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KPN.AS - Q1 2014 Koninklijke KPN NV Earnings Conference Call

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## OVERVIEW:

Co. reported 1Q14 YonY adjusted revenue decline of 7.7%.



## CORPORATE PARTICIPANTS

**Hans Soehngen** *Koninklijke KPN NV - Head, IR*

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

**Steven van Schilfgaarde** *Koninklijke KPN NV - Interim CFO*

## CONFERENCE CALL PARTICIPANTS

**Polo Tang** *UBS - Analyst*

**Paul Sidney** *Credit Suisse - Analyst*

**Frederic Boulan** *Nomura - Analyst*

**Jonathan Dann** *Barclays Capital - Analyst*

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## PRESENTATION

### Operator

Good days, ladies and gentlemen, and welcome to the analyst quarterly figures conference call. After the presentation, we will facilitate a Q&A session. I would now like to turn the conference over to Mr. Hans Soehngen, Head of Investor Relations. Go ahead, Mr. Hans Soehngen.

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### Hans Soehngen - Koninklijke KPN NV - Head, IR

Good morning, everyone. Welcome to KPN's first quarter 2014 results presentation. Today, our CEO, Eelco Blok and Interim CFO Steven van Schilfgaarde will take you through our results and address your questions during Q&A.

Let me briefly point out that the Safe Harbor statement applies to this presentation 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.

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### Eelco Blok - Koninklijke KPN NV - Chairman and CEO

Thank you, Hans, and good morning. Thanks for joining us on the call to discuss our first quarter results. With me on the line is Steven van Schilfgaarde, our Interim CFO, who will present the Q1 financials.

Let me start with the highlights of the quarter. In the first quarter of 2014, we've made good progress with the execution of our strategy by further strengthening our networks and simplifying our operating model.

Commercially, the success of our strategy is visible with promising postpaid net adds in consumer mobile and continued good IPTV net adds in consumer residential.

The focus on our market-leading products, such as 4G and IPTV, leads to growing numbers of triple and quad-play customers in the consumer market and a growing number of multi-play seats in the business market.



In Germany, underlying service revenue growth was strong, at 3.8%, and we increased our market share to around 16%. At the same time, postpaid net adds were again at a high level, close to 200,000.

In Belgium, our clear market position, which combines a high network quality with price leadership, translated into another quarter with Hi postpaid net adds of 28,000 and market outperformance.

Financially, our performance from continuing operations in the first quarter was impacted by the competitive environment in our mobile markets, leading to a decline of ARPU's and pressure on the business market size.

We have completed the rollout of 4G in the Netherlands in a remarkably short timeframe of 15 months following the spectrum auction and are substantially ahead of the competition. This means that these investments can now be scaled back, leading to lower CapEx levels, also supported by phasing out of the handset lease and the implementation of our simplification program.

The free cash flow in Q1 reflects intra-year phasing and difficult year-on-year comparisons. Steven will elaborate further on this in the financial review.

The outlook I shared with you at the full-year results has not changed. The good strategic and operational progress makes me confident that we will reach a stabilizing financial performance towards the end of 2014 and free cash flow growth in 2015.

As I also indicated at our full-year results back in February, we will recommend paying a dividend of EUR0.07 to our shareholders in respect of 2014 and expect a growing dividend in respect of 2015. The dividend remains subject to the sale of E-Plus.

Furthermore, we will potentially benefit from additional excess cash by receiving dividends via our 20.5% stake in Telefonica, post completion of the E-Plus sale. Let's look at where we are in the E-Plus sale.

The E-Plus sale is subject to a phase two review by the European Commission. We are confident to obtain regulatory approval in June and to complete the sales shortly after that.

Closing of the sale of E-Plus allows us to pay a sustainable and growing dividend, combined with a solid financial profile. Post-completion, we'll own an attractive 20.5% stake in Telefonica Deutschland. Through this shareholding, we'll have exposure to the strong synergy potential of the combination.

Now, over to Steven for the financial review. Steven.

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**Steven van Schilfgaarde** - Koninklijke KPN NV - Interim CFO

Thank you, Eelco. Good morning, everyone. I will start with the financial profile of the Group, which includes our discontinued operations.

In the first quarter, our net debt level increased by about EUR600m, compared to the end of Q4 2014. The increase is mainly related to the usual intra-year phasing of free cash flow within the Group. I will discuss this in more detail shortly.

As a result, free cash flow for continuing operations was EUR292m negative, while free cash flow for our discontinued operations amounted to a minus EUR134m negative, also due to the cash flow phasing. Other investing cash flow was about EUR100m higher, due to additional shareholder loans to Reggefiber.

On a pro forma basis, including the expected net cash proceeds of the sale of E-Plus, and including the expected consolidation impact of Reggefiber, net debt at the end of Q1 2014 was EUR6.2b versus EUR5.8b at the end of Q4.



