Event transcript

KPN Q1 2020 Results

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KPN Q1 2020 Results

Operator: Good day ladies and gentlemen, welcome to KPN's first quarter 2020 earnings call – webcast and conference call. At this time, all participants are in listen-only mode. We will be facilitating a question and answer session towards the end of the day's prepared remarks, at which time, if you would like to ask a question, you may do so by pressing star one on your phone.

Please note that this webcast and conference call is being recorded. I will now turn the call over to your host for today's webcast and conference call, Bisera Grubesic, Head of Investor Relations. You may begin.

Bisera Grubesic (Head of IR, KPN): Thank you operator. Good afternoon ladies and gentlemen and welcome to KPN's first quarter 2020 results webcast. With me today are Joost Farwerck, our CEO and Chris Figee, our CFO. Before turning to the core of the presentation, I would like to draw your attention to the safe harbour statement on page two of the slides, that also applies to any statements made during this presentation.

In particular, today's presentation may include forward-looking statements, including the company's expectations with respect to its outlook and ambitions, which were also included in the press release this morning. All such statements are subject to the safe harbour statement.

I would now like to hand over to our CEO, Joost Farwerck.

Joost Farwerck (CEO, KPN): Thank you Bisera and welcome, all, to our first quarter results presentation. We've had a solid start to the year, delivering meaningful year-on-year growth of adjusted EBITDA after leases and the rate of revenue decline slowed sequentially. Our strategy remains on track and following a court ruling in March, KPN's fixed network is currently no longer regulated.

The impact of COVID-19 on our first quarter results was limited. We consider our business relatively resilient. However, it is premature to say what the operational and financial impact will be for the remainder of 2020.

I would like to highlight a few key figures, corrected for divestments. Adjusted revenues declined 1.9% year-on-year, growth in Wholesale and Professional services and Security services in Business was offset by lower revenues from KPN Consulting, a business we -by the way- recently sold, and continued pressure on fixed voice and mobile services.

Adjusted EBITDA after leases increased 3.1% year-on-year, as the effect of lower revenues was fully offset by strong cost savings. Free cash flow increased 23% year-on-year to €80 million, despite higher capex.

Chris will give you more details on our figures in a minute. Now let's move to our outlook.

Like I said, we generated solid results in the first quarter and we are on track with the execution of our strategy, to which we remain fully committed. Demand for our essential connectivity and communication services remains solid and we have a robust liquidity position.

While it is clear the external situation increases the risks to our stated 2020 outlook, the combination of our good start to the year and our lack of visibility into the remainder of the year means it would be premature to confirm whether our 2020 outlook needs to be updated. We expect to have a better visibility on potential impact at the end of the second quarter and we expect to be able to clarify our position then.

Meanwhile, we remain fully committed to our strategy and it is our ambition to reach our 2020 outlook, as provided in January this year.

As shown on slide seven, we continue to manage our business through the crisis and we closely monitor several business drivers, including payment behaviour of our customers, net working capital and credit quality. We saw limited impact in the first quarter but we remain alert. Meanwhile, we prepare to take more necessary measures.

We're also looking closely at our revenue risk profile. Consumer, Wholesale and B2B SoHo segments account for a large part of our revenue base and are mainly served by our relatively resilient consumer services. The main impact here could be in mobile through lower roaming revenues.

Importantly, customer segments most exposed to COVID-19 measures and economic downturn account for around 10% of total group revenue. Our SME exposure is relatively limited and sectors such as hospitality, leisure, travel represent a minority within that SME base. Also, many of our LCE customers are active in the public sector.

Our society has changed radically because of the government measures taken to prevent the spread of the COVID-19 virus. At KPN, we are trying to help everyone through this exceptional period as smoothly as possible. We have initiated many measures for our stakeholders. We are more aware than ever that our responsibility to keep our network as stable as possible is super important for the Netherlands. Our technicians and experts are working hard to prevent and respond to outages, while also taking appropriate safety measures into account. We are closely monitoring privacy and security. We've also upgraded a lot of our customers to enable them to work from home and our services have remained stable and coped well with this increased traffic.

Social distancing measures have driven a large increase in network traffic. Mobile traffic has doubled in recent weeks, with broadband traffic increasing 25%. We're handling this traffic well. In the recent past, we built a decentralized content delivery network, supported from 160 metro core locations in the Netherlands, so our network is designed to cope with these peak capacities and in the past we provisioned for 100% additional capacity on top of this. We are taking every precaution to ensure that everyone can count on our networks to be reliable and safe.

Let's now move to our business performance update. As I said earlier, we remained on track with our strategy. On fiber, we added 58,000 homes, almost half of the full-year 2019 production, in three months. We upgraded 300 mobile sites with the latest equipment. In Consumer, we're executing on our brand strategy while competition remained intense. In Business, we continued good progress in migrating our customers. In Wholesale, we reported a growing broadband portfolio and our cost savings programme added indirect OPEX savings of €38 million in the first quarter, resulting in a total of €180 million of savings since the start of the program in 2019.

We have a total fiber footprint in the Netherlands of more than 2.5 million and one of the largest fiber footprints in Europe. With 30% of households covered by fiber-to-the-home and on top of that, 55% of households covered by fiber-to-the-cabinet, the speeds we offer to our customers are highly competitive.

We are investing in future-proof digital infrastructure and we are targeting partnerships with third-party fiber operators for complementary rollout in other areas so that everyone can access KPN's services. Our ambition is to cover more than 40% of households with our own fiber network by the end of 2021 and we expect to continue the fiber rollout thereafter, as we're just getting the machine up and running.

So, in the quarter, we added 58,000 households to our fiber network. We activated 23,000 customers, meaning a solid activation rate of 57% over the past 12 months. We accelerated our rollout to an average of 4,500 households per week and currently we're active in 77 areas in the Netherlands, with a quickly growing number of construction crews.

We have a unique self-funded rollout plan. This year we expect to invest around €300 million in our fiber network and by committing to our long-term goal, we are ensuring employment for the thousands of people that are helping to build our fiber networks. We're fully committed to these investments, as the economics and value creation work very well.

In the first areas, we see network utilization growing by around 8% during the first year and this, together with solid commercial momentum, provides for good returns on fiber investments, exceeding cost of capital upon reaching maturity.

Let's now briefly discuss the performance of our Consumer segment, starting with slide 14.

We continued to execute our brand strategy and we have integrated Telfort mobile customers to KPN. In the first quarter, fixed revenues were flat, mobile service revenues declined 5.6% year-on-year, which is an improved revenue trend sequentially. We further strengthened our position in the premium segment by making several high-quality features available to KPN customers, introducing SuperWiFi and we commercially launched a 1Gbit proposition on fiber.

A few words on our Consumer KPIs. In the quarter, our customer base for converged broadband and mobile services declined, driven by our brand strategy and increased competition. We see aggressive promotions in the fixed markets and competition from local fiber operators in rural areas. Also, the mobile market remained competitive, moving to the premium segment, with all operators now offering unlimited data.

Looking at our broadband base more closely, we added 13,000 fiber customers. In mobile, we added 24,000 KPN brand customers and the total decline in net adds is sequentially lower and slowed down during the quarter.

Our focus on value is demonstrated by fixed ARPU growing 5.4% year-on-year and mobile post-paid ARPU being at €17 for the fifth quarter in a row, showing an improving trend.

