



# Event transcript

## Capital Markets Day 2018 webcast

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## KPN Capital Markets Day 2018

**Bisera Grubescic, Head of IR:** Good afternoon everyone. Great to see that so many of you joined us this afternoon here in Rotterdam at our headquarters and, of course, a warm welcome to everyone that joined us online via webcast. We have an extensive program for today. We will start with the first presentation about Group Strategy by our CEO, Maximo Ibarra, followed by a presentation about Network, Operations & IT by Joost Farwerck, our COO. Jean-Pascal van Overbeke will talk about Consumer, followed by Maximo Ibarra, CEO and ad interim Chief Business Market, about Business. Around 14:30 this afternoon, we will have a short break and following the break, Jan Kees de Jager, our CFO, will talk about Financials. Maximo Ibarra will then close with some Final Remarks and then we will open the Q&A session. Because today only has one Q&A session, we kindly ask you to save your questions until the Q&A starts. After the Q&A, Mr Duco Sickinghe, Chairman of KPN Supervisory Board, will also provide some final remarks for today's event.

Let me now move to the safe harbour statement, which you can find on page 3 of the slide deck. The safe harbour statement applies to any statement made during today's presentation. In particular, today's presentation may include forward-looking statements and ambitions which were also disclosed in the press release that we published this morning. All such statements are subject to the safe harbour statement.

Now we are ready to begin. We will start again with a short video followed by the first presentation by our CEO, Maximo Ibarra.

### Group Strategy

Maximo Ibarra

*CEO, KPN*

Hello everyone. Thanks very much for coming to our new head office in Rotterdam. We just offered you a bit of what we shared with so many other people on Monday this week. And thanks very much and so for everyone that is connected to the webcast. I think this is going to be a very interesting afternoon.

What I would like to say before we move into the presentation is that, as you know, I've been appointed CEO in April this year. Now it's more than seven months. I also have been flying back and forth from Italy to the Netherlands in January, so it's been almost like one year. And joining KPN has been really a very good experience. This company has very strong foundations. I have found they are a powerful brand, excellent people, lots of skills. At the same time, we have a very big market presence. I mean, we have all the ingredients to make sure that this is a company that can evolve even further, that can improve, that can become stronger and stronger.

And in my experience, I have been seeing also very dynamic markets. You know very well Italy is a very dynamic market. I was running there a company that was an attacker but then gradually became a little bit more like a peer with other players in Italy. And I had the opportunity to see how an incumbent is moving, how the attackers are moving. So having this in mind, my adventure, my new journey here in KPN is absolutely relevant because I know exactly what an incumbent should do, what attackers should do, and how you can make sure that the way we play in the market is a reliable, solid way.

Just another comment. We have also decided to make some organizational changes. These are important because on top of the high quality of the people that we have here in KPN, it was also important to add, as I said, some other ingredients to make sure that we are able to face the next coming phases in the best way possible. And some people, of course, have a very solid background in telecommunications, worldwide solid background in telecommunications. Some of the new guys are here, some others are not here.

You will see and you will hear Jean-Pascal later, speaking about the Consumer market. Joost, a member of the Board of Management, will take another responsibility. He will take care of public affairs, regulations, our super-important Wholesale department. He will take care of the New Business department because it's always important to look exactly what we have in front of us in terms of innovation. And on top of that, he will follow all the strategic partnerships and projects.

And in the Operations, Network and IT, we have a newcomer, we have a new person, he is on board and he is here. I would like to just invite Babak Fouladi to stand up for just one second, so you can see him. He's there. And he will start officially in KPN on 4 December. Then we also made two other appointments. Hilde Garsen, she will be the Head of HR and she will be here in KPN 10 December. And very soon at the beginning of 2019, Marieke Snoep will join us on the team and she will be in charge of the B2B.

Today, I'm going to present the B2B. I am on interim managing this business, but starting from 2019, there will be a new colleague and she will be the one responsible for the market.

So let me go with the presentation and we chose this statement that I think is very clear to show exactly what we have in mind. The plan is about organic sustainable growth and I would like to start from the last one, growth. Growth means that after some years of no growth, now we are going to make sure that the company is able to grow organically and in a sustainable way. So this solid growth is what we expect from KPN in the next three years. And this is relevant because it's organic. It's coming from the operations. It's coming from our commercial operations, technical operations, operations that means that there's an industrial outcome. And it's sustainable because it's not the one shot. It's something that we will keep for the next three years and beyond.

So this is an important message because growth now coming after a period of no growth. Our Free Cash Flow has been fed up by some financial optimizations, some Capex reductions. Now finally, the Free Cash Flow will be generated from the EBITDA and this is why this is important.

If we look at the two main drivers of what we call organic sustainable growth, on one hand we have the value over volume. This is another important message. We are a very strong player in the market and in order to make sure that we can also support the [*\*adjusted*] EBITDA growth, we have to make sure that we grow in the most relevant and profitable segments. And at the same time, we have to make sure that EBITDA will be generated because on our operations, we are going to become leaner and leaner, which means that digitalization process will be accelerated. So as an equation, the EBITDA will come because we are going to grow in very profitable segments and at the same time in terms of operations, we are going to be very lean. We have to be lean. [*\*The industry is evolving faster than ever*]. And most of you – I have met most of you, some of you in the previous months and I always like saying that the company has done very well in terms of digitalizing the company, simplifying it. So the journey has been good, but we are still overweight and we have to become much better, fitter. And in order to do that, we have a super important plan on making sure that our operating model is going to be leaner than what it is today.

That can also be explained segment by segment. The last one is the Operations. The first one, Consumer, when we say that we are going to grow in the most profitable segments, we have understood – after some years of experience but also looking at the market, looking at the way customers are behaving – that the most important segment in telecoms today is the convergence segment. Because people, companies, businesses are looking for one-stop shopping solutions. They really don't care about the technology that we provide. They care about the solution we provide and that solution has to be an integrated one. And we know very well that by growing in the converged segment, that customer base will bring higher ARPU, lower churn, much better Customer Lifetime Value. So it's a simple equation and this is exactly happening in all markets. And in this market in particular, KPN has been a pioneer in making sure that this segment becomes a solid one. So our ambition is to make it bigger than what it is today.

On the Business side, in all the conversations that we had, there has been always some struggle, right, and do we really understand what you guys are doing in the Business segment? So let me start from

saying that the Business segment is a very complex one because it's just made by four different sub-segments, it's not only one. Each single segment has a different dynamic, so we need to deal with all of them in the proper way. And when we look into the Business segment, our most important ambition is that we have and we will stabilize EBITDA and service revenues. That is important because it is what I call the starting point for a much better development. And we have absolutely all the chances to do that well. It's, of course, complex but it's absolutely doable.

And on the Operations, you will see this later, we have a multi-year opex reduction program. That is quite intensive, it's quite intense but at the same time, it's absolutely doable as well. Because we have to become leaner and we have to become much faster than what we are today.

The three biggest pillars of the strategy 2019-2021 can be summarized in these three bullets. The first one is about the best converged smart infrastructure. It can mean anything, right, smart, but the most important meaning of this statement is that we have to make sure that KPN will be the owner of the digital highways of the Netherlands. And this is the most important asset of our telecommunication company, so we have to make sure that this is advanced, smart, which means lean, which is at the same time efficient but very solid. And it has to be hybrid because it's converged. It's in both mobile and fixed.

The second one is about the growth in profitable segments, and I have already given you just a little bit of a teaser, but then we will go through that, throughout the whole presentations of today. This is very important.

And the third one is, yes, we need to accelerate the digitalization and simplification. Again, from fat to half-fat, now we have to become really slim fit. This is the way we have to be, so we can run faster.

Let me go through each one of these important pillars and bullets, the main messages. But before that, I will give you a little bit of the context. What do we have in front of us?

And the first one is about the Netherlands. The Netherlands, as you know, is a very mature market but at the same time is very innovative market. It has been always at the forefront of innovation. It's quite amazing. I've been experiencing this market now physically and I can assure you that there are very little markets, very few markets that can be comparable to the Netherlands. In all senses, and let me start from the right, the tech-savvy, if you look at the way people in this country are early adopters of technology, that is amazing. And also, when WhatsApp was disrupting the market, this market was disrupted much earlier than any other market because the adoption rate is extremely fast, which is positive and negative. But it is much more positive because it means that innovation, all the good things that we can do in the market, can have a much higher penetration and much faster.

The Netherlands has an excellent infrastructure. The Netherlands has quite dense – it's a small geography but in the end, it is extremely well connected to the Internet. And the Netherlands is the home of the first largest Internet exchange hub in Europe. With performance – we will see this later, performance of our Internet infrastructure is much better than any other country in Europe.

And the economy is doing well. Then, of course, now it seems the European economy is going down a little bit but if you look at the GDP growth in the Netherlands being 2.8%, it's extremely good, which is also another positive message. As well as the unemployment rate; the unemployment rate is only 3.9%. If compared to other countries, it's extremely low.

And we are ranked sixth in terms of the Global Competitiveness Index in 2018, so it's a very competitive country for the simple reason there is a country becoming always the forefront of the innovation of technology, so everything is happening here. And this is all positive news.

When it comes to the behaviour of customers and behaviour of businesses, I think that the most important element is this one. It's the one stop shop experience. Some people are really looking for integrated solutions and I tend to observe what customers do, not only the Consumer part but also in the Business to Business, and they want to get rid of all the complications that they have. When you talk also

to entrepreneurs, they understand perfectly that everything is becoming very complex and they want us to simplify their life.

And in order to simplify their life, solutions have to be just one, very well designed. And you see that in the beginning it was just fixed and mobile, it was like picking the cherries. But then it became more, now I need hybrid solutions, convergent solutions, similar solutions. And then you see also more and more customers looking at, I would like to have TV, and that is quite developed in this market as well.

But then on top of that, we have other opportunities everywhere in each single segment, in the Consumer, SoHo segment, Small Medium Enterprise. This is relevant because we have opportunities in the security domain, we have opportunities in the IoTs. These things are happening right now. But in order to make these things happen, we need to make sure that the background is very solid. And it is solid if you have the right infrastructure on one hand and you have the right value proposition on the other hand. The value proposition is convergence and the infrastructure has to be a hybrid one. Very solid. Future-proof one.

The infrastructure, therefore, is moving into kind of hybrid solutions to simplify also the message, because this chart could have been extremely more complicated but we don't want to bother your lives and we don't want to complicate our message. But, it is absolutely clear that when it comes to infrastructure, on the fixed side, the core is moving more and more into fibre. We have, obviously, our mobile access, 4G/5G, 5G tomorrow. And then, of course, we have the way we operate and manage our infrastructure, that is becoming more and more virtualized, it is more and more on the cloud. That has enormous benefits.

It is not only, of course, KPN doing that. Some very novelty players are doing that as well but it's important that we consider that, because the network is going to become more integrated, hybrid. And from an operations standpoint, you can manage this much better, much easier, much faster. You can prevent, rather than react. When there is an outage, when you want to configure it, there's no need to go antennae by antennae in order to plug in some equipment and make sure that you can have your 5G, for example. That is going to be managed in a complete different way. And that is the best solution, because it means that with this hybrid networks and platforms, we can serve the value proposition that I was mentioning earlier, which is the converged value proposition.

And about that telecom market, I think that you know a lot about it. So I think I am going to skip some messages but I would like to focus just a second on a few messages. The first one, as I already mentioned, we have 98% of the population in this country that is in this moment getting a connection that is higher than 100Mbps. Coming from a country where, of course, all this stuff is happening, is moving, but there has been quite a big delay. And in other markets there has been big delays. So this market has moved in advance because, as I said earlier, customers are used to this kind of experience.

Highly regulated market. I think that in Q&A you will have the chance to ask us what is the impact that it will have on our accounts, on our P&L, the very recent cable regulations. I will leave these till later but it's a highly regulated market.

And the third is about the competition. We decided to hold this Capital Markets Day the 28<sup>th</sup> November because we knew, much earlier, that the decision of the European Commission would have come yesterday. Of course, I am joking. It's a pure coincidence. But you also read the decision of the European Commission and it is clearly stated that this is a very competitive market. So no clue about that. It's also recognized by the European Commission. And sometimes they tend not to recognize that or to push markets to be even more competitive, but they already recognized that this market is very competitive. And this is a challenge, of course, but at the same time, it's a matter of fact. So we have to deal with it. It's important because it's also pushing operators, players of the entire ecosystem, to become better and better.

KPN today, commercially, is very solid. This is one of the very positive things that I just learned the moment I disembarked in the Netherlands. And we have approximately 80% of the footprint that is already fibre and it's Fibre to the Cabinet, it's Fibre to the Home. You can say that approximately out of 80%, 30% is Fibre to the Home and 50% is Fibre to the Cabinet. But 80% is a very big number.

And in terms of market position, KPN is strong, is strong in all different market segments. May be strong in some other segments but all in all, it is very strong in all market segments, both in terms of market share and revenue share.

The third one is about the people. This company has very skilled human capital. And that, of course, is not a surprise. I was expecting that. And, in fact, I have encountered people with extremely high skills. So this is an important advantage that we have.

And the last but not the least, in terms of customer satisfaction, you know that customer satisfaction has like a one indicator. This indicator, Net Promoter Score, is becoming like a religion. When you are fine with the Net Promoter Score, this is the best indicator of your future performance, at least in terms of willingness to subscribe our services. And even if this score is not an absolute super high, it is much higher than any other company in the market, so we are the best. So we have the best Net Promoter Score. Some segments, even better, but all in all, on average, this is a very good indicator. The second and third are coming, I mean, with a quite big gap.

Financially, the company is also performing well. This is about the outlook for the current year, 2018. I mean, we are in the end of November, just only one month ago for the full year 2018. So our expectation is to have an adjusted EBITDA in line, to have Capex of approximately €1.1 billion by end of 2018 this year, and a Free Cash Flow growth of 10%, which is coming from Capex and interest optimization. And this is also important because from now on, we want to move in a completely different growth that is coming from operations, not because of interest optimization or because of Capex optimization, or Capex reduction.

This is important, the way we are also planning we do business is always in a very sustainable way. That is important because of our reputation. It's not only the Net Promoter Score that is telling you how customers are willing to subscribe your services, but at the same time also how customers are perceiving you in all the different market segments. And that is relevant because it's also another long-term investment.

And you see we have already posted very interesting results. 2011, we became 100% green in terms of energy. In 2015, climate neutral. We are going to achieve by 2020 25% of energy reduction and by 2025, we are going to become circular. And in terms of our credits, we have got many of them, but just to mention two of the most important ones is that we have been admitted to the Dow Jones Sustainability Index. It is the seventh year in a row that we are admitted to the Index, so we are part of the Index. It's a very important recognition. And among all the European Telco's, we are ranked in the first three and best companies in terms of reputation. So this is extremely important because it means that together with the NPS, we are very well positioned in terms of positioning, brand recognition, solidity. So these are excellent starting points.

So in general, all in all, commercially, financially and in terms of sustainability, we have great foundations and this is an extremely good starting point for our journey. But now let's go into the journey.

Let's start with the best, converged, smart infrastructure. These are the three figures that I would like to give you, are the three most important ones when it comes to infrastructure. Then, of course, Joost will go through them and will explain and will give more figures, more information, more indications. But here it's important that we are going to roll-out more than 1 million new homes in Fibre to the Home. Which means that by the end of 2021, we will have more than 1 million on top of the current homes that we have already passed into Fibre to the Home. This is relevant because this is the really future-proof technology. It is not a short-term investment, it is a long-term investment. This company has to be healthy

and very well positioned, not only for the next two to three years but forever. We have to become the digital highways of the Netherlands and no doubt Fibre to the Home is the real technology supporting that.

When it comes to mobile access, of course, now we are moving gradually to the 5G but we are going to fully modernize our network, on mobile, to make sure that this is 5G ready. So the moment 5G will come, it's going to be much easier for us to plug and play; and have the 5G exactly in places where we want the 5G to be supporting our current connectivity and network capabilities. So full modernization by end of 2021 of the mobile network.

And we are moving entirely into IP, again by the end of 2021, in order to make sure that our core network is solid enough. So full IP, full modernization of the mobile network, more than 1 million additional homes passed on Fibre to the Home. These are the three important pillars when it comes to the infrastructure, the digital highways of the Netherlands.

In order to do that, we are going to maintain a stable Capex envelope. We have had plenty of discussions about that and some discussions with you as well, but this is important because it's an investment for the future. And in order to do that, we are optimizing our Capex envelope, which means that we are going to move investments from some areas to other areas. Also because in some areas, we will not need any more Capex, and in other areas we are going to be very efficient. And that will give us room in order to improve our footprint because this footprint is at the basis of the new value proposition, which is the convergent one.

When we move into the focus on profitability, these are the three messages. On the consumer side, the additional and incremental footprint in fibre will also lead to more convergent customers, more converged households. So we are planning to add to our customer base 300,000 more households converged by the end of the plan. And at the same time, 70% of the entire mobile customer base will be converged. Consider the starting point, what we have right now in terms of figures, is 55%. On the KPN brand, we have 68%, but if you consider all the different customer bases, it's from 55% to 70% by the end of the plan.

On the Business side, the two important aspects is that we are going to accelerate and move all our customers, Small Medium Enterprise and Large Enterprise, to the KPN EEN platform, which is an extraordinary platform. It means the platform, in a nutshell, that customers will have the chance to get everything in one, in a super optimized way, very efficient. We will describe that in the Business part. So that platform is the most important pillar of migration from the old legacy platforms, PSTN, ISDN, into the new one where everything will be more efficient. We will have more chances to upgrade, upscale, cross-sell and have, of course, a better value for customers. That will happen for the Small Medium Enterprise by mid-2020.

And in LE and Corporate, that is the high-end segment of the market, here, what we are planning to do is that we are going to become more value over volume. You know that in this segment we have deals and deals. Some deals are very profitable, some other deals are less profitable. We have to make sure that everything we get in terms of the new deals are profitable enough because if you get revenues with very little profits, maybe that is not the right case. But if we get the right deal with the right profits, with the right revenues, with all the aspects that we need in order to become a real player in the market, that is fine. So we have to be more selective. Value over volume. It's just not only revenues for the sake of having revenues. But we need to have revenues that are profitable.

