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KPN.AS - Q4 2012 Koninklijke KPN NV Earnings Conference Call

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OVERVIEW:

KPN.AS reported 2012 revenues were down 3.5% YoverY.

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PRESENTATION

Hans Sohngen - *KPN - Head IR*

Good morning, everyone. Welcome to all of you. And thank you for adjusting your schedules at such short notice to the new location and time.

Today, we will take you through the announcement of the rights issue, our full year results, and address your questions during Q&A.

Let me briefly point out that disclaimers apply 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*

Good morning, everyone. With me today are Eric Hageman, our CFO; Thorsten Dirks, Head of Mobile International; and also here is Joost Farwerck, Head of The Netherlands.

As you'll have seen, we announced a rights issue of EUR4 billion this morning. This is a necessary measure to invest in our strategy and strengthen our balance sheet. I will discuss the rationale for the rights issue further in the presentation, and I will also focus on the results for 2012 and provide an update on our strategy.

This time last year, I told you that, in 2012, we would accelerate our investment strategy in The Netherlands in terms of network and commercial activities. I also said that we would improve the underlying cost structure. For international, I said we'd continue with our strategy to stay ahead of growing customer demand for more and faster data services.

In 2012, we made successful steps with this agenda. Key proof points in our operational KPIs include -- in The Netherlands, we succeeded in stabilizing market share. We saw inflection in fixed broadband. Our TV market share grew twice as fast as in 2011 from 17% to 23%. And we held our market shares in mobile and business stable.

In Germany, our HSPA+ network upgrade has now reached more than 85% of population, and we have repositioned our propositions with data (inaudible) all-net flat tariffs.

In January last year, we didn't know what the outcome of the Dutch spectrum auction would be. As you know, we acquired the preferred licenses but at a higher price than we'd anticipated. I would say that the financial performance of our businesses in 2012 was largely within the outlook ranges, though somewhat below our expectations at the start of the year. This was achieved against a backdrop of challenging competitive and macroeconomic factors. We met our guidance for Group EBITDA, free cash flow, and CapEx, but the first two were helped by tower sales. And we haven't yet achieved stabilization of profits in The Netherlands.

Our strategy to strengthen, simplify, and grow KPN remains firmly in place. We will keep leveraging the benefits of incumbency at home and operating as a mass market challenger abroad.

As we look ahead to 2013 and beyond, there are three key points I want to make. One, KPN has prudent and sensible operational strategies in each country, and we'll talk about how these will evolve in 2013 and beyond.

Two, we are facing a period of lower underlying profitability. The performance of our Dutch business is expected to stabilize towards 2014. Profitability in Germany and Belgium will be lower this year as we accelerate commercial activities to fuel growth.

Three, we need to strengthen our financial position to create the flexibility to drive forward with our operational strategy.

On the next slides, I want to underline what we believe are the attractive opportunities that lie ahead of us.

In the coming periods, we expect to see a real surge in the use of data-heavy services in the business and consumer markets. There is a push for new maturing technologies for wired, Wi-Fi, and wireless, which are commercially viable. And there is a pull from customers using media-friendly devices and businesses migrating to the cloud.

With the investments we've already made on our mobile and fixed networks, we can now offer our customers the fastest speeds and highest quality for data-driven services. Only yesterday, based on our newly acquired spectrum, we launched LTE in the western part of The Netherlands, and we expect to have achieved nationwide 4G coverage by the second half of 2014. And, in our home markets, connectivity is our core business, and we are well positioned to benefit from the trend towards converged products.

In Germany and Belgium, the accelerated rollout of our 3G networks with HSPA+ underpins our opportunities to grow scale in data.

MTA regulation is nearing the end of its glide path, and I was encouraged by the recent pledge from Commissioner Cruz to work to create common and stable conditions across the EU for telecoms competition, investment, and growth.

And, on the macro front, we believe it's realistic to hope for more stability and less volatility in the coming years. And, when growth does resume, we will be well positioned with a rebalanced cost base and strengthened balance sheet.

In the last few months, we've gone through our planning process and made a number of adjustments to our strategic objectives, which were first announced in May 2011.

To set the scene, let me remind you of the evolution of the performance of our Dutch business. By 2011, at the time I became CEO, the change in customer behavior, increasing price pressure, and the macro downturn were putting us under severe strain.

At that point, I determined that we would stabilize our declining domestic market positions as a platform for a stable and highly cash-generative domestic business. Our investment focus and commercial initiatives in the last two years have been focused on that.

Our operational strategy in The Netherlands is focused on delivering stabilization of our financial performance with continued Dutch stable market shares. In the coming years, margins will be supported by the benefits of our increased customer focus, the full benefits of the cost savings programs, and further efficiency initiatives, and, in time, by a pickup in the macro economy.

In Germany, E-Plus was able to grow its market share significantly for several years, accompanied by rising profitability. However, its market outperformance in terms of service revenue growth has flattened since 2010. For 2013 and beyond, we expect to grow service revenues and market share based on targeting underpenetrated regions and high-quality network, expanding distribution capacity with an online focus and innovative propositions. Margins will be lower in the short term and improving from there in the longer term.

Let me first state clearly why we are launching a EUR4 billion rights issue. KPN's financial position has been impacted by rising debt levels, amongst others, due to the Dutch spectrum auction late last year. And we will continue our strategy and therefore will see continuing investment in infrastructure and in customers. Also, the boards have set an objective to protect our investment-grade credit profile. We consider it appropriate to maintain a solid financial position.

To give us the financial strength and flexibility we require to pursue our strategy, we are asking our shareholders to support us in a rights issue for a total of EUR4 billion. The proceeds will be used to continue to invest in KPN's operations and reduce KPN's net debt level. We will target a net debt/EBITDA ratio between 2 and 2.5 times at the end of 2013.

Eric will give some more details about this in a moment.

The rights issue is subject to EGM approval. We have convened an EGM on March 19. We may consider whether, subject to market conditions, part of the EUR4 billion capital raise could alternatively be raised through other capital instruments.

Now I'll make a brief summary of the 2012 results and some remarks on the outlook for 2013.

As I said earlier, the financial outlook for 2012 was largely achieved. The results didn't fully meet our expectations. The full year Group EBITDA and free cash flow came at the lower end of the outlook range. CapEx was at the higher end of the outlook range due to the continued investments in all countries.

We adjusted our dividend outlook in 2012. We will not pay a final dividend, leaving the total payment for the year at EUR0.12 per share, the interim amount already paid in August 2012.

The 2012 EBITDA and free cash flow performance was supported by the sale of mobile towers in The Netherlands and in Germany. EBITDA, excluding bookings from the tower sales and other incidentals, was close to EUR4.5 billion for the full year 2012. Free cash flow was supported by more than EUR500 million of cash proceeds from the sale of towers. Excluding these incidentals, free cash flow would have amounted to EUR1.1 billion.

Let's move to the outlook now. The outlook summarizes what I've already indicated for the Dutch and German business, namely stabilizing performance in The Netherlands, meaning continued improvements in operations in 2013 with financial performance stabilizing in 2014 --service revenue growth and increased commercial investments at E-Plus, which means a lower EBITDA margin level, especially in 2013.

