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KPN.AS - Q2 2012 Koninklijke KPN NV Earnings Conference Call

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OVERVIEW:

KPN.AS reported YTD revenue decline (excluding certain items) of 1.1% and 2Q12 YonY revenue decline (excluding certain items) of 0.8%.

CORPORATE PARTICIPANTS

Hans Sohngen *KPN - Head IR*

Eelco Blok *KPN - CEO*

Eric Hageman *KPN - CFO*

Joost Farwerck *KPN - Managing Director the Netherlands*

Thorsten Dirks *KPN - Head Mobile International*

CONFERENCE CALL PARTICIPANTS

Matthew Bloxham *Deutsche Bank - Analyst*

Dimitri Kallianiotis *Citi - Analyst*

Akhil Dattani *JPMorgan - Analyst*

Stuart Gordon *Berenberg - Analyst*

Luigi Minerva *HSBC - Analyst*

Peter Kurt Nielsen *Cheuvreux - Analyst*

Frederic Boulan *Nomura - Analyst*

Guy Peddy *Macquarie - Analyst*

PRESENTATION

Hans Sohngen - *KPN - Head IR*

All right. Let's start. Welcome to all of you here seated in the room and those with us via Webcast. Today, we will take you through our half year results and address your questions during Q&A.

Let me briefly point out that the safe harbor statement applies to this presentation and that any forward-looking statements made in this presentation do not differ from those already made in the press release published this morning.

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

Eelco Blok - *KPN - CEO*

Thank you, Hans, and good afternoon, everyone. With me today is Eric Hageman, who has just been nominated for membership of the board of management as CFO following several months as interim CFO. Also here is Joost Farwerck, who was appointed to the executive committee as Managing Director of the Netherlands earlier this year, and, as usual, Thorsten Dirks, the Head of Mobile International.

I'm pleased to note that we now have this team in place to navigate KPN through the transition.

Back in January, I explained that we were accelerating our investments in the Netherlands to address operational performance that had not met our expectations. I also said we would continue with our successful challenger strategy in Germany and Belgium, continuing to balance revenue growth and margins. I will say a bit more about the strategic progress in a minute, and Joost and Thorsten will go into detail in their respective sections.

I'm pleased to be able to confirm that the operational strategy remains on track, as it did in April at our Q1 results.

At the same time, our financial framework remains under pressure, and the economic outlook continues to be difficult. As you have read in our press release, this requires us to adjust our dividend guidance. We will say more about that shortly.

There have been some important changes since April. As you know, America Movil now holds nearly 28% of KPN's shares. KPN has a long history of constructive engagement with large shareholders. For long periods, we've dealt with the Dutch state as, first, a majority and, then, a minority holder. We've also from time to time seen fund management firms take big positions in our shares.

Now America Movil has taken over as our largest single shareholder. We look forward to engaging with them in a constructive way, as we do with any other shareholder. We will assess carefully any suggestions they make for cooperation between our two companies, as long as these are viable, value accretive, in line with our strategy, and in the interest of all shareholders.

Let's now go into the outcomes of the recent strategic reviews. First, for Germany, following our full review, we now have confirmed our strong belief in value of E-Plus.

Second, we have started the sale process for BASE this month. BASE is a successful challenger with excellent momentum for further upside. And we expect a sale price to reflect this. The proceeds will be used to improve KPN's credit rating and financial flexibility. Ultimately, maximizing value for all shareholders, remain at the heart of KPN board's approach to strategy and capital allocation. That entails maintaining the right balance between keeping a prudent financial framework, investments to sustain and grow the business, and sustainable shareholder remuneration. In economic tough times, this balance is even more important.

We are convinced that a prudent approach is not only advisable but necessary in the current environment. Key economic indicators for our whole market have not improved, and prospects for the rest of Europe remain troubled. Next to this, we see lowered growth forecasts for the United States and some volatility in the outlook for China.

It's now clear to us that, given the current reality, a further reduction in shareholder remuneration following the share buybacks that we took in January cannot be avoided if we were to protect our balance sheet. A prudent financial position is an essential prerequisite in order to continue investing in our business. This, in turn, will support our credit ratings and enable sustainable returns to our shareholders in the medium and long term.

You also have noted that the price of KPN's shares in the stock market long before and up to today's announcement have had an implied dividend yield that was increasingly out of line with the market as a whole and with our sector peers. We are therefore amending our dividend guidance for full year 2012 to EUR0.35 per share. We will pay an interim dividend of EUR0.12 per share in August this year, just over one-third of the total. We are setting the amended dividend for 2012 at a sustainable level and therefore give a dividend guidance for 2013 of at least EUR0.35. Retained cash that is generated will be used to support our financial framework.

Looking ahead, we are comfortable with the lower dividend level and an approach that is aimed to increase financial flexibility, as we have also important strategic investments in spectrum and fiber coming up.

As we have said before, our accelerated investment strategy is intended to restore the Netherlands to a sustainable level of profitability as we start next year. I'm pleased to say that the strategy remains on track, and financial results for the first half of 2012 are in line to realize the EBITDA, CapEx, and free cash flow outlook. Our EBITDA for the first half, excluding restructuring costs, was EUR2.3 billion, and CapEx was EUR967 million, both approximately at half the minimum annual guidance. Free cash flow was EUR571 million in the first six months. As many of you know, there is usually strong phasing in our cash flow patterns throughout the year. We are confident we will deliver a full year free cash flow within the guidance range set in January.

However, as just discussed, we are adjusting our dividend guidance to EUR0.35 per share. On top of this, we are setting a 2013 dividend outlook of at least EUR0.35 per share.

Now let me report on our strategic progress. During the investor day in May last year, I set out to simplify, strengthen, and grow strategy for KPN.

Let me start with the strategic overview of the Netherlands. We have made good progress with the implementation of all main elements of our strategy. In Dutch consumer mobile, our new propositions and enhanced distribution footprint are successfully turning the tide against competition. Stabilization of our market share is expected in 2012.