At the end of the first quarter, proforma net debt over EBITDA was around 2.1 times. The increase compared to the fourth quarter is mainly due to EUR179m lower 12-month rolling EBITDA and a EUR350m higher net debt.

Our gross debt decreased by roughly EUR1b in the quarter as a result of a EUR750m bond redemption and the cancelation of the preference shares, which result in repayment of EUR258m, including EUR2m dividend, to the foundation. The preference shares were recorded as current debt.

Let me now take you through our Q1 Group results. Let me first point out that, as you might have seen in our consensus filed for the first quarter, we will put most emphasis on our results adjusted for incidentals and restructuring costs.

Adjusted revenues for the first quarter were down 7.7% year on year, which was somewhat better than the previous quarters. The revenue decline was driven by the competitive mobile markets and also pressure on the size of the business market as a result of continued customer rationalization and optimization.

The OpEx, excluding D&A and adjusted for the impact of phasing out of the handset lease model, decreased by 4.5% year on year, driven by lower employee cost in the Netherlands.

Adjusted EBITDA decreased by 21% year on year as a result of lower revenue and phasing out of the handset lease. Excluding the impact from phasing out of the handset lease of EUR43m, the adjusted EBITDA decline was 15%.

Let's move to the Group cash flow for Q1.

In the first quarter, our free cash flow from continuing operations was EUR402m lower than Q1 2013. The main items that explain the delta are as follows -- a EUR250m (sic - see presentation slide 11 'EUR255m') less cash from changing working capital, mainly driven by a EUR167m prepayments that were made in Q4 2012 and supported a positive Q1 2013 working capital development; EUR176m lower reported EBITDA and a EUR50m cash payment as a result of the final settlement agreement with the bankruptcy trustees of KPNQwest.

These negative effects were partly offset by a EUR96m lower CapEx, which I will explain on the next slide.

These items led to a free cash flow from continuing operations that was EUR292m negative. For our full-year 2014 free cash flow, we expect to see a significant improvement versus the first quarter, driven by a positive working capital development and less interest payments in the remainder of the year. Compared to last year, we will see lower CapEx levels and lower taxes paid.

Let's take a look at our CapEx expectations for the coming years and the first results of our simplification program on the next slide.

As a result of our investment-led strategy in the last years, we have seen elevated investment levels at KPN, compared to our European peers. We have now completed some of these major investment programs, such as 4G in the Netherlands, and therefore we expect less elevated investment levels going forward.

We have provided a CapEx outlook of less than EUR1.4b for 2014. The more than EUR200m improvement versus 2013 is driven by three factors. In the first half year of the year, this is largely supported by phasing out of the handset lease at the KPN and Hi brands.

The nationwide 4G coverage has been reached at the end of Q1. Therefore, we expect lower mobile network investments going forward, and the simplification program will start to support CapEx reduction as from the second half of 2014.

Together with CapEx reductions, we also expect significant OpEx savings from the simplification program. Combined, this will result in at least EUR300m cost savings by 2016.

With respect to the simplification, we have already achieved the first results. In terms of simplifying our product portfolio, we have phased out 90% of our broadband propositions in the consumer market.

We also started to optimize our distribution model for mobile by adding Hi products in the KPN shops and focused more and more on online distribution. As a result, we were able to close five Hi shops in the first quarter, and we intend to close more shops in the rest of this year.

These actions are just a few examples from a long list to streamline our organization, which will lead to a lower-cost operating model.

I would now like to hand over to Eelco for your operating review of the Group. Eelco.

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

Thank you, Steven.

In consumer residential, we've seen an increased level of promotional activities by cable competition, especially Ziggo. Their actions were mainly focused on growth via increased marketing and sales, free hardware and promotional triple-play pricing at a lower level compared to our no-frills brand, Telfort.

Coupled with the continued decline of traditional voice services, this has somewhat impacted our top-line performance in the first quarter, with adjusted revenues 1% lower year on year.

In Q1, we remained disciplined in the market, with a strong focus on IPTV. Combined with the positive result from our strategy that we have executed over the last three years, this is leading to increased profitability.

Adjusted EBITDA increased by 22% year on year. Despite the increased promotional activity of competition, most of our operational KPIs continued their positive momentum. The growth in RGUs and ARPU continued in the quarter, driven by the take-up of triple play, which in turn is supported by our market-leading IPTV products.

We have continued our growth in interactive TV by adding another 62,000 customers in the first quarter, leading to a 26% TV market share.

Our broadband base was slightly lower, which has led to a broadband market share of 40%.

Our triple-play base continued to grow, as we added 48,000 triple-play customers in the quarter. We've now reached a 46% triple-play penetration of our broadband base and intend to grow this further in the coming quarters.

