



# Event transcript

# KPN Strategy Update

# 2020

Tuesday, 24<sup>th</sup> November 2020

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## KPN Strategy Update 2020 Conference Call

**Joost Farwerck (CEO, KPN):** Hi, everyone, and welcome to our Strategy Update, live from our headquarters in Rotterdam. We'll start in a minute. But first I hand over to Reinout for a short introduction.

**Reinout van Ierschot (Head of IR, KPN):** Good afternoon, ladies and gentlemen. Welcome to KPN's Virtual Strategy Update 2020. We're here at our headquarters in Rotterdam and it's great to see that so many of you joined us online via webcast.

Let me run you through today's agenda. Our CEO, Joost Farwerck will kick off the presentation, together with our CFO, Chris Figee. They will take about an hour to present our strategy update. The slides have just been published on our website. After a 15 minute break, we will move to your questions. Our full Board of Management will be part of this Q&A session.

Now, as usual, before turning to the core of the presentation, I'd like to draw your attention to the Safe Harbor included in the pack, which also applies to any statements made in this presentation. In particular, today's presentation may include forward-looking statements and ambitions which were also included in the press release published this morning. All such statements are subject to the Safe Harbor.

Well, it's time to start. I would like to give the floor to KPN's CEO, Joost Farwerck.

**Joost Farwerck (CEO, KPN):** Thank you Reinout and welcome everyone. Welcome to our Strategy Update 2020 and thank you all for connecting to this webcast. And first of all, I hope you and your families are healthy.

This is a brief virtual strategy update. COVID-19 restrictions mean we can't be together with too many people in the same room. Our full Board of Management is joining this session. And following the restrictions we use several locations here at our head office in Rotterdam.

First, Chris and I will take you through a short presentation this afternoon. And after the presentation, our other four colleagues in the Board of Management will join us in the Q&A session.

We've noticed several rumors in the market recently, and as usual, we don't comment on rumors. We, as a management team, focus on completing this year 2020 in the right way. And we especially focus on the execution of our strategy for the next few years and creating the optimal value for KPN and its shareholders. And that's why we're here today.

And I'm very excited to present our strategic plans to you. We accelerate to grow!

And we are well positioned to do so. We build a strong foundation, especially in the mass market representing 90% of our EBITDA. And today, we cover more than a third of the country with fiber. And we've been ramping up our fiber machine to connect nearly 10,000 households per week lately.

We see positive signs in the Consumer markets. In the third quarter, we saw our mobile base return to growth and stabilization of our broadband base fuelled by fiber. We've made huge progress in migrating our SME customers in the business segment from legacy products to our future-proof portfolio, KPN One. And we grow in Wholesale leading to a total of 52% of Dutch households connected via our network.

We have become a much leaner, faster and simpler company and we saved € 256 million since the start of the latest program in 2019. And I can assure you, we're not done yet. And all of this has resulted in improved financial results with a return to EBITDA growth and a strong balance sheet.

So we've set the stage and now it's time to accelerate to grow, not only EBITDA, but top line as well.

Our strategy is supported by three key pillars. We leverage and expand our superior network. That's the first one. The fiber business case has proven itself, so we will ramp up further and cover the Netherlands with fiber. Second, we grow and strengthen our customer base in consumer and business, supported by differentiated services and an outstanding digital customer experience. And third, we further simplify and streamline our operating model, supporting new ways of working digitally and the next wave of cost savings.

And as a result of this, we connect the Netherlands to a sustainable future. In three years, we reach more than 50% of the country with fiber and in five years we move to about 65%. We differentiate through B2B services on real 5G based on 700 Megahertz. We further digitalize customer interaction and we further simplify our organization.

We upgrade the current cost program for next year and we launch a new cost program. And we grow mass-market service revenues, which is B2C, SME and Wholesale by the end of next year. We grow EBITDA next year and we continue to provide attractive returns to our shareholders with a progressive dividend covered by a growing Free Cash Flow.

Now before we dive into the details, let's take one step back. And the world is changing at a rapid pace and above all becoming more and more connected. And the global pandemic has further accelerated these trends. For people having access to the best-in-class digital infrastructure, it's more important than ever. And telcos play an important role to facilitate this by building a future-proof and secure infrastructure for the next generations.

Massive growth of new applications and connected devices will further increase data hunger and demand will become more sophisticated with, for example, industrial applications requiring ever high quality of services. And the demand will also become more differentiated with applications having different bandwidth and latency needs.

Low latency and superfast networks are key to service our customers and to be able to earn and retain the public's trust. And this is an imported license to operate. And that's why KPN will continue to expand its leading fiber and 5G network in The Netherlands.

We are a Dutch company with a single country focus. And the Dutch economy is expected to outperform the Eurozone by 3 percentage point this year.

The Netherlands has a triple A rating and a Debt-to-GDP ratio far below average. And this means that our government has ample room to support the economy by continuing the COVID-19 support packages for businesses into the first half of 2021.

At number four, the Netherlands is the highest ranked country in Europe in the World Competitiveness Index. And this indicates we're operating in an extremely attractive environment to do business. We're number six in the ranking of happiness. And according to UNICEF, The Netherlands is the best place for kid to grow up. The population in the Netherlands is growing and the numbers of households is growing with approximately 65,000 per year.

The Netherlands is also widely considered as ahead of the pack in terms of digitalization. And KPN is important to support these developments. The Netherlands is second in EIB's Digitalization Index with the best digital infrastructure and highest digital intensity. And this is also evidenced by very high fixed broadband penetration and all three Dutch mobile networks ranking in the global top-10.

In the Netherlands, we have the largest internet exchange hub in Europe. And as KPN, we own a leading internet exchange connecting more than a 100 data centres through Europe. And this enables our customers to peer and exchange internet traffic whilst decreasing bandwidth costs and improving network performance.

Now, let's take a brief look into the Dutch telco market. We operate in one could say a mature three-player converge market. KPN and VodafoneZiggo have both a mobile and a nationwide fixed network. And T-Mobile has a mobile network and is one of our Wholesale customers when it comes to broadband. Including Wholesale customers, we have a broadband network share of around 52% and we have a mobile value share of around 37%.

All three players currently focus on fixed mobile convergence. And with about half of the broadband base and 60% of the postpaid base being converged, we have a leading position in this field.

In the Business markets, KPN is also a clear market leader and we cater to all market segments; from small businesses to large enterprise and corporate customers.

We are the network of the Netherlands. Out of a total of about eight million households in the Netherlands, we serve 4.2 million broadband customers and we serve 7.2 million SIMs through our best-in-class networks. And every year, we invest over € 1 billion in Dutch infrastructure, more than any other company in the country.