As we continue to migrate our Business customers, the impact of our strategic actions remains visible in the performance of our B2B segments. We completed the divestment of KPN Consulting on the 1st April. So, KPN Consulting still contributes to first quarter results but will not be in the Q2 numbers.

Corrected for divestments, revenues in B2B declined 4.0% year-on-year and this was fully driven by Communication services, partly compensated by higher revenues from IT and Professional services.

We see an improving revenue trend and sequential improvement in NPS.

We had another good quarter in terms of the operational transformation of our B2B segment. Since we announced the end of life of ISDN and PSTN services, most of our customers have now switched to a future-proof portfolio, such as KPN Kleinzakelijk for SoHo, KPN ONE and KPN Smart Combinations. We've now migrated 82% of SME and 62% of LE customers and our SoHo segment saw continued take-up of converged services.

Now let me move to Wholesale. Correcting for divestments, adjusted revenues in Wholesale increased 5.2% year-on-year and both mobile and fixed revenues contributed to that growth. We added 21,000 broadband lines and 12,000 post-paid SIMs in the quarter. This quarter, the court ruling annulled the Wholesale Fixed Access regulation and as a result, ACM's assessment of KPN's regulated tariffs, such as ODF and VULA copper and VULA fiber-to-the-home were discontinued. Preparations for Wholesale access to cable were cancelled and KPN's fixed network is no longer regulated. The Dutch government will implement the European Electronic Communications Code in the Netherlands, as regulators will do in all European countries. This is nothing new; it has been known for a while and in the code, there is a new instrument for regulators: it's the possibility to enforce so-called symmetrical access. Access obligations to any network may be imposed if there is no economically viable alternative.

This instrument is different than ex-ante regulation based on significant market power. The conditions, first of all, of enforcement and harmonized application across the EU have to be further clarified by BEREC guidelines first and as mentioned in the Code, regulation should protect both end users and stimulate investments in very high-capacity networks, like fiber networks and a rollout of these networks is a priority for any country, including the Netherlands. KPN stands by its open network policy and this entails access to our network against reasonable and non-discriminatory terms. Our policy is in our own interest, as wholesale partners support our fiber-to-the-home strategy by offering users a choice of providers via our fiber network. We're convinced that our open network strategy meets the EU law and we welcome every provider to join the 'network of the Netherlands'.

This ends my part of the presentation. I would now like to hand over to Chris to talk you through our financials.

Chris Figee (CFO, KPN): Thank you Joost. Let me summarize our group financials for the first quarter. I appreciate that some of you might think that pre-corona numbers are as up-to-date as my fashion preferences but we think they are still highly relevant, as they show the underlying strength of KPN.

I will go through the numbers pretty quickly, taking what I call the magpie approach, just focusing on the shining and shimmering elements.

Page 20 shows our group financials. Our adjusted revenues, like-for-like, declined by just short of 2% year-on-year, which is an improving trend, sequentially. Our adjusted EBITDA, after leases, arrived at €575 million, increased 3.1% year-on-year. The effect of lower revenues was more than offset by net indirect opex savings of €38 million.

Our margins improved 180 basis points over the last 12 months in EBITDA and about 130 basis points in operational free cash flow. Our margins are improving further, testimony to our value over volume strategy and our strong cost track record. The high margins enable us to self-fund our access investments.

Net profit was €31 million higher, year-on-year, due to lower financing costs and a higher share of profits from associates and joint ventures.

Moving on to our cost program, we realised €38 million in net indirect opex savings in the first quarter, bringing us to a total of €180 million realised savings since we started the program. The savings are driven by less staff and IT/TI expenses. We are fully confident that we will reach our €350 million target by the end of 2021.

I would also like to point to the P&L restructuring costs for the quarter. They were €10 million in Q1 compared to €36 million in the first quarter last year, due to the fact that we achieved and reached a lower FTE count already at the end of last year.

When it comes to cash generation, we intend to disclose our cash more comprehensively. We disclose, going forward, the operational free cash flow, the classic free cash flow definition and the actual delta cash at hand.

The operational free cash flow equals adjusted EBITDA after leases, minus capex and gives you the insight into the longer-term underlying cash generation trend. In this quarter, we remained strong, at about €300 million, flat year-on-year when corrected for the impact of the divestments. The margin on operational free cash flow went up by 130 basis points.

We generated a free cash flow of €80 million in the first quarter, which was €15 million, or 23%, higher year-on-year, when adjusted for divestments.

The strong increase in free cash flow was driven by higher EBITDA, lower cash interest paid and lower restructuring costs and absorbed higher capex and a higher cash commitment into working capital compared to last year. We ended the quarter with a strong cash position, totalling just shy of €700 million in cash and marketable securities.

So, going forward we will disclose cash through three levers: operational free cash flow, free cash flow and cash at hand.

In terms of working capital, page 23, an important element in our cash generation, we highlight, going forward, what happens in our working capital. The change in working capital in our free cash flow statement was €86 million in the first quarter, a bit higher than last year. The main drivers were higher prepayments, partly in line with regular trends, as invoice receipts for annual commitments are concentrated early in the year and partly by prepayments for licences for Business customers.

Secondly, lower trade payables, mainly driven by payment of end-of-year peak incoming invoices. You may remember the Q4 capex peak we had last year, which echoes into invoices into Q1 this year and finally, some higher accrued expenses, mainly driven by our fiber rollout and mobile network modernization. Think about €8–10 million operational fiber commitments into working capital in the quarter.

We have a strong liquidity position, page 24. Total committed liquidity at the end of the quarter was €2.2 billion, consisting of three elements: cash and short-term investments of €696 million, a €1.25 billion revolving credit facility and a €300 million EIB facility. We drew down the latter in early April. Our total liquidity position is sufficient to cover debt maturities until the end of 2022, including the final dividend payment of 2019 of €348 million, which we paid last week.

Our leverage position is very strong. I would like to highlight page 25. We have a strong balance sheet, which is more important than ever: €6.3 billion of nominal debt outstanding at the end of the quarter, of which €461 million is maturing in September this year. Our net debt to EBITDA ratio is 2.2 times and the interest cover ratio [ended] at 8.7 times.

We are able to self-fund our fiber rollout. As Joost reiterated, we invest €1.1 billion in Capex, of which a significant portion relates to access and around €300 million to fiber. We could even afford to step up our fiber investments from a cash perspective and still be fully self-sufficient. We are not dependent, or not constrained, by our leverage.

We believe in investing in disclosure to our shareholders because we want to be open and transparent. On page 26 we disclose our disclosure agenda for the rest of the year. Already in today's presentation we have enhanced disclosure and we will continue to do so in the rest of the year. This year, we started with a change in our format and structure of our presentation, gave more insight in our fiber activities and corresponding KPIs and enhanced our cash generation disclosure.

In the future, we plan to enhance disclosure, as indicated on the slide, including ARPA, average revenue per address, and new revenue breakdown in Consumer. In the Business segment, you will get from us during the year more insight into revenue breakdown per customer segment and more insight into end-to-end EBITDA after leases.

And finally, during the year, we will spend more time, more emphasis, on return on capital by ROCE and segment adjusted EBITDA numbers.

You will get that from us in the course of the year.

So, a few closing remarks: we delivered a solid year-on-year growth of adjusted EBITDA after leases, particularly when corrected for divestments. Strong cost savings compensated the revenue decline this quarter. The rate of revenue decline slowed sequentially. We remained on track with executing our strategy and ramped up our fiber rollout.