And the combination of the two will lead to the most important goal that we have, which is stabilizing the end-to-end adjusted EBITDA by mid-2020. And let me tell you one thing about the end-to-end that could be a little bit confusing. The end-to-end is very simple. You know that we [*\*changed the organizational structure to ensure end-to-end responsibility for*] Consumer and Business market – with the aim and purpose of making sure that in these two markets, we can manage all the levers that are

customer facing. So that's why we also moved some customer-facing units that were in operations into Consumer market and Business market. Which means that some of the efficiencies that were posted in Operations now will be in Consumer market and Business market, in order to make sure that we have a more transparent and better representation of the performance of the two markets. That's exactly what end-to-end means.

The last one is about a simplification program and it is really simplification. And of course, simplification will come thanks to digitalization. So technology is always supporting us. But it's not only about technology. It's technology because we are going to get rid of many legacy platforms. Just to give you an example, on IT we will move from 20 to 2 converged IT stacks. From 20 to 2. That is still a journey that we have to make. We go from 5 core networks to 1. And in general, we are going to simplify all our processes, organizations. We are going to make sure that we can be really faster.

Also in the time to market, it's not only about cost but it's also about time to market. We can be more effective when we have to deal with a complex market. And again, this simplification is also important because our customers, they want to have simplified propositions. They have too much. Life is very complex, we need to simplify that.

And this is the journey that will bring EUR 350m of net opex savings in the three years of the program, which means that by the end of the program, the plan, by 2021, our opex are going to be less – for approximately EUR 350m than the ones we currently have. So this is an important goal, important ambition that will be the consequence of this further acceleration of the digitalization and simplification of the company. So this is a journey that the company is already undertaking but this is something that now we are going to accelerate.

In the end, there are four important words, values, let me call it this way as well, that are the common denominator of the whole plan. We want to become a premium company. **Premium** means that we have the best infrastructure, best qualities, the best service. That is something that is in our mind. I mean, it is being the best provider, being the best servicing customers, serving customers with the right products, with the right customer experience, this is exactly there. **Value**, because we need to be profitable and we need to act more on customer segments that are more profitable than others. **Focus**, because we have to be extremely focused. I mean, we have to go for the real goals. **Lean**, our operating model has to be extremely easy, lean, simple, fast. So everything we do, these four words on the innovative operating model and the commercial approach have to be the common denominator. And this will bring us to organic sustainable growth.

So in the end, it's a simple message that now we're going to elaborate more but it's a very straightforward message. From no growth to growth. From Free Cash Flow that had been performing well but because of Capex and interest optimization, [\*to] Free Cash Flow that will be coming because we are going to generate solid EBITDA. And the EBITDA will be generated because we are going to grow in profitable segments and because we are going to become very lean in our operations. That is the main message.

So thanks very much. I would like now to invite Joost to come on stage. He is going to address the Network, Operations & IT.



## Network Operations & IT

Joost Farwerck

*COO, KPN*

Thank you, Maximo. Good afternoon everyone. Good to have you all here in Rotterdam. And I am happy to talk about Networks, IT and Operations in the Netherlands in more detail. As Maximo already indicated, we want to have to the best converged smart infrastructure, we want to focus on profitable growth and we want to accelerate the simplification and digitalization of our company.

And our network and IT strategy fully support this. We're building a fully converged fixed-mobile network, flexible and self-healing network, a future-proof network to offer best-in-class customer experience to all our customers in the Netherlands and that against [*\*best-in-class*] spend levels.

But let me start where we stand today. Over the last three years, we invested nearly EUR 3bn to build a strong network and IT environment in the Netherlands. Fixed mobile convergence is crucial for our services and today's environment requires a converged network approach as well, where fixed and mobile networks are more integrated. We already built a foundation for this and through our dense fibre penetration, mentioned already by Maximo, 30% Fibre to the Home coverage, 50% Fibre to the [*\*Cabinet*]. So the vast majority of the streets in the Netherlands are equipped with fibre. Also, our mobile backhaul is for 80% provided with fibre.

We built 160 Metro Core Locations in the Netherlands to bring content closer to our customers, to bring the traffic closer to the customers, so that means that we can handle traffic on a lower level in the network, which makes it more efficient. And we also have a premium mobile network which was recently recognized by the Dutch Consumer Association as best-in-class. And this is, of course, for us the best indicator when it comes to quality. And where we are today, we largely integrated our front-end IT platforms, especially from the Consumer segment. So this enables us to shut down legacy IT, offer an improved time-to-market and, of course, serve our customers in a much better way than we did a couple of years ago.

Now in order to deliver premium customer experience, we aim to be the undisputed quality leader when it comes to access networks, and we will accelerate our converged network approach for that reason. So for the coming years, we'll focus on three things. First of all, we offer the best converged smart infrastructure, essential to grow the convergence take up in Consumer and Business. This will deliver profitable organic growth. We will focus on enabling innovative technologies to the core of our network. This is to improve flexibility and further reduce our spend. And we will focus on the acceleration, the simplification and a digitalization of the operating model to ensure best-in-class customer experience at best-in-class spend level. And we will do that according to a smart investment approach. Later on, Jan Kees will touch base on that topic as well. And we're confident that this drives our growth in the Netherlands.

And to continue to offer the best converged smart infrastructure, we have several goals for the coming three years. We are going to finalize the copper upgrade the coming year and we are going to accelerate the roll-out of fibre up to 1 million households with Fibre to the Home additional, leading to a total footprint of 3.4 million households, covering more than 40% of the Netherlands end of 2021.

We will modernize the mobile network. We will do a full mobile upgrade to make sure that we have a future-proof flexible technology, 5G ready and we're moving to all-IP and we expect to be fully all-IP at the end of 2021. This is important because it enables us to shut down legacy networks and be much more efficient.

So let's dig a little bit deeper in the first part. The fixed access part. The current fixed access speed we guarantee to our customers are minimal speeds. So we're able to guarantee dedicated minimal access speeds because of the point-to-point nature of our architecture, which is completely different compared

to cable infrastructure. And this makes our speed currently very competitive. In addition, we believe for the longer-term future, fibre is the absolute superior future-proof technology. So fibre will enable us to deliver sufficient access speeds over the next decades.

Now, as most of you know, we followed a hybrid access approach for the past several years, connecting street cabinets with fibre and mostly using upgraded VDSL for the last part of that journey. This enabled access speeds in 95% of the Netherlands for 50Mbps or more. And in 75-80% of the Netherlands we guarantee and can deliver 100Mbps or more to our customer base. And in addition to that, we kept on rolling out Fibre to the Home, mainly in the new built home areas.

Now last year, we also stepped up in Fibre to the Office. That was because the regulation on business fibre was lifted and that's when we started to roll-out fibre in the business areas in the Netherlands. And we accelerated that over last year and this year. Now in the coming year, we expect to finalize this Fibre to the Cabinet roll-out. We will connect an additional 2,500 street cabinets to fibre, covering 500,000 households in the Netherlands. This will, of course, enable significant significantly improved access speeds through these copper upgrades. And this will include the introduction of vectoring, VPlus and bonding technology, which means that we use the double twisted pairs to one household. And we expect to push this further as a result of using G.Fast in combination with Fibre to the Building in high-rise buildings. This will ensure a 200Mbps – a minimum of 200Mbps coverage for approximately 70% of the Netherlands in 2021. And we will, mentioned by Maximo, roll-out the additional 1 million new households with fibre, enabling us to deliver, at least 45% of the Netherlands, 1Gbps in three years from now.

Now the economics of the fibre roll-out keep on improving. One of the main drivers for the whole fibre business case is the network utilization. And what we see and what we experience is that we see the network utilization in fibre areas improving after we roll-out and we've sold fibre. We roll-out Fibre to the Home on selective regional basis and we only do that when the economics add up. We use advanced analytics in the selection of these areas. And there we take into account the cost of construction, potential uptake in these areas and the potential ARPU improvements. So we make our network planning more sophisticated and we design more efficient and we simplify the roll-out.

Ten years ago, when we started the first roll-out of Fibre to the Home, we started with cost per households far above EUR 1k per house. Today, we are at EUR 650 per household where we roll-out fibre and it is our ambition to reduce that amount significantly while we speed up the roll-out of fibre.

So like Maximo said, we're building the digital highway of the Netherlands in different regions and in selected areas, we finalize the upgrade of copper next year with rolling out Fibre to the street Cabinets. We're going to accelerate Fibre to the Home. We will focus on the regional approach, which means that the activation is hand in hand working together between the operations of the organization and the commercial part of the organization. Very important is that together with that we also do an in-home Wi-Fi upgrade to ensure customers we have the best in-home quality. It's not only about the access speeds, as you know, it's also about in-home quality and deeper in the network about the quality of your core network and the low latency we can offer to our customers. So in-home Wi-Fi is very important as well. Our campaign was very successful and we see Mbps going up when we upgrade these households, from a distance.

We will also start to switch off copper in fibre areas. This is new. We haven't done that until today. This is, of course, very important because we will migrate the final part of our customers in the fibre area to the fibre environment. That is immediately improving the quality of our service in that area and it will enable us to switch off the legacy network in these areas, which is important to save spend.

And we will also broaden our converged fixed-mobile access. This is combining both technologies. So mobile and fixed. And we optimized this last two quarters. We developed one gateway supporting a broadband connection via DSL and 4G to one customer and we're currently pushing this in the rural areas.

And for the coming quarters it's our ambition to connect 200,000 additional customers to this solution. Later on, after we've had the Q&A, there will be demos for you and this hybrid access solution for our customers in rural areas will be in the demo part as well. So it's a lot of fun. Customers like it, especially when you're on a very low access speed living far away in a rural area. Suddenly we can upgrade to 50Mbps or something like that. So that's very good.

Now let's move to mobile. We were the first European operator to roll out nationwide 4G in the Netherlands, covering 98%. And I already mentioned that currently the Consumer Association awarded us with the higher customer satisfactions scores on our mobile network, so we consider this to be an important metric and we want to make sure that we will keep that reward. So mobile data currently continues to grow on a 40-50% base per year. So there's an ever-increasing need for telco's to keep investing in mobile networks. And therefore, over the coming years we are going to upgrade our mobile network fully with the latest technologies. And after that modernization, the average sector capacity will rise almost fourfold, so we will do far higher speeds, above 130-140Mb per second from approximately where we are today, 40Mbps. And this important and significant increase will be driven by the use of flexible future-proof technology, enabling us to run capacity in a far more efficient way. And this modernized network allows us to manage and allocate spectrum dynamically.

It will also prepare us for 5G as the new network enables this 5G through a software upgrade. So when the need for that change comes, the 5G change, we will be ready. And we see now is the right time to invest in a mobile network, ahead of new spectrum becoming available. The timing of the 700Mhz auction is officially still late 2019 but we expect it more beginning of 2020 and the auction for 3.5Ghz is not even set yet, but expected not earlier than 2022. So on one hand, we're late in the Netherlands. On the other hand, this gives us the time to determine the most valuable use cases for 5G.

In terms of progress so far, we are well positioned to do our converged network approach and dense fibre penetration. We're currently evaluating the value of 5G through several field labs we introduced in the Netherlands and we did that with different partners. When successful, from a business point of view, these trials can be converted into real business cases.

Let me briefly show you a little video about these field trials we currently have running in the Netherlands.

[VIDEO]

We have these field labs in place in the Netherlands. It means we're front-runner, we're innovative but also it's very important to see the technology working. And I tell you, the technology always works. Most importantly, it's to test what we're building, this new ecosystem, and how we are going to build a new business case and how we are going to make money on that. So the most interesting part for me is that it's not tested with technical vendors but with important customers in the Dutch industry, to see how we can optimize their customer process and where we can position ourselves in that ecosystem to make a good profit on the future. So it's all live and if you want to visit one of these locations, feel free because it's a lot of fun.

So that's mobile. Let's move a little bit deeper into the networks. In the core of our network, we take various steps to improve flexibility and to reduce costs. We rationalize, we decentralize and we virtualize our networks. We announced the end of PSTN in the Netherlands and that will happen in 2019. So next year, end of next year we will have phased out PSTN and ISDN 1/2 services. And the remaining ISDN services will be phased out end of 2020, beginning of 2021. To give you an idea, we have approximately 450,000 PSTN customers left in the Netherlands and around 160,000 ISDN customers. So it's really a very small base we have to migrate in an efficient way to the IP substitute.

And by migrating our customers to this future proof all-IP portfolio, we are able to simplify our propositions and network architecture and we are able to shut down a lot of legacy in the Netherlands. And this will result in important cost savings over the coming three years. Our legacy core networks, for instance, are roughly twice as expensive as the current new core network. We also estimate energy

savings related to this, 28GWh in the coming three years. This is equal to the annual energy consumption of almost 10,000 households. Now Maximo just showed our ambition to reduce energy usage 25% in 2020. So this is one of our sustainability goals but it's also, as you understand, very important to reduce costs on energy usage.

We will decentralize our network and as you probably know, we built a quite state-of-the-art decentralized content delivery network for that reason in the Netherlands, based on 160 metro core locations. And then by these locations, we are handling traffic close to the customers. So that means that we can [*\*avoid*] huge investments on the highest core level in our network. To give you an idea, most of our TV traffic nowadays is handled via these metro core locations to our customer base and these locations will also be key to support our future mobile low-latency network by making use of edge computing. So, the move to these 160 metro core locations is really future-proof.

Rationalize, decentralize and we will virtualize networks. Step by step, we will move network functionalities to the clouds. Virtualization is the separation of the physical hardware and the functions to run the network in software. Two relevant related technologies in this respect. NfV, network functions virtualization, which is implementing telco functions and software. And software defined networks. With that, we can control the traffic flows in a network real-time, to adjust, to change in capacity the amount instead of manually changing the settings of switches and routers in a network, as we still often do today.

Now together with that, we introduced white box technology and that means that we are testing with white-boxing to carry traffic for a fraction of the current costs. In my own words, white boxing is off-the-shelf, standardized, non-branded hardware we can use to run a software on. And that will be very important because it makes us less dependent on traditional vendors of network equipment as well.

Now by combining these technologies, we will make the network, real-time adjustable, automated and self-healing. And for our customers, we have the opportunity to adjust our process from weeks to minutes. A nice example of how we do this, by the way, is also shown in our demonstrations. So there we can show you that instead of weeks, we can deliver connectivity to a customer in minutes. So with network function virtualization and software defined networks, we offer significant benefits for our customers and for KPN's Operations. And we aim to virtualize approximately 50% of our network functions by the end of 2021.

On our way to becoming a data-driven company, our ambition is to further accelerate the simplification of IT environments. And this will lead to a further and significant reduction of indirect cost, reduced time-to-market, increased flexibility and a better customer experience. We're building here on an earlier success that led to an IT cost reduction of 30% compared to 2014 but, like Maximo said, from super fat to half fat, now we have to move to another shape. So it is our ambition, with everything we learned in the simplification program from the last three years, to accelerate our simplification for the coming three years. So we will accelerate simplification of the end-to-end operating model and we will transform our full IT model together with that.

And these priorities will support the 100% digital convenience for our customers. The simplification of our IT environment is partly the continuation of plans; however, we are going to accelerate this. So we finalize IT integration by continuing our simplification in Consumer parts and we will accelerate and focus mainly on B2B in the coming three years. And that's because our B2B front end still consists of multiple products and brand silos. Maximo mentioned we will move, at the end, to 2 converged IT stacks, one for Consumer, one for B2B and there is still a lot to do in B2B.

We're integrating, currently, that's a big program, our network supporting back-end IT, our OSS system, a project we started last year. When completed, we will have one almost generic OSS capable of unified and real-time network provisioning. A very important step we made in this quarter, one big migration and a second and a third step will be done next year. And that means that after that an old dream comes true because we can do real-time provisioning in the broadband environment for our customers and we

will be able to switch off an important amount of legacy in that environment as well. So that's a very important one and that will be finalized next year.

We will transform our IT landscape and move into standard cloud building blocks. We continue to automate processes and step by step, we're moving to real-time delivery of services brought by APIs. And we will make more use of the public clouds for our own operations as well. This will boost our flexibility, performance and development speeds. So we become more and more flexible due to the new environment we built in IT. To give you an example, we introduced Netflix in our over-the-top environment in a couple of weeks instead of months because of the flexibility we built in IT. And also the launch of WeChat Go. A reason WeChat chose for us was not because of the size of our company, but because of the flexibility we built in our IT environment. We were able to launch this service for Chinese visitors in Europe in a couple of weeks due to the flexibility in our IT environment.

Now, all our efforts in the Network and IT domain will contribute significantly to our new opex savings program of approximately EUR 350m opex reduction in the coming three years. And I'm convinced that whenever, wherever we have the opportunity, we will accelerate to be faster and leaner and meaner whenever we can, like we've done before but now we will do it in a faster way.

So, to wrap up, our strategy for Network, IT and Operations is extensive, an exciting roadmap towards the convergence, the virtualization and the automation of our network. Our network will support converged on-demand services in a frictionless and fully automated way for our customers. And we will focus on offering the best converged smart infrastructure, we will enable innovative technologies in the core network and we will accelerate simplification and digitalization of our full operating model. We will execute on this roadmap within the current Capex envelope. Moreover, it enables us to provide a best-in-class customer experience at a best-in-class spend level. So, I'm confident that this will drive organic, sustainable growth in the Netherlands and that we can grow in margin in a healthy way, like Maximo just described.

Now that's it for Networks and IT. Let me now handover to Jean-Pascal to cover the topic of the Consumer market.

## Consumer

Jean-Pascal van Overbeke

*Chief Consumer Market, KPN*

Thank you, Joost. Good afternoon to all. We don't know each other. My name is Jean-Pascal. I joined the company about a few weeks ago, in fact, taking care now of the Consumer division of KPN. I've got lucky in my career to go from very differentiated markets. I've been working for large European major markets, as well as emerging markets in Asia. Sometimes with incumbents, sometimes with challengers, or challenged companies; sometimes with very large companies, to the – small for India but hundreds of millions of customers, or very small MVNOs as well in Europe.

So, bringing all of that to have a look at our Consumer plans and see how I can bring my stone into this strategy and how we can build that together for this ambition of sustainable growth. And so before I, maybe, go into the detail, or a bit more details, of the plan, I would like to share with you some of the assets that I'm receiving from my colleagues when I joined the company.

And we spoke already about this wonderful market share. So why is it interesting? It is interesting because, obviously, you are a large player, quite – very strong in both markets, broadband and mobile, and you couple that with an extremely high satisfaction in your customer base. So we are benefiting from a very large customer base of happy customers, that are enjoying broadband services and mobile services. And most of it – and that can be seen in the middle of the chart – most of them are enjoying both, which is quite a unique positioning in Europe.