We can give you a longer-term insight into our CapEx plan, since these are, by nature, more firm. For 2013, we expect to spend no more than EUR2.3 billion and no more than EUR7 billion in total over the next three years. To be clear, that includes the CapEx of Reggefiber after it's consolidated, which isn't expected before the second half of 2014. CapEx does not include any other future strategic investments, such as spectrum or acquisitions.

Linked to the evolution of our operational strategy and in the context of our rights issue, we are moving to a longer-term focus with market share and margin goals that indicate what level of performance our business should move to over time. Therefore, our short-term guidance is less specific, and we are now providing longer-term, strategic objectives but not set specific years.

In consumer residential, we expect a minimum broadband market share of over 40%, developing towards 45% longer term, while growing our customer base, our revenue-generating units, and overall ARPU. For consumer mobile, we have seen changes in market dynamics. We'll work hard to improve the balance between market share and profitability and to maintain a long-term share above 40%.

There is an increasing demand from business customers to access information everywhere on all devices. To serve this trend, we are integrating parts of corporate markets with the business segment into a one-stop shop for B2B, offering integrated packages with all ICT and telecom services.

Together with these market share objectives, we will drive forward further efficiency programs. All together, The Netherlands is aiming for an improved balance between market shares and profitability with a medium-term EBITDA margin in the range of 40% to 45%.

For Germany, we're targeting a combined data and voice market share of 20% in the longer term based on the next phase of the challenger strategy. We expect to see EBITDA margin recovering to 30% to 35% in the medium term, after a step down in the short term.

In Belgium, we aim to keep growing and outperforming the market. Our long-term market share goal is 25%. We are adjusting our medium-term margin expectations to a range of 25% to 30%, reflecting growth in the fixed line market.

Now I would like to hand over to Eric.

Eric Hageman - *KPN - CFO*

Good morning, everyone.

I want to start by explaining the financial reasons why we are asking our shareholders to support us in the rights issue.

Let's take a closer look at our financial position today. We are experiencing a rising net debt position combined with lower EBITDA levels.

Our reported net debt to EBITDA at the end of 2012 was 2.7 times. However, adjusting for the EUR1.35 billion payment for the Dutch spectrum auction, which we paid on January 9, you end up at a net debt of EUR13.4 billion and a leverage ratio of around 3 times. Adjusting this number even further for the consolidation of Reggefiber, which is not expected before the second half of 2014, the net debt to EBITDA ratio will actually increase by another 0.2 times.

The relatively high leverage combined with almost EUR6 billion of bond redemptions in the next five years and future Reggefiber-related liabilities, such as option payments, consolidation of debt, and [take over] existing shareholder loans have led the board to the decision to raise capital and strengthen the balance sheet.

The proceeds will be used to continue to invest in KPN's operations and reduce KPN's net debt level, thereby strengthening our financial position. The proposed rights issue will facilitate financial flexibility to support the execution on our Group strategy and reflects our continued commitment to an investment-grade credit profile. The EUR4 billion rights issue would lower KPN's net debt to EBITDA at the end of 2012 by approximately 0.9 times. We will target a net debt to EBITDA ratio between 2 to 2.5 times at the end of 2013.

Let's move on to the next slide to discuss CapEx. Group CapEx for the full year 2012 was EUR2.2 billion. Looking back over the last three years, we can see the CapEx evolution in both The Netherlands and our international division.

In The Netherlands, there has been a shift towards more customer-driven investments to support our leading market positions. This is partly driven by the introduction of new mobile propositions, including the handset lease model in 2012 and partly by increasing TV and fiber to the home activations.

To counter the above, we are also making good progress on procurement savings. For example, the price per set-top box came down by around 50% per unit since 2010.

In the period 2010 to 2012, our mobile network investments have also increased. In 2012, we swapped all antennas and installed single (inaudible) equipment which enables 4G LTE. Therefore, only limited additional costs, CapEx, and time was required to implement the rollout of LTE. This enabled us to roll out LTE in the western part of The Netherlands in January, and we launched our commercial propositions yesterday.

Investments in a fixed network, which, in this pie chart does not include any Reggefiber CapEx, were lower in 2012 following significant investments in 2011 such as VDSL upgrades but also TV innovations.

In our international business, we see two main developments between 2010 and 2012. Firstly, the accelerated network rollout continued in 2012, enabling the launch of faster mobile data propositions. Secondly, investments in IT were also higher. This is mainly related to a multiyear project from 2011 to 2015 to replace the IT platform in Germany. This new platform will give E-Plus a much faster time to market.

For the coming three years, we expect the annual CapEx to remain at a similar level to 2012 and that the aggregate CapEx over the 2013 to 2015 period, including Reggefiber CapEx, will not exceed EUR7 billion. If and when Reggefiber is consolidated into KPN, we will offset that CapEx savings with other parts of our business.

Let me now take you through our 2012 full year results.

Total revenues for full year 2012 were down 3.5%, partially impacted by the sale of Getronics International in May. The revenue decline is mainly attributable to consumer mobile, NetCo, and, to a lesser extent, our business segment.

EBITDA, excluding restructuring costs, decreased by EUR567 million, or 11%, year on year, mainly down to NetCo and consumer residential. It is important to point out that the bookings from the tower sales in Germany and The Netherlands were around EUR200 million for the full year 2012.

Operating expenses were up EUR155 million, or 1.9%, for the year due to investments to strengthen our Dutch market position, commercial initiatives in Germany, higher pension costs, and EUR43 million higher restructuring costs. This increase in OpEx was partly offset by lowering operating expenses at our corporate market segment because of the sale of Getronics International.

Furthermore, on this slide, you can see that amortization is up EUR141 million for the year. The difference is largely explained by the EUR131 million higher amortization charge related to the impairment at corporate market.

Tax for 2012 was up EUR48 million compared to last year when KPN benefited from one-off innovation tax facilities.

Let's now review in more detail the financial results of The Netherlands.

Revenues and other income in our Dutch division were down by EUR727 million, or 8.8%, in 2012. Excluding the impact from the sale of Getronics International, they declined 4.6%, which included a negative impact from regulation to the tune of 1%. The lower revenues were mainly due to lower traffic in consumer mobile and, to a lesser extent, lower revenues in our business segment, both of which also impacted our NetCo revenues.

EBITDA, excluding restructuring costs, decreased by EUR395 million, or 11%, as a result of lower revenues, investments to strengthen our Dutch market position, and a EUR35 million regulatory impact. Please, note that the EBITDA decline was lower in the second half of 2012 compared to the first half and that, in Q4, the decline was 6.4% year on year.

The EBITDA margin for The Netherlands decreased to 43.1% from 44.1% last year, mainly driven by the continued decline of high-margin, legacy businesses and increase in customer-driven expenses, mainly at consumer residential.

At this point, I would also like to point out that we have made good progress with our FTE reduction program. We recorded EUR257 million restructuring cost related to approximately 2,800 FTE since the start of our reduction program. Up to now, we have realized around 1,900 exits and remain on track to finalize the full program by the end of 2013.