In Consumer, we continued to execute our brand strategy, in the face of strong market competition. And in Business we showed good progress in migrating our customers to the future-proof portfolios. In Wholesale, we reported a growing broadband portfolio.

We've got strong margins that are improving further, we have a significant fiber business and we are able to self-fund our fiber rollout through our strong margins. And we believe shareholders are an important stakeholder, as we have shown by paying our [final] dividend over the last year.

As said, on the subject of COVID-19, during the quarter we had limited impact for a period of 2–3 weeks and we remain on full alert for the rest of the year and in Q2. Overall, while it's clear the external situation has increased the risk to our stated outlook, the combination of our good start to the year and lack of visibility into the remainder of the year means it would be premature to confirm whether our outlook needs to be updated. We expect to have better visibility of potential operational and financial impact at the end of the second quarter. Meanwhile, we prepare and stand ready to take more necessary measures.

That closes our presentation. Now let’s turn to your questions.

Questions and Answers

Bisera Grubesic: Thank you Chris. Ladies and gentlemen, we are ready to start with the Q&A. I would like to ask you to please limit your questions to two each and in case there is still time left at the end of the call, you will be given a chance to raise your follow-up questions.

Operator, please start with the Q&A.

Operator: Ladies and gentlemen, we will start the question and answer session now. If you would like to ask a question, you may do so by pressing star one on your telephone. To ask a question, please press star one.

The first question is from Mr Keval Khiroya from Deutsche Bank. Go ahead, please.

Q - Keval Khiroya (Deutsche Bank): Thank you. I've got two questions, please. Firstly, you have highlighted that the COVID impact was quite limited in Q1. You know, we are one month on now, would you be able to comment on whether that also stands for April as well and whether that would still leave you happy with, at least for now, the guidance you'd set.

And then secondly, you've mentioned, within the release, that you have identified some potential cost opportunities as mitigation measures, would you be able to talk about the envelope of those opportunities, or at least what types of cost reduction we could see additionally? Thank you.

A - Chris Figee (CFO, KPN): On the April numbers, well – okay, I'm as anxious as you to see the full April results. I mean the month is not yet done, it's just the last day of the month, so you have to bear with me for a few days after closing to give you the full results. However, if I look at early indicators, I see still relatively limited impact. We especially monitor very closely payment behaviour by customers and requests for extensions of payments. Actually, that result is actually fairly low at this point in time, fairly limited impact at this point in time and I would expect, in the month of April, to see lower costs: I mean travelling costs, fuel costs, housing costs to be down significantly. But to be quite frank, bear with me. We have to wait until the closing of the month.

A - Joost Farwerck (CEO, KPN): Maybe your question on additional cost measures: of course we are super focused on our spend and especially in these times, we're preparing for additional measures. Cash in - cash out is guarded by a special team looking at every euro we spend, or we expect as an income, so that is very important. We have a flexible workforce, so we did send a lot of people out of the shops to home and then we moved them to call centres to support our call center agents but we also scaled down on the flexible workforce: 200 FTE of hired people. And we still have a lot of flexibility in our workforce. So that could be one of the measures we have to take, if necessary and like Chris said, there are smaller and bigger buckets in our operations that we can take measures on when needed.

Q - Keval Khiroya (Deutsche Bank): That's very clear, thank you.

Operator: The next question is from Mr Joshua Mills from Exane. Go ahead, please.

Q - Joshua Mills (Exane BNP Paribas): Hi there, thank you very much for the two questions. The first one was just on the impact of the brand strategy. So, clearly you are continuing to wind down the Telfort brand. I wondered if you could give us an idea of how much of an impact that had on the broadband base, as well as mobile, as you provided? And then also, just a sense of what percentage of your customer base is still left on Telfort?

The second question is just on the fiber-to-the-home rollout. So, you've given us some great detail there on the pickup in rollout, quarter-on-quarter. How do you expect that to develop through the rest of this year? Is the 4,500-a-week still sustainable with the COVID impact and should we be thinking about any impact on working capital as a result of that as well? Thank you.

A - Joost Farwerck (CEO, KPN): On our brand strategy, an important moment last year was that we announced the elimination of the brand of Telfort and last quarter was very important because we migrated all our mobile Telfort customers to KPN in two weeks. So, on mobile, there is no Telfort customer left in the Netherlands anymore.

On broadband, we are preparing for the migration and we only give the go when we are sure that it will go just as smoothly as on the mobile side.

So, the impact on our broadband base is – one of the reasons our base is impacted is because of this elimination of Telfort and the strong competition, as we said. And of course this is, for us, one of the most important focus points to improve. We see a strong inflow of KPN customers and we see a stronger outflow of Telfort customers. As you know, it's leveraged by the inflow of Wholesale customers but of course, we prefer to stabilise our Consumer base, looking forward. But we took into account, when we eliminated Telfort, this could happen for a couple of quarters but still I'm convinced we did the right thing by doing that because the cost in our operations improved extremely well. We can brand and market our company in a much more focused way in the Netherlands. It's a small country, so we will recover there but it's an important one.

And on fiber, we have a couple of stakeholders who support us in the fiber rollout: the government, the construction companies, it's super important for the Netherlands that construction continues in general and so we are supported not only by ourselves, it's relevant for our customers but also by our other stakeholders to make sure that we can rollout as fast as we can. And if needed, we can adjust the program a little bit and we go faster in the street and connect houses a little bit slower due to COVID-19 situations. But until now, we're all focusing on speeding up fiber rollout, instead of slowing down.

A - Chris Figee (KPN, CFO): I think to add, the fiber rollout is something you plan ahead. It's about locking in building streams, so we look at the building streams we're locking in today, we're pretty confident we can continue to ramp up our fiber rollout because, actually, in the plans, it's committed construction capacity.

I think the risk, probably, is around the availability of these building workstreams going forward and we need to monitor our supply chain carefully but do expect us to further ramp up our fiber rollout. The nature may change a bit, as we focus more on homes passed and less on homes activated because it's more difficult to enter someone's house these days. But we're planning for that, to focus on passing homes and doing the connection in second or third waves after that but we're pretty confident that we can continue to ramp up our weekly fiber rollout.

Q - Joshua Mills (Exane BNP Paribas): That's great, thank you very much.

Operator: Next question is from Mr Frederic Boulan from Bank of America. Go ahead, please.

Q - Frederic Boulan (Bank of America): Hi, thank you very much for the question. The first one is on COVID-19. So, at this stage, limited impact and you mentioned some mitigating factors. Is the ambition of the strategy to first protect EBITDA as a main criteria in the guidance and is also – are there also other things you can action at a free cash flow level to also protect your free cash flow guidance?

So when we talk about – I mean you have reconfirmed the entire range of the guidance but is there one element you think is more under your control? And in particular, is Capex one tool to manage free cash flow? It doesn't seem like it when I just listened to you on fiber but interested to have your view there.

And then, if you can spend a bit of time on the mobile market and what you're seeing there, you've taken some steps around pricing but if you can comment a little bit on what you're seeing there, you seem to be satisfied with a more stable ARPU. Do you think that's something you can sustain in the medium term? So any colour on the mobile market would be great. Thank you.

