the same time, you don't need only to make sure you have the broadband product, but also the additional ARPU we generate or will generate on future products like Yelo and House Yelo over that same network.

So, just looking at the ARPU of broadband, in itself, is a bit misleading because of the bundles. But next to that, you will also have a whole series of future products, which will piggyback on the network investment that we are making here.

Peter Testa - *One Investments - Analyst*

Okay. I mean, obviously, Pulsar's going to give you some opportunities to do that which the existing network does not and, as you say, it's across a broad range of the business, but when you say you're looking at the incremental CapEx to make sure it drives incremental returns across the business, do you have any -- can you give some sort of sense as to what sort of returns you regard as threshold returns to keep acceleration CapEx versus slowing down or any other way to help us understand that statement eventually?

Renaat Berckmoes - *Telenet Group Holding NV - CFO*

First, you should assume that I can, but not that I will. This is the kind of information that we've never disclosed before and (inaudible) --

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Peter Testa - *One Investments - Analyst*

Yes, okay, thanks.

Operator

The next question comes from the line of Usman Ghazi. Please go ahead with your question.

Usman Ghazi - *Berenberg Bank - Analyst*

Good afternoon, guys. Thank you for taking my questions.

Sorry, just to come back on the tax situation again, I just wanted to understand. In the first half of 2011, the gross tax losses disclosed were right around EUR168 million. So, on that -- on your current P&L tax run rate, you would have run out of losses by, I don't know, 2012, early 2013, which meant that you would have had to make cash tax payments in 2014. So, if this -- the new guidance, does that mean that there have been more tax losses that have been approved by your discussions with the tax authorities? Or has something changed on that front? That was the first question.

The second question, I guess, is related. I mean, is it fair to assume that the dividend per share can be maintained, if you wish, at around EUR4 up to 2015, based on the new tax situation?

And then I had two more questions. The third one was if I look at your revenue, organic revenue growth, it was around 8.4% in the fourth quarter. But then if I strip out the revenues -- the doubling of revenues that you saw in kind of activation/installation fees and then the distribution revenue increase that you saw, your organic revenue growth then drops from around 8.4% to around 5%. So, I guess the question was, what is the reason that you saw such a big increase in the activation/installation revenues and is that sustainable in 2012?

And then the final question, sorry for being pedantic, but on the advertising and promotional spend is down 20% in the fourth quarter. I mean, how would you answer to critics saying that your subscriber growth may suffer because your advertising and promotional spend just keeps going down over the last couple of years? Thanks.

Renaat Berckmoes - *Telenet Group Holding NV - CFO*

To start with the first one, which I think was about tax and the number of tax loss carryforwards we report is the effectively usable number of NOLs. It's not the total number of NOLs that we have. And, of course, if we can activate in an efficient way more tax loss carryforwards, that number is increasing, because it's only a portion of the total tax loss carryforwards that we have within the Group.

So, the result of the expenses in 2016 is just that we have, in the meantime, also, been able to activate a higher number of NOLs. So, that's explaining why 2014 has now become 2016.

Secondly, in terms of the install revenues I have no idea where you got the install revenues from. But at least the numbers that you've mentioned are not correct and we've never made any specific explanation on installed revenues at first, so I'm afraid we cannot comment on that.

Usman Ghazi - *Berenberg Bank - Analyst*

Sorry, I did --

Renaat Berckmoes - *Telenet Group Holding NV - CFO*

On advertising and marketing expenses, first of all, we launched in Q4 Yelo and we also had the iPhone launch from Apple. So, we made a lot of publicity which was not, in the case, which we didn't this year. But over the four quarters, in terms of advertising, the most expensive quarter of the year in terms of price per minute, so that's also explaining why the effect in Q4 was quite substantial.

How do we manage to continuously manage our marketing expenses, not necessarily down, but at least keep them flat or gradually reduce them is actually by getting more sophisticated in using other approaches than above-the-line marketing. So I think we've moved, in general, from the era of carpet-bombing customers with above-the-line radio and TV advertisement into a more sophisticated way of approaching customers by using CRM applications and the like, which, in total, reduce your marketing expense, but not necessarily the marketing reach of your campaign.

