



Event transcript

KPN Q2 2022 Results

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Operator: Good day, ladies, and gentlemen. Welcome to KPN's Second Earnings Webcast and Conference Call. Please note this event is being recorded. At this time, all participants are in listen-only mode. We will be facilitating a question-and-answer session towards the end of today's prepared remarks. If you'd like to ask a question, you may do so by pressing star one on your telephone.

I will now turn over the call to your host for today, Reinout van Ierschoot, Head of Investor Relations. You may begin.

Reinout van Ierschoot: Thank you. And good afternoon, ladies, and gentlemen. Thanks for joining us. Welcome to KPN's Second Quarter and Half Year 2022 Results Webcast. With me today are Joost Farwerck, our CEO and Chris Figee, our CFO. As usual before turning to our presentation, I'd like to remind you of the Safe Harbor on Page 2 of the slides, which also applies to any statements made during this presentation.

In particular, today's presentation may include forward-looking statements, including KPN's expectations with respect to its outlook and ambitions, which were also included in the press release published this morning. All such statements are subject to the Safe Harbor. Let me now hand over to our CEO, Joost Farwerck.

Joost Farwerck: Thank you, Reinout. And good afternoon, everyone. Our accelerated growth strategy was launched in November 2020. And we are now halfway through the execution of this ambitious three-year plan. Today's results show our continued good progress on our strategy, despite the changing macroeconomic environment.

The key highlight for the quarter was the performance of the business segment, which saw growth in Service revenues for the first time in more than a decade. And this combined with solid mass-market service revenue growth, supported our overall Group Service revenues. Within the mix, we see positive signs in Wholesale, in Business, and Consumer Mobile.

Consumer Fixed shows a bit of a dip, but we are confident that the performance will improve going forward. We rolled out fiber in 102,000 households, or if one were to include Glaspoort Joint Venture, 150,000 households in the second quarter. Moreover, we now have more retail customers on the fiber than on the copper footprint, a milestone moment for us.

Our efforts in modernizing the mobile network continued to pay off. For the fourth time in a row, we've been recognized as the best mobile network in the Netherlands. And while we -like many organizations- see an impact from rising costs due to inflation, we also see encouraging group

service revenue developments in this quarter, with the mentioned B2B inflecting to growth earlier than expected. Ultimately, this underpins our confidence in our ability to maintain healthy margins and growing Free Cash Flow looking in the future. Driven by our solid performance and successful execution of our strategy in the first half of this year, we raised our 2022 guidance to at least € 2.4 billion of EBITDA AL and Free Cash Flow of approximately € 850 million.

As you know by now, our compelling strategy is centred around three clear pillars, to leverage and expand our superior networks, to grow and strengthen our customer footprint, and to simplify and streamline the operating model. Over the last year and a half, we've delivered significant progress on all three pillars and we remain confident that this strategy will continue to create long-term, sustainable value for all our stakeholders. Let's now look at the first pillar of our strategy, our best-in-class networks.

In the second quarter, we've made solid progress and rolled out fiber to 102,000 households versus 75,000 in Q1.

And together with our JV with APG, Glaspoort, we rolled out fiber to 150,000 households. And we now cover approximately 44% of the Netherlands with fiber. And we expect to reach approximately 80% of Dutch households by the end of 2026. And once we reach that point, we expect Capex to drop to a much lower sustainable level.

As we continue to rollout fiber, our growing fiber footprint will result in an improved customer base for Retail and Wholesale. In fact, we now have more retail customers on the fiber network than on copper. And this effort is bearing fruit in our financials. Looking at our Q2 results, we currently generate about € 900 million of annualized Fiber Service revenues. And this number is growing rapidly driven by a growing base and attractive ARPU. All in all, fiber is clearly at the heart of our strategy to create long term value for all stakeholders.

On Mobile, we are proud that Ookla once again and for the fourth time in a row recognized our leading mobile network. With this recognition, we retain our position as the best mobile network in the Netherlands with the highest up-and download speed, best coverage, and the fastest 5G in the Netherlands.

Let's now move to the second pillar of our strategy. Adjusted Consumer and Service revenues decreased by about 1% year on year. On the one hand, we see consistent Mobile service revenue growth, and the continued success of our Fixed-Mobile convergence strategy, on the other hand, Fixed service revenues were a bit lower. Consumer Fiber Broadband revenue showed continued

growth, while Copper and Legacy maintained its anticipated decline. Customer satisfaction remains one of our top priorities. And it has been pleasing to see our efforts pay off in this area.

Now, let's take a deeper look into our second quarter KPIs. Our retail fiber base increased by 34,000 new customers, and now exceeds the copper base. And like I said, it's an important milestone for us. This should provide support to start to grow our broadband base. Broadband net adds showed a temporary decline as we witnessed a brief period of increased competition following the successful launch of our Viaplay proposition. Our Fixed ARPU remained broadly stable at € 52.

The service revenue trend is weaker than seen in previous quarters. On the one hand, this is due to an anticipated decline in Legacy services, fixed calling, lower voice traffic. On the other hand, this is due to the successful migration to Viaplay, which causes a shift from gross to net revenue reporting but has no impact on margin. We continue to see solid trends in Mobile. Our postpaid base increased by 33,000. And our postpaid ARPU was broadly stable. And combined, this led to a 1.4% growth in the Mobile service revenues.