We continue to be successful with quad play. In the first quarter, we added another 62,000 quad play subscriptions, leading to a total of 235,000 quad-play customers. Earlier this month, we have also started Telfort CombiVoordeel, which basically is Telfort quad play.

Telfort customers having both IPTV and a mobile subscription are rewarded for their loyalty and can pick one of three benefits related to mobile credits and additional TV channels.

Let's move to mobile.

The mobile market in the Netherlands remained competitive, especially in the no-frills segment. Underlying service revenues at consumer mobile declined 12% in the first quarter. Mobile service revenues continued to be impacted by the shift to SIM-only, lower average bundle usage and continued pressure on pricing levels.

Our mobile market share in the Netherlands was at 43% at the end of the first quarter, which is lower than Q1 last year but stable compared to Q4.

Adjusted EBITDA was EUR82m lower in the first quarter compared to Q1 2013, for a large part driven by phasing out of the handset lease.



Adjusted for the EUR16m additional SAC related to a retention action in the fourth quarter, EBITDA in Q1 was slightly better Q on Q. We are convinced that we have created a strong position which should lead to a better performance in consumer mobile in the period to come. This is evidenced by a growing customer base.

The postpaid retail net adds were promising at 26,000, our strongest performance since almost two years. The improved performance was driven by a number of factors. We've adjusted some of the price points at our KPN and Hi brands to become more competitive in the market. This has led to an improved performance of these brands.

Churn is lower, driven by a strong focus on our own customers and our unique quad-play proposition and the strong uptake of 4G by our customers, which has accelerated. We now have 610,000 4G subscribers in the consumer market.

For Q2, all our customers have access to 4G, as Telfort customers now also have the opportunity to add 4G to their subscription for a monthly fee of EUR5. Following our remarkable fast 4G rollout, we are now at least for one year in a unique position as the only mobile operator with nationwide 4G coverage in the Netherlands.

Finally, the postpaid retail ARPU of EUR28 was relatively stable compared to last quarter, supported by a higher inflow ARPU from our full-service brands, KPN and Hi.

In the last years, we have seen that the size of the business market has declined. In the first quarter, this trend continued, driven by ongoing customer rationalization and optimization. This results from a still tough macro environment and competitive marketplace.

We are proactively migrating our customers and services from old to new solutions as part of our rationalization and simplification program to ensure we meet our customer demand.

This leads to future-proof solutions, but also lower ARPU levels, mainly at mobile, resulting in lower revenues in the short term and better results in the longer term. This led to an adjusted revenue decline of 11%, which is pretty much in line with previous quarters.

The EBITDA margin was lower in Q1 at 20%. We continued to reduce fixed costs, driven by lower personnel expenses, but variable costs, such as SAC for wireline and wireless services remained at similar levels in order to support our market positions in a competitive market.

Briefly looking at some of our KPIs in Q1, we continued to see a decline in access lines as a result of rationalization and a migration towards voice over IP.

The wireless-only base declined slightly in Q1, but I see this as a positive development, as this was fully driven by the migration towards multi-play, one of our strategic pillars for the business segment.

We are executing on four clear priorities to improve the results of our business segment and are making good progress on all of them. These priorities are de-risking our revenues, growing revenues for multi-play, growing revenues from new services and executing on our ambitious cost-savings plan. A bit more detail on all of these.

First of all, de-risking our revenue profile. Initially, this will put some pressure on top line, but in the medium term, this will have a positive impact. For example, the committed mobile ARPU was 10 percentage points higher year on year.

4G is also very important to move towards more committed revenues in the business segment, as this encourages customers to move to new propositions. At the end of Q1, we had 412,000 4G subscribers, which represents 27% of our wireless customer base.

Secondly, multi-play. At the moment, the contribution of multi-play to our results in the business segment is relatively small. However, we expect this to increase significantly in the coming quarters, driven by a strong increase in the number of seats.

Thirdly, new services. Introduction of new, innovative services, such as luggage tracking and processing in partnership with KLM and FastTrack Company and a machine-to-machine connectivity solution for Tesla will result in new revenue streams. We'll continue to invest in new services, such as cloud, to support these new revenue streams.

And, finally, we focused on the reduction of fixed costs by simplifying and reducing our product lineup, systems and applications. This leads to further FTE reductions and other significant cost savings.

Next to this, we will put even more focus on the relationship with our suppliers. Also here, I see scope to improve pricing and efficiency, which is likely to result in less suppliers and lower costs. I'm convinced that we are implementing and executing on the right areas to improve the performance in the business segment going forward.

I'll skip two slides and continue with the operating review of Germany.

I am proud that, although the sale process is ongoing, we have been able to continue our good performance at E-Plus in the first quarter of 2014. In Q1, we have shown positive reported service revenues for the first time since Q3 2012.

Underlying service revenues increased by 3.8% year on year, leading to an increased market share of 16%. The continued improvement is mainly driven by a strong performance in postpaid and data.