A - Chris Figee (CFO, KPN): Okay, on your first question: do we prioritise EBITDA or Free cash flow? I think both are important. I mean EBITDA is our margin but Free cash flow is actually, ultimately, what's in the bank. So both are, I would say, equally important. On the Capex side, you know, the main difference between the two is, I would say, there might be an opportunity to continue to roll out fiber, especially in the current environment and this might provide an opportunity to get more, or faster, fiber rollouts. I don't want to sacrifice that but I think the combination of EBITDA management, cost control and working capital management should enable us to protect both and we're focusing on both. The biggest unknown, I think, is, at this point, is payment behaviour by our customers. Are there other requests for delayed payments? That's something we monitor, actually, very closely and it does not show up yet, in our numbers. So there is no observation there but it's something that we monitor very closely when it comes to working capital but we're both EBITDA and Free cash flow focused.

A - Joost Farwerck (CEO, KPN): And you asked on mobile, your question on mobile: mobile is, of course, super important that we improve value there. In general, the Netherlands should be seen as a country where the market is improving. We had some consolidation in the market of VodafoneZiggo, T-Mobile and Tele2. Last year we saw really aggressive low-price propositions moving out of the market, us taking out Telfort, so now the whole market moved up to unlimited, T-Mobile being the cheapest but I think that's their role; us and VodafoneZiggo are a bit more expensive but still, if we move the market up to more unlimited, then it will create value. So the first indication is the inflow in March, which was much better than the first two months of the quarter on net adds and the second is, of course, the ARPU, for the fifth quarter in a row on €17. I would like to see a two as the first number there but €17, now, for five quarters in a row is much better than we did over the last years that we faced a decline every year of at least €1.

So, too early to be super happy but we will focus on this to improve the value of mobile in general.

Q - Frederic Boulan (Bank of America): Okay, thank you.

Operator: The next question is from Mr Michael Bishop from Goldman Sachs. Go ahead, please.

Q - Michael Bishop (Goldman Sachs): Yes, thanks. Good afternoon, just the two questions, please. Firstly, as you think about the lockdown and the impact there, could you give us any indication on how much lower churn is in the Dutch market? I understand quite a lot of shops were shut and I guess, even if the shops reopen, is it likely that you have a sort of extension of lower churn because people, A, valuing their telco connection a bit more and B, not wanting to go to shops?

And then the second question is: coming to this 10% of group revenue definition that you've mentioned today, which I think is really helpful, I'd just love to understand, you know, exactly which industries you're including in that and how you're thinking about that 10% exposure, given your previous comments that you're not actually seeing any bad debt or late payments? Thanks very much.

A - Joost Farwerck (CEO, KPN): Thank you. I will do the first question. Chris will follow up on the second one. Yeah, that lockdown, you're right, churn improved very well. On the other side, acquisition came down more or less on the same level, in general. So we closed all our shops; that was a tricky decision but we had to do it. Next day, T-Mobile and VodafoneZiggo followed, by the way.

We opened up but we opened up only 16 and we're preparing to open up 20 more and we move now in, as an in-between solution, to a more Ikea kind of model: not 120 shops in the Netherlands but you have to step into your car, 20 minutes' drive and you're there. It works but in general what we see is that both slowdown, the acquisition and churn moved well to online. So I hope that some of the things we experience now in this lockdown and we learn in a different way of working, we can cherish and then keep in our future operating model.

A - Chris Figee (CFO, KPN): On that margin, we went to all our clients in the – well, first let me – as Joost reiterated, 65% of our clients are retail, retail-type clients or wholesale clients, which we see as limited risk because of us providing such a vital infrastructure to these clients. Then we zoomed into our business clients and we went through it segment-by-segment, so we looked at travel, hospitality, non-supermarket retail, leisure, personal care, so segment by segment we classified our clients.

Of that 10%, the lion's share is in our LCE, where we have more service-related revenues but 20% or, just below a quarter, is in the SME space. So in that high risk, I would actually qualify the SME as the highest risk of those two. So if you become more granular of that 10%, only a quarter is in the SME space. Another 75% is in the LCE space. LCE customers are more telco-related clients, SME – the large corporate are more service-related clients but the sectors like travel, hospitality, non-supermarket retail, leisure, etcetera.

So we went through all our clients on a segment-by-segment basis and classified them. And you know, I have, twice a week, a call with the team to look at payment behaviours or requests for payment extensions and there's a very stringent and structured approval process before we allow a client actually to extend its payment and as I said, we haven't seen anything major at this point in time.

A - Joost Farwerck (CEO, KPN): And some of our – an important part of our LE corporate customers are state-owned, or partly state-owned and then, of course, we think it's up to our government to support these companies in the first place. It's not up to KPN to act like a bank in the Netherlands.

Q - Michael Bishop (Goldman Sachs): Thanks very much.

Operator: The next question is from Mr Luigi Minerva from HSBC. Go ahead, please.

Q - Luigi Minerva (HSBC): Yes, good afternoon. Thanks for taking my questions. The first one is a follow-up on the 10% group revenue at risk and I was wondering if we can do a step further and think about the EBITDA percentage being at risk. Well, if you can help us on that, that would be very helpful.

And secondly, I wanted to ask about the dividend, so whether there is any pressure in the Netherlands on limiting your dividend policy, whether the Supervisory Board has considered changing the dividend outlook and how does the Board think about it in the current context? Thanks.

A - Chris Figee (CFO, KPN): Well, look, perhaps on your first point, to elaborate on that. I mean I said we had 8–10% is at risk. These are full-year revenues. And these are not revenues at risk but clients in higher-risk sectors, maybe to just elaborate with that, clients – the revenues of clients in higher-risk sectors. I don't think the entire revenue will disappear overnight, because that would mean that all the high-risk clients would go bankrupt. We're saying these are clients in high-risk sectors. So, it's not really relevant to attach a margin to it but it's clients in high-risk sectors but if you would want to, that's kind of in your responsibility. 20% is in SME; 80% in LCE. The SME clients are more telco-oriented and the others are more service-oriented. So you could come up with a theoretical EBITDA margin in high-risk sectors, but I would be very hesitant to add a number to that or assume it's going to go away because this is a full-year number and this is actually total exposure of these clients. So, to me, it says these revenues are on the watch out for, that we monitor carefully but it doesn't mean that you can strip out the EBITDA very quickly. Just to make sure that we understand what's in it: these are revenues of clients in high-risk sectors.

A – Joost Farwerck (CEO, KPN): Yeah and on your second question, since end of February, we have more interaction with our Board, our people, our top management than before and we clearly focus on all our stakeholders, so that's employees, our customers, the health sector as an important stakeholder in the Netherlands but also shareholders. And we are a dividend stock and dividend is important in our strategy, so after the first quarter of this year, which was very solid, there's no reason to challenge our dividend policy and let's see what happens in the Netherlands. Of course, there's pressure on a lot of companies but that's companies in real trouble or state-owned. It's up to us to make sure that we try to meet our guidance from January and fulfil our strategy.

Q - Luigi Minerva (HSBC): Thank you.

Operator: The next question is from Ms Siyi He from Citigroup. Go ahead, please.

Q - Siyi He (Citigroup): Hello, good afternoon. Thanks for taking my questions. I have two, please. The first one is just on the COVID-19 impact. I think, in your press release you talk about a potential delay in some of the restructuring initiatives, so I was wondering if you can mention about how you see the COVID-19 could potentially impact the plans that you have on restructuring and the potential price increases for this year?

And my second question is on your brand strategy. It appears that, since you removed the Telfort brand, your broadband has seen about 20,000 losses every quarter and now you see losses on the convergence front. I understand the rationale to focus on the premium brand and one brand but it looks like the competition is increasing in the Netherlands, especially in the low-to-mid-tier fixed or converged market. I was wondering whether you can comment on whether this makes it more difficult to raise prices and in the meantime, still keeping the base stable? Thank you.

