Event transcript

KPN Q1 2021 Results

Friday, 30th April 2021

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Operator: Good day, ladies and gentlemen. Welcome to KPN's first quarter 2021 earnings webcast and conference call. Please note that this event is being recorded. At this time, all participants are in listen-only mode. We will be facilitating a question and answer session towards the end of today's prepared remarks. If you would like to ask a question, you may do so by pressing star one on your telephone.

I will now turn the call over to your host for today, Reinout van Ierschot, Head of Investor Relations. You may begin.

Reinout van Ierschot (Head of IR, KPN): Thank you and good afternoon, ladies and gentlemen. Thanks for joining us today. Welcome to KPN's first quarter 2021 results conference call. With me on the call today are Joost Farwerck, our CEO, and Chris Figee, our CFO.

As usual, before turning to our presentation, I'd like to remind you of the safe harbor on page 2 of the slides. That also applies to any statement made during today's presentation. In particular, it may include forward-looking statements including KPN's expectations with respect to its outlook and ambitions, which are also included in the press release of this morning. All such statements are subjects to the safe harbor.

I would now like to hand over to KPN's CEO, Joost Farwerck.

Joost Farwerck (CEO, KPN): Thank you, Reinout, and good afternoon everyone. Today's results mark the first quarter of our 'Accelerate to grow' strategy, we presented to you back in November last year. I am pleased to report solid progress on all strategic pillars, which strengthens our confidence to deliver on our outlook and on our ambitions.

The accelerated fiber rollout is well on track, as we added over 100,000 households to our footprint in the first quarter. And last month we announced the joint venture together with APG to accelerate further and create additional value for all our stakeholders.

We have also successfully phased out copper in the first six pilot areas, which is an important milestone in our program to decommission copper on a large scale as of 2023.

In the first quarter, the mass-market service revenue trends continued to develop in the right direction. Mobile service revenues in B2C are already approaching a year-on-year growth trajectory. The broadband base in fixed stabilized further and Wholesale continued to show solid growth. This all adds to the confidence in our ability to grow our mass-market service revenue by the end of the year.

All in all, we are encouraging revenue developments and strong Free Cash Flow generating and balance sheet enable us to reiterate our 2021 outlook and our ambitions for 2023.

So as a reminder, our 'Accelerate to grow' strategy is supported by these three pillars.

One, Leverage and expand our superior networks. Two, grow and strengthen the customer base. And three, continue to simplify and streamline our operating model supporting the next wave of cost savings.

We will touch upon our progress on all of these pillars in today's presentation.

In the first quarter we expanded our fiber footprint by 106,000 homes passed. The run rate was impacted by a two-week frost period during which we were unable to dig. Without this we would have exceeded our fourth quarter results.

In early April, we successfully shut down our copper network at nearly 40,000 household addresses in six pilot areas. This allowed us to test and evaluate the operational and financial impact of shutting down copper. When we start to do this on a large scale, from 2023, this will result in significant savings, related to the closure of technical building, reduce service tickets, lower maintenance cost and lower energy consumption et cetera.

Last month, we announced the fiber joint venture with APG, which further accelerates the rollout of fiber in the Netherlands. And this deal is important for us, as it strengthens our strategy to be the leading fiber operator in the Netherlands. The joint venture will bring forward the fiber rollout in areas which were not part of our existing plans for the coming five years, so we further accelerate on that and the attractive valuation by a strong partner clearly underlines the value of our state-of-the-art Fiber-to-the-Home network. Together, KPN and the joint venture will roll out more than 650,000 lines per year, reaching maximum rollout speed. We have already secured the majority of the construction capacity needed to meet these targets. Considering that the total fiber rollout in the Netherlands across all participants was just over 500,000 households in 2020, this is an important step for KPN and for the Netherlands. We now expect to reach 80% of households with fiber in 2026, up from 65% by 2025 in our original plans. This is important for two main reasons. It will speed up the copper decommissioning, leading to earlier cost savings. And this allows us to significantly bring down our Capex levels sooners, now already after 2026. This means we can settle at a much lower longer term sustainable Capex level in the years thereafter.

Now, let’s move to the Consumer segment.

In the first quarter, the Consumer service revenue trend was impacted by an € 8 million one-off correction. Excluding this, the underlying service revenue trend improved. Mobile service revenues declined only 0.7%, fully driven by prepaid as postpaid service revenues were already flat year-on-year. And Fixed service revenues declined 1.8%.

Looking at our new household focused disclosure, revenue growth in our Fixed-Mobile portfolio was offset by lower revenues from Legacy services. We have been able to stop the NPS decline and we are seeing encouraging underlying developments. Customer satisfaction remains one of our top priorities. We see that our investments in increased capacities are starting to pay off and we should be able to gradually bring these down again in the coming period.

Let’s take a deeper look at our Consumer KPIs. At our Capital Markets Day, we indicated that growth in Consumer will come from two areas: Fixed-Mobile and fiber. And although revenues in Consumer were still lower year-on-year, we see encouraging KPI developments, which show that we are working according the line of our strategy. In Q1, Fixed-Mobile household net adds were again positive and Fixed-Mobile ARPA improved, resulting in higher revenues from these services.

In our other area of growth – fiber – we also see a very positive trend in net adds. Our focussed commercial strategy and upgrade for copper are resulting in better sales numbers on fiber.

We're confident that these solid KPI developments will fuel the growth of our Consumer service revenues this year.

Let's now move to the Business segment.

Although still declining, the overall revenue trend in Business is starting to move in the right direction. Q1 service revenues were down below 4% year-on-year, better than the previous quarters. COVID-19 and customer migrations continued to impact our B2B performance. Last year, the lockdown only came into effect in the final two weeks of March. So, in Q1 we saw lower roaming revenues due to travel restrictions and delayed IT projects.

Business Net Promotor Score improved to +2, mainly driven by customer migrations to our future proof target portfolios that have much better customer satisfaction levels.

In SME, we have come a long way with our customer migrations. Almost 90% of customers have been migrated away from traditional voice and legacy broadband services.

The KPN EEN platform is well positioned to provide additional services to customers. A quarter of the base takes three services, so there is enough room to grow this going forward.

We also see a strong take-up of Unlimited among our SME customer base.

In the first quarter, almost half of the € 8 million year-on-year revenue decline was due to loss of roaming revenues. So, without this, the effect on SME revenues would be less and SME would have performed better.