And the foundation of our strategy is very strong network layer based on fiber. And next to this, we are on track to create a very lean service provider. We see benefit in the integrated view, but we also look at the most efficient way to run these layers of our company. Our network is supporting the commercial activities and the commercial activities support the network.

We see an optimized network penetration by combining both consumer retail and Wholesale. And this is also an important component in our fiber business case. The operational fiber rollout goes hand-in-hand with commercial actions providing for solid momentum to monetize these investments. And the simplified IT and our lean operating model are designed to act as a linking pin between the layers. All-in-all, the two combined strengthen each other.

Our people make the difference. They are the network behind the network. I'm proud we have, for example, the best service centre agents, the best field engineers and the best sales force in the business. Our people continue to put our customers first in these dynamic times and we have a very flexible and resilient workforce. And to keep our 10,000 colleagues motivated and engaged, the right leadership is crucial to empower them.

We've developed a strong adaptive people strategy, enabling our people to be their best, leading to excellent performance in this strange corona era. COVID brought challenges, and of course many of our employees want to work at the office more often. However, at this moment, they are more engaged than ever. We've seen a major increase in employee engagements

putting us amongst the top performing employers in Europe. So our people, they are ready to accelerate the digitalization of the Netherlands.

We also believe that sustainable business is better business. And that's why ESG is fully embedded in our organization, our strategy, our networks and our products. And we focus on three areas linked to the United Nations' Sustainable Development Goals.

Innovation, we stimulate innovations with the latest safe technologies. Sustainability, we reduced our carbon footprint and we help our customers to reduce theirs. And third, social and digital inclusion. We leave no one behind. And this year, the COVID pandemic underlined the importance of being connected. It makes the difference between participating or not. And as a leading responsible telecom operator, KPN has taken additional steps to help Dutch society through this period.

Digitalization is a catalyst for the country's economic recovery. And it pays off in the social and ecological field such as clear air and the avoidance of carbon dioxide emissions. And it's our ambition to be an inspiring leader in sustainability. We crossed some important milestones in this respect and we have an ambitious agenda for the years to come.

Our ESG efforts are recognized by various external benchmarks. We are on the A list of CDP. We have a triple A status at MSCI. And we recently have been included in the top four of the Global Dow Jones Sustainability Index for the fifth year in a row.

So with three strategic pillars underpinning our ambition to connect the Netherlands to a sustainable future, to grow mass-market revenues and EBITDA as from next year and to provide attractive shareholder returns.

And we will now share how we leverage and expand our superior network. Over the past years, we built the state-of-the-art network architecture that we have today. We have a full fiber backbone connecting our four core locations and our 161 metro core locations in the Netherlands. And as a result, we have extremely low latency in our network and we are well positioned for edge computing solutions. We cloudify a lot of components in our network and we are accelerating the move to software defined network solutions.

And the vast majority of our mobile sites are built for high capacity with over seven bands and are connected to fiber, as well as one-third of the Dutch households. Rolling out fiber creates the opportunity to phase out a lot of legacy.

As from 2023, we will start to switch off part of the copper network that is still running today with 1,300 number exchanges, 8.5 million copper lines and 30,000 street cabinets. And this will of course take a while but it feeds a new simplification program in a couple of years from now. So our next step is to cover the main part of the Netherlands with the fiber.

I will now handover to Chris to take you through our fiber investment case and our 5G mobile network strategy.

**Chris Figeo (CFO, KPN):** Thank you Joost, and good afternoon everyone. I'm very excited to share how we will fast forward fiber. As Joost indicated at the start of his presentation, we see several industry trends underpinning the need for the next generation of fiber infrastructure.

Data demand is ever increasing, and people want fast and reliable internet now that working from home is the new standard. And that is what we offer. Our fiber network today is capable

of handling symmetrical up and download speeds of one gigabit per second. Tests have shown that we can quickly upscale to even 10 gigabits per second. That's why we're investing in a next generation of fiber infrastructure.

We have a very strong fiber foundation with one of the larger footprints in Europe. We cover one-third of the Netherlands or about 2.7 million households with fiber-to-the-home. On top of that, 55% of our households are covered by fiber-to-the-cabinet. We are currently rolling out in 90 construction areas across all provinces. We grew production capacity from about 4,500 homes passed a week in the beginning of the year to almost 10,000 homes passed a week right now. And mind you, this equates to 2,000 homes passed per day or about 250 every hour.

And, since we started our roll out program a few years ago, we have already dug more than 45,000 kilometres, which is actually one time around the earth. We see all this bearing fruit in our financials.

Looking at our Q3 results, we currently generate € 820 million of annualized fiber service revenues. And this number is growing rapidly. In Q3 of this year, our consumer fiber revenues increased 7.6% year-on-year driven by a higher base and attractive ARPU.

I would now like to go a little bit deeper into our fiber business case. Key is that the most important drivers in the fiber case are network penetration and ARPU uplift. Now first let me say a few words on penetration.

We see a significantly higher penetration in fiber areas over time. Typically, one year after the first connection in an area, our penetration goes up by about 7 percentage points. And in our track record, four year's after rollout, total network penetration rises between 50 and 60 points, with only a fraction of customers left on copper. This number rises even further after seven years when our average network penetration, which is a number over 60%.

Interestingly, this follows a pretty linear and therefore rather predictable pattern over time, which clearly strengthens our belief in fiber. So we see a positive effect on network penetration and many customers actually switching over to fiber.

Secondly, on ARPU: while we do not charge a premium for fiber itself, the beauty is that fiber customers on average do have an almost 9% higher ARPU. It is because they more often buy higher speed levels and more value-added services, such as content packages.

And finally, the fiber network quality is also better and less prone to disruptions. This in turn leads to fewer service tickets, higher customer satisfaction and increased loyalty. Whilst also lowering subscriber acquisition and retention costs. And we should not forget that fiber tends to consume much less energy and therefore is contributing to our sustainability objectives.

And to continue on costs, maintenance costs for fiber are about two-thirds lower when compared to copper. So rounding it off, there is a clear opportunity for mostly phasing out of copper infrastructure in the long-term, starting with a gradual switch off as of 2023, as we already announced this year.

So, to be able to calculate the return on fiber investments, we need to incorporate a number of factors. And as I just said, a higher and growing penetration of both retail and Wholesale are essential. And on top of that, we see an attractive ARPU uplift.