For consumer residential, we now have a market-leading TV proposition in the Dutch market and are upscaling the regional approach. We expect that the broadband market share will bottom out towards the end of 2012.

On the network side, our hybrid VDSL and fiber strategy is on track with continued copper network upgrades and the rollout of fiber. To maintain our best-in-class mobile network position, we will scale up our LTE pilots to a full rollout.

On the business side, further steps have been taken to integrate our business segment and corporate market.

Improvements in our underlying cost structure are being made, as we have accelerated our FTE reduction program, which we intend to finalize by the end of 2013.

We have made significant progress with quality improvements in customer service across all segments, evidenced by growing NPS scores.

In mobile international, we have made important progress in all segments. In Germany, we are balancing revenue growth and margin. Several innovative value for money propositions have been introduced to support further growth in data service revenues.

On the network side, E-Plus is making good progress with its strategy to build a high-speed data network. 80% population coverage with speeds up to 42 megabits will be in place at the end of this year.

In Belgium, we continued our challenger position by introducing new, innovative propositions leading to continuous strong growth figures. On the cost side, we are taking good steps to improve the EBITDA margin and see further upside. Furthermore, we continued our mobile broadband network rollout and now have reached nearly 90% coverage with 3G.

Finally, we sold KPN France in Q4 2011 and are looking at options for Spain. To improve profitability, the focus of Ortel will be aligned with KPN's core markets, and KPN is assessing options for the other Ortel activities.

Now let's move on to some other highlights. Our accelerated investment strategy in the Netherlands is on track to strengthen the domestic market positions.

In consumer mobile, we have introduced new mobile propositions for all our main brands, KPN, Hi, and Telfort. Our market share of service revenues in Q2 is stable at approximately 45%, and we are seeing positive postpaid retail net adds.

In consumer residential, our corporate network upgrades and our fiber rollout are on track, aligned with our regional approach. The regional approach provided promising initial results with improving broadband market share developments in targeted areas. The penetration in fiber areas has increased by 7 percent points year on year based on good results in existing and new fiber areas. The broadband market share development is 80% better in fiber areas compared to the national average, and ARPU is EUR12 higher.

We now have the leading TV proposition in the Dutch market in terms of customer satisfaction and a net promoter score well ahead of competition. We have continuously invested in new content and technology in successive quarters. We are very satisfied with the growth in our TV market share to 19% and see plenty of potential to continue that successful momentum in the quarters ahead.

The underlying principle behind our accelerated investment strategy is to reallocate CapEx to customer-driven investments to strengthen our market positions, such as TV and fiber-to-the-home activations in residential. And we will scale up the successful LTE pilots into a full rollout in mobile.

We are also making good steps in realizing savings elsewhere from better quality and procurement and the efficiency, outsourcing, and off-shoring programs.

Since the start of the FTE reduction program last year, we have recorded restructuring costs related to 2,500 FTEs, and we intend to finalize the total program related to 4,000 to 5,000 FTEs by the end of 2013.

In Germany and Belgium, we have posted another solid quarter. We continue to shape the markets with innovative propositions introduced in both markets to drive further growth. We are maintaining growth in service revenues while at the same time continuing to roll out our high-speed data networks.

I will now hand over to Eric to elaborate on our Group financial profile and go through the usual financial review.

Eric Hageman - *KPN - CFO*

Good afternoon to you all.

Earlier this year, we told you that it was a possibility that we would dip out the financial framework. This has indeed has occurred in the second quarter. There are three specific effects at work. Let me explain those two you.

Compared to the end of the first quarter, our gross debt was up by EUR200 million to EUR13.3 billion, here on the top left. In line with our usual quarterly cash flow pattern, there was a reduction in our balance sheet cash position of around EUR400 million, mainly due to the final dividend payment. As a result, our net debt at the end of June was EUR12.4 billion. This, combined with the reduced 12-month, rolling EBITDA, the net debt to EBITDA ratio was 2.6 times at the end of the second quarter. This is obviously not where we would like to be, and we will work hard on improving all these three parameters -- gross debt, gross cash, and EBITDA.

As explained by Eelco, we have decided to take the necessary steps to protect our credit ratings and improve our financial flexibility and, as such, our ability to strengthen our business. Today's announcement to lower our dividend to a sustainable level will save us EUR780 million in cash; around EUR260 million for the interim payment in August and around EUR520 million in April next year.

Our average interest rate was 5.2% in the second quarter, and the average maturity of our bond portfolio was seven years at the end of the second quarter. Again, in this uncertain macro environment, we remain firmly committed to a prudent financial policy.

Let me continue with an overview of the Group results for the second quarter. Revenues were down by 0.8% year on year, excluding the impact from the loss of revenues as a result from the sale of Getronics International on May 1. The revenue trend in Q2 provides a slight improvement versus the 1.4% decline in revenues that we saw in the first quarter of this year.

EBITDA, excluding restructuring costs, decreased by EUR131 million, or 9.9%, also an improvement versus the trend of 12% that we saw in the first quarter.

Operating expenses increased by EUR71 million, 3.6%, due to the following factors -- investments to strengthen our Dutch market positions; higher restructuring costs, which were EUR51 million this quarter versus EUR13 million in the same quarter last year; higher pension costs; more investments in growth in Germany, and this, again, partly offset by the impact from the sale of Getronics.

Let's now move on to the year-to-date Group results. Revenues year to date were down 1.1%, again, excluding the impact from the sale of Getronics International, and the decline is the result from the contraction in the Netherlands, partly offset by the continued top line growth in Germany and Belgium.

EBITDA, excluding restructuring costs, decreased by EUR287 million, or 11%, year on year. The year-to-date EBITDA of EUR2.3 billion is on track to realize the outlook of EUR4.7 billion to EUR4.9 billion, as the EBITDA is expected to improve in the second half of 2012 as a result of the improving performance of the Dutch businesses.

Financial expenses year to date are up EUR29 million, mainly due to a one-off gain in the first quarter last year.