We see a clearly stabilizing trend on the SME service revenue level, which makes us confident in our ability to stabilize service revenues in SME by the end of the year, driven by the solid base developments, both in broadband and mobile.

In Wholesale, service revenues continued to grow in the first quarter and mostly driven by broadband. Which in turn is a result of expanding our fiber footprint. We added 22,000 broadband lines and 30,000 postpaid SIMs in the quarter. As we've always said, we continue our open network policy built on reasonable and non-discriminatory terms. Therefore, we offer a viable alternative for our current and future wholesale partners.

This month, we announced a new long-term sustainability goal. KPN was already on track to reduce emissions in the chain by 50% in 2040. This ambition has now been scaled up to achieve zero net emissions in the chain by the same year. This relates for example to improving the energy settings of TV receivers, more sustainable transport of products and equipment by our suppliers and using less materials in the production of equipment for our customers.

Now, for the financial results, let me hand over to Chris.

Chris Figee (CFO, KPN): Thank you, Joost. Let me now take you through our financial performance.

Our financial performance was impacted by an € 8 million one-off non-cash correction in B2C Fixed service revenues, which was related to the timing of revenue recognition in 2020. We exclude this one-off in the trend of a number of metrics that illustrate a true and fair underlying performance. Therefore, let me highlight a few key figures for Q1.

Our revenues declined by 1.2% year-on-year, corrected for these one-off events and the sale of KPN Consulting in Q1 last year.

Growth in Wholesale and Consumer Fixed-Mobile was offset by lower revenues on Business and Consumer Legacy services.

We see the underlying trend in service revenues developing in the way we envisaged and we are on track to meet our inflection target for the year.

EBITDA effectively was flat year-on-year, corrected for the impact of the one off. Lower revenues and temporarily elevated costs related to customer support were offset by continued progress on cost savings. In the year-on-year comparables, we absorbed the roaming delta versus Q1 last year and the temporary cost spike in B2C.

Our Free Cash Flow increased by 53% year-on-year to € 122 million.

Our liquidity position, including the undrawn RCF, remained very strong at almost € 1.9 billion.

Joost already indicated that the underlying KPIs are showing promising trends for growth in mass-market service revenues soon. Wholesale growth remained strong and B2C mobile revenues showed a step-change improvement in the right direction, with postpaid already flat year-on-year.

Net adds in B2C fixed are stabilizing and nearing positive territory, while ARPA is already growing.

Already, in SME, we see ample opportunity to improve the revenue trend, which makes me very confident we will deliver against our objectives for the remainder of the year. Please note that SME revenues effectively have been stable for the last three quarters already.

As I said, the one-off correction makes the trend somewhat hard to read. However, the year-on-year growth rate, the right-hand side of the slide, show that we are getting close to growth in mass-market service revenues. And by the way, in the Business segment we observed favorable service revenue developments in LCE and Tailored Solutions, although our focus is of course on SME stabilization first.

We are continuously digitalizing and simplifying the company in order to deliver a combination of improved services, better customer experience, more efficient operations and thereby creating long-term value for all stakeholders.

In the first quarter of the new cost savings program, we delivered € 21 million of savings, which is in line with the required run rate to reach the more than € 250 million of savings by 2023. As said, this cost number includes some temporary cost spikes. For the year, we see KPN still on track to move towards the aspired cost savings with the lion’s share of savings tilted towards the second half of the year.

In Q2, in terms of cost, and cost only, we will face a tough comparison base as last year’s number benefitted from COVID-related savings, which will lapse this year and several digitization efforts that save costs and will kick in only in the latter part of the year.

So, we continue to move towards our cost objective with the biggest effects backloaded in the second half of the year.

At our Q4 results, we explained that we improved our working capital management last year and that we would continue to do so in 2021. In Q1, we were already able to reap some of the benefits, with part of the improvement also due to intra-year phasing.

Normally, we have higher investments in working capital in Q1. And although still negative – that is we still invest in working capital – the investments in working capital were significantly lower compared to previous years. During 2021, the rest of the year we will explore further options to keep improving our working capital within the normal course of business. This will help us not only today but also in future years to keep a healthy baseline of working capital.

We started the year well in terms of cash generation. In Q1, we've seen a solid increase in Free Cash Flow despite higher Capex as a result of the accelerated fiber rollout.

Free Cash Flow of € 122 million was a good 50% higher than last year and the margin moved to 9.5% of revenues.

This increase in cash was mainly the result of first, the different phasing of working capital and importantly, lower cash interest, lower cash restructuring, partially offset by higher cash taxes.

A few points are worth mentioning. First, our non-fiber Capex was fully according to plan. The higher Capex versus last year was the result of accelerated fiber investments while other Capex, spent within line of expectations, declined a bit and absorbed an increase in Consumer Capex. This provides an early proof that we can manage our non-fiber Capex levels, which will enable us to sustainably lower our Capex levels once the fiber rollout is completed.

Secondly, our Free Cash Flow grew significantly in Q1. We are confident in our ability to reach our FCF target this year but mathematically speaking, it is clear that we will not see a 50% growth rate every single quarter. So, please expect some fluctuation of this number during the quarters. But at the same time, we remain confident with regards to our Free Cash Flow target for the year.

And we ended the quarter with a very strong cash position, despite redeeming the € 361 million senior bond which had a 3.25% coupon in February, giving room for further interest cost reductions this year and the next.

We continue to have a strong and resilient balance sheet at the end of March. As a result of the bond redemption and other corporate actions we took last year, the average cost of senior debt improved by more than 30 basis points year-on-year. In Q1, net debt declined by € 111 million, mainly driven by the Free Cash Flow generation during the quarter.

We maintained a leverage ratio just short of 2.3 times, comfortably below our ceiling of 2.5 times and we further enhanced our interest cover.

Total liquidity remained very robust at the end of the quarter. It consists of € 614 million in cash and short-term investments and the undrawn revolving credit facility. The sum of this covers a debt maturity safely for the next three years.

Today, as we are reassured by our performance, we confidently reiterate our 2021 outlook. As a reminder, we expect the Adjusted EBITDA after lease to come in at € 2,345 million, broadly a 1% improvement versus last year. We will ensure Capex does not exceed € 1.2 billion. We expect a Free Cash Flow of € 765 million, in line with last year despite a higher Capex level. And we expect to pay a regular dividend of € 13.6 cent per share over 2021. And of course, the road to our objectives is never a straight line and quarterly results will surely fluctuate, but we feel confident to deliver on the objectives for the year.