Now, let's move to B2B. I'm very pleased with the performance of our Business segment, which inflected to growth a bit ahead of schedule. B2B Adjusted Service revenues grew almost 2% year on year in the second quarter. SME is the main driver of growth driven by solid commercial momentum in both Broadband and Mobile. Alongside SME, also our Tailored Solutions business increased, while the LCE service revenues are still in decline. The overall trend is moving in the right direction. So, this keeps us well on track to inflect LCE in the first half of next year.

The NPS on business remained positive. It was a bit impacted in part by the volatile economic environment. Nonetheless, we are still leading in the Dutch market as customers continue to value KPN for stability, reliability, and quality of our networks and services. As mentioned, across the board, we are seeing improving revenue trends. If we would strip out Tailored Solutions in the B2B revenues, to give a good indication of our core telco performance, our Business service revenues increased by 1.3% compared to the previous year. So, that's supporting our strategy.

In Wholesale, service revenues increased 7% in the second quarter supported by our open access policy. Year-to-date, we added 43,000 postpaid SIMs, and 18,000 broadband lines. On the topic of regulation and the ACM, there's not much new to say at the moment. As you know, we've published our voluntary open access model for the future with adjusted wholesale tariffs, which was used for the consultation period. This consultation has been concluded. And we expect a final decision from the ACM to be announced this quarter. With this, let me now hand it over to Chris to give you more details on our financials.

Chris Fige: Thank you, Joost. Let me now take you through our financial performance. And let me start by summarizing some key figures for the second quarter and for the first half of the year.

Our adjusted revenues increased 1.4% over the year, driven by growth in Wholesale, Business, Consumer Mobile, and non-service revenues. Second, adjusted EBITDA after leases increased 1.1% year on year. And our EBITDA margin remained broadly stable at 45.3%. In the second quarter, cost savings from further simplification and digitalization of our company were partly offset by inflationary effects, such as waste indexation and rising energy costs.

This all translated into € 30 million of net indirect Opex savings. And third, our Free Cash Flow increased 35% year on year, compared to the first half of 2021. This was mainly due to higher EBITDA, and lower Capex as a result of intra-year phasing. More on the underlying cash developments later in this presentation. And finally, our ROCE, Return On Capital Employed, continues to develop positively and increased a 170 basis points to 12%, driven by both increased operational efficiency and a more efficient balance sheet.

Since we've managed to grow our Business Service revenues and already deliver sustainable mass-market service revenue growth for a number of quarters, we will now focus on the total Group service revenues to illustrate the performance of KPN.

Total Group service revenues growth accelerated and increased to 1.4% compared to last year. This was supported by solid mass-market service revenue growth, and the inflection of our B2B service revenues. And this is all very important proof points of our strategic progress towards achieving sustainable top-line growth for the Group.

Wholesale continued to show solid growth with service revenues, up 7% year on year, driven by both, Broadband and Mobile. Business service revenues grew by about 2%, driven by a continued strong performance in SME, and project timing in Tailored Solutions, while the trend in LCE is gradually improving according to plan.

In Consumer, our total service revenues declined by 1%. Within the segment, Mobile service revenues continued to grow, and recorded a 1.4% increase. In Fixed, Fiber service revenues exceeded those of copper, and effectively outstripping the decline. However, the growth of total Consumer Fixed service revenues was still offset by declining Legacy services, less voice traffic, and the accounting effect of content packages that we mentioned before.

As a result of this, we reported a decline in Fixed Consumer service revenues of 2.2% negative. For the remainder of the year, we still expect to see some technical headwinds, but we are confident

that the trend in Consumer Fixed will gradually improve supported by our implemented price adjustments and commercial improvements. And by the end of Q1 next year, we will see the lapping of the accounting effect. Overall, we're confident that our Group service revenues will continue to grow during the remainder of the year.

Our adjusted EBITDA grew by 1.1% compared to last year despite a tough comparison base. As a reminder, last year, our EBITDA was positively impacted by an intellectual property rights benefit, an IPR benefit, that provided a tailwind of nearly 1%.

Our improved EBITDA performance was driven by solid service revenue growth, and lower indirect costs, partly offset by € 25 million higher direct costs. The factors for this increase were the impact of higher non-service revenues, such as handsets and hardware sales, third-party access costs, which is Glaspoort, and a change in service revenue mix in B2B.

Personnel expenses decreased by € 12 million despite the CLA increase, which was implemented in the summer of last year. This reflects a structural shift in personnel efficiencies due to the digitalization of KPN as well as some natural attrition. Ongoing efficiency improvements also helped lower IT/TI expenses. This was partially offset by other Opex, which rose mostly on higher energy costs. In total, our indirect cost base reduced by € 30 million as our ongoing efficiency program gains are offset by inflationary pressures on energy and labor costs that occur across the industry.

At € 408 million, our Free Cash Flow in H1 was substantially higher than last year. And our cash margin over revenues improved to almost 16%. This improvement was mainly a result of a few factors, namely EBITDA growth, lower Capex due to intra-year phasing, and lower cash interest paid. This was partly offset by smaller effects around the phasing of working capital, and some higher cash taxes.

