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KPN.AS - Q4 2014 Koninklijke KPN NV Earnings Call

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OVERVIEW:

KPN reported that its 4Q14 adjusted revenues were flat YonY.

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PRESENTATION

Unidentified Company Representative

Okay, welcome, good afternoon everyone. Welcome to KPN's Q4 and full-year 2014 results presentation. Let me first briefly point out that Safe Harbor statement applies to this presentation and that any forward-looking statements made in this presentation do not differ from those already made in the press release, published this morning.

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

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

Welcome. Thank you. Good afternoon and welcome to this presentation of our results for the fourth quarter and full-year 2014. With me today are Jan Kees de Jager, our CFO and Joost Farwerck, our Chief Operating Officer. And I'm very pleased that the management team will now be completed by the March 1, when Frank van der Post will be joining us as Chief Commercial Officer.

Before we go through the details, I will summarize the highlights of the year and the strategic and operational progress we are making. Let me say that we start 2015 in a considerably better place from where we were this time last year. The divestment of E-Plus was transformational for the KPN Group. After the sale, KPN is significantly more focused on The Netherlands, where we are the market leader and have strengthened our position with the full consolidation of Reggefiber. We now also have more financial flexibility to pursue our strategies for the Dutch and Belgian markets. I explained those strategies at our Capital Markets Day a year ago when I told you we would deliver improving operational performance by building on our strong fundamentals.

During 2014, we have delivered on the operational KPIs, which are showing strong momentum as we start 2015. There was customer base growth in really all main consumer and business services in The Netherlands, supported by the high investments in networks, products and customers over the past year.

In Belgium, we continue to focus on executing our Challenger strategy. Our high mobile network investments in the last two years strengthened our network quality and led to more than 80% 4G coverage at the end of 2014. The execution of our simplification program is ahead of schedule, and I'm proud to say that customers are really appreciating KPN again, which is feasible in all-time high net promoter scores.

The area where we faced more challenges in 2014 was the Dutch business segment. Here we are taking additional measures, I will say more about that later on. Despite the impact on the results from the business segment, the good operational results are translating into a better financial performance. The decline in adjusted revenues and adjusted EBITDA gradually improved in each successive quarter of 2014.

Now let's look at some of the key milestones marking our strategic progress in 2014. Just to pick out a few items, we reached more than 2 million 4G customers in Q4. That shows the power of having the first nationwide and highest quality 4G network, combined with unique converged services. In fixed, we are driving forward with ever higher network speed and capacity. We are now able to offer 100 megabit per second to half of the Dutch population. Overall, in 2014, we passed 2 million TV subscribers and reached more than 750,000 customers in converged fixed mobile bundles in the consumer and business markets.

I would also highlight the increased financial flexibility following the sale of E-Plus, which allowed us to recommend dividend payments and we reduced our financial liabilities through the bond tender and pension agreement. In Q4, we acquired the remaining 49% stake in Reggefiber. We will now get the full benefits of Reggefiber's expertise and we will enjoy enhanced flexibility as we pursue our hybrid upgraded copper Fiber-to-the-Home strategy. Joost will elaborate on this in his presentation. As we look ahead to 2015 and beyond, we'll continue with these main strategic themes, building on our strong fundamentals.

We are uniquely positioned in The Netherlands to supply the exponentially growing demand for data. For example, last month, we announced the introduction of TV Everywhere. At the same time, we launched a new consumer mobile line-up with larger data bundles, which enabled carefree data usage. Fixed mobile customers can now get up to 20 gigabit of data allowance per month. We'll continue to focus on strengthening the capacity of our fixed and mobile networks to accommodate the strong data usage growth, but also to stay ahead of customer demand.

In 2015, we'll take the next step in the execution of our simplification program, with a strong focus on simplifying our process and rationalizing networks and IT.

As I said at the start, we've seen an improving financial performance in 2014. For 2015, we expect adjusted EBITDA to be stabilized by the end of the year. We will keep investing to stay ahead of competition in terms of network quality and to further develop our differentiating services. However, due to the higher simplification savings and more efficient network investments, we are able to lower our CapEx outlook for 2015. We now expect CapEx of less than EUR1.4 billion, down from the previous guidance of less than EUR1.5 billion. All-in-all, we expect 2015 free cash flow to grow versus 2014. To be clear, this guidance excludes one-off items in 2014, which Jan Kees will further elaborate on in a minute.

We promised last year that we would resume dividend payments subject to the sale of E-Plus. We asked AGM to approve a total dividend of EUR0.07 per share for 2014, which means a final payment of EUR0.05 per share in April 2015. Our current intention is to increase the dividend to EUR0.08 per share in respect of 2015, with a further rise in 2016.

As we have said before, we consider the Telefonica Deutschland stake as an attractive financial investment. Any excess cash could be used to increase our financial and operational flexibility, pursue small in-country M&A and/or additional shareholder remuneration, for example, as dividends or share buybacks.

I would now like to hand over to Jan Kees for the financial review.