Finally, we should also consider the churn on copper that we prevent by rolling out fiber in those areas. And as we are accelerating our fiber rollout, the growing fiber footprint combined with improved penetration rate on this network means that we expect a growing customer base. With every additional household adding value to our fiber case.

Now let me walk you through a simplified do-it-yourself fiber model to help you assess the value creation potential of fiber. First, take the starting penetration in an area and model an uplift in fiber take up and a decline in copper penetration. Do this both for retail and for Wholesale.

Then apply higher higher ARPUs on fiber than on copper, also for retail and Wholesale. And add over time a CPI type price indexation going forward. Then estimate the margin on fiber and copper and you are able to derive the marginal incremental cash flows from fiber investments for the coming decades. This gets you to a simplified but yet very effective model to estimate the fiber value case.

And if you build such a model and because fiber is a very long-term investment, you can see that the cost per home passed is actually not that much of a factor in determining the NPV. It really is the penetration that matters, followed by ARPU uplift. KPN, with its existing client base and existing brand, is very strongly positioned to migrate customers and win share. And thereby achieve solid penetration levels in new fiber areas.

Taking all these factors into account, we get to a positive NPV and internal rate of return that clearly outweighs our cost of capital. Thus, investing in fiber creates value for KPN, its shareholders and a broader set of stakeholders.

So, we see clear value from fiber investments. Fiber is one of the key drivers for our strategy to return to growth in the mass-market. Therefore, we are continuing and accelerating our fiber rollout. We produce about 10,000 homes passed a week today and will ramp up further to a run-rate of about 500,000 homes passed annually for the next five years. This is equal, mind you, to the entire production capacity of the Dutch market in this year.

And because construction capacity in the field is quite scarce, we've already secured capacity at reasonable terms for the first couple of years, giving us a very clear and secured view on the future fiber footprint of KPN. Within selected areas where we roll out first, we've built a sophisticated tool. This takes into account all important factors like demographics, competitive positioning, current penetration, rollout costs, speed of the existing copper network and so forth.

And with this tool, we select and prioritize regions. And it's our ambition to cover the Netherlands with fiber. Importantly, in the short term, we will cover more than half of the country in 2023 and basically double our footprint by the end of 2025. Our ultimate goal is to reach substantially more than 80% in the Dutch market.

Our open access Wholesale model is, as you've seen in the drive of the fiber case, an integral part of our strategy. Through our Wholesale activities, we support Netherlands by fostering competition and innovation and support KPN as the Wholesale activities allow us to further optimize network utilization and subsequently invest in the long-term quality of Dutch infrastructure.

Already today, our Wholesale fiber client base is growing. Growing strongly to nearly 250,000 lines. Since March of this year, our fixed access is no longer regulated. As everywhere in Europe, the Dutch government is preparing to implement the European Electronic Communication Code, or the EECC. In this code, there's a new instrument for regulators, so-called symmetrical access regulation, which means that access obligations to any network may be imposed, if there is no economically viable alternative.

At KPN, even as we are not regulated, we stand by our open network policy, which is built on reasonable and non-discriminatory terms. As such, we believe we offer an economically viable future alternative to today's and future Wholesale partners. And therefore, we already operate in line with upcoming legislation. We welcome every provider to join us, to join the network of the Netherlands.

Now let's turn to our 5G mobile network. In July, right after we obtained the spectrum licenses, we activated our 5G network. All our customers with a suitable device can instantly use 5G. Last month, we announced that we will renew our mobile core network using the latest network technologies that our market has to offer through our technology partner, Ericsson. This makes us ready for a data flows of the future, real-time communication and massive IoT.

It will open new digital solutions for our customers. Already, our 5G network covers two thirds of the country. The investments we made in our network have led to 50% improved download speeds on 4G and over an average of 225 megabits on 5G, using the 700-Megahertz frequency band.

And where 4G and prior mobile generations were mostly about coverage, 5G we believe, is mostly about industry solutions. As the first operator in the country, we offer our business customers differentiated services on 5G, such as: coverage on demand, guaranteed bandwidth and application priority. This enables business customers to have tailor made indoor and outdoor coverage with guaranteed bandwidth for business applications.

Think for example about remotely controlled forklifts or drones continuously carrying out autonomous tasks on company sites. We already have more than two years of experience in testing 5G applications together with our customers and partners to validate business cases in specific industries.

We are focused on innovations in the field of safety, of healthcare, agriculture and sustainability, which we believe are of great value to society. A great example is Shell Pernis, where basic chemicals and fuels are made, and safety on-site plays a crucial role. Using 5G technology, we are investigating in with Shell and partners on how we can further automate inspections and maintenance and enable remote monitoring. This includes use of inspection robots, smart helmets, AR solutions and use of advanced wireless sensors, all connected by an on-site private 5G network.

To summarize, we will leverage and expand our superior network. Fiber provides superior and sustainable connectivity for all our customers, retail, business and wholesale. We will cover Netherlands with fiber, doubling our footprint in the coming five years, ultimately aiming for 80% coverage.

The fiber investment case drives attractive returns, particularly through higher penetration and ARPU, and is fully consistent with creating value to our shareholders. We'll continue our open



access strategy to facilitate other service providers, whilst increasing utilization of our network and enabling us to invest.

And last but not least, we're offering differentiated 5G services to our B2B customers, an area where opportunities are increasing. Joost will now continue with our second strategic pillar.

**Joost Farwerck (CEO, KPN):** Thanks, Chris. Like Chris said, we'll now move to the second pillar of our strategic framework, and that's grow and strengthen our customer footprint through an enhanced customer focus.

Now, if you take a step back and look at KPN, you will see that for the main part, we are a mass market company. We deliver services to families and small businesses in a standardized way throughout the Netherlands with our Consumer, SME and Wholesale segments. We consider SME to be mass market because we've standardized our offerings for these customers, and Wholesale as well, which is serving households through a B2B2C approach.

So, via these mass-market segments, we are generating 75% of group revenues and about 90% of group EBITDA. This does not mean LCE and Tailored Solutions within our B2B segment are not important to us. It still represents 10% of our EBITDA, which is € 230 million. But when it comes to growth areas, it's relevant to mention where we mostly make our money.

And considering where we are today, we are confident that we can return to revenue growth in these mass-market segments, so in Consumer, in SME and in Wholesale. And that will happen end of next year. And we further work on the migration of our LCE customer base to a standardized solution, which will take a bit longer.

In Consumer, our strategy has always focused on households. And we've taken bold actions to ensure that we are the leader in this market. We were the first to introduce fixed-mobile converge propositions. KPN Compleet was widely considered to be a blueprint for converge offerings. We were the first to fully integrate digital partners like Spotify, Netflix and Amazon into our propositions. And we were the first not to increase but to reduce the number of our brands with which we serve the market.