All in all, we started the year very well in terms of cash generation. Though of course, we will not see a 35% growth rate for the remainder of the year. If we strip out the Capex delta, which we see as temporary, we still see solid underlying growth in Free Cash Flow, and a solid improvement in margins.

And finally, we ended the quarter with a strong cash position, absorbing the final dividend payment of 2021, and part of our share buyback program. On slide 19, we report our return on capital. KPN focus to create long-term value as is evidenced by strong return on capital employed. Our ROCE improved 170 basis points year on year to 12% and has moved up continuously due to both increased operational efficiencies and a more efficient balance sheet. For the coming years, we see

scope to further optimize our return on capital as part of our continuous pursuit to deliver long-term shareholder value creation.

We continue to have a strong and resilient balance sheet at the end of June. As a result of our bond redemptions and other corporate actions we took last year, the average cost of senior debt improved by 26 basis points year on year. In Q2, our net debt increased by € 238 million compared to the previous quarter driven by the final dividend payment in April, and our ongoing share buyback program. This is partly offset by the Free Cash Flow we generated during the quarter. Our leverage ratio now stands comfortably at 2.3 times EBITDA, well below our ceiling of 2.5 and we further enhanced our interest cover.

The acceleration of growth of our cash margins structurally and organically increased our flexibility on capital deployment. Total liquidity remained robust at the end of the quarter. It now consists of € 1.6 billion in cash and short-term investments, and a fully undrawn revolving credit facility. This all covers debt maturities for next two and half years.

Reassured by our current financial performance and good strategic progress, we raised our 2022 guidance to at least € 2.4 billion of EBITDA, and a Free Cash Flow of approximately €850 million, with Capex remaining stable at € 1.2 billion. As of the 22nd of July, KPN had bought back 37 million shares for an amount of € 122 million and completed 41% of our € 300 million share buyback program.

So, to summarize, solid progress has been made in achieving the strategic objectives first formulated in November 2022 in spite of the increased challenges brought about by the economic environment. We see a sustainable trend for Group service revenue growth with positive signs in Wholesale, Business, and Consumer Mobile.

Consumer Fixed showed a dip, but we are confident that the performance and trends will improve going forward. Our EBITDA and cash margins continue to develop favorably. And we feel confident about the cash generating ability of our Group. To me, KPN demonstrates healthy margin, earnings, and cash flow resilience in these turbulent times.

Our fiber rollout rate has maintained a good pace and has proven an attractive return profile. With this, KPN has now put itself on the path towards sustainably growing revenues, EBITDA and Free Cash Flow, and a corresponding growth in shareholder returns. In summary, we're strategically on track, remain soundly financed, and are delivering on our objectives. As such, driven by our solid H1 performance and good execution of our strategy, we raised our 2022 guidance. Thank you for listening. Let's turn to your questions, and back to Reinout.

Reinout van Ierschoot: Thanks, Chris. We will start with the Q&A session right now. As usual, please be reminded to stick to two questions each. And operator, over to you please.

Questions and Answers

Operator: Ladies and gentlemen, we will start the question and answer session now. If you'd like to ask a question, you may do so by pressing star one on your telephone. The first question comes from Luigi Minerva from HSBC. Please go ahead.

Luigi Minerva (HSBC): Yes, good morning. And thanks for taking my questions. The first question is about the Free Cash Flow 2022 upgrade. I was wondering if you can help us disaggregate the upgrade between what's happening above the EBITDA, and what's happening below the EBITDA? So, the drivers of the free cash flow upgrade essentially.

And then, you mentioned improving trends in B2C in the second half of the year. If you can perhaps go in more deeply and elaborate on that, particularly on the fixed line side? Thank you.

Chris Figgie: Yeah, Luigi. Let me take the first question on Free Cash Flow, the reasons behind the upgrade. Well, obviously, we're ahead of track in terms of our cash growth. In the first half of the year, we delivered about a € 100 million more Free Cash Flow. Again, we won't grow at this pace going forward. But if you peel the onion, you can see our EBITDA is growing. I think even the cash portion of EBITDA is growing. So, the delta provisions, technically speaking, is less than last year or favorable. So, the amount of cash earnings is going up. That's one. Secondly, there was in the first half of the year a slight drag on working capital. I think, we see that fade away in the second half of the year. And thirdly, on restructuring charges, we had some restructuring charges in the first half of the year, which really were the echo and result of the restructurings that were done in last year. So, last year's restructurings caused a pay out in this year. And in this year, we see more FTE reductions from natural attrition. So, cheaper, there's no restructuring charges. So, to me, it's a combination of cash earnings going up, EBITDA going up, but a higher cash proportion of EBITDA. You'll see some more support from working capital in the second half of the year combined with low restructuring charges. And I think also on interest rates, I see some small opportunities. So, that together drives a good development of our Free Cash Flow in terms of euros, but also in terms of margins.

Joost Farwerck: Yeah, and on the developments in Consumer. In Consumer, we show a service revenue development of minus 1.1% in this quarter. First briefly, Mobile service revenues are developing well for the fifth quarter in a row, a strong growth, 1.4% growth on revenue, but also the base is growing. So, that's all well. The, the broadband developments are good. The inflow of fiber

is strong. And that's very important for us that now our fiber base is larger than our copper base. Revenues total on broadband kind of flat, minus 3000 in the base which is of course not good. We like to grow, not to decline the base, but that is more or less a temporary dip as a result of commercial performance. And also, competition was aggressive on the discount following our Viaplay proposition in the first quarter. In the first quarter, we showed a growth of plus 7000. And as a result of that, we now do a minus 3000. But with our current strategy, the price increase on the 1st of July, the new line-up we introduced in October, I'm confident we will improve that trend looking forward.