A - Joost Farwerck (CEO, KPN): So COVID-19, we mentioned delay of the reorganizations. That's a decision we took for eight weeks. We thought, in the first wave of this, people were working from home. We continued, by the way, all reorganizations that we already were executing on and those scheduled for the last eight weeks, we said we will delay the execution on that until 1st June. Meanwhile, we will change our plans by delayering more hired people, so like I just said, we're flexible there but it's not our objective to delay reorganizations for the full year, or something like that. So that's in our own hands. That's not the pressure coming from anyone else than our own decision and we are doing better than planned on FTE. We launched a hiring freeze, so we will make sure we meet our targets on FTE.

On price increases, I can only say that we, over the last years, increased our prices in a reasonable way every year and then we have our pricing strategy but we will first announce to our customers and markets what we will do and when we will do that before we really can communicate on that. But yeah, we're always focusing on creating value.

And you are right, the broadband base, we moved up: APRU improved over the last two years and so we're really focusing on value. We launched Simyo on mobile a bit better to position ourselves there. It's a very popular, low-priced brand. We still have it. But on broadband, it's super important that we understand that part of the decline in convergence comes from our own Hussel proposition, that customers can optimise and click for only one service, instead of a combination and second, by third-party fiber networks in rural areas and we're focusing on that as well.

So, all-in-all, we anticipated on the loss of broadband and converged customers but we're also super focused on the improvement there.

Q - Siyi He (Citigroup): Thank you very much.

Operator: Next question is from Mr Simon Coles from Barclays. Go ahead, please.

Q - Simon Coles (Barclays): Hi, it's Simon from Barclays, thanks for taking the question. Just one on Wholesale strategy, actually: so, we've obviously seen the court decision and now there's the EEC code which the government and the ACM are looking at implementing in the Netherlands and I'm just wondering, because you no longer have the obligation and you've taken away some of your products, what actually is your strategy, because you say the network is open? Are you just trying to drive your Wholesale customers to push their customers to fastest new products? I'm just wondering if you could give some more colour about how you see your Wholesale strategy going forward? Thank you.

A - Joost Farwerck (CEO, KPN): So two years ago we moved the market to a more commercial portfolio, so we moved away from MDF access, ODF access to Wholesale Broadband Access products. Also, to avoid customers rolling out to local points of presence to make use of ODF access we introduced VULA and this open access model is still our proposition. We didn't stop any service in our portfolio on the Wholesale side. There was pressure on us to decrease prices in Wholesale and that pressure was coming from third parties making use of our Wholesale portfolio and from our regulator and we're not against regulation. I appreciate we need some kind of a regulatory framework and we need a supervisor as well, that's important in a competitive market but I don't think that we need a regulated decrease of broadband prices in the Netherlands. So that was our main concern.

So our strategy is that we still do business with service providers and they still make use of our services and that is on voluntary deals and we are currently negotiating new models and that is a purely a commercial discussion and we are no longer, at this moment, pushed by ACM to go in a certain direction, so we have to do it together with our Wholesale partners. It's not our strategy to suddenly stop certain kinds of Wholesale services because that could trigger the wrong discussions in the Netherlands. So, we will continue our strategy on Wholesale and we will try to negotiate good deals with our partners.

Q - Simon Coles (Barclays): That's great, thanks very much.

Operator: The next question is from Mr Usman Ghazi from Berenberg. Go ahead please.

Q - Usman Ghazi (Berenberg): Hello, thank you for taking my question, I've got two, please, firstly on roaming. Could you indicate how much roaming costs are as a percentage of EBITDA, or revenues, or in absolute terms, what the exposure here is and you know, if you are a net payer? So that's the first question.

The second question was just on potential for optimising working capital. I mean this seems to have become more of a focus area for you now and certainly, I mean, the work we've done suggest that your supplier payment terms have scope for improvement here. So you know, – taking into account the potential headwinds from COVID, is there potential for you to do something on working cap to improve the cash conversion run rate? Thank you.

Joost Farwerck (CEO, KPN): Chris will do the second question. One of the advantages of being active in a super competitive market like the Netherlands is that we have at least two mobile networks of international operators, so roaming is no longer a really significant business for KPN and that is because Roam-like-at-Home eliminated some of the margins. We're not a holiday country like France, visitor roaming is limited but it's also limited because of the mobile networks of international players like Vodafone and T-Mobile and we are net payer of roaming fees. So, on the Consumer and Business side, clients, of course, will make less use of roaming. We expect some more international traffic there, so we will see some pressure on roaming but it's fair to say that it's not a super significant business stream, as it could be for other telcos.

Q - Usman Ghazi (Berenberg): Sorry and on the Business segment, I mean is there a risk of – I mean some of your peers have indicated that international calling traffic revenues have been significantly impacted.

A - Joost Farwerck (CEO, KPN): So we're – in our Business segment, of course, we see roaming going down. We see, as a fixed operator, an increase of international outgoing traffic but, all-in-all, it's less than 1% of our revenues, roaming and like I said, it was much more in the past. But due to all these different international networks in the Netherlands, less visitor roaming, a little bit – we will do something on the cost side. We are a net payer, like I said, so we have to work on that and we will be impacted but it's, I dare to say, pretty different than compared to other telcos.

A - Chris Figee (CFO, KPN): To add to that, we see, of course, roaming traffic levels decline. If you look at March, the pre and post-lockdown traffic levels have come down quite dramatically, especially rest of the world roaming but of course in the – you have to wait for Q2 and Q3 to see what actually happens. If you look at our scenarios, as Joost said, we are a net payer. Roaming is a profitable business but if you went to some drastic scenarios with regards to reduced traffic, the impact is probably, you know, less than 1% of revenue, so it's something we look at but not something that keeps us awake at night.

In terms of your working capital question, yes, Usman, indeed, we have a very tight working capital steering. We've actually installed much tighter working capital steering in the past months. I think you have to cope with the fact that our Capex, you know, went up last year so that echoes into working capital in this quarter. You have to cope with special seasonality, when it comes to, for example, lease payments or licence payments, etcetera but we see scope to control and upgrade our working capital. We are looking at payment terms to our suppliers that we are discussing with our suppliers very intensively. We're looking at payments to – or from our clients, as well, so there's a very tight steering on that. I will expect some benefits from that, not [immediately], it takes a bit of time for these things to commence and kick off but I would expect that – our payment terms that we have with our suppliers to improve during the year and during the year also to show up in our working capital.

And secondly, of course, when it comes to payment by our customers to us, we monitor that very carefully and are very, you know, careful not to extend payment terms too easily. So it's something we've got a tight control and a tight working group on.

Q - Usman Ghazi (Berenberg): Great. Just one follow-up on that, I mean you mentioned that, in Q1, the FttH kind of headwind on working capital was around €8 million. You know, could you give an indication, given that you've indicated you're going to be spending €300 million on FttH and accrued Capex, you know, what the working capital kind of impact of that would be this year?

Chris Figee (CFO, KPN): Well, Usman, I don't want to go that far. I mean the €8 million is an estimate. It's not easy to lift – to go through and especially lift out the fiber. It's kind of where it roughly is. I think it would go too far at this point to make a full-year impact on that, also because we may have, you know, compensating, counter-phasing measures.