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

Thank you Eelco and good afternoon everyone. I'm Jan Kees de Jager, the new CFO and I have to say that I'm not only delighted, but also excited to be in his new position. And I'm also looking forward to meeting you all personally over the coming weeks and months and of course, looking forward to the challenges ahead.

Now, let me start with the financial performance of the Group in Q4 2014. Adjusted revenues were flat year-on-year. This was driven by strong customer base growth in consumer and a one-off tax settlement benefit, offset by the ongoing revenue pressure in the business market. A settlement with the Dutch tax authorities related to accepting to 2014 and led to a reimbursement of EUR74 million in Q4 2014. EUR30 million of that was

related to 2013 and therefore classified as an incidental, while EUR44 million was related to 2014. Amended for the tax settlement benefit, adjusted revenues were down 2.1%, which is an improvement versus the minus 4.9% reported in the third quarter.

OpEx continued to decrease, albeit that Q4 2013 was impacted by approximately EUR80 million of provisions. In the fourth quarter 2014, lower personnel expenses were offset by additional costs related to our growing customer base. Adjusted EBITDA decreased by 8.3% year-on-year, amended for the EUR44 million tax settlement benefit and the remaining impact from phasing out of handset lease. Again, an improvement compared to the minus 12% reported in the third quarter.

Let me now take you through our full-year Group results. Adjusted revenues for full year 2014 were down 5% year-on-year. The [EUR418 million] year-on-year decline was largely driven by lower revenues in the business market. OpEx, excluding D&A, decreased by 9.3%, supported by the EUR477 million release of pension provisions and lower personnel expenses, partly offset by the impact of phasing out of handset lease.

Adjusted EBTDA, amended for the impact of phasing out of handset lease of approximately EUR120 million, decreased by 11% year-on-year, mainly as a result of lower revenues. Financial expenses increased by EUR146 million year-on-year as a result of a one-off effect of more than EUR200 million related to the bond tender. Going forward, financial expenses should trend downwards as an effect of the gross debt reduction.

Now let me move on to the full year Group free cash flow. The free cash flow from continuing operations for the full year was EUR169 million negative, impacted by several non-recurring items. For example, the structural reduction of supplier payment items impacting the change in working capital, the release of pension provisions and related one-off cash payment impacting the line item change in provisions and roughly EUR50 million higher interest paid due to accrued interest related to the bond tender. This was partly offset by lower tax and lower CapEx for the full year 2014. CapEx was lower due to lower customer-driven investments and approximately EUR70 million savings related to the simplification program. The restructuring cash out for full year 2014 related to FTE reductions, mostly in line with the restructuring provisions of EUR84 million taken for the full year 2014.

The full year 2014 free cash flow was impacted by a number of large non-recurring items, which I just mentioned. Amended for the non-recurring items, the full year 2014 free cash flow would have been EUR405 million, which will serve as the basis for the outlook for 2015. Looking at the normalized free cash flow for 2014, this is not a level which we are satisfied with. For the coming years, I see potential to further grow free cash flow. In the short term, this is driven by lower interest payments, as a result of our lower gross debt position, which is likely to be still partly offset by higher expected cash-out related to FTE reductions in 2015. For example, in December, we announced an additional reduction of 580 FTE in the business segment, which will result in an additional EUR50 million provision and cash out in 2015.

In the medium term, free cash flow potential is driven by an improved financial performance, further cost savings related to the simplification program and opportunities to further improve the efficiency of our balance sheet. Currently, we still have a relatively high gross debt and high cash position, which we can improve following a scheduled bond redemption of EUR1 billion later this year.

Let's continue with the Group financial profile. Following the sale of E-Plus, we have taken important steps to increase our financial flexibility. Net debt at the end of 2014 was EUR2.5 billion lower compared to the end of 2013 and gross debt was EUR3.8 billion lower.

In 2014, we have undertaken a number of actions that reduced our future liabilities and contributed positively to our credit profile by increasing KPN's financial flexibility and feasibility. These actions impacted the net debt development in 2014. This included the acquisition and consolidation of Reggefiber, the reduced supplier payment terms, the pension fund agreements and the execution of the bond tender. The lower net debt was partly offset by a lower 12 month rolling EBITDA in a net debt-to-EBITDA ratio of 2.8 by the end of Q4 2014. But please realize that the steps I just mentioned have significantly strengthened KPN's credit profile. Also, the 20.5% stake in Telefonica Deutschland provides KPN with additional financial flexibility.

Then to CapEx, our CapEx to sales ratio may be higher than the sector, but we consider ourselves to be a front-runner in the CapEx cycle. We are also increasing the efficiency of our CapEx to get more for what we spend. Over the past years, we have invested heavily in our fixed and mobile networks. This resulted in leading positions in terms of Fiber-to-the-Home coverage and upgraded copper and the high quality nationwide 4G network. Including the full-year Reggefiber CapEx contribution, 2014 CapEx would have been EUR1.6 billion. As Eelco explained, we expect CapEx

for 2015 to below EUR1.4 billion. This means another step down in CapEx for 2015. We keep investing, however, to further expand the capacity of our leading networks, but a reduction in total CapEx is possible, driven by our successful hybrid access strategy, completion of our nationwide 4G coverage in 2014 and execution of the simplification program, which leads to increased CapEx efficiency.