EBITDA margin was higher year on year at 28.6%, as commercial investments were somewhat lower compared to the first quarter last year.

We have again showed strong growth in postpaid net adds, with 197,000 additions in the quarter. In line with our strategy, the majority of net adds originated from the underpenetrated regions. Further strategic process has been made by network quality improvements and new partnerships.

LTE was launched in Q1, and E-Plus has now 22% outdoor population coverage in Germany. Also, the available data speeds and throughput more than doubled compared to the same period last year.

With respect to new partnerships, WhatsApp launched their first MVNO on our network, and we also announced a partnership with United Internet.

Let's move to Belgium. Also in Belgium, we've seen continued good operational developments in Q1, although the market remained competitive. Therefore, the underlying service revenues continued to decline at 4.4% in Q1, though an improvement versus the previous two quarters.

The improvement was driven by the good performance of postpaid, as data usage and data revenues are growing, while prepaid remained under pressure. As a result of the market outperformance, we estimate an increase of our market share to around 21% in Q1.

The adjusted EBITDA was EUR5m lower year on year, driven by somewhat higher traffic costs and the provision related to Walloon site taxes.

In Q1, we saw continued strong postpaid net additions of 28,000. This was driven by improving churn levels and a very clear market position, where the Base Company is able to combine high network quality with price leadership. Postpaid ARPU remains under pressure, as customers continued to optimize their tariff plans.

In Q1 2014, we launched 4G for all, providing 4G access to every Base customer. The 4G network now covers 591 cities, towns and villages, equally approximately 46% outdoor coverage of the Belgium population.

Concluding, both Germany and Belgium made strong operational progress and improved their financial performance in Q1.

To sum up, we have seen another quarter with good strategic progress, showing positive results in 4G, IPTV and multi-play in the Netherlands. Mobile service revenues remain under pressure in a competitive Dutch mobile market, but postpaid retail net adds are promising.

The financial performance in the business segment was impacted by a declining market size, which was driven by continued customer rationalization and optimization. We have clear priorities in place to counter this via a strong focus on de-risking our revenues, growing revenues from multi-play and new services and executing on our cost-savings plan.

Driven by continued strong postpaid net adds in Germany and Belgium, we have shown service revenue growth and market outperformance in Germany and increased our market share in Belgium.

All in all, we are on track to show stabilizing financial performance at the end of this year, driven by continued operational progress and the first results of our simplification program.

We remain confident to obtain regulatory approval for the sale of E-Plus in June and thereafter complete the sale mid-2014. This will allow us to recommend dividend payments combined with a solid financial profile.

Thank you for your attention, and now we'll take your questions.

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## QUESTIONS AND ANSWERS

### Operator

(Operator Instructions). Polo Tang.

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### Polo Tang - UBS - Analyst

Yes, hi. I just have a few different questions.

The first one is on E-Plus. The service revenue growth of plus 3.8% was obviously a very impressive performance for the quarter. But can I just clarify if there were any one-offs in this number? Similarly, is the growth because E-Plus is benefiting from overall market growth or is it taking share from specific operators?

The second question I have is on consumer mobile. If you look at your ARPU, it was stable quarter on quarter at around about EUR28 per month. Do you think you can keep it stable for the coming quarters? And if you look at the postpaid net adds development, obviously very encouraging. But do you think we can see an acceleration of the postpaid net adds, i.e. more than 26,000 going forward? Or is 26,000 postpaid net adds the sustainable run rate?

And my final question is really on the simplification program. I think that you gave a rough indication of EUR100m of simplification savings for this year. But can you give us a rough idea of what was achieved this quarter? Thanks.

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### Eelco Blok - Koninklijke KPN NV - Chairman and CEO

Okay, let's start with the E-Plus questions. There are no one-offs in the service revenue numbers. And we believe that we have taken share from others, that it has nothing to do with market growth.

On the consumer mobile questions, we expect, well, to further stabilize the ARPU compared to the trend of the last two quarters, and we don't expect an acceleration of the postpaid net adds growth. We are very pleased to see the good trend in this quarter.





And to give you some more details on this, it's especially promising that the KPN and Hi brands are showing an improvement, in the Base, development driven by investments in SAC/SRC and the repositioning of the price levels. And, of course, the continued success of 4G and our quad-play offering are supported the KPN and Hi brands, which also leads to lower churn.

Looking at the Telfort and Simyo bands, they show solid base growth in the first quarter of 2014. And we have introduced in the second quarter an add-on on 4G feature for Telfort and Simyo, where customers can enjoy 4G for a EUR5 monthly fee.

And in addition to the KPN Compleet quad-play offering, we have introduced in the second quarter a quad-play proposition for Telfort named CombiVoordeel, also revolving around additional customer benefits like KPN Compleet, however, with a clearly different market position.