Q - Usman Ghazi (Berenberg): Thank you very much.

Operator: Our next question is from Mr Roman Arbuzov from JP Morgan. Go ahead, please.

Q - Roman Arbuzov (JP Morgan): Thank you very much for taking the questions. I have two, please. So, the first one is just continuing the topic of customer losses, which you've already provided some very helpful colour on, thank you. So the question is, with the COVID environment, perhaps the customers are going to become somewhat more price-sensitive. So, you know, is this a concern for you at all? And also, in this environment, presumably it becomes harder for you to manage the Telfort broadband customer base migration as well and you know, in this light, what are the tools that you have at your disposal to become more competitive at the lower end of the market, especially if people are chasing, basically, attractive price deals?

That's the first one. The second one is just a clarification on Capex. I think the industry discussion so far, in the context of Coronavirus, has been that Capex is going to decline, mostly in the mobile side. I guess what we're hearing today is that you may actually increase Capex, if I understood you correctly. I mean you do see opportunities in the fiber side to deploy more capital. So, can you just elaborate a little bit more on that side? For example, do you mean to say that you'll spend a bit less on mobile and increase your fiber spend, thereby you'll keep your €1.1 billion envelope, or is there upside risks to Capex so that you can take advantage of the fiber opportunity this year? Thank you.

A - Joost Farwerck (CEO, KPN): On the question on customer losses, so, yes we took out Telfort – we moved up the lowest price point from, average, €35 to €42.50, so that is a decision. We are focusing on the value creation related to the total base. We're not running net adds only. Having said that, of course, it is important. I don't expect people to be super price-sensitive in this period of time. I expect migrations [from one operator to another] to slow down in general. It's not the time to swap from broadband provider and that's why we see churn improving heavily and also acquisition, because this whole market is just, yeah, sitting down and waiting until things will change to better circumstances and that is a much healthier situation, one could say. Less rotation in the market is, I think, fair to predict, related to COVID.

Broadband migration is a delicate process. I've done it a couple of times with smaller bases to Telfort – or to KPN and we will look at it in a very detailed way and we will only migrate when we are super ready, just like we did on mobile. It is very important to prepare, from an operational point of view and to do it smoothly and when customers land in a new brand environment, it should feel like an improvement and not like a step back. So that is our goal. We embrace Telfort customers to move to the KPN broadband environment and we will make sure that they feel rewarded for that. So that's the idea.

A - Chris Figee (CFO, KPN): When it comes to your Capex question, we're quite committed to the €1.1 billion Capex for this year. That's a pretty strong commitment that we intend to hold. Inside that envelope, you might see some changes. I mean, in COVID, the mobile site swaps are a bit more challenged, simply because, in the previous weeks, it's difficult to get to someone's rooftop, because some of the office buildings are closed, or don't have people in, so there are some restrains on mobile site swaps, there's some less customer-related Capex and we intend to do – continue to deliver on our fiber rollout, so it's more the mix inside the €1.1 billion than a change in the €1.1 billion itself. On top of that, we might see some smaller M&A opportunities to acquire small fiber networks. So it's a make-or-buy decision. You can acquire a small local fiber network somewhere in the Netherlands. That would officially classify as Capex, although it would be small acquisitions to further accelerate our rollout.

When it comes to opportunities, it's too early to say. We are looking at the fiber market to see whether, you know, the current environment allows us to make more attractive fiber deals but it's way too early to conclude that we're going to spend more Capex than €1.1 billion. If anything, we look at our ROCE, our return on capital, very carefully. So there might be opportunities for us to do more on fiber. That would first need to come out of the mix. And if we wanted to do really more than €1.1 billion, there would need to be a real convincing business case. But perhaps there is one in the year if the economy and the position of the construction sector develops, that may be value-creating for us. But for this year, we're committed to the €1.1 billion.

Q - Roman Arbuzov (JP Morgan): And sorry – and just to follow up, where do these opportunities come from? Is it the fact that there is just more spare capacity in the construction sector? Is that the kind of current bottleneck that will be less of a factor going forward? And also the third-party partnerships in fiber; how big of an opportunity is that, please?

A – Chris Figee (CFO, KPN): When we think about capacity, there might be an opportunity to strike more longer-term deals with construction companies in this day to have a larger joint commitment, where you trade off volumes, price, payment terms, etcetera and commitments on both sides. That's something that we'd like to see – like to explore further.

When we look at the smaller deals, you're looking at no massive amounts but between 10,000-20,000, possibly 30,000 homes passed in the year could be done. I'm not saying we will do it but that's something we have an eye on and always look whether, you know, make is an exceptional or buy versus make makes a good trade-off.

Q - Roman Arbuzov (JP Morgan): Thank you very much. Thank you.

Operator: The next question is from Mr Polo Tang from UBS. Go ahead, please.

Q - Polo Tang (UBS): Hi, I've got two questions. The first one is really just about COVID-19 and the follow-up. Could you clarify the impact on commercial costs and subscriber acquisition costs because you mentioned that you're seeing lower churn and lower gross adds going into Q2, so I'm just wondering whether this could be a benefit in terms of EBITDA, so could you talk through that?

And the second question is really just about revenue growth. So, I appreciate that you have uncertainty because of the current COVID-19 situation. You've obviously got promotional activity in the market today from T-Mobile Netherlands but do you think KPN can grow revenues over the longer term and what are going to be the levers to drive growth in Consumer and growth in Business? Thanks.

A – Chris Figee (CFO, KPN): Well, I think, on the commercial costs, I think it's too early to say that but let's see how the world develops, how our April – or Q2 develops before we can say a bit more on that. We've got hopes and dreams, let's see how the world evolves and we'll give you more colour on Q2 when we have actual facts behind it.

Now we'll come to revenue growth. Can we grow revenues? I think we can, I think we should, we want to. It will take some time before we reach our inflection point. I think it's important to note that, you know, the revenue decline is declining, so the second derivative, if you wish, is becoming – is turning positive. That's an encouraging trend and we want to first go from decline to flat and then to increase in revenues, so I think we have to believe that we can but at this point we're focusing first on the here and now, which is, you know, further – a further decline in the decline, then getting back to flat revenue growth – revenue development first.

Q - Polo Tang (UBS): Okay, can you maybe talk about the levers that you see to get to that stabilization and the moving parts?

A - Joost Farwerck (CEO, KPN): I think we always said, in B2B, we will first focus on inflection of EBITDA and then the revenue will follow in our industry. That is what I truly believe in. That's what we did in Consumer, this is what we did in Wholesale, so we focus on the value of the revenues instead of revenue only. In the past, we celebrated the inflection of revenue in B2B but it wasn't really supporting our margin, so I think this year, in our strategy, is the year of end-to-end EBITDA inflection in B2B, so we're focusing on that and that's our objective. Of course, due to COVID-19 measures, the risks increased on that but let's see how we develop.

But I think something later – after migrating SME and LE to the future-proof portfolio, after discontinuing a business like Consulting and other entities we disposed of, focusing on connectivity, communication, security on top of that, then our revenue inflection will follow after our EBITDA inflected.

Q - Polo Tang (UBS): Thanks.

Operator: The next question is from Mr Ulrich Rathe from Jefferies. Go ahead, please.

Q - Ulrich Rathe (Jefferies): Thank you. Two questions, the first one, again, on this Telfort migration. It sounds a bit like this is over now, for now because the broadband migration isn't happening yet, so could you just quantify how much of what we're seeing, that 18,000 in the quarter, is from the Telfort migration and how much is actually sort of more underlying from the rough competition you are seeing there?