Our B2C strategy is centred around three focus points. We offer the best digital access, the best digital experience and the best digital third-party services. And we're accelerating fiber to strengthen our digital access position. And combined with our KPN SuperWifi proposition, we can guarantee our customers high speeds and reliable connections throughout their homes.

We change the way we interact with our customers. We will provide mobile-first and app-native customer journeys and we enrich our own services with the world of distinctive and innovative services from partners. This is, for example, in the fields of entertainment, gaming and smart home that can be directly ordered at KPN. We create a single platform for households to order and manage all their digital services.

Now beginning of last year, we announced our plan to phase out our Telfort brand. And this brought us benefits in terms of cost savings and value. With Telfort, we basically operated a second company, smaller though similar to the KPN brands, but at a lower retail price. And taking out this entire second company, including the IT backend, the shops, etc., led to substantial savings.

So we saved a lot of cost by phasing out Telfort, but it also impacted our base development in the last 18 months. Now, we completed the migration of the mobile base in the second quarter.

And this quarter, we completed the migration of Telfort broadband customers to KPN. And we are now seeing a solid base momentum in Consumer.

Broadband and postpaid net add trends have improved in the past quarters. We're drawing our line in the sand regarding our market shares and we are dedicated to further improve the base trends going forward.

Today, our strong flagship brand is KPN. And over the years, we've integrated numerous brands into KPN, most notably Hi, and as I just mentioned, Telfort. And as a result, we went from about 800,000 mobile Consumer customers on our KPN brand back in 2014 to over three million today. And we now have more than two million fixed broadband customers on the KPN brand.

NPS, Net Promoter Score, has strongly improved in recent years as customers value us for our quality, our reliability and premium service. So we build a very strong position in convergence with high fixed-mobile penetration in both our fixed and mobile base. And we're in a good position to take the next steps in convergence and digitalization, steps benefiting our customers.

Our customers, Dutch people, are generally known to be early-adopters of technology and the tech savvy. And this is one of the reasons why Spotify, Netflix and Disney choose the Netherlands as one of the countries to test and introduce new features first. So we see a clear trend. Our customers want to be in control without too much intervention from KPN and they want to be able to do this within just a few clicks on their phone.

And it's our ambition to become telco at the fingertips; simple, fast and flexible. With our upgraded MyKPN App as a primary channel for customers to control every aspect of their services. And this will boost the number of active app users and digital-only sales and service journeys.

And we're confident that this digital-only channel experience will result in improved customer satisfaction and more loyal customers and lower costs. We are an aggregator and we combine services for households. End of 2019, we introduced KPN Hussen to give customers more control. And this was, I think, the first proposition in the telco industry where customers are free to tailor all available products and services to their own needs.

So KPN Hussen is built around the households. Customers can freely combine high quality broadband, mobile and TV services, enrich their experience with those of premium partners for content, gaming and other solutions. And we won't stop finetuning Hussen. Soon, we will add pre-selected Hussen packages for households helping them to pick the right packages to start with. And gaming is becoming increasingly popular, so we will add that to the propositions as well soon.

And, of course, to make sure our customers have the best in-home experience, we offer the successful mesh-based Wi-Fi solution, KPN SuperWifi. A best-in-class, very good products, has been sold out multiple times since we introduced it earlier this year. And that is super relevant in this COVID period.

We drive household value by optimizing the share of wallet and reducing churn. And we measure this by ARPA, the Average Revenues Per Address, which we will start disclosing as per first quarter next year. So we're confident our focused efforts in Consumer result in a return to service revenue growth by the end of 2021.

In fixed, the current commercial trend and the accelerated fiber rollout will fuel our broadband base. And in mobile, also the current trend is supporting, and convergence and Unlimited data bundles will grow the base.

ARPA will further increase by pushing more services to the household through personalized offers. And combining these trends, service revenues in Consumer will grow again by the end of next year.

Let's now move to the B2B segment. We have a leading position looking at business market presence and capabilities. And we are the clear leader in telco revenue market share and also, we are the only operator in the Netherlands that acts as a one-stop shop platform offering our own core products enriched with strategic partnership products. And we run the Business segment focusing on three distinctive customer segments. And they all have different characteristics and margin profiles, each requiring their own approach.

First, I mentioned this already, Small and Medium Enterprise, SME. Second, Large Corporate Enterprise, LCE. And thirdly, Tailored Solutions. And for SME and LCE, we have introduced a simple target portfolio offering standardized building blocks to remove complexity and to improve efficiency for our customers.

Tailored Solutions caters to large customers often with an individualized approach. And these customers are generally our partners for life, but we have to be aware that the deals we do are sustainable and profitable. And we see options to improve the Tailored Solutions business and to keep the margin up and focus on core connectivity services.

We will monitor and report the sub-segments within B2B separately going forward. And we intend to provide you with revenue disclosure on this as of next year.

I mentioned SME and roughly half of B2B EBITDA comes from SME. So this is the reason why we've prioritized transforming this segment by standardizing the portfolio in KPN One and migrating the customer base to this new environment.

The organic revenue trends in B2B has been gradually improving over the past years. In 2019 and 2020, this was impacted by self-inflicted strategic actions such as migrations to target portfolio and our value over volume focus. And this year, the performance of course was further impacted by COVID. And we've seen no roaming revenues and we've seen IT projects being delayed this year. Underlying, so stripping out the effect of COVID and our own strategic actions, we can see performance improving year-on-year. And the migrations in SME are now nearly finalized.

So if we zoom in on our SME segment, where we are most advanced with the transformation and where we have migrated 86% of our base to KPN One. This target portfolio is a best-in-class, simplified and converged proposition. SME customers can get everything from voice and TV to workspace, security services in one application and manage all employee seats in an efficient way with one bill.

And in the past three years, the number of KPN One subscribers has grown by about 400,000. This has great benefits as customer satisfaction levels are much higher than on the traditional portfolio resulting in a churn of only 6%. And additionally, the cost to serve is nearly 40% lower.

And customer migrations caused serious revenue challenges, as you know. But the good news is that we, by the end of 2021, expect to have only 6% of the revenues from the legacy portfolio

remaining compared to 40% last year. So we're finalizing the migrations and nearly all SME customers will be on the future-proof portfolio, which is perfectly designed for up and cross-sell. And we see positive proof points here. Triple play customers grew by more than 50% and now account for more than 20% of the base.