And finally, we've also made a big effort in pushing cheaper sales channels, which also reflects the same lines. It's a lower sales commission because we sell a lot more over our online platforms then we historically did. And our online platforms, together with our customer care center, are the two most important sales channels we have today and there, of course, is cheaper than the dealer network or the (inaudible).

Usman Ghazi - *Berenberg Bank - Analyst*

Okay. Sorry, just to come back on the activation/installation revenue, the way I get to that number is, I mean, you disclose your ARPU per subscriber number, which is representative of recurring cable revenues. So, again, if I multiply that by your average subscribers, I get to a number that's different from your reported cable revenues and the difference is, effectively, whatever is the non-recurring cable element.

And that non-recurring cable revenue element is small. It's under EUR20 million, but it's up double digit based on your reported numbers and ARPU per subscriber.

Vincent Bruyneel - *Telenet Group Holding NV - Head of IR*

I would like to come back on this, because, let's see, the ARPU that we are reporting is excluding, for example, the carriage fees. It's excluding the set-top boxes. It's including into the net revenue, installation fees, activation fees, mobile telephony revenue, and set-top box sales. So, I think it's going to be very difficult to, let's say, to pinpoint what is really now the number on activation and installation fees.

Usman Ghazi - *Berenberg Bank - Analyst*

Sure. I can follow that up with you, Vincent. That's fine. And, sorry, just one last or a follow up.

On the dividend per share, I mean, is it your intention to maintain a stable payout for as long as you can or is the payout going to be volatile? That's just an indirect way of me asking is the dividend going to be EUR4 for the next few years, which I think, obviously, is a question that investors are keen to have answered?

Renaat Berckmoes - *Telenet Group Holding NV - CFO*

I'll say this once more. Our payout strategy is not a dividend policy and it's a combination of the payout of the free cash flow we generate and the increase or the stable leverage we put on the increased EBITDA. So, in other words, is it going to be EUR4, EUR4.35, EUR4.5, I don't know today. The only thing I can tell you and that's what we pledge to you is the figures will be generated on top with a leverage which is at least in the time 3.5 to 4.5 times range. That's what we will continue to return to our shareholders.

And the only negative impact on that number or what can reduce the free cash flow is to continue to assume that we keep our margins stable and we grow our EBITDA with the impact of tax. That's the only caveat and I think it's too early days to speculate on what the impact of tax is going to be in 2014 and beyond. But we will definitely come back on that question at a later occasion.

But we remain determined, as we said before, and nothing has changed on that side. We will continue every year to do small debt operations to continue to keep our leverage close to that 3.5 to 4.5 times range, at the same time we keep our firepower dry, so to speak, to do an M&A transaction, should that be appropriate, and at the same time we will pay out, every year, the free cash flow we generate.

And we want to do this by going into the market quite proactively, as we've done now. We don't need the EUR175 million of new debt. We could have done this without any new issuance. We had EUR360 million at year end on the balance sheet. We will generate sufficient new cash flow to pay out EUR530 million, as we've done now.

So, by doing the EUR175 million deal at quite attractive terms, we already made sure that for next year we don't have to come out to the financial markets to pay out if need to be. So, and that's the behavior you should expect us to continue, going forward.

Usman Ghazi - *Berenberg Bank - Analyst*

Okay. Thank you very much.

Operator

The next question comes from the line of Siddy Jobe. Please go ahead with your question.

Siddy Jobe - *Bank Degroof - Analyst*

Good afternoon. Siddy Jobe, Bank Degroof.

I appreciate that you're already more forthcoming about your mobile strategy plan in this call, but I just wanted to make sure how we should think about Telenet Mobile. Are you -- will you become an MVNO or will you stay an MVNO or will you become a mobile network operator?

It is especially important for me with respect to the upcoming auction in 2013, 4,800 megahertz spectrum. So, as an MVNO, I don't think you need to invest in this spectrum. As a mobile network operator, I think you will need to do so. So, that is the first one.

And then, on your sales growth target relating to the fourth quarter stand-alone iPhone sales, I was wondering, given the overall market growth devices, whether stand-alone sales will represent a bigger portion of the sales in 2012? And knowing that those devices have lower margins.