Fixed decline service revenues is minus 2%, which is a result of accounting, shifts in accounting for content packages. The Viaplay I just mentioned, that's something we introduced. But we only account for that net. And Viaplay is the equivalent for Ziggo Sport. So, for customers interested in Formula 1, in the past, we had to offer Ziggo Sport, resell Ziggo Sport. Now we have our own package with Viaplay, and that we account for in a different way. So, that is all anticipated on.

We also see customers doing less on fixed voice which is a result of the package we introduced and also unlimited mobile. So, also that we anticipated on. So, all in all, a temporary dip I would say. Looking forward, I'm confident that we will improve the trend.

Luigi Minerva: Thank you, both.

Operator: The next question comes from Mr. Andrew Lee from Goldman Sachs. Please go ahead.

Andrew Lee (Goldman Sachs): Good afternoon, guys. I don't think, we had really expected five years ago that you'd be delivering B2B growth faster than Consumer. So, I feel guilty about pressing on with questions about Consumer given you've achieved that growth now. But I just wanted to dig a little bit deeper on your answer to the previous question from Luigi around the improvements in Consumer Service revenue growth.

Clearly, there's an inflation boost that you're going to get, both in terms of your fixed line price rises in July, and then mobile in October. But if we were to strip out the inflation level and try to think about the structural growth outlook in your Consumer business, it was a bit slower this quarter. What are your ambitions or beliefs in the structural growth of your Consumer business in not just the next quarter, but over the next year or two? And what's driving that improvement if you do see an improvement?

The second question was just on the fiber overbuild of your network. What progress are you seeing from those overbuilders? As you've accelerated your fiber rollout, are you seeing other fiber builders accelerate too, or are they slowing? Any color of what you're seeing will be helpful. Thank you.

Joost Farwerck: Well, I'll start with the second question. Overbuild is something we try to avoid. Although having said that in a small country like the Netherlands, if more parties start to rollout fiber, every now and then we meet each other in a certain region. It's especially KPN scaling up and together with our Joint Venture, we'll do more than half a million households per year in a market of 8.5 million households in total.

So, it is mainly KPN accelerating. Of course, we also see other initiatives. And the largest one is Delta rolling out fiber, first of all in their own footprints. And secondly, every now and then, they pop up in our areas. We move into an area with a market share of average 30-38%. So, for us, we start immediately to sell and to build at the same time.

Other initiatives try to first aggregate customers because they started on a market share of zero sometimes. So, we have a bit of a benefit there. So, of course, we look at competition. But for us, the most important thing, and the target we have is to speed up our own rollouts as efficiently as we can. And I'm therefore happy with the results. And until today, not that much of overbuild in the Netherlands, I must say. That's on the fiber part.

B2C, I understand where you're coming from. Of course, that is a very important segment for us, and especially, the broadband part. I think to be honest, that we have a very good strategy, and we're making progress. The move to fiber is doing good. The ARPU in fiber is much better than on copper. So, of course, we don't like a minus in our revenue trend. And I'm confident that we will improve that. We anticipated on it a bit by introduction of Viaplay. We also see a bit of a faster decline on the traditional voice, which is fixed telephony. But that's a logical result of everything we're doing ourselves. So, I see it as a temporary thing. And I'm really positive on the future of our Broadband Consumer business with everything we're doing at this time.

Chris Fige: Yeah, maybe I should add a few things, Andrew. If you look at our Fixed business, right, we've got a decline in Legacy. That costs about € 1 million to € 1.5 million per quarter. That will be there that we have to absorb. But when you look at the Broadband business, as said before, fiber is now bigger than copper. That creates a positive, better churn net add, dynamics. Net adds in the previous quarter were down because of commercial intensity in the market and our XS4ALL migrations. As far as we can see, they have normalized by now. So, if you look at the last two to three quarters on average, we did about 3k net adds per quarter in Q4, Q1, and Q2 if you look

through the fluctuations. And we should certainly be able to do that again. Without disrupting the market or being overly aggressive, we should be able to get to positive net add developments because of the fading of these headwinds, the fact that fiber is bigger than copper. I think our TV proposition is now stronger. We've got certainly equal to or the upper hand when it comes to content.

And finally, when you look at fiber sales, it's good to know that about a third of our new sales in fiber is now at 1gig. So, customers are actually buying higher speeds, which would support the revenue per customer. So, next to price increases, we see upgrades of clients to higher packages. And on a revenue per address, fiber household tends to pay about € 5 to € 6 a month more than a copper household.

So, all those dynamics together will point to improving trend. That will not be there in the next quarter, but the trend will start to gradually improve. And that gives us some more confidence. And to the first part, we're rolling out KPN plus Glaspoort together about 600,000 fiber connections in the year, which is I think more than all our competitors together. And that should also alleviate any overbuild pressure, and secondly support our fiber revenues.

Andrew Lee: Thank you. It's really clear.