And double play customers with internet and voice are currently in the biggest part of our base in KPN One. So we're confident our KPN One base will grow further, for instance, fueled by fiber. And we also see the launch of unlimited in KPN One drive higher inflow ARPU. And all these effects will lead to stabilization of SME service revenues by the end of 2021. And that will be a great turning point for our B2B segments.

Now turning to our Large Corporate Enterprise customers, and like KPN One, we have developed a simplified modular and one-stop shop proposition called KPN Smart Combinations. And in terms of strategy, SME and LCE are pretty much aligned, but they are in a different stage of transformation. LCE is lagging SME by about one or two years. So we're on the right track, but it will take some more time.

And within LCE, we see great potential for up and cross-sell driven by Cloud Communications, Secure Networking, Workspace and Security. And together with our recently launched and differentiated 5G services, this will drive performance. We see growth on our new portfolio. But the growth of new revenues is not yet outperforming the rationalization and the migration impacts. Also for LCE, our medium-term strategy is to return to revenue growth, leveraging our longstanding customer relationship as market leader.

The COVID situation sometimes also brings opportunities. So, for example, when it comes to our largest customers, we are one of the largest workspace providers in the Dutch market with about half a million workspaces out there. And here we see the opportunity to strengthen our consumer segment leveraging a B2B2C approach through the two segments.

Behind every workspace is a person and behind that person is a household. And not all of these households are connected via KPN. So by providing some attractive benefits to them, we see an opportunity to grow our share in this space and we support our large B2B customers by providing excellent in-home connectivity for their employees.

The transformation of our B2B segment is taking shape and it contributes to a much-improved customer experience. And while B2B customers still mostly interact personally with KPN, we now plan to move fully digital customer interaction enabling customers to easily activate and manage products themselves. And this reduces lead times and costs, and improves customer satisfaction.

And over the past two years we've largely simplified our B2B product portfolio and we've stopped selling more than 40% of what we had on the shelves at the end of 2018. We're also simplifying our IT architecture and we reduced the number of systems by 60% in the same period. And all our efforts on this front are paying off as customer satisfaction for KPN One and KPN Smart Combinations is much higher than the legacy portfolio. So that's for B2B.

Our final segment is Wholesale, which is mass market as well mostly serving families via our wholesale partners. And as Chris mentioned in his presentation, we continue to offer the full portfolio via our open wholesale model, and we see further growth in both broadband and mobile services.

In fixed, we see continued growth of our Wholesale Broadband Access portfolio. And in mobile, postpaid is growing mainly at the expense of prepaid, while ARPU is supported by increasing data usage. So all in all, we expect Wholesale to continue its steady revenue growth trend.

So to summarize, we have a clear plan to grow mass-market revenues by the end of 2021. In Consumer, the focus is on best digital access, experience, and partnerships via the flexible KPN household proposition. And our ambition fiber plans are fueling base growth and we expect to grow Consumer service revenues by the end of 2021.

In Business, we have a clear segmented customer focus. SME is the largest contributor in terms of profitability. And here, we focus on finalizing migrations and increasing product density leading to stabilization of SME sales revenues by the end of next year. In Wholesale, we stay committed to the open access policy and we see continued growth, also driven by fiber.

So let's now turn to our third and final pillar. We simplify and we streamline our operating model by accelerating the digitalization. And we are accelerating the simplification of KPN in all layers of our organization. It all starts with our customers. Our goal is to offer an outstanding digital experience. And therefore, we're investing heavily in a digital omni-channel experience for customer to be fully in control and capable of easily activating and managing products and services themselves.

And to offer an excellent experience and amaze our customers in today's world, we need new ways of working at digital capabilities. We need the right people for KPN with the digital mindset. So we're scaling up these capabilities as our people and data analytics will be key to improve customer journeys and support customer experience. But this only works with a simple and straightforward IT backbone, capable of handling everything real time.

Now, this is not the first time you hear me talking about the simplification and digitalization of our company. We've made a lot of progress and step by step we simplified the company and the customer journey. And every quarter, we step down in our cost run rates as well. We started the program beginning of last year to save €350 million in direct opex. And we are well on track, and we upgrade that program to € 375 million to € 400 million. And we launched a new program for the next year to save more than € 250 million over 2021 to 2023.

Over the past years, we've been simplifying our BSS and OSS. And these are systems are a lot of telcos don't dare touch at all, as it is really at the core of the business. We went from numerous interconnected systems to a few simple, agile IT stacks. We now have a state-of-the-art BSS and OSS, which is important for our channel strategy. Especially after phasing out brands, we're now able to move to single shop. This improves the customer journey and our time-to-market.

And for the Business segment, we already have the target architecture in place. But we still have a lot of customers to migrate from the legacy IT to these new systems. And when customers are live on the new IT, we're able to decommission the legacy systems. And since we have much fewer IT systems and the new ones are more energy efficient, we can save on maintenance and energy costs and it makes our network more future-proof and flexible and we can offer an improved customer experience.

We are in a middle of a major digital transformation to create a more effective and efficient organization. Work processes are being digitalized and require skill sets that are different than

we used to need. And this is even further accelerated by COVID. And during the pandemic, we have about 8,000 employees working from home. And that was realized within a couple of days. And without meeting at the office, it's very important to know what's moving and what's motivating our people.

We offer modern remote workspaces where employees can work anywhere in a secure digital environment. And we're also providing proactive support to create an optimal work/life balance and keep our people fit. The times where we went to the office five days a week are over. We tested this with our employees, and they are supportive of this development.

And currently, we're working on a new remote working policy which will be implemented in cooperation with our works council. And while we have the responsibility to contribute to proper home office environment for our people, we're confident that this will lead to structural benefits in the near future as well such as reduced office footprint and less travel spend.

We have a strong foundation to further simplify and streamline our operating model. And going forward, we follow an ambitious digitalization agenda. We move to a new way of working, and we further rationalize our IT infrastructure. And this will result in an outstanding digital customer experience and this will also contribute to the next wave of cost savings.

Now, Chris, there he is, will tell you all about that next.

**Chris Figeo (CFO, KPN):** Thank you, Joost. Here I am indeed. Thanks again. And now let's turn to the financials.

I've said it more than once since I joined the company back in February, KPN is a healthy company, with a strong balance sheet, generating strong margins with an operational delivery track record. We're very disciplined on costs and have managed to offset the revenue headwinds resulting in a growing EBITDA. And in fact, our EBITDA margin is around 44%, and that means through our best-in-class in a European perspective.