Let's now move on to the review of mobile international.

Revenues and other income in 2012 were up 5% in Germany. The underlying revenue growth, excluding the impact from tower sales, other incidentals, and regulation, was 2.1% for the full year 2012. As we already flagged at the Q3 results, the top line growth has slowed down following increased competition.

The EBITDA margin of 39% in 2012 was 2.8 percentage points lower than 2011 and 4.9 percentage points lower on an underlying basis. The underlying EBITDA margin has declined as a result of increased investments into growth initiatives in a more competitive environment. These investments, however, have driven a strong growth in postpaid net adds.

In Belgium, we again saw revenue growth in 2012 of 2.9%. The underlying service revenue growth was very good 10%, a solid performance if we take into account the changes in that market since the summer last year.

The EBITDA margin for 2012 for Belgium was 33.8%, impacted by EUR22 million of regulation. Adjusted for this, on an underlying basis, the EBITDA margin in Belgium was relatively stable in 2012.

Revenues at the rest of the world, at the bottom of this slide, decreased by 18% year on year, mainly due to the sale of KPN France at the end of the fourth quarter in 2011. It's also important to stress that profitability remained under pressure, given the competitive environment that Ortel continues to operate in.

On the next page, we'll briefly look at the cash flow for 2012. In 2012, we generated EUR1.652 million (sic - see slide 18) of free cash flow, around EUR800 million less than last year. The delta can be explained mainly as follows -- EUR610 million lower EBITDA; EUR255 million higher tax payments after the one-off benefit of innovation tax facilities in 2011; EUR162 million higher CapEx, as I already indicated; EUR100 million lower change in working capital; EUR89 million negative change and other movements mainly due to higher bookings from the sale of real estate.

And, lastly, it is important to point out that the cash proceeds from real estate, such as the German and the Dutch mobile tower sales, were partly used for prepayments in 2012.

Furthermore, it might be worth mentioning that the tax recapture payment is expected to be finalized in 2013 with approximately EUR180 million now still outstanding.

Let me now hand over to Joost for the strategic update of The Netherlands.

Joost Farwerck - *KPN - Head of The Netherlands*

Good morning, everyone.

In The Netherlands, we are transforming our Company into the integrated access provider. Connectivity is our core business, and we have all the assets to be the preferred provider in The Netherlands. We will connect our customers to the services and content they want, whether they are at home, on the road, or in the office. And, increasingly, we will deliver quad-play services. With devices operating across our wired, Wi-Fi, and wireless networks, we ensure a seamless user experience and a simple and transparent customer interface.

Setting us on a path to stabilize our financial performance, my immediate management priorities for the Dutch business are strengthening our market positions, increased value through focus on ARPU at the existing customer base, and simplifying our organization and our cost structure.

More and more, we focus on our existing customer base. Keeping our customers happy and loyal is a simple and efficient way to reduce churn and acquisition costs. And, in 2012, we laid the foundation. We realized inflection for our fixed broadband market share and the customer base started to grow in the second half of 2012. Our TV market share grew rapidly, from 17% to 23%. And we stabilized our market share in mobile, and we saw strong growth in mobile data. Finally, we kept our overall market position stable in the business segments.

Four key factors will support our progress in 2013 towards stabilized financial performance; first of all, being fully focused on the best customer services for our existing customers.

Second, in both consumer and business markets, we are the only provider to offer all forms of connectivity and the widest selection of services.

Three, we have the highest-quality fixed and mobile networks in The Netherlands. Our copper networks have been upgraded, and we cover 80% of The Netherlands with fiber to the home. Yesterday, only seven weeks after completion of the Dutch frequency auction, we launched our commercial services for both consumer and business customers on our 4G network.

And, four, we are continuing to drive for a more lean cost structure, and this is better aligned with our revenues. We are executing our FTE reduction, focusing on quality improvements and efficiency.

We will introduce quad-play services for consumers and business customers, and we are best placed in The Netherlands to do so. Our first step in quad-play is the introduction last month of KPN Compleet, which will be followed by further integrated packages later in the year. The benefits of quad play for the customers are bundled prices, free added-value services, seamless handover across our networks, and the convenience of having a single access provider. And the benefits to us are based on a more durable and a more valuable customer relationship.

Now I will give you an update on consumer residential. We've seen a lot of positive developments in consumer residential, and I will highlight three trends that reflect the key developments in this business.

On broadband, one of our ambitions for 2012 was to [broaden our] market share, and we have. Also (inaudible) for the acquisitions of fiber service providers. We actually saw a net line gain in the fourth quarter for the first time since 2008.

On TV, our market share increased by 6 percentage points from 17% to 23%, and we reached a major milestone in the fourth quarter when we welcomed our millionth IPTV customer. In total, we now have 1.8 million TV customers in The Netherlands, and we are growing rapidly.

In 2012, we increased ARPU by EUR2, and this was partly driven by the TV price increase in 2012 and by up-selling premium services, such as video on demand and HBO. Customer value is important, and we're really focused on this.

So how did we achieve the improved performance? Our hybrid FttH-- or fiber to the home network strategy is working well. We continued fiber to the home rollout by (inaudible) fiber. Now it covers around 80% of the country. Continued copper upgrades (inaudible) have led to improved user experience, and we now provide minimum guaranteed speeds of 40 megabits per second to 70% of the Dutch population.

The table on the right-hand side shows that KPN has the market's leading TV proposition in The Netherlands. I would like to highlight our much larger interactive customer base, which gives us a clear advantage in interactive services, such as video on demand, replay TV, and also for the introduction of new services, such as over the top services.

Our IPTV product has driven the increase of triple play. Triple play customers are more loyal and sticky and less likely to churn. As you can see, the triple play churn on copper is half that on single play, while fiber to the home is even lower, just a quarter of single play copper.

Following the acquisition of the fiber service providers in the fourth quarter, we have reached a 30% fiber to the home penetration on our fiber to the home footprint in The Netherlands. This was also supported by the increase of 44,000 fiber to the home activations in fourth quarter, the largest number of organic activations to date.

To conclude on consumer residential, we will continue the current strategy with TV remaining the key driver for success with a strong focus on ARPU improvement, low cost, and new services to be added.

I will skip one slide in your booklets, and let's now look at the performance of consumer mobile.

As Eelco said, we had set a goal of stabilizing our Dutch market position. With a 44% to 45% market share throughout the year and 45% at the end of the fourth quarter, this target has been achieved.

In fourth quarter, the retail postpaid net adds were positive again at 24,000, mainly driven by SIM-only propositions in our Telfort and simyo brands. And the mobile market continued to be competitive. The prepaid segment has been impacted by migration to postpaid and by strong competition in the ethnic segments.

Postpaid retail ARPU saw a decline towards EUR33, driven by increasing number of SIM-only subscriptions within the mix and less out of bundle revenues.