In addition, we also reiterate our ambitions for 2023, as provided at the Strategy Update last November.

Having said that, we believe KPN is reaching an unique position. We are investing heavily by accelerating the fiber rollout to a maximum operating capacity, driving additional future cash flows and balance sheet flexibility. KPN is becoming a pristine and clean fiber company.

We are at the point of returning to mass-market service revenue growth and we are aiming to accelerate organic cash generation in the next few years, giving rise to progressive dividend and at the same time deleveraging. We have a prudent financial policy but we don’t intend to run an inefficient balance sheet. So, it is a combination of a fiber plan, Capex rollout, mass-market service revenue growth, and sufficient cash to grow our dividend and delever at the same time. And we are very much aware of the efficiency needed of our balance sheet.

Our plan is only one quarter underway but progress has been good, which makes me confident to successfully continue to execute.

To summarize: KPN had a solid financial quarter, displaying its cash generating ability. We see encouraging signs in base and service revenues that will drive the mass-market service revenue growth. This is driven by positive signs in Consumer, with Fixed-Mobile and fiber net adds and ARPA all in positive territories.

SME is seeing good broadband and mobile inflow, which is helping to stabilize revenues by the end of this year.

In Wholesale, we see the ongoing success of our open network policy leading to continue solid growth. Our fiber rollout run rate has maintained a good pace and has proven an attractive return profile. And we reiterated our outlook for this year, plus the ambitions for 2023, and are strengthened in our confidence when it comes to delivering on our strategy.

Thanks for listening to our presentation. Now, let’s turn over to your questions. Back to you Reinout.

Questions and Answers

Reinout van Ierschot (Head of IR, KPN): Yes thanks Chris and as usual, before we start with Q&A, I would like to ask you to please limit your questions to two. Over to you operator to start the Q&A.

Operator: Ladies and gentlemen, we will start question and answer session now. If you would like to ask a question you may do so by pressing star 1 on your telephone. The first question is from Jakob Bluestone, Credit Suisse. Go ahead please.

Jakob Bluestone (Credit Suisse): Good afternoon and thanks for taking the questions. I have two questions, please. Firstly, can you just share your thoughts around the KKR/Deutsche Telekom fiber joint venture? Has that impacted your thinking around overbuild and I guess to what extent is there a landgrab on building fiber?

Secondly, on the fixed line side you talked about the -1.8% underlined decline in fixed service revenues. I think it is a little bit weaker than what you reported last quarter. You mentioned in the release more pressure from legacy. Can you maybe expand on what is going on within the fixed line service? Why do you think you are seeing an acceleration in legacy pressure? Thank you.

Joost Farwerck (CEO, KPN): Thanks Jakob for your question. I will take the first question and Chris you'll take the second. Regarding the new fiber initiative in the Netherlands, it is only a plan, so I cannot say very much about it. There is a high ambition, if I am not mistaken, of one million households in five years. But like I said, it's a plan. We have a plan but we are also doing it, so we are executing the rollout. Last quarter above 100,000 and this quarter it is above 100,000. So, we are rolling out on a level we never did before. We have our strategy. We are speeding up and that is for us the most important thing.

We anticipate on other initiatives to roll out fiber as well. That is why we say in 2026 we expect KPN to cover 80% of the Netherlands. The rest of the Netherlands will be covered by third-party initiatives. That means that in 2026 we expect all households to be connected to fiber. I also heard Deutsche Telekom or T-Mobile saying that they try to avoid overbuild; that's always good. That is what we try to do as well when we face another initiative somewhere in an area. Most of the times we can come to an agreement to cooperate but let's first see if this really works out. For us, it is most important to focus on our own plans, execute and speed up what we are currently doing.

Chris Figee (CFO, KPN): Jakob, on your question on fixed, a couple of things to point out. Our fiber and copper revenues – the combination - is still showing to be a healthy combination of growth. Fiber added - from Q1 last year to Q1 this year - about EUR 15 million of service revenues. Copper did the same thing if you adjust for the revenue correction. So, the fiber growth, even the numbers are lower, is cancelling out some of the copper declines. And indeed, legacy products was the main delta. That tends to happen mostly in the beginning of the year. People cancel the old legacy subscriptions at the beginning of the year and that is an important driver for the delta between Q4 and Q1. But if I look at the underlying fiber developments, the net adds we have there, the copper-to-fiber upgrades, if I look at the development of ARPA and ARPU – so ARPA on fiber and ARPU on Fiber-sec – is quite positive, so we are still pretty confident that we will get to this revenue inflection. But it's the legacy line item that caused change and that tends to happen more in Q1 than in other quarters.

Jakob Bluestone (Credit Suisse): Got it. Thank you.

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

Siyi He (Citi): Thank you very much for taking the questions. I have two, please. The first one is really a clarification. I saw you accelerate in fiber net adds, but the copper decline also accelerated. So, I was wondering if you can talk us through the reason behind that. Is that just simply because in the pilot areas you phase out copper and replace it by fiber or do you actually see the decline and growth coming from different areas?

And my second question, is you mentioned about the potential cost savings and the Capex reductions after you phasing out copper and finalizing your fiber. I was wondering if you could give us some indication of what kind of ballpark we should expect? Thank you.

Chris Figee (CFO, KPN): Siyi, let me take the first question on fiber. What we are seeing is a couple of points. On fiber we see an increased activation rate, you can see the activations going up. That is due to the fact that we have changed our activation processes somewhat, where you – operation-speaking – when you draw a fiber line you don't stop at someone's front door but you connect to everybody, regardless of them being customer or not. That is a more efficient process, saves cost and time but also accelerates the take up. So, we see an increase of what we call copper-to-fiber upgrades, so moving clients from copper to fiber. So, the numbers you see in the fiber and copper numbers there is some transition of copper-to-fiber clients in there. Net of that our fiber is still continuing to grow. The new net adds in fiber is significant positive. Copper churn, if you strip out that copper to fiber move, we saw copper churn moving up from Q4 to Q1 and then stabilize. So I think, January we moved to a higher level of churn and in January, February, and March were stable. My estimate is still more in this lower speed copper environments; that is where the copper churn is. But overall, we see numbers improving from a combination of clean fiber net adds positive, copper-to-fiber upgrades also because of the changed connection activation processes that we have, which eventually we believe will lead to ARPU-uplifts and then an increase in churn up to January and then staying flat, so no further increase in churn in copper.