And then, a third question, Mobistar, in its full-year '12 outlook, pointed to the upcoming changing telecom law as a main reason why they think competition on the mobile side will increase. But, as you know, this telecom law also applies to fixed telecommunications services. So I was wondering whether Telenet has the same fears that that market will get more competitive or whether Telenet is seeing this different?

And then, a final question, on the broadband market overall, if we look back two or three years ago, this market was still growing with double-digit sales, double-digit numbers while I guess in 2011 -- and we don't have the Belgacom figures yet -- but I guess we are rather towards low single digit. So, I was wondering, could you give us some color on how you see this market evolving in the coming two years?

Duco Sickinghe - *Telenet Group Holding NV - CEO*

Duco, here. I'm not sure I follow all of your reasoning.

We have today acquired spectrum in the 2,100 with the mobile spectrum in the 1,800 (inaudible) megahertz bandwidth. That will, essentially, allow us to roll out very broad 3G or 4G services. If Telenet chooses to roll out its own network, it has the spectrum to do so.

So, I don't concur with your statement that if we want to be our own MNO, we would need spectrum, because I think the opposite. We have very nice spectrum. The 1,800 and the (inaudible) spectrum is very well suited to these 4G services.

Our strategy is that our first priority is to complete MVNO discussions that are underway and that we will focus in those MVNO conversations on options so we can, if we like, roll out our own network and to connect our MVNO agreements with our spectrum presence. Having said that, we have also made it very clear that rolling out our own spectrum would not involve building a network from A to Z, but rather do a cooperative agreement with a current MNO.

As far as current MNOs, they would not be too motivated to help us, I think the regulated (inaudible) has started to become sensitive if not clearly awake, but if they do not support together with the Minister of Telecom (inaudible) to help operators like us to gain access to sites in order to do site sharing and in order (inaudible). And it's very unlikely we can get that, because otherwise from a (inaudible) point of view, it's not going to work.

So, we think that the government and the regulator have every incentive to lower the barrier to entry for companies (inaudible) or cable operators and ourselves.

For the 2013 spectrum, we haven't decided our position, but I have said before we clearly believe (inaudible) spectrum is sufficient to execute our long-term plans as we see them today.

Then you said something about the iPhone stand-alone sales in Q4 and 2012. If you don't mind, I'm not going to give any guidance to that. That would really become a micro-level conversation. We do sell some iPhones separate from subscription, but that is, in the scheme of things at Telenet, not a very major influence, just a very minor factor in the (inaudible).

We are less intrigued by the telecom law than Mobistar for the reasons they have stated. Maybe they a bigger basis for risk when the termination for consumers is brought back to six months. That maybe an issue on their side. It's clearly not as much an issue on our side today because we have a smaller installed base.

There are other issues in the telcom law that we are focused on and that is, for example, the social tariff. We think that the social tariffs today is something that's driven by Belgacom historically and Belgacom has argued that they may go up and we clearly would love to take over the customers over from Belgacom because we believe that they make a profit on that and if they don't, we will make a profit on that (inaudible) at a reasonable price.

So, there is a discussion going on that mobile operators should subsidize Belgacom with a combination social tariff and related to that universal (inaudible) and that's where we are committed (inaudible) I think is a completely different aspect of that telecoms law than Mobistar has put forward (inaudible).

On the Internet growth, I have a clear view of that, at least what we think it's going to be, and I think we have been as explicit as possible on this call. We have noted that the current penetration is anywhere between 75% and 80% for Belgium. It depends a little bit where you look, at what part of Belgium.

And we think that there is substantial growth for another 15% to 18% next year -- actually, (inaudible) over the next three years, we would get about 6%. In our presentation, we have noted that it would be an additional quarter of a million customers by 2015 for Telenet if we were to have a stable market share.

I think in our presentation, you should find (inaudible) what it means for Telenet. What it means for the total market is maybe a bit harder. But I'd be a less negative than you are in your question.

Siddy Jobe - *Bank Degroof - Analyst*

Okay. Anyway, thanks for providing me good answers. Thank you.

Operator

The next question comes from the line of Will Milner. Please go ahead with your question.

Will Milner - *Arete Research - Analyst*

Thank you. A couple of questions.