Following a large step down from 2010 to 2011 of almost 2 percent points, we've seen a stabilization of our market share in postpaid subscribers in 2012. And we will further improve our propositions to increase customer value. We will increase the focus on managing the existing customer base, and new propositions and tariffs will strengthen ARPU and drive an increase in the committed ARPU.

And, next to this, initiatives are planned to ensure better alignment of the cost base of consumer mobile with the lower revenue profile of the business.

All in all, KPN will have an increased focus on value going forward with customer lifetime value optimization as key priority.

A key factor in increasing the customer lifetime value will be to provide the best customer experience. We will upsell more of our customers to higher data bundles through 4G. 4G will provide the best mobile customer experience available as the indoor coverage is up to three times better and the speed's even up to ten times faster, enabling smooth video streaming, superfast downloads, mobile video calls, et cetera.

As already mentioned, yesterday, we launched a commercial introduction in The Netherlands of our 4G services, both in consumer and business segments. We are the first, and we want to stay ahead of competition. In the summer, we will cover about 50% of The Netherlands, and we expect to have nationwide coverage in the second half of 2014 at latest. We will cross sell fixed and mobile services by combining our nationwide fixed, Wi-Fi, and mobile access networks into a seamless experience. And we are confident that this will increase customer loyalty.

Last month, we introduced KPN Compleet. This is a first launch for KPN's existing triple play and mobile customer base. We consider this to be the first step towards quad play. Other brands and more services will be added later this year. Initially, KPN Compleet will focus on families. Customers having both triple play and mobile subscriptions will benefit from this by receiving additional value-added services, such as more TV, free unlimited calls within the family, and doubling of total voice, SMS, and data credits. The next step will be to make KPN Compleet accessible to all potential quad play customers in the country and also to introduce a fully integrated quad play offering with an integrated sales channel and customer service.

Let's now move to the business segment. Final market share objective for The Netherlands was stable market position in the business segment, and this objective was also reached in 2012. Total revenues continued to be impacted by a decline in traditional services and price pressure as a result of the challenging macro environment. Wireless revenues remained fairly stable as a result of the continued good performance of our challenger brands and also the increase of data revenues in the business segment.

Corporate market remains under pressure from tough market conditions. The benefits of the strong FTE reduction program are offset by new contracts with lower margins.

As Eelco said earlier, there is an increase in demand from business customers to access information everywhere on all devices. And that demand for convergent IT and telecom offers has led us to combine certain parts of corporate markets with the business segments and, thereby, creating a new one-stop shop organization for the B2B segment in The Netherlands. This change was made from the first of this year. And we believe this will strengthen our position in the Dutch markets with one contact for sales and customer service.

So, to wrap things up concerning The Netherlands, we are continuing our operational strategies based on leveraging the benefits of scale and leading market positions in The Netherlands. Our operational strategies are on track and delivering stabilized market shares with strong growth in TV market of 6% last year.

We are focusing on optimizing the value of our customer base through ARPU increase and improved base management.

We are in full execution of our cost reduction plans. And, towards 2014, we expect to stabilize our financial performance.

Now I would like to hand over to Thorsten for an update on Germany.

Thorsten Dirks - *KPN - Head Mobile International*

Good morning, everybody. For many years, our strategy in Germany and in Belgium has been to be a challenger to the incumbent, targeting the mass market. Today, I want to explain to you how we are evolving into the next phase of that challenger strategy and how this leads to the adjustment to our medium- and longer-term strategic objectives that Eelco has laid out.

Let's start with Germany. Traditionally, we have had a business model led by voice and SMS. That's how our propositions were priced and marketed. So E-Plus was able to grow its market share significantly in combination with high profitability over a number of years. In May 2010, we acquired spectrum, including two additional blocks of 2.1 gigahertz and two additional blocks of 1800 megahertz. Since then, we have been preparing for a new, data-focused challenger model.

We have been upgrading our networks, and, as a result, we have taken commercial steps to introduce all net flat, data-focused propositions in Q2 last year, including the new yourfone brand and the re-launch of the BASE brand in Q4. And we've also started to expand and optimize our distribution and enhance our online offerings.

Today, our strategy is all about evolving into the data-centric challenger, but more about this in a minute.

Let me first briefly discuss the 2012 performance in Germany.

Full year 2012 underlying service revenue growth was 2.1%. We experienced strong growth at the beginning of the year, but growth slowed down in the second half.

In postpaid, the all-net flat propositions that were introduced in Q2 and the re-launch of the base brand in Q4 contributed to the highest number of postpaid net adds in Q4 2012. We also did a large clean-up of (inaudible) base, voice-led customers that hadn't generated any ARPU for several months.

Now let's turn to prepaid. Using the voice- and SMS-focused challenger model, E-Plus has grown in prepaid to reach the number-one market position with approximately 35% service revenue share. However, what this means now is that E-Plus is the incumbent in prepaid, and its growth has saturated. This partly explains the slowdown in service revenue growth.

The other factor in the slowdown is the postpaid, where E-Plus has also hit a growth ceiling in its so-called, strong-hold regions, where our market shares are over 30% or over 40%. This is a direct result of our successful regionalization strategy.

We are also seeing high-value, postpaid customers trading down on their tariff plans. Compared to 2011, the ARPU in 2012 decreased by EUR2 to EUR21.

There is growth in prepaid net adds, driven by the data-focused, all-net flat proposition, as I have described. And you have seen the gross add numbers going up from a quarterly run rate of about 100,000 to more than 200,000, even 250,000 in Q4. As a result, we are switching voice and SMS customers into flat-rate data plus voice customers with an SMS bundle available as an add-on. And, by offering inexpensive smartphones and taking away the fear of bill shock, we are opening the world of mobile data for the mass market in the same way, we have opened the mass market very successfully six years ago for voice and SMS.

The commercial initiatives to introduce the new proposition were part of the planning phase in 2012. This year, we have four key priorities to get the data-centric model in place.

First, the network. That is the foundation for everything else. In the past years, we have been upgrading our data network. By the end of 2012, 85% of the German population has HSPA+ coverage at 2.1 gigahertz with 21 megabit per second. And, with the spectrum capacity we have available, we will also offer 42 megabit to our customers.

We are now ranked as the number three in overall network quality, overtaking Telefonica 02, in a major, independent customer survey by the leading German consumer technology magazine, "Computer Bild." And this was the first real customer test. It was not just a drive test. It was a real customer test with 40,000 customers using a test app that was developed by this magazine to test the different networks.

By mid-2013, so this year, we will have completed the main upgrade of our speed and, crucially, our capacity, and out data network is expected to be on par with the number-one and number-two operators in Germany.

We have the flexibility to deploy LTE by using the existing HSPA+ grid for LTE on 1800 megahertz benefiting off the fact that we have the largest spectrum capacity at 1800 megahertz of all operators. And, as I said in the past, when you talk about LTE, it's all about capacity. So that was the reason why we acquired 1800 megahertz spectrum and 2.1 gigahertz spectrum in the last auction in Germany.

The second key element is to continue growing our market share in the so-called underpenetrated region by leveraging the upgraded data network. We will do so by expanding our distribution channels and targeted marketing on a region-by-region basis. We've got a proven track record here.