Joost Farwerck (CEO, KPN): Yeah Siyi, your second question was about cost savings and Capex after 2026. We expect to be ready at the end of 2026 with the rollout of fiber. That means that after that, we will no longer invest in the fixed access network unless it is new-built households that we have to connect. So, that is a completely different investment schedule compared to what we do today and that means that we can step down heavily on Capex after 2026. That's about hundreds of millions. On the cost savings side, decommissioning copper is very important, all incumbents talk about that and some of them are starting to do it. It will save us on maintenance costs, on the costs of technical buildings. We are going to phase out most of our technical buildings. This is by the way an old dream to come true for KPN. We save on reconstruction costs, on power usage, so that is also very important. That will start to kick in as from 2023. We will continue to benefit from that savings program after 2026 as well.

Siyi He (Citi): Thank you very much.

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

Michael Bishop (Goldman Sachs): Thank you and good afternoon, just two questions please. Firstly, just picking up on the stronger performance in B2C mobile, I know in prior courses you mentioned three or four factors coming through, such as like better low-end pricing, lapping the back book repricing from 2019, but I was just wondering if you could give us a quick recap on what's happening there within the mix and why you are seeing that nice improvement.

Then my second question. Chris, you mentioned a couple of times towards the end of the presentation that you are not intending to run an inefficient balance sheet. Given, you seem to have quite a lot of visibility over the business, particularly around the big ticket items like fiber Capex; have you had any more thoughts about what is a medium to long-term efficient balance sheet, what that looks like? Thanks so much.

Joost Farwerck (CEO, KPN): Yes Michael, in the consumer market we see mobile postpaid moving in the right direction. If I am not mistaken, we are more or less flat year-on-year, so that is really moving in the right direction. That's mainly because of how we positioned Unlimited in the market; that is doing quite well. We see a strong inflow on the higher ARPU propositions and indeed, we corrected pricing on the no-frills side. Of course, as you know, we eliminated Telfort in the past but we also repositioned our mobile proposition a bit in the market. So, we really try to move our customers to the higher ARPU more Unlimited kind of propositions. That's on the right track I would say. We are not there yet, but I expect more to come from this in the coming quarters. So, we are pretty satisfied on mobile performance in the consumer market.

Chris Figee (CFO, KPN): Yeah Michael, allow me to give a quick marketing scan. We are investing heavily in fiber, as we said, driving future cash flow with the point of return to mass-market service revenues. That we can do with a progressive dividend and organic deleveraging. Currently, we have a 2.3 times leverage. That will drop because also in the next quarter you will see the proceeds from the transaction with APG. That means, that leverage number will come down. Our ceiling is 2.5. I think the floor that we announced – it's not a formal floor – but the effective floor is around 2.0x; below that it becomes inefficient. Within that 2 – 2.5 management has some room to manoeuvre. Our strategy is good, but we are only one quarter underway now. Let's see if our strategy continues, would give us more visibility on performance, especially on the returning to mass-market service revenue growth. On the return, an increased contribution of fiber, very sticky fiber revenues. If that continues and we continue to delever and the cashflow keeps coming in, I think we should be able to return to our shareholders somewhat more than just the annual dividend increase. So, that option is definitely there. In terms of inefficient balance sheet, I think the lower bound is like 2.0x. We've set a ceiling of 2.5 but if we get to organic revenue growth, more share of fiber, I think it's not inconceivable that we should aim to be at the upper end of that leverage or the lower end of leverage because simply our balance sheet could sustain that. So, to me it is a function of getting the business to deliver on revenue growth, fiber client base, sticky fiber revenues. That would give us the anchor at which to move our leverage up a bit towards the upper end of the range. That also gives opportunities for additional shareholder returns.

Michael Bishop (Goldman Sachs): Great, thanks for the detail.

Operator: The next question is from Mr Matthijs van Leijenhorst, Kepler Cheuvreux. Go ahead please.

Matthijs van Leijenhorst (Kepler Cheuvreux): Yeah, good afternoon gentlemen. The first question is a follow-up on an earlier question. Could you give us the Capex-to-sales ratio after 2026? Could you give a number?

And the second question is on this Chinese vendor Huawei, because the Dutch regulator is currently investigating access to your network. What is the risk of a full ban? And in case that would happen, if we would see a full ban, what could be the cost for you?

Joost Farwerck (CEO, KPN): Okay well Matthijs, your first question is about Capex after 2026 and sales 2026. That is a very difficult one and I will hand it over to Chris. But let me first take the Huawei question. Like other telcos in Europe or like most of them, 10-15 years ago we decided to select Huawei in certain domains of our network, not only because of the price but because of they were much further than the other two main suppliers. But of course, we have a multi-vendor policy, so we use lots of different vendors for all kind of networks. For instance, on the fixed side, we're fully Nokia. The investigation that this week started is all about an article in a newspaper, which was about a report drafted 11 years ago on behalf of KPN. KPN in those days was looking at the opportunity to source out the mobile network maintenance to Huawei and to do a risk analysis. And as a result of that report KPN decided not to source out maintenance of the mobile network to Huawei, so we do that ourselves. And second is that some vulnerabilities were identified and fixed 11 years ago. Every year we audit our mobile core network. We audit the way we work with vendors, so also with Huawei. That is also done by external parties and every now and then Agentschap Telecom from the ministry comes in to audit as well. So, I am happy with that audit that started this week, because then we can talk about the facts that will come up instead of hearsay stories in the newspaper. So, we are not naïve; we are talking about this topic for a long time already with our government and we completely follow the guidelines of our government. So, as far as I am concerned, I am pretty confident that we are fully aligned with our government and we strictly follow their rulings.

Chris Figee (CFO, KPN): So Matthijs, on your first question on Capex over sales, it’s a bit reading tealeaves on what Capex-over-sales ratio for 2026 will be. So, let me give you a few components of that. Today our Capex is € 1.2 billion. Out of that € 450 million is in fiber. After 2026 that will only be new build and maybe some small remaining portions of it to be done and some maintenance but that only means that a significant chunk out of that spend will be going away. Secondly, today non-fiber capex to sales is around 14%. I do not think we will end up at 14% but I would be surprised if it were higher than 18%. I am going to be prudent and I say somewhere between 14% and 18% and depending on how you look at the amount of new build spend and the amount of maintenance, but I would pick a number in that range and then you know what I model with. Without giving you a hardcoded number because 2026 is still a couple of years away but I think it should be somewhere in that range. I guess you will pick a number in there.