Operator: The next question comes from Mr Georgios Ierodionou from Citi. Please go ahead.

Georgios Ierodionou (Citi): Yes. Thank you for taking my questions. I have two, both on opex. On slide 17, I just wanted to first go through the direct cost drivers. You highlight higher non-service revenues and B2B service revenue mix, which I guess are not structural. But Glaspoort access costs are a bit structural.

So, it will be great if you give us some visibility on how the second half, but also 2023 is expected to develop in terms of the headwinds from that? And also, when it comes to the indirect costs, that's my second question. It will be very useful if you can perhaps give us some color on how both the labor and energy costs are expected to develop over the next year? I'm guessing there could be some tougher comps there, but I'd be interested to hear your take. Thank you.

Chris Figuee: Yes, Georgios. On direct costs, you mean the € 25 million delta. Not all of this is concerning as a part of it is non-service revenues, a part of it is roaming costs that are flowing in. So, you see some roaming revenues going up, especially on the Wholesale side. Not so much yet in Consumer and Business. But on Wholesale and on data business, we see higher roaming costs. So, that roaming revenues, that shows in direct costs. I think the Glaspoort component in this € 25

million is about € 5 million order of magnitude. The traditional Glaspoort access costs, that could be doubling next year. I don't worry too much about those costs.

But of course, these are clients that move to fiber that actually increase our sales, increase our revenues, and increase our revenue per month. So, that's good. And also, of course, in Glaspoort, we have a stake in a Joint Venture. So, what we pay more in cost, 50% we own back. It's just below the line. So, economically, I'm not that worried about it. Although, of course, it's our challenge to try to compensate those direct costs by higher revenues, but also by decreasing other costs. That's a challenge we give to ourselves.

When it comes to indirect opex on energy, of course, it's an important factor. It's an important thing that we look at. In the first half, we spent about € 4 million more on energy from last year. I think full year, you probably double that amount, get to about € 10 million more for the full year. We do have locked in most of our spend for this year. I think we're at about 90-95% done on locking in our energy spend for this year.

Also, because we're reducing our energy demand. So, for this year, we've got a pretty good visibility. For next year, the equivalent number is about 65%. So, we've procured about 65% of our energy costs for next year. Of course, that will lead to an increase in prices. We'll of course need to see where the energy price lands.

But if you look at today's energy price, that would be the norm for the rest of the year. You'd look at about from 2023 and 2022, about 1.5% of EBITDA headwind in terms of additional energy costs. Now, that's a fair amount of money. And it's on us to make up for that by reducing energy demand and by reducing cost elsewhere. So, the task on us is to compensate for that energy cost increase, to compensate for the Glaspoort access cost. And we do it through a combination of price increases, efficiency in the Group. As I said, we're running with about 700 less FTEs than last year. And that number, the underscore of FTE is actually growing.

And we need to increase our energy efficiency. So, for this year, € 4 million in H1. It will be about € 10 million for the year. Next year, we count with current prices around 1.5% of EBITDA worth of headwind that we should and will be able to compensate. So, that's why we left our guidance for next year unchanged and confirmed. But that's the order of magnitude that you need to think about.

Georgios Ierodiconou: And maybe as a follow up, some of your competitors are trying to sign long-term purchase price agreements. In your case, there's obviously a change in technology, moving on to fiber. Is that something that hinders perhaps taking a long-term view on some of these contracts? Or is it something you are looking to add over time just to give you more visibility?

Chris Figuee: Definitely. Of course, as we are reducing our energy consumption as such, moving to fiber is one thing, move to modern radio access network is something. So, definitely, we're looking at reducing our energy consumption as such. Next to that, yes, indeed, we are in continuous dialogs and negotiation, and discussions with some energy companies on long-term PPA contracts, especially to get access to for example to wind, to Dutch wind. It just takes time to build a wind farm. You don't have one overnight. So, yes, we are looking into longer-term PPA contracts. And we're focusing really on the generation of Dutch wind. It just takes time for these plots to be assigned by the government. And then, you need to build them. And that is unfortunately not done overnight.

Georgios Ierodiconou: That's very clear. Thanks.

Joost Farwerck: But on the fiber thing, fiber network is far more efficient to run than a copper network. So, also important in this part is that we move to fiber and switch off the copper network, which is like I said far more efficient network also from an energy point of view.

Operator: The next question comes from Mr. Keval Khuroya from Deutsche Bank. Please go ahead.

Keval Khuroya (Deutsche Bank): Thank you so much. I've got two questions please. Just firstly going back on the inflation impacts on the price, you just talked about being able to compensate for this elsewhere. Can you elaborate a bit more on where you think there may be more headroom cuts on opex more than you planned originally? And obviously, for this, you very helpfully guided towards under € 50 million cuts in indirect opex. So, I don't know if you're able to give a broad view on how we should think about next year.

And then secondly, you've had a very impressive performance in Wholesale mobile for the past few quarters. And growing 16% in Q2 and accounting for roughly half the Wholesale revenue growth. Can you talk a bit more about what's driving that? And also, how we should expect that to trend going forward? Thank you.

Chris Figuee: Yeah, on these costs, Keval, we're running with about 700 less FTE than before. And natural attrition is quite high, I think about 50 odd people per month leaving the firm. Two years ago, there was about 20. So, that's doubling. So, I'd say happily riding that wave of allowing ourselves to become more productive, more efficient without spending too much restructuring charges.