And when you look at these numbers, 40% broadband market share, extremely high NPS and in the middle – as I mentioned earlier, in the middle of the chart you see these two pie charts that are representing our customer base. And the strategy could be summarized, in a subtle way, in these two pie charts. The first one is broadband and obviously the first part of our plans is to continue to grow and keep this customer base of broadband customers, households that are enjoying our broadband services. And that will be the first step of what we have to do. So we want to continue to be this favourite household brand in the Dutch market.

The second step is to reduce the grey part. So you see in these circles, you have this grey part and this grey part is, in fact, the number of customers that are only enjoying one of our products. So in broadband customers, you have a bit of – less than half of the customers don't have mobile with us. And in mobile, about 40% of these customers – between the brands, 30–40% of these customers do not have broadband with us. We see that as a wonderful opportunity. And that's where, in fact, both market size and market share and satisfaction are extremely important to the future of our strategy because we are in a position where we almost don't have to compete on the market to be able to grow. And that's quite a unique position.

So we are able to grow our broadband base by convincing our happy mobile customers to become broadband. And the opposite: talking to our non-converged broadband customers and convince them to join us for the product they don't have yet. That's quite interesting, in terms of strategy in a market that, we mentioned a few times, is extremely competitive because when you, obviously, try to fight on the market, then you're facing quite an intensive pricing competition which then puts pressure onto your ARPU. In fact, we all know that happening. And here, because we have the privilege to be able to speak to a very large customer base that is satisfied with the product that they have, we have a wonderful opportunity to convince them to buy this second product, or a third product with us, without having to compete directly on a promotional basis in an open market.

So, to try to look at what we are going to talk today, I mean, the key word for the Consumer parts is households. We are going to be, more than ever and we are going to go back, maybe like a fixed company, to the household dimension. So we are not selling SIM cards; we are not selling lines. We are

convincing households, full households, to join our brand. And we want to do that and keep them and grow them by an excellent customer experience. Maybe a bit of a buzzword but let's see later what we can do to make it more tangible.

Then, when we have reached that point, we think we are – and we will show you numbers – in a wonderful position to just upgrade them and continue to sell them, cross-sell them and up-sell them the products that we have, almost in a kind of privileged relationship with customers we have. So we don't have to – there is an efficiency to that, in terms of marketing cost, in terms of pricing, in terms of promotion. And obviously, as we said earlier, doing that helps us to focus on the right value, acquiring the customers we want to acquire at a kind of price and profit that we would like to maintain in our customer base.

So the first type, about household and why do we believe and how does it align with our ambition to fibre. Fibre is, for us, obviously, going to be the future of the technology; it is how we are going to deliver better experience. But globally, how does that translate into numbers and how do we then make money on that investment? And we see that customers, when they join our fibre network, they do better on everything. So they are happier, the NPS is higher, they spend more and they spend more because the combination of multiple products is higher in the household. So we have more fibre customers spending on TV, we have more fibre customers spending on new products, video on demand and so on, which means that, in fact, they just end up spending more because the experience is better. They also, therefore, churn less, which made them quite a profitable segment. And we have realized that every time we invest into a new place, with a new region, and streets with our broadband, our market share structurally increases, with an average here mentioned of 9%. So it kind of supports most of what we try to achieve in terms of growing our presence into households.

So that's one part. The other part is obviously we don't want to just connect them but we want to make them happy. And we want to make them happy, not in the traditional just, 'Let's make them happy,' but we have a very specific objective behind this satisfaction, which is, we obviously have other products to sell. And we have other products we would like them to enjoy when they join our brand. So that means that, as you would expect, we are reviewing our product portfolio, we are not going to do typical cross-bundling of fixed and mobile. We are going to look at integrated household converged offers.

But we work extremely highly into the experience. And, for example, when you look at the customer demand, or the perception, and particularly in the Netherlands, customers are not only very digital but also extremely demanding in terms of how the product should work and how the telco, the provider, is responsible of that quality. And so when you look at that, for example, to make it concrete, customers would expect that you are not providing a piece of copper with the modem, but you are responsible of anything that happens with Internet and Wi-Fi in the home. So if they can't connect easily one of their new devices, they would consider that somewhere the provider – the supplier fails in his mission to deliver a good customer experience.

And to address that, the company, KPN, has developed, in fact, an in-house Wi-Fi simulation. So customers are – and that's a kind of above-the-line campaign that we do. So we communicate to customers broadly not about the new pricing but about the fact that we invite them to download the app and just test how good it is in their house – from the attic to the garage, to check how good the Wi-Fi is. And if they have devices there that are connected, is that good enough? And the app would allow them to not only measure and give them a certain level of quality of service that they get, room by room, but also a certain number of solutions that they can apply themselves by clicking, or by changing some of the – changing channels, for example, in the Wi-Fi to make sure that they get a better speed and a better experience in the whole house. And if really it doesn't work and if really we need to send someone, then we send someone to do that.

So it's quite an interesting approach because, after these kinds of campaigns, we have hundreds of thousands of customers that are now not just equipped with us, as in they have a modem from us in the

house, but in every room there is something that has been done by us, or with them but together, to improve that experience, which means as well that it's a tailor-made solution to the customer. And these tailor-made solutions are not the ones, when it works, that you want to lose just because you gain EUR 5 somewhere in a promotion. Today, these devices, the printer, the Sonos, the whatever, are connected perfectly because we did something for this to work. And if they change that somewhere, the perfect experience might be at risk, which is something that customers do not want to take too much risk on.

So that's the first step: keep and grow this broadband households' customer base. The second step is then, now that they are happy and they are with us, with this connectivity, how do we get them to spend more and get more product out of us. And we see that convergence is a very key theme across the slides and across the discussions we have today. Because we also know that from our perspective, not only customers do conceive or do understand, maybe historically mostly from a financial point of view, but more and more from an experience point of view, they would more and more consider it's normal to have one single provider for all connectivity, being fixed or mobile. The difference really disappears. But we know that every time a customer gets two or more products from us, we transform them into happier customers, which is somewhere counterintuitive, in a certain way, because you have more opportunity to do something wrong because they have more services with you. And the bill is higher because they get a bill, which is obviously the sum of two or three products.

But what happens is the opposite. We see that the NPS of the customer which now has broadband and mobile, or one mobile, two mobiles, three mobiles and TV with us, they are in fact happier. Their NPS score that they attribute to us is higher. They obviously spend more, which we know and expect, and they churn even less. So this combination of products obviously makes sense from a financial and performance point of view. But obviously makes sense a lot as well in the numbers for customers who find here a solution to their connectivity problems without having to worry too much about it with a supplier, provided they trust and delivers the value they expect.

So if we translate that into numbers – and these are the numbers underlying the different other numbers that you saw today and that you will see further later, our ambition is to continue to grow that. So we really want to continue the strategy and to go into getting more and more households, but not households, converged households. So we are now measuring, organizing ourselves, to be able to do that: get more revenue products per household and reach the point where most, and up to 70% of our customer base – mobile customer base – will be converged with broadband. And so we start to get the perfect integration. We maybe don't plan 100% yet but a very high level of penetration of cross-product into our customer base.

We have been and we are still organizing ourselves to deliver that and there are two dimensions to it. So the first, maybe, step is the end-to-end organization, which allows to have a total view on the Consumer market and then on the Household market. But also a few specific assets that KPN has developed over the years and we can reuse in a very good way here. The first one is that the company is extremely data-centric; it has a very high level of understanding customers in terms of data and needs. And that's something that we can use and reuse extremely nicely when it's about deciding where we put our money in terms of deploying commercial efforts for fibre, or for new broadband customers. So now we know in which street customers would have DSL, or nothing, or – and obviously if they have mobile, then how many mobile and if they watch TV and so on. So we can really tailor-make these approaches and decide to invest regionally, locally, which is a lot more efficient, with a better return. And also decide where we have high competition and low competition and adapt, potentially, pricing, based on that.

The second part is to come back to something which is more traditional from an incumbent fixed player. But, obviously, by definition, mobile is a kind of national coverage strategy. When we go household, we are talking about regions, micro-regions or streets. And we are reorganizing ourselves to deliver on that, readapting, in fact, the whole way sales and marketing is organized, in terms of department spend and so on, to be able to do this upsell and cross-sell.



Based on what we have been testing already, it kind of delivers on the promise because what we see – and that's quite important when you think about the Dutch market being extremely agitated in terms of mobile pricing – what we have been able to do is in the last weeks and months, 75% of our new mobile acquisitions are coming from our own customer base. So we acquire – as I said earlier, conceptually, we acquire, really, within our own customer base. And that allows the second number, which is then in fact the ARPU of our acquisition is growing. So we are not competing exactly on the same terms with the competition in the open market. Because we are bringing a message to an existing customer, an existing satisfied customer, a message about, why don't you put all that together, obviously get some benefits out of it financially as well but not up to the level that you need a Christmas promotion to be able to make the step. And that obviously pays off in terms of ARPU of these customers when they join us.

The last step of the three steps is the focus on value. And this is a kind of the summary because it's not really a step. So if we do these two steps properly, in terms of getting this household focus, being able to upsell them and cross-sell them, we think that we are going to be able to deliver, which is the sustainable revenue growth on the consumer market by deploying and getting high-value households, which is really the core of what we do in terms of acquisition and churn strategy, making sure we converge them super efficiently. And then we focus our acquisition efforts – marketing money, promotional activity – on this, which is more a direct marketing way, focused on what we know about the customer and avoiding the price war in the market. And reaching these levels of very high convergence, which we know – which I showed you earlier, in terms of fibre and convergence – are delivering customers that have a higher NPS, which is a fact, spend more, which we see as well, and at the end stay longer with us, which again makes them less expensive to manage and more profitable in the longer term.

And this is how we think, for Consumer, we deliver on these key words: household access, excellent customer experience, convergence and focus on value.

So that's for Consumer. Thank you for your attention and I give to my colleague, Maximo for a few words on the B2B.

## Business

Maximo Ibarra

*CEO and a.i. Chief Business Market, KPN*

Thank you very much, Jean-Pascal. Yeah, you are leaving on the right chart. So here's me again, hopefully you are – are you still fine, yeah, you are with us? Okay, it's for the next 15 minutes before we go into the break, it's an half an hour break, so it is quite enough.

So, Business: as anticipated, Business has been always quite complex to explain. And I understand that because, as I mentioned earlier, it is made by four different segments.

Let me start with the key words. The key word in the Business market is a very simple one: we need to make sure that we can get, as soon as possible, EBITDA growth. It is not only about revenues but it is mainly about EBITDA and I will explain exactly why.

Today, you see on the left the progress in terms of performance. And there have been always a lot of questions on, 'When are you guys going to inflect, in terms of the revenues, in terms of the EBITDA, of your big, big segment?' But before I describe the chart, let me tell you that the moment I arrived at KPN, what I noticed, among all the other very important things that I noticed, is that we have an extremely powerful machine in the B2B segment. It's maybe one of the – maybe the second, or the first, incumbent operator with the highest market share in the segment, which means that we already have an extremely good presence. So the performance has been improving, is improving – so the underlying performance is improving. So we have worked quite hard in these segments in order to make sure that we can inflect. But there is still some work to do.

Up to the third quarter of 2018, when we look at the organic revenues – again here, organic, so we are just putting aside all the revenues that are coming from M&A. So excluding M&A, our service revenues are still declining. And it's going to be approximately -4.4%, so these are the figures up to the third quarter of this year. But the initial – the starting point was extremely less positive. It was -8.6%, so there is a good improvement.

If we look at the converged portfolio – and here I'm back with the KPN EEN Platform – the current number of customers that we have migrated into the KPN EEN platform is good, at 35%, but it's still too far from our goals. We have to accelerate that, because try to imagine, if we need to serve a customer and the customer has multiple touch points in terms of technology and we need to be fast and real time and make sure that we really propose the right value proposition to customers, of course, then we notice that we cannot play with all the technologies we have. The more we have all our customers in one platform, this platform, then everything else will be much easier. But we will touch point with this later.

In terms of customer satisfaction, it is improving. You saw it was -10 in 2015; now it is between 0 and 1. This is not yet exactly – not the point that we would like to reach, so we need to improve there. I mean, all the trends have been quite positive but not at the point that we want them to be. And this is now our challenge. This is now our ambition.

So the keywords are, again: converged; simplified product portfolio; transformation on the operating machine – this machine has to be simplified; and we need to have lean and digital operations.

Going into the first one, the number of products that we currently have in our portfolios, to serve all the four different segments that we have, is still huge. So our first target and ambition is that we need to halve the number of products that we have in our portfolio by the end of 2021. There are still too many, we need to be much simpler. Customers are demanding for simplicity. Sometimes it seems that they are requesting us to deliver complex products; it is exactly the opposite. We need to make sure that we offer something that they understand and they can activate in a very short time.

The second one is about IT. We are a telecom company; we are a very solid and very good telecom company with a lot of background, with a lot of history behind us. And that is exactly what customers are [*\*expecting*] us to do, to become a super good telecom company. But at the same time, there are some services that are becoming relevant for our connectivity mainstream, and those services are IT services. So there is the right kind of marriage. But we are not in the business of delivering whatever IT service, because customers are demanding us to offer and to provide clear IT standard services. Those are security, cloud and hosting, and workspace. These are becoming, more and more, services that are really linked to our connectivity because if you offer an infrastructure, the infrastructure has to be secure. If you want to simplify operations of your customers, you need to start offering services in the cloud. You need to offer hosting services and workspace, because it's just all-in-one.

At the same time, we have to be extremely disciplined, rigorous and very well connected when we make offers to our customers because, from a profitability standpoint, we always have to make sure that our deals are profitable, profitable enough, and not only generating revenues but maybe one day in the future we will generate some profits. So we have to be extremely sophisticated in the way we manage our business cases. And at the same time, we have to make sure that our salesforce is also very well fine-tuned on this goal.

And when we look into the business parks, which is the equivalent – or kind of equivalent service to what we offer in the Consumer segment, we are already offering fibre services in the business parks. But that is just, still, not enough. We have 52% of the business parks in the Netherlands that are offering a coverage – a throughput that is higher than 100Mbps. It is just too, let me say, a small number. We have to move into a much bigger number, and that is why the ambition is that we have to cover 70% of the business parks with exactly that kind of performance, throughput.

This is an example of what happens. This is a real example that is in a small area of the Netherlands. Now I'm going to pronounce this in Dutch. And even though I have practiced that, I am sure that I'm going to make a mistake, so please forgive me, Dutch speakers, it's Enschede region. I think that was good.

What we did in this area is that just we rolled out fibre, and we saw what was before and what happened later. And in the beginning, in that area, the bandwidth was absolutely not enough. It was just below the 40Mbps. And then we rolled out fibre and immediately after, we had a performance that was above the 100Mbps. This is in terms of technology, I mean, the roll-out. So we went there, we rolled out our infrastructure and then what happened after three months? After three months, three months after the upgrade, what we immediately noticed is that 29% of the customers of that business park – we are talking about SoHo, Small Medium Enterprises – they immediately moved into our converged KPN EEN proposition. And the good thing is that 50% of customers were coming from our customer base, but 50% of customers were coming from prospects. So we were able to get additional market share, just simply by rolling out the right infrastructure and by proposing the right product, the KPN EEN, simple things that can be activated and can be managed by customers themselves.

When it comes to the transformation of the operating system, again, it's the KPN EEN platform, the key, key infrastructure, the key element, the key aspect that we'd like to improve in terms of migrations in order to make sure that the customer base, the most relevant part to the customer base will be on a future-proof platform. And these are our ambitions, the ones on the left: 100% of the Small Medium Enterprise will be moved, will be migrated, into the KPN EEN platform by mid-2020 and the Large Enterprise segment will be moved by the end of 2020. So it is not only Small Medium Enterprise, it's Large Enterprise as well, which means that the biggest bunch of our customers will be on a new platform, future-proof platform, which is quite a luxury. The fact that we have this platform is really a luxury compared to other platforms that I've seen throughout Europe.

And what are the benefits of moving a customer into this platform? The benefit number one is that the NPS is much higher. Then Business customers tend to be a little bit more critical when it comes to NPS. So you will always see that in the Consumer segment NPS tends to be higher but in the Business to

Business domain, they tend to be a little bit more critical. So a ten NPS in the Business segment is really good, considering that now we are positive and we are much better than any other else in this market. So by moving from +1 to +10, it's a great achievement.

The time to market improves by 200%, so it's twice faster. It means that if we want to implement a new service, if we want to launch a new service, if we want to upgrade a customer, that happens very fast because the platform is new. You don't have to go into each single legacy platform to activate the service. It is really demanding: it requires a lot of time, effort, money, people. Here it can be done by the customer itself.

And the churn rate is very low. It is exactly the same churn rate that we get when, in the Consumer segment, we work with converged households. So we like this idea of business parks have to be like powered by KPN. It's exactly as in the Consumer, all the houses powered by KPN, so we have the infrastructure. And on the platform side, we will have the KPN EEN, which is powered by KPN EEN. It means not only technology but also the platform.

Of course, in the KPN EEN – and we have discussed this with some of you in some former meetings – that you have a first step, which is some decline in the revenues because some customers have different solutions and different lines on different platforms. Some of those platforms are PSTN, ISDN. When they move into all-IP, then there is a natural, automatic, normal rationalization of their portfolio. This does not mean that we are moving into a service that has a lower ARPU. It means that, instead of having three or four lines, you will have just only one, because it is going to be IP. That, at the beginning, could create just like a small decrease of your revenues but then the good point is that with this platform, as the time to market is much faster, you can increase, dramatically, your ability to make these customers subscribe additional services, in a very short time. So much better ARPU, much better upselling capabilities, much faster time to market, lower churn rate, so it's quite a nice equation. And we are now touching this equation with our hands. This is happening.

On the digital and lean operations, again, the moment we move customers into the KPN EEN platform we will see immediately a reduction in terms of costs of 25%. So the cost to serve will be lower. The number of IT systems will decrease dramatically, so we are going to cut off 75% of the complexity that we have because we are moving from legacy into the new platform. And, of course, we will simplify all the processes internally. Again, here we are not talking about technology only, we are talking about the way we are organizing ourselves, in the way we manage our business. Everything is going to be simpler, so from big complexity to simplicity. And again, it's not rocket science; it's just simply happening.