And as Joost explained, we're confident to start turning the tide on revenue growth as well. And even though we are in the middle of a fiber investment cycle, and to be fair, run with a quite high Capex-to-sales ratio, we still managed to comfortably place ourselves in the top half of Europe in terms of Operational Free Cash Flow generation. And I'm also pleased that our cash flow definition is quite clean. The operational cash flow developments are therefore easy to understand for you.

Our return on capital employed, or ROCE, is solid and has increased in recent years. KPN clearly creates value for its shareholders. And while fiber investments have had adverse effect on short term ROCE, as it increases capital employed, but do not yet instantly deliver EBIT, we intend to keep improving our ROCE, like we've done this year.

Our investments, cost savings and improving growth profile will continue to underpin our growing return on capital. Our mass market strategy for B2C, SME and Wholesale will drive an improvement in the service revenue trend in these segments. And as such, we aspire to have our total mass-market service revenues return to growth by the end of next year, by the end of 2021.

At our Q3 results four weeks ago, we said that we expect to exceed the € 350 million cost savings target. Today, we announced a new program, a new indirect cost program of at least

€ 250 million or about 15% of our current indirect cost base starting first of January. This is in line with the 17% cost ambition that we expressed back in 2018.

As this new program also covers 2021, which is the final year of the previous program, the new three-year program of at least € 250 million effectively raises the old target to somewhere between € 375 million and € 400 million. And as you are used to, we will enable you to track our cost progress in our quarterly disclosures.

We believe this next leg of cost savings clearly illustrates our continued strong and disciplined cost control mindset, whilst at the same time returning to mass-market service revenue growth. To give you some more flavor on our cost program, we've identified five main buckets to tap for additional cost saving opportunities for the coming years.

First, we continue our portfolio simplification in both B2C and B2B. And although we've decreased the number of services and brands across the segments, we're not done yet. Phasing out legacy will definitely help in that process.

Second, digitalizing our customer journeys across all channels touches upon various cost areas. It enables us to reduce cost on disruptions, on onboarding of customers, on the number of incoming customer service calls, and in many more areas of inefficiencies, whilst at the same time improving customer experience.

Third, IT rationalization has always been a substantial part of our cost savings program and this will continue. We will implement an entirely new ERP system which enables more effective support processes for Finance, Procurement, Supply Chain management and HR.

Fourth, the ambition to become 100% All-IP by end of 2021 hasn't changed. We'll start phasing out copper on a large scale from 2023 onwards contributing significantly to cost savings as of then. And finally, COVID-19 has recalibrated our thinking about the way we work and fast forward digitalization and automation initiatives, allowing people to work from home more often, which makes them happier, whilst also bringing new source of cost savings, looking for example office space and travel.

As outlined earlier, fiber generates long-term value for KPN and all our stakeholders. We strongly believe that accelerating the fiber rollout is the best decision we can make for our customers, society at large and our shareholders. As such, we will step up our Capex envelope to €1.2 billion in 2021, driven by a significant increase in fiber Capex, as we move to an annual run rate of 500,000 homes passed.

This is partially funded by declining non-fiber Capex. And as we show on this slide, we see total Capex increasing in 2021, driven by an increase of fiber investments to about € 450 million to € 500 million or about 9% of revenues. Non-fiber Capex declines to somewhere between € 700 million to € 750 million, or around 14% of revenues in next year. And mind you, this was over 18% of revenues in 2019. Thus, demonstrating our ability to reduce Capex over time.

It's important to know that non-fiber Capex also contains consumer-driven Capex like CPE, our Customer Premises Equipment. About one-seventh of non-fiber Capex is directly related to revenues, which effectively means that non-fiber, non-customer driven Capex is seeing an even steeper decline. And let me be frank, the 500,000 homes passed fits within our previous target of one million homes and yet we increase our Capex budget for next year.

On the one hand, it took us a bit longer to hit the right rollout rate. And on the other hand, this has to do with the longstanding rules of supply and demand for field services capacity. Basically, the demand for fiber contracted capacity in our country has risen dramatically in the past two years, while supply hasn't shifted that much.

Overall, Capex will therefore rise to a peak of about € 1.2 billion, about 23% of sales next year. We are confident this increase will harvest a good return over the long-term as we are already showing in today's fiber performance. So we plan for an elevated Capex-over-sales level for next year that's clearly different versus some of our peers, as our base case rollout is fully financed through our own balance sheet.

And for the years 2022 and 2023, we expect Capex to end up somewhere between € 1.1 billion or € 1.2 billion. With a stable run rate in our fiber rollout, fiber-related Capex is expected to broadly stable at € 450 million to € 500 million going forward. And thus, we'll continue to drive non-fiber and non-customer Capex such as investment in IT and TI, further down. That should help fund the increased fiber investments.

Customer related Capex may be stable or even go up. But that would be good news as that would indicate stronger sales growth. In effect, we fund the increase in our fiber Capex ourselves by lowering non-fiber Capex and by lowering our costs.

Now, let's zoom in on the moving parts of our Free Cash Flow for the coming years. Adjusted EBITDA after leases will grow sustainably in the coming years as we're growing mass-market service revenues at the end of next year. This will be further supported by a new wave of cost savings. We just talked extensively about our Capex profile for the coming years, which is obviously going up next year, and will be between € 1.1 billion and € 1.2 billion thereafter.

During 2019 and 2020, we took actions to lower our cash interest. For the next year, we expect to reduce this by another € 30 million. And with current market conditions, we see opportunities to gradually lower our interest costs going forward.

And then an important topic. I will not beat around the bush here. Cash taxes are set to increase over the coming years. In 2021, we expect a cash out of about € 50 million to € 60 million, a tad higher than we had initially planned. A combination of things is at play here. And for the technicians among you, we're shifting from using termination losses to liquidation losses. The Dutch KPN business is and was structured in several fiscal unities. These fiscal unities had their own tax losses which could be offset against taxable profits. Although nowadays KPN is structured as one fiscal unity, not all taxable profits can be offset against these losses. But the most important impact is due to the recent tax law proposals in the country to limit the annual use of tax losses.

In anticipation of these new rules as from 2022 and beyond, KPN expects cash taxes of about € 150 million with KPN's tax losses will be available for use indefinitely. In the medium term say, 2025 and onwards, this new law benefits us as we can still use part of the DTA which we otherwise would have consumed fully by them.

In summary, the government's proposal does not affect the total taxes paid by KPN, but it is the timing of the payments by maximizing the annual usage of the tax losses. So in the long run, there is no difference to our total cash flow from this proposed new tax law. It's merely a



timing difference. And of course, okay, there might be a marginal value effect as there's something like the time value of money.