Matthijs van Leijenhorst (Kepler Cheuvreux): Thank you very much, much appreciated. Just as a follow-up on the first question. What if the Dutch government decides for a full ban? Could you give any indication of what that would cost?

Joost Farwerck (CEO, KPN): Currently, we run our radio access network on both Ericsson and Huawei, so we know how to run a network on two suppliers. That is one. Second is that we do not expect a full ban because we are aligning, like I said, with the government and they know what we do and we know what they want us to do. That is what we are currently doing. We already announced that we will move non-western vendors out of all critical systems. That was our own decision before the government started to talk to us and that is what we are doing. For instance, the mobile core network will be migrated to Ericsson. That’s a decision we took before the summer. It will take some time but we started it. There were other domains where we will migrate to western vendors. We are in the same situation as a lot of other telecom operators on this topic, so it would really surprise me if suddenly that ban would be there and certainly not within a short notice or a timeframe of one or two years. So if you look at the UK for instance, there was a ruling there to migrate non-western vendors out of critical systems in seven years. So, that kind of ruling I anticipate on, but not anything else.

Matthijs van Leijenhorst (Kepler Cheuvreux): Thank you very much.

Operator: The next question is from Mr Keval Khiroya, Deutsche Bank. Go ahead please.

Keval Khiroya (Deutsche Bank): Thank you. I've got two questions, please. Firstly, you mentioned the impact of COVID on opex last year but how should we think about the benefit to revenues from the COVID-impact annualizing in Q2? Last year you saw a negative impact from roaming and delayed projects but also benefits from higher national traffic as well.

And then secondly, last year you were also quite pleasantly surprised about how well the market took the fixed line price increase. Could you say your thoughts and how you just think about the scope and maybe size of fixed price moves going forward?

Chris Figee (CFO, KPN): Keval, shall I take the COVID-question? So, what we are seeing in the first quarter on COVID is that we lost about € 6 million roaming revenues in the first quarter year-on-year, but last year of course two months we still had roaming revenues. We lost it in B2B mostly. There is € 2 million in B2C, we estimate, a combination of roaming, a little bit lower handset sales and lower unlimited because of shop closure. Shop closure has an impact on handset sales and handset sales has an impact on unlimited bundles. We saw about € 6 million higher interconnect revenues, people calling 0900 COVID numbers. So, the net revenue delta was about € 2 million where of course Interconnect is much lower margin business than roaming. So, I think the net impact on our contribution margin was about € 4 million in the first quarter and we compensated some of that by cost measures. I think the overall impact on EBITDA has been neutral, possibly slightly negative, depending a bit on how you look at the cost impact. But again, it was like high-margin revenues replaced by lower-margin revenues, which you counter by cost savings.

When I look at data and voice traffic right now, it has of course come off. Last year, it fell completely off a cliff in Q2. That, I think, will not happen. It will continue at a slightly higher pace than last year, although, travel is mostly within Europe, so it will not give many roaming benefits. The real roaming uplift of the roaming potential for the year is in Q4 on a year-on-year comps. In Q4 last year, remember, we all went back to lockdowns. If the vaccination programs succeed, the world might be coming back to normalcy in Q4, and then you can see the year-on-year roaming benefit. So, to me, first quarter, a € 4 million hit on contribution margin countered to a large extent by cost savings.

Roaming for the rest of the year, I could see a tiny support year-on-year in Q2 and Q3, but mostly in Europe and within Europe travel, and we have got good hopes for Q4. We don't plan for it, it's not in the EBITDA outlook number but if there is any upside, that would be in Q4.

And then in Q2 last year, we had significant cost savings due to the COVID shock. So, when it comes to a Q2-Q2 comparison, I think that we have just a little bit better outlook in terms of revenue growth versus last year and slightly more challenged year-on-year comps on costs because last year in the second quarter, our cost really went down massively in that quarter, as you will remember. That would be the points I'd love to make on COVID. I hope that helps you.

Keval Khiroya (Deutsche Bank): Yes, that's very clear. Thank you.

Joost Farwerck (CEO, KPN): And on your question on the fixed line price increase, yes, usually we do that yearly around start of summer, to be announced in May. Last year, we did, if I am not mistaken, a € 1.50 increase on the broadband pricing. So, wouldn't surprise me if we move in the same line this year. But first, we will communicate this to our customers before we disclose it further. But I expect us to announce something in the coming weeks.

Keval Khiroya (Deutsche Bank): Okay, thank you.

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

Usman Ghazi (Berenberg): Hi gentlemen, thank you for the opportunity. Just two questions, please. Firstly, on the 5G auction. I believe there is some litigation now or some further delays. So if you could you provide an update on the 3.5 GHz auction, whether you see it still happening next year or whether it would be delayed further?

And then the second question is going back to the balance sheet and looking at it a bit differently. If I look at your capital employed, from the outside, there is no way for us to understand how much of the capital employed is actually related to the fixed infrastructure, or on fiber. You are spending € 450 million in Capex every year on fiber. So, it would be just helpful to know how much of your capital employed now is either related to your fixed infrastructure or fiber. Any indications or any idea of how to get there would be quite helpful.

Joost Farwerck (CEO, KPN): So, on the auction on 3.5 GHz. Yes, the Ministry of Economic Affairs is preparing for an auction in the first quarter of next year. I think it is an ambitious timeline, but they aim for the first or the second quarter coming year. 300 MHz is becoming available for exclusive national licenses for 5G from the end of the year, September 2022. That's the plan. So, they moved out the Ministry of Defence using the spectrum in the northern part of the Netherlands, which is helpful, but there's still Inmarsat, another company making use of the spectrum for services at sea. They are starting a process to delay the auction. I don't think that will happen and I am not sure how it will be solved. The usage of that Inmarsat is about much less spectrum usage than the Ministry of Defence is doing currently. But I'm not completely sure how they will solve this. But that auction will happen next year, I am convinced of that, yes.

Chris Figee (CFO, KPN): And to your other question, Usman, let me take it up offline with IR to see how we can help you or improve our disclosure. I do not have the exact number on how much capital employed we have on fiber off the top of my head. I do know that the ROCE of the group is continuing to improve because that to me is an important factor. Exactly what you we'll be looking for, why don't we take it offline and see if it helps us or if we can help you with enhanced disclosure on this part.

Usman Ghazi (Berenberg): Thank you.