Revenues, let me anticipate a little bit of what I call questions that you maybe will have in the back of your mind. Of course, we are speaking about and talking about our core ambition, which is about growing on EBITDA and, in particular, in the B2B on stabilizing EBITDA. But at the same time, we have the ambition to stabilize our service revenues. This will come later. So become very efficient, very effective, stabilize EBITDA and then we will move into service revenue stabilization. Why I am saying service revenues? Because we are not talking about hardware, you know hardware is zero margin; we are not talking about M&A. The other question will be, 'Are you going to move into M&A?' Of course, we will always have a small M&A in the Dutch market, if we see a company that is really key for our proposition. But we have already done this in the last three years. Now we have to integrate them. So it is organic; it is pure service revenues.

And if we make and take the three most important segments that we have in the market, on the SoHo side – small office, home office – we now see growing service revenues. That is happening right now. We have launched this KleinZakelijk proposition, which is the converged proposition. On Consumer we have Compleet; on the SoHo we have KleinZakelijk; on the Small Medium Enterprise and Large Enterprise, we have KPN EEN. These are all the same convergent propositions that have been tailored in order to address all these segments in the proper way because they are different segments.

So in the SoHo we see service revenues are already growing. And you see also a number in each single graph, that represents the number of customers. We're not talking about the number of lines, or the number of SIM cards. This is the number of customers, accounts. [*Small Office Home Office*] is 350k. That, for a country, a small country like the Netherlands is quite a lot in our portfolio. And we see that those customers are growing. The service revenues are growing.

The second one, Small Medium Enterprise, because of what I already mentioned, there is a first initial phase where we can see some service revenues slightly declining, but then service revenues will stabilize and will grow. And in the Small Medium Enterprise, it's not only about migration but also the way we manage the portfolio of brands we currently have in this segment. We operate in this segment with other brands, not only with the KPN brand. We have also other brands. We are operating with Telfort as well; there is another brand Yes, and we have some other resellers. So we have to make sure that also the way we manage the segment, in terms of pricing, is very well designed.

And the LE & Corporate – again, back to my former comment on we have to make sure that all the deals we get are the right deals, with the right profitability that maybe could lead to a slight decrease of the revenues, but, at the same time, a slight increase, if not solid increase, of our EBITDA. So on the LE & Corporate, we have to look at the two contemporary, at the same time, revenues and EBITDA because for this segment EBITDA is more segment. Also for the others but the others is more natural because we are talking about segments where the number of bids is not extremely big and also because bids are less complex than the ones that we have in those segments.

In the end, this is, let me say, the last message which has the ambitions for the B2B market. Again, we have in our hands an extremely big, solid operator, really big, operating in all segments: very powerful but very complex. A lot of operations, lots of platforms, different go-to-market approaches. We need to simplify everything and everything goes, again, back to the point that we need to make sure that we bet on the right segments, with the right value propositions, with the right technologies.

So that's why our ambition is to stabilize the end-to-end EBITDA in the Business segment by mid 2020. We want to grow in a very profitable way in some segments. We can leverage our market position in all these segments. And at the same time, we are going to stabilize service revenues, so there is an improving trend of service revenue stabilization. But again, the important, core aspect of the B2B strategy is to make sure that by 2020 we are going to stabilize the EBITDA.

So, this is for now. Now you have 30 minutes of break. I think we have the right logistics, so please be in time after 30 minutes. Then we can then go ahead with Jan Kees, our CFO, and the financials. Thank you very much.

## Financials

Jan Kees de Jager

*CFO, KPN*

So, welcome back after the break everyone. I hope there's enough also energy to listen to the financials as well, to explain our three-year plan. So let me first start with the key message of today, which is organic, sustainable EBITDA and Free Cash Flow growth. And we do see that commercial and operational initiatives before the break, presented to you, will drive organic EBITDA growth and organic Free Cash Flow growth.

But first let me start with just assessing KPN today, as to the financials, where we stand. Over the last years, we have seen that revenues remained under pressure, mainly because of regulatory effects, the Business market performance, but also we have seen a greatly improving trend in revenues as well. Adjusted EBITDA recently has been stable, supported by the Simplification program, opex reductions. And Free Cash Flow growth has witnessed a growth of 10% annually, mainly driven by lower interest costs, lower Capex and tax – almost zero cash tax out.

Then, as for the financial profile, we see a solid financial profile at 2.7x EBITDA but still with the flexibility of the Telefonica Deutschland stake. And that growing Free Cash Flow has been supporting a EUR 1ct progressive annual dividend per share growth. Also, we have been passing through dividend on the Telefonica Deutschland stake and any remaining excess cash we have been returning to our shareholders.

So our goal is organic, sustainable growth. And that is also reflected in our financial priorities. So for this new three-year plan period, we see that opex savings will drive organic adjusted EBITDA growth and it will be a larger net opex reduction, further supported on the way by revenue stabilization.

Also, we see a stable Capex level up but with a substantial shift in the mix to access – I will come later to that – and sustainable Free Cash Flow growth as an all-in-all result from that, mainly driven by organic EBITDA growth and not so much by the other items, such as interest and Capex.

So we aim to stabilize revenue, driven by further growth in convergence and a clear focus on value. In Consumer, already addressed by Jean-Pascal, growth in the KPN brand converged households, but also an increase in the value of the households by cross- and upselling services, for example, by the number of SIMs growing in the family.

In Business market, we do an acceleration of the penetration of KPN EEN – our target portfolio in the Small Medium Enterprise and Large Enterprise. And we clearly choose for value over volume and the selective growth in IT services: security, cloud, work space.

And then the third segment, very important, so I'll also mention it here, Wholesale: it's an important contributor to our EBITDA and Free Cash Flow performance. In Wholesale, we'll see further growth in VULA and wide broadband access services, driven by our accelerated investments in access, like fibre access, but also driven by migrations from ULL, unbundled local loop. And also here, in this segment, as in the other two segments as well, we will [*\*maintain*] a disciplined strategy.

So good cost savings are a track record of KPN. You always – when we have meetings, we keep readdressing that. But still you also knew that I was never pleased, really, about that. At best, we are half way. There's still a lot of potential in very substantial cost savings. So we will see a sustainable opex reduction potential for each year in the coming decade. And that's also why we are now today announcing a new EUR 350m savings program for 2019 to 2021. We are fully on track with this current Second Wave but it will roll over in the new program. Important to note is that the EUR 350m savings program for 2019 through 2021 is net indirect opex savings, versus gross run rate that also includes Capex. So in 2021, very traceable and trackable, our indirect opex will be EUR 350m lower. And that also means that in the fact sheets you will be provided for every quarter, you will be clearly able to track this on the indirect opex lines, that this will be – every quarter will be lower and then also that we are on track on

the EUR 350m. Of course, we will see different phasing in that, as we have seen with the Simplification program, but now it's also very clearly listed in the P&L, in the fact sheets. Of course, the net opex target will be corrected for incidentals, including restructuring charges.

Then, we formulated five key initiatives that will drive opex reduction centred around acceleration of simplification and digitalization, and benefits related to virtualization. So five key initiatives. One is rationalization and the simplification of the portfolio. Then, end-to-end digitalization and automation, including automation of both front-end and back-end. Three, an all-IP network, already addressed by Joost and virtualization of network functions in that network. An IT landscape rationalization throughout the whole company. And of course very important, organizational effectiveness. And this transformation we'll do according to the priorities of ESSA. First, Eliminate and rationalize, then Simplify, then Standardize and then Automate. Because if you start to automate complexity, you will have automated complexity, which – you'll never bring in the savings you want. So first Eliminate, then Simplify, then Standardize, then Automate.

As to portfolio, we keep rationalizing our product portfolio. In the Consumer market, we already have demonstrated a very good track record there but in the Business market, there is still a lot of progress to be made. So, mainly, the next few years, the product simplification – portfolio simplification will be in Business. First of all, in Small Medium Enterprise and Large Enterprise we will be fully dedicated, moving towards our target product portfolio, KPN EEN that includes the standardized, converged portfolio including some standard IT services that can be delivered as a service. And a standard API, application programming interface, will enable very simple add-ons, both from ourselves, like firewalls from the cloud, for example, as an extra, additional service, but also third-party services as well that can be very easily distributed to the customers at good margin but without much cost to serve. And also, it will help us to reduce the front-end complexity as well.

Customer journeys, as a result of that, will become much more simpler and customers, both in Consumer as well as in Business, will be empowered completely to use our service digitally, by an app, to provision services. Also, in Business markets, where now typically this is manual behaviour, that they have to phone the desk, or they even have to go to a shop or something like that, more and more it will be completely empowered by a digital interface.

That also means that we will be digitalizing the back end as well. And those benefits, meaning an end-to-end digitalization, will be a key driver for efficiency but also profitability in both segments, especially also in Business market. We will have a lot of benefits in our cost model, in KPN EEN, because the delivery of that is much lower cost than many other services that we are now providing.

As to the network rationalization, Joost already touched upon that we will be going all-IP by 2021. All-IP networks are much more efficient but also they enable us to shut down legacy networks, ISDN and PSTN, where we now have two infrastructures at the moment to – well, to serve, with also, of course, more costs. So when we can shut down the legacy networks, it will further also save us the opex and some Capex, but also mainly the opex related now to keeping those two networks in the air.

And also, software defined networking and network functions virtualization there will be very important in our architecture. That will drive a lot of spend benefits. For example, virtualization, it will mean that we are much more efficient in allocation and utilization of our resources. It also enables us to use generic hardware, like the white boxes Joost mentioned. White boxes mean that we can have a multi-vendor strategy but also a lower cost per box as well. And the box is much more flexible, in terms on how we use it, with what function and also how to scale that function. And also, in CPEs, customer premises equipment, we will become fully virtualized, which will also drive down cost and Capex further as well.

In this sheet, we've included two examples. And also in the demos later today you can also witness them yourself as well. So two examples which will give you a taste on how disruptive these cost savings also

can be but also where the customer can be helped much better. It will drive customer satisfaction but also it will help drive costs down as well.

The first example is now currently the delivery of an IP VPN services, versus an SD-WAN, software-defined WAN service. At the moment, to deliver that IP-VPN service it takes us, in total, 21 manual actions. We have to send engineers, do a lot of stuff and we can deliver that service in 12 weeks, at best. In the new SD-WAN service world, in the new world that we are now going to introduce, it only takes us one manual action. Actually, that is just putting the device into a box and sending it to the logistical partner, and deliver the service over-the-top within one day. Actually, in a bit more – in the near future, it will take us minutes, as you also will witness in the demo that we can demonstrate later here today.

Another example is updating 100 routers. Now, if we have – on the customer premises, if we have to update 100 routers, we have to manually update all those routers, send an engineer or engineers to the customer premise; it takes us 30 minutes per router, so approximately 50 hours in total. And in this new world it will only be one single remote action and we will be able to do that in less than half of a day. But be also reminded, I have to add, that the full benefits of all this virtualization will not kick in in the next three years. It will especially fuel another period of cost savings after these three years. And those benefits will be very substantial.

If we now look at the cost buckets related to these services, software defined networks and network functions virtualization will bring in cost reductions, in the buckets that we already have examined, of more than 50%. So there will be, even on top of the EUR 350m [*for the plan*] that we have now announced, a lot of potential in further reductions as well. And that means that at that time we will foresee at least cable-like margins in fixed.

Then, IT rationalization and organizational effectiveness. So we will have a focus, more and more, at KPN on standard solutions to rationalize our IT environment and optimize our spend. We will optimize also our vendor relationships, consolidate larger vendors but also increase our working relationship with smaller vendors that deliver at lower cost, are flexible and deliver innovative solutions. Also, the software-defined world and the white-boxing enables us to also include more – together with some larger vendors, also the more small vendors as well.

Also we see an accelerated digitalization and automation that will drive further organizational simplification, driving also less need of management layers and also will accelerate a reduction in labour-related spend as well. That means that the productivity of the workforce will be optimized but also we foresee a significant change in the sourcing mix, less external labour. All in all, looking at our plans, looking in all the witness – and witness what we already have seen, the talks to the vendors but also the demos and the proofs of concept that we have done, we are very confident in the execution of our opex reduction plans that we present here today.

Let me give you an example, just to clarify a bit how restructuring works. I also have had, in the break, the coffee break, a few questions on that, so hopefully this will answer that question as well. So this gives you the Free Cash Flow impact on when we take in a restructuring on labour-related spend on own personnel. So T=0 is the moment that we take – that we record the charge in our reported EBITDA, in our P&L. We take in provision at that time. But it takes time, at that moment to really – well, to have that person related to this charge, out of the company and when the cash is paid to that person. So whilst at T=0, T in the P&L, this is recorded, it takes between 2–4 quarters, roughly between 6–12 months, when the Free Cash Flow is going out. And then after 12 months you will see already that this restructuring is actually value-accretive, both on EBITDA as well as on Free Cash Flow. That's a bit faster than in some other countries in Europe that you see. But so 12 months is, in total, the maximum delay normally if a Free Cash Flow accretion is recorded after a restructuring is taken into account in the P&L. So the financials are a bit back-loaded but not that much also.



Then, about Capex, an important topic also today. Besides everything already explained by Maximo and Joost, it's important to note that the last few years, we have been introducing a much more sophisticated Capex planning process. And we use, more and more, an analytical, data-driven insight to be much more focused and much more smarter. We have introduced smart ROCE as a model, smart return on capital employed, and also what we have introduced is zero-base budgeting. That will challenge not only new Capex requests but all running Capex spend as well. And then we have used a stacked ranking process that includes both net present value and ROCE, return on capital employed, in the analytics, to prioritize those Capex requests that come in. And of course a lot of Capex requests are not granted, based on the zero-based budgeting and stacked ranking process as well.

And because we will become smarter and because of the business case improved – already explained by Jean-Pascal and Joost on fibre, for example, we will now – we have today – today we have announced a step-up in the investment in access networks, both in fibre as well as in 5G-ready because, actually, our return also has improved on those investments as well.

If you look at that return, we see that the return profile, as already mentioned, on Fibre to the Home has become much better. Until now the payback period was more than ten years, and we are now able to cut that in half. So the payback period is reduced by 50%. And the three main drivers for that are, first, a lower average roll-out spend per home passed, already mentioned by Joost; second, a better utilization rate, a smart data-driven, regional approach. So we will not roll-out fibre to the entire country but we will be very selective in where to roll-out first, where it best yields our investments. And three, strong commercial benefits in Fibre to the Home versus DSL, already mentioned by Jean-Pascal. So the ARPU uplift mentioned by him to reduce churn and an increased broadband market share as well.

So today our key message on Capex, our key message is that the Capex envelope will not increase. It will be stable at EUR 1.1bn annually for three years. However, there is a substantial shift in underlying Capex. The mix is substantially shifting. So access networks within the total Capex envelope will grow to 50% of that envelope, from around one-third today. And that is driven also by a reduction in IT/TI spend, that is driven by savings already mentioned in different presentations, also from Joost. But also because of CPE: customer premise equipment spend is also lower in our three-year planning period than it was in the last few years.

And it's very important to know that this substantial shift in Capex will yield a much higher return on investment than our investments in the past few years.

Then, our financial profile. As you know, in the last few years I've been working very hard to optimize the balance sheet that wasn't very efficient a few years ago. So since the last few years, we have been able to reduce our cash interest payments by 55%, the most important driver, as you know until now, from Free Cash Flow growth. 55% reduction in cash interest payments. That is driven, underlyingly, by 30% less gross debt and the average coupon was 25% lower. We have been reducing the coupon rate at 25% average.

So we still are fully committed to an investment grade credit profile and credit profile actually has improved also through the last few years. And this is also supported by solid ratings of all three rating agencies. At the end of Q3, we see a leverage of 2.7x EBITDA – [*net*] debt over EBITDA. And that was also supported by the equity credit of the remaining hybrids, the sterling and the dollar hybrids but it does not include our remaining stake in Telefonica Deutschland that provides us more flexibility.

And it's clearly our goal to maintain a solid financial position in the medium-term. And that's why now, also, because you have asked so many questions in the last two years that we didn't answer but now we can be very clear: we have a target leverage of below 2.5 in the midterm.

Then, about our financial ambitions. On the 2018 outlook, we just reiterate the outlook that was provided at the end of Q3, at the Q3 results. But now, today, we're talking about the 2019 through 2021 period. And after years of decline and recent stabilization, we foresee organic growth in adjusted EBITDA that is

sustainable. Also, our Capex envelope – as I reiterated, our Capex envelope will be stable, at EUR 1.1bn annually. All of this will drive, in a sustainable [*manner*], Free Cash Flow, mainly driven by operational performance and not so much by other items, such as Capex, interest, etc. And this will result also in our ability to pay out a progressive dividend per share that is supported by our organic and sustainable Free Cash Flow growth.

So, to conclude, we are very confident today that our strategic priorities, set out today for you, will deliver organic sustainable growth for the years to come, many years to come. We will be disciplined. We will have a focus on the most profitable growth segments, in both Consumer as well as in Business. Organic adjusted EBITDA growth before revenue stabilization will occur. And that is mainly, of course, because of the EUR 350m savings program. The opex benefits will be brought in by many initiatives that we have been introducing today, amongst virtualization and software defined networking, all which, by the way, most of that even will be in the period after those three years, fuelling another potential of savings and continuous growth.

Our Capex will be stable, with a substantial shift in the mix resulting in a higher return on investment. Our Free Cash Flow growth will be a result of operational performance which is more sustainable in the longer term. And that organic, sustainable Free Cash Flow growth will contribute to two main things. First of all, it will enable us to pay out progressive dividends per share and it also will empower us to deleverage towards below 2.5x EBITDA.

So all in all, this results in a very solid financial profile, whilst also generating attractive shareholder returns. And on that note, thank you. And I will introduce Maximo.

## Final Remarks

Maximo Ibarra

*CEO, KPN*

Thank you, Jan Kees. Now we are coming to the last part before we go into a Q&A. I think that the Q&A, you are waiting for at the moment. I know that. You have lots of questions. But let me wrap up, and I think that we can start from just the initial statement. But I would like to wrap up now in a different way than I was assigning it to wrap up, and I will go directly into this one.

We have shared with you what I consider quite a simple story. This is not rocket science. This is not like a revolution of something, but this is a very clear story on the way we want to create value. And the whole equity story of our Capital Markets Day is that we are moving from no growth to growth. And again, growth is EBITDA and Free Cash Flow.

