OVERVIEW:
Co. reported 2Q15 results.
Okay, I think we can start. Welcome, and good afternoon as well. Welcome to KPN’s Q2 Results Presentation. Before turning to the core of the presentation, I would like to draw your attention to the Safe Harbor statements on page 2 of the slides. That also applies to any statements made in this presentation today.

In particular, today’s presentation may include forward-looking statements, including the Company’s expectations with respect to its outlook, which were also included in the press release published this morning. All such statements are subject to the Safe Harbor statements.

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

Eelco Blok - Koninklijke KPN NV - Chairman & CEO

Wouter, thank you and good afternoon everyone. Again, welcome to the presentation about our second quarter 2015 results. With me today is the full Board of Management; Jan Kees de Jager, our CFO; Joost Farwerck, our COO; and for the first time, Frank van der Post, our CCO.
Let’s start with the highlights for this quarter. We are pleased to report that the positive trends from previous quarters continued in the second quarter of 2015. With our initiatives and differentiating services, we have again been able to attract a substantial amount of new customers. Continued good operational performance, combined with strict cost discipline resulted in stabilized adjusted EBITDA, already in the first half of 2015. Therefore, we have strengthened our outlook for 2015 for adjusted EBITDA and free cash flow.

First, I will elaborate on what we have been doing this quarter to further strengthen our services and networks and then Jan Kees will comment on the operational and financial performance and take you through the financial results. Finally, I will conclude with the outlook and thereafter there will be plenty of time for Q&A with the full team.

Over the past years, we’ve built a strong IPTV platform, leading to a 28% market share today. Our IPTV service is clearly differentiating us in the Dutch markets through its interactive functionalities. Over 80% of our TV customer base is now interactive and use of interactive features has grown exponentially. Our strong innovation roadmap continues to drive a further increase in customer satisfaction, churn reduction and growth of our TV market share.

The next step in this roadmap is content aggregation. Our current TV market share allows us to negotiate smart partnerships with industry-leading names. We have not produced content ourselves nor buy exclusive content at premium prices. We rather aggregated in a smart and cost efficient way. For example, in the second quarter, KPN engaged in a partnership with Endemol Shine to develop Dutch content, focusing on a custom-made TV program. Through our cloud-based IPTV platform, we can therefore provide our customers access to a full range of content. This can be accessed by our customers, both at home and via our 4G network through innovative services, such as TV Everywhere, and later this year, our over-the-top TV at play from KPN.

In the first quarter of 2015, we launched larger mobile data bundles to facilitate growing data usage and create better upsell opportunities. This strategy is now really starting to pay off. The combination of large data bundles and innovative services, including for example, TV Everywhere, drives a strong increase in usage of mobile video services. This leads to data usage growth and also enables us to differentiate on 4G network quality. We expect that adding more content to our services will drive this growth further. As a result of the growing data usage, customers are now buying larger data bundles. An upgrade from 1 to 5-gigabyte costs an additional EUR5 per month. In the second quarter of 2015, roughly 45% of sales included bundles larger than 1-gigabyte. This drives value creation within consumer mobile, as more than 40% of KPN brand customers now have bundles larger than 1-gigabyte, a strong increase compared to around 25% in the same quarter last year.

Our unique products and services are not always successful on a standalone basis, but create powerful synergies when combined in a fixed mobile bundle. The approach towards converged services is based on added value, rather than discounting. This enables us to maximize operational leverage and create significant value.

We aim to continue strong customer base growth and at the same time increase the number of services per household to increase our total share of wallet. For instance, a typical fixed customer subscribing to KPN Compleet, on average, adds one or two mobile subscriptions, taking the total services in its households to three, four or even more services. The increasing penetration of fixed mobile bundles and a low churn level of 5% is driving a strong reduction in churn, so both our triple play and mobile customer base to about 9% per year. We believe a large opportunity still exists to further optimize customer value and reduce churn by increasing the fixed mobile penetration in our customer base.

In the business segments, we are operating in a rapidly changing market, driven by changes in technology, repricing and a slowly recovering economy. This segment is in a transition from high margin traditional services to converged and IP-based services. Within the revenue mix, this change is fully apparent and highlights the challenges and opportunities we face. Today, traditional voice, single play wireless and network and IT services are still in decline, only partly offset by growing revenues from multi play and new services. Although the decline of traditional services will continue, we are confident that we can improve and eventually stabilize revenues in business. In single play wireless, the decline is expected to bottom out when the base is fully migrated to the new 4G bundles and the tide for our network and IT services starts to turn, given its cyclical nature.

The macro economy is steadily improving; demand for data center capacity is growing and the effects from lost revenue on phased out legacy services, such as the ATM network should gradually become less. On the other end of the spectrum, we see strong growth opportunities in the
demand for multi play and new services like cloud, hosting and the development of the Internet of Things, which will help to retain value by reducing churn and increasing services per customer. These services are expected to moderate and eventually offset the decline in traditional voice services.

To operate effectively and efficiently in the changing environment, we continue to actively transform the business segments. In the second quarter, we made good progress in rationalizing our portfolio and automating processes, which will drive efficiency benefits in the short to medium term. Some FTE reductions were delayed, given a later than planned agreement with the works council and this was visible in our business results. That said, an agreement was reached recently in the second quarter and we can now accelerate this program in the second half of this year. This will reduce the fixed cost base and support profitability of the business segment going forward.

This quarter, we’ve seen another significant year-on-year improvement in net promoter scores in consumer and business, demonstrating we are on the right track. We will maintain strong customer focus and intent to further improve customer satisfaction. This is one of our main priorities.