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

Luigi Minerva (HSBC): Good afternoon, the first question is on the APG JV. I wanted to understand of the 910,000 lines what's the extend of the overlap? Are these lines currently all on ADSL or are some of them are on Fiber-to-the-Cabinet, for example? And what's also the overlap with the VodafoneZiggo footprint?

And secondly, perhaps an update on the regulatory situation for the Wholesale access terms. Can you tell us where the regulator stands and if they plan to make further progress?

Joost Farwerck (CEO, KPN): Well on the joint venture with APG, we more or less have the same footprint as VodafoneZiggo. We cover 98% of the Netherlands, 95% with a copper network and Vodafone-Ziggo, a bit less. But you can assume that almost all households in the Netherlands have both a wireline from KPN or a cable moving into that household from Ziggo.

The scope of the joint venture is the planning we had as from 2026. We announced a plan to roll out 500,000 connections per year ourselves, adding up to 2.5 million on top of almost 3 million we already did. After that, in 2026, we would start in the more smaller villages, semi-rural areas. With this joint venture with APG, we'll start with these areas not after 2026, but in the second half of this year. So that means an acceleration of the especially focus on the long tail of our own planning. It is all about fiberizing our copper network. So there's no fiber networks there yet, it's about copper areas. Most of the areas are on VDSL. So that means that we already rolled out the backhaul Fiber-to-the-Cabinet in most of these areas.

Chris Figee (CFO, KPN): Your other question was on regulation. Look, two things at hand. There has been a new EECC. I think the ACM is still working through how to apply that European regulation, that normative framework of European regulation in the Netherlands. And we have had the request by T-Mobile. And this request in our view is both premature and inappropriate. Premature because you can only file a request when you have a conflict, which we don't; we are still discussing and negotiating with them and secondly, if you look at our open wholesale access model, which continues to be open and non-discriminatory, in our analysis it's very viable for anyone to have – even if you are an attacker or someone new to the market – you can run a viable business case in a very capital-light model being on KPN's network. So, we are very confident in our position. At the same time, we do not expect any news on this thing before the summer. I think it's quite premature both where we stand in our discussions and when it comes to where the clarity also on the new regulation. We would be surprised if there would be any major news from ACM before the summer.

Luigi Minerva (HSBC): Thank you very much. Can I have a quick follow-up on the first question? So, as the JV upgrades the VDSL lines to fiber, you will obviously lose some VDSL wholesale revenue. Can you give us an indication of how much of the wholesale revenues will be lost to the JV?

Joost Farwerck (CEO, KPN): Usually, when we move from copper to fiber in an area, we go to penetration grades of 50% to 60% so that is both retail and wholesale together. So, we improved both on the retail and the wholesale side. We can still sell wholesale also on the network from the JV because we have the wholesale interface with the most of the service providers in the Netherlands and we deliver that on the active layer. The JV can do the same because it's an independent company. But because of the fact these are specific areas with us on a lower market penetration rate than in the areas we choose for the first 5 years, I expect, in total, our position to improve there.

Luigi Minerva (HSBC): Thank you very much.

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

Ulrich Rathe (Jefferies): Yeah thank you. First of all, I would like to come back to this big jump in the fiber activation, which is very good to see. You did already comment on some of the drivers but I am specifically interested in are you giving temporary discounts for people outside the areas to switch over? And what is the ARPU in the transition from copper to fiber in general? If that's possible to answer?

My second question is a clarification on the one-offs. So, you're saying the 1Q item was an overstatement that you are correcting in the quarter. I was wondering, that historical overstatement, where was that? Was it in a particular quarter where it was a big item or was it essentially just something you are correcting that was spread out over the quarters of 2020? Thanks you.

Joost Farwerck (CEO, KPN): On the fiber activations, I think the most important change we built in our company is that we organized really one organisation being fully responsible for fiber and the rollout, commercial activities, regional approach. So, there is far more and a far better focus on the activation of fiber in all different areas. Every area is different and every area has a different strategy. Sometimes, we have to defend our position there and sometimes we are more a challenger. But that's now done with a far better focus. And the commercial people in the lead. Traditionally, we had operations in the lead. First roll out the network and then try to sell. That is difficult because when we started to roll out fiber, Ziggo could activate all their customers locking them in for 12 months. But now we first sell and then roll out. What we also do is that we migrate customers more actively from copper to fiber, and after that, sell up. So, the churn on fiber is low, around 7%, if I am not mistaken. So, it is always good to also migrate customers more to fiber to create stickiness. It's our commercial performance, the focus on the different areas, the way we first sell fiber before we roll out and the way we migrate customers more actively and in a more sufficient and onetime right way.

Chris Figee (CFO, KPN): Yes, and when it comes to being commercially active, we of course have a policy that you have the same speed for copper and fiber at the same price. So, if you had 100 Mb on copper and you move to 100 Mb fiber, you get of course the same price. That helps migrate customers. But then we have a plan of action initiative in place where customers can temporarily experience the higher speed that you can have in that area for the same price for a couple of months and then after that period, you may go back to the old speed or you may stick to the higher speed. So, customers experience the full fiber benefit that has just started, so we need to see how sticky that is. But our plan is when you get fiber, you get the same speed and the same price, but you get the opportunity to experience the highest speed you have around and the real benefits of fiber for a short period of time at no additional cost. After some point, your clients actually choose to go back to their old speed or stick with the new speed.

On your question with regards to the one-offs, it has somewhat accrued during the year, but the focal point is in the second half, mostly it has to do with the Telfort migration that was the driving factor. It has to do with the physical migration of that, so it mostly affected the second half of the year, Q3 and Q4.

Ulrich Rathe (Jefferies): Thank you very much. Can I just follow-up, just for clarification? On that changed go-to-market strategy, when would you say did that start really in the market? Was that something that started late last year? Or was it started earlier?

Joost Farwerck (CEO, KPN): We started that at the end of last year and we are scaling up now. It's for us very important to change the way KPN is working and to reinvent ourselves. This is one of the very important focus areas we were, after summer of last year, really working on, and we're now seeing the first good results. But we are not done yet. Quarter after quarter, we will have to improve on our operational execution.

Ulrich Rathe (Jefferies): Brilliant, thank you very much. Thank you.

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

Joshua Mills (Exane BNP Paribas): Hi there thank you for the questions. Just a couple from me. The first was just related to the Consumer Net Promoter Score. And I think at the end of last year, you recognized you have had some friction points and that you were going to invest and fix it, which has happened and you stabilized. So, the question is, can you give us some specific detail on what initiatives you have taken and then maybe an indication as to how much extra investment there was in a quarter to do that?