Then your underlying question is, okay, but what's going to happen with the revenues? And we know that the EBITDA is growing because on one hand we are really moving forward in terms of being more present and more focused on very profitable market segments. This from the top. So, we have a stabilizing trend, an improving trend in terms of service revenues, but because of we are really working on very profitable segments, that will be also translated into improving contribution margins. And also, a big important part will come from our operations. With our multi-year efficiency program of EUR 350m we will be able to deliver solid growth on EBITDA. And that finally will move into the Free Cash Flow.

Our Capex are going to remain stable, because we need to invest. We need to invest in future-proof technologies. We've been able to reach 30% of penetration of Fibre to the Home, then we slowed down the program. Now we are going to re-accelerate that. It is proven that this is really the right technology. This is exactly what customers are expecting. Even though customers are not necessarily super aware about what are the different throughputs, but they recognize that in the future, because of data traffic is increasing year over year, they will need that point-to-point technology – not shared technologies, but just point-to-point technologies in order to get the best technology and finally play their family household game in the proper way with all the components of the family, if it is in the Consumer. And in the Business side, with all the employees and the ecosystem that normally companies tend to create.

So, we need to invest on fibre. We have approximately 2.35 million homes passed. That will increase by an additional 1 million. You know that the number of households in the country is approximately 7.5-7.8 million households. So it's like a huge step forward. But now, the underlying question will be, are you going to stop there? This, of course, about the plan of 2019-2021. And my honest answer is, of course, we continue. But we will decide the pace of the added three years later. Now we are really focusing on delivering 1 million additional homes passed on Fibre to the Home, together with the business park coverage. And also making sure, thanks to our data analytics, that we'll be able to deliver the right technology everywhere. Of course, our ambition is not to cover 100% of the territory and the geographies with Fibre to the Home. This would not be efficient. We need to go area by area, geography by geography, province by province, city by city. And of course, we will play with all the technologies that we have. Upgrade of the copper in some areas, fixed wireless in some other areas, but the core of our infrastructure is going to be Fibre to the Home.

And that is the concept of the digital highways of the Netherlands, because we are KPN. And KPN is the Dutch company. It's one of the most loved brands in the country. So we need to leverage that. People are expecting us to do that. And as the infrastructure is something that we have in order to deliver services, because customers don't see the infrastructure, right? They don't see it. They see the service we deliver. They can judge from our performance, from our behaviour. So that's why, when we move into the customers, so from the kitchen to the table where the customer is just waiting for the three courses, two courses, whatever kind of lunch or dinner, where we have to be perfect in the way we service them, then we have the right product, the right value proposition. And this value proposition is convergence. It's

again well proven that is the area where we can grow because we have already demonstrated to the world that we are able to do that. So for us, it's much easier than for anybody else. We have already that experience. We are operating in a country that has exactly that mentality. It's an added advantage. And we are operating in the Netherlands and we are focused on one market. Making sure that we can really become the benchmark at, let me say, whatever kind of level, Europe, world, because we are able to deliver that. So with the 1 million additional Fibre to the Home lines, we can really also like visualizing the concept being now the brand that is really powering, empowering households in order to grow our value proposition to the extent of adding IoTs, domotization, things that customers for the moment are considering nice-to-haves, but gradually are becoming more and more a must-to-have. And if you have the value proposition that is there, then you can increase that.

And the way we are doing that, we are planning to do that, is value and is premium. Value means that it's going to be very profitable, and definitely in the segment we are going to grow. Again, both Small Medium Enterprise, SoHo, Large Enterprise and Consumers. With the right platforms as well, like KPN EEN. It will increase our ARPU. And then we will have lower churn. And the cost to serve will be reduced. And the time-to-market would decrease. And the satisfaction at the end of the process will improve. So, that is the positive cycle that we need to trigger in order to make sure that we are a forward-looking, future-proof company. It's not only for the next three years, but it's for the rest of the years. It's forever.

And that means that we can really deliver value, and we can be very solid. We are already solid, but we can become more solid. And we can be very attractive. Because we deliver value in a very simple way. Then, of course, just in the kitchen, we need to make sure that everything is easy. That we reduce all the platforms that are absolutely an obstacle. That we can be much lighter in the processes. That we can operate faster. So that is something we can do. It's doable. There is always an execution risk, but we are KPN and we have the right people in the company. We now have a new team as well, and we have a lot of experience and expertise, so that's exactly what we have to do.

Very straightforward message. Very easy message. So again, EBITDA should be solid in terms of growth so we can finally move into a growth story and the Free Cash Flow can really be solid as well for the simple reason that it's coming from our operations. And not from something different; not because we are buying other companies or because we are optimizing our financial structure. So, this solid – or being more solid and this attractiveness I think is in our plan. Our only aim is just to maximize value for all our shareholders and stakeholders, because it's exactly what we have to do, and we are in the right place to do that.

So, the three big messages: easy organic growth, solid organic growth of the adjusted EBITDA; stable Capex we need to invest, but at the same time we understand we need to be efficient there. Because just simply not increasing Capex but making sure that the Capex envelope remains the same so we can optimize. We can be efficient in some areas. Also technologies supporting us, like in the Settop boxes. Those investments will be lower and lower, because most of the configurations will be on the cloud. So the box itself is going to be less and less expensive. Just to give you an example. On other areas, we're going to re-prioritize all our interventions because we need to be focused. We cannot play everywhere, like playing on 100 fields at the same time. We have to play on the right ones. The ones that can really deliver value. And sustainable Free Cash Flow, because in the end this is what really matters, because thanks to that we can go into our progressive dividend policy which is important as well, because this is about remuneration of our shareholders.

So, I think that the message is very clear. I hope that you have had quite a good time during these presentations, that we have not been very heavy. Also the slides have been designed in order to simplify your life, so you don't have to read like multiple rows. And I think now we are ready for the moment you have been waiting for, which is the Q&A session. Now we will have one hour and a half, right Bisera? Around? Depending on your questions, it can be even less. No, I'm joking, of course. I think that now we are just moving, no?

## Q&A

**Bisera Grubescic (Head of IR, KPN):** While we are getting ready for the Q&A, just a couple of remarks from my side. If you have a question, please raise your hand, which some of you already did. You will be handed a microphone, and please, before you start with a question, state your name and the company name first. And please keep your questions to one or two at a time, so that we can manage this process efficiently. So let's start with UBS. Polo?

**Q- Polo Tang (UBS):** Hi. It's Polo Tang from UBS. I just have two questions. So the first one is really just about the new cost savings or the third wave that you've announced. Can you clarify what the restructuring charges are associated with that and give some colour in terms of the phasing? Or alternatively, have you already sunk the restructuring costs, because you've already done wave one and wave two? So just maybe some colour on that. And the second question is really just about the recent approval for the T-Mobile Netherlands and Tele2 Netherlands merger. Can you maybe give some perspective in terms of what you think this means for the market and also KPN? Thanks.

**A- Jan Kees de Jager (CFO, KPN):** Yes, so, I'll start with the cost savings. Of the first wave and the second wave, obviously, most of the restructuring costs already have sunk and are now value accretive. In this program, we did not disclose specific restructuring charges because we know that we will reduce very substantially our labour-related spend. But as I also said, in the mix, we will see a shift towards less external labour and reducing external labour actually does not bring in restructuring charges. Of course, we do anticipate – because we accelerate the cost reductions, we do accelerate some – we do anticipate some restructuring charges also to accelerate, especially in the first part of this program. But we will give you on the way each year more granular insight in that when we give an outlook for that particular year.

So for now, we know that it will be value accretive, that we do accelerate cost savings, that it also will have an impact of course, but it will always be value accretive already after around 12 months, on both EBITDA as well as Free Cash Flow.

**A- Maximo Ibarra (CEO, KPN):** And on your second question about the merger between T-Mobile and Tele2, as I told you, we designed this Capital Markets Day just exactly in time. We read carefully the press release. I think that the press release again is saying exactly what it says, that there is like a high recognition of the fact that there is already this market quite competitive. There are multiple players. There are multiple MVNOs. In our plan, of course, we took into consideration different scenarios, but in order to be very solid, we decided to consider a framework where the competitive environment is not going to change substantially.

In terms of comments, I do believe that when you have in the market stronger players, it's always good in the medium, long run, because you have players able to build infrastructures, to innovate, to invest, and to deliver good services that for the entire ecosystem is always good.

**Bisera Grubescic (Head of IR, KPN):** All right. Next question.

**Q- Luigi Minerva (HSBC):** Good afternoon. It's Luigi Minerva from HSBC. The first question is actually a follow-up on the one on the merger, because if you think about T-Mobile and Tele2, they have 25% mobile market share and probably mid-single-digit fixed line. So it's an operator that can aggressively cross-sell to increase convergence in their own customer base. So, is there a risk that this aggressive cross-sell brings irrational pricing into the convergence market, which so far has worked quite nicely for you? So, if you can share your thoughts on that.

And then, my second question is actually on the divisional EBITDA guidance for the Business segment. Because over the last couple of years, you've actually de-emphasised the divisional EBITDA and you argued that it was not the right way to look at it because the company is one and so on. So, what has changed that now brings you back to guiding on a divisional EBITDA level? And, in that context then if we think about the EUR 350m, can we split them divisionally? Thank you.

**A- Maximo Ibarra (CEO, KPN):** Yeah. I'll take your first question on the merger, as I already said, we don't believe the competitive landscape is going to change substantially. Again, second important feedback is that it's always good to have solid players in the market, because they can play the competition game always in the direction of delivering new services and more infrastructure. So in the long run, I see this positively. We cannot speculate on what is going to be the impact, the short-term impact, what are they going to do or not to do. We believe that the competitive scenario, as it is right now, is not going to change substantially. It's already quite, let me say, challenging in terms of competition.

**A- Jan Kees de Jager (CFO, KPN):** As to your question about Business markets EBITDA, you are completely right. Recently, we have been indicating that the BM disclosed until now, disclosed performance of EBITDA was not a good proxy of the EBITDA performance in Business market. Why was that? Because a substantial part of the cost savings in Business market related to the Business market services were taken into account for in Operations, in another segment with less negative EBITDA disclosed there. So, it was difficult for you to tell – to look to an end-to-end situation.

Now, what we are saying is we will move at the 1<sup>st</sup> January more of the customer-facing cost related service deliveries of Business market towards the division of Business markets. Not all, of course, so it always is better to look to the total EBITDA performance for KPN, then you'll have the complete picture including all operations. But because we will move more of the costs related of Business markets to the Business market performance towards the disclosed divisional segment of Business market, you will have a better end-to-end view. And we will also clarify this with the Q1 results, where we also will do a restatement as well, so you can compare also with this year when you compare that performance. And then it will give you a better end-to-end approach. Still, when you want to really assess the total performance, then also of course look at [\*KPN's] total EBITDA performance, but it will be much better, and that's why we said that we will introduce a more end-to-end view of Business market. So you will be able to track a better performance of that division.

**Q- Luigi Minerva (HSBC):** And a division of the EUR 350m?

**A- Jan Kees de Jager (CFO, KPN):** Yeah, so, no. That's – that's still impossible, because a substantial part of that is related to our standard network part platforms as well, and those are still servicing both our BM, CM, and Wholesale segments. So the EUR 350m is very difficult to split, but you will see much better the direct related cost to BM, which now are in Operations, will be for a substantial part moved to Business market, so you'll have a better end-to-end view. But still, a lot of the services, including also the rationalization of the network, will be in the Operations department.

**Bisera Grubescic (Head of IR, KPN):** Okay. Next question.

**Q- Daniel Morris (Barclays):** Thanks, good afternoon. Daniel Morris from Barclays. I've got two, please. Firstly, just on the copper switch-off. I just wondered, have you already run trials on that? And what's your confidence in delivering that accelerated switch-off? Because I know in other markets, some of the incumbents have struggled to switch off things like alarm systems, so any thoughts around that?

Second question, Maximo, you've already given us a lot of colour on the refocusing on adjusted EBITDA growth on B2B and I think that you've implied that it will now take longer than three years to stabilize the revenues there, so if you can just clarify on that? Thank you.

**A- Joost Farwerck (COO, KPN):** On your first question on the copper switch-off, we are only to announce this for the first-time coming Friday. So formally, also from a regulatory point of view, we will pick the first areas now. As, of course, we trialled this, and to be quite honest, we are much later than other Telco's, other incumbents in other countries. And that's exactly for the reason you mentioned. It is not that easy to switch off your copper network when there's still legacy services needed for alarm systems and other kinds of solutions. So, we worked out the alternative proposals, so now we are ready to migrate our customers to the IP alternatives for these legacy services you mention. So we think we waited longer, but we want to be ready for it, and that's why we're going to do it now. So I'm pretty confident. Of course,

we didn't pick the largest regions of the Netherlands in the first six, but also there we will learn from it, and I'm convinced that we will speed up the process along the road.

**A- Maximo Ibarra (CEO, KPN):** On the service revenues, if you remember on one of the charts, there are different components. So, in a nutshell, we see the service revenues in the B2B improving. This is a constant and continuous trend. So it means that we see service revenues stabilizing, but we need to take into consideration the performance of the different segments. And again, just to be very clear, on the SoHo we see revenues increasing because they are already increasing, on the Small Medium Enterprise we see revenues stabilizing and then growing. In the Large Enterprise and Corporate we see revenues stabilizing, but we see a better and more important trend in terms of the EBITDA, because on these two segments, EBITDA is exactly what really matters.

**Bisera Grubestic (Head of IR, KPN):** Okay. Next question.

**Q- Keval Khiroya (Deutsche Bank):** Thank you. It's Keval Khiroya from Deutsche Bank and two questions. So firstly, just on the EUR 350m of savings over the three years, can you help us understand how we should think about the phasing? Will these be more evenly split or back-end loaded once you've done the IT rationalization and the all-IP migration?

And then secondly, coming back to the points around extending fibre further, obviously average access speeds have gone up over time. How successful have you been in getting customers to pay more for higher connectivity speeds alone, and how should we think about this when it moves to fibre? Thank you.

**A- Jan Kees de Jager (CFO, KPN):** First on the EUR 350m phasing, there will always be a bit of phasing through the quarter, so not exactly, but as with the first two waves we will see that there is enough proof points every quarter of underlying improvements, so you will be able to track performance. So there's no need to think that it will be completely back-loaded. There will be, again, we don't say evenly spread, but it will be a balanced spread, I would say. Importantly also here to reiterate though, is that we are talking about net savings, of course, on opex, not including Capex any more, and also really net traceable, so not gross because other costs coming in have to also be compensated for as well. So that's I think a very good improvement compared to the first two waves. And thirdly, also it's better because it's not run-rate savings, but it's 2021. So, for the full year 2021, we will see this EUR 350m improvement, but otherwise in the previous programs, it was run-rate so it would tick the box at the end of that period. So now, it's essentially, economically you could say, roughly a half year earlier than that. So also important to note as well in your modelling.

**A- Maximo Ibarra (CEO, KPN):** On handling the decision of the way we manage throughputs and technology performances, I feel that KPN has done quite well in managing bundles. There you can see monetization in two ways. Monetization is because you offer a better throughput, but that is for some customers quite difficult to understand. They don't really care about is 100Mbps, 200Mbps. Then, of course, just there is a very small number of people who understand exactly what it means. They can judge from the kind of service that they get, depending also the number of people that are in the household, just to give you an example. But in general terms, they understand that with some technologies you can get better throughput and that can be priced much more. That can be like a premium offer.

And then the second way of monetizing is that you add more products into your bundle. I think this is something that KPN has already done well. We can do much better, because now we are really creating the right foundations in order to make this happen. And from a pure marketing perspective, when you speak to customers and you ask them, do you prefer fibre or any other alternative technology like cable, for example, they understand that fibre is more future proof.

**Bisera Grubestic (Head of IR, KPN):** Okay. Next question.

**Q- Usman Ghazi (Berenberg):** Hi, it's Usman from Berenberg. I've got two questions, please. Just on the EBITDA guidance, I just wanted to confirm that the way that your phrasing this is that your direct margin should be going up in absolute terms, and then on top you're getting indirect opex reductions. Is that the way to think about it? So if you forget about revenues, is the direct margin going up because you're chasing – or you're focussing on profitable growth, and then your indirect opex is coming down as well? Or am I misunderstanding that?

**A- Jan Kees de Jager (CFO, KPN):** Not totally, because we didn't make that split, so the EBITDA growth is organic, sustainable and driven partly also – in big part, essentially by the opex reduction program. So, as a result of that and also as a result of revenue stabilization, as a result of – so, on the way, revenue stabilization on the way, we didn't attach any specific year to that, but there will be also less headwinds on the revenue. And because of the focus more on profitable revenue, yes, the total effect on that will mean that EBITDA will grow. And we didn't make any split in that again. But it will grow, and it will be organic, sustainable growth which is different with the last few years, of course. It is really an inflection compared to the last years.

**Q- Usman Ghazi (Berenberg):** And just my second one was on the fibre roll-out. You're basically tripling the deployment rate per annum, and I believe you're currently deploying at 70,000-80,000 per annum and now you're going to around 300,000 to meet your targets. And most other operators have spoken about resourcing constraints in the market. So how is KPN suddenly able to increase capacity like this? Thank you.

**A- Joost Farwerck (COO, KPN):** Yeah, this is indeed a challenge in the Netherlands. There's a lot of construction capacity needed and there's a shortage there. We have trusted relationships with the main contractors. One of the reasons is that we used to have a huge department ourselves and we sold it to one of the largest contractors in the Netherlands. So for us it's different than other years. Usually you go out with a construction plan for six to nine months in advance, and now we come up with a macro plan to build 1 million fibre lines. So, now we will start working with eight or nine construction companies to realise that. And we benefit from that in several ways, because it enables us to lower the price, and it also enables us to attract all capacity available in the Dutch market.

So it is a plan we are already working on for a long time, and we know that we have to build our own machine, together with our partners. In the third and in the fourth quarter we will be really speeding up next year, and then we will continue. But this – because of the confirmation we give without any demand aggregation, we're just going to roll-out in the selected areas, which attracts the capacity.

**Bisera Grubestic (Head of IR, KPN):** Okay. Next question.

**Q- Guy Peddy (Macquarie):** Hi. Thanks. It's Guy Peddy from Macquarie. Two quick questions. Just following up on fibre, can you explain what's happened to lower the cost to the roll-out from 1,000 to 680, given I imagine they originally did some of the best places first, so what's happened? And secondly, on the IP migration, going back to that, most other operators who are going through that process have found that their cost base has gone up because of the duplicity of the IP migration. Is that implied in your next three-year plan? I.e. you have an element of incremental cost for these types of things within that net EUR 350m saving? Thank you.