In the second quarter, we continued to increase the penetration of fiber within our fixed network, combined with the rollout of vectoring and pair bonding. This improves the available bandwidth for our customers and strengthens our market position for providing a solid base to deliver our innovative and differentiating converged services. The progress we made during the second quarter puts us firmly on track to achieve the year-end 2016 targets. We also executed a successful pilot with the Super vectoring technology, which together with pair bonding can deliver speeds of up to 400 megabits per second over copper. We will start the rollout of this technology already in 2016.

During the presentation of our first quarter results, we showed you that we have the best domestic 4G coverage in Europe. We also said that we would focus on increasing 4G speeds. During the second quarter, we started to utilize the full 1800-megahertz spectrum for carrier aggregation. The average 4G download speed has improved from approximately 20 megabits per second to 36 megabits per second, delivering a much improved user experience, despite a more than 4 times year-on-year increase in 4G data volume being processed per month by our network. This illustrates our unique position on mobile network quality, differentiating from competition in times that data usage is surging. We’ve ample spectrum available and more than 75% of our sites are already connected with fiber to our modernized and high capacity backhaul which is way ahead of our Dutch and European peers.

Our simplification program remains on track to reach the target levels in Q2 – the targets level not in Q2, but the targets level we have set for 2016. In Q2, we mainly focused on building the foundation for process, network and IT simplification in the second half of 2015. The run rate savings now amount to approximately EUR230 million compared to the 2013 spend level. Furthermore we’ve realized approximately 1,150 FTE reductions since the start of the program in 2014. In the consumer segment, we invested in automated processes, which will enable significant operational benefits going forward. We’ve reduced approximately 60% of the consumer processes, which will contribute to a simplified customer journey. For example, for consumer residential, we expect a 33% decrease in lead time, the time from order placement to delivery of services. This will in turn benefit customer satisfaction and reduce our cost to serve.

Next to the simplification program, we’ve implemented a strict cost discipline approach in the beginning of this year with respect to our planned OpEx and CapEx spend levels. This approach contains three key areas of attention. Firstly, strong internal alignment on procurement, whereby we focus on consolidating the number of suppliers, and at the same time at renegotiating agreements. Some tens of millions of committed recurring savings have already been achieved in the first half of this year.

Secondly, we demand strict cost discipline within our organization to optimize the IT and TI spend, and improve alignment with our strategic goals. Here Joost is putting in place a key program to drive the efficiencies from IT. And thirdly, we’ve implemented a reduction in management layers, which leads to a 20% reduction of top management already this year. All in all, we expect this new cost discipline approach to result in considerable savings, which will provide additional free cash flow potential.

Now, let me hand over to Jan Kees to take you through our operational and financial performance of the second quarter. Jan Kees?
Thank you Eelco, and good afternoon everyone. Our strong operational performance is clearly leading to improved financial results. With work still to do to address the issues in the business segment, our strong market position in consumer residential, supported by our innovative and differentiating services led to a broadband customer intake of 31,000, and IPTV additions of 64,000. This was the main driver for a further increase of the total number of services per household, which supported a growing ARPU per customer. We will continue to focus on increasing the RGUs per household to maximize value. Combined with a price increase implemented for our KPN brand on July 1, this should support an improving financial performance going forward.

The second quarter for consumer mobile was marked by a return to service revenue growth. This shows the success of our strategy, which combines high quality 4G network with innovative services. Once more, we were able to show an improving financial performance, together with the continuation of our strong operational performance. We managed to add another 70,000 retail postnet adds, supported by lower churn across all brands.

The operational performance in our consumer segments was to a great extent driven by the continued growth of our fixed mobile bundles. Convergence is proving to be a strong differentiator in the Dutch consumer markets. Today, the penetration of fixed mobile bundles already amounts to more than a fifth of our broadband and a quarter of our retail postpaid base, double that of our Q2 2014 figures. This is a key priority, as it enables us to increase stickiness and therefore reduce customer churn.

Let’s move to the operational performance of the business segment. As Eelco explained, we continue to operate in a challenging environment, which impacted both our financial and operational performance. Traditional services are under pressure, but we are successfully growing multi-play and new services. To strengthen our new services portfolio, we acquired IS Group, a Dutch managed hosting and cloud services provider, which will be consolidated as per the third quarter of 2015. This positions KPN as the leader in the fast growing Dutch cloud market in [The Netherlands] (corrected by company after the call).

Both service revenue growth and customer intake were impacted by a competitive market environment, focused on handset promotions. However, the adjusted EBITDA margin improved in the second quarter, which was supported by several smaller incidentals and no site tax expenses compared to last quarter and the second quarter of 2014. In the last two years, BASE invested significantly in its mobile network quality. The 4G network coverage tool, which was recently published by the Belgian regulator, shows that BASE Company now has the highest 4G coverage in Belgium. Therefore, BASE Company is well positioned to benefit from data usage growth.

So I’ll move to the financial results from continuing operations. As I have said, our strong operational performance is clearly leading to improved financial results. Please note that unless stated otherwise, all financial results in this presentation are based on continuing operations, so excluding BASE Company.

In the second quarter, revenues were still declining, but EBITDA and free cash flow were growing. I will start by looking at the revenue breakdown. The adjusted revenue decline of 3.8% is an improvement versus the 7.4% decrease in the second quarter of 2014. Overall, consumer residential revenues were stable year-on-year and service revenues in consumer mobile returned to growth. However, these were still offset by the impact of the ongoing decline of the business market and a EUR19 million impact from the divestment of SNT Deutschland at the end of the first quarter of 2015.

Strong operational performance in the last quarters and positive impact of cost savings led to a small year-on-year growth in adjusted EBITDA in the second quarter. The lower year-on-year costs of goods sold are related to the consolidation of Reggefiber and to lower SAC/SRC levels, which decreased as a result of lower churn and fewer handset transactions compared to the same period last year.