Now, let me hand over to Joost to talk you through the operating review of The Netherlands.

Joost Farwerck - *Koninklijke KPN NV - COO*

Thank you, Jan Kees. Good afternoon everyone. Today, I will focus on the operational progress we've made in The Netherlands and as well as my main priorities going forward. In The Netherlands, we are uniquely positioned as the only integrated access provider. We own both high-quality fixed and mobile networks and the leading ICT infrastructure.

Differentiating network quality has become increasingly important in a market where customer demand is changing rapidly. First of all, and fueled by 4G, we're seeing an exponential growth of mobile data usage. Only two years since the commercial introduction of 4G, our 4G network is now almost processing the same amount of data as our 2G, 3G network. 4G is really changing the way customers use their smartphone and this is most notable in the steep increase of video streaming services.

Also data storage in the cloud is doubling every year, signaling a large opportunity for cloud solutions in both consumer and the business segments. And to maintain our unique position, we will continue to strengthen our core operating fundamentals. Our priorities remain the same, with even a sharper focus on the following. We will continue to introduce innovative services. We will further strengthen our best-in-class fixed and mobile networks. And we will continue to simplify and rationalize the organization.

Now let's look at this set of priorities in more detail. As Eelco said earlier, we will maintain a strong customer focus and we will further improve customer satisfaction. We are in a unique position to provide innovative and differentiating services to our customers. Increasing our fixed mobile customer base will continue to be a primary focus as it increases customer loyalty and it reduces churn. Two weeks ago, we announced the introduction of our innovative TV Everywhere application. Our IPTV customers are able to watch live TV while out of home, they will be able to stream their previously recorded programs, [you starred-over] TV et cetera. And this is truly a unique service in the Dutch market, enabled by our cloud-based PVR functionality, our large interactive TV base and the high-quality KPN 4G network.

We are also excellently positioned to capture a substantial part of the growing Dutch cloud market. Our cloud services, which are based on our core telco services, are expected to generate new revenue streams in the coming years. Key strategic features for being successful in the business market are ownership of fixed and mobile networks, datacenters and server capacity, and we believe KPN is very well positioned as the leading Dutch infrastructure provider to play a key role in cloud services.

Now, let's look at the networks. In 2014, we made good progress with the execution of our hybrid upgraded copper Fiber-to-the-Home strategy. The acquisition of Reggefiber will allow us to optimize this strategy even further. The continued Fiber-to-the-Home rollout and deployment of innovative technologies to extend the lifetime of our corporate network resulted in 50% coverage of Dutch households with access to download speeds of at least 100 megabits per second. For the deployment of VDSL vectoring, we bring active equipment closer to the customers' premises. In 2015, we will increase this Fiber-to-the-Curb footprint to further support this from roughly 25% to 40% by the end of this year, resulting in a total fiber coverage of Fiber-to-the-Home and Fiber-to-the-Curb of approximately 70% at the end of this year.

Our copper upgrades in 2015 and in 2016 and the Fiber-to-the-Home rollout will increase our 100 megabits coverage from approximately 50% today to 85% by the end of next year, which is significantly ahead of customer demand. And looking somewhat further down the road and taking into account future demand for bandwidth, planning for the next round of upgrades has already started. While some of our European peers are starting to deploy upgrade of copper techniques, we are already planning the next step in the evolution of upgrade of copper. Where pair bonded vectoring can deliver download speeds of 200 megabits and upload speeds of 50 megabits per second, the next step can deliver download speeds of 400 megabits per second via our copper network. We start trials for new vectoring technologies this year and we expect standardization next year. We are excited about these new opportunities and this development is not yet included in the average download speeds I just mentioned on the previous slide.

So, our investments allow a full copper upgrade through VDSL [bonding] and vectoring and further upgrades through new technologies. Also, a possible future rollout of Fiber-to-the-Home in copper areas will be far more efficient by rolling out last mile through next-gen phone. All in all, with our hybrid access strategy, we roll out the future-proof access network in the most efficient way and we will continue to offer high quality services to our broadband customers also in the long term.

In terms of our mobile network, we reached nationwide 4G coverage in the first quarter of 2013 -- 2014, sorry, as first operator in The Netherlands and we have maintained that lead. The strong network position today on 2G, 3G and 4G is recognized by our customers.

The average net promoter score for network satisfaction of 2014 is significantly higher than our main competitors in the Dutch mobile market. And this becomes increasingly important and our data growth has really taken off. For 2015 and beyond, we will maintain our leading network position. Given the continued growth in data usage, we are deploying 1.8 gigahertz and 2.6 gigahertz spectrum to increase 4G capacity in high usage areas, and in addition, we will also activate carrier aggregation, combining the 800 to 1,800 and 2.6 gigahertz spectrum bands to further increase available speeds. And together with our fully modernized backhaul, consisting of 75% fiber to the site connections, we are in a very good position to differentiate mobile network quality when data users continues to grow exponentially.