In the first half of 2012, we paid EUR70 million more P&L tax compared to last year, when we benefited from a one-off innovation tax facility related to the 2007-2010 period.

We will now skip one slide and move on to the Group cash flow for the first half of 2012. In the first half of 2012, we generated EUR571 million in free cash flow, EUR412 million lower than in the first half of 2011. The main reasons for the lower free cash flow are as follows -- EUR334 million lower EBITDA, EUR187 million higher tax payments, and EUR70 million higher CapEx. This, again, was partly offset by EUR155 million positive change in provisions, mainly related to pensions and the restructuring provisions, and the EUR67-million positive change in working capital.

CapEx year to date was up EUR70 million, or 7.8%, in line with our strategy to strengthen the Dutch businesses and the continued rollout of the mobile broadband network in Germany and Belgium. Within the Netherlands, we are seeing a shift to more customer-driven CapEx. Joost will elaborate on this later in his part of today's presentation.

Now, shortly, something on the pensions. The coverage ratio of the KPN pension funds decreased to 99% in the second quarter from 101% in the first quarter of the year. The decrease to 99% was driven by the lower interest rates that we observed all throughout Europe. In the second quarter, a recovery payment of EUR19 million was made. Based on the coverage ratios that we have seen in Q1 and Q2, KPN will have the obligation to make recovery payments of EUR22 million in Q3 and EUR20 million in Q4.

Let's now continue with the financial reviews of our two divisions and their respective segments.

The second quarter of 2012 saw a continuation of trends within our Dutch telco businesses. Revenues and other income were down EUR87 million, or 5.1%, including a negative impact from regulation of EUR23 million. The lower revenues were mainly observed at consumer mobile and NetCo.

EBITDA, again, excluding restructuring costs, decreased by EUR97 million as a result of these lower revenues and higher operating expenses. Furthermore, the EBITDA trend was negatively impacted by EUR20 million more positive incidentals than last year and an EUR8 million regulatory impact. The EBITDA margin decreased to 49.1% from 52.4% in the same quarter last year but slightly higher than the 48.8% that we saw in the first quarter of this year.

With a total of EUR41 million restructuring costs for Dutch telco in the second quarter, the total amount under the restructuring program since May 2011 amounts now to EUR72 million. This bodes very well, of course, for our future FTE-related cost structure.

Let's now look at the segments within Dutch telco.

Revenues at consumer mobile were down EUR46 million, or 9.4%, year on year, where the service revenues were impacted by EUR11 million regulation and supported by EUR7 million incidentals.

The EBITDA at consumer mobile increased to EUR134 million in the second quarter, up from EUR94 million in the first quarter this year, again, supported by the introduction of new commercial propositions, including a handset lease model. As a result, the EBITDA margin at consumer mobile was up to 30.4%.

Revenues at consumer residential were down by 4.6%, driven by a decline in fixed voice customers.

The EBITDA at consumer residential was down EUR7 million Q on Q, at EUR100 million versus EUR107 million in the first quarter of this year. The EBITDA margin at consumer residential declined to 21.9% due to increased activation costs for IPTV and fiber to the home, as the number of customers increased. Furthermore, the margin continued to be impacted by the decline of the traditional, high-margin services. To improve the margin at consumer residential, we are implementing an accelerated FTE reduction program. In the second quarter, a EUR20 million restructuring provision was recorded exactly for that purpose.

Revenues and other income at our business segment were down just 2.3%, impacted by EUR6 million regulation and despite the continued decline in high-margin, traditional services and price pressure in this competitive market. The wireless data revenues continue to show a good performance.

The EBITDA for our business segment was encouraging and relatively stable, at EUR200 million in the second quarter versus EUR197 million in the first quarter of this year and the EUR202 million of the same quarter last year.

Revenues at NetCo, however, were down 7.2% year on year due to lower traffic across all operating segments.

The EBITDA at NetCo declined to EUR362 million this quarter. The EBITDA margin at NetCo was also lower, at 57%, and the year-on-year comparison was impacted by EUR6 million in incidentals.

On a slightly more positive note, revenues at corporate market the Netherlands, our former Getronics, in the second quarter were stable year on year, at EUR326 million. The lower revenue bar for this quarter at the top, left of this page is easily explained by the sale of Getronics International on May 1.

The EBITDA margin at corporate market the Netherlands, increased to 6.8%, supported by the EUR8 million booking on the sale of Getronics International, lower personnel costs as a result of the FTE reduction.

Revenues at iBasis were up EUR15 million, or 6.1%, including a positive US dollar versus euro currency effect to the tune of 4.4%.

The EBITDA margin at iBasis remained relatively stable, at 2.7%. And last year's EBITDA margin of 4.1% was impacted by a small one-off.

Let's now briefly look at mobile international. Revenues and other income in Germany in the second quarter increased by 4.9%, or by EUR39 million, year on year, supported by service revenue growth of 3% and the sale of SNT Inkasso of EUR16 million. Important performance indicators, such as a growing customer base and data growth resulted in healthy growth rates. Thorsten will give you some more detail about the operating performance in his part of the presentation this afternoon.

The EBITDA margin in Germany in the second quarter was 39.8%. Excluding the sale of SNT Inkasso, the EBITDA margin would be 38.6%. This EBITDA margin is very much in line with the announced strategy to balance revenue growth and margins.

In Belgium, we again saw a strong underlying service revenue growth of 12% in the second quarter, driven by growth in mobile, B2B, wholesale, and interconnect traffic.

The EBITDA margin in Q2 was almost 3 percentage points higher than the same quarter last year, driven by continued improvements in the cost structure and the steady growth in profitable revenues. The underlying EBITDA growth of 25% was significantly higher than the 13% last quarter and the 23% we saw last year.

Revenues at the rest of the world decreased by 23% year on year as a result of the sale of KPN France in December last year and the fact that Ortel is operating in a very competitive environment.

I would now like to hand over to Joost for the operating review of the Netherlands.

Joost Farwerck - *KPN - Managing Director the Netherlands*

Good afternoon, everyone.