Our fixed cost base continued to improve, driven by simplification, most notably in lower personnel costs, lower IT, billing and housing costs. These OpEx savings contributed to an improved adjusted EBITDA margin for the Netherlands of about 40% in the second quarter.

On the next slide, you will see another EBITDA bridge, showing the year-on-year performance of our segments. This slide clearly shows the positive contributions from consumer mobile at NetCo, while business still remains challenging.
CapEx in the Netherlands amounted to EUR636 million in the first half of 2015. If you compare this on a like-for-like basis with the first half of 2014, so including Reggefiber, CapEx was EUR52 million lower year-on-year. Capital intensity is still relatively high – due to our investment programs to increase capacity and speed of our fixed and mobile networks and our simplification investments. Our fixed Fiber-to-the-Curb and to a lesser extent, Fiber-to-the-Home investments will drive fiber penetration to approximately 80% of Dutch households at the end of 2016. In mobile, we continue to increase capacity, but our additional investments to increase available download speeds via carrier aggregation with 1800 megahertz are expected to be completed in 2016. Investments related to simplifications are higher in 2015, driving further savings in 2016 and beyond. We expect that CapEx will come down further in the coming period, as the peak of these investments is behind us and KPN is ahead of the CapEx curve.

In the first half of 2015, we show strong year-on-year improvement in free cash flow. Excluding the EUR146 million dividend received from Telefonica Deutschland, free cash flow for the first six months was EUR116 million. Please note that on this slide we excluded the EUR451 million pension provision release last year from reported EBITDA and change of provisions. The improvement was driven by lower interest payments as a result of lower gross debt levels in 2015. The higher cash from change in provisions was due to settlement of various legal claims and an additional pension payment in the first half of 2014. And there was also EUR100 million more cash from change in working capital compared to last year, mainly due to different intra-year phasing, but also partly due to some structural improvements. It took longer than expected to reduce FTE within the business segment. As a consequence, the cash-out related to FTE reductions are still limited at EUR41 million in the first half of 2015.

Let’s now look at our financial position, which remains solid and with the ability to be flexible. Net debt remained stable at EUR7.3 billion in the second quarter. In June, we retired a EUR1 billion bond as a part of a regular redemption. This will further reduce cash interest payments by roughly EUR40 million as of next year. A 20.5% stake in Telefonica Deutschland is a financial investment. Together with more than EUR1.3 billion expected cash proceeds from the sale of BASE Company, we have significant financial flexibility. These elements are not included in the 2.8 times net debt to EBITDA ratio.

Let me now hand back to Eelco for the outlook and concluding remarks.

Eelco Blok - Koninklijke KPN NV - Chairman & CEO

Thank you. Jan Kees. With our strong operational performance and strict cost discipline, we are able to strengthen our EBITDA and free cash flow outlook for the full year 2015. We now expect adjusted EBITDA for the full year to be inline with 2014. Furthermore, we expect free cash flow for 2015 to be above EUR500 million. This is driven by reduced interest payments and a strict cost discipline in our OpEx and CapEx spending, and does not include the EUR146 million dividend received from Telefonica Deutschland.

We reiterate our intention to pay a regular dividend per share of EUR0.08 in respect of 2015 and expect dividend per share in respect of 2016 to grow further. KPN will pay an interim dividend per share of EUR0.03 in respect of 2015, subject to EGM approval.

In the second quarter, KPN received a dividend of EUR146 million from Telefonica Deutschland. We will distribute this dividend to our shareholders as an additional interim cash dividend per share of EUR0.034, which will be paid on August 5.

So to conclude, we are confident about our strength and outlook for adjusted EBITDA and free cash flow for 2015. Our growing free cash flow and solid financial position will continue to drive growing shareholder remuneration going forward. Thank you, and now we will take your questions.

QUESTIONS AND ANSWERS

Polo Tang - UBS - Analyst

Hi, it’s Polo Tang from UBS. I just have a few different questions. The first one is really just on cost savings, because you’ve realized EUR230 million in terms of run rate for cost savings at the end of Q2, that was a big improvement over Q2. I think the delta was EUR60 million. So, if you look at the trajectory, why wouldn’t you do EUR500 million plus for example by 2016. Your guidance of EUR400 million by 2016 looks very conservative, so could you comment on that?
And the second question is really just in terms of fixed line. You’re obviously seeing very good momentum in terms of your broadband net adds. I think last quarter in particular, Liberty or Ziggo was suffering from integration issues, but yet you are still doing well. So are you doing well in broadband at the expense of Liberty Global, so if you can maybe just comment on that.

And my final question is releases in terms of mobile service revenues. So we obviously saw a noticeable improvement in terms of consumer mobile service revenue trends. There was obviously a one-off within that, but how should we think about the evolution over the coming quarters going to continue to improve on a underlying basis?

Eelco Blok - Koninklijke KPN NV - Chairman & CEO

Okay, I will take the first question and Frank will take the second and third question. Looking at the cost savings, we are, as I explained to you, doing really, really well, EUR230 million run rate savings after a full program and yes, very impressive increase in the second quarter. The guidance we have given at the beginning of this year, which was an upgrade from the previous guidance was not EUR400 million, but higher than at least EUR400 million and so, half-way it looks really, really good. We are not going to give you an upgrade today, but as you have seen costs are a very high priority of this team sitting over here. And if there is a higher number to be realized, then we will update you in the beginning of next year, when we share the new guidance with you, but we are doing really well. And given the additional measures we have taken this year on OpEx and CapEx, we are not pessimistic about this item. Frank?

Frank van der Post - Koninklijke KPN NV - CCO

Thank you Eelco. Yes, on the fixed line broadband, we are doing extremely well in the moment. We’ve had a great quarter. Also the first quarter was a good quarter with a lot of net adds. We are quite confident that we can continue to have that at the expense of others, I don’t know, you have to ask them, but we are -- even though we’ve increased some our prices recently, we continue to grow in that area.