Firstly, just building, really, on the last question, just clarifying it, what are the rollout obligations attached to the spectrum that you currently own? I mean, clearly, as you say, hoping to get some sort of provision for site sharing, but I just wonder what the rollout obligations are that you need to fulfill.

And the second question is on the EUR90 million, near EUR90 million, investment in football rights, I wonder if you can just give us some steer as to what sort of return on that investment you're hoping to make, having seen the results so far and just what the key drivers of that are, if it's Sporting Telenet signups, if it's lower churn, faster double- or triple-play conversion? I wonder if you can just talk through the return on that investment and how it builds? Thanks a lot.

Vincent Bruyneel - *Telenet Group Holding NV - Head of IR*

On the first question on the buildout requirements, we have to achieve an operational coverage of 30% in three years from now, 40% in four years and then 50% in five years from now. So, that's, basically -- that's, let's say, the difference that we have in the previous type of spectrum is that we only need to cover for population and not, let's say, site coverage. So, that's a caveat on what we have in the new deal.

Duco Sickinghe - *Telenet Group Holding NV - CEO*

On the -- you asked a very broad question, which is kind of hard to summarize in two minutes, because it's about the whole business of Telenet you referred to.

But we believe the triple-play business is the cornerstone of our policy and that, I think, is (inaudible) execution of the management of the business. Not everybody who buys triple play or digital TV is interested in premium sports or movie rights. In fact, the majority is not, however, we have seen (inaudible) in the market that increasing (inaudible) and sports price and, as a result, we have invested in that quite substantially.

And I think that we can say when we look back at the takeup of the Sporting Telenet, which is now at 177,000, that is historically, for our Company, if I look all the way back since we acquired Canal Plus, is an extremely nice number. But it's not -- it's still less than 20% of our digital TV customer base.

Having said that, though, (inaudible) all of a sudden that becomes a very interesting business. How much that drives our triple-play (inaudible) we haven't made any public statement. But it's clear that premiums, video-on-demand, movies, and sport business is an interesting part of our business, and that customer service, customer demand in certain segments, and that helps our overall (inaudible).

So, I also think that if you look at, we have taken on a number of new projects as a company and that we (inaudible) the last few years when it comes to managing the cash flow. And when we stated today that last year our free cash flow is now better than our guidance and this year we expect a stable cash flow, you have to take into account the increase in (inaudible) payments. You have to take into account that we pay a big fee, a significant amount on the spectrum and the soccer rights.

Despite those incremental initiatives, many of which still have to pan out in terms of top-line growth and EBITDA, we have laid the foundation for future financial returns in terms of free cash flow, while maintaining that free cash flow at the same time.

So, I think, all in all, we now have a very balanced strategy in terms of undertaking new initiatives in a cautious, prudent fashion, at the same time preserving the current free cash flow returns of the Company and, as I said before, we have clearly laid the foundation of future growth potential in the company..

Renaat Berckmoes - *Telenet Group Holding NV - CFO*

I give you another way of answering your question is at hindsight, would we buy the rights again, knowing what we know today and the answer is a very big, bold, absolutely yes.

Will Milner - *Arete Research - Analyst*

Okay. That's very clear. Thank you.

Operator

The next question comes from the line of Michael Bishop. Please go ahead with your question.

Michael Bishop - *Barclays Capital - Analyst*

Hi, good afternoon. Just a couple of quick questions on the dynamics of shareholder returns, going forward.

Firstly, how do you see the use of distributable reserves going forward? And will this mainly be from Telenet Group Holding NV? And on that, could you update us as to the level of reserves, I guess, in the non-consolidated accounts?

And then secondly, on the capital reduction, could you just talk about the dynamics of how this will be executed, given the level of consolidated share capital at the year end?

And, I guess, pulling all those together, can we assume, going forward, that there will be more cash dividends and buybacks versus capital reductions? Thanks very much.

Renaat Berckmoes - *Telenet Group Holding NV - CFO*

I'll start with the second question first. The capital reduction and the distributable reserves are, of course, the ones that really matter are the ones in the top company and not on the consolidated level. And so that's the ones available in Telenet Group Holding. And in terms of total equity, we have ample excess equity to pay out to shareholders. So, there is absolutely no constraint, whatsoever, there.