As Eelco mentioned in his introduction, I have been appointed Managing Director of the Netherlands in the first quarter of this year. Now, there's a lot to do in the Netherlands, and I look forward to the challenge ahead.

We are on track with respect to the strategic elements in the plan. We are focusing on strengthening our position in the markets, especially in consumer markets. We are focusing on launching new propositions, supported by a new distribution strategy. Secondly, we focus on cost reduction in the Netherlands, mainly driven by acceleration of the FTE reduction program. This is in full execution right now. And we focus on quality, quality of our customer processes. And, also, this quarter, we saw the first real proof points by net promoter score improving in all segments.

Now I'm going to take a look in more detail, and I will start with consumer mobile in the Netherlands.

We've taken major steps to reposition our consumer mobile business. We've introduced simplified, flexible, and transparent propositions, and these allow our customers to choose the service to their needs. So we reinforce our brand positioning, and we are offering differentiating services for our three main brands. Hi focuses on early adapters, fully data centric, with unlimited messaging. KPN has a clear focus on service and quality with family part of the target group. Telfort is our value for money brand and offers long phone calls and free calling after the tenth minute.

We believe that we capture all market segments through our three main brands, further supported by Ortel Mobile and simyo and our MVNO brands. And, with this approach, there won't be a single white spot left in the Dutch market.

We are also improving our distribution footprint by the rollout of shops in specific regions.

And we intend to maintain our best-in-class network position through a large-scale rollout of LTE starting this year.

Like Eric mentioned, smaller service revenues were down 9.6% year on year. These were mainly impacted by regulation, the shift in customer behavior, and in incidental.

Driven by the launch of this new mobile proposition and strengthened distribution footprints, our total Dutch service revenue market share in the second quarter remained stable, at around 45%.

We've seen positive postpaid retail net adds of 30,000 in the second quarter, and our total postpaid retail ARPU remains, year on year, under pressure, at EUR36. The committed postpaid retail ARPU was up 8% year on year to around 63%.

Now, in the residential markets, customers are moving to triple play, so, therefore, IPTV is an important driver to support our broadband market share. We strongly improved our IPTV services. We introduce functionalities as fast as they're being -- a better customer interface, IPTV on the tablets, IPTV on the smartphone, et cetera. We also enriched our proposition with HD channels and content like HBO and Spotify. We have a road map in place for the coming 18 months to further improve our TV propositions and broadband services, and this will help support our broadband market share in the future.

According to independent research, KPN's IPTV proposition is now the most complete and richest customer package in the Dutch markets. And, also, our customer support is a strong, positive net promoter score which is the best in the Netherlands. We now have 1.5 million TV customers, and our TV market share went up to 90% in the second quarter.

We are operating the corporate network and we continue to roll out fiber to the home in the Netherlands. We are on track to reach 70% coverage of the Dutch market with minimum, guaranteed speeds of 40 megabits at the end of the year. We also launched packages with speeds up to 80 megabits per second, even during peak hours. This will be supported by the launch of pair bonding and the VDSL upgrades. And, this way, we offer a better user experience to our customers.

Now we align the network upgrades with our regional approach. And, in the Netherlands, we are combining our marketing, sales, and operational strength on the regional level. And, this way, we are able to approach, sell, and connect our customers in a far more simplified way. First results of that regional approach are promising. We see a reduction of churn in these areas. An acceleration of the program therefore is scheduled in the second half of this year.

Now, results in fiber areas are good. In the first half of this year, we activated as many customers as in the full year 2011. In the second quarter, the number of fiber-to-the-home activations increased by 39,000 to 164,000 homes activated. This leads to a KPN retail fiber penetration level of 70%, which is a 7% improvement year on year. Compared to the national average, the fiber areas are successful. Our broadband market share development is 8% better in fiber areas, and we also see a better ARPU blend, fixed and copper, of EUR12 higher in the fiber areas. And we keep on focusing on the main value drivers behind fiber-to-the-home, increasing penetration in ARPU levels and reducing the rollout costs.

Now, the growth in IPTV net adds of 89,000 in the second quarter and the fiber-to-the-home activations of 39,000 I just mentioned lead to the uptake of triple play customers. And this increase in triple play leads to a 5.3% increase of RGUs per customer. So the broadband customer base trend is improving with a stable customer base compared to the first quarter of this year.

Also, after correction for the impact of the takeover of Lijbrandt Telecom, we still see a stable customer base. Therefore, our broadband market share in the second quarter remains at 39%. We are confident that our strategic initiatives will support our broadband market share.

In the business markets, KPN employs a multi-brand approach, and it is to address the different needs of our customers. We target the entire business segment through four brands, providing services to large enterprises, corporate clients, SoHo, and SME. We believe that our multi-brand approach in the business markets positions KPN to continue its strong presence in competitive business markets.

Now I would like to go to slide 31 on the topic of KPN corporate markets, formerly known as Getronics. Corporate markets was recently named best ICT provider 2012 by "Management Team," a well-known magazine in the Netherlands, this providing further evidence of our quality improvements and customer focus.

The revenues and other income of corporate market the Netherlands were up almost 1% year on year. This was mainly due to the EUR8-million book gain on the sale of Getronics International, which we concluded on May 1.

Corporate markets remains focused on bringing the cost structure in line with the current revenue developments. So further steps have been taken to integrate certain parts of corporate markets with our business segment on January 1, 2013.

Now we move to the topic of cost reductions and quality improvements, on slide 34.

On the topic of cost savings, the FTE reduction program is an important driver, and the accelerated program of 4,000 to 5,000 FTEs is expected to be finalized in 2013. EUR195 million restructuring costs have been booked related to approximately 2,500 FTEs. This picture shows you that we have people working in customer-facing units, such as call centers, shops, field engineers, et cetera, and we have also a lot of people working in the organization not directly involved in the customer process. The current focus of Dutch telco is on reducing the number of these indirect FTEs.

In the customer-facing organizations, mainly improved quality programs lead to the efficiency. And, like I said, we see the first signals of call reductions and high net promoter score in all segments but especially in consumer markets.