And then another topic which we frequently discuss with you, working capital. Investments in working capital will persist and there will be a small drag on cash flow in 2021, although that will be much less compared to the expected level of this year. We are approaching a steady-state fiber rollout at the end of next year, which then eases the impact of working capital after 2021.

By then, the working capital drag should have faded. And next to that, we'll of course continue our cash optimizing efforts. Free Cash Flow for 2021 will be in line with this year. Effectively we are able to offset about € 200 million higher fiber Capex next year by further reducing non-fiber Capex and continued cost savings.

And when looking through the discretionary fiber rollout, we will be delivering a much higher quality cash flow. And, not unimportant, we are confident to grow our Free Cash Flow in the strategic period. We have a very solid balance sheet. Strong cash generation helped create a cash position of almost € 800 million at the end of Q3. Adding our undrawn revolving credit facility results in a robust liquidity, safely covering debt maturities until 2023.

Leverage has come down over the past years and is currently just a touch below our ceiling of 2.5 times. We stay fully committed to an investment grade credit profile and a lower than 2.5 times leverage target for the coming period. Our leverage could even be coming down to 2.0 times in the coming years, giving us ample financial flexibility.

And credit rating agencies have acknowledged our strong balance sheet and market position which is evidenced by solid ratings and a stable outlook. And even though our EBITDA margin is already best in class by European standards, we do not get complacent. We're confident we can improve our operational performance further and reach a margin of more than 46%, and at the same time return to mass-market revenue growth.

On the back of that, we see opportunities to improve our Operational Free Cash Flow margin as well as we cap our Capex in the coming years and possibly move to the lower bound of the € 1.2 billion to € 1.2 billion Capex band and move thereby to the top quartile of our peer group in terms of cash generation.

Now let's turn to our outlook and ambitions for the coming years. We reiterate our full year 2020 outlook, which we already shared at our Q3 results. When we take everything together that we've shared with you today, we come to the following financial ambitions for 2021 to 2023 period. First, Adjusted EBITDA after leases will grow in 2021 and grow further to at least € 2.45 billion in 2023.

We aim to provide you with a more detailed outlook for the 2021 EBITDA at the full year 2020 results at the end of January. Capex is set to increase to € 1.2 billion in 2021 and stay in the range of € 1.1 billion to € 1.2 billion in 2022 and 2023. The final number in those years will depend on the combination of the fiber rollout and the further step down in non-fiber Capex, and importantly, the top line inflection in mass-market service revenues.

Free Cash Flow will remain broadly stable in 2021 and grow to at least € 870 million in 2023, which implies a CAGR of at least 5%. We remain fully committed to a progressive dividend

policy and intend to grow our regular dividend by 3-5% per year. Our commitment to a clear annual dividend growth underpins our confidence in KPN's ability to grow its Free Cash Flow.

At KPN, we've increased our regular dividend per share on an annual basis for the last six years. And we expect another increase for the dividend to be paid out over 2022. Maintaining that progressive dividend policy is sacrosanct to us. And for the period until 2023, we commit to a growing dividend per share, with growth in the range of 3-5% per year.

And importantly, we see the dividend being comfortably covered by our Free Cash Flows ensuring a healthy pay-out ratio which hovers in the low 70's in terms of percentage of Free Cash Flow in the coming period. Thank you, and now back to Joost for some final words of wisdom.

**Joost Farwerck (CEO, KPN):** Thanks, Chris. Before we move to your questions, let me briefly wrap up the key highlights of our Strategy Update. We accelerate to grow, not only after three years but already by the end of next year. We've set out clear goals for the next years to grow mass-market service revenues, to grow EBITDA, and to grow Free Cash Flow.

We accelerate our fiber rollout on our own. We will cross a level of 50% footprint in three years, and we will double our footprint in five years. And combining that with an outstanding experience and digitalized customer journeys, we will offer our customers the best sense of quality and service. And we will continue our disciplined approach in costs leading to a growing EBITDA and further improving margins.

And although we will prudently step up investments next year, Free Cash Flow will grow and fully cover our progressive dividend policy. And we are very pleased to have updated you on our strategy and ambitions today. And I'm very confident that our strategy will maximize value for all our stakeholders. Now thank you very much and we will now take a 15-minute break before we start the Q&A session with our colleagues.

**Reinout van Ierschot (Head of IR, KPN):** Welcome back. We will start the Q&A in a moment. First as usual, I would like to ask you to please limit your questions to two each. In case there's still time left, you could always ask more questions later during the Q&A session. But before we start, we will play a short KPN brand video.

[Video Song].

**Joost Farwerck (CEO, KPN):** Now we hope you feel inspired and that you are ready for the Q&A. But first please let me introduce my colleagues who are joining us from different locations here in our headquarters building, Hilde Garssen, our Chief people Officer; and Babak Fouladi, our Chief Technology and Digital Officer; and then Marieke Snoep, our Chief Business Market; and Jean Pascal van Overbeke, Chief Consumer Market. They are all ready for your questions just like we are. And operator, please open the lines for questions.

## Questions and Answers

**Operator:** Thank you, sir. Ladies and gentlemen, we are starting the question-and-answer session now. If you have a question or remark, please press star one now on your telephone. Star one for your questions or remarks. Go ahead please. Our first question is from Mr Keval Khuroya of Deutsche Bank. Go ahead please, sir. Your line is open.

**Keval Khuroya (Deutsche Bank):** Thank you very much. I've got two questions if I may. So firstly, you've talked about the benefits from FttH within the guidance period through 2023. You would love to see the Capex impacts of FttH and presumably only some of your opex savings. You did touch on this to a degree, but longer term is there any reason to think we shouldn't see the Capex to sales trending back towards the 13% to 15% which is what it shows for the non-fiber Capex? And how should we think about the nature of the opex savings or the potential of the opex savings given the copper switch off will flow will only start in 2023?

And then secondly just on wireless, obviously, we have seen the mobile environment at least starting to stabilize and Simpel has now been consolidated as well. And do you think you could lead the market in driving pricing increases in mobile as you have done in fixed line? Thank you.

**Joost Farwerck (CEO, KPN):** Chris, will you take the first question?

**Chris Figeo (CFO, KPN):** Yeah, I think Keval I think I spotted three questions in two, but that's fine. I'll take the first two from you. At least the first one on Capex to sales. And if you look at our Capex-to-sales ratio, it's over 20% at this point. It goes to about 23%. About 9% is fiber and 14% is non-fiber. If you go back over time that ratio is kind of below 20 for quite some time.