In 2014, we made good progress with our simplification program. Our main focus was on portfolio rationalization and migrating customers from legacy services to new portfolio. We reduced the number of propositions, both in consumer and business. We phased out legacy services, which in turn allows us to reduce 45% of the installed hardware in our technical buildings. As a consequence, our net energy consumption will be reduced this year. The simplification program delivered EUR140 million run rate savings in 2014. Furthermore, simplification resulted in approximately 700 FTE reductions last year and was also a key driver of the improved customer satisfaction, evidenced by the all-time high NPS for KPN in The Netherlands, Eelco just mentioned.

Now following portfolio rationalization in 2014, we will mainly focus on simplifying processes and rationalizing networks in IT in 2015 and beyond. We redesigned and simplified our client processes, for example, by focusing on online self care. This leads to improved quality in call reductions and increasing efficiency by approximately EUR35 million OpEx savings in 2016. Furthermore, we will move towards a more efficient operating model, based on digitized processes. We want to serve our customers in the most efficient way. For example, in 2015, we will move from multiple product-based customer identities towards an online single-customer identity, independent of the number of services a customer takes from us. And this will result in clear and simplified context, increased cross and upselling opportunities and improved online self care environment. Also, we will face our legacy IT systems in our consumer segments. This will result in EUR35 million run rate savings for 2016, which are mainly CapEx-related.

Following the good progress in 2014, we have increased the run rate savings target from more than EUR300 million savings to more than EUR400 million savings by 2016. The FTE reduction target has also been increased from 1,500 to 2,000 previously to 2,000 to 2,500 by the end of 2016. And this is driven by the announced measures in our business segments.

Now I would like to hand over back to Eelco for the commercial review of the Group. Thank you.

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

Thank you Joost. In the fourth quarter, we continued to make good progress with strong commercial traction for our services. In consumer residential, the commercial initiatives implemented in Q3 resulted in high broadband and IPTV-based growth. This quarter, we added the highest number of broadband customers in the last seven years. Supported by this strong growth, KPN's triple play penetration reached 50% of the broadband base. The financial performance in the fourth quarter reflects the commercial initiatives to support base growth and the ongoing decline of traditional voice, but we are confident that the strong base growth will lead to better financials.

Let's move to consumer mobile. In consumer mobile, we've been able to maintain our commercial momentum. The continuation of the operational success underlines our strong competitive position in the Dutch mobile market. We continued to see a solid intake of postpaid customers, supported by lower churn. This was driven by the increasing penetration of fixed mobile bundles and 4G. The retail postpaid ARPU was lower compared to last year, due to lower revenues from above-bundle usage, partly offset by the positive impact of the continued high value net adds. The strong

base growth in recent quarters has led to a continued improvement in underlying service revenue growth. Also here, profitability reflects the investments in base growth.

In the fourth quarter, business market trends didn't change materially compared to what we have seen earlier in the year. The ongoing decline of the business market impacted the financial performance. The operational performance in Q4 continued to be mixed. We've seen a good customer intake of mobile, but a lower ARPU, whilst fixed access lines continued to decline but at a relatively stable ARPU. All-in-all, our market positions remained relatively stable in Q4. We are already addressing the changing market dynamics in the business segment; more on this somewhat later.

In the fourth quarter, KPN acquired full control of Reggefiber, which was consolidated into NetCo's accounts for the November 1. The topline performance of NetCo reflects the ongoing decline of traditional services, mainly at our business market segment. The EBITDA margin in Q4 was higher following the consolidation of Reggefiber and savings related to the simplification program. At iBasis, revenues increased strongly, supported by a favorable currency effect.

Now moving on the strategic review of the Dutch businesses. In the fourth quarter, customer traction for our converged services continued. Fixed mobile bundles again showed a good take-up with 116,000 new customers, leading to a 17% penetration of our broadband base. In our mobile business, 21% of our postpaid retail customers are now part of fixed mobile bundles. The continued growth of fixed mobile underlines our unique position in the Dutch market and delivers substantial benefits for consumers, as well as for KPN through churn reduction. Leveraging our unique position will continue to be a main focus area for 2015 and beyond.

Let's now have a look at another strategic pillar, which has proven its value for mobile in particular. The decision to accelerate the rollout of our 4G network back in 2013 gave us a clear first mover advantage in terms of high value customer intake and churn reduction. Since we reached nationwide coverage in Q1 2014, we've realized extraordinary postpaid net adds of 220,000 compared to just 10,000 in 2013. The 4G network has been a main driver of churn reduction for our full-service brands, KPN and Hi, where 4G is included in every proposition. The year-on-year churn reduction in Q4 has been 35%. Both the customer intake and churn reduction prove that we have been able to clearly market our first mover advantage on 4G.

We will now take the next step to further leverage our high quality 4G network in the Dutch mobile market with the introduction of TV Everywhere, combined with new mobile propositions, consisting of larger data bundles. The introduction of larger data bundles will facilitate further data growth. Current market propositions were built for 3G, whilst used in a 4G world. For example, a 1 gig bundle facilitates only three minutes video usage per day. With the new bundles, we finally move into the 4G era by removing limitations for customers, so they can fully experience the benefits of 4G. This will drive an increasing usage of mobile data, which in turn drives improved possibilities to upsell through larger data bundles. We're also well positioned to introduce new services, such as voice and video calling over LTE, where KPN can differentiate in terms of network quality and benefit from iBasis' innovative LTE roaming platform to offer these services also internationally.