In terms of capital versus equity, therefore distributable reserves versus capital, it's clear that we have in the (inaudible) already paid back more than EUR1.5 billion of capital and that the stock of capital is gradually decreasing and that as a pattern going forward you should, indeed, anticipate that the percentage that will be paid out in the form of a dividend or which will be distributed in the form of a share buyback will increase, over time, as we will, after a certain time, run out of capital.

In terms of the NOLs, these are, of course, in Belgium it is not taxable (inaudible), so we have net loss carryforwards in some companies. Some are above Telenet NV, some are below Telenet NV and, depending how we change the corporate structure, we will, effectively, use or not use these net loss carryforwards. And that's all I can say about it.

Michael Bishop - *Barclays Capital - Analyst*

Thanks. And just a quick follow up, is it becoming harder or are you aware of any change in policy from the new government regarding these tax losses? I mean, clearly, it probably might not get easier, going forward, given the budget dynamics.

Renaat Berckmoes - *Telenet Group Holding NV - CFO*

There is clearly a lot more focus on corporate tax in Belgium, as part of the budget review discussions, which are about to start. However, I have not picked up any new measure or potential measure that has an impact on NOLs in Belgium. But you can never exclude it as we all know that governments are desperately looking for more money.

But, at least to my knowledge, this is not at the table right now.

Michael Bishop - *Barclays Capital - Analyst*

Thanks so much. Very clear.

Operator

The next question comes from the line of Mark Walker. Please go ahead with your question.

Mark Walker - *Goldman Sachs & Co. - Analyst*

Hi, guys. It's Mark Walker from Goldman Sachs. I just had one question on your guidance, please. And none of the sort of EUR40 million EBITDA growth that you expect to generate next is cash accretive. I'm just wondering to what extent you expect your revenue and EBITDA growth beyond 2012 to be more cash accretive and, more specifically, how should we think about the increases in the cash CapEx relating to the soccer and the cash interest to continue being a barrier to free cash flow growth? Thanks. '

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Renaat Berckmoes - *Telenet Group Holding NV - CFO*

As we explained already during the presentation, the EBITDA -- the cash -- the positive cash impact of the EBITDA is, of course, mitigated by, also, an increase in cash interest expense, partially because we have a higher debt balance, partially because now you have a full-year impact of the higher margins that we pay in the return for the debt extension of last year and finally, also, because within that cash interest expense you have now included a full year of interest payments on the license for the mobile spectrum. So, that is all elements contributing to the EUR15 million increase in -- expected increase in interest expense that we have highlighted in our outlook.

Then, of course, other matters which impact free cash flow are, if you look at the guidance, that hints to a slightly increased CapEx compared to this year if we would end up at the high end of the range. But that, of course, is -- that's why we put a range.

So, the free cash flow target is a combination of potential ups and downs with respect to the EBITDA guidance and the CapEx guidance. So, by putting at least that we aim for the stable free cash flow, we mean that we will end up with the same number of million euros at year end, but, believe me, if we can achieve that, we will definitely not have to beg to do so.

Vincent Bruyneel - *Telenet Group Holding NV - Head of IR*

I think I would also like to add that the increase that you are seeing in the CapEx in 2012 is, let's say, fully related to the success-based uptick that we'll see in the revenue. So, it's kind of an investment that we're doing now to make sure that we are yielding incremental returns in the future years. So, basically, it's -- we expect that this will yield better top-line growth and then also I'd say better EBITDA growth, without having to make additional investments for that.

So, in the longer term we expect that free cash flow is going to grow again.

Mark Walker - *Goldman Sachs & Co. - Analyst*

That's great. Thank you.

Operator

We have no further questions, so I'll hand the conference back to you.

Vincent Bruyneel - *Telenet Group Holding NV - Head of IR*

Okay. Thank you, ladies and gentlemen, for your participation on this call. We hope to welcome you on our investor call around the beginning of May when we present our first quarter results. Would you have any question in the meantime, Rob and I will be more than happy to answer them.

In the meantime, we look forward to meeting you during the upcoming road shows or conferences. Thank you and goodbye.