There is one example I would like to share with you. This is the city of Kassel in the middle of Germany, where we were able to increase market share by means of a targeted approach from around 16% in 2010 to now 19%. And there is significant scope to replicate this success in other underpenetrated regions and cities.

Our third priority is that we are further strengthening cost leadership of our distribution and marketing by using online as the cost efficient sales channel for us. This leveraged our online-centric brands as yourfone and also simyo. And we will continue to refine our multi-brand approach by optimizing the relevance of the brands to different user groups.

Last but not least, very important for us, improving our cost structure as the fourth priority. E-Plus has consistently been a cost leader in Germany with its smart follower strategy. We pioneered outsourcing on IT, on network, on customer service. And we are now preparing for the next generation of cost efficiency initiatives. We are now entering into a next phase of outsourcing, leveraging the capabilities of our partners beyond existing models.

The option to form a network-sharing deal is always there. However, this requires two parties, and the cost savings would depend on the specific network architecture and the rollout strategies. We will look at these options in the coming period.

We also want to build an even lower-cost-based back office by increasing online customer self-service. And, of course, an improved network will mean fewer customer complaints.

Also, overhead costs will be reduced. We have taken a EUR39 million restructuring provision in Q4 to reduce overhead costs, including FTEs.

These savings and indirect costs will help fund investment in growth in terms of acquisition and retention costs, marketing, and the expansion of distribution in the underpenetrated regions.

Let's now turn to Belgium. As in Germany, our challenger model has been successful in Belgium for many years, winning market shares and generating good margins. And, as in Germany, in 2013, we will evolve into the next phase of the challenger strategy. There is an added motivation to do this resulting from the entry of Telenet into the Belgian mobile market in 2012. In Belgium, we are evolving into a mobile-centric challenger model. One of the differences with Germany is that we will target the fixed market to offer triple play, as we will announce today. And these fixed service revenues will be at lower margin, which partly explains the adjustment to our medium-term margin objective.

We had another strong quarter in Q4 and another strong year overall, despite the increasingly competitive landscape. Underlying service revenue increased by 8.8% year on year in Q4, while full year underlying service revenue growths were even higher. Service revenue market share increased year on year by 1% to 20%.

In Q4, we launched commercial initiatives to counter the intensified competition. This includes BASE Check 25 in combination with Spotify as the new music service and the launch of Turk Telekom mobile.

In Q4 was the big cleanup of the Ortel wholesale prepaid customers. Prepaid net adds were 41,000, excluding this cleanup.

The next phase of our mobile-centric challenger strategy for Belgium has three key elements -- the network, the distribution, and commercial. As in Germany, we will introduce innovative mass market propositions. Furthermore, we will challenge the fixed line market, which provides an attractive opportunity in Belgium, and we will offer triple play products to our customers.

Network speed differentiation will be key in providing a competitive edge. The first step is to utilize the high spectrum band. Then we will roll out LTE and expect the majority of the Belgian population to be covered by the end of 2014.

The further investment needed, investment in our commercial activity but also investment in our infrastructure, to drive the evolution of our strategies and to ensure service revenue growth in the coming years will lead to lower EBITDA margin in both countries in 2013.

And margins in Belgium will also be affected, as I mentioned before, as we will grow in fixed.

But, to conclude, we expect continuing growth in both countries.

With that, I will hand over to Eelco for his concluding remarks.

Eelco Blok - *KPN - CEO*

So, in conclusion, our strategy to strengthen, simplify, and grow remains firmly in place. We have prudent and sensible operational strategies to monetize the opportunities from the surging demand for data-heavy services, and these will continue to evolve in 2013.

In The Netherlands, we are approaching a new balance between a focus on market positions and achieving stabilizing performance, leveraging the operational improvements in 2012.

In Germany and Belgium, the next phase in our challenger strategy are being implemented to fuel underlying growth in 2013 and beyond.

We are asking our shareholders to support our announced rights issue that will give us the strength and flexibility to drive forward with our operational strategy and shows our commitment to an investment-grade credit profile.

Thank you. And now we'll take your questions.

Hans Sohngen - *KPN - Head IR*

Okay. Let's start with the Q&A. Dimitri?

QUESTIONS AND ANSWERS

Dimitri Kallianiotis - *Citi - Analyst*

Three questions, if I may. The first one was on Germany. I just wanted to know if you could give us a little bit more details in terms of your mobile and data-centric strategy -- what you intend to push in terms of -- are you intending to push more on subsidies, lower prices for data, pushing more new offers?

My second question was on fixed, just going back to the point in Belgium where you say you're going to launch triple play. I want to ask you in terms of the rationale. Would you consider doing the same thing in Germany; for instance, reselling (inaudible) telecom? Is that something you would consider?

And my last question was on The Netherlands, in fixed and, in particular, on TV. You are doing extremely well. You've increased your market share of TV by 3 percentage points, according to your slides, in Q4. I want to ask you if you intend to continue to be as aggressive in the future or if you think, bearing in mind that the cable operators are increasing prices and so on, that you can maybe you can easily beat in terms of promotions and if you would consider following on the price increase from the cable operators. Thank you.

Thorsten Dirks - *KPN - Head Mobile International*

Let me start with your first question on Germany and a little bit more details on how we would like to implement the -- or already have implemented the data-centric challenger model.

First of all, you already mentioned a subsidy. You know that, if you look at our model and how it works, we are not a fan of subsidies. But, in a data-centric world, we clearly see that hardware is playing a big role so that we have to get the penetration up because hardware penetration will drive data usage. This is what we clearly see. So, if you look at our smartphone sales at the moment, 80% to 90% of all our handset sales are smartphones. We're using different models to do so but try to keep away from subsidy. This is, clearly, one thing.

Second is very much important for us to get the data quality up in our network; so, to finalize the rollout of our network, HSPA+, up to 21/42 megabit per second by middle of this year. Very important. And then really push our data propositions into the market. As I said, we are really switching from a voice-focused proposition to data-focused propositions, where voice and SMS is included or SMS is just available as an add-on.

And then, of course, last but not least, we will also introduce new, innovative services that really drive data usage. Think about OTT kind of services.

To your second question on Belgium, as I said, we will introduce fixed propositions in Belgium. Your question was -- why not in Germany? There's one reason. The markets are very different, especially on price level. If you look at the Belgian market, mobile prices and, still, fixed prices are quite high compared to the German market. So we don't see a case to do the same in Germany. Thank you.

Joost Farwerck - *KPN - Head of The Netherlands*

On your question on TV in The Netherlands, we have a strong broadband base in The Netherlands, and we think that's connecting our own customers to TV. So adding triple play is really reducing the churn. So we focus on the customer base.

Having said that, it's very important to do it with low costs. We have an excellent TV proposition. It's rewarded by Consumentenbond -- that's the organization representing consumers in The Netherlands -- as one of the best or the best proposition in The Netherlands. It's interactive for 100% of our base. And we are proud of that service. It's very important that we do it low cost.