Will we go back to 14%? There is nothing conceivable. I think there will always be some amount of network spend, network optimization. But I think the point of going back to about 14-15% over time isn't a weird suggestion. But of course, we then need to first have finalized the fiber rollout first. But the number you mentioned isn't too far off for your long-term model.

The second question I think was on opex timing. I think it's fairly evenly spread over time. We continue to round off the existing program and accelerate our savings over there. You might see a small dip in the end of next year and a reinforcement of savings at the end of our planned period.

**Joost Farwerck (CEO, KPN):** And your final question was about mobile if I'm correct, right?

**Keval Khuroya (Deutsche Bank):** That's correct, yeah.

**Joost Farwerck (CEO, KPN):** Yeah, so maybe Jean Pascal you can add more to that but what we're currently doing is – what we're seeing is that the whole market is first of all consolidating and secondly moving to a more higher quality unlimited proposition market which we embrace. On our side, I would say our base is developing in the right direction and also the inflow is of good quality. But maybe Jean Pascal, you can add more to that.

**Jean Pascal van Overbeke (Chief Consumer Market, KPN):** Yes indeed. So we achieved in broadband to a bit shorter way in the market by repackaging and merging our different brands and making sure that we focus as always on value and the best value of the market. So in mobile, we intend to do the same. So we first with Telfort when we merge two brands, we've kind of removed a few tariffs from the market which are the lowest end of the tariff.

And as you know, we're focusing today on the super high end of the market focusing massively 30-40% of our shares of sales on to unlimited tariff which are the highest price point in the Netherlands. And so it's a mix effect, right. So we are never going to try to compete on the low end and always try to lead with the premium service and the premium quality product on the higher end of the market.

So we think that with the movement we did on Telfort and the acceleration we have in our high-end premium products, we can hope or we can at least show the way towards the pricing and a value improvement in the market.

**Keval Khuroya (Deutsche Bank):** That's great. Thank you.

**Operator:** Our next question is from Mr Luigi Minerva of HSBC. Go ahead please.

**Luigi Minerva (HSBC):** Yes, good afternoon. Thanks for taking my questions. Talking about the B2B segment, I noticed again a focus on revenue growth. And over the last couple of years you have rather focused on EBITDA and profitability. And I remember you mentioned an ambition to bring EBITDA growth back to stabilization in 2021.

So I was wondering – well first if your priority is again focus to winning business rather than profitability and second what we should expect with regards to that target about EBITDA stabilization in 2021.

And the second question is about well the behaviour of customers in the FttH areas, whether you are winning shares from cable or from smaller players or whether it's internal migration from copper to fiber. So what are the dynamics when you develop - when you deploy FttH? Thank you.

**Joost Farwerck (CEO, KPN):** Thank you for your questions. We move to the commercial room. Marieke, can you take the B2B question?

**Marieke Snoop (Chief Business Market, KPN):** Of course. So when we look at B2B, we will not let go of the total end-to-end EBITDA inflection, but we will focus first on fixing the top line, and we will continue to focus on fixing the top line. So we'll first finish SME like Joost has explained. We already see broadband growth. We already see mobile growth. We already see triple play growth there. So you can assume that end-to-end EBITDA, there will also inflect. We will continue to lower our cost per customer. So we will continue to lower by moving to that standardized portfolios to lower the cost per customer in every single segment. So, I will not let go of also inflecting the end-to-end EBITDA. And we will continue to focus on delivering the services that we have, the core services to our customers because that's the best strategy, but they will be profitable services.

And now over to you Jean Pascal.

**Jean Pascal van Overbeke (Chief Consumer Market, KPN):** Yeah, so on the question of FttH household behaviour, so it's a bit of a combination of the two components of your question, right. There is a part of migration and there is a part of conquest of new customers. The business case obviously doesn't work just on migration. So we are firmly targeting increasing market share. And we've targets of market share increase in every place where we deploy FttH. It's not just that. It's also that customers when they migrate to FttH increase their value. So not only they improve their satisfaction and reduce their churn, but we see them also buy better bundles with higher speeds and better content products and so on.

So even migrations that are not directly increasing market share are increasing value and satisfaction which is also an important driver for the stabilization of our broadband base.

**Luigi Minerva (HSBC):** Okay, thank you.

**Operator:** The following question is from Fred Boulan of Bank of America. Go ahead please.

**Frederic Boulan (Bank of America):** Hi, good afternoon. Thanks for taking the question. The first one is just a follow-up on the previous question from Luigi on the dynamics, more of the network share. So you talk about your current network share, and how that can evolve. But arguably you must already have 100% share in retail and Wholesale outside of cable. So who do you think you're going to take share from in your business case?

And then secondly on the phasing of revenue growth. 2020 this - in Consumer was heavily impacted by COVID-19 especially in mobile. And fixed is actually performing pretty well. Now we see underlying ARPU stabilizing. So can we expect growth for the whole 2021 or that seems a bit premature if I understand it correctly?

**Joost Farwerck (CEO, KPN):** Yeah, to start with your second question, you're right. We lost mobile revenues due to COVID. And we are not anticipating on getting that back in the first or the second quarter because that's for us very difficult to predict. At the end, we expect our revenue to inflect in the second half of the year and especially at the end of the year. But who knows, what happens when COVID - yeah, when things get better and roaming gets back into our business, that's not where we aim for, for the first six months of the coming year I would say.

Yeah, you also asked for network share in fiber areas. And then these shares are much higher than in copper areas. So the inflows like Jean Pascal was already mentioning, it's not only us migrating customers to fiber. It's not only service providers on our network adding more customers, but we also see inflow from yeah other service providers not being on our network. So all in all, I would say that the penetration on fiber is much more healthier than copper.

**Frederic Boulan (Bank of America):** Perfect. Thank you very much.

**Operator:** Our next question is from Usman Ghazi of Berenberg. Go ahead please. Mr Ghazi, please unmute your line.

**Usman Ghazi (Berenberg):** Hi gentlemen, thank you for taking my question. I have got two please. Firstly, on just fiber rollout. You said that you're going to be spending € 450 million to € 500 million based on the run rate of 500,000. However, you have already - you have also disclosed a cost per home of 700 to 900. So if I multiply 500,000 by 700 to 900 I get to a range of € 350 to € 450 million for fiber Capex, so obviously, there's a difference there. I was just wondering if you could indicate what that difference related to?

The second question just relates to the fiber plans that you have. Given that your network share is sitting at around 50%, so 40% retail and then the rest Wholesale, why are you so keen to go and deploy fiber to 65-80% of the country, because that would suggest that you would destabilize the market particularly from cable? Thank you.

**Chris Figgie (CFO, KPN):** Yeah, Usman it