Your second question was around the service revenue in mobile. Again what we see is continued strong growth in net adds. But we also see an increased uptake in the size of the data bundles. So [currently we see 45% of the sales at over 1-gigabyte bundles] (corrected by company after the call) and that gives us an opportunity to get some slightly higher revenues and that coupled with the additional net adds and the convergence of fixed mobile subscribers will help us drive the service revenues.

Guy Peddy - Macquarie - Analyst

Hi, it’s Guy Peddy from Macquarie. Just a quick question, picking up on that. You said that 45% of your consumer mobile customers are now taking over 1-gigabyte. Am I wrong in thinking that you next upsell of 5-gigabytes within most of those price points. So does that mean that a lot of this benefit from the transition to 1 gigabyte is behind that we have to wait for a lot more usage [price] before we get the next transition into a higher bundle. I am just trying to think about how this plays out over a two to three-year period. Does that make sense?

Frank van der Post - Koninklijke KPN NV - CCO

What we have seen in the first six months is, while the upsell from 1 gigabyte to 5 gigabyte increasing compared to what we have seen last year happening and given the growth we see in video services, we expect this growth to higher bundles to continue for the period that is coming. So we expect to continue higher percentage of higher-priced data bundles.

Guy Peddy - Macquarie - Analyst

Perhaps to elaborate on that too, can you give us a sense of what the usage is for those people that are in the 1 gigabyte bundle. I mean, are they, for example, are they close to getting to the 5 gigabyte, so therefore you can upsell again or is it going to take quite a while for them to get to the --
The average users now is 1.1 gigabyte, so that’s the average usage on KPN brand. We clearly see the 4G users having a much higher data usage, mainly driven by the higher video usage, and we see a continued increase in those underlying KPIs.

Paul Sidney - Credit Suisse - Analyst

Paul Sidney, Credit Suisse. Just three quick questions please. (inaudible) is reclaiming that they've got 50% indoor coverage, given that time seems to be running out for them. Do you think they have any option, but to launch with a very aggressive price point with less than 100% national coverage?

And just second question, Jan Kees, you mentioned financial flexibility. What would be your priorities for use of cash post BASE, and potentially in the event of a TEFD stake sale? And then just lastly, just a point of clarification on slide 14. Is this the launch of a new cost saving review, I guess? Is this incremental to the (400), is that the way we should look at slide 14, with you updating us at the year-end? Thank you.

Eelco Blok - Koninklijke KPN NV - Chairman & CEO

The clear answer on the last question is, yes, this is on top of the simplification program. So this will result in an acceleration of the spend reduction within KPN, giving us the opportunity to increase our free cash flow, as I said in my presentation. Then, first the financial flexibility question, Jan Kees, you will take that one?

Jan Kees de Jager - Koninklijke KPN NV - CFO

We always have said, post BASE, post Telefonica Deutschland financial stakes will deliver proceeds. We have said financial and operational flexibility is our priority. Second one small in-country M&A. Third one then any remaining cash could go to shareholder remuneration, which we did not decide upon which type of shareholder remuneration, could be different types, but shareholder remuneration. To be a little bit clearer on financial and operational flexibility, a part of the proceeds of both should, as you look at the balance sheet, of course, go to deleveraging and a part, significant part could go -- if there is no small in-country M&A, to shareholder remuneration. That’s at least when we would have the cash now. And if we did not have any small in-country M&A, then part would go to deleveraging and also significant part would go to shareholder remuneration.

Eelco Blok - Koninklijke KPN NV - Chairman & CEO

Frank, will you take the Tele2 question?

Frank van der Post - Koninklijke KPN NV - CCO

Yes, the -- and the question on Tele2, what they want to do is obviously up to them. I think we’ve been ready and I think we’re quite well prepared. Our quad play proposition is very strong and is continuing to do very well, which locks a lot of customers in with us and I think also what is important to mention is that what we’ve seen in the market recently is that [Tele2] is focusing less on price leadership in their communication. So there seems to be less price driven than they have in the past.

Jacques de Greling - Natixis - Analyst

Jacques de Greling, Natixis. Two questions, the first one regarding your service revenue in Q2, you say that on the consumer mobile, you said it includes a tax effect. Could you clarify that? Second thing, when we look at the (inaudible) for the coming years, the dividend is expected to be higher than the EPS for the next three years. Do you think this is something sustainable on the longer term?
Eelco Blok - Koninklijke KPN NV - Chairman & CEO
Our guidance about dividend is very clear; EUR0.08 for this year and a growing dividend beyond 2015. And we believe that that is a sustainable KPI target. And the tax effect --

Jan Kees de Jager - Koninklijke KPN NV - CFO
As to the tax effect, actually it's the same thing what happened in Q4. Maybe you remember the EUR44 million incidental, which was related to VAT, because of joint understanding with the authorities about how to deal with VAT. That led to an incidental already in Q4, of EUR44 million. That was for the full year 2014. Roughly, this is the same in this year. However, now it's spread more evenly throughout the quarter. So that's why it's roughly EUR10 million this quarter. So that's it. Nothing more than that.

Usman Ghazi - Berenberg - Analyst
(inaudible) from Berenberg. I just had a question on your guidance. So if I look at H1, the organic EBITDA decline excluding Reggefiber is around 4-point something percent -- 4.2%, 4.3%. The guidance for the full year implies -- and if I take Reggefiber contribution at around EUR30 million per quarter -- is implying that the second-half run rate for organic EBITDA isn't really going to improve. It's going to stay at around 4%. I mean, I just wanted to understand why is that, given obviously the topline is improving. You put through price increases, the OpEx momentum will improve with the additional cost savings in the second half. So why is it that the full-year guidance is implying a second half organic decline in EBITDA that's similar to the first half? Thanks.

