

THOMSON REUTERS STREETEVENTS

# EDITED TRANSCRIPT

KPN.AS - Q1 2012 Koninklijke KPN NV Earnings Conference Call

EVENT DATE/TIME: APRIL 24, 2012 / 8:30AM GMT

**OVERVIEW:**

KPN.AS reported 1Q12 net profit of EUR288m.



## CORPORATE PARTICIPANTS

**Hans Sohngen** *Koninklijke KPN NV - Head of IR*

**Eelco Blok** *Koninklijke KPN NV - CEO*

**Eric Hageman** *Koninklijke KPN NV - Interim CFO*

## CONFERENCE CALL PARTICIPANTS

**Dimitri Kallianiotis** *Citigroup - Analyst*

**Nick Lyall** *UBS - Analyst*

**Paul Sidney** *Credit Suisse - Analyst*

**Robin Bienenstock** *Sanford C. Bernstein - Analyst*

**Fred Boulan** *Nomura - Analyst*

**Jonathan Dann** *Barclays - Analyst*

**Matthew Bloxham** *Deutsche Bank - Analyst*

**Hugh McCaffrey** *Goldman Sachs - Analyst*

**Stuart Gordon** *Berenberg - Analyst*

**Luis Prota** *Morgan Stanley - Analyst*

## PRESENTATION

### Operator

Ladies and gentlemen, thank you for holding and welcome to the KPN conference call. At this moment, all participants are in listen-only mode and later we will conduct a question and answer session. I would like to hand over the conference to Mr. Hans Sohngen, Head of Investor Relations. Go ahead please, sir.

---

### Hans Sohngen - *Koninklijke KPN NV - Head of IR*

Good morning, everyone. Welcome to all of you on this conference call. Today we will take you through our first quarter results and address your questions during Q&A. Let me briefly point out that the Safe Harbor Statement applies to this presentation and that any forward-looking statements made in this presentation do not differ from those already made in the press release published this morning.

I would now like to hand over to Eelco Blok, the CEO of KPN.

---

### Eelco Blok - *Koninklijke KPN NV - CEO*

Thank you, Hans. Good morning, ladies and gentlemen. Back in January I explained that 2012 would be a year of transition for KPN. Today's reported results for Q1 are in line with our expectations and I can say that the accelerated investment strategy in the Netherlands is on track.

We are working hard to turn around the areas of weakness in the Consumer Mobile and Consumer Residential businesses. Our initiatives started about this time last year and have ramped up in 2012. This phasing means that the benefits will come through progressively this year with a clear bias to better results in the second half of 2012.



There are three parts to the accelerated investment strategy. First, we are investing in the fixed network through the hybrid fiber and copper strategy and in the mobile network via HSPA evolved and LTE.

Second, we are continuing to improve our propositions. In recent weeks we have launched new transparent and flexible mobile propositions for the Hi and Telfort brands. In Consumer Residential we recorded good growth in TV and in triple play though our broadband market share remained under pressure due to increased churn in the single and dual play markets. Our initiatives to combat this include a new regionalization approach. This will eventually reach a significant number of households in the Netherlands with regional offers which will drive a significant uplift in sales and a reduction in churn.

Third, we are working hard to make a substantial improvement to the underlying cost structure of the Netherlands. We have brought forward our plans to reduce the workforce in the Netherlands by two years, finalizing the full program by end 2013.

Results in Germany in Q1 reflected revenue growth at a good EBITDA margin while Belgium showed another strong quarter. We continue to invest in the high-speed mobile network rollout in Germany and Belgium and in new propositions to support profitable growth.

As I said, the phasing of this transition year means that Group profits and cash flow are planned to improve in the second half of 2012 driven by a better performance in our Dutch businesses. The savings in the Netherlands I have mentioned will largely kick in towards the end of this year as we are having to absorb the cost of our investments in new propositions, in our customer base and distribution in the first half of 2012 which is reflected in lower margins at Dutch Telco.

We are confident that the accelerated investment strategy will support sustainable profit levels in the Netherlands from end 2012. Therefore, I confirm the 2012 outlook announced in January. I should also repeat that, as we announced last week in response to the speculation in the market, we are reviewing strategic options for our mobile operations in Belgium. I would emphasize that as a Company we continuously review our portfolio of businesses and this review is not connected with the progress of our accelerated investment strategy in the Netherlands. Further announcements will be made if and when appropriate.

And now over to Eric Hageman.

---

**Eric Hageman - Koninklijke KPN NV - Interim CFO**

Thank you, Eelco. Good morning, everyone. Let me start with an overview of the Group results for the first quarter. Revenues were down 1.4% year on year, a decline which is the result of the performance in the Netherlands in part offset by the growth in Germany and Belgium. EBITDA excluding restructuring cost decreased by around EUR150m or 12%, mainly due to the performance in the Netherlands. The first quarter EBITDA of EUR1.1b is very much in line with our expectation as this is a transition year. Please take note that the EBITDA is expected to improve in the second half of the year as a result of phasing.

Our operating expenses excluding D&A increased by around EUR120m or 6.2% year on year, mainly due to investments to strengthen our Dutch market positions, higher marketing cost in Germany, higher restructuring costs, which were EUR90m this quarter versus EUR10m the same quarter last year, and higher pension costs. The higher pension costs were mainly driven by actuarial losses at Getronics UK and US pension funds. The total cost in 2012 related to recognition of these losses will amount to EUR75m to be evenly spread over the quarters. No further costs related to these losses are expected after 2012.

Our financial expenses have increased relative to the same quarter last year as a result of a one-off gain in Q1 2011 related to the US dollar fair value hedges to the amount of EUR25m.

We also faced higher P&L tax in Q1 compared to last year when we benefited from a EUR151m one-off innovation tax facility which was booked in Q1. Based on the above, our net profit in the first quarter was EUR288m.

Let's now move to the free cash flow. At EUR37m in the first quarter our free cash flow is lower than the EUR191m last year. The main reason for this lower free cash flow is as follows. EBITDA is EUR165m lower as a result of the phasing within the transition year and CapEx is EUR78m higher. This is in part offset by EUR62m lower change in provision and EUR24m lower tax payments. As with my previous comments on our first quarter EBITDA, the free cash flow is again in line with our expectation and is expected to improve strongly in absolute terms as a result of phasing throughout the year.