So, that's an important point. Secondly is a continued rationalization of our network. We've migrated our customers from XS4ALL to KPN in the last quarter. So, that is an offset of cost. We've shut down our 3G network. We've kept our 2G. We shut down 3G. So, there's a bunch of network and

IT changes that we do on the back of simplifications. And then there is a continuous way to make our company more efficient by reducing our FTEs. Joost, you want to add?

Joost Farwerck: Yeah. So, the customer process, we have thousands of people in the frontline of the company outside and inside to serve customers. At the end, a company like KPN doesn't need in the future operations 4000s FTEs to run the customer processes. So, we're moving to a far more digital process. One-time right, zero touch fiber network. So, it's very important that we simplify the customer process, not only to improve Net Promoter Score, but also to reach a far more efficient opex level in the front side of the company.

Chris Figuee: Yeah. And on this page, we're showing you of course on page 17, the cost reduction. And of course, if it hadn't been for the energy, we would have been saving about € 17 million of costs. So, will we make the € 50 million? We're going to get close. Will we exactly make the € 50 million, not sure. The energy might be messing it up a bit. But we'll for sure make the EBITDA. So, what you see for this year and next year that we stick to and confirm our guidance, we see some upside in EBITDA this year. But the mix will be different simply because you've got some higher cost and some more pricing upside.

On to Wholesale, why is Mobile doing so good? I would say, we've got a fantastic mobile network that sells really well also in Mobile. We were awarded the best mobile network in the world. It shows. So, what we're seeing is I think three things or two things. Our Mobile MVNO clients in Wholesale do very well.

Also, because I think the Mobile market in the lower end in the no-frill segment is improving quite rapidly. Prices have developed attractively there. And we see some of our MVNO clients do quite well. And secondly, it's roaming. There's roaming revenues mostly to international data services that come in also in Wholesale Mobile.

Keval Khuroya: That's great. Thank you, guys.

Operator: The next question comes from Mr. Ulrich Rathe from Jefferies. Please go ahead.

Ulrich Rathe (Jefferies): Yeah, thank you. Two questions. The first one on the NPS. On the slide, you showed a bit of a spike in the first quarter on the consumer NPS. That then stepped back a little bit in the second quarter. Is there a particular reason for that? And how would that evolve from here? And the second question is you are discussing inflation impact, in particular, vis-à-vis your own cost base. But how about customer behavior? There was a survey published, I think in June suggesting that about a third of respondents, so these were consumer respondents I believe,

expressed an intent to cut spending due to inflation. Do you see any signs of that coming through? And what are your expectations for that happening in the remainder of the year? Thank you.

Joost Farwerck: Yeah, on NPS. So, we in Consumer show a NPS of 17. And in B2B, we show an NPS of 1, which is for a second quarter to be honest not that bad. Last year, we did like 14 in Consumer market because the second quarter is always the quarter where we announce the price increase on the 1st of July.

So, that's not always followed by applause to put it that way. Q1 was very good, 19. We want to get back to 19 and above that. So, it's an important target for the whole company. Also, when it comes to the bonus scheme of all people in KPN, so, we're really focused on that. So, all in all, taking into account where the market is, where we are, also compared to competition, we improved our position on Net Promoter Score, both on Consumer and on B2B.

I'm not that worried about NPS. But of course, we just had a call with our own management internally in the company. And we said, it's super important that we get back to the level of 19 or above that. But all in all, where we are today, I understand that 17 and plus one, the market is much lower. And there's opportunities for us to grow there.

On customer behavior, yeah in Consumer market, I think it's super clear that Broadband is a primary service we all benefit from. So, no one considers to scale down on that connection. In the Netherlands, 80% of the people still work from home. So, it's super important to have a good connection. We improved there, also on Wi-Fi. So, we do not see really cutting on our services, perhaps a bit on fixed calling which went down a bit faster this quarter than usual. It's not that a big part of our service revenue anymore. So, it's quite logical, people make less use of fixed calling nowadays. But all in all, I would say that we do pretty good on the ARPA on households.

Chris Figuee: Yeah, we do need to be very vigilant on this, but to also point I think if you look at our customers, we tend to have relatively speaking higher-income customers at KPN. Compared to other players, our customers tend to have a little bit more disposable income than others. So, I think that will provide a first potential shield. If anything, as Joost said, will be probably fixed lines rather than anything else. The other component we look at is payment behavior. And at this point, there's no change in that. We look carefully every month for example to our payment terms on our handset financing. And there's no change there.

So, it's something that we need to be very focused on, and very much keep a close eye on this. But beyond cutting down on fixed lines, I think the fact that we tend to have relatively speaking higher-income customers should support our business at least on a relative basis.

Ulrich Rathe: Very good. Thank you very much.

Operator: The next question comes from Mr. Jakob Bluestone from Credit Suisse. Please go ahead.

Jakob Bluestone (Credit Suisse): Hi, good afternoon. And thanks for taking the questions. I have two questions. Firstly, just can you give us an update on your buyback please? I think over the six months since you announced that you've bought, you've executed about 40% of the buyback. And you've got about two weeks left. So, what happens if the buyback hasn't been completed by 17th August? And then just secondly, just to follow on from your comments on changes in consumer behavior in the B2B segment. Could you give us just a similar color around B2B as well? Are there any signs of weaker economy leading to delays in project or anything? I appreciate you've obviously just reported a very good B2B performance. But any early indicators we should be aware of? Thank you.