So these underlying trends make me confident that we can continue the positive trend we have seen in the first quarter, but no acceleration.

Then, on the simplifying program, as you can imagine, there was only a limited impact of the simplification program in the first quarter of this year, because we started to execute on the simplification program late last year.

There will be more in the second half of this year, mainly on CapEx. So that will be EUR100m of the first year. And as you know, as part of the simplification program, we have started a new reduction program of 1,500 to 2,000, where we will start this -- have started this program this year. And a positive impact on the OpEx will be seen late this year, but mainly next year.

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**Polo Tang** - UBS - Analyst

Thanks.

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**Operator**

Paul Sidney, Credit Suisse.

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**Paul Sidney** - Credit Suisse - Analyst

Thank you very much. I have just a couple of questions, please.

The first one is on your cost of debt. It does remain relatively high compared to some of your peers. And I just wondered, is there an opportunity to bring the overall interest costs, costs of debt down post the E-Plus transaction, when you get the EUR5b? If you could just maybe talk about the opportunity there.

Just secondly, I just wondered if there was any more thoughts you had on the sustainable net debt/EBITDA ratio that you would be comfortable with post the transaction. I know you gave some comments at the Investor Day and I just wondered if you had any more thoughts on -- what you would be comfortable with, once the initial EUR5b proceeds were received. Thank you.

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

Steven will deal with the first question, on the net debt/EBITDA number.

As -- well, as I explained during the Investor Day, we will not share a specific target number on net debt over EBITDA. We continue to be committed to our investment-grade credit profile, and that's what we would like to share at this moment with the market. And that's a firm commitment, post the E-Plus transaction.

And Steven, maybe you can deal with the first question, about the cost of debt after the EUR5b proceeds will come in?

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**Steven van Schilfgaarde** - *Koninklijke KPN NV - Interim CFO*

Yes, if you look at the cost of debt at the moment, of course the redemptions will lead to a lower interest rate. And, as you know, we have had a redemption of EUR750m in the quarter one, and already [EUR650m] in quarter two.

Of course, if you look at the future, we are considering all options to optimize our balance sheet. But, as you can understand, I will not go into details today, as we are now focused on closing the sale of E-Plus and the continued good operational progress in the Netherlands and Belgium.

Important to note, as always in our Company, if we are looking at the options, we are only implementing which would create shareholder value. So that's also an important decision-making criteria.

And apart for there may be dividend payments, which we already said there; growing dividend after this year. We aim to balance the operational financial flexibility, and potential excess cash could be utilized for small in-country M&A, or shareholder remuneration. That's all (multiple speakers).

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**Paul Sidney** - *Credit Suisse - Analyst*

That's very clear, thank you.

Okay, could I just ask a quick follow up? How would you expect the rating agencies to treat the stake in Telefonica Deutschland post transaction? Would they be looking to treat --?

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

I think they see -- as you see it also -- it's a good opportunity. It gives you an opportunity. But -- we -- on the dividend one on the other hand. And if you look at the future about the stake, we have a lock-up period of half a year after the close, and after it we will come back to you what we will do with the other possibilities.

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**Paul Sidney** - *Credit Suisse - Analyst*

Okay, thank you very much.

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**Operator**

Frederic Boulan, Nomura.

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**Frederic Boulan** - *Nomura - Analyst*

Hi, good morning. A couple of questions.

First of all, on debt level. Where could we expect to see debt closing towards the end of the year, on the proforma basis? Are you comfortable with consensus currently sitting, I think, at EUR5.3b?

And also can you clarify where are shareholder loans now to Reggefiber versus the EUR526m at yearend? And overall, what will be the impact of the Reggefiber consolidation, considering the higher intra-company loans you granted in the first quarter?

A follow-up to the previous question on refinancing. I know it's a bit early days, but where could we see interest cost on a run-rate basis, post deal? Where do you expect the overall level to stabilize in the medium term, once the refinancing exercise has been done?

And secondly, on the business performance, a quick question on the fixed-line performance. I can see why Ziggo's push would impact broadband momentum, but I'm struggling a little bit with the decline in revenues, from 2.5% in Q4 to minus 1% in the first quarter.

So can you explain a bit more what is changing here? Is this the weaker mix in your base towards Telfort? If you could give us any color on the mix of subs between the different brands and market segments, that would be very useful. Thank you very much.

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

Okay, Steven will deal with the first part of your questions, and I will take the consumer residential question. Steven.

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**Steven van Schilfgaarde** - *Koninklijke KPN NV - Interim CFO*

Yes, if you look at the Reggefiber question, which you took, at the end of 2014 and taking into the effect, the effects for Q1 2014, KPN has to consolidate around EUR900m net debt, consisting of around EUR700m bank debt, and of course the option payment, which will be above EUR150m in our estimation.