Eelco Blok - Koninklijke KPN NV - Chairman & CEO
You need to realize that looking at a quarterly phasing of the EBITDA in 2014. While we -- you have to see that year-on-year comparison for the first half was much easier than for the third and fourth quarter. That's one. And secondly, we are confident that we'll of course achieve this guidance. But as you all know, we have to have some flexibility in the guidance to be able to respond to commercial responses of competition in the market. So it's a combination of continued good operational performance, continued cost discipline in the Company. But you also have to take into account higher EBITDA in the third and fourth quarter of last year than in the first and second quarter, and some flexibility we want to have to respond to commercial actions of competition, both in fixed and in mobile.

Joshua Mills - Goldman Sachs - Analyst
Thanks. It's Joshua Mills here from Goldman Sachs. I just wanted to check on slide 11. You've outlined your Fiber-to-the-Curb and Fiber-to-the-Home coverage plans for 2016. So at the moment you're about 60%, half of which is on Fiber-to-the-Home, the other half on Fiber-to-the-Curb. How much of that 80% target for 2016 do you think realistically needs to be done with Fiber-to-the-Home technology? How much can be Fiber-to-the-Curb instead? That's the first question. The second question, still related on the fixed line. On slide 61, you'll have your infrastructure map. I thing you added one section on VDSL2 pair bonding, saying that you can get to 100 megabits per second speeds. So I just wanted to know the cost of delivering that technology, firstly, versus the Fiber-to-the-Home, which you've been doing and also against the Fiber-to-the-Curb, combined with the bonded vectoring technology which delivers about 240 megabit per second speed, which I also think is a bit higher than you said previously. Thank you.

Eelco Blok - Koninklijke KPN NV - Chairman & CEO
Okay, Joost, will you take these questions?
Joost Farwerck - Koninklijke KPN NV - COO

Let me start with your second question, because we are very hard working on the technology we can accomplish on a copper network. So we have a hybrid exit strategy. It’s both Fiber-to-the-Home rollouts and Fiber-to-the-Curb, which is of course investing in VDSL. And we are investing in VDSL, combined with pair bonding and combined with vectoring and now like Elco just mentioned in his opening speech, we are working on something new called Super vectoring or VPLUS. And this is very important for us, because it’s far more efficient than rolling out Fiber-to-the-Home, much more efficient. So already this year, you see us heavily investing in Fiber-to-the-Curb and speeding up that rollout as fast as we can and we only roll out Fiber-to-the-Home in a real weak couple of areas. So the good news is that in the past we rolled out fiber in a weak couple of areas, but we have now a rollout scheme concentrating on Fiber-to-the-Curb, which is VDSL, adding up to 80% coverage in [homes] end of the next year, which enables us to deliver 85% of [homes] above [100 megabits] and that will mainly be concentrating around Fiber-to-the-Curb.

Unidentified Audience Member

(inaudible) Another question on the regulation. Could you update us on the expected calendar for the mobile termination rate dispute? Thank you.

Joost Farwerck - Koninklijke KPN NV - COO

Sorry which dispute is that?

Unidentified Audience Member

The ACM decision, which is currently I think in the courts. When could we expect to have a decision?

Joost Farwerck - Koninklijke KPN NV - COO

So there's always a lot in courts in the Netherlands. We just won a case from 6 years ago, which is about tariffs on the fixed regulation. It will enable us to get EUR10 million back in the market. But of course, in general, for the market it's not good to have all these rebates and (inaudible) we can get more money out of the markets. So when this MTA finally will be solved. I don't know, it always takes time, but at the end it will be probably positive outcome. So that's where we are today on regulation. We finalized the fixed rebate and on MTA they are still open.

Unidentified Audience Member

(technical difficulty) on the ACM market analysis?

Joost Farwerck - Koninklijke KPN NV - COO

Let me answer this and that ACM came with a draft decision. EC, the European Commission had serious doubts on the draft decision of our regulator ACM. So our regulator withdrawn that decision and they came back with a new draft decision. Some of these things are more positive for us, it enables us to solve issues around unbundled local loop with market parties like Tele2 and M7, ourselves. So it enables us to make deals instead of waiting for new regulation. Another thing is for us still not good enough. We want a symmetric regulation compared to cable and we want a fair level playing field and that’s not still reflected in the draft decision. So we will be against that as we are, as you know.
Eelco Blok - Koninklijke KPN NV - Chairman & CEO

And from a timing perspective to [consultation], on this new draft decision will end in September and then looking back to history, it'll take ACM a few months to take the results of the consultation into account and take their final decision and base -- we can't say upfront if we then start legal proceedings or not, but probably we will. Yes, very well that's also looking into the history, the normal way these things happen.

Marc Hesselink - ABN AMRO - Analyst

Marc Hesselink, ABN AMRO. I got two questions. The first is on the future for the fixed line competition, you now also access to -- like you have also access on a commercial basis to your competition. I think right now you have a relatively easier market with ZIGGO internally focused and the other ones not really active on the fixed side. Now with the commercial offer, they all will be able to also [offer these] converged services. How do you think this will end up, and will there be a massive increase in competition? And the second one is on the business segments, on the top line of it. You are mentioning still a lot of pressure on traditional voice, and also maybe a little bit higher pricing in mobile segment. When do you think this will be out of the system? I think there's a little bit more -- [100 million] still in traditional voice. How long will it take before this is out of your system?

Eelco Blok - Koninklijke KPN NV - Chairman & CEO

Joost, so you take the first question, and Frank the second one about the business markets.