Of course, we also reduce costs in other ways; for instance, through improved purchasing and by looking at other operating models. For example, we recently announced a pilot for extended site sharing with Vodafone in the Netherlands.

Now CapEx is being reallocated to more customer-driven investments, such as TV, fiber-to-the-home installation, and mobile handsets for new customers. Also, investments in our mobile network will increase as a result of the large-scale LTE rollout, which we plan to start this year. And, as with this, we also realize CapEx savings, of course, in 2012. These savings are mainly related to procurement costs and increased efficiency.

So, I hope that you can see that we're not just talking about transition in the Netherlands but that we are really focusing one execution of the transition in the Netherlands.

And, with that, I now would like to hand over to Thorsten for the update on the mobile international. Thank you.

Thorsten Dirks - *KPN - Head Mobile International*

Welcome, everybody, and good afternoon, ladies and gentlemen.

I would like to give you an overview about our mobile international operations. We'll start with Germany and then continue with Belgium.

In Germany, let me start first with our new -- explaining our new propositions we just introduced in the market with a new brand called Yourfone in April and then followed by simyo in May and Blau in June. What have we done with these new propositions? More or less the same we have experienced in 2005 when we introduced our new strategy, the challenger strategy on the wholesale side. We were mainly focusing on prepaid.

There is an unserved segment in the postpaid area that you can see here, which is not served by the traditional brands. It has been served by the traditional brands so far but not really been focused by these traditional brands, like traditional brands like BASE we are using or our competitors' brands. And this is what we call the discount, no-frills segment also in postpaid. This is a very simple proposition. It's an all-net flat for around EUR20, EUR19.90. All-net means it's all voice, all networks, including fixed or mobile networks and including all data. Data is throttled as a 500-megabyte, but this is more than enough for smartphone use. So this was the first, really, approach to this new segment, and, therefore, we established this new segment.

On the other side, on prepaid, we are more and more moving also with our prepaid customers from a voice-centric business into a data-centric business. You can see this also if you compare our prepaid ARPUs. In many of the segments where we offer segment-specific prepaid products, we are market leaders -- in the ethnic segment, in the discount segment, in the online segment with simyo, for example. And our prepaid ARPU is EUR6, plus. Vodafone just announced their prepaid ARPU for Germany. It's EUR3.20, if I have the right number. So you see that the prepaid segment is, for us, a very valuable segment and a segment where we are now starting to move more and more into the data focus.

When we talk about data, we also have to talk about the network. And, if you look at the top, right, you see our rollout is on track. The target is to cover more than 80% of the population, which is HSPA+, up to 42 megabit per second by the end of this year. And we are really on track to fulfill this target.

But it's even more, and we have discussed this several times also here that, for us, it's not so much that, if you talk about data. It's not so much about coverage. Of course, coverage is an important one, but the most important one is capacity. And, there, we have a unique position in the German market. Other operators in Germany will tell you, yes, the plus is like an 800-megahertz spectrum. But, even if you have 800 megahertz, you have, maximum, two blocks of spectrum at 800 megahertz. We have four blocks at 2.1 gigahertz, and we are rolling out HSPA+ at 2.1 gigahertz. And what we are doing now is we are increasing (technical difficulties) of blocks we are using. And, therefore, we're increasing the capacity in the most cost-efficient way you can do it. And this is the unique position we have in the market.

And then, you know, if we see that there are enough handsets in the market, and handsets -- I'm talking about smartphone that are multimode, LTE, and HSPA+. We will also start with the introduction of LTE. We are preparing the rollout. We have prepared the rollout so far. And we have a lot of base stations already LTE enabled. We just have to switch them on. And we will use our 1.8-gigahertz spectrum, where we also have four blocks in a row plus a fifth block which we can then use in addition. The technology is ready. But four blocks is more than enough also for LTE, which you also don't have at 800 megahertz if you use 800 megahertz for LTE. And this will give us a capacity advantage, a capacity advantage where the capacity is needed, where these services are used. And this is in the higher-density areas. This is in the urban areas. And this will give us also an advantage on the cost side, again, because if you compare -- this is what Eric told you already. If you look at our EBITDA margin also this quarter, 39.8%, it nearly is the highest EBITDA margin in the German market as the number-three player.

And, if you look at the results this quarter on the postpaid side, you see the net adds at 179,000, significantly higher than the last quarters. And this is already the impact of the launches of the new proposition in Q2. But, remember, we only introduced these new propositions in April with the first brand, then May, and then June.

On the prepaid side, you see since last quarter -- I already explained to you last time -- a lower number in net adds. This is because we see more competition, especially in the ethnic segment, where we decided that we are not willing to spend too much on acquiring prepaid customers. And this is why we are pulling back a little bit out of this segment. So we are really focusing on the high-value EUR6-plus ARPU customers in this segment.

On the service revenue, we were growing 3% last quarter. And we estimate that our market share is up to 15.9%.

Let's continue with Belgium. Also in Belgium we are progressing with our 3G rollout, our HSPA+ rollout. The regulator, the BIPT, in Belgium just confirmed our license obligation. We achieved 85% coverage of the Belgian population with 3G. And we have improved significantly in the second quarter with our 3G rollout. In Belgium we are using -- because we have enough spectrum below 1 gigahertz, we are using the 900-megahertz spectrum to rollout HSPA+.

We have launched two new propositions also in Belgium. One is called the BASE ID. We very recently launched, in June. BASE ID is more or less a copy of what we have done in Germany with Mein BASE, where you can switch your bundles. You can compose your own bundles, and you can switch every month. So, as we have done in the past, you see here -- you know, we learn in one country, and, if it's successful, we transfer it to the other country.

There is a second proposition we launched in May, and this is what we call the Your Mobile Freedom. And it's the first time in the Belgian market that you can buy a postpaid product without any contract duration. And, also, other operators in Belgium are talking about the new Belgian telecom law that enforces these offerings as of October this year. We believe this is a real benefit, and this is the reason why we said we have to be the first in the market to introduce these new tariffs.