CapEx was up 20% in the first quarter and very much in line with our announced accelerated investment strategy to strengthen the Dutch business and the continuation of the accelerated high speed data network rollout in Belgium and Germany. At Dutch Telco, CapEx was mainly higher due to continued upgrade of the fixed and mobile networks; increased customer-driven CapEx, mainly related to a strong IPTV and Fiber-to-the-Home activations and handsets; and lastly some investments in IT related to a new mobile portfolio.

Let me briefly update you on the health of our pension funds. The coverage ratio of the KPN pension funds was 101% which is in line with the last quarter of 2011. In Q1 2012 a recovery payment of EUR21m was made. Based on the coverage ratios at the end of Q4 2011 and Q1 2012 we have the obligation to make recovery payments of EUR19m in Q2 and Q3.

Let's now pause for a second to look in more detail at our financial profile at the end of the first quarter. Following the EUR750m bond issue in February and a EUR400m redemption of our revolving credit facility gross debt was up by almost EUR350m in the first quarter. Cash on our balance sheet on the other hand increased by EUR273m to EUR1.3b. Consequently net debt increased by around EUR100m to EUR11.8b at the end of Q1. Combining this small plus in net debt with EUR150m lower 12-month rolling EBITDA compared to the last quarter the result is a net debt to EBITDA ratio of 2.4 times in Q1.

Following our 2012 guidance in January, Moody's and Standard and Poor's revised our credit rating. Moody's confirmed its Baa2 rating but adjusted its outlook to negative. S&P changed its credit rating from BBB plus to BBB with a stable outlook.

Notwithstanding the above and as proof of our continued strong links to the capital markets, in February we successfully issued a EUR750m bond with a maturity of 10 years and a coupon of 4.25%, lowering our average interest rate from 5.3% in Q4 to 5.2% in Q1. The average bond maturity was 7.2 years at the end of Q1.

Let's now review in more detail the financials of our domestic and our international businesses. Let's start with Dutch Telco. The first quarter in this transition year has seen a continuation of trends for the Dutch Telco business while we implemented our accelerated investment strategy to strengthen our domestic market position. This is reflected in the financial results for Q1. Revenues and other income were down with EUR78m or 4.6% including a negative impact from regulation of EUR24m. Service revenues at Consumer Mobile continued to decline as a result of changing customer behavior. Revenues at Consumer Residential were down due to lower fixed voice traffic and at NetCo due to lower traffic across all segments.

EBITDA, excluding restructuring cost, decreased by just over EUR100m or 12% year on year as a result of lower revenues and higher OpEx within Dutch Telco. The regulatory impact of EUR7m was fully offset by a EUR7m net positive impact from incidentals in the first quarter. The EBITDA margin decreased to 48.8% impacted by the previously announced investments to strengthen our domestic market position and the continued decline of high margin traditional services.

On the next slide I will provide you with more detail on the development of the cost structure of Dutch Telco and the investments we are making. On this slide you can see a breakdown of our operating expenses within Dutch Telco. The operating expenses were up by EUR27m or 3.3% year on year. Let's look at the details of this increase in operating expenses.

Firstly, the employee benefits were up by EUR12m or 5.2% year on year. The number of FTEs decreased, however the costs per FTE were up due to higher pension charges and salary increases. Furthermore, as a result of our strategy to expand our distribution footprint in the Netherlands, the number of owned shops increased leading to an increase in customer-facing staff.



Secondly, the cost of materials increased by EUR24m or 20% year on year due to higher cost of goods sold and subscriber acquisition cost, both related to high-end handsets.

Work contracted out decreased by EUR40m or 4% as a result of lower traffic across all segments. The lower traffic costs were partly offset by a number of investments to strengthen our domestic market position. Furthermore, our marketing expenses increased.

We expect improvements in the underlying cost structure as planned. These improvements are mainly related to FTE reductions as part of the Dutch Telco, part of the restructuring program which we announced in May last year. The full restructuring program of 4,000 to 5,000 FTEs which is roughly split 50/50 between Dutch Telco and Corporate Market, the former Getronics, has been accelerated by two years.

The vast majority of the remaining restructuring provision is expected to be taken in 2012 while the FTE reduction is expected to be finalized by the end of 2013. Our overall aim is to decrease the indirect fixed operating expenses while the variable cost will move in line with the top-line performance of the Group.

We now move on to the financial performance of the individual segments. Revenues at Consumer Mobile were down by EUR53m or 11% year on year in part impacted by regulation to the tune of EUR14m. The EBITDA at Consumer Mobile declined from EUR125m in Q4 to EUR94m this quarter. The EBITDA margin excluding restructuring cost was down to 22% as a result of revenue decline and regulation. Furthermore, commercial activities were increased in the first quarter and more high-end handsets were sold leading to an increase in subscriber acquisition cost.

Revenues at Consumer Residential were down by 4.4% due to lower fixed voice traffic as out-of-bundle usage decreased. The EBITDA at Consumer Residential was relatively stable at EUR106m in Q1 versus EUR108m in the previous quarter. The EBITDA margin excluding restructuring cost was 23.4% in Q1 due to increased activation cost for Fiber-to-the-Home and IPTV as the number of customers strongly increased. Furthermore, the margin was impacted by the migration from high margin traditional services to lower margin services.

Revenues and other income at our Business segment was down by EUR16m impacted by EUR5m through regulation, price pressure in the business market and the continued decline in traditional services. These negatives were partly offset by the good sales performance of wireless data. The EBITDA for our business segment was EUR197m in the first quarter and as such slightly higher than the same quarter last year and 10% higher than the EUR179m EBITDA in the previous quarter. The EBITDA margin was supported by a small number of incidentals. The Business segment also made good progress with its restructuring program and an EUR11m provision was taken in Q1.