**A- Joost Farwerck (COO, KPN):** On the fibre part, yeah. So, like I said, we started them on 1,000, that's a long time ago, by the way. Main part of fibre roll-out is construction, so like I just said, if we come up with a big plan with trusted partners it's much more doable for us to lower the prices to third parties compared to other years. It's also – and the second one is the way we select areas. And the way we put work in these areas. It's also the equipment we buy from vendors, which lowered a lot over the last years. We believe in multi-vendor approach and by doing that, we're able in a better, yeah, negotiate prices there. And a small part is in engineering. How we optimize our own processes in engineering fibre roll-out in certain regions.



**A- Jan Kees de Jager (CFO, KPN):** Now to your second question, the fastest answer is yes. With one addition also, the migration to all-IP focuses on mainly two spend buckets: Capex and indirect opex, and the indirect opex related to the migration, yes, is included. So the net EUR 350m is included also in the extra spend on indirect opex as well, and the Capex is included in the EUR 1.1bn envelope, but in the mix that will shift a bit. So it will again, this is good Capex, good-yielding Capex; so it will be a bit higher there but it's included in the EUR 1.1bn envelope.

**Bisera Grubestic (Head of IR, KPN):** Next question. Kepler.

**Q- Matthijs van Leijenhorst (Kepler Chevreux):** Matthijs van Leijenhorst, Kepler Chevreux. My first question is on your balance sheet. This is the first time you've communicated a leverage target of 2.5x. What if we get below there? So, could you tell us our strategic priorities?

And the second one is, as of 1<sup>st</sup> October, we obviously have this new cable wholesale regulation. I was wondering, have negotiations already started with some of your wholesalers or alternative service providers? And the upcoming merger between Tele2 and T-Mobile, it will obviously give them some more negotiation power. So how do you look – what is your view on this development? Is there any risk to the wholesale revenue?

**A- Jan Kees de Jager (CFO, KPN):** So, on the balance sheet, when we hit below 2.5x leverage, what happens then? Then we hit our target. So that, it's below 2.5x, so that's perfect. It's the aim to hit below 2.5x. So I would say then, okay, then, we have achieved our target. Probably your question is, what if we would be much, much, much lower than that?

**Q- Matthijs van Leijenhorst (Kepler Chevreux):** Are you looking for additional shareholder remuneration?

**A- Jan Kees de Jager (CFO, KPN):** So, that's a good question about what we do with excess cash. So, excess cash, as I already mentioned, it will be financial and operational flexibility, so including the deleveraging target, and, yes, shareholder remuneration. But we will arrive with that question when we arrived there. For now, we have said our Free Cash Flow, organic Free Cash Flow growth will be utilized for both the deleveraging towards the below 2.5x target, as well as progressive dividend per share, which translates into each year at least a bit higher dividend than the previous year, which is a very healthy, strong dividend policy. It's a very important pledge to the market, to our investors that we make. So it will be that combination. And if there will be any remaining Free Cash Flow after that, excess cash after that, then we still have the operational financial flexibility and shareholder remuneration that we will look at. And we will answer that question when we arrive there.

**A- Maximo Ibarra (CEO, KPN):** On the cable regulation, the long story short is that we have already very solid good contracts, long-term contracts with T-Mobile and Tele2. And now, of course, they are merging which means that we have solid contracts with the merged entity as well. These are long-term, and this is point number one.

Point number two is that, of course, we didn't want the cable regulation because we thought that we were already operating in an open access kind of framework. VodafoneZiggo doesn't want the deregulation as well. They have already made a court case on that, so they went to court to challenge the decision of the ACM.

There is a third aspect to consider, is that if you want to shift technology now from copper fibre access into cable, that doesn't come for free, which means that you need to make some investments if you want to change your Wholesale operator, your Wholesale partner. And it takes time. It's not only a matter of Capex and investment, but it's also a matter of time. If you take all these aspects, the final statement is that maybe in the long-term there could be some impact, but we don't see in the short-, medium-term a material impact on our plan.

**Bisera Grubestic (Head of IR, KPN):** Next question.

**Q- Ulrich Rathe (Jefferies):** Thanks very much. Ulrich Rathe from Jefferies. Two questions. The first one would be, what scale is the 1 million Fibre to the Home target? Is that simply maxing out the construction capacity constraints? Or were there other considerations why it's 1 million and not half a million or 2 million?

The second question I have is on the cost savings and the net impact. So with stable Capex and EUR 350m of indirect net cost savings, Usman already asked about sort of what the other factors are, like direct sort of margin. Obviously, there could be other things like taxes coming in. Is there any way you could sort of shed some colour on the offsetting items? Because I would guess that you don't want us all to add EUR 350m to the current Free Cash Flow in our forecasts. So how do we gauge the sort of headwinds that sort of eat into the upside that you are laying out here? Thank you.

**A- Joost Farwerck (COO, KPN):** On the 1 million, that's not that we started with the Holy Grail let's call it 1 million. It's the outcome of a plan, mainly based on two pillars. Our commercial plan on the regions we identified, and on the other side, the production plan to production capacity we could stress in a realistic way in the Netherlands. And that all within the Capex envelope mentioned by Jan Kees in his presentation. All these three we challenged, we checked and we stressed, and the outcome was 1 million.

**A- Jan Kees de Jager (CFO, KPN):** Okay, so about your question, I understand what you mean. I think the biggest headwind, as you could call it, is still, although moderating, a bit of the decline in revenue against the EUR 350m opex, so it's not automatically translating in a net EBITDA growth. Other items, not so much. Taxes, still many years to come that we are very low on cash-out taxes, at least in the period that we are talking about. At least in the period we still have the DTA, most of our P&L taxes are offset at that DTA, and even after that period, there's also room left as well.

Direct opex, well, that depends on the revenue, of course. So if we can take in extra healthy revenue with a healthy margin, but at the expense of a bit of more direct opex, we will always do that. So that's why it is not an important target in itself, because we will look always at the value creation of the extra revenue related to that direct opex. But the biggest headwind of course is still a bit of revenue decline.

**Bisera Grubestic (Head of IR, KPN):** Next question.

**Q- Joshua Mills (Goldman Sachs):** Thanks. It's Joshua Mills here at Goldman Sachs. So I just wanted to come back to, the way in which you've guided us on the Consumer business, which is recently inflected to negative underlying service revenue growth, is to focus on value rather than volume. And I just wondered if effectively what you're saying here is, we're happy to see service revenues in this segment decline, to Jan Kees's last point, as long as the churn reduction etc. means that we can be profitable at an EBITDA level. If that's the case, do you think that consensus is broadly correct to consider ongoing consumer revenue growth? Or is that too optimistic to explain your point on the Free Cash Flow impact?

The second question is just on B2B. So, as part of the presentation, you discussed the fact that you will not be offering all IT services. You will only be focusing on those which are profitable. I'd be interested to know which particular services you are selling today, which of those are not profitable and will therefore presumably not be part of future packages? And also, if you could give us some idea of what the B2B margin, EBITDA margin you are making is as it will be under the new disclosure, that would be very useful to get an insight into the starting point. Thanks.

**A- Maximo Ibarra (CEO, KPN):** On your first question, of course we are not happy if service revenues go down, but we are happy that service revenues that are not [*\*profitable*] go down. I mean, we are quite neutral. The value over volume really means exactly what it means, is that if we see some revenues that are unprofitable, that is not our business. We are really focused on the service revenues that have margins, because that is the way we have to design our plan. Then we see our service revenues trend improving. Of course, it's in phasing, it depends on the different approach we will take for each single segment. As I explained, on the B2B, it depends on each single market segment. We will have different market approaches, but the common denominator is that we are going to be profitable in all of them.

The Consumer side, thanks to the convergent approach, and the convergent household strategy, we see also a positive trend, a rather positive trend in our service revenues. So all in all, the trend of the service revenues will improve. But what we want is, in the next three years, that our focus is entirely 100% super focused on EBITDA generation, and that is exactly what we explained and showed in the previous presentations.

Your second question was B2B, again, linked to the first question. The turnaround of the B2B, if you remember well the trend, of course, we have been improving. There is an improving trend in organic service revenues. So you have to take all this into consideration, the three aspects. Service revenues, hardware revenues and M&A revenues. There is in reality a fourth element, which is a split between connectivity revenues and IT revenues, but some IT revenues are becoming more and more connectivity revenues. As I explained earlier, infrastructure has to be secured, has to be absolutely reliable for customers, so that's why security is now becoming more and more a core service. It's an IT service, but it's becoming a core connectivity service.

So, if we take the hardware revenues are zero margin, sometimes in the phasing, we see that service revenues, the revenues are improving a bit more because maybe we have had hardware revenues in that specific period. But if we take out also the hardware revenues and we take out the M&A, that's exactly what we have to go for is the real service revenues where you will include more and more IT service revenues. And in that domain is where we have to be profitable, in that domain is where we have to really be focused, because our main goal is that by mid 2020 we are going to stabilize our EBITDA. And then moving forward, we are going to stabilize our service revenues as well. So the real inflection is going to happen in mid 2020. And then again, market segment by market segment, we are going to go into an inflection for the service revenues as well. But target is mid 2020 EBITDA stabilization.

**Bisera Grubescic (Head of IR, KPN):** Question. Here?

**Q- Alexandre Iatrides (Oddo):** Alexandre Iatrides, Oddo. Two questions, you talk about a focus on value. Should we expect maybe some impact on the net adds, and would you accept to have negative net adds, and is there a market share limit? And also, I would like to have a few words on 5G. A lot of players have a very defensive communication about 5G; what level of Capex do you need to have the first step of 5G, and what kind of revenue growth would you expect going forward on 5G? When could we expect revenue growth coming from that?

**A- Maximo Ibarra (CEO, KPN):** Yeah, the first question I think is relevant to mention that we have the mobile-only domain, we have the convergent area – convergent area for us is extremely important. As you have noticed throughout the presentation, we have put a lot of emphasis on that. On the mobile side, there is an area where we have quite a lot of competition. We need to be very solid in defending our customer base, but not at any cost. Which means that we have to make sure that we also get the right number of subscriptions, but again, with the right pricing, with the right margins, so we don't believe that just competing for market share there is the right game. Again, we are KPN.

On the broadband side, our plan is that we are going to improve in our trend in terms of net adds. Of course, there is competition there as well, but the moment is broadband net adds are going to be more and more convergent, also thanks to the roll-out that we are planning for the next three years, the more we'll be able to have a real key differentiator in the market. Of course, we can be concerned about competition, but we should really look into what we do, because we have the right plan, solid plan going forward and we can really make the difference. So, net adds on the broadband side, also in conjunction with the fact that we are going to become more and more convergent and we will have also more SIM cards. So the other way of defending our customer base of mobile is going to happen, because more and more SIM cards are going to be in the household domain. So that's why we believe that this is the right key success factor in the market.

And value it means that when we play the different market segments, we are going always to make sure that we have the right proposition and that we are premium in the market because we have an underlying premium value of being KPN. But again, that means that we are going to compete in all segments with the right propositions, but the main super king hero proposition will be convergence. This is exactly what we have to do.

On the 5G, also here we have an approach where we believe that 5G can be extremely useful in making sure that where we have some areas that are highly congested, where the 4G is going to be highly congested, we can plug 5G in order to improve our performances. This is more the connectivity advantage here we can get. Now, we are going to modernize our mobile network and it's going to be this modernization completed by the end of 2021. And it's going to be 5G-ready, which means that we are just going to switch on 5G where we need to switch it on in order to make sure the performances are fine.

Then, we are at the same time testing different solutions and Joost can elaborate a little bit more on that, but those solutions were already also in the video. We are trying to play with other industries in order to create the right ecosystem. So this looking-forward approach is always the one that we would maintain, because at a certain point, we can move into this B2B2C domain and we can create new services, we can create new businesses. But to be very pragmatic, we believe that the 5G is essentially providing us a better experience that can also be very useful in our convergent proposition.

Then all the rest hopefully will come. We are working hard on that. We have, of course, expectations on that. We are optimistic about that. But to be very rational and to be very solid, all these assumptions are something that we have to consider later.

**Bisera Grubestic (Head of IR, KPN):** Next question.

**Q- Luis Prota (Morgan Stanley):** Thank you. It's Luis Prota from Morgan Stanley. My question is again on your convergent strategy and the focus on value on the KPN brand. I know it's early days, but with the merger of Tele2 and T-Mobile, at some point they might be keen to turn into convergence. And like we have seen in other markets, maybe targeting the lower end of convergent space, or maybe just communications only. How are you addressing that risk? Because you are expecting 70% of your households to be convergent by 2021, you have still 30% of households there that could be targeted by a lower end provider.

**A- Maximo Ibarra (CEO, KPN):** Yeah, I think there are multiple aspects that we need to consider. Again, sorry, if I'm quite repetitive on that, but we are really focused on what we do, and we have to do everything we have in mind very fast. Definitely, there will be more competition on convergence, because it's not going to be only – this concept is not only owned by KPN but it's also going to be for other players as well. So they will invest there, they will be attractive, they will compete, there will be several offers, because they also recognize that this is exactly the market where they have to be. But this market has another advantage, it is less price sensitive than other markets, because of this one-stop-shopping experience, they can get more and more. And at the same time also, technology is an important and relevant aspect. If you are Fibre to the Home it is better than not being Fibre to the Home on one hand, because we have an advantage there. If we are KPN, it's better than not being KPN. And if you have also an advantage in creating your value proposition, it's better than a new player that is trying to create its own value proposition for the market. So we are really focused on ourselves because we believe that by executing this plan, we can really make the difference.

**Bisera Grubestic (Head of IR, KPN):** Next question.

**Q- Russel Waller (New Street Research):** Thank you. It's Russel Waller from New Street Research. Just on the EUR 350m savings, could you talk about how that's – the phasing of that, please? Should we think of it in equal instalments in 2019, 2020 and 2021? And then what proportion of the EUR 350m is coming from internal headcount? So, i.e., what proportion is going to incur a restructuring charge? And then just

a clarification on the fibre roll-out, please. The 1m. Is that 1m homes passed or connected, or what exactly is that? And if it's passed, could you tell us what the number of connected will be, and if it's connected, can you tell us what the number of passed will be? Thank you.

**A- Jan Kees de Jager (CFO, KPN):** On the EUR 350m, again, the distribution will be quite balanced, but it's not – you cannot, well, divide four quarters per year and then everything – all 12 quarters and it will be exactly one-twelfth, like the Simplification program we also had. But there will be already savings in 2019, savings in 2020 and 2021. And actually because it's not run rate, we have to be able to hit the EUR 350m run rate target, of course, earlier in the year already in 2021. So, but there will be always phasing when we can take the cost savings. For example, the FTE reductions, if its own FTE, that will always take time, because you have to prepare restructuring, organization plans, etc., etc., that you have to have advice on and you have to prepare them. And that will also take some time. So in the beginning, it will take some time, although we accelerate. And then we will be able to deliver a quite balanced, I expect, quite balanced opex reduction throughout the whole three years.

Then, the exact number, what is related to own FTE spend, we cannot tell. Even we cannot tell at the moment. Because the FTE reduction in itself is not a target. The target is opex reductions. And at some point in time, it's more value accretive to reduce external spend, external labour-related spend, than our own personnel, because maybe in some cases, own personnel can be actually cheaper than external insourced labour. Not always, but sometimes it is. So we will take a value-creation approach where we per cost bucket make that granular insight, and then we evaluate where we can best reduce the spend. And then, of course, spend related, spend reduction related to own personnel, that will also have a REO charge, whereas in hired personnel or external Statement of Work with external vendors will be, well, maybe a bit more efficient in terms of shorter-term costs. But we always will take a value-creation long-term approach and look for the best way to optimize our spend reduction.

**A- Joost Farwerck (COO, KPN):** Currently, in our fibre installed base, there's not a large difference between homes passed and homes connected like there is in other countries, so it's a definition question. And when we roll-out fibre, we always roll-out, like we say, homes passed, but there's never a big distance as a gap between the connection and the house passed number. So, for us, it's more, do we connect the FTU in the household already upfront? Or, do we wait for the activation moment? So, for us, for KPN, there is only a slight difference between those two.

**Bisera Grubescic (Head of IR, KPN):** Okay. Next question.

**Q- Jan Slijkerman (AEGON Asset Management):** Jan Slijkerman, AEGON Asset Management. Two questions. Could you elaborate a bit on the commercial costs going forward? Because if your churn goes down, because you have more fixed customers, there's an opportunity there, and to what extent are they part of the EUR 350m plan?

And the other question would be, are you happy with the current hybrids you have outstanding if you reach your leverage target, and do you have some thoughts about these? Thank you.

**A- Jan Kees de Jager (CFO, KPN):** Yeah, so, first about the hybrid. The – we have two remaining hybrids, around EUR 900m together. We see hybrid capital as a permanent part of our balance sheet. We have been able to reduce significantly the outstanding hybrids, because we did redeem the EUR 1.1m Euro hybrid, and we did not refinance that, whilst remaining – the equity credit only remaining hybrids, because we have reiterated that hybrid capital is considered to be a permanent part of our balance sheet and financing need. And also it attributes to an intermediate way of capital between equity and senior debt. So, that's what we reiterated at the moment of the redemption of the Euro hybrid, and there's no change in that. So that means that that will stay the same.

And then your other question was about the commercial costs. So, yes, some of the commercial costs are indirect and some are direct. As to the indirect commercial costs are obviously in the indirect opex target. And yes, churn reduction and also more moving to a fixed-mobile converged world, with the whole of

the base moving to less churn, on average for the whole base, because more and more customers are in a fixed-mobile contract, means also logically that you could anticipate that some of that commercial cost will go down as well.

**Bisera Grubestic (Head of IR, KPN):** Next question.

**Q- Emmanuel Carlier (Kempen):** Emmanuel Carlier, Kempen. I have two questions, one on the opex savings. Could you maybe split up how much of the savings are really KPN-specific, and how much are sector-specific? Because I know it's tough to answer, but you could say that if a lot is sector specific, that will result in lower pricing.

And then secondly, on the revenue trend, so I think we start to see some unbundling, fixed line telephony no longer taking, TV often as well. How do you look at that in the coming years, and what kind of pressure do you believe this could give on the ARPU? Thank you.