So it's real -- we developed this in the real plug-and-play service, and that means that customers can install if you already have a broadband connection from KPN very easily IPTV from KPN themselves. So we have to add set-top boxes. We moved intelligence from the set-top box to the network to lower the cost of the set-top box, and we also renegotiated the prices of set-top boxes. So we think, on the run rate of the last quarter, adding 10,000 to 15,000 TV customers per week -- that's a nice run rate. But I really would like to do it on low cost base and with lower installation costs.

Eric Hageman - *KPN - CFO*

Maybe if I can add, Dimitri, because the question, I think, specifically ended with price.

I think what we have seen is price increases already last year. If you look at our TV propositions, we were able to increase it sort of in the middle of the summer by another EUR1. I think, at the back end of the year, Q3, we had the VAT increases, and that went from 19 to 21, so that added a little bit to the price. And this is also why, if you would look at the fact sheet, you'll see in our average ARPU for our TV proposition going up.

We obviously monitor very closely what the competition is doing. And I think we see very encouraging signs there. So, if we are able to continue to grow as we are growing, I think Joost was very clear in his slide that we are -- that, in combination with the price developments that we see is a part of the business that we're very happy with.

Dimitri Kallianiotis - *Citi - Analyst*

Thank you.

Nick Lyall - *UBS - Analyst*

Could I ask on the rights issue itself? Have you talked about or have you thought and chatted, presumably, to markets about the size of other instruments that you might include in the EUR4 billion? And could you give us any idea kind of what that might entail?

And then, secondly, on the guidance, it doesn't look as if you assume a deterioration in Dutch EBITDA in 2014 when the new entrant hits for around nine months (inaudible). Could you explain why? And does that include a great deal of new savings that we should be thinking about? Thank you.

Eelco Blok - *KPN - CEO*

(Technical difficulties) that it is suitable because it allows all persons, shareholders, to participate in the next phase of KPN's strategy, resulting in an equal treatment to all shareholders.

Of course, we have explained that we are open to discuss other structures, and we will do so in the next coming weeks based on discussions we will have with shareholders and other interested parties. And then, before the EGM, we will take a final decision how to structure the capital raise. But the announcement, and that's what we are aiming for, is a EUR4 billion rights issue with the opportunity to make changes to it when the market is right and we get a clear view of our shareholders.

Hans Sohngen - *KPN - Head IR*

Nick, would you repeat your second question, please?

Nick Lyall - *UBS - Analyst*

Yes. Sorry. The second one was on the Dutch guidance. It seems like you're looking for stabilization in 2014, and, yet, that's probably the biggest year of impact from a new entrant. So is that because of a very positive view on savings, or do you think you may need to be more conservative at some point?

Eelco Blok - *KPN - CEO*

We are targeting for 2013 to continue to improve our operational performance. And, next to that, we will focus on continued cost savings programs, the first one resulting in the 4,000 to 5,000 FTE reduction by the end of the year, procurement savings, and with the combined -- combined with the operational performance we continue to see in 2013, we are convinced that we will stabilize the financial performance in 2014.

Robin Bienenstock - *Sanford Bernstein - Analyst*

I can see how you can grow in Germany in the near term and in Belgium as well. But I guess I have a question about the recovery that you expect in your margins. Isn't, surely, the risk that domestically, in The Netherlands, Vodafone, Tele 02, Deutsche Telecom all pursue your challenger strategy in The Netherlands and that, vice versa, you'll see a lot more quad play and a lot more of what you're planning defensively in The Netherlands in Germany and that that will actually truncate any recovery or return to stability that you're expecting in 2014 and beyond?

Eelco Blok - *KPN - CEO*

With the EBITDA margin midterm guidance we have given, the 30% to 35% in Germany and 25% to 30% in The Netherlands -- in Belgium and 40% to 45% in The Netherlands, we believe that we have taken into account market dynamics, both in The Netherlands and Germany and Belgium, also taking into account the additional commercial investments we will do in 2013. That will, especially in Germany and Belgium, have a negative impact on the margin.

Robin Bienenstock - *Sanford Bernstein - Analyst*

I guess, to be more specific, what do you expect your competitive response to be? What do you expect the competitor response to be in The Netherlands and in Germany to this sort of behavior?

Eelco Blok - *KPN - CEO*

What we have seen happening in The Netherlands is that the cable TV operators on our fixed business are, of course, responding to what we are doing from the marketing side. But, looking at the ARPU also of the cable operators and the price increases they have announced recently for this year, we believe that we can continue the current strategy of growing the customer base, increasing revenue-generating units, and increasing ARPU on this part of our business.

On the mobile business, we have made major changes to our price plans, resulting in a much higher percentage of revenue that is fixed. And we will see a continued trend. And, of course, price competition has increased, and that will continue to be so also in Germany and Belgium. But, with the new propositions we have introduced and [newly] propositions that will be introduced in Germany and Belgium, as Thorsten has explained,

and with the 4G services we, well, have introduced yesterday and the quad-play services, we believe that we can manage the decline and start growing from there again.

Robin Bienenstock - *Sanford Bernstein - Analyst*

Thank you.

Jonathan Dann - *Barclays - Analyst*

Can we read anything into the new, I guess, aggressive strategy in Germany that there's no chance of network sharing or selling E-Plus to Telefonica?

Thorsten Dirks - *KPN - Head Mobile International*

After -- and, as I explained to you, after a lot of -- yes, we really have grown our market share, grown the business, highly profitable. Now it's the phase to enter with new investments. We already had done so on the network side. Now, after the network is ready or nearly ready, we need to invest in our commercial activities. And this is exactly what we are going to do. It makes no sense to build your distribution and spend your money on commercial activities if there is no network; so, for instance, no product.

So this is, for us, exactly the time to do so, and this is why, especially as Eelco just laid out, our EBITDA margin this year will go down. And then, you know, from there, we will improve our EBITDA margin to our midterm outlook we mentioned to 30% to 35%. This will, yes, most probably increase the competitive pressure in Germany.

And, as I said, a network sharing view -- you could always shape such a deal. But it needs two to tango. And, of course, if you look at the network architecture, network structure, and the real cost savings, this is then a separate decision.

Frederic Boulan - *Nomura - Analyst*

Two questions, please; firstly, on the strategy in The Netherlands. You're talking a lot about the mobile contract net adds and broadband net adds. But, if we just look at the financials in both consumer residential and mobile, I think EBITDA minus CapEx on both units has almost halved in 2012. So I'd just like to understand how you think about -- how you drive a strategy in Holland. Is this about preserving market share at any cost, or is this looking at value per customer on a cash flow basis?

And, secondly, just on the share issue, I think we were a bit surprised not to have any mention of AMX this morning. So do you expect them to participate in the share issue? Where are your discussions on that front with your largest investor? Thanks a lot.

Eelco Blok - *KPN - CEO*

I will start with the second question, and then Joost will deal with the first question.

As with all the shareholders, we have discussed where we are with the strategy and the next steps and improving the balance sheet also with America Movil. They have not taken a decision yet. I expect them to take a decision in the next couple of weeks. We will announce their view in the EGM scheduled for March 19.