Revenues at NetCo were down 4.9% year on year due to lower traffic across all segments while line loss continued as a result of a decline in traditional services. The EBITDA at NetCo declined from EUR428m in Q1 last year to EUR387m this quarter. The EBITDA margin was lower at 58.3% although positively impacted by EUR7m in incidentals. The decline was mainly related to lower revenues and higher cost for Fiber-to-the-Home activations.

Revenues and other income at Corporate Market, the former Getronics was down by EUR21m or 4.7% compared to the same quarter last year due to continued price pressure in the sector and the postponement of investments into new products and services by existing and prospective customers. In this difficult sector and market context and supported by a EUR10m positive incidental, the EBITDA margin stood at 1.6% at the end of the quarter.

Revenues at iBasis were up by EUR29m or 13% year on year but please note that the growth in revenues included a positive currency effect to the tune of 2.4%. The EBITDA margin at iBasis remained relatively stable at 2.7%.

Let me now continue with the financial review of Mobile International. Revenues and other income in Germany increased by EUR21m or 2.7% compared to the same quarter last year. The service revenues were up 4.2% year on year. Key drivers behind the continued healthy growth numbers were the growth of our customer base and the uptake of data revenues. The EBITDA in the first quarter was EUR303m, slightly up versus the EUR301m in the same quarter last year. The EBITDA margin of 38.2% in Q1 is a couple of hundred basis points below the previous quarter's as a result of investments to support the introduction of new propositions. We are confident that these investments will continue to fuel the profitable growth in Germany.



Belgium continued to show strong underlying service revenue growth of 11% in the first quarter as a result of the good performance of the new propositions and an increased take-up of interconnect traffic. The underlying EBITDA also continued to grow strongly at 13% driven by the combination of healthy top-line growth and increased cost discipline. The EBITDA margin was slightly higher year on year at 31.4% but lower than the previous quarter due to phasing throughout the year.

Lastly, revenues and other income in the segment Rest of World decreased by 13% in Q1 mainly due to the sale of KPN France in December last year and the continued intense competition in the ethnic segment which negatively affects Ortel Mobile. Notwithstanding the above, the EBITDA for Rest of the World remained relatively stable compared to the same quarter last year.

I would now like to hand over to Eelco for the Group operating review.

---

**Eelco Blok** - *Koninklijke KPN NV - CEO*

Thank you, Eric. KPN is continuously working on simplifying its operating model to drive customer satisfaction. We are improving web pages about installation and stimulating self-help thereby reducing the number of calls. Furthermore, we have reduced our delivery times of broadband and Voice over IP by 50%. Customer experience has been improved by introducing a new user interface for IPTV, HD quality for wireless voice and increased broadband speeds in our standard proposition. We've also improved our customer contact procedures and simplified our mobile propositions.

As mentioned in the previous slides, we are continuously improving our portfolio and customer services. In Consumer Mobile we have introduced new mobile propositions for Hi and Telfort which we will explain in more detail shortly. Furthermore we have opened nine new retail shops and closed strategic partnerships with the two main independent retailers in the Netherlands, The Phone House and Telecombinatie, to expand our distribution power.

At Consumer Residential our triple play propositions have been further enriched. IPTV improvements were introduced such as new user interface, a low-cost set-top box and HD channels in the standard package. Furthermore, we have reached agreement with HBO to offer three premium TV channels including on-demand and HBO Go.

In the Business market cloud services were improved by introducing Microsoft Office 365 while next steps have been taken in improving services such as decreasing lead times for equipment delivery. Furthermore, Business and Corporate Market are working increasingly close together on joint portfolio management.

Mobile service revenues, including wholesale, were down 12% year on year. The service revenues were impacted by regulation with an impact of 3.2%, continued change in customer behavior, approximately 6%. The movement of Yes Telecom from Mobile Wholesale to the Business segment had an impact on Q1 service revenues of 1.3%. Furthermore, the smaller customer base year on year led to lower revenues and this was partly offset by continued data growth. Our total Dutch service revenue market share in Q1 was 45%.

The trend in the retail postpaid customer base is promising with an improving trend throughout the quarter. Further support should be provided by the new mobile propositions which have been introduced at Hi and Telfort. We added 14,000 postpaid customers on the wholesale side, driven by a relative strong performance in the value for money segment. The introduction of new propositions in September and continued cross and up-selling to higher bundles has led to an increase in committed postpaid retail ARPU, the fixed part of revenues per customer, from approximately 54% in the first quarter of 2011 to approximately 65% in Q1 2012 although total postpaid ARPU declined as a result of regulation and changing customer behavior.

Consumer Mobile is in a transition period. Since April last year we have taken a number of steps to counter the adverse trends and develop a future-proof portfolio for our mobile business. Starting in the second quarter of 2011, we actively approached high value customer of our Hi brand by up-selling them to higher bundles as these customers had the highest out-of-bundle exposure. The short-term measures were successful as a significant number of approached customers moved to the higher value bundles.

As a first step to move to data-centric propositions we launched new integrated data, voice and SMS propositions for our KPN and Hi brands in September last year. Recently we introduced transparent, simplified and flexible propositions for Hi in March and Telfort in April. Both propositions provide customers the opportunity to pick the services they want. New mobile propositions for the KPN brand are expected to be introduced at the end of this summer.

The new propositions are based on a simple three-step approach. The new Hi proposition provides unlimited access to social media and is fully data-centric. A customer first picks a data bundle, secondly a smartphone and finally a voice and/or SMS bundle or not. The initial sales figures since the launch of the new Hi proposition are encouraging and provide us with the confidence that we are on the right track.

The new Telfort proposition is focused on calling as there will be no charge after 10 minutes of calling to Dutch fixed or mobile subscribers. We introduced a handset lease model for the Hi and Telfort propositions resulting in no upfront costs for the customers with handset costs to be spread out evenly over the contract period. The proposition includes a premium smartphone repair service as well.

These introductions further improved the competitiveness of our portfolio and will support our market position in the Netherlands going forward.

Let's move onto the operating review of Consumer Residential. At Consumer Residential we see a number of positive developments although our broadband market share remained under pressure and is currently at 39%. We have seen continued growth of Fiber-to-the-Home activations and IPTV net adds while the number of triple play customers increased leading to growth of revenue-generating units per customer.