Moving to the business segment. We are actively transforming the business segment to address the changing market dynamics. Our approach is twofold. Firstly, we are transforming the organization to realize substantial cost reductions. Our focus to de-layer and simplify the business segment resulted in 570 FTE reductions in 2014 and we already announced an additional restructuring program for the business segment back in December. Secondly, we've put in place measures to moderate the decline in traditional services. We aim to retain value by increasing the penetration of multi-play seats and in Q4, we have seen a solid growth in seats of 44,000. To generate new revenue streams in the business market, we'll focus on new services like cloud hosting, machine-to-machine and security services. As Joost already explained, we believe that we have a unique position to capture the substantial share of the growing cloud market in The Netherlands.

Let's now move onto BASE. In Belgium, the pricing environment remained relatively stable. However, the markets continued to be competitive as competition increased handset promotions. This impacted the postpaid net adds in the fourth quarter. For the coming period, BASE Company will implement cost initiatives to drive its medium-term EBITDA margin to the target range of 25% to 30%. As an example, recently we made the decision to phase (technical difficulty) high mobile network investments in recent years, which led to a more than 80% 4G coverage in Belgium. By combining a high-quality 4G network with attractively priced (technical difficulty) our operational progress into improving financial results. We are confident to grow free cash flow and on this basis, grow dividend per share going forward.

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

QUESTIONS AND ANSWERS

Unidentified Company Representative

(Operator Instructions) I'll just start on the left, and yes, Paul?

Paul Sidney - *Credit Suisse - Analyst*

Paul Sidney, Credit Suisse. Just two questions please. I'm just wondering, are you seeing any evidence of Ziggo becoming more rational in the Dutch wireline market post the Liberty acquisition completing? I know they were giving away tablets, et cetera, which was seen as very aggressive over 2014. Any change in behavior there, please? And just, secondly, you said that you met that reconciliation on slide [15], there is EUR500 million of other items. Could you just perhaps split out what those items are and tell us whether they are of a one-off nature? Thank you.

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

Can you repeat the second part of question, because we were not able to --

Paul Sidney - *Credit Suisse - Analyst*

On slide 15, there was a reconciliation of your net debt going from 2013 to 2014. There is a sizable chunk of other items there (technical difficulty) yes. I was just wondering if you could just break this down and just tell us whether they will repeat or not. Thank you.

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

I will start with the question on Ziggo and then Jan Kees will answer the second question. Well, Ziggo has become -- well, not as competitive as in the first half of last year already in the second half of last year. And they continued that behavior in the first few weeks of this year and next to that they announced, as they have been doing in the past years, a price increase in January. So, they continue to be rational of course with -- from time to time aggressive promotions, but in the second half last year, not as aggressive as in the first half of 2014 and that's what we see happening today in the Dutch market.

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

Yes, the second question was about a EUR0.5 billion other items in the net debt bridge. That's a combined item. Some of the items in there are KPN Quest and other legal claims from the past. The coupon of the hybrids also is in there. Then the deconsolidation of E-Plus and fees, also with the deconsolidation and the sale of E-Plus related, and tax payment in Germany for E-Plus as well, combined this EUR0.5 billion, rounded EUR500 million. Those are the items in that post.

Paul Sidney - *Credit Suisse - Analyst*

So, it's fair to say that most of that is of one-off nature?

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

Sorry?

Paul Sidney - *Credit Suisse - Analyst*

Is it fair to say most of that is of a one-off nature?

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

Yes, it's one-off. And as to E-Plus, we sold it of course. So, we are not planning to pay taxes in the future more, but yes, those are -- while the coupon hybrids is not one-off, but the KPN Quest, other legal items are one-off; deconsolidation, yes; almost everything is one-off.

Unidentified Audience Member

Hi, it's (inaudible). First of all, can you just clarify the total cash-out and restructuring for 2015 and 2016, just for models, tell us now exactly what to put in? Thanks. Secondly on consumer mobile in The Netherlands. I think you're running at 2% operating margin. Obviously, the revenue trends have picked up, but you've lost something like -- even if you adjust for operating leases, [60%, 65%] of your EBITDA in the last three or four years, where do you think you can (technical difficulty) operating margins around 2%. I think you did [25%] of operating profit on EUR1.2 billion of revenue, and I know that the numbers are kind of muddied by wholesale and NetCo. But (multiple speakers) where you think you can take that?

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

So I will take the margin question and last question about fairly good growth in the fourth quarter and the impact on the market. And Jan Kees will take the first question about --

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

Yes, can you repeat --

Unidentified Audience Member

The restructuring cash-outs, the provision and cash payments for FTE reductions, the total, you mentioned extra [EUR50 million] on the business division there. What --

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

Yes, related to the FTE reductions.

Unidentified Audience Member

Yes, so what are the total numbers we should put into 2015 and 2016?