Joost Farwerck - *KPN - Head of The Netherlands*

To come back to your question on The Netherlands in the consumer market, both mobile and fixed, it is true that, in the years before 2011, we lost market share, 2 percent points in broadband market per year and also in consumer mobile. So, to reach the balance -- to find a balance and to come to an inflection point, that's a heavy investment. And we realized that last year. We really turned the trend in broadband, and we stabilized market share in consumer mobile.

So it's very important to stress out that, for us, 45% market share is not the holy grail. It's really about finding a good balance between market share and profitability. And that's why we really are looking at ARPUs, both in residential in consumer markets and our existing customer base.

So, instead of acquiring a lot of new customers, it's very important for us to really make our own existing customers happy and invest in that. That's really reducing churn and acquisition costs. And the main cost driver is churn and acquisition cost. So that's the focus for the coming years. And we will find a balance somewhere between 40% and 45% in both markets and optimize the value in that.

Frederic Boulan - *Nomura - Analyst*

Thank you.

Akhil Dattani - *JPMorgan - Analyst*

Two questions, please; firstly, on your CapEx. Just interested to understand your comments that CapEx over the next three years is going to be broadly stable in the context of consolidation of Reggefiber. So I just wondered if maybe you can help us understand the moving parts there. And, with that, just if you could maybe provide a bit of color on the 2012 CapEx and cash flow profile of Reggefiber and, with that, why it consolidates in H2, not H1. That's my first question.

And then, secondly, on E-Plus, given the intention to be a bit more commercially aggressive going forward and then attack more in terms of market share, I just wondered why you've decided against a potential more aggressive approach to network investments, particularly with regards to LTE. And, to that question, as well, would you potentially have interest in the 900-megahertz spectrum in Germany when that's renewed later this year or thereafter? Thanks.

Eric Hageman - *KPN - CFO*

Maybe to start with your question on CapEx, I think we've specifically chosen the words that we've put in the presentation today, as in we expect EUR7 billion over that three-year period, which, if you then think about the consolidation happening 2014 or 2015 -- let's take the latter year -- of Reggefiber, what have we said in the past? If you do 300,000 homes passed and that costs you about EUR1,000, rounded numbers, then you get an idea of what we're talking about with what the CapEx profile will be.

Thorsten Dirks - *KPN - Head Mobile International*

Let me take the second one, on E-Plus. You're talking about the network and then a second part of your question on the 900 spectrum, if we're interested.

Let me start with the investment and what is the investment in our network and what is the strategy there, also with respect to LTE.

Our strategy is very clear. We believe that having a nationwide HSPA+ network that we operate at 2.1 gigahertz, where we have also, the same as an 1800, the most spectrum available -- again, it's all about spectrum, spectrum capacity, and then, of course, network capacity as a result of this. We believe this would then do a carrier -- we could offer 42 megabit per second on a nationwide data network.

And, again, it's not so much about the data and the data speed. It's all about capacity because, if you are a smartphone user -- and, again, we are targeting the mass market and not so much the corporates or enterprises. We are not in these segments other than, for example, in The Netherlands, where we are an incumbent. As a challenger, we attack the mass market. And there, as a smartphone user, you want data speed everywhere, every time. And, therefore, this HSPA+ network will provide you with the best and a very high-quality service.

Of course, LTE will play a role for us, focused on capacity. And that's the reason why we will use also, as we have done it in The Netherlands, single run, which we have already rolled out. We'll use the same grid that we have built for 2.1 gigahertz, so no new building necessary at 1800 megahertz. And then, as of this year, we will also offer commercially LTE services. So that's our strategy.

And that then should also answer the second part of your question, acquiring the 900 spectrum.

Matthew Bloxham - *Deutsche Bank - Analyst*

A couple of questions. Firstly, could you give us a bit more insight into any discussions you have with the rating agencies? I think, in December, they indicated a one notch downgrade was probably the maximum. But perhaps that view has changed hence the rights issue.

And, secondly, could -- you haven't given any EBITDA range for 2013, and you suggested there's some uncertainty there. But could you give us a sense of where the biggest uncertainties are about what drives the outcome for EBITDA in 2013? Thanks.

Eric Hageman - *KPN - CFO*

So, no surprise that we did indeed have discussions with them, I think, as everyone in our sector is doing at the moment. I think they have been awfully helpful during that process as well.

And what I can tell you is that, in those discussions, if you, up front, say what is important to us, and I think we stated that today as well, is for the board of KPN to be investment grade because we think that is the most comfortable position to be in in a capital-intensive industry and the current macro environment that we are.

But the starting point that we have with the net debt level that we ended the year with, that then, obviously, calls for action, which is what we have taken.

They are doing their credit committee's (inaudible) as we speak, so tomorrow. And let's see what they do. I can only -- I cannot speak for them, but I think it's logical to say that they viewed it as credit positive.

Eelco Blok - *KPN - CEO*

On the EBITDA range, I would like to say that we -- given where we are with the business and flexibility we need, we have decided to only give a midterm EBITDA margin range and directionally tell something about the short term EBITDA range. As you have heard, for Germany, our midterm EBITDA range is 30% to 35%. And, in the short term, given the additional commercial investments, we have decided on it will be lower. And then we will start growing again to the 30% to 35% range for Belgium, exactly the same, only the range, given the fact that we will start offering fixed line services, will be at a lower level than in Germany, between 25% and 30%.

And, on The Netherlands, we have said that we will stabilize the financial performance towards 2014 because we are -- continue to invest in our business not only in the infrastructure but also on the commercial side; so, both the mobile and fixed.

Stuart Gordon - *Berenberg - Analyst*

A couple of questions. First of all, on the leverage target, are you only going to consolidate -- or include Reggefiber from when it is consolidated?

Also on the leverage target, if you do use some other financing structures, they may not qualify for full equity treatment. So is there any chance that the leverage range could change depending on what structures you use?

And, thirdly, in consumer fixed, to try and get a flavor, what's happening to churn in that business? I mean, clearly, you have had a couple of quarters now where you've had additions. Is that because gross adds are going up, or is it just you're getting better at controlling churn? Thanks.

Eelco Blok - *KPN - CEO*

Eric, will you answer the first question? Then I will take the second one and then, maybe, on the last one, churn, on (inaudible) because I missed that one.

Stuart Gordon - *Berenberg - Analyst*

We know what your net adds are on broadband, but we don't know what your gross adds are. So, if we can understand the direction of churn to see whether it's actually improving churn or actually you're doing better in gross adds. Thanks.

Eric Hageman - *KPN - CFO*

Okay. Let's start with your first question. I think what we have said is that our net debt to EBITDA at the starting point of where we ended the year at 2.7 times is not where you want it to be. And, if you then start to correct it for the spectrum payment that we did, you get to 3.0 times.

You add Reggefiber -- you can do the math. And we've also said, if you look at the rights issue that we've announced and you adjust for that, that will give you 0.9 times.

We've also said that we think we will end 2013, in my words, comfortably within the range of 2 to 2.5 times. And we will indeed consolidated Reggefiber when we consolidate Reggefiber.