**A- Jan Kees de Jager (CFO, KPN):** As to cost savings, so there's two different sectors you could of course compare it with. But let me first start with the answer that a significant part is also KPN-specific, because when we benchmark ourselves, either to other incumbents in Europe or towards also what we have done to create a [*virtual*] competitor, with VodafoneZiggo but also some other companies that we have put into that bucket and make it a company almost like KPN, a virtual company like KPN, that also our cost structure is much higher than that company as well. So, a lot of the savings that we now anticipate are KPN-specific. However, also, some of the savings and also a substantial part, are sector-specific. However, more sector-specific compared to incumbent Telco's like the other KPNs in Europe, than our main competitor, which already has much higher margins because they are a cable, in fixed they are a cable company. So, although on mobile, of course, if we do sector-specific savings on mobile, probably that will also kick in in our competitors as well. But most of the savings and most of the expenses, well, a significant part of the savings, I have to say, significant part of the savings are related to our fixed network. So even some of the – what you could say sector-specific savings are related to our fixed network, which also can be done by other telecom operators in Europe, but not in the Netherlands. Because we have another competitor, a cable operator, which is already efficiently operating and has not the same savings potential, not comparable because it's another infrastructure, another topology.

So moving to an all-IP infrastructure on our network, moving to fibre, less active components, more passive components, is a bit more specific to Telco's like KPN and also others in Europe, but not a cable company. So, you have actually three kind of buckets: specific KPN, which of course will translate normally also into the margin; specific Telco, but not cable fixed, which also is, well a good situation; and some are, for example, in mobile, could be specific also – could be also generic for other competitors in the Netherlands. But still, there's a lot of potential also that it will translate into higher EBITDA margin, because of the three different cost reduction buckets.

**A- Jean-Pascal van Overbeke (Chief Consumer Market, KPN):** On the unbundling question, so we see indeed, like in many other countries, a decline of some of the technologies, PSTN or digital television, and so it puts somewhere a pressure on revenue. On the other side, what we see as well is that it's starting to get more and more segmented, and so it's not like you have segments that have everything, and are suddenly cold cutting or stopping to use some services. But you really have segments that are needing and wanting the service, and some other segments that wouldn't see an added value of it, and would take one of the new bundles, which then includes IP television, with fast broadband and so on.

So, yes there is a decrease and there is then a risk on the revenue on that side. On the other side, the new segments or the acquisitions that we are making these days, are usually compensating with the new replacing service and so we don't see a massive risk on ARPU related to that. But, there is indeed a decline of that customer base.

**Bisera Grubestic (Head of IR, KPN):** Okay, next question.

**Q- Siyi He (Citigroup):** Hello, Siyi He from Citigroup, I have two questions please, and the first one is on your Consumer fixed business, if I look at your last few quarters it seems that you strike a balance between accelerator, RGU decline and then the ARPU growth. And I think you talk about – we should see the RGU trend improve, but my question is that when you think about the future, the upside of pricing increases, how do you think about the sustainability of your price increase, especially given that T-Mobile and Tele2 seems ready to launch fixed-mobile coverages all over 5G in 2020? And, the second question is, I wonder if you can give us some details on the dynamics of Wholesale and on FttH and FttC, especially given that cable is opening up for Wholesale. Thank you.

**A- Jean-Pascal van Overbeke:** Thank you, so on the first question on pricing and price increase. Obviously price increase is not a strategy or is not something that is part of the plan as you desire, so it's reflecting what we deliver to the customer. So, at this stage it's part of the plan in terms of revenue, but we don't think that we have somewhere, a strategy of increasing prices by default. What we see, though, is that through delivering this excellent service, which we are, and we organise both by NPS, ARPU and churn reduction, we think at some point its premium positioning translates into a premium pricing as well. And so, we think that there is – as long as we continue to deliver that quality of service to our customers, there is no reason why we wouldn't be able to reflect that premium service into a premium pricing. So, that's on the pricing.

**A- Joost Farwerck:** On Wholesale, when we started to upgrade our copper network and rolling out fibre, it was important for us to make good Wholesale deals. Like Jan Kees mentioned, Wholesale is an interesting business for us; it is in the fibre case as well. So we have open access strategy, and by making good deals on what we call wholesale broadband access, both on Fibre to the Curb and Fibre to the Home, we encourage our large customers such as T-Mobile, Tele2, and other players on our network, to move from the passive layer to the active layer. So, for us, it's improving Wholesale ARPUs, and it's about rationalizing our network because they will all move to the active layer. So, there's a difference between the pricing of course in fibre and in Wholesale, and we have long-term deals on that, in place.

**Bisera Grubestic (Head of IR, KPN):** Next question.

**Q- Konrad Zomer (ABN AMRO):** Hi, it's Konrad Zomer, ABN AMRO. Two questions, one on Free Cash Flow and one on 5G please. The first one on Free Cash Flow; you've been able to grow your Free Cash Flow, because as you said, the refinancing of your bond portfolio, and the repayment of your hybrid. But now that Free Cash Flow has to come – growth has to come from organic growth and EBITDA, do you think that you might be able to accelerate your Free Cash Flow over the next three years – your Free Cash Flow growth, I should say, compared with what you've achieved in the last three years?

And my second question on 5G, in your previous statements, you've come across as fairly relaxed in terms of the timing of the 5G auction in the Netherlands. Can you maybe give us an update on the exact timeline that you're looking for, and how that might impact your balance sheet, and because of that, obviously your leverage ratio and your Free Cash Flow? Thank you.

**A- Jan Kees de Jager (CFO, KPN):** On Free Cash Flow, we didn't provide any annual targets on Free Cash Flow. Free Cash Flow has been driven the last few years, mainly by interest savings, 55% less interest payments in the last four years, so that's very considerable. But also Capex reduced and of course, still supported, which we also foresee for the – for the near future, still supported by a very low cash out on taxation, on corporate tax. Capex will be stable, so that will, in itself, not drive Free Cash Flow growth anymore. EBITDA will kick in, and of course there will be some phasing in that. And still we have 2019, although not officially in our Free Cash Flow, but of course it is real Free Cash Flow, EUR 67m on coupon savings, starting from 2019, and also a few million extra on senior bond redemption as well. Then in 2020, we still have a bit of tailwind also from senior bonds, but then, of course, also the interest part is played out. And it will really have to come from the Free Cash Flow growth from EBITDA. But, we didn't give specific annual targets on Free Cash Flow.

**A- Joost Farwerck (COO, KPN):** And on 5G, we are anticipating an auction, probably in 2020, which is about 700MHz spectrum, 1400[\*MHz] and 2.1[\*GHz] are already in use by three operators in the Netherlands. Everything, of course, fully anticipated on. We do not expect a 3.5GHz auction to be earlier than 2022. Our Ministry of Economic Affairs announced that they will come up with spectrum planning after clarity on the merger of T-Mobile and Tele2. We are, of course, discussing the spectrum planning needed in the Netherlands, and the auction models, and we think it should be transparent and simple, encouraging us to invest in a network instead of paying a lot of money for licenses.

Yeah, what we say on 5G, first we were a little bit pushy on the planning, but to be quite honest now, I think it's good to have more time to see how 5G really is paying off in other countries, that's why I like the idea of having these field labs in place as well, because 4G was all about connecting all consumers and users, at the same time when rolling out. 5G is more about B2B solutions, and it's very important for us to really understand how we build environments where we can make money on for B2B solutions.

**A- Jan Kees de Jager (CFO, KPN):** Yeah, and on the spectrum spend, whilst not a Capex item, the anticipated spectrum spend in this three year period is included in our outlook on leverage below 2.5x.

**Bisera Grubestic (Head of IR, KPN):** Okay, next question.

**Q- Dhananjay Mirchandani (Bernstein):** Yes, thank you very much, it's Dhananjay with Bernstein. I mean, the Dutch market is going through material, structural and regulatory change, we have – VodafoneZiggo is reasonably nascent, T-Mobile Tele2 is at the doorstep, cable regulation, spectrum auctions, and forgive me for saying this, but there's a new management team, broadly speaking, in front of us today. So, if you were to look at this entire complex, what is the single source, either internal or external, of risk to your organic EBITDA ambition over the next three years?

**A- Maximo Ibarra (CEO, KPN):** Yeah, I think that the – the main risk is a pure execution risk. I do believe – we do believe that that risk is in our hands. Everything that is happening around us is, I mean, normal. There is some in-market consolidation, which means that we have now a player that is merging, we have the spectrum auctions and this is happening almost everywhere. We have an advantage there because we also will see exactly what's going to happen in the other markets. We have the split as the auction is – I see this as a positive. At the same time, we see that the – yeah, competition is now quite intense and it will be quite intense also in the future, so the real risk is really in our hands, so the way we are going to manage our plan. Because why I said also many times that we have shared that within the Board of Management with the rest of the executive team is, we have a solid plan, it's straightforward, it's in its ambitions, we already have prepared the ingredients that we need to elaborate in order to finalize our program. We just have to work altogether, make sure that everyone is on exactly the same track, and we have to be faster than anybody else. This is, I think, one of the critical success factors.

**Q- Dhananjay Mirchandani (Bernstein):** Can I quickly follow up?

**Bisera Grubestic (Head of IR, KPN):** Yeah, it's okay.

**Q- Dhananjay Mirchandani (Bernstein):** So, of the aspects of execution, what is the single greatest source of execution risk?

**A- Maximo Ibarra (CEO, KPN):** When I say execution, it means that – and when I say also that they depend on us, it's our ability to deliver this, exactly what we have shared with you, that I consider absolutely doable, but we need to make sure that we deliver exactly this. And that's why I say it's in our hands; it's in the way we elaborate that. All the rest, I think is normal, we believe is normal. This is our market, the telecommunication industry is a fast-evolving industry, and we always will have issues like that. We can model any kind of framework but then of course we don't know exactly what's going to happen in three, four years' time from now. What we really know is exactly what we can do. And now we understand about the customers, we have solid market position, so again the starting point is good. But again, we understand markets – customers very well, so we know exactly what they want, the way we have to



deliver services, we understand very well our complexity. We know exactly how to deliver that, and on top of that, what is reassuring us, is that the company has been, also in the past, delivering quite well. So, that is going to be – our ambition now is that the evolution trend, our improvements, the way we do things, is going to be much faster, and we're going to be even more effective.

That's why now, as you said, and I like saying that we were, I mean, particularly fat. Okay, just consider this company was the old PTT, lot of legacy, lot of complexity, not by design because this was the way of evolving in the industry. And now we have worked in order to make sure that part of this legacy is over. We have decommissioning platforms, we are investing in the new platforms. We know exactly again how customers are behaving, we have demonstrated that convergence is the right strategy. We get real value so it's something that we are touching with our hands. We know also in the B2B that if we deliver, and we migrate customers in the new platforms that we get an additional value. So we have the legacy, I mean, the DNA of the company which is moving forward, working hard, and we just have to leverage that and be able to do it even better than before. So, that's why I say that the executional risk is in our hands, and we are going to make sure that there is not going to be an executional risk.

**Bisera Grubescic (Head of IR, KPN):** Next question.

**Q- Usman Ghazi (Berenberg):** Hi, it's Usman from Berenberg again. Two questions on network virtualization please. So I guess KPN is one of the few operators in Europe that's actively talking about this as a cost savings opportunity. And I'm just wondering if you could elaborate what KPN has done differently, whether it be in terms of rescaling the workforce or taking steps to insource IT or what have you, that gives you confidence to actually be able to execute on what seems a difficult part for typical operators that have outsourced everything to network equipment vendors in the past. So just any colour on that would be interesting.

The second question was, I mean, we've spoken a lot about cost savings from network virtualization but I was just hoping if you could give us any colour on what the revenue opportunity could be from actually running a network in software, rather than on traditional physical appliances. Thanks.

**A- Joost Farwerck (COO, KPN):** First, on the topic of – let me say first, Telco's often use these big words and they make a lot of noise around it, like becoming all-IP, network virtualization, digitalization, so we like to approach this more in a prudent way. That's why we come in more or less later than others, by claiming to be all-IP, because it really has to deliver value for us, in the program we mentioned otherwise it doesn't make any sense to mention topic at all. So, on network virtualization, I'm, to be honest, quite proud of my team because they really not only worked out the concept or the model but they're currently doing it. There are white boxes in our datacentres, and they are virtualizing the first network functionalities as we speak to these new hardware environments, this year and next year. We do only like 5% of network functionalities, but we truly see the value of that, software defined network added to that.

So, we talked about this for a long time, but only when we really saw it working in our datacentres, and the first migration started, we really calculated this into the program. And, one of the ways we do this is that we in-source a lot of software developers. I mean, we talk a lot about the reduction taking place, but we also in-sourced software developers. We have – a couple of years ago, we had the back office in India of 2,000 people working on KPN, that has been reduced heavily. And we will reduce more of these external suppliers by moving in our own software developers, on the count of, for more or less 1 to 4 or 1 to 5, so we reduce five external people, writing hours on KPN, we move in one software developer. Over a 100 we hired, they are all in Amsterdam, so this really is asking for a change. Already five years ago, the people in Amsterdam running our IT office there started to work on Agile without mentioning the word because that's another word we all use, so they really work in a different way than we're used to. And I truly believe that outsourcing is already dead for a couple of years. There's a lot of value in making a good balance between what you develop yourself and what you buy from others.

Yeah, and, of course, on network virtualization, that's typically a topic to give every now and then an update on, because we're proud of the program but we also want to deliver.

Yeah, on revenue – on the revenue side, I think that's more on the software defined network where we can really, on one side optimize the whole operating model and make our company far more efficient and lean and mean from an operational point of view, and on the other side, deliver connectivity to B2B customers, in – in a day, like Jan Kees was giving you the example, instead of weeks and weeks and weeks. We have still a long backlog on certain orders in B2B, while if we do this fully, we can just connect our customers. So, I think it's an efficiency, again, but it will also bring in probably more revenue, although we didn't calculate this yet in the case.

**Bisera Grubestic (Head of IR, KPN):** Next question.

**Q- Luigi Minerva (HSBC):** Yes, hi, it's Luigi Minerva from HSBC. So, one question on the incentives for the top management team, so if you think about the variable part of your compensation, what are you – on what KPIs is the top management paid on and whether, with this 2019 to 2021 plan, you've changed the incentives, compared to the previous plan? And then, maybe also if you look down the ranks, if you think about the salesforce, with the aim of delivering profitable growth, whether you are changing also their incentives accordingly?

And second question is on the dividend growth, and relationship with the Free Cash Flow growth, same level, below or above? Thank you.

**A- Maximo Ibarra (CEO, KPN):** Yeah, and your first question, of course, our long-term incentive plans are well linked to our strategy and will be linked to our strategy, so the one that we have presented today. Our Supervisory Board is working of course in direct link with us, in order to make sure the long-term incentive plans also for the next three years are going to be the way that we described. Of course, the long-term incentive plan, the next one, the one that is related for the next three years will be approved in the shareholders meeting. So, but I can tell you that they are linked and they will be always super linked.

In terms of the salesforce incentives, I think that they are very well designed. There are some fine tunings that we need to make, in particular in the B2B segment. As we said, it is not only about just revenues, it is also about the margins that we can get. We are now designing the right balance between our product portfolio and the value that it can generate, but, of course, if we design the product portfolio that is actively profitable, then for our salesforce, it's going to be much easier. So, when we share the concept of optimizing and reducing our product portfolio by 50%, it's exactly in this direction, to make sure that the products that we give them are already profitable, so for them, the sales effort is going to be much easier. But then of course, we have also to consider that our salesforce are working for the company, for KPN, and part of our incentives will be linked to the EBITDA value targets that we have.

**A- Jan Kees de Jager (CFO, KPN):** As to dividend, so, again we aim at sustainable organic Free Cash Flow growth, and that will also enable us to pay out a progressive dividend –an increasing dividend per share. For each year it will be higher than the year before. And, because we have said that Free Cash Flow will be driven also by EBITDA growth, this will be the biggest fuel, also after the dividend per share growth. This will continue. We will give specific outlooks, as we have done for previous years also, each year for the – at the Q4 results, we give an outlook for that year, on Free Cash Flow but also on the dividend that we intend to pay out.

**Bisera Grubestic (Head of IR, KPN):** Next question.

**Q- Polo Tang (UBS):** Hi, it's Polo Tang from UBS. Just a question in terms of Business, on slide 56, you broke out what you were expecting in terms of the different Business segments, but maybe just focusing in terms of the Corporate segment, can you maybe just talk about who you see as the main competition

there, and maybe talk a bit about the competitive dynamics, and specifically what are you seeing from VodafoneZiggo in this market?

**A- Maximo Ibarra (CEO, KPN):** Yeah, in the Business segment, there is also a difference between the Large Enterprise and the Corporate, right. So the Corporate we are talking about a number of customers that is quite small, compared to the other segment which is the Large Enterprise, so we are talking really about the big corporations. The way competition is managed there is by tenders, and the tender, as you know – as you may know, is always based on different criteria. Sometimes some tenders are what they call like split in different categories, so there is a tender for mobile-pure services, some other tenders are just for fixed, some other tenders are for integrated services with IT. So, not all these tenders are the same. But, all in all, customers are [*expecting*] to have, also in that segment, much simpler solutions than what they used to have. And in the corporate segment, competition is different, because if you take those tenders that are split in different areas, then, of course, if there is just a mobile tender, then on mobile we have more competition. If it is a converged tender, then we have less competition because we are considered very reliable player with a lot of experience and that we can deliver all the services requested.

But our approach is that on top of these different criteria, we need to serve customers, making sure that the combination between connectivity services and IT services is the right for us in terms of the profitability we deliver. So, if for whatever reason, we will be in a tender where we have quite crazy offers coming from competition just to get that customer, so to get the number of lines or to get just the number of SIM cards, and to have just simply revenues but a business case that is very weak, this is not interesting for us. But, more and more tenders are becoming convergent, and those customers are really looking for a very solid player. And that is the evolution that is currently happening.

So we have to make sure that we get the right profitability, we have to make sure that we create the right offer in terms of complexity, so not too complex, so that we don't generate complexity in our back end, and then we can have, what I call a healthy business case, customer by customer.

**Q- Polo Tang (UBS):** And who do you see as the main competitors and how is VodafoneZiggo doing in that segment?

**A- Maximo Ibarra (CEO, KPN):** Sorry, can you repeat that?

**Q- Polo Tang (UBS):** Who do you see as the main competitors in this segment, and how do you think VodafoneZiggo, specifically, is doing?