That would be my first question. The second question is, when you rollout fiber, how do you prioritise geographically? Is it where it's easiest to build or where, for one reason or another, competition is lowest, or where the commercial opportunity is highest? How do you actually decide where to put the fiber at this point in time? Thank you.

A - Joost Farwerck (CEO, KPN): Yeah, so on the Telfort migration, it is not the base – the broadband base migration but it's the elimination of the Telfort brand, the pricing competition and the rural players in some areas on fiber that we see this pressure, it's also our own pricing strategy we follow, partly and that's the reason that we see a strong outflow of the lower-priced Telfort broadband connections and having said that, seeing a strong inflow of the higher-priced KPN broadband connections and also, on the Wholesale side, we see an inflow. So, all-in-all, on value we do okay but of course, like I just said, we're focusing on stabilizing that base.

Fiber rollout, we have a tool that's built on a couple of elements. ROCE is our main value-creating objective there. It's about the markets, the quality of our network, the profile of the customers, the rollout costs and all these combined, our market share, how competition is doing there and that leads to the decision to pick an area. The main important drivers are ARPU and penetration grade and for the first year, of course, to manage our Capex rollout costs are important as well. So we have a clear, a pretty sophisticated tool to select areas. Every now and then we, as a Board, challenge the selection of these areas because what comes out of a tool sometimes doesn't feel alright but all-in-all I must say that we're more successful in picking the right areas than we were a long time ago.

Q - Ulrich Rathe (Jefferies): That's very clear. It's also the returns you're seeing on the fiber now are the highest and that will tail off as, you know, the coverage increases beyond the 40% in future years?

Joost Farwerck (CEO, KPN): Yeah, we run an S-curve and due to less regulation, we can now go with the commercial in the lead instead of operations in the lead, so that's a big benefit. We're redesigning our process a bit there. Where we're running an S-curve, we have a certain penetration grade in the area on our copper network. We expect an inflow of 8% in the first wave, then we wait for the next wave and then we will approve again. That's more or less, roughly, how it works, to be efficient. And in – looking backwards, over the last years, we did quite well, better than we expected 8–10 years ago. So – and now we're trying to optimise this process further, learn from what we did in the past and yeah, speed up the penetration grade, that's super important.

Q - Ulrich Rathe (Jefferies): Thank you very much. Thank you.

Operator: Our next question is from Mr Paul Sidney from Credit Suisse. Go ahead, please.

Q - Paul Sidney (Credit Suisse): Yeah, thank you very much. Good afternoon. Just a couple of questions from me, please. Just, again, focusing in on the Consumer broadband losses, you lost 25,000 broadband subs in the quarter but you gained 21,000 back on Wholesale and that's something we've seen for the past, what, four or five quarters. I was just wondering, is this something that concerns you, given that, you know, the customers are largely staying on your network and presumably you're saving on acquisition costs on the retail side and also, maybe it just takes a bit of sting out of the market. I just wondered, that dynamic of your customers staying on your network, is that as much of a concern to you as it seems when you just look at the retail numbers?

And then just, secondly, staying with Consumer fixed, you mentioned aggressive promotions and the impact from rural fiber operators. I was just wondering if you could give us a bit more detail on, you know, which operators are being the aggressors and what sort of promotions they're out there with. Thank you.

A - Chris Figee (CFO, KPN): I think when it comes to the retail versus Wholesale trade-out, I mean, to us, Wholesale is an important business line. It's a part of our core – part and parcel of what we do. I think, margin-wise, I'd rather have the customer stay in retail, to be quite frank, I mean that's where we make the highest margins but then, if I have to lose the customer, I'd rather gain the customer back into Wholesale than lose them altogether. So, from a margin perspective, on the Consumer side, the margins tend to be higher but we retain the customer, retain the margins, when they stay in Wholesale. That's how we look at it and of course Wholesale is a business in itself, with relatively high cash conversion ratios and relatively high margin as well but, in total, consumer first but then, if you lose a customer, I'd love them to stay on in the safety net of our Wholesale business and through that, our total market share has been about 50% for quite some time now.

A - Joost Farwerck (CEO, KPN): Yeah and in the fiber case, Wholesale is very important. We are never going to reach 60–70% on our own but supported by the other players, we believe we can. So already, a long time ago, we anticipated Wholesale being important. And when we looked into the broadband base of Telfort, one of the reasons we said, 'Okay, let's move to one brand,' is that there is an installed base of Telfort being less profitable than broadband Wholesale lines.

So, of course, yielding the network is super important, 52% connected via our access network and like Chris said, we have a retail strategy, so of course it is our first choice to keep them in retail.

Your second question was on promotions, I wrote down.

Q - Paul Sidney (Credit Suisse): Yeah, it was just that you mentioned in your release just some fairly active promotional activity in Q1 in the Consumer segment and also you mentioned rural fiber operators. That's the first time I've seen you mention them and I was just really – just wondering if you could give us a bit more detail on what's going on.

A - Joost Farwerck (CEO, KPN): So – yeah, so by selecting a lot of areas, we also made a choice not to select other areas, for instance super rural areas and some other initiatives popped up there, supported by external financing and sometimes we meet such an initiative in an area. It is then our objective to come up to a deal that benefits both parties and sometimes we succeed in that, then we make an access deal, we make use of the network, with the option to consolidate it later, in the future. And when you can come to a construction like that, then we think it fits in our access strategy to make such a deal.

So, with some of these players, we have a deal and with some of them we don't have a deal and we are always considering and looking at opportunities.

Q - Paul Sidney (Credit Suisse): Great. Thank you very much.

Operator: The next question is from Mr Steve Malcolm from Redburn, London. Go ahead, please.

Q - Steve Malcolm (Redburn): Yeah, good afternoon guys, just two questions, which I think I'm allowed. First of all, just on regulation, obviously you had very good news from the Court of Appeal last month but you did talk about the risks of symmetrical access being applied in the Dutch market. It's quite a new concept in the Code. Can you maybe just sort of walk us through how we should think about the risks, the regulatory risks, attached to that, how it could be implemented, what the hurdle rates are? I'm not sure that it's particularly clear whether SMP is one of them, so it would be good to hear your thoughts on that and whether the implementation of symmetrical access would have an impact on your decision to accelerate fiber rollout; that would be great.

And also, just a sort of – maybe a more strategic, longer-term question on COVID. I mean, I guess, like all of us, you've got a lot of employees working from home now and the business, by the sounds of it, is operating extremely well. I mean, does this make you think, longer term, about your property costs and other costs in the business that may open up new sources of cost savings that we're not fully thinking about at the moment? Thanks a lot.

A - Joost Farwerck (CEO, KPN): To start with your second question, we have a crisis team in place and the first weeks, they, of course, were focused on daily operations, business continuity, the health of our people and our customers but now we have an important workstream in place to see what we can continue to do and what we can learn post-Corona because what we find out is that we are super-efficient in some ways of working and we think it's a good idea not to leave that model, or partly keep use of it. So I think, in our distribution strategy, the way we use offices, the way we travel over the country, we organize meetings, there is a lot to learn from what we currently do in the COVID-19 situation and I hope we can benefit from that.

So that is an important one and we – as a Board, we have a couple of working sessions for the coming weeks to discuss this in more detail. On regulation, it's new, like you said, this European Electronic Communication Code, BEREC came up with, I think it is, in a broader sense, good for a lot of countries in Europe.