Joost Farwerck - *KPN - Head of The Netherlands*

On your question with respect to broadband in The Netherlands, like Thorsten said, it all starts with the network. And that's why two years ago we really launched our hybrid strategy in The Netherlands, improving our copper networks and rolling out fiber to the home.

And we also worked on our IPTV proposition. The quality improved and the proposition improved. And, by doing so, we saw a positive growth on fiber to the home but also a reduction of churn on copper. And that's because we really are improving speeds on our copper network, and we really can add additional services on both copper and fiber.

So it's, to be quite honest, both. We see a reduction of churn on the copper base, and we see a growth of customers in our fiber to the home environment.

Tim Boddy - *Goldman Sachs - Analyst*

I just wanted to try and get a bit more clarity. I know it's been asked already -- on the stability in The Netherlands in 2014 because I think it's such a key aspect of today. If I think I've understood you, what you're basically saying is it's clear there's a new entrant, and that will put revenue pressure

in, particularly, the consumer mobile business. But you think that you can reduce churn, which will save costs. You've obviously got acquisition significant headcount program which reduces costs. And, in addition, you're expecting growth in revenue on the fixed line side such that you end up as a flat overall. Have I got all the moving parts there? And, if I haven't, please, could you help me?

Joost Farwerck - *KPN - Head of The Netherlands*

Yes. I think it's very important to understand that the last two years we really stepped down in consumer markets. So it's not as we start from a very high level as a couple of years ago. I already mentioned that, before 2011, we lost market share in both consumer residential and mobile environments. So, for us, it's very important to understand where we are and how to improve there.

Now we have a customer base, and we think we can really add value. It's not only a plan because we are already working on this and executing on this. And there are a couple of firm drivers that can create value. It's proven.

So it's the ARPU in both businesses, and it's the value of your customer base. And what you normally see is that, in a strong, competitive environment, price-wise can happen. But that's not happening in The Netherlands. We think it's very important to really strengthen our ARPU to be more profitable.

And the second thing is that it's also very important to focus on the customer base instead of hunting each other's customers. So we would like to ring fence our customer base, make very clear to our customers that we think they're very important, add value, and invest in debt. And that's a far more efficient way of running your business than, like we say in our business, put all your customers in a washing machine and hunt party to party off your customers.

So we see that, and we are very positive about this.

Now, adding new services, like 4G, launched yesterday in Amsterdam -- we are very positive about that.

And now we just start to launch quad play, only a couple of weeks. But our salespeople in the shops and our customers already benefiting from this are very enthusiastic.

We are the only company in The Netherlands with both assets, mobile and fixed. There's no one other company with both assets. And, also, after the auction, it becomes very clear that we will be the only company with both a mobile network and a fixed network. We should benefit from that. That's my goal. And we are really launching quad play for the coming period as well.

So we've seen this in other countries. It's not unique. We've seen 4G really hitting off in, for instance, the United States. We see quad play really working well in other western European countries. So we think, if we follow this road, we will create value.

Ulrich Rathe - *Jefferies - Analyst*

I have three questions, please. The first one is -- could you just maybe give a bit of color what exactly you mean by stabilizing the financial performance? For example, I was wondering whether maybe, in 2014, if you start showing some margin trends towards what you're guiding at the moment, that would already sort of be a victory or whether it's really sort of stable -- revenue stable margins over the sort of particular elements of that. That would be my first question.

The second one is -- you're very up front in that, obviously, you had very large nonrecurring items in terms of the (inaudible) supporting the -- sort of reaching the guidance, more or less, as Eelco said in the introduction. Are there any sort of nonrecurring items expected or visible or booked into the 2013 guidance at this point? Or is what we're being told here sort of, roughly, the expectations? Is that essentially all organic?

And my last question is a bit on Germany. Thorsten, do you actually expect an auction on the project 2016 already to happen in 2013, or do you expect (inaudible) to defer a decision? I would be interested in that. And, also, just for clarification in Germany, when you talk about sales revenue growth, do you mean underlying service revenue growth before the MTR cut? Or you would say service revenue growth as reported? Thank you.

Eelco Blok - *KPN - CEO*

I will start with the stabilizing performance in The Netherlands towards 2014, stabilizing performance in The Netherlands, meaning we'll seek continued improvements in operations in 2013 and financial performance stabilizing in 2014. And, as we also already explained to you, we are approaching a new balance between profitability and stable market positions. This is on stabilizing the financial -- the performance in The Netherlands towards 2014. We have no plans to include nonrecurring items in the 2013 and beyond numbers.

And then, on Germany --

Eric Hageman - *KPN - CFO*

Maybe, before that, maybe if I can add to that (inaudible). But, obviously, as you saw on the slide where Eelco explained how you need to look at the EBITDA for 2012, where we corrected for two things -- one were the tower sales both in The Netherlands and Germany but also incidentals. Obviously, the nature of incidentals are that -- I don't know what they are, but that's why they're called incidentals. So that's the only one that is the caveat to Eelco's question.

Thorsten Dirks - *KPN - Head Mobile International*

Yes. And, on Germany, let's start with the easiest one. We're talking about underlying, of course; so, before MTR and any other regulation. Are you roaming, for example?

On the auction, you know that the regulator presented the different option we will look in November last year. We had time, until end of January, to comment on these different options. Of course, we have done so. And now we are in the middle of the process, so we have to wait the outcome of the process, which we expect by the middle of the year, maybe Q3. And then we'll see if we run into an auction or we just see a prolongation of the existing 1800 megahertz -- not the existing, the spectrum that will run out of license in 2016.

Paul Sidney - *Credit Suisse - Analyst*

Would you consider giving Tele 02 a national roaming agreement?

And, just a follow-on from that, how do you think your competitors would potentially look at such a roaming agreement as well? Thank you.

Eelco Blok - *KPN - CEO*

When it commercially makes sense, then, of course, we will start discussions with other operators on network sharing, roaming, et cetera.

Sasu Ristimaki - *Merrill Lynch - Analyst*

Just, when considering (inaudible) balance sheet alternatives, how did you conclude that a rights issue or a recapitalization was the alternative most attractive for shareholders even at this price?

And then, secondly, just on the underwriting agreement, can you just clarify some of the details on that? Is it unlimited underwriting? And at what price have the underwriters committed to? Thank you.

Eric Hageman - *KPN - CFO*

Just on your first question, in the analysis that we have done, we find this the way we explained it also to the supervisory board yesterday the most democratic instrument that we can think of.

Hans Sohngen - *KPN - Head IR*

Can you repeat the other question?

Sasu Ristimaki - *Merrill Lynch - Analyst*

On the underwriting agreement, is there a price at which the underwriters have committed to the deal? And is that fully underwriting -- underwritten to 100%?

Eric Hageman - *KPN - CFO*

It's fully underwritten. That's the volume on the right.

Hans Sohngen - *KPN - Head IR*

Okay. That concludes this Q&A session. Thank you, all, for coming also to this auditorium at such short notice. Any further questions you can relay to the Investor Relations team.