However, the improved churn on triple play is offset by an increased churn in single and dual play. We have implemented a number of initiatives to reduce churn in the copper areas. Network upgrades in order to offer the minimum guaranteed speed of 40 megabytes required for comprehensive triple play packages including multi-room HDTV. Coverage increased further to 47%, up 7 percent points from Q4. Regional market approach which I will discuss in further detail on the next slide. Enrichment of propositions including premium HBO channels and higher broadband speeds in the standard package. Triple play up-sell which has already resulted in an increase of ARPU per customer compared to the same quarter last year.

At Consumer Residential we have started to implement the regionalization approach to support our broadband market share. The approach used for a certain region is determined based on the quality of our network, taking into account future fiber rollout and copper network upgrades, and the relationship with potential customers. The marketing and sales effort is based on strong short-term specific regional offers in the selected region. We believe that this regional approach will result in a sales uplift in targeted areas and help to reduce churn due to triple play up-sell.

Our TV market share continued to grow and now stands at 18% driven by 79,000 IPTV net adds, one percent point higher compared to Q4. We are confident that our leading TV proposition will help us to grow our TV market share further in the coming quarters. I'm very satisfied with the results in the Fiber-to-the-Home areas. The Reggefiber joint venture reached more than 1m homes passed in the first quarter and KPN Fiber-to-the-Home activations continued at a good speed with 23,000 net adds in Q1.

Let's take a look at our Business segment, starting with wireless. Service revenues continued to grow and were 2.9% higher compared to the first quarter of last year despite a 2% regulation impact. Although the Business market is impacted by price pressure, data growth led to higher service revenues. Data growth is supported by an increased customer base and increased usage as 68% of customers now use data services. Furthermore, the new portfolio which was introduced in December shows a good performance as 77% of new customers take a data plan.

The next slide shows the wireline part of the Business segment experienced a further decline in traditional access lines and traffic revenues. In Q1 new services were introduced such as cloud services and integrated fixed to mobile propositions. KPN maintained a stable market share in a competitive business market. The integration between Business and KPN Corporate Market is ongoing.

Let's now flip to the slide of Corporate Market. The financial performance of Corporate Market in Q1 was disappointing. Revenues were down 4.7% compared to last year due to continued price pressure and the fact that we have not seen a recovery in the Dutch IT market. Despite the financial performance we expect to have maintained our market share. Full focus is on the reduction of costs to bring the cost structure in line with the lower revenue level. The majority of the FTE reduction mainly related to efficiency and offshoring is expected in the second half of this year.



Furthermore, we expect to complete the sale of Getronics International, which was announced at the full-year results in January, in the second quarter.

Next I will look at iBasis. Revenue growth at iBasis of 13% year on year was driven by an increase in revenue per minute of 11% due to a higher percentage of mobile minutes and a favorable currency effect of approximately 2.4%. The EBITDA margin remains relatively stable due to a continued focus on balancing revenue growth with profitability and free cash flow.

Moving on to Germany. In Germany postpaid net adds continued at a good level in line with previous quarters. New propositions were introduced to support long-term growth such as BASE plus which was launched in February. The increased competition in the ethnic segment in combination with our value focus in customer acquisition resulted in lower prepaid net adds in Q1.

All in all, service revenues increased by 4.2% mainly as a result of the growing customer base and good data uptake although the new BASE plus tariffs will still start -- were still in start-up phase during Q1. The rollout of the proposition via our own and third party channels is now gaining momentum. This will support service revenue growth in the coming quarters. Service revenue market share in the first quarter increased slightly year on year to 15.7%.

We continued to invest in the network and made good progress with the accelerated rollout of high speed data in Germany. The HSPA+ rollout is on track to reach the target of more than 80% population coverage at the end of 2012. On the commercial side we further optimized our propositions. As mentioned, in February the new BASE plus proposition was introduced targeting committed postpaid customers which support longer-term growth. On top of this, last week we have introduced a new brand, Yourfone, in the German market to target a largely untapped market segment, the no-frills postpaid segment. The addition of Yourfone fits in E-Plus's multi-brand strategy. The Yourfone brand focuses on online distribution and offers a value for money all-net flat proposition at an attractive rate.

The optimization of our multi-brand strategy targeting segmented customer groups in combination with the rollout of a high quality, high-speed data network should support further service revenue growth in Germany.

Now Belgium. KPN in Belgium has experienced another quarter with strong performance. Underlying service revenue growth continued at 11% year on year. Service revenue growth was driven by mobile data, business-to-business, wholesale and interconnect traffic. BASE's service revenue market share is expected to have grown to more than 19% in Q1 2012, again outperforming the market.

Net adds amounted to 142,000 of which 9,000 postpaid and 133,000 prepaid leading to a total base of 4.3m customers. Net adds were supported by the good performance of new propositions such as BASE C, Base Check and Contact Mobile and strong captive channel performance.

Also in Belgium we continued with the accelerated rollout of our high-speed mobile data network. High-speed data has been launched in six large cities, in 19 medium cities and more than 60 smaller cities and business areas such as airports and metros. The accelerated network rollout enables strong data revenue growth, via our own and partner brands.

Let me conclude by stressing our determination to leverage the benefits of our strong market positions. As the incumbent market leader at home, and the energetic challenger abroad, we are investing in the best networks, and in future-proof propositions for our retail business and wholesale customers.

It's our firm aim to bottom out our broadband market share, stabilize our shares in Consumer Mobile and improve the underlying growth structure in the Netherlands, supported by our accelerated restructuring program.

We are confident to reach a sustainable level of profit for the Netherlands by the end of this transition year 2012. Furthermore we continue to invest in the accelerated high-speed mobile network rollout, in Germany and Belgium, and have launched new propositions in Germany to support growth, balanced with good profitability.

And now we would be pleased to take your questions. Thank you.

---

## QUESTIONS AND ANSWERS

### Operator

Thank you, sir. Ladies and gentlemen, we will start the question and answer session now. (Operator Instructions). Go ahead, please.