Results in Belgium are very, very promising. Very good results. Very strong underlying revenue growth of 12% in Q2, supported by strong net adds, especially in prepaid. In postpaid, you will see a takeup of the net adds after we've launched the new propositions very, very recently and market share higher than 19%.

To conclude, I think, another good quarter for mobile international. Thank you very much.

Eelco Blok - *KPN - CEO*

In my concluding remarks, I would like to again highlight the following.

I'm pleased to be able to confirm that our operational strategy remains on track. In Dutch consumer mobile, our new propositions and enhanced distribution footprint are successfully turning the tide against the competition.

In consumer residential, our corporate network upgrades and our fiber rollout are on track, and the penetration in fiber areas is increasing. We now have the leading TV proposition in the Dutch markets.

We're also making good steps in making savings from better quality and procurement, as well as the FTE reduction program. We intend to finalize the total program related to 4,000 to 5,000 FTEs by the end of 2013.

Also, in Germany and Belgium, we are on track. We are maintaining growth in service revenues while at the same time continuing to roll out our high-speed data network.

At the same time, however, our financial framework remains under pressure, and the economic outlook continues to be difficult. This has required us to adjust our dividend guidance for the full year 2012.

We have seen a significant change in our shareholder base with America Movil now holding nearly 28% of KPN's shares. We will maintain a constructive dialogue and will act in the interest of all shareholders.

Maximizing value for all shareholders will remain at the heart of our approach to strategy and capital allocation. That entails maintaining a balance between keeping a prudent financial framework, investments to sustain and grow the business, and sustainable shareholder remuneration, which is what I intend to do over the coming quarters.

With this, I would like to hand over to you for Q&A. Thank you.

Hans Sohngen - *KPN - Head IR*

I would like to start our Q&A. Joost will be out there with the microphone, so let him know if you have any questions. Our host starts I think.

QUESTIONS AND ANSWERS

Unidentified Audience Member

If I could come back on the new shareholder remuneration and the relationship with your new anchor shareholder, the timing is an interesting coincidence. But I was just trying to understand if there was any main difference in strategic view between AMX and yourself as KPN's management and if you had any discussion with them on the optimal leverage of the Company, which had an impact on the rebasing of the dividend that you just announced. Thank you.

Eelco Blok - *KPN - CEO*

As you know, the current economic outlook remains tough, and changes are to the negative. In these times, having a prudent financial position is, for us, an essential prerequisite to continue the investments in the business. We are currently outside our self-imposed financial framework. The net debt over EBITDA at the end of Q2 is 2.6 times. The credit rating agencies are not sending us reassuring messages to support our credit ratings. And, therefore, we have decided to adjust our dividend. That's the reason.

And, yes, we are having constructive conversations with America Movil, but they are 100% related to operational cooperation to see if there are synergies and if we can benefit from the synergies.

Unidentified Audience Member

Okay. So you don't see any other significant divergences in strategy at this point.

Eelco Blok - *KPN - CEO*

No. America Movil is fully supporting our strategy, and they are fully aligned with what we currently are implementing.

Unidentified Audience Member

Thank you.

Matthew Bloxham - *Deutsche Bank - Analyst*

Can I just follow up on that a little bit, because, I guess, when you gave the new guidance and the change in distribution policy earlier this year, not much seems to have changed apart from, perhaps, maybe a bit of a worse thing in the financial outlook. But has there been a significant change in how the credit rating agencies are evaluating the Company which has kind of pushed you in that direction? Or is the difficult economic environment making you think that, actually, 4.7 billion rather than 4.9 billion is where you're going to exit the year? Could you just give us a bit more sense, because it feels like a lot of the things haven't really changed from where you were earlier in the year.

Eric Hageman - *KPN - CFO*

Sure. I think I would agree with that. What we see is that, in the beginning of the year, when we made our first change to the shareholder remuneration that we all had gotten used to, we talked about a couple of uncertainties that we saw this year. One is still coming up in October. But we also talked about the macro environment. And I think it's very clear that that is continuing in a way that doesn't make anyone happy. Look at what Moody's has said yesterday or this morning about even the Nordic countries, where we think we're all happy with our AAA rating. There is some negative news there. I think that is what we hear from them. So it's less about us. It's more about what is happening on a macroeconomic level in our sector.

I think, in addition to the answer that Eelco gave to Fred with the other question related to AMX, it has also to do with the point on where was our yield up to, let's say, yesterday. I think that's also something that we need to take into account. Who are your peers in this new environment, where we all in the telco sector are trying to look for what is the next successful equity story. And I think we're all struggling to find it. In that light where we were trading at a yield of, let's say, 12%, plus, you have to then find a new level. And I think, with what we have said today, EUR0.35, over EUR7 where we are more or less trading now, that's a 5% yield. And, for us, that feels like the right place to be if you look at our peers.

Dimitri Kallianiotis - *Citi - Analyst*

Just coming back on the dividend, in terms of the savings, you mentioned about EUR780 million of savings. I was just wondering. Going forward, are you going to use all the savings to delever, or should we expect the very high level of CapEx that we've seen this year to continue? In particular, just looking at the slides, you mentioned that the spend on customer-driven is going to increase as a percentage from 17% to 30%, which, I guess, is because you are capitalizing handsets. Should we expect going forward CapEx to be above EUR2 billion?

Eelco Blok - *KPN - CEO*

As I said, the CapEx guidance for this year between EUR2 billion and EUR2.2 billion will be there. We don't expect higher CapEx years beyond 2012.

Dimitri Kallianiotis - *Citi - Analyst*

Okay. But a similar sort of CapEx looks reasonable going forward, around EUR2 billion?

Eelco Blok - *KPN - CEO*

I'm not going to give you any guidance for 2013. But it will not be a higher level of CapEx beyond 2012.

Unidentified Audience Member

I've got a couple of questions, please. Firstly, the [TAR] sale in Germany. Can you kind of update us on that and give us some more color on it?

Secondly, just on BASE, can you update us on the process there?