Together with an EBITDA of around EUR100m, the total leverage impact is around [0.2] proforma the sale of E-Plus. So that's one thing I would like -- if you look at the cost of debt, the last bond issue was 3.75%, so yes, you can of course debate about the cost.

What I would like to say about the net debt/EBITDA, or the development of net debt, as Eelco already said, we are fully committed to investment-grade profile. I think that's more than enough for this moment.

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

Okay, I will take the consumer residential question. The year-on-year revenue decline of 1%, there are no fundamental worries underlying the trend. Our strategy aims at increasing RGUs and ARPU, and stabilizing our broadband share and base for the short term.

And what we have seen is an increased level of promotional activity in the fixed market, especially driven by Ziggo in the first quarter. They were active with discounted offers and offering free hardware, while we remained very disciplined on pricing and marketing during the first quarter. And we are focused on further growing our IPTV base.

Then some underlying important KPIs. We have seen again growing RGUs in the first quarter, compared to the fourth quarter of last year; a growing blended ARPU, up almost 5% to EUR44 versus the first quarter of last year.

Our triple-play penetration went up 6 percentage points year on year, with a net-add number of 48,000. And we continue to grow our IPTV customer base with 62,000 net adds, leading to a TV market share of 26%. And looking at our quad-play customer base, we've seen an increase of 62,000 net adds KPN Compleet.

So all the important underlying KPIs are moving in the right direction, also in the first quarter. And, therefore we are confident that we can continue the trend we have started last year, with, yes, a small hiccup on top line in the first quarter. But looking at EBITDA, 22% growth year on year on EBITDA.

**Frederic Boulan** - *Nomura - Analyst*

Okay, thank you very much.

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**Operator**

Jonathan Dann, Barclays.

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**Jonathan Dann** - *Barclays Capital - Analyst*

Hi there. Two questions.

Could you -- have you estimated the Easter impact? I guess this year Easter was late.

Secondly, while I appreciate you didn't take any provisions for headcount, headcount -- can you just estimate how much cash you spent on headcount reduction in the quarter?

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

Of course we have taken the Easter impact into account. It will have a minor impact. But of course we have taken that into account.

And on the provisions question, Steven will answer that one.

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**Steven van Schilfgaarde** - *Koninklijke KPN NV - Interim CFO*

The provision question, we have between EUR20m and EUR30m spend on restructuring, on employee headcount restructuring.

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**Jonathan Dann** - *Barclays Capital - Analyst*

Can I ask a follow on? Ziggo talked about raising prices. Do you have plans to put through inflationary price increases at some point this year?

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

Yes, as we have been doing in the previous years, we will do the same.

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**Jonathan Dann** - *Barclays Capital - Analyst*

Great, thank you very much.

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**Operator**

Luis Prota, Morgan Stanley.

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**Luis Protá** - *Morgan Stanley - Analyst*

Yes, thank you. I just have one question on free cash flow and whether you could give us some kind of guidance on working capital for the full year, once all this phase out is over. Whether you are expecting again positive working capital, probably benefiting from the handset lease or what are the trends there?

And also, on cash interest, which I understand those were affecting free cash flow in the first quarter, whether you could give us the percentage of total cash payments for the year that were made in the first quarter, to help us understand how this is going to phase out throughout the year. Thank you.

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

Okay, Steven will deal with this question. Steven.

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**Steven van Schilfgaarde** - *Koninklijke KPN NV - Interim CFO*

Yes, if you go to the last question, about the interest payments, we already paid EUR332m in Q1. If you compare this with the full-year 2013 debt, the overall interest at that moment has paid EUR654m.

So you see that, yes, a large part of the -- is already paid in Q1; around 50% of the total year. So that's the first question.

About the working capital, if you look at the free cash flow Q1 2014, I already told you that we see the usual inter-year phasing in the continuing operations, but also in discontinuing operations.

As always, we expect stronger uptake in the second half of the year, where we traditional generate the vast majority of the free cash flow. And, yes, this should result in a free cash flow roughly equal to 2013, as we have said before.

And this is mainly driven by improving working capital, compared to 2013, the less interest payments in the remainder of the year. We have already told you 50% is already paid in Q1. And we see also lower CapEx levels, but also lower taxes paid.

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**Luis Protá** - *Morgan Stanley - Analyst*

Okay, thank you.

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**Operator**

Emmanuel Carlier, ING.

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**Emmanuel Carlier** - *ING - Analyst*

Hi, good morning. Two questions from my side, one on broadband.

So if I'm right, Ziggo has improved the speed to the customers without adopting price increases. So I am just questioning how you believe you will manage to turn around the trend of net adds -- of net losses in broadband.

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

Can you repeat the question, because it's very difficult to hear your question?

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**Emmanuel Carlier** - *ING - Analyst*

Ah, okay. Do you hear me better now?

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

Yes.