And then the second question is just related to the copper shutdown and trial period. You mentioned as well that a few operators tried to do this and take some time. What kind of issues do you face or have you found when you started this? And how long do you think it realistically takes from identifying an area where you have built fiber, you no longer need copper to actually fully removing the legacy equipment, et cetera, realizing the savings? Thanks very much.

Chris Figee (CFO, KPN): Yes. Joshua, on the first question on the NPS. The NPS was stable. Actually, we see an underlying improvement. The NPS was stable mechanically speaking. We reweigh all these different customer groups every year again and due to the reweighing, actually that has a negative impact on the NPS, the underlying improvement is about 2 to 3 points although officially we reported it is 11 points. The underlying improvement actually is there. So, what did we do? I think we spent a lot of money and time stabilizing our iTV platform. Remember, at the time, our iTV platform was new and clients had to get to know it, and we had to stabilize it. Secondly, we equipped many of our DSLAMs with more batteries to deal with some energy fluctuations, which actually caused, as we understood, more fluctuation in network quality than we envisaged so far. So, it's re-equipping our DSLAMs with batteries, stabilizing or improving of our iTV platform. We scaled up our consumer support and mechanics team, and it took time to people to work. Before you have an experienced and well effective support staff employee, it takes a bit of time before people can be fully effective. So that as a combination. We took more money and trained them to be more effective and more efficient, and a few network changes. My estimate is that cost is around € 5-6 million this quarter. Q4 some similar number. And we are now looking at the drivers of those costs, call volume service tickets. We were flat versus Q4, in terms of call number service tickets and at the end of this quarter, early April, we saw the volumes coming down. So, bear with us, but it all points towards a normalization and a reduction of spend at the end of Q2, beginning of Q3. If the current trend of reducing call volume service tickets actually continue.

Joost Farwerck (CEO, KPN): It is all about end-to-end steering. So, Chris mentioned all kinds of components and financial effects, but what we did is end-to-end steering. On a Wednesday morning, every now and then, we join those sessions. And it's the network people, the platform people, the customer process people, and the salespeople; they fully have to understand what's happening when you change something in the back-end of the company. Then it's affecting the quality on the front-end of the company. That is now fully under control, and that is how this business should be run in the first place. So that's very important. We ended up in all these kind of components Chris mentioned, like TV, but it's really to have a good overview of what's happening in the total value chain of our business.

On the copper shutdown, people always talk about the Consumer market, but that is the easy part, to be honest. What we see in the 6 areas we just did is, it's important to follow the S-curve, the first and the second wave of customers migrating from copper to fiber. And then there is a third wave, and that is what we call the complementary upgrade. Like Chris just mentioned, we migrate the final batch from copper to fiber against the same price on the copied broadband connection. So, if you are on 50Mb on copper we move you to a 50Mb on fiber and after that, we approach these customers to upgrade the service and the ARPU, of course. The more complicated part is ISDN2 and ISDN30 for B2B customers, and all kind of exotic individual services via copper done for B2B customers. So, for ISDN2 and ISDN30 we created a solution. So, everything has been migrated; all our SME customers have been migrated away from ISDN. So, that's also good to understand because in the first quarter of last year there were still SME customers on ISDN against a higher price. But these kind of services are more complicated. At the end, what we saw is that the main distribution frame is almost empty, but there's always one or two working lines and you just have to disconnect them. Because otherwise, you cannot empty the network. But in short, the consumer is more about straight, direct migration and in B2B area, we really had to invest in complementary services to facilitate the migration. That's all done now so that's why we're ready.

Joshua Mills (Exane Paribas): That is very clear. Thanks!

Operator: The next question is from Mr Konrad Zomer, ABN AMRO. Go ahead please.

Konrad Zomer (ABN AMRO): Hi good afternoon everybody, two questions, please. The first one is on your Capex guidance. It was up 15% in the first quarter, obviously because of the fiber acceleration, € 43 million. It doesn't look like that acceleration will come down in the next three quarters. So, is there any chance you will prefer to not meet your € 1,200 Capex guidance for the year but accelerate fiber even faster? Or do you think you have enough leeway to reduce your non-fiber Capex in the remaining three quarters? Because there is clearly the risk, in my opinion, that your full year Capex guidance might not be fully met.

And my second question is a bit shorter. Can you indicate what proportion of your cost savings target of € 250 million is specifically related to the copper decommissioning? Thank you.

Chris Figee (CFO, KPN): Konrad, on your second question, a very small amount. I think you are looking at € 10-20 million, that order of magnitude. I mean the copper decommissioning will really kick off in 2023. There may be some small savings but think about a double-digit number, maybe € 20-30 million. But the most it really is kicking in after the completion of this cost savings program.

Joost Farwerck (CEO, KPN): And Capex?

Chris Figee (CFO, KPN): On Capex, well I think you are completely right. Look, we stick to our € 1.2 billion Capex guidance, it's very clear. Of course, fiber spend has been significant. Non-fiber spend is coming down a little bit, even if you see some increase in Consumer Capex. It's just a bunch of programs that we were running last year that you gradually have to scale down; you cannot just turn off the tap. So, we had a plan and have a plan to get non-fiber spend down significantly, and that requires scaling down some of the programs. I mean, notably in the first quarter we did spend some more money on mobile site swaps. I think our mobile site swaps is now well over half of total and if you do a traffic weighted, it's even more. So, on mobile and some of the other programs, it takes a bit of time to scale them down, but we do stick to the € 1.2 billion Capex guidance.

Konrad Zomer (ABN AMRO): Okay, that's clear. Thank you very much.

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

Stephen Malcolm (Redburn): Yeah, good afternoon guys. I'll go for the two questions. That's what I'm allowed. Just coming back to the copper decommissioning. Can you just outline any regulatory requirements you need to meet? You may have touched upon it on Joshua's question, and if you did, I missed, I apologize. And what protection do your Wholesale customers have here? Can you force them to migrate their existing VDSL customers to fiber or does that go through some sort of regulatory arbitration?

And then just, sort of looking at the 2020 – 2026 post-fiber Capex point you have talked about. This being the telecom sector, we penalize you when you generate too much cash and we worry when you are generating too little. And then when you start to generate too much, we worry it gets taken away. Have you had any discussions at all with the regulator about what the world looks like in your post-fiber world and be able to get any sense for future regulatory protection to the investments you are making today? Do you think that the presence of APG as a co-investor could help you on that front?