Eric Hageman - *KPN - CFO*

Can you just repeat the first question because I know Thorsten heard Germany, but I don't think he heard the question.

Unidentified Audience Member

Sorry. It was just about -- there's been some stories about a potential TAR sale in Germany. Can you give us some color on that?

Thorsten Dirks - *KPN - Head Mobile International*

Yes, I can. But we are not commenting on rumors. Everything is for sale, as we always said, at the right price. And we are always reviewing assets. We are doing this as a part of our strategic review every time. This is our responsibility as a management team. So, yes, we are also looking into this one. When we have made a decision, we will come up and then announce our decision.

Unidentified Audience Member

Okay. Thanks.

Eelco Blok - *KPN - CEO*

And, on BASE, we have announced that we have started the sale process, and it is a very successful challenger with a very good performance. As I said in my part of the presentation, we want to see a price that reflects the outstanding performance of KPN Group Belgium. That's where we are. When we have taken a decision, we will make an announcement.

Akhil Dattani - *JPMorgan - Analyst*

Just two questions. I guess, one follow-up on your dividend again. Given your comments about the need to be more prudent given the current macro environment, does that change your view on your leverage ratios going forward, where you want them to be? Just interested in the comments there.

And then, secondly, on your comments earlier on the new handset leasing model in the Netherlands, you've said that this year the customer-driven CapEx is going to be a lot higher. We can see this quarter your consumer mobile CapEx has doubled. So I guess I'd be interested in a bit of color with regards to how much has capitalizing handsets contributed to the CapEx this quarter. How is that different from the last few quarters, just so we have a bit of a sense as to how that's evolving? Thanks.

Eelco Blok - *KPN - CEO*

On the dividend, we have not taken a decision to change the financial framework. The dividend is within the current financial framework. Yes, we want to be cautious, and we want to be prudent on the financial framework.

Akhil Dattani - *JPMorgan - Analyst*

Is it more a case of you think it's now better to be to the lower end of that range or -- ?

Eric Hageman - *KPN - CFO*

Let me just add to it. If you look at a range of 2 to 2.5 times for a company with our revenue and our profitability and our sector, that seems to be the right number. I think attached to that -- this is important. It's not only about that 2 to 2.5 times range. It's more what is related to it. What is related to it is the credit ratings. And we still are very firmly committed to that BAA2 and that BBB. I think, in that light, you should see the action that we've taken today. It's trying to protect the credit rating. It's trying to be prudent around one important credit metrics, which is that framework.

Joost Farwerck - *KPN - Managing Director the Netherlands*

Now, on the handset lease, we just introduced Hi and Telfort, and we're going to launch KPN in August. We're (inaudible) about the whole thing, and the customers like it as well. If we're successful, you will see OpEx moving to CapEx with no cash effects. But there are more effects in our Dutch P&L that you will see. If we are more successful in TV, then a lot of OpEx will be there. We were pushing a lot of OpEx in the country due to content costs related to TV connections. CapEx is also related to set-top boxes on customers. And one important effect on handset lease will be a shift from OpEx to CapEx if we're successful.

Akhil Dattani - *JPMorgan - Analyst*

And is that something you're able to quantify in terms of what the impact's been as you're going through this?

Joost Farwerck - *KPN - Managing Director the Netherlands*

Well, I expect in the second quarter, if we're successful, a substantial move of around EUR50 million to EUR150 million. It could be in that range. So, first, we have to see how we hit off and how we do it and how we improve our propositions. And then we can show you the effects.

Eric Hageman - *KPN - CFO*

It's one of the main reasons why we had a EUR2 billion to EUR2.2 billion range.

Stuart Gordon - *Berenberg - Analyst*

A couple of questions. I noticed that the fulltime employees -- 2,500 of the 4,000 to 5,000 in the restructuring costs are EUR195 million. I think you previously guided for EUR250 million to EUR300 million. Given where we are now, do you still think that that's a realistic restructuring charge?

And, secondly, just on the ARPU in residential, it's been pretty flat year on year, despite, obviously, migrations to fiber, significant improvements in TV, adds. And, obviously, costs are on the rise. Could you just give us a bit of a flavor for how you think you can perhaps get that ARPU moving better in the right direction? We see that fiber clearly has a higher ARPU per customer. But how much of that is just early adopters? Thanks.

Joost Farwerck - *KPN - Managing Director the Netherlands*

On the residential ARPUs, you're right. Fiber-to-the-home ARPU is much higher than the blended ARPUs, between EUR50 and EUR60. So, for us, it's very interesting to push fiber penetration up for the coming quarters.

On the other hand, you also see in the blends in the Netherlands traditional voice still moving away. So people migrating to triple play means that they also leave the PSTN connection, the traditional voice connection, and they move to the broadband connection with our voice-over-IP products. So, therefore, you can see our ARPU stabilizing at EUR39. But, if you look at the ARPUs on TV and fiber-to-the-home and in new services, you see an increase of ARPU. So it's really the traditional voice that's keeping it flat.

Eric Hageman - *KPN - CFO*

I think that's a good spot. I think what we said in May last year is indeed a number around EUR150 million to EUR200 million. It's very much dependent on the mix between outsourcing, off-shoring, and efficiency, where, for lack of stating the obvious, obviously, efficiency is what will give you the most cost savings. If you outsource something to another country, there is still cost related to that, although those costs are cheaper. What we see is more efficiencies coming through as a percentage of that 4,000 to 5,000 FTEs. That basically means that we're going to be at the higher end of the cost savings.

Luigi Minerva - *HSBC - Analyst*

I wanted to ask you to what extent the statement from the European Commission on NGA will have an impact on your strategy. Specifically, one of the key elements of their statement is that they would endorse a technology-neutral approach. So will that have an impact on your strategy in the Netherlands? Would you stick to fiber to the premises or reconsider your fiber to the node options? Thank you.