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

When you assess the margin in consumer mobile, you have to take into account that a part of the margin is realized within NetCo, that's one. But yes, the margin from the [server] provider part is relatively low, but that's driven by the high investment in customer growth. Of course we will continue the growth, but the simplification program also will have a positive impact on the cost levels in consumer mobile, already positively impacting in the quarters to come, the margin in this part of our business.

The high sales numbers in the fourth quarter, both on mobile and on broadband and TV were driven by additional promotions of KPN and additional marketing spend, and I don't know if it was really impacted by the merger of Ziggo and UPC. We became somewhat more aggressive and also looking at quality level and functionalities of our propositions. We are very well positioned in the market. We have the best TV proposition in the Dutch market, not ranked by ourselves, but by the largest consumer organization. Also looking at our mobile propositions, we are ranked Number 1, 2, 4 and 5 in the Top 5 ranking of the largest Dutch consumer organization. And last but not least, our fixed mobile propositions are doing really, really well in the Dutch market. And I think that's the most important reason why we have done so good in the fourth quarter and also, we see continued good sales in the first few weeks of this year on broadband, TV and on mobile in the consumer market.

Unidentified Audience Member

Can I just come back on that margin question? Maybe it's a question for Joost. I mean, do you care about consumer mobile and retail margins or is it -- should we not even look at them? Is it a blended number that we should think about with respect to NetCo?

Joost Farwerck - *Koninklijke KPN NV - COO*

We certainly manage the margin in the consumer mobile segment very tightly and some of the projects in the simplification program are dedicated for the consumer mobile segment, to improve the margins going forward. And yes, a large part of the margin in mobile is realized in NetCo, but for sure the consumer mobile margin, as the residential margin, is important to improve in the quarters to come.

Unidentified Audience Member

And the restructuring costs, sorry?

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

About the restructuring cash-out, first 2014, about EUR85 million and EUR85 million were roughly in line with the provisions we already took for [2013-2014]. Then through the year 2015, we estimate at the moment in our plan that restructuring costs will be significantly higher. We did not disclose yet the precise number, but it will be higher than 2014.

Ulrich Rathe - *Jefferies - Analyst*

Ulrich Rathe from Jefferies. Three questions, one of them just a simple clarification. The first one would be, into 2014, you guided for the stabilization of financial trends by year-end. Now you're exiting with minus 8% EBITDA decline on an underlying basis. I was wondering whether during the year, when you started to observe the customer traction, whether you felt the freedom to actually increase investment budgets or whether that sort of outcome in the fourth quarter was more or less what you intended? Moreover, whether you changed sort of the approach during the year as you saw traction? That would be my first question. And the second one is with regards to the Reggefiber consolidation, it looks like that brought in EUR20 million for two months, which I think is probably 20% ahead of what most of us penciled, and does this mean the Reggefiber EBITDA contribution in 2015 is going to be higher? Was there any reason to assume these two months were particularly good for Reggefiber? And my last question is the E-Plus transaction, you're showing on the net debt bridge, sort of as contributing EUR4.9 billion. The cash inflow in the fourth quarter from investments in discontinued operations was EUR4.5 billion. So that EUR400 million, I think I have an idea what's in there -- the missing EUR400 million, I've an idea what's in there. But I was just wondering whether any of that is actually related to a renegotiation of terms with Telefonica or whether EUR400 million essentially the settling all the bits and pieces of working capital and taxes that you had originally agreed with Telefonica? Thank you.

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

Jan Kees will answer the last question. Joost will take the Reggefiber question, I will take the first one about the guidance. At the Q3 result presentation, I clearly stated that I wanted to have some flexibility in the Q4 results, because we believed at that time that there was momentum to increase investments in customer growth and we took the decision to materialize the opportunity we saw in the markets, resulting in the really good sales numbers and net add growth on broadband, IPTV, 4G, but also in the business market on the multi-play seats, resulting in the financial performance as we have shared with you, according to our higher -- well, sales plan we adopted at the end of the third quarter and we believe that it's for the future of the Company, the best thing to continue the high sales numbers and yes, we know that that will have a somewhat negative impact on the short-term EBITDA and free cash flow, but for the longer-term, because we also are able to lower the churn, we believe that this is in the best interest and that's also taken into account when we took the decision about the guidance for 2015, both on free cash flow and on EBITDA. Jan Kees will you take the --?

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

Yes, when you look at the net debt bridge, you see the EUR4.9 billion figure is right. That was cash yield of E-Plus. But also you have the deconsolidation of E-Plus, as I just mentioned; networking capital, pensions and you have the tax payment to E-Plus, probably you refer also to debt. And then you say debt will bring it lower, but on the other hand, and by coincidence that is balanced by it. There's also the release of handset provisions as well. So that's why the EUR4.9 billion is still the figure you can use.

Ulrich Rathe - *Jefferies - Analyst*

Could I just clarify, there was no renegotiation with Telefonica of any shape with regards to the proceeds?

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

There was no renegotiation of the deal. Joost will you take the --?