Chris Figgie: Yeah, Jakob on the buyback, I'd say it's out of our hands if this happens. We normally mandate an investment bank to continue the procurement without us being involved. So, we know the buyback has to be completed by 17th August. So, I guess there's a couple of ECM bankers who have to skip the holidays. That's how I look at it. It can and will be completed by the 17th. And we've made a pretty clear arrangement with the bank. And for us, we're looking at the same numbers as you do. On Consumer business, again, no early signs of distress there. I think most corporate balance sheets these days are quite healthy, whether it's in SME, whether it's in larger corporates. So, that's good. We do see some more price pressure in Mobile. So, if you look at the Business segments, Mobile volumes are healthy. There's some price pressure, especially in the larger corporate segment. So, I would expect it not so much to come down to cutting these costs, but probably more price pressure on new sales.

At the same time, we see employment still healthy. And as long as businesses add new people to their staff, they need mobile phones. So, I see on the Business segment, no payment issues yet. Pretty strong balance sheets. If anything, there will be more price pressure. But again, my crystal ball is as good as yours. So, we need to be very focused on this.

Joost Farwerck: But adding on B2B, we've talked a lot about B2B, how we're going to inflect that part of our service revenues. I think, the way we did it on SME, and now we're doing it on LCE, and we did it on Tailored Solutions is migrating our customers to the future-proof platform and a future-proof technology. And by doing that, B2B customers rationalized our portfolio. So, a part of the pressure for the past ten years on our topline in B2B, that was the rationalization B2B customers

started to do when we started to migrate in hardware, in connections like whatever. You don't need like 20 ISDN lines. You just need one good fiber connection. So, there has been a lot rationalized in SME and LCE today. So, therefore, I think there's less opportunity for our business customers to rationalize.

Jakob Bluestone: Thank you. It's very clear.

Operator: The next question comes from Mr. Polo Tang from UBS. Please go ahead.

Polo Tang (UBS): Hi. Thanks for taking the questions. So, I have two questions. The first one is really just a clarification around accounting headwind in Consumer. If I'm not mistaken, that was a minus € 6 million drag in Q2, and a minus € 3 million drag in Q1. But can I understand if the quantum of this drag will grow over the coming quarters as more people take up the Viaplay offer?

And my second question is really just about business. Specifically, how should we think about growth in Tailored Solutions going forward? Because I think you called out the benefit in terms of timing of project work and equipment sales. But is this temporary, and should we expect Tailored Solutions to be back in terms of negative growth territory in the coming quarters? Also, I think from memory within Tailored Solutions, you had one or two large accounts that were lossmaking in this segment. And you were in the process of phasing out these revenues. Is this drag from phasing out these lossmaking accounts now over? Thanks.

Chris Fige: Yeah, Polo. On the first question, your numbers are completely correct. It was a € 6 million drag on the accounting change from the shift from Ziggo Sport to Viaplay. On a side note, if you take the copper and fiber revenues and add back the € 6 million, you see effectively stable broadband revenues. We see this number to be stable from here. The thing is we launched our Viaplay offer early in Q1. So, customers signed up in Q1. So, you'd see the first full effect for a full quarter in Q2. We don't see a massive further growth in Viaplay. If you're not watching Formula 1 by now, probably you won't do it anymore. So, we think this € 6 million will be what it is in the coming quarters. So, think about the € 6 million constant for the coming quarters until it lapses into Q1 next year.

Joost Farwerck: Yeah, Polo. And also on Tailored Solutions, you're well informed. We mentioned projects and hardware as a driver. But that is because Tailored Solutions is all about projects and hardware for our large customers. So, for us, the most important part is how to run these projects. As you know, we used to serve large customers in such a way that they came out as bleeders for the whole company. That is not the situation anymore. We fixed all that. And we only make these large project deals for large customers when it's supporting our core business connectivity or

mobile. Otherwise, we won't. And so, it's all in a better and in a healthy shape. And I expect that to stay positive. I am not sure if it always will show strong growth like this quarter, plus 5%. But we're doing quite well. We have a good portfolio. And also, in the coming quarters, I expect growth from there.

Polo Tang: Thanks.

Operator: The next question comes from Miss Nawar Cristini from Morgan Stanley. Please go ahead.

Nawar Cristini (Morgan Stanley): Thank you very much. I have one question please. In terms of inflation risk on Capex. So, we see a number of headlines on the global shortage of fiber cable, which seem to be impacting both prices and lead time. And when we speak to contractors as well, we understand that margin for fiber deployments are quite stretched. And there is an appetite to negotiate contracts. So, it will be good if you could discuss what you see as well on your end, and give us a bit of color in terms of the visibility you have on your fiber Capex envelope? Thank you.