Today's first question is from Dimitri Kallianiotis, Citi. Go ahead please, sir.

---

### Dimitri Kallianiotis - Citigroup - Analyst

Hello, good morning. Thank you for taking the questions. My first question is regarding the churn that we are seeing in single and especially double play, as actually most of your subscribers now also have broadband. So I was just wondering why do you think the churn is getting worse there, especially for double play, and what makes you confident that this churn could come down?

Then I wanted to ask you, we see from the KPIs that your new offer seems to start to have an impact. I was wondering if you could share with us if you are seeing any reaction from your competitors, in particular in the Netherlands and in Germany, following your new offers, which tend to be [rather] aggressive? Thank you very much.

---

### Eelco Blok - Koninklijke KPN NV - CEO

Okay, let's start with the last question. So far we haven't seen any reaction from the competitors, both in the Netherlands and Germany. On the churn, on single and double play, it's not increasing, but it's still at a too high level in corporate areas. So in fiber areas we are doing very well, as you can see when you look at our market share in Fiber-to-the-Home areas. But in copper areas we are still on a high churn level that is not increasing.

What are we doing? A few things. We are upgrading our copper network to be able to offer our premium IPTV product also to single and dual-play customers. At the end of the first quarter we were at a 47% coverage level of minimum guaranteed speed of 40 mb, and in the first quarter we have piloted our regional approach and, based on the results of the pilot, we have decided to accelerate the implementation of the regionalization strategy. And we are convinced that, with the continued upgrades of our network, and the acceleration of the implementation of the regionalization approach, we will be able to reduce the churn and stabilize our market shares in copper areas.

I have to make one remark on the responses of the competition. Yesterday, Vodafone in the Netherlands presented their new propositions and they look pretty similar to ours that we have introduced in March.

---

### Dimitri Kallianiotis - Citigroup - Analyst

Thank you. If I just may follow up very quickly on the question regarding your new -- increasing the speed of copper to 40 meg. In the past you've shared your -- the fact that in fiber areas you've got 6 percentage point higher market share than you have in copper areas. Do you see a bit difference once you push these new offers, and that you can offer 40 meg? In terms of market share do you see the market share becoming a lot more stable, or do you still see some decline? Thank you.

---

### Eelco Blok - Koninklijke KPN NV - CEO

Now we see a clear uplift in sales and activations, and a reduction of churn. And our objective is to reduce the churn in copper areas.

---



**Dimitri Kallianiotis** - Citigroup - Analyst

Thank you.

---

**Operator**

The next question is from Nick Lyall, UBS. Go ahead please sir.

---

**Nick Lyall** - UBS - Analyst

Yes, morning. It's Nick from UBS. Just on the same point on churn, is it possible to quantify the rough impact that the different measures in the copper areas make to the churn numbers? I think you mentioned there that you get churn low enough in copper areas to stabilize the base. Is that fair, or do you actually need widespread Fiber-to-the-Home to stabilize the base first? Is it possible in copper only, or do you --

The second, if it's okay, was then on the mobile side. It looks like the consumer behavior losses on revenue are accelerating still. Is it possible to say how far you are through the out-of-bundle SMS losses so far and when roughly would you expect at least the sort of speed of development to slow down a bit? Thanks.

---

**Eelco Blok** - Koninklijke KPN NV - CEO

Okay, let's start with the first question. Our aim is, and with the current strategy in place, we are convinced that we will meet our target to continue to high growth in Fiber-to-the-Home areas, resulting in a broadband market share of 46%, with the higher ARPU in the Fiber-to-the-Home areas.

And in the other part of our network, as part of our hybrid access strategy, the copper areas, it's just a matter of increasing the speed, then implement the regional marketing approach, and reduce the churn on our single and dual-play customers, to stabilize the market shares in those areas. And the combination of the two will result in again an increase in market share on broadband.

And -- because we have chosen for a regional approach, I don't want to elaborate on the details of our regional approach, more than just making some general statements that the pilot was very successful. That we see the reduction in churn in the pilot area and that we have accelerated the implementation of the regionalization strategy.

---

**Nick Lyall** - UBS - Analyst

Great, thanks, and also --

---

**Eelco Blok** - Koninklijke KPN NV - CEO

Okay, then the question about the change in customer behavior. It was approximately 5% as part of the decline of the year-on-year service revenue in Q4. And in the first quarter of this year it was 6%, out of the 12% decline year on year. And we don't expect an accelerated effect in the second quarter, because we are, well, very optimistic about the new propositions, which we have launched in March and April, which will have an effect in the second quarter.

---

**Nick Lyall** - UBS - Analyst

That's great, thank you.

---



**Operator**

The next question is from Paul Sidney, Credit Suisse. Go ahead please.

---

**Paul Sidney - Credit Suisse - Analyst**

Thank you very much, just two questions from me, please. Firstly, could you quantify what proportion of your postpaid customers in Dutch Consumer Mobile are now on the new tariffs, so at the end of March, and how you see that trend progressing over the year?

And my second question is if we look beyond 2012, which we know is a transition year for the Company, in 2013 and '14 should we expect EBITDA to improve year on year, free cash flow to improve year on year and CapEx to fall below EUR2b? Thank you.

---

**Eelco Blok - Koninklijke KPN NV - CEO**

So the postpaid, approximately 20% of our postpaid customers are on the new tariff plans. And on 2013 and '14, I'm not going to make any remarks. As I said also in January our objective is to bottom out the negative trend in the Dutch Telco business, and the year 2012 is a sustainable EBITDA and cash flow level.

---

**Paul Sidney - Credit Suisse - Analyst**

Okay, and I'm sorry, can I just have a quick follow up? Just kind of related to that, should we assume that the CapEx guidance for 2012 is not a run rate that we should expect beyond 2012? Is it --?

---

**Eelco Blok - Koninklijke KPN NV - CEO**

No, that's right, 2012 CapEx will not be the run rate for the years beyond 2012. And I don't mean that it will increase, but it will be, again, in the level as we have seen in the previous years. So, somewhere in the range between EUR1.8b and EUR2b.