Joost Farwerck (CEO, KPN): Well on the decommissioning, one of the reasons we really kick off as from 2023 is because of regulation. So, we cover one third of the Netherlands on fiber. In most of the areas we announced the decommissioning of the copper network, but we agreed with our regulator on an announcement period of two or three years. So after that, our Wholesale customers have to be migrated to fiber just as we ourselves have had to do that. It works quite well, by the way. Because of the successes of fiber, we see other players on our network being super successful on fiber; 22,000 connections added last quarter. So, strong growth there. And that is also because they migrate from copper to fiber in these areas, and they know they have to do it. We follow that, we follow our own migrations and we follow the migrations of our Wholesale partners because they all have to be there at the same time. And that is why we announced it a couple of years upfront of when we start the real decommissioning.

Stephen Malcolm (Redburn): Did you give a number in terms of penetration or reach that you have to hit to decommission copper? I did not catch that. Or is that at your discretion?

Joost Farwerck (CEO, KPN): It is at our discretion, but the most efficient way is, of course, to move to an as low as possible penetration grade on copper before we start to decommission. Otherwise, we face a lot of customers to migrate. And that is why we, currently in that new fiber approach, move our customers faster to fiber for two reasons: to sell up, the commercial flow works better, but also to in the first two waves of the S-curve, as I call it, make sure that most of the customers of KPN are migrated to fiber. We see Wholesale partners doing the same thing. So, we learned a lot on how to manage fiber and how to migrate customers to fiber since 2008. But I think we are doing it in a much smarter and more efficient way today than we did ten years ago. And the whole regulatory framework is followed by us. So that is why we take 2023 as the real year to really kick it off on a large scale.

Stephen Malcolm (Redburn): Okay. That's very helpful. Thanks.

Chris Figee (CFO, KPN): And then your second question on the future regulatory framework in 2026. Well I mean, your crystal ball is as good as mine.

Stephen Malcolm (Redburn): I doubt that Chris!

Chris Figee (CFO, KPN): We are not regulated today and the current regulatory framework, the EECC, is about to be in place. That I think has a horizon that is supposed to extend for a few years and explicitly talks about protecting digital infrastructure investments.

And secondly, it says you have to provide open wholesale access and have to give someone else a viable business case, a viable economic case. We believe we do. As far as I can see, I don’t have a reason why that would not be the case in 2026. Of course, it depends on the number of variables but there is no deal or agreement at this point on what the world looks like post-fiber rollout. But when I look at the current regulatory framework and the horizon it is supposed to cover, I do not see an immediate threat on the horizon.

Joost Farwerck (CEO, KPN): And then to add to that, of course we discuss our fiber strategy with the government frequently because what we are doing is super important for the digitalization of the Netherlands and also very helpful for Dutch economy. So, for us, it is very important that we are supported by the government to make this possible and make it happen. And when we discuss this at the ministry, they are very supportive. It’s not only important for KPN, but it is important for Dutch economy and the Netherlands as well.

Stephen Malcolm (Redburn): Okay. That’s pretty clear. Thanks guys.

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

Simon Coles (Barclays): Hi guys, thanks for taking my question. It’s just on mass-market service revenue guidance. I mean, we have pretty good visibility on Consumer, and Wholesale is going well. So, I was just wondering if you could give a bit more colour on SME because in your comments, Chris, you were saying something about it has been stable for the last three quarters on an underlying basis. Could you give us some more colour on the moving parts? There is obviously a roaming impact this quarter, but then you are saying broadband looks strong and there are some interesting developments. Any more colour around SME would be very useful. Thank you.

Chris Figee (CFO, KPN): Yeah sure, on SME. If you look at the presentation on the business page, you can see the quarterly SME revenue numbers and you see last year, around € 140 million service revenues in Q1 and Q2, stepping down to € 133-135 million in the subsequent quarters. The step-down was due to the PSDN/ISDN migration shut off. There was a specific self-induced, self-inflicted markdown in service revenues. So, with that, you see numbers on SME to be quite stable for the last three quarters, Q3, Q4 and Q1. That is one thing.

The second element is that it is mostly mobile. In our SME business, the mobile revenues weigh relatively heavily compared to large corporate clients. So, the share of mobile and SME is relatively significant. So that means that the roaming step-down compared to the first two months of last year is particularly visible in SME relatively to LCE, simply because the share of revenues. It’s over a 40% share in revenues in SME and about 20% in LCE. So, you can see that, that roaming thing hits SME mid-corporate more than LCE. So, the point I want to make is that roaming and mobile are going down. Mobile is going down or had some headwinds because of roaming and also there is price competition, let's be clear. ARPU is under pressure in mobile and that affects SME. Broadband network services and IT services are doing quite well in SME. Base okay, but pricing good. That altogether leads to a step down in SME. But again, that really has been almost offsetting in terms of service revenues for the last three quarters. So, when you look at that, I'd say Q2 to Q2 will still be challenging, because we are in today at € 135 million or it's € 133 service revenues in the quarter. Last year, Q2, you had € 140-142-143 I believe, but in the second half of the last year, the year-on-year comps will become much more friendly, much more supportive also because of roaming. So, it is a comps issue, it is an issue of the shutoff of ISDN and PSTN migration last year and the fact that mobile service revenues and the roaming delta and competition just weigh more heavily on SME than LCE.

Simon Coles (Barclays): That is very clear, thanks. And on the competition, it is still tough in mobile, but you are not seeing any issues in the broadband side, by the sound of it?

Chris Figee (CFO, KPN): Life is tough out there. But we are seeing more fierce price competition in mobile than in broadband at this point. Our strategy is just to increase cross-sell. KPN One is now at 25% of our customers have triple play services, that will and also needs to increase. So, one of the critical factors for us is to increase that cross-sell ratio. Critical factor is to increase the amount of unlimited to counter mobile competition. But as I said, price competition is more heavy, more prevalent in mobile than in broadband at this stage.

Simon Coles (Barclays): That's very clear. Thank you.

Reinout van Ierschot (Head of IR, KPN): Okay, thanks. With that, we will conclude today's webcast. So, thanks for your attention. If there are any further questions, as usual, please contact the Investor Relations team. Thank you!

Joost Farwerck (CEO, KPN): Thank you.

Chris Figee (CFO, KPN): Thank you.

[END OF TRANSCRIPT]