Joost Farwerck - Koninklijke KPN NV - COO

So, on the one side they are stable, on the other side there's KPN active in the broadband markets in the Netherlands, and then we have other players making use of our access network. It's regulated and we also offer wholesale services on our network from a commercial point of view, it's called wholesale broadband access, and it's on the active layer. For us it's important to get those parties on the active layer, because it enables us to upgrade our networks in an efficient way, to rationalize our networks in an efficient way and to clean up our number of exchanges, as we would like to do. But we do not offer converged household services. That's up to every one on their -- for themselves in The Netherlands. So we offer a wholesale broadband access line and then it's up to the wholesale party to really make a service provider kind of service of it. And if you want to do convergence, you should combine mobile and fixed on your own together.

Frank van der Post - Koninklijke KPN NV - CCO

And maybe to add to this, the TV product is also a very, very important product and that's also not available on a wholesale basis. So differentiation is at the end in The Netherlands not on broadband speeds, but it's on quality of service, customer service and the products and services that are offered to the end user, where TV is a very, very important driver of success of KPN and we can state, not only today but also looking at the past that we have the best TV product available in the Dutch market, and with all the investments we have already been doing and will continue to do in the near future, we are confident that we will be able to keep this number one position on TV and in Dutch market.

Marc Hesselink - ABN AMRO - Analyst

So just to follow -- just what I meant was that before now, they don't really have the access to fixed. I mean they have to -- they regulated a part of it, but now because they have their own mobile offer, and now they can start to be active on the converged side as well, whereas you're clearly are very successful right now.

Frank van der Post - Koninklijke KPN NV - CCO

Yes, but also looking at the situation before the VULA offering, they were connected to a network and some of them -- but you also brought an access product that was available, and some of them but just took the unbundled local loop. So there will be no major differences compared to
the current situation. Yes, they will have the opportunity to also upgrade their speeds in the network, but that's it. We are confident that we can continue with the very good multi-play and single play offerings to continue the good performance we have seen in the last few quarters.

Jonathan Dann - Royal Bank of Canada - Analyst

Jonathan, Royal Bank of Canada. Looking at how strong your fixed line broadband additions have been, I guess historically if the cable industry loses subs for too long or KPN loses subs, but historically there is an imbalance between growth at some point soon afterwards, there is a competitive response. I mean how much flexibility do you have to kind of duopolize as it were, sort of perhaps put through some price rises, stop advertising on television and kind of take your foot off, ease back into the second half next year. I mean, could you sort of get 500 basis points in the consumer mobile, consumers fixed-line divisions, if you ease back on sort of above the line advertising? How much scope have you got to improve profitability as the market rationalizes?

Frank van der Post - Koninklijke KPN NV - CCO

Yes, well, I mean, we do see -- continue to see strong commercial performance and the net adds continue to demonstrate that both in mobile as well as in residential. I think we have at the moment also a very strong trend in the NPS, which currently is helping us. And if you look at our churn for example, it's one of the areas where we're doing really well in the quad play and what we see is that kind of the more customers we get into quad play, the effect of churn is quite substantial and the quad play churn is around 5%, which is about half of what the other ones are. So I think for us that's where the opportunity set is, is to continue to accelerate the opportunity to get as many customers as possible in quad play and therefore retain them and that will ultimately help us in driving down costs on the other end.

Jonathan Dann - Royal Bank of Canada - Analyst

There's not a huge cost escalation, say for things like year-on-year advertising. So it's sort of -- are those costs actually falling year-on-year or they still growing?

Joost Farwerck - Koninklijke KPN NV - COO

Well, our cycle costs have come down year-on-year and again that's due to some of the shifts we see. And looking at distribution cost and marketing cost, as you know we have migrated to Hi brand, to KPN brand that gave us the opportunity to lower the number of shops, to lower the total marketing budget of KPN and Hi, and with a trend on KPI's, Frank just shared with you, gives us an opportunity to continue this trend of improving efficiency of the marketing and sales spend. And when churn comes down and you see it's coming down and we believe that this trend will continue to be the trend, which gives us also an opportunity to increase profitability, increase efficiency of the marketing and sales spend.

Unidentified Audience Member

(inaudible) from Nippon Life. I just want to focus a bit on the BASE transaction just a bit. First question, do you have any indication about the timing of when it will be finalized? Second, regarding the financial flexibility, you said that a part of it will go to debt reduction, other will go to shareholder remuneration. Your focus on the leverage ratio [2.8], do you intend to keep it the same, improve it, assuming everything else being equal? And just the last question on the debt reduction, would you intend to do that through bond buybacks or just by paying back bond maturing next year? Thanks.

Eelco Blok - Koninklijke KPN NV - Chairman & CEO

On the BASE process, well, this process is run by Telenet. So, of course, we support them with all the support they need to go through this process and we are confident that at the end of the process there will be EU approval and from a timing perspective, you just have to look to other transactions
to make an estimation, how long it’ll take, but there’s no reason to think of any deviations from a normal processing the transaction like this. Jan Kees, the other two questions?

**Jan Kees de Jager** - Koninklijke KPN NV - CFO

We do not disclose the specific target leverage ratio, as we have done in the past. However, it’s clearly that we are committed to an investment grade credit profile, that means that [2.8] ratio is clearly on the high side. So that should come down, but again we’re not targeting a specific debt to EBITDA ratio, but it should come down. That’s why I also said some part would go to deleveraging and some part could go to shareholder remuneration, if there is no small in-country M&A. And of course, we have scenarios of which part could go to A and which part could go to B, but it differs from market circumstances, so that’s why we did not disclose specific target ratios. But clearly, [2.8] would be on the high side. But also if everything would go to deleveraging you would -- it would be too low to get any leverage. So that’s why there will be a mix, a blend of deleveraging, as well as shareholder remuneration if there is no other specific M&A in-country -- small in-country M&A goal for us.