---

**Paul Sidney - Credit Suisse - Analyst**

That's great, thank you very much, very helpful.

---

**Operator**

The next question is from Robin Bienenstock, Sanford Bernstein. Go ahead please.

---

**Robin Bienenstock - Sanford C. Bernstein - Analyst**

Yes, good morning, thanks very much. I guess two questions, first I understand -- was seeing that Vodafone has bought wireline in the UK and is focusing more and more on heterogeneous architecture. So, I'm wondering how you see KPN Germany competing in that environment, squeezed between two big, integrated companies.

Second, you said you are considering strategic options for Belgium. I'm wondering if you are considering strategic options for other things. And third, your debt ratings are now at your floor. There's a potential that your net debt/EBITDA will also breach your targets later this year, and I guess -- I'm wondering, if your debt ratings were to fall further, what would you consider doing in terms of an action to retrieve that? Thanks very much.

**Eelco Blok** - *Koninklijke KPN NV - CEO*

Okay. Eric will take the second and third question first?

---

**Eric Hageman** - *Koninklijke KPN NV - Interim CFO*

Sure. So are there things that we're looking at? We've been very clear also. Last week what we said as a management team we always are looking at what assets do we have in our portfolio. And we continue to do our strategic review of this.

We also, as a listed company, obviously, make no comments at this on any rumors that might be in the market on that. So I think we need to very much stick to what we said last Tuesday.

I think if you link it to what our credit metrics are, I think following the outlook that we gave in January we had very good conversations with both Moody's and Standard and Poor's. We keep them updated on what our progress is. From my end, those have been very encouraging conversations. I think the good thing is they look beyond the short-term horizon and, as such, I think they fully understand what we are trying to achieve here. I think they are on board with our investment strategy and where we are trying to improve the business in the medium to long term.

We've also shared with them, as we shared with you on the 24th that we stick to this 2 to 2.5 times net debt to EBITDA. That for certain specific reasons one could dip out of this framework. And then there is the ambition of the team to make sure we get back into that framework. I think we clearly indicated that certain investments, which are strategic to the organization, would be good reason to dip out. And they fully agree with that, so there is no -- so, no secrets; we have been fully transparent with them, as we have been with you. So, to be honest, we are not worried about that.

---

**Eelco Blok** - *Koninklijke KPN NV - CEO*

And then the question on Germany, we are convinced that challenges strategy we have developed and successfully implemented, starting in 2005 and changed in 2010, will bring us also in the future a -- well, continuous service revenue growth, with good margins, in a way that we are convinced that we can outperform the market with our challenger strategy, focusing on specific customer groups in the German market.

---

**Robin Bienenstock** - *Sanford C. Bernstein - Analyst*

Thanks.

---

**Operator**

The next question is from Fred Boulan, Nomura. Go ahead please.

---

**Fred Boulan** - *Nomura - Analyst*

Hi, two follow-up please, on the previous questions. Firstly on the question on 2013 prospects, I just would like to clarify if your ambition is to grow EBITDA, the Group level, in 2013. And there may be some further (inaudible) in Germany there. Or is to stabilize the business at year-end 2012 EBITDA levels? I'm just a bit confused what your ambition is here.

And secondly, on Germany, the message from January 24, from Thorsten Dirks, was pretty clear about the ambition to keep underlying growth at the same level as 2011, which was 7%, ex NPR. So, obviously, 4.2% in Q1 means you will need a pretty strong improvement there. You're talking

about improving prospects for the launch of new products, but can you just update us a little bit on what is your expectation for the -- more for the German market in general, and also for your performance within that? Thank you.

---

**Eelco Blok** - *Koninklijke KPN NV - CEO*

About the performance in the German market, we are confident that we are able to show good service revenue growth, as we have done in the first quarter. And that we will continue to outperform the market, at good margins.

---

**Eric Hageman** - *Koninklijke KPN NV - Interim CFO*

Yes, maybe, if I may add to that, what we do see in the German market is, and I think some of you have picked it up this morning as well, to what extent is the wider market context having an impact on that business? I think what we see is a slight slowdown in the minutes of use, which we do see as evidence of that. So we just have to work a little bit harder to make sure that you get more revenue than -- to compensate for that.

On your first question, Fred, with regards to how EBITDA will develop, I think we've been very clear on the 24th on how we see the year developing. I think today, on a few occasions, we also highlighted that things will be different in the second half than in the first half. We have used a word phasing.

I think we've been also -- been very clear that by the end of 2012 we want to get to sustainable profit levels, certainly in the Netherlands. We continue to invest in profitable growth in Belgium and Germany that will help us, and on 2013 we haven't said anything in January. We have not given an outlook on that, so we'll stick to that for the moment.

---

**Fred Boulan** - *Nomura - Analyst*

Okay, thank you very much.

---

**Operator**

The next question is from Jonathan Dann, Barclays. Go ahead please.

---

**Jonathan Dann** - *Barclays - Analyst*

Oh, hi. The first one is you've disclosed Dutch wages, can you just confirm whether in 2013 post -- will the wage bill of roughly EUR900m be lower in 2013 than 2011?

A second one, is price competition different in Holland, on the fixed side, between say Ziggo areas and UPC?

And then finally, could you quantify if there's been any positive leap year effect, i.e. more days in the first quarter?

---

**Eelco Blok** - *Koninklijke KPN NV - CEO*

Yes. So, on the first question, given the fact that we will have less FTEs, the total spend on wages will be lower in 2013 than in 2012.

We see no real differences in Ziggo or UPC areas and, in general, we can conclude that of course the price instrument is used in marketing campaigns, but we don't see any signs of a price war starting in the Netherlands. It's the opposite; everybody is step by step increasing ARPU, sometimes on

broadband, sometimes on TV, sometimes on changes to the value-added services and packages. So the trend of ARPU is up blended in the Netherlands, looking at KPN ARPU, but also at the UPC and Ziggo ARPU.