If you pick one thing out of that, then that is that access obligation and that is to any network in a country, if there is no economically-viable alternative and I think in some countries in Europe, that is important to introduce, so I think it's relevant but in my opinion, it is not relevant for the Netherlands, as long as we continue with our open network access strategy in a reasonable way, which we currently do.

Of course, BEREC has to come up with worked-out guidelines. Our government will try to accept something in this year, then our regulator is going to implement certain stuff which will take 3–6 months, so probably they are working on something to implement mid-next year but I can tell you that we will make sure that, on a European level, we will have good conversations on the guidelines and with our government and with our regulator on what the translation of these BEREC guidelines should be to the Netherlands, how we look at things and I'm pretty convinced that with our open Wholesale access model, we can be an economically viable alternative, as asked for by BEREC.

A - Chris Figee (CFO, KPN): Yeah, I think what I understand is that – Steve, it's really different from the ex-ante regulation based on significant market power. I mean it's been driven by what's happening in Europe in some of the, you know, French dwellings where, you know, you want to have to access to, close to a customer, a rack in a basement which allows you to access the customers. I think it's understanding that it's about allowing someone to make a reasonable economic case, if he or she is on your network, on reasonable terms. I think we have that because we have a fully-transparent Wholesale catalogue open on our site that is accessible to our customers and allows our customers to have a viable economic business case, I mean that's the one thing that's important.

And secondly, the language still speaks about supporting the role of digital infrastructure and the new regulatory framework should not hamper your investment into digital infrastructure. So, it's different from what the market-power-driven regulation was. It's about maintaining and supporting digitalization of the country and about allowing third parties to have a reasonable economic model and business case whilst they're on your network and we believe we have that, at this point in time, testimony to our Wholesale catalogue and our Wholesale client base. The devil is in the details and we need to see how that works out.

Q - Steve Malcolm (Redburn): Sure and if it is said, for whatever reason, there is no economically viable alternative, do you have any colour on the economic basis for symmetrical access implementation? I mean you're saying it's not ex-ante, so does that mean you don't think it's cost base? Is it retail minus? I mean any colour on that at all?

A - Joost Farwerck (CEO, KPN): Well, it's too early to tell because it's – we're waiting for BEREC to explain, in their guidelines, what they meant with this. So that's all new for all countries. We cover 98% of the Netherlands with our network and if not, then there's a third-party fiber initiative somewhere in the rural areas. So I think, in the Netherlands, there's always an alternative and the question is: is it economically viable? We say yes and on the other hand, the implementation of BEREC guidelines and EU law should not frustrate the rollout of fiber, because that is a very important statement BEREC also made. So I think it will never be successful when someone is trying to implement guidelines or rules in the Netherlands that will frustrate the rollout of fiber.

So I think if discuss this in the proper way in Europe, in the Netherlands then we will not be hampered by the implementation of this rule.

Q - Steve Malcolm (Redburn): And just speculating, you've mentioned other markets that it would affect. I'm thinking is it markets will large housing associations, where there's effectively no competition for access, or is that the sort of market you're thinking about that it could affect?

A - Joost Farwerck (CEO, KPN): Yeah and in a lot of countries around us there's still only one provider in areas. And there's probably more need for this kind of regulation than in the Netherlands. In the Netherlands, we have cable and KPN, KPN, with an open access network, almost fully covering the Netherlands. So that's why we have such a strong third player in the Netherlands, on our network. And if you look at our inflow on the Wholesale side, it's not frustrating that player to play their part in the Netherlands and I think that's pretty convincing enough. The market speaks. But let's put it this way: we have 1.5 years to discuss this, debate this but I'm pretty sure that we had a very difficult and tough debate with our regulator on cost calculation and our dominant market position, etcetera. We won that one. I think this is less complicated but until now, not super clear because it's all new and we have to first wait for BEREC to explain their guidelines.

Q - Steve Malcolm (Redburn): Okay, thanks a lot. I hope you're right.

A - Joost Farwerck (CEO, KPN): Yeah.

Operator: The next question is from Ms Nawar Cristini from Morgan Stanley. Go ahead please.

Q - Nawar Cristini (Morgan Stanley): Thank you very much for taking my questions. I have two questions, please. So, firstly, a follow-up on the cost flexibility discussion. So, clearly, the plan does not change, you guys are keen to do more. I was curious to discuss, a little bit, the external factors, in particular the health of the labour market, so in the past you said that the good health of the Dutch labour market was supportive for the ability to reduce FTE but also for restructuring costs as well, thanks to natural attrition. So, now that we go to a different picture, with, probably, unemployment pressure rising, how should we think about your ability to reduce FTE in a way that you would like to push, in particular in terms of negotiations with the unions?

And then my last question, a quick question for Chris, as the newcomer: so probably – I guess that there is a lot going on but probably if you could discuss a little bit the first impressions on the business and in particular, if there are any areas where you see scope to do things differently? Thank you.

A - Joost Farwerck (CEO, KPN): FTE reduction is – we're convinced that we can move our whole company to a much leaner and meaner operating model. We're in the middle of that and we will continue there. Until now, this moves in the right direction. We're a little bit ahead of the plan. We anticipate a more difficult market than we experienced last year but we learned a lot from last year, also to rotate more people internally, then have a strong outflow and a strong inflow. We still had a lot of people moving out and a lot of people moving in. But because of these difficult markets, we learned, ourselves, to make more use of people being redundant in KPN to place them somewhere else. So I think, all in all, we will reorganize this year and next year in a much more efficient way than we did in the past, in general. We installed a hiring freeze to avoid that we do the inflow according to plan but not the outflow, so that's an important one and of course, we will continue to reorganize in a decent way but also fair to our people and like I said earlier in the call, we have a flexible workforce, a couple of thousand people we hire on a daily base, so, if needed, we can take our measures there as well.

I'm not sure how the market will look like in two, three quarters from now but until now, we are doing okay. March was good, as well, on the reorganization side, so until now, we're okay there.

And now to Chris, I'm very curious.

A - Chris Figee (CFO, KPN): Yes, well, famous last words – final words of wisdom. Look, let me say first, I buy into the KPN strategy completely. I think we are going to continue on the strategy as we communicated. There are many things I'd like to maintain, especially the strong cost orientation. We've been very cost focused and successful with our cost discipline, I would want to definitely maintain that. You can count on me to do that. It would be a bit arrogant to say, like, 'I'm going to change this company.' It's not, the company is on the right path, the right trajectory.

I can only lay different emphasis. Something on disclosure, I think you've seen that. Other areas of emphasis that I might be changing a bit would be – so it would be a little bit return-on-capital oriented, so ROIC as a metric to drive the decisions that we make and to spend more time on our cash management, especially working capital and cash flow management. Those are, like, the immediate topics on my mind. And then, together with the team, see if the fiber opportunity that we see kind of manifest itself further. So no revolution but evolution and slightly more different points of emphasis but continue on the track that we're on.

Q - Nawar Cristini (Morgan Stanley): Okay, thank you guys. Good luck with everything.

A - Joost Farwerck (CEO, KPN): Thank you very much.

Bisera Grubesic (Head of IR, KPN): This was the last question for today. If there are any further questions, please reach out to our Investor Relations team. Thank you everybody for joining us and have a good day. Operator, you can close the call.

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

[END OF TRANSCRIPT]