Bond buybacks, of course, we did tender last year in fall EUR2 billion bonds. So it’s not logical if we would have the cash now, probably it will sit on the [wireless] or in the bank account, it’s not logical to now do a bond tender. So we look at net debt to EBITDA. But if there is opportunity, we will announce it. But we do not have now any indications of a bond tender as to-date, not at all.

**Simon Weeden** - Citi - Analyst

If may just get back to the earlier conversation about churn and costs. To what extent, if you are on the mobile site, you’ve been upgrading customers to 4G energetically over the last 12 months, you’ve got quite a sizable proportion of the base under contract and multi-play and quad play are also relatively fresh, freshly signed contracts. The churn statistics you are showing with us, they are affected by the duration of these contract periods, whether customers are under contract or not. So to the extent you think you’ll start to see that creep up again as contract lives come to an end, do you have a plan for rolling customers over on to the next offer at that point?

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

Frank?

**Frank van der Post** - Koninklijke KPN NV - CCO

As I said, the churn is showing a very good trend. I think that coupled with the NPS gives us quite some confidence in retaining these customers. About 60% of our mobile -- our consumer customers are on 4G, so there’s still quite a way to go for us to get them all to 4G, but we think that we do very well with the 5% churn in the -- due to the quad play. So that’s really is going to be the focus for us in the coming six to nine months.

**James Britton** - Nomura - Analyst

It’s James Britton from the Nomura team. We can see momentum in the consumer market is really very strong, but just a question on the enterprise side and particularly on the mobile side. I think the single play wireless is down 12% this quarter. Can you just help us understand, is that a market wide phenomenon do you think or to what extent does is that explained by you losing share? And is there an end in sight for this level of decline? You took about repricing, how long is that repricing going to go on for? And then just a final part, any interest in 4G from your corporate customers?

**Frank van der Post** - Koninklijke KPN NV - CCO

On the single play, we’ve I think seen the worst of the repricing effects and I think the effects of that is starting to run out. So I think our medium term we -- I think it’s going to be not declining as much as we’ve seen. And again, on the 4G, we continue to see some strong uptake there, again
in the business market as well, about 60% of the customers now are on 4G and we're working with the team quite hard to obviously drive more interest in the 4G subscriptions in the business market.

James Britton - Nomura - Analyst
Because you see this as an opportunity? Do you think it is a market issue or you losing share? I mean you talk about repricing, so I'll guess that's the decision you've taken, but are you losing some market share here as well?

Frank van der Post - Koninklijke KPN NV - CCO
No, I think the effects of the repricing are starting to run out, and I think we are seeing the market and our share there to stabilize.

Unidentified Audience Member
There are ongoing talks regarding the benefits of cross-border consolidation in this sector, so could you update on your view on this topic and the place you see for KPN in such a landscape if we go for cross-border consolidation.

Eelco Blok - Koninklijke KPN NV - Chairman & CEO
You are asking, two questions. Priority one, two and three for this team today is continue to improving the performance of KPN as we are, because we believe that we can create the most value by further improving the performance of KPN on market position, EBITDA and free cash flow and we believe that we don't need any support to continue to improve our performance. So that's about the position of KPN.

Then the first question, talking about cross-border synergies, I really believe that there are today already cross-border synergies to realize. Just look at the platforms everybody is using, Voice over IP, IPTV, IMS, managing the networks are done more centralized today than in previous years. So that's the situation of today and going forward with software-defined networks and futurization synergies could even be higher when you are able to really implement software-defined networks and futurization in the networks.

Ulrich Rathe - Jefferies - Analyst
Ulrich Rathe from Jefferies. Coming back to this question of Ziggo in the second half versus the first half with the integration of that, it's sort of word against word now, I suppose, to the extent between you and Liberty. So I'm wondering, when you look at your customer base and the reasons why they choose you, I suppose you have a pretty good view of why people choose KPN at a given point in time. You already mentioned that you don't think it's actually raw speed, but I'm just wondering whether you could sort of help us understand the reasons a bit more, so we can actually track this. For example, things like list prices, promotional discounts, the quality of the TV service. What is the relative relevance of all these things, because it sounds to me as if, if someone just comes with a sufficiently aggressive promotional discount for a sufficiently long time and advertises this heavily enough, then they do push the broadband stats in their respective direction, but I'd just be interested to hear your view on that?

Eelco Blok - Koninklijke KPN NV - Chairman & CEO
Frank?

Frank van der Post - Koninklijke KPN NV - CCO
Again, we've seen really strong commercial performance. We have some discounts, we are currently at three months [EUR35], we've seen Ziggo very actively promote, very aggressively promote the six times EUR29 offer, but it doesn't seem to have moved the needle of for them. I think what
we offer is a very strong TV platform, cloud-based, the on-demand, the (inaudible) if you can go back to the beginning of the program, whenever you want and I think some of the content partnerships we have, both on TV and mobile for example with the Spotify are all elements which we see and are being valued by our customers and that translates into the NPS and that again translates into a customer who is less likely to depart, just getting it a couple of euros cheaper somewhere else. We’ve increased our prices early this year, but we haven’t seen a noticeable effect of that.

Eelco Blok - Koninklijke KPN NV - Chairman & CEO

And maybe to add to this, I can assure you that we as a team will continue to behave rational. Frank just mentioned that we have increased prices recently, as we have been doing in the previous years, but also we took the decision to decrease our promotions recently, because we believe, given our commercial success, and our strong propositions on broadband, on TV, on quad play that we could continue the good performance with less promotions than we have done in the third and fourth quarters of last year, and the first quarter of this year. As you have seen, no real negative impact on the net adds in the second quarter.

Keval Khiroya - Deutsche Bank - Analyst

Keval Khiroya from Deutsche Bank. Last assembly you announced the decision to reduce the business segment headcount by 580 employees. Can you just give us some color on how much of that has been done so far, and when during the course of 2015, you expect that to complete and just by way of comparison if there’s any color you could give on how the business headcount reduction evolved last year as well, so we know how personnel costs may have fared through, that would be quite useful as well. Thank you.