---

**Eric Hageman** - *Koninklijke KPN NV - Interim CFO*

If I may add on the wages, I think there's another effect also. It's having fewer people on board, and we've been very clear about that, with the 4,000 to 5,000 FTEs. I think there is a second one. There were certain commitments in '11, which you now see translated in higher wage bills. I've explicitly talked about salary increases and pension costs, where we start to do our collected label discussions just now and, given what the market context is also in this country. You might have seen the news from yesterday. That helps those discussions, so we will be, I think, a little bit more forceful there than before.

Then on the leap year, yes, of course there is an extra day, which is always good for whoever has his birthday on Feb 29. We have seen a marginal impact, I have to say, but typically what you would see in a market where there is many more minutes, then an extra day will help you. And that effect, as you have seen and as we just shared, that the minutes on mobile are lower. So you don't see the effect as much as you used to in the -- let's say four years ago.

---

**Jonathan Dann** - *Barclays - Analyst*

Thank you.

---

**Operator**

The next question comes from Matthew Bloxham, Deutsche Bank. Go ahead please sir.

---

**Matthew Bloxham** - *Deutsche Bank - Analyst*

Hi there. A couple of quick questions. Just a quick follow up on the Belgian review. You seem to have a lot of things to focus on, and Belgium seems to be doing okay. So could you just give a little bit more clarity about what stimulated you to do this now? Was it some kind of external interest, or is it just part of the process to thinking about how you could fund the broader Group?

And then just a second question on Reggefiber. I think you've mentioned that homes passed has gone through a million, but I think it's the homes connected which is the trigger for possible -- exercising this first option. I was just wondering whether there's any change in when you think that might happen. Thanks.

---

**Eric Hageman** - *Koninklijke KPN NV - Interim CFO*

So, on Belgium, Matthew, as a listed company we have to choose our words carefully here. So we are clearly doing -- are doing our strategic review and we continue to do so. But on the second part of that same question I think it's really important to make this point.

The plan that we have given and the outlook and the guidance that we have given, in January, and the money that we have earmarked to invest in our Business, both OpEx and CapEx, there is no -- if there was a divestment there is no divestment that we have put in the plan, for which the potential proceeds are helping towards that earmarked money. So everything that we will do in this regard, and whether that it's Belgium or whatever else, is on top of.



**Matthew Bloxham** - *Deutsche Bank - Analyst*

All right.

---

**Eelco Blok** - *Koninklijke KPN NV - CEO*

And then on Reggefiber, the homes connected numbers are the trigger. We expect, at the end of 2012, the first option to be triggered and cash outflow will be in 2013.

---

**Matthew Bloxham** - *Deutsche Bank - Analyst*

Great, thanks very much.

---

**Operator**

The next question is from Hugh McCaffrey, Goldman Sachs. Go ahead please.

---

**Hugh McCaffrey** - *Goldman Sachs - Analyst*

Good morning guys, thanks for the questions. Firstly, just on Consumer Mobile in the Netherlands, you talk about an improving trend through the first quarter. Can you give us a bit more color on that? Was it a step change in trend there? Also what's the data attach rate on your sales in Consumer Mobile in the Netherlands?

Secondly, just on the Residential business, do you anticipate any launch costs for the new copper products? And are there any modem costs associated with upgrading a customer onto higher-speed copper broadband?

And then finally, just on Germany, and obviously you are getting to more and more data coverage there. What is the data attach rate on your German Mobile business? Thanks.

---

**Eelco Blok** - *Koninklijke KPN NV - CEO*

On the trends in Consumer Mobile, in the Netherlands, we see really promising results on our Hi brand, after the launch of the new propositions. But, at the same time, we also are doing a lot better in our KPN brands, just driven by more aggressive marketing and more aggressive -- being more aggressive on pricing.

And we have also introduced our Telfort new proposition, and those numbers will kick in during the second quarter. So, as I said, we are convinced that we have everything in place to continue the trend we have seen in the first quarter, of improving postpaid net adds, and the continued growth of prepaid.

That on -- the question on Consumer Mobile.

---

**Eric Hageman** - *Koninklijke KPN NV - Interim CFO*

Yes, just on the modems, we -- this is very much part of the story on accelerated investment that we talked about. And the increase of 20% of our CapEx, up to EUR78m, a part of that is indeed the investment that -- we talk a lot about Mobile, but also the investments we do in Residential. The big uptake that you see on IPTV product, with 79,000, which has increased our market share again with a percentage point, compared to the

previous quarter. There is where you see the CapEx increase, so the good thing about the investment in this is that obviously we can capitalize it. So it's not OpEx, but it's CapEx.

And that strong growth numbers that we see on Fiber-to-the-Home activations, and also on the IPTV, the customer premises equipment related to that, that's very much part and parcel of the plan that we have shared with you in the beginning of the year.

---

**Eelco Blok** - *Koninklijke KPN NV - CEO*

Okay, and then on the data in Germany, approximately 40% of the new customers take a data package in their subscription.

---

**Hugh McCaffrey** - *Goldman Sachs - Analyst*

Just as a quick follow up on Germany, 40% seems like a pretty low number. Do you think that will increase as coverage improves, or can you -- adjust that for your data network?

---

**Eelco Blok** - *Koninklijke KPN NV - CEO*

Yes, we expect that percentage to go up, on the one hand, by the increase of the data coverage and the improvement of the data network, and secondly driven by our multi-brand approach. As you have seen we have introduced a postpaid, no-frills brand recently in Germany.

---

**Hugh McCaffrey** - *Goldman Sachs - Analyst*

Okay, thanks, guys.

---

**Eelco Blok** - *Koninklijke KPN NV - CEO*

Pleasure.

---

**Operator**

The next question is from Stuart Gordon, Berenberg. Go ahead please, sir.

---

**Stuart Gordon** - *Berenberg - Analyst*

Yes, good morning. I've just got a question on costs. Clearly this is the transition year and you talk about major investment, but if we run through the breakdown on costs that you give us in Dutch Telco, it strikes me that the bulk of these costs are actually structural, rather than investment. When we look forward, to what extent is the recovery going to be very much more reliant on what happens to the top line, rather than on costs?