**A- Maximo Ibarra (CEO, KPN):** Sometimes we have some IT players that are entering more and more into the space, but what we are seeing is that we can easily partner with some IT players in order to make sure that there is the right offering. Definitely, in that segment, I don't see in these convergent solutions, VodafoneZiggo as the most relevant player.

**Bisera Grubestic (Head of IR, KPN):** Next one.

**Q- Wilton Fry (Royal Bank of Canada):** Hi there, it's Wilton Fry from Royal Bank of Canada. I just wondered, how much – are you going to be recognising any restructuring costs from the new cost program in 2019? The reason I ask is that, of course, you're only EUR 190m through the EUR 350m existing program, so arguably, a restructuring cost should be covered by the existing program. Thank you.

**A- Jan Kees de Jager (CFO, KPN):** Yes, but we have said also that we will accelerate, so our new program is more than our previous program and that acceleration will take place and that will start already in 2019. However, we will give specific outlooks for each year, as I already said, at the Q4 results, then we give an outlook for that specific year, also on how that will work for reorganization, restructuring charges and Free Cash Flow as well.

**Q- Wilton Fry (Royal Bank of Canada):** Should we consider it more as a sort of a net EUR 200m gain, rather than a gross EUR 350m?

**A- Jan Kees de Jager (CFO, KPN):** Oh it's admirable to try again, but let me just reiterate what we already have disclosed because that's – I want to stick as close to the press release. I see also – see our chief legal officer there, so – we will give you more granular insight into 2019, at our Q4 figures, also about restructuring impact.

**Bisera Grubescic (Head of IR, KPN):** Next question.

**Q- Paul Sidney (Credit Suisse):** Yes, thank you, it's Paul Sidney, Credit Suisse; couple of questions please on fibre. In terms of the 1m fibre build, what was really the trigger for the decision to expand the FttH build? Was it the cost per home pass? Was it pressure from challengers? Was it waiting until you were in a position to grow EBITDA? Just to get some more colour on that please.

And secondly, what is the existing penetration of activated homes in your current 2.35m fibre footprint? Thank you.

**A- Maximo Ibarra (CEO, KPN):** Yeah, only if I got right your question is on the Fibre to the Home, the Fibre to the Home strategy, what is a real trigger for that, right, yeah? What is the rationale behind? Yeah, there is just one main rationale behind, is that we have in our goal, in our ambition, to create the best infrastructure in the country, in order to offer customers convergent solutions based on the best infrastructure in the country. And we believe this is our role, and we believe this is the way forward in creating our digital highways. So, the rationale is that.

Of course, when you do that, you need to consider three aspects; the first one is, what, and how customers are going to behave, the moment you propose a certain technology. So, at the beginning, if you noticed, we have already completed – if not completed, we are in the process of completing, is going to happen quite soon, the upgrade of copper. This is going to be nationwide. With the upgrade of copper you can get up to 200Mbps, which is quite sufficient. So, if you are extremely rational, now, today, maybe tomorrow morning, customers will be fine with that proposition, so there is no specific need to move all customers in Fibre to the Home.

But, moving forward, customers will understand that the real infrastructure is Fibre to the Home, so this concept of now powered by KPN, so you have the fibre optic that is reaching directly your premises. Why? Because it's going to be better, throughput is going to be much higher, and the moment we move into a domain where connectivity, pure connectivity is not going to be the only application, but customers will be [*\*expecting*] to have also IoTs, will be [*\*expecting*] to have more demanding technologies, like digital reality, then you will need more bandwidth.

So, that is a process. Some customers are already now really willing to subscribe services Fibre to the Home, because they want to be on the most future-proof technology right now. This is the first aspect.

The second aspect is that when you take into consideration costs, this is not a very cheap technology to roll-out. The costs that we were facing like a time ago was approximately EUR 1k per home passed. Now, it's much lower than that and we are working in order to keep decreasing it. But at the same time, when we roll-out fibre, as we're going to do this in different geographies based on specific criteria, that are from a technology standpoint but from a commercial standpoint as well. So we will see if the payback period for that roll-out in a specific city or neighbourhood of a specific city is the real solution or the better solution or the best solution. So, it's going to follow finally this approach. It's not, let me say, go with the same approach everywhere in the country nationwide, but we have to and we are going to be very precise. We have that kind of skills in the company. We have a number of very experts, data scientists that can do it. And in a technology side, we have also experts and very capable people that can understand where we can get the best case. In some areas, there could be very high demand of Fibre to the Home, so they will be willing to pay more. Also, the concept of the same pricing for everyone, same promotions for everyone – I mean, it's quite old-fashioned. Now, we have the ability to head off customer performance and behaviour in a much more personalized way. So, this is the second aspect.

And the combination of the two – these are the most important in the end – is the real rationale behind our decision. And again, it's not only one shot, because if I had to decide a strategy just for next year, I can tell you, Fibre to the Cabinet is fine. But as we are now planning the future of KPN for the next years, that is completely different. And that's why also we have to play with different technologies to also add a little bit more colour. What we are doing right now is to increase the number of households penetration, from 30% penetration that we currently have, to 40%. Then, of course, that will increase. We will decide the pace of that later. In some areas, we don't need any Fibre to the Home because we can really address those areas with hybrid technologies. Very rural areas, we don't have to get necessarily there with Fibre to the Home. In some other urban areas, we can play with both, Fibre to the Cabinet and Fibre to the Home and gradually shift from Fibre to the Cabinet to Fibre to the Home, depending on the evolution of the customer performance – sorry, behaviour – and again, willingness to subscribe these services.

So, if you take the – just to answer also your second question – the numbers in terms of not every single home passed means an activation, because that requires time. But at the same time also, the time-to-market for this kind of effort will improve, because we will be able to roll-out exactly where customers are ready to subscribe. So, we are going to shorten the time-to-market. Currently, we have, as I said, 2.35m homes passed. We have a number of customers on Fibre to the Home that is lower than that, but, of course, we are going to catch up, so we are going to make sure that this gap will be lower and lower, smaller and smaller, over time.

So, this is the plan. I would love to show that right now, but we have a demo also outside that is exactly about that. So, the way we plan our roll-out and the plan also, the way we plan the commercial approach, which is particularly interesting.

**Q- Paul Sidney (Credit Suisse):** [Inaudible].

**A- Maximo Ibarra (CEO, KPN):** Yes, it is.

**Bisera Grubescic (Head of IR, KPN):** Okay, next question.

**Q- Sam McHugh (Exane):** Hi. It's Sam McHugh here from Exane. Just two quick questions. I think you showed your Fibre to the Home market share was about nine percentage points higher than in other regions. So, if you think about your plan, presumably you want to gain market share in your new fibre areas. How do you balance that with the volume over – or sorry, value over volume strategy? Because it sounds more like a value – sorry, a volume strategy. And then in addition, do you know what your mobile market share is in the 1m homes that you're building to versus your existing Fibre to the Home footprint?

And then just lastly on 5G, I think you said you wanted to be 5G ready. What does that actually mean? Are you going to have massive MIMO, beam forming-ready antenna to switch on in 2022 when you get to the 3.5? Thanks.

**A- Jean-Pascal van Overbeke (Chief Consumer Market, KPN):** So, on the +9% market share, so that's obviously a kind of average result that we saw in two different places. It goes to a lot more like 50% increase in places where there's brand-new developments. So, is that somewhere in contradiction with value? We don't see it this way, because obviously we are going to deploy our commercial efforts in the places where we want to sell, which means that we have somewhere deployed and choose where we think the right opportunities are in terms of right value of broadband customers, but also right opportunity to converge the customer. So, it means that we consider that when we will be able to increase – there is still opportunities, there are still opportunities for us to increase market share and find valuable customers. Strangely, in fact, the convergence part of the plan is more challenging on value, because when you add a second, a third, a fourth SIM in the family, then you can have potentially a dilution on the value. But we don't think that the increase in market share in broadband is a risk in terms of value.

The other question was about the penetration of broadband on our mobile – or the opposite, sorry, I forgot.

**Q- Sam McHugh:** The question is, what is your mobile market share? In this 1m homes you're building, do you have a good idea what's next versus where you are in your existing fibre footprint? Is there an opportunity to gain a bit more mobile share in these areas? There's some synergies to be had on that side too.

**A- Jean-Pascal van Overbeke (Chief Consumer Market, KPN):** Yeah. I won't be able to give you the number, but obviously it has been taken into account because we expect to be able to generate more than a broadband connection only in the places where we are going to deploy.

**A- Joost Farwerck (COO, KPN):** You had a question on 5G. In a short yes, we do MIMO, we do 4x4. That is all about running your capacity in an efficient way. We do the full modernization of our network, which is also to build a flexible future-proof network. And what we mean with being 5G ready, when we have the 3.5 spectrum available in the Netherlands, we don't want to visit every site again, but we want to upgrade the 5G network in a software way. And that's what we ask our vendors.

**Bisera Grubestic (Head of IR, KPN):** Next question.

**Q- Christian Fangmann (HSBC):** Thanks. It's Christian from HSBC. I've a question regarding convergence. I mean, clearly you need to incentivise the customer to move to a convergent bundle, so related to that, what is your kind of your content strategy and differentiation? VodafoneZiggo has done the lot in terms of exclusively having HBO launch the Ziggo Sport platform? So, what is the content piece in the equation for you?

And then also convergence on the B2B front? I think SME, you showed earlier in the slide deck that you had 35% and you want to migrate to 100% in the next two to three years. That's really ambitious. So, what's the incentive for the SME customers to actually accept that and move over to the KPN EEN? Thanks.

**A- Maximo Ibarra (CEO, KPN):** Yeah. I think that the – in general, the incentive in moving into fixed-mobile converged bundles is quite evident. As we said, it's now clear that customers' behaviour is in this one-stop shopping experience. So, they don't want to have different players for different services. They will just have one as it is really seamless.

What is our key differentiating factor? We have plenty of them. Of course, some of them are currently in the market. Some others will come. Definitely, the brand is one. We have a second one that we have already started, the convergent journey. So, customers recognize that we are good in doing this job. So, they have KPN as a brand as a benchmark for that. In terms of the future, we have the great opportunity of adding new services, but here is where we need to be extremely careful but at the same time very determined. TV is already something that customers take quite for granted. So, the fact that they have fixed-mobile and TV is normal for convergence right now. Then you can differentiate your services in different ways. You can have some contents and the other player have less contents. But at the same time, you also need to understand what is your user experience that you deliver and user experience that other people – sorry, peers and players are delivering. At the moment, we are quite good in our content aggregation and at the same time we are extremely good in the customer experience we deliver. It has been demonstrated that for certain contents, in particular Netflix, has been recognized by Netflix that we are much better than any other player in the Netherlands. And we see also the attractiveness of our offer as compared to VodafoneZiggo. They are considered almost at par. So, this is the current situation.

There is another element, which is the customer service that you deliver. When you offer converged solutions, yeah, the proposition is important, the pricing is relevant, the technology and the line technology is important as well. But it's also the way you manage the customer in the household. Are you really delivering the right mechanics when there is an issue? Customers are calling sometimes the customer service for quite unusual issues. Sometimes it's very easy to go into the Settop box and switch

it off and then switch it on in order to get the right signal. But sometimes they require to have field people that can get there and resolve the problem. And we are very good in doing that, in making sure that the Wi-Fi experience within the household is very good. So also that dimension is a dimension that we need to consider. If you remember well from the charts, our NPS in convergence is very high compared to the NPS the other players are getting. It's more like a soft-hard variable to consider but it's very relevant.

And the last one is about the future services. We have in our portfolio security services that we can leverage more. Maybe this is still a nice-to-have for some customers, but will become more and more a must-to-have. And then we have the IoTs. The possibility of making sure that customers will buy from us more and more devices in order to manage the domotization. So, these are new services that will come. For the moment, our nice-to-have will become must-to-have. So, our ability to marketing this kind of services is going to be crucial and will make our offering even more appealing than what it is right now.

**A- Jean-Pascal van Overbeke (Chief Consumer Market, KPN):** May I just answer to the straight question about content strategy. So, we are in a market where, like in other markets, you have sometimes the incumbent and the best. You have the challenger and the cheapest. And then you have the middle that needs to find another reason why you should buy them. We have the opportunity in the Netherlands that KPN is the best. We deliver the best network and we deliver the best quality, and it's quite arrogant to say that, but it's recognized by our customers. So, we think our mission is not to compete on exclusive content we are going to offer, and our positioning is that the customer should have the opportunity to watch and choose any content available in the market. That doesn't mean that the content needs to be free, but it needs to be available. So today, the platform and the television product offers every single possible content that is available in the Dutch market. Some would give it for free. We don't, but it's available. And so, that's really our position. So, we're not going to go into a competition for exclusive content.

**Bisera Grubescic (Head of IR, KPN):** Okay. We will now move to two final questions. Fred, Bank of America?

**Q- Frederic Boulan (Bank of America):** Hi. Thanks for taking the question. Maybe first one for Jean-Pascal, the growth profile in Consumer. So, that business historically has printed a pretty decent level of growth. I understand the focus is shifting a bit on value, but where do you see successful, that business going from a top-line perspective in the medium term?

And then maybe a second one for Jan Kees, and sorry for going back to that point, you show us some mid-term ambitions in terms of EBITDA, Free Cash Flow, dividend. Any reason why that vision may not actually materialize in any of the years of your plan? In particular, if you think about yeah, EBITDA, Cash Flow. I mean, I see on dividend you're pretty clear that it's going to grow every year, but on the two items I think it would be useful to have colour as well. Thank you.

**A- Jean-Pascal van Overbeke (Chief Consumer Market, KPN):** So, on the Consumer market, so what we – where we position ourselves is, we are expecting and we are planning to be able to perform on both increasing or stopping to decrease or stabilize our market share and our revenue share. So, we're not planning in the value game to say we don't really care about market share. We care about that as well and we care about our existing customer base. What the message here is more about, we are not going to go into trying to increase market share at any cost and in any segment.

Now, we do believe – and that's obviously the purpose of what we're trying to share today – we do believe that the right approach, given the assets that we have, is to not go and compete on everything, everywhere. But we – sorry, it wasn't meant – but we really believe that based on our existing market share in broadband and the convergence that is happening, it is not just a strategy it's something which is happening in the market as a customer demand, it's the right approach for us to leverage the quality of the network that we deliver and the perception of quality that is there in this NPS, to try to, if there is

competition, to compete rather on the broadband side of the market. And to somewhere avoid, even if we don't want to give up anything, but avoid to go into extreme competition into the mobile market, which is more competitive and aggressive these days in the country.

So, we think that we grow our broadband market and revenue share through deployment and conversion of the deployment and conversion of existing home passes into new customers with the benefit of the experience they get, plus some financial benefits of converging. And we access the mobile market rather through this channel, which is a personalized, one-to-one relationship where we make offers based on the kind of customers that we have there, rather than to go towards the market to make large acquisition shouts.

**A- Jan Kees de Jager (CFO, KPN):** Yeah, and as to our three years' ambitions, we are very confident that we will be able to deliver over this period of three years on these ambitions. Our current competitive environment is already very competitive, so we have taken into account that current environment, but it is already very competitive. And we do have identified all those cost buckets that we have talked about, already on a very granular approach. Also in the mix, the shift in Capex also is already very granular identified. And of course 2019 will be a year of transformation, so that year is of course a transformational year. But on a full three year period, we have a very strong confidence, because we already have such a detailed plan on opex, indirect opex, on Capex, which is substantiated, that we will be able to deliver on the full three-year plan, given the current climate, which is already very competitive.

**Bisera Grubestic (Head of IR, KPN):** Okay. That ends the Q&A session. As I mentioned in my introductory remarks, I would now like to hand over to Mr Duco Sickinghe, Chairman of KPN Supervisory Board, for some final remarks for today.



## Word of thanks

Duco Sickinghe

*Chairman KPN Supervisory Board*

Thank you. Ladies and gentlemen, at the closing of the Capital Markets Day, I'd like to share with you a few thoughts from the Supervisory Board. As the company with all its stakeholders, we have thanked earlier this year, Eelco Blok, for his almost lifelong contribution to the company and many of you, I think have had the opportunity to work with him as CEO. The handover to Maximo has been quite smooth. Some of you may have wondered why we went to Italy to look for our new CEO. Believe me, it was not because of his Italian passport, neither because of the Italian telco metrics we see in the market that caused us to select Maximo. We've been impressed by his knowledge of our industry, its technologies, his financial acumen, and also his sense for sales and marketing. We also believe that his people-leadership skills will facilitate in energising of the company.

Maximo has in the meantime met many people inside and outside to company in the Netherlands and I think he has become, and his family, very familiar with our culture and also our language. He has spent a lot of time to involve our Employee Council – as you know, an important stakeholder of any Dutch company – in his plans and thinking and took them along in his thinking and shared with them all the options at the table.

After designing the strategy, Maximo set out to assemble his team. You do see some executives, or have been announced some executives who are new to the company, and Maximo, along with Supervisory Board, believe that new perspectives from various countries, geographies, companies and challengers will enrich our thinking. At the same time, we are fortunate to have and be able to work with many, many talented executives at KPN who have, of course, a very rich experience with the history of this company. And I think the company needs their competences and support over the next few years to deliver the organic growth that has been mentioned many times this afternoon.

In particular, my thanks goes out also to Joost and Jan Kees, who have been very steady supporters of the transition.

The executive team will provide a broad and balanced new leadership team to the company, as you may have read. KPN's future is all about telecom and connectivity, as you have heard today. However, the performance of the company is not only dependent on technology or market trends. KPN will do well when we can instil entrepreneurship, leadership and ownership at the company, and become a company where every and each individual will spend the money as if it was his or hers.

Ladies and gentlemen, the Supervisory Board is there to supervise, but also to interact and debate with management and to be their trusted advisor. We have done this over the last few months and I think we've all become supporters of the new strategy and the planned execution of the plans, as you have been able to learn about them in this afternoon, for KPN over the next few years. We do hope that our customers will not only like our technology and products, which we hope will be cutting edge, but that they will love the company and the way we treat them and conduct our business.

I thank you very much for attending this day. It's been a long day and Bisera will share with you the latest details on logistics.

**Bisera Grubestic (Head of IR, KPN):** Thank you, Duco, and thank you, everybody. I would now like to conclude the official part of today's presentation.

[END OF TRANSCRIPT]

**Note:** [\* ] refers to edited textual representation.