Jan Kees de Jager - Koninklijke KPN NV - CFO

In the beginning of 2014, we announced a program -- a restructuring program resulting in 1,500 to 2,000 FTE reduction in three years time. At the end of last year, we added 580 for business markets through this program, so, resulting in a total of 2,000 to 2,500. We recently came to an agreement with the workers council to start the second phase of the business market restructuring. So you will see an increase of reduction starting in second half of this year, resulting in an accelerated improvement of the fixed cost base of business markets, and the numbers that’s really difficult to say, because will it be in the third quarter, fourth quarter or first quarter of next year that all depends on the individual measures we have taken, but for sure you will see an increase in the restructuring efforts within business market.

Guy Peddy - Macquarie - Analyst

It’s Guy Peddy again. Very quickly then, firstly on BASE, have you committed to a revenue, EBITDA and a customer base number at BASE for the end of 2015, because it looks like the business is in that class of I’m going to sell it so I am not going to invest behind it, so my margins are going up? Secondly, you talk about ongoing cost cutting to make your business more efficient. You talk about CapEx cuts ongoing as a driver for free cash flow. What gives you the confidence you will be able to actually just keep those benefits within the business, but mind you, you’re still hemorrhaging revenues across the Group, why isn’t it going to be the fact that you’re going to continue to have these ongoing revenue pressures; always what you do just means that you actually never grow?

Eelco Blok - Koninklijke KPN NV - Chairman & CEO

I will answer the question on BASE. Already for a long time, our mid-term guidance for EBITDA margin was somewhere between 25% and 30%, and as we did when we sold E-Plus to Telefonica, there is no real change in managing the Belgium assets in the current situation, versus when we had not sold BASE Company, and looking to the underlying KPIs, yes, we are seeing some pressure on net adds and sales, but that’s really only driven by the changes we’ve seen in the market where handset subsidies became much more important this year than in previous years. That’s on BASE. Then on CapEx --
Jan Kees de Jager - Koninklijke KPN NV - CFO

On CapEx and maybe on revenue growth. Frank can add on. But first on CapEx, because I think it’s very important to understand that you could have good CapEx and bad CapEx, even from a CFO perspective. So we are still continuing to invest this year and next year. This year, for example, you have seen, we have doubled our average 4G, doubled the download speed to about 35 megabits, even on my phone, I get 160 megabit real tested on my phone download speeds on 4G. Very, very few incumbents today tell that that you have this in real in your network at this moment in operation. Also on vectoring, and Fiber-to-the-Curb, Fiber-to-the-Home rollouts, 80% at the end of next year will be the Fiber-to-the-Curb, Fiber-to-the-Home, 85% will have a residential 100 megabits or more download speed. So, we keep investing in our networks and CapEx will be guided to that. But our simplification program is really working, both on OpEx and on CapEx. We are able to be more CapEx friendly on our residential Fiber-to-the-Curb network, and there’s like a factor four times between Fiber-to-the-Curb and Fiber-to-the-Home in CapEx. So doing more Fiber-to-the-Curb, rather Fiber-to-the-Home, delivering our speeds up to -- with bonding and vectoring up to 200 megabits, 240 megabits per household, that is plenty -- above any demand that we see at the moment [for sure]. Without the newest techniques, you’ll only need 30 megabits and even with some new techniques, 10 megabits for a 4K stream, so you can have like five 4K streams or maybe even 10 4K streams in one household and plenty of Internet download speed for gaming, at the same time on Fiber-to-the-Curb technology.

So with that technology we’re able to reduce CapEx, whilst we keep investing and improving in our networks. So we really are more doing -- performing more intelligently and in more CapEx friendly way, so we’re not investing on CapEx. And to revenue growth, maybe Frank can add to that.

Frank van der Post - Koninklijke KPN NV - CCO

I mean if you look at the transformation plan in the consumer markets over the last couple of years, I think quite clearly see the evidence of the success of that. We have a clear roadmap for the business market as well and the plans of what we want to do and we’re well on our way there. I think standardizing the product portfolio, rationalizing the product portfolio are two key critical steps in that. Again that will have both the revenue opportunity as well as a cost upside, because we can then rationalize all our internal processes and make them a lot simpler as well, and I think the simpler and much more automated processes will allow us to lower our cost due to headcount reductions and cost reductions.

Eelco Blok - Koninklijke KPN NV - Chairman & CEO

And maybe to answer this, we are also investing heavily in new services, cloud, hosting, data center services, security, Internet of Things, and that will help us to over time offset the decline of the traditional services. So, it’s and this, and that, and that, and we are convinced that we can realize the same trends in business market over time as we have seen in the consumer market.

Simon Cooke - Insight - Analyst

Thanks. It’s Simon Cooke from Insight. You’ve worked very hard in recent years to reduce your leverage, so you keep your investment grade profile and now, ironically, one of those companies circling KPN is itself very highly levered. Can you just talk about how you think about the potential sale of KPN or [any form a] M&A transaction with a highly levered company versus another investment grade player, given the impact it would have on your financial pro forma post deal. Thanks.

Eelco Blok - Koninklijke KPN NV - Chairman & CEO

As I said earlier, priority one, two and three of this team is to improve the performance of KPN as we have been doing over the last few years and we believe that we can create substantial value by improving the performance and that it makes no sense from that perspective to become part of a larger group. So that’s our position where we are today and that’s what I would like to share with you about this subject.
Wouter Stammeijer - Koninklijke KPN NV - Head of IR

We would like to leave it with that. I’d like to thank you very much for coming. I know it’s a busy results season. But appreciate you’ll being here. So, thank you. Thank you very much.