And, linked to that, I'm just curious at your observation that cost of materials is up in terms of high-end handsets. Why is this -- why has this not caused a significant increase in SAC, or has there been a very substantial underlying increase in the churn in the Dutch market? Thank you.



**Eric Hageman** - Koninklijke KPN NV - Interim CFO

Let's start with the relationship between the top line and the cost. It really is both that we are working on, Stuart. So I think we are reasonably okay with the under minus 1.4% in revenue. If you then look at the underlying that's obviously not something that you can be satisfied with, but that's what you -- why you are investing in your domestic business, to continue to improve your positions there.

I think that is one part of the equation. The other part of the equation is, indeed, taking out -- and taking out cost, and a part of it is structural. And that's mainly also related to the number of FTEs that we're taking out. That is the real reason why we accelerated that by two years, so already in '14 and '15 we can benefit from the structural cost that we take out.

So both are important; making sure that you do the right investments to defend your market position, and to defend your [high-end] Domestic franchise. From that you then should see better revenue numbers. And secondly you have to work on the cost side as well.

If you look at the cost of materials, yes, we -- this is specifically in our Consumer Mobile segment, and a little bit in the Business Mobile segment. There is an increased demand for higher-end handsets, let's be very simple. We are mainly talking about the iPhone here, but also some of the other brands, including the latest Nokias that we have seen. So there is a demand for that.

Yes, we personally think it's very good to see that you have a couple of brands there with different operating systems. That will create competition. It is that competition that we benefit from to make sure that our subscriber acquisition cost doesn't get out of hand. So you have to make sure that you find the right balance there. I think one thing that (multiple speakers).

---

**Stuart Gordon** - Berenberg - Analyst

Can I just clarify there, Eric? Does that mean that people are having to pay more upfront for the handsets, because it still doesn't dovetail why SAC would be lower if there's high-end handsets that are getting paid. So people are paying more upfront, is that correct?

---

**Eric Hageman** - Koninklijke KPN NV - Interim CFO

It's -- on the subscriber acquisition cost balancing act, as you have seen we have introduced a lease model in the Netherlands, for handsets. And we -- concluded that we had an issue on competitiveness, compared to the competition, and we have taken everything into account when we had to make the decisions on the new propositions.

Our absolute goal is to reduce the subscriber acquisition costs, over time, but where we are today we had to make some decisions to increase competitiveness, including an increase of subscriber acquisition costs. So our main objective is to trend it down over time, but where we are today we had to decide on an increase because of the competition in the Netherlands, not only in the consumer market, but also in the business market and, as you have seen, looking at the Q1 figures, we are doing very good in this part of our business, both on top line and on margin.

---

**Stuart Gordon** - Berenberg - Analyst

Okay, thank you.

---

**Eelco Blok** - Koninklijke KPN NV - CEO

And maybe to add to the cost, two weeks ago we have announced a new Group CPO, with a private equity background, that really will help us to improve the terms and conditions we have with our different vendors, on the one hand. And on the other hand to leverage the synergy we have in the Group, because we are convinced that there is still room for improvement on this part of managing the Business.

**Stuart Gordon** - *Berenberg - Analyst*

Thank you.

---

**Operator**

The next question is from Luis Prota, Morgan Stanley. Go ahead please.

---

**Luis Prota** - *Morgan Stanley - Analyst*

Yes, thank you. It's just a follow-up question on E-Plus, and the margins that you have recorded this quarter, this 38% margin. I would like to know how much is affected by the launch of this new tariff, and when do you think that margin should pick up again, if at all, expect it to get closer to 40% again this year? Thank you.

---

**Elco Blok** - *Koninklijke KPN NV - CEO*

So the margin in the first quarter is impacted by the increase in marketing spend. As we said in January, margins in E-Plus will be in the range of 35% to 40%, and of course we are aiming for the higher end of this range.

---

**Luis Prota** - *Morgan Stanley - Analyst*

Okay, thank you.

---

**Hans Sohngen** - *Koninklijke KPN NV - Head of IR*

Okay, that was the last question, and I would like to thank you all for attending our first-quarter 2012 conference call. If you have any remaining questions, please contact the Investor Relations Team. Thank you.

---

**Operator**

Ladies and gentlemen, this concludes the KPN conference call. Thank you for attending and you may disconnect your line now.

---

**DISCLAIMER**

Thomson Reuters reserves the right to make changes to documents, content, or other information on this web site without obligation to notify any person of such changes.

In the conference calls upon which Event Transcripts are based, companies may make projections or other forward-looking statements regarding a variety of items. Such forward-looking statements are based upon current expectations and involve risks and uncertainties. Actual results may differ materially from those stated in any forward-looking statement based on a number of important factors and risks, which are more specifically identified in the companies' most recent SEC filings. Although the companies may indicate and believe that the assumptions underlying the forward-looking statements are reasonable, any of the assumptions could prove inaccurate or incorrect and, therefore, there can be no assurance that the results contemplated in the forward-looking statements will be realized.

THE INFORMATION CONTAINED IN EVENT TRANSCRIPTS IS A TEXTUAL REPRESENTATION OF THE APPLICABLE COMPANY'S CONFERENCE CALL AND WHILE EFFORTS ARE MADE TO PROVIDE AN ACCURATE TRANSCRIPTION, THERE MAY BE MATERIAL ERRORS, OMISSIONS, OR INACCURACIES IN THE REPORTING OF THE SUBSTANCE OF THE CONFERENCE CALLS. IN NO WAY DOES THOMSON REUTERS OR THE APPLICABLE COMPANY ASSUME ANY RESPONSIBILITY FOR ANY INVESTMENT OR OTHER DECISIONS MADE BASED UPON THE INFORMATION PROVIDED ON THIS WEB SITE OR IN ANY EVENT TRANSCRIPT. USERS ARE ADVISED TO REVIEW THE APPLICABLE COMPANY'S CONFERENCE CALL ITSELF AND THE APPLICABLE COMPANY'S SEC FILINGS BEFORE MAKING ANY INVESTMENT OR OTHER DECISIONS.

©2015, Thomson Reuters. All Rights Reserved.