Joost Farwerck: Yeah, Chris. First of all, my reaction would be in most part of the fiber, Capex is really related to construction. And there's only a tiny part related to the costs on the real fiber. And of course, it's super important that we see the wages will go up. But on the fiber itself, I don't expect that much. But so, for us, it's mainly the long-term contracts we do with construction companies on the wages of people. And the longer term we make these contracts, the better and the cheaper it will be. And on the other hand, it's far more important maybe that we optimize the fiber rollout in every quarter. So, we innovate in our fiber rollout strategy, anticipating on higher costs on people, to make the fiber rollout far more efficient to grow faster, and do the connectivity in the households in a more simplified way. So, of course, it's a challenge. But it's a bit of a balancing act how to cover increase mainly in people cost.

Nawar Cristini: Okay, that's helpful. Thank you.

Operator: The next question comes from Mr. Emmanuel Carlier from Kempen.

Emmanuel Carlier (Kempen): Yes. Hi, good afternoon. Two questions. First of all, on Wholesale, I noticed that the growth in broadband net adds was a bit softer in Q2 versus previous quarters. What is the main reason for that? Is that just the market being a little bit slower after the Corona boost period? And then secondly, on Free Cash Flow. If I look at your guidance for 2023, it looks like you expect only a limited Free Cash Flow growth. Could you maybe run us through the key free cash flow drivers moving from 2022 towards 2023? Thank you.

Chris Figeo: Yeah, Emmanuel. On Wholesale, there is a little bit slackening off our broadband growth due to a very increased competitive intensity in the market. There were a few very intense actions by one of our competitors that affected our net adds, and also, those of our broadband partners. These competitive actions have been terminated, have stopped. And since then, we see a recovery of the normal pace. So, to us, it feels like a one-off for basically one-and-a-half months, five to six weeks, and then recovers to normal sales. So, it's a temporary thing.

On Free Cash Flow for 2023, well Emmanuel, bear with us. We'll give you the guidance for next year when the next year starts. But in terms of components, good to know that of course EBITDA will need to grow. We will pay somewhat higher taxes next year simply because the way our net operating losses evolve and the use of that evolves. So, we'll have some headwind from higher taxes next year.

But again, we'll try to optimize with the lower interest costs, more EBITDA growth, working capital optimization. So, those are the moving parts. But for the final number, you have to wait for next year. Then we will give you a fully informed and comprehensive guidance for 2023. But then again, we saw no reason to, there's no reason to reduce it, let's put it that way. There's certainly no reason to reduce it. To confirm it and the exact number, you have to wait for a few months.

Emmanuel Carlier: Yeah, okay. Maybe one follow-up on the Broadband growth. In some other countries, they have spoken about slower broadband net adds because of the Corona boost period. Is this something you're seeing in the Netherlands as well or is it a bit difficult to isolate the VodafoneZiggo promotions, and then the Corona Broadband boost period as well?

Joost Farwerck: I think, at the beginning of Corona, we saw a bit of a slowdown in general in the markets. But currently, I don't think Corona plays any role in broadband developments.

Emmanuel Carlier: Okay. Thank you.

Operator: The last question comes from Mr. Konrad Zomer from ABN. Please go ahead.

Konrad Zomer (ABN): Hi, good afternoon. My first question is on the fiber rollout. I think that this is the second consecutive quarter, where the rollout was slightly hampered by a lack of available people. And that is unlikely to ease in the second half. Are you still comfortable with rolling out fiber to approximately 450,000 homes for the year? And my second question is on the B2B segment. Now that growth has returned, is it likely to see an ongoing decline in number of FTEs because you reduced FTEs in the quarter. And I think that in the B2B segment, that was the division with the steepest decline in FTEs. Is that likely to reverse going forward? Thank you.

Joost Farwerck: Well, on fiber, yeah. Listen, okay. The 450,000 is the KPN target. On top of that, we do like a 100,000 to a 150,000 with the Joint Venture with Glaspoort. A part of that capacity is also handed over by us to Glaspoort. I'm okay with the 100,000 this quarter. And of course, we have to scale up to a 120,000, which we did in Q3 and Q4 last year. So, it's doable, 450,000. But it is not for us the most important thing. The most important thing is that we do it in a super-efficient and high-quality way. So, together with Glaspoort, we will reach between 500,000 and 600,000 households this year. And especially, we also look a bit at competition. Are they scaling up until now? They are a bit, but we go much, much faster. So, all in all, I was not that satisfied with the first quarter to be honest. This quarter, we do much better and I expect the company to further push it. I'm not sure if we're going to make the 450,000. But I prefer to do it in a decent way than go all out to meet homes passed targets.

In B2B, yeah. Well, so, first of all, I am very happy with the growth. Of course, yeah, it's the first quarter that we report a growth of B2B as a standalone segment. But we aim to continue that of course. Being a growth company is much different than being a company focused on cost cutting only. So, that is what we communicate to the people and the management as well. But now being in that growth, it's important that we do both because still the margins are much lower in the LCE, in the integration part than anywhere else in the company. We're an asset-heavy company. We do high margins, 47% something like that. So, it's important to improve margins in B2B. So, now we are in the growth part. I think we will always keep on working on the efficiency of the company. And that's also related to FTE reduction following the simplification. So, also this year, and the coming years, we will keep an eye on the simplification of the company and the FTE reduction.

Konrad Zomer: That's clear. Thank you very much.

Reinout van Ierschoot: Okay. Thanks, Joost, and Chris. That concludes today's call. If there's any further questions, please contact the Investor Relations team. Bye-bye.

End of call