Joost Farwerck - *Koninklijke KPN NV - COO*

Your question on Reggefiber, over the last two months of last year, we consolidated Reggefiber since we acquired the 100% stake. We see synergies in fully controlling Reggefiber. The EUR20 million EBITDA you referred to that's due to the effect [of the outs]. External cost in NetCo is now consolidated as internal cost, so that's in our run rates and improvements month by month, [20] over two months. So that will be in the run rate of the full year.

Keval Khiroya - *Deutsche Bank - Analyst*

Hi, it's Keval Khiroya from Deutsche Bank. I've got two questions please. Firstly, you obviously talked about the increased customer investment in Q4. Is there any sense you would give us about just how much higher acquisition cost may have been than one year ago, just so we know how much more your investment in the business then stayed? And my second question would be on the new data bundles in The Netherlands. I know it's very early days, but can you give us any color if you've seen an increased propensity for customers to perhaps to take the middle bundles instead of the lower 1-gig ones before?

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

Joost will take the second question about bundles, I will take the first question. As I explained to you, we have taken the decision to increase the commercial investments in the fourth quarter and I can share with you that we will continue on -- well, a similar level, at least in the first quarter of

this year to really use the momentum we have at this moment in the market on broadband, TV, 4G and converged services. Joost, will you take the --

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Joost Farwerck - *Koninklijke KPN NV - COO*

(technical difficulty). I'm sorry. So a strong growth for 4G, three times as much as on 3G and we really want to facilitate data usage in The Netherlands by introducing these new large bundles. It's introduced around premium priced KPN bundles. We really want to create reliance on the mobile data and really remove limitations for our 4G customers in these premium bundles, and also facilitate that by introducing interactive services as we did on TV Everywhere app, Goal Alert et cetera. So we're very excited about this. It's a strong move and data usage in The Netherlands is really growing on 4G and we think we can stimulate our customers by this.

Polo Tang - *UBS - Analyst*

It's Polo Tang from UBS. Just two questions. The first one is for Joost, in terms of, if we look at postpaid ARPU for consumer mobile, it's stepped down from EUR28 in Q3 to EUR26 in Q4. So I was just trying to understand the movement in terms of the reason why it stepped down, but more importantly, how should we think about the evolution and development going forward. Will it continue to decline as we have new promotional activity or can it be stable? So that's the first question.

And the second question is just a generic question about the Dutch mobile market. What are you seeing in terms of the competitive landscape? Is the competition being rational, because I'm just trying to understand the context in terms of the competitive landscape, because if I look at your postpaid net adds in consumer mobile, obviously the absolute level is still very good at over 50,000, but it was a step down from Q3. So was that the competition responding? Thanks.

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

Joost will take the first question about the ARPU. About market dynamics in The Netherlands, we have not seen major changes in the fourth quarter compared to the previous quarters. So continued focus from our side on the high value brands, KPN and Hi, leveraging our 4G advantage in The Netherlands and leveraging the fact that we can offer the converged services focusing on the KPN and Hi brand, and that's what we continue to do in 2015. On the other hand, looking at low value brands, we have started in the second quarter of last year and step by step increase of the low priced online SIM-only proposition, starting with Simyo and we continue to do so. And that's followed by competition. So, that's what we have seen in the fourth quarter and that's what we see today happening. So, no major changes. But as you know, Tele2 has continued to invest in their 4G network and probably somewhere in the next couple of weeks, they will start offering 4G services on their own network. We believe that we are very well prepared with our high quality network, new price propositions, the introduction of TV Everywhere and our converged services.

Joost Farwerck - *Koninklijke KPN NV - COO*

With respect to the ARPU in consumer mobile, which was EUR26 in fourth quarter, the decline was mainly related to above-bundle usage and pricing. If you look at slide 45 of the package, you can see that above-bundle usage nowadays is only around 6%. In the third quarter, we had a very strong out of bundle revenue development that was mainly related to the holiday season. So much lower out of bundle, which is roaming traffic mainly in the fourth quarter. Very important to understand that three years ago, above-bundle usage was about 20%. Nowadays, it's only 6%. So I think it's important to mention that we really de-risked the ARPU by moving our customers into the bundle, that's one thing. On the other hand, we see a strong growth of high ARPU inflow in the base, it's a healthy ARPU inflow and that's related to the premium priced KPN customers. That base is really developing well and I really expect lot of ARPU support from that flow. And we also really anticipate a churn reduction and the cost related to that due to the strong growth in the combination of fixed and mobile services and KPN 4G.

Joshua Mills - *Goldman Sachs - Analyst*

Joshua Mills from Goldman Sachs. Just on slide number 19, when you show the data growth on mobile, I was wondering if you could provide the statistics around what the average mobile data consumption is for KPN, both on 3G and 4G in the consumer segment today, and if possible, any figures if you could give around, the number or percentage of customers who are hitting that data limit, given that part of your upselling strategy is going to rely on that trend continuing? Thank you.

Joost Farwerck - *Koninklijke KPN NV - COO*

If I'm not mistaken, your question is about data usage development in The Netherlands on slide 19?

Joshua Mills - *Goldman Sachs - Analyst*

So, the absolute cubit value of data usage on mobile today and also the number or percentage of customers who are hitting that data limits and will therefore be incentivized for upsells one of the larger value packages you've introduced.