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**Emmanuel Carlier** - *ING - Analyst*

Okay. So the first question is on broadband. So in broadband you had net losses in the first quarter. Ziggo has improved their speeds, quite recently. So I'm just wondering how you will tackle that. How do you believe that your net adds could grow again in broadband?

And then secondly, if I look at the number of -- the numbers of Tele2, they were pretty weak, which could maybe -- yes, consider them to divest their stake. And here I'm just wondering a little bit if you could provide your view on how you believe the Dutch telecom market will evolve in the coming years. Do you believe that there is room for consolidation? Thank you.

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

Okay, on the broadband speed issue, with our hybrid access strategy, where we continue to upgrade our copper network by -- via pair bonding and vectoring, we have already today the opportunity to increase speeds in areas where we have rolled out bonded vectoring to 200 megabits.

So speed is not really a differentiator, especially when you take into account that in fiber regions, and we have already a 25% footprint of fiber in The Netherlands, we are offering already 500-megabit symmetrical services.

So, as I said, speed is not really a differentiator. And the small decline in our broadband base is really driven by the additional promotional activities of Ziggo, while we continued to be very disciplined on pricing and promotions in the first quarter.

Given the fact that the important underlying KPIs continue to move in the right direction, and -- based on that we are confident that we can continue the positive good trend of previous quarters also in the quarters to come.

On Tele2 -- I realize that, especially looking at our large stake in the Telefonica Deutschland/E-Plus combination, our financial strength looks good. Let's say we are good at selling assets and for -- well, for really a good price. But let me say that I'm more cautious when buying assets, especially part of Tele2, not even taking into account the regulatory hurdles that we need to overcome. So this is my position to Tele2.

We are -- we have strengthened our business over the last couple of years, on residential. That has already resulted in turning around negative trends, not only operationally, but also financially. And we are now moving in the same direction with the consumer mobile business, and that's what we are doing.

And of course we will look seriously at opportunities. But today we are focused on continuing to strengthen our business and turnaround trend on the financial performance.

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**Emmanuel Carlier** - *ING - Analyst*

Okay, and -- I'm covering Altice, and if you speak with the founder there, with Patrick Drahi, then he's really convinced that in each market you will actually have just two or maybe maximum three dominant players left, offering fixed and mobile services combined.

If I look at the market in the Netherlands, you still have quite a lot of players. So do you have any views that you can share on what could happen in terms of -- yes, consolidation, not only in near term, but maybe in the next five years?

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

Yes, well on fixed we have KPN on the one side, with a 42%, 41% market share on broadband, and a combination of UPC and Ziggo, on the other hand, with -- well, approximately 43% market share, and in between some [unbundlers] with a declining market share. There's - so I think we have a competitive market, but not as we see in some other countries.

On mobile, we see -- we continue to see a very competitive dynamic in the Dutch market, with four players. And, as I said earlier, I believe that there is not only a need for consolidation, but that we will see consolidation going forward.

And I'm convinced that, after the approval of the 02/E-Plus deal that that will be a trigger for further consolidation in Europe. Of course, in-country consolidation, but also cross-border consolidation.

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**Emmanuel Carlier** - *ING - Analyst*

Okay, thank you.

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**Operator**

Ulrich Rathe, Jefferies.

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**Ulrich Rathe** - *Jefferies - Analyst*

Yes, thanks very much.

My first question is on the -- on NetCo, actually. I was just wondering whether you have changed any of the internal pricing or business arrangements for the internal business, between NetCo and consumer mobile and residential.

Because I do note a bit of margin pressure at NetCo and also pretty good margins in mobile and residential and I was wondering whether there you have shifted profits.

The second question is on business. I was wondering whether the issues you are commenting on here in the first quarter mean that the market overall and your business is tracking below budget, or whether this is exactly the way you thought it would unfold. Given that of course you are consciously also giving up revenues, are the trends essentially the way you thought they would pan out, or is this actually incremental?

Those are the two questions, thank you.

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

Okay. There are no internal transfer pricing changes. The NetCo performance just reflects the performance in consumer residential, consumer mobile and business market segment. That's it, so no internal transfer pricing changes in the financials.

Then looking at the business market, well, I can be open to you. Yes, a disappointing performance of our business market segment. Disappointing not only year on year, but also compared to our plan, mainly driven by the continued tough macroeconomic performance with, yes, GDP somewhat recovering.

But unemployment rates are still going up and the market remains to be very, very competitive, resulting in a shrinking market, following the rationalization, optimization by our customers, and continued price pressure.

And that's also the reason why we have taken additional measures, focusing on cost and, as part of the cost, the FTEs. Well, you should know that, from an FTE perspective, the business segment is still the largest segment in the Netherlands, with almost 8,000 FTEs within this segment.

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**Ulrich Rathe** - *Jefferies - Analyst*

Thank you. Can I maybe just ask for one clarification on another matter?

You repeated a indication from the Capital Markets presentation about flattish cash flow for this year. I'm just wondering, why don't you make this part of the guidance statements in the actual report? Is this because your conviction level is -- on that is a bit lower or you consider it less important, or why is that? Thank you.

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

No, it's -- the free cash flow is really, really important. But, given the flexibility, I want to have, looking at a competitive market and the events that will occur this year, we have taken the decision to just, as part of the outlook, mention the growing free cash flow in 2015.

And we believe, given the changes in the Company, that's a more important metric than the short-term free cash flow in 2014.

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**Ulrich Rathe** - *Jefferies - Analyst*

Great. That's great, thank you very much.

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**Operator**

Sander van Oort, Kempen & Co.

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**Sander van Oort** - *Kempen & Co. - Analyst*

Yes, good morning. Thank you for taking my questions.

First of all, a quick question on the business division. In the presentation you mentioned that there will be a bit of a short-term pressure on the top line, and I was wondering maybe you can quantify this. Will it be over the next few quarters, or is it something which will take maybe more than a year?



And maybe you can also elaborate a bit on the phasing of this initiative. Have we seen most of the impact already in the first quarter, or is it something which is pretty stable over the next few quarters?

The second question, maybe you can elaborate on the performance of Snow in Belgium, in terms of net additions.

And then thirdly, on the consumer residential, the EBITDA is up, mostly due to lower marketing costs. And maybe you can also say what's happening with the content costs, which used to increase in the previous few quarters. And I was wondering whether these content costs are already stabilizing, or still increasing.

And finally, a question on your marketing approach going forward. We have seen now, both in consumer mobile and in business that you are approaching consumers proactively to, of course, reduce churn in the future. Is this initiative also likely at consumer residential, given now that of course also on -- in terms of KPIs the business is slowing down a bit, and you want to secure medium-term growth.

So is this also a marketing initiative you are planning to undertake in the coming quarters, for consumer residential?

These are my questions.

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

Okay, let's just start with the last question, about churn. Churn -- churn reduction is a major effort in KPN in the Netherlands, so not only on mobile and in the business market, but also on residential.

So we expect a positive impact from the churn improvement program that is part of the simplification program. So also in residential it's part of the marketing approach.

Content costs are related to the subscriber base of IPTV. And our TV base continues to grow and, therefore, content costs will continue to grow.

EBITDA for residential, as you have seen, nevertheless went substantially up. And we believe that the current level is well a level that is sustainable.

Looking at the EBITDA at consumer residential, Snow is a very small part of the business in Belgium. It's an add-on to mobile. It's, so not a standalone product important for the performance of Base Company in Belgium. It's just a defensive move we have taken to be able to offer triple-play to customers that really want a [challenger] triple-play product.

Then the question on business, to mitigate the pressure on revenues and EBITDA, we have four building blocks. The proactive migration of customers to flat fees at lower ARPUs; to increase committed ARPUs -- to increase committed revenues and de-risk the ARPU profile. And of course, this will have a negative impact on top line, but we will continue to execute on this building block in the next quarters.

Mobile committed revenue is now at 60%; 6 percentage points higher than in the fourth quarter of last year.

Second thing we are doing on this one is migrating proactively customers from 3G to 4G. At the end of the first quarter we had 412,000 customers on 4G. That's approximately 27% of the customer base, so still 73% to go.

And also on this one, given the clear advantage we have compared to competition, we will continue to push for the migration from 3G to 4G, also having a negative impact on top line, and also on SAC, as I say, impacting the P&L.

But we have taken the decision to continue to execute on these drivers because, for the long term, we believe that this is the right strategy.

The second building block is the growth of multi-play, by offering, as we are doing in the consumer market, bundled services. And one example is the KPN ONE product. That's the most important driver.



Also this one goes with SAC, as I say. But we believe that, given all the investments we have been doing in the previous years, that is the only strategy that will make it possible to turn around the trend in business market.

Thirdly, and that's not a huge -- that will not have a huge impact on top line and EBITDA, but it's really, really important for the somewhat longer term. That's the push for new, innovative services; machine-to-machine solutions; cloud services; datacenter services, with interesting growth numbers, but not from a large base. But we believe that we need to do this to be able to turn around the trend in business market.

And last but not least, and for the short term the most important one, that's reducing the fixed costs to create the lean operating model for the longer term, and to offset the short-term margin pressure.

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**Sander van Oort** - *Kempen & Co. - Analyst*

Thank you.

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**Hans Soehngen** - *Koninklijke KPN NV - Head, IR*

Okay. With this last question, I would like to close this Q&A session. Please let the Investor Relations team know if you have any further questions. Thank you.

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**Operator**

That will conclude today's conference call. Thank you for joining us, ladies and gentlemen. You may disconnect your lines.

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