Eelco Blok - *KPN - CEO*

We will not make changes to our strategy related to the announced NGA regulation in Europe. It fully supports what we are currently doing, a hybrid strategy, upgrading the corporate network with the new technologies and fiber-to-the-home. And it will really support what we are doing in the Netherlands.

Luigi Minerva - *HSBC - Analyst*

But the fiber to the node is much more cost efficient. Would you reconsider that option?

Eelco Blok - *KPN - CEO*

We are already considering rolling out fiber to the curb, VDSL. And, of course, we can balance between fiber to the curb, VDSL, and fiber to the home and plain copper. But, as I said, we have made the right choices, and we will not make any changes related to the NGA regulation of the EU.

Unidentified Audience Member

A couple of questions on Germany. There was a bit of news in the media that, in Germany, the handset leasing model that you're now planning to introduce in the Netherlands has been discontinued, I think, at least on some brands. No? You're shaking your head.

The second question is -- a year ago, you guided for -- you gave some scenarios for long-term revenue CAGR in Germany -- I think around 5% or so, talking about market growth, talking about your market share development sort of over a longer period of time. I was wondering whether current developments are still consistent with those plans and whether you still would reiterate that at this point.

My last question is about the Yourfone introduction. Watching German TV, it looks as if you're really going head on on national TV with relatively expensive advertising campaigns on that. Is that the right way of going about no-frills in your no-frills brand, which, I think, in many other countries is sort of more marketed by viral marketing rather than sort of going in the head-on, sort of, normally, premium brand approach? Thank you.

Thorsten Dirks - *KPN - Head Mobile International*

Let me start with your first question on the handset lease. I was -- no. We are not considering to stop handset lease. We are looking at handset lease from a customer side as a very successful proposition. So we will continue it. Of course, sometimes, it very much depends also on the offering, the combination of the handset and the tariff. We are changing sometimes. You can just lease the handset. Sometimes you can just lease the handset in combination with a tariff. So we combine the two bundles. That differs. That's true. But we will continue with this.

Your second question on the GSR growth, we looked -- in the past, we looked a little bit more optimistic on the top line growth. We are a little bit more cautious now with the 3% in Q2. We believe that this is what we would expect also for the rest of this year.

On the last question on Yourfone, you're absolutely right. If you look at our other brands, and we have launched successfully a lot of other brands, like simyo, like Blau, like (inaudible), you will not spend a lot of money on media, especially not on TV. But, if you launch a new brand, you need to get to a certain threshold of brand awareness. And, this, still the best way of doing it is through TV. And, if you have reached this threshold, then you've built a community. And then you know it's rolling on, and then you can use viral things. Especially on Yourfone, we are using Facebook as our main medium, and that really works. But we still need TV for the first launch phase. Let me call it like this.

Unidentified Audience Member

Thanks.

Peter Kurt Nielsen - *Cheuvreux - Analyst*

Just returning to the Netherlands, please, consumer wireless, as you showed us, ARPU is under severe pressure. There's a sharp decline in service revenues. The new tariffs just being introduced on the KPN brand -- should we expect that they will accelerate this trend in the coming, say, 6 to 12 months?

And a second question. You reiterate again today that you expect to reach a more sustainable profit level in the Dutch market by the end of the year. Does this outlook factor in a new entrant in the Dutch market? Thank you.

Joost Farwerck - *KPN - Managing Director the Netherlands*

Yes. You're right if you say that our mobile ARPU is under pressure year on year. The good thing is that, compared to the last quarters, we're improving. Now we expect from the new propositions that it's supporting our ARPU. So what we now introduce is that customers can influence their own ARPU by choosing different handset lease categories and subscriptions. And we expect to create more value by this. So it's not that we offer more discounts; it's that we offer handsets, a package for data, for voice. And the combination of that is, according to our strategy, supporting our ARPU not hurting.

Eelco Blok - *KPN - CEO*

And, as I said, we will end this year with a profitability in the Netherlands that will be the starting point for next year. And, yes, we have taken into account a fourth entrant in the market trends we see today in the Netherlands.

Frederic Boulan - *Nomura - Analyst*

A quick follow-up on mobile in the Netherlands. Q2 service revenue growth was minus 11%. And we've seen some progress in terms of net adds. But I guess you flag it's mostly in the high-end Telfort brand. What is the outlook for the second part of the year? Should we expect -- ? Do you expect this whole business to stabilize in terms of absolute numbers from next year? Or it's a bit too early? Thank you.

Joost Farwerck - *KPN - Managing Director the Netherlands*

Looking at the whole thing, it's that, if you look at the quarters behind us, then you see that we really lost on postpaid. So, we, clearly, this quarter make a shift from prepaids to postpaids. And it's the most value customers -- what we did -- we improved on 30,000 on postpaid. So it's a value game. It's focusing at the right customers, and it's focusing at postpaids, as far as I'm concerned. It's too early to give you a firm outlook on the total year on the numbers on mobile, but it's certainly my ambition to bottom out at the end of the year.

Guy Peddy - *Macquarie - Analyst*

Just perhaps building on that question, looking through your data points, Q2 tends to be one of your strongest periods for postpaid market share gains. Also, in mobile, Vodafone had a network shutdown, which was clearly enhancing to your market share. So, if we look forward, you're entering a period of further seasonal weakness, and some of the incidental benefits of Q2 that you've had are going to roll over. So it's probably a bit early at this stage to conclude that you have stabilized share. So should we assume that, actually, it's likely to go down a little bit more, but the key is to exit the year with stable share rather than to deliver it now?

Eelco Blok - *KPN - CEO*

As I said in my part of the presentation, we have stabilized now for two quarters in a row the service market revenue share in consumer mobile. And we expect to be approximately stable over the quarters to come this year; so, also in the third and the fourth quarter and maybe with a small minus in the third quarter and a small plus in the fourth quarter. But that will be approximately what we expect for the second half of this year, given where we are today with the introductions of new price plans in all three main brands.

Hans Sohngen - *KPN - Head IR*

Any other questions? Okay. Official saying goodbye. Thank you, all, for joining, and have a good summer break if it's still to come. Thank you.