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

Sorry, Joshua, if I may clarify, I think your question is on a per sub-basis, right, you're looking for?

Joshua Mills - *Goldman Sachs - Analyst*

Yes, on a per sub-basis.

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

3G usage per sub versus 4G usage.

Joost Farwerck - *Koninklijke KPN NV - COO*

So, what we see is that as soon in The Netherlands, a customer migrates to 4G, the data usage will grow to three times as much as on 3G. That's what we now experience today of 4G. It used to be 2.7, last quarter it was 3, so probably this will grow again in the coming quarters. And this for us is a very important indicator. Eelco also showed the developments in Belgium, which are slower. So there's a huge takeoff of data growth in The Netherlands and we think it's also stimulated by us, by the services we launched, the quality of our network and now the recently launched new bundle propositions. So three times compared to 3G.

Unidentified Company Representative

Next question please?

Unidentified Audience Member

[Stephen, Raymond James]. I understand that you want to stay focused on your current momentum in terms of adding more customers, but don't you consider at all any price increases in the fixed line business, since some of your competitors are raising prices?

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

We have increased prices in the fixed environment, looking to the last few years, somewhere in the June/July period and we have not taken a decision yet, but we expect to do exactly the same as what we have been doing in the previous years.

Unidentified Company Representative

Last few questions here please.

Unidentified Audience Member

[Zhad Shamil from Nippon Life]. Actually, two credit questions. First of all, could you give us some comment about your credit rating strategy? And second, on page 16, you mentioned that you still have a high gross debt level and cash position. Could we expect further bond tender in the months to come? Thanks.

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

Jan Kees, will you take both questions?

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

First of all, on credit strategy, we have a strong commitment on retaining our investment credit profile, that's our guidance. Not the specific multiple on net debt EBITDA, for example, but strong commitment in retaining our investment grade profile. And your second question was?

Unidentified Audience Member

It's regarding likely bond tender going forward, given one comment on page 16?

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

We do have a redemption, a scheduled redemption before the summer of EUR1 billion and we could well not refinance debt bond redemption. Any other, we did not have any decisions made yet. But we do contemplate, at the moment, not refinancing our scheduled bond tender of EUR1 billion, which is scheduled to redeem anyway.

Unidentified Audience Member

It's [Jonathan] from RBC. Two questions. Have you seen the mix of SIM-only and with handsets shifting over the last half-year? And then a second question, there's been lots of questions about how cable is responding. Have you seen Vodafone or T-Mobile responding to either your quad play fixed mobile bundles or preparing themselves for Tele2?

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

The handset SIM-only trend is not changing compared to what we have seen in the previous quarter. So continued increase of the SIM-only share of the total base, similar to previous quarters. That's what we today see in the Dutch market. As I said earlier, no major changes in competitive behavior in the mobile market and in the fixed market, the second half of last year was somewhat slower and less aggressive behavior of Ziggo-UPC in the Dutch market and that's today the situation.

Unidentified Company Representative

Okay, last question.

Frederic Boulan - *BofA Merrill Lynch - Analyst*

Frederic Boulan, [BofA Merrill]. Couple of questions, firstly on the balance sheet, if you could clarify a little bit the comment on the -- to the dividend, assuming you get the dividend that -- when you get those soon as committed to the market, I think it's about EUR140 million of cash flow for you guys. And I don't think you're paying taxes on this. Should we expect this money to go back to shareholders, it's about EUR0.03 more, assuming there is no M&A in the pipeline? Secondly, following up on previous questions on growth versus promotions, when you look at the improving KPIs in fixed and mobile with the current level of promotions and mix, when do you think you can get back to revenue growth, both in the consumer mobile and in the fixed business, is there something we can finally expect to see happening at one point this year? Thank you.

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

On the Telefonica Deutschland dividend, yes, we have to pay tax on the dividend and there will be an update by Telefonica Deutschland if they take the decision to pay a dividend and we have not taken yet a decision if we will return the dividend of Telefonica Deutschland to our shareholders. Our excess cash statement is I think very clear, we will use excess cash to improve operational and financial flexibility, small in-country M&A, mainly targeting The Netherlands and for shareholder remuneration, if there is, on top of that, excess cash available, either by dividend or share buybacks.

Frederic Boulan - *BofA Merrill Lynch - Analyst*

If I may, can you clarify --

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

Maybe just to add one thing also, of course you're right is that the tax we have to pay on the dividends from Tef Deutschland is related also to the DTA to the deferred tax assets. So it's not at this moment a cash-out.

Frederic Boulan - *BofA Merrill Lynch - Analyst*

And if you could also clarify what you mean by commercial flexibility -- operational flexibility sorry.

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

As I said, we really want to leverage the momentum that we have today in the market and when there are opportunities that really could help and support the continued operational and financial improvement over time, then we want to have the freedom to take that decision, so that's what I mean by operational and financial flexibility.

Unidentified Company Representative

I would like to finalize the Q&A session with that. Thank you all. Thank you all for coming and looking forward to see you in let's say six months time for the half year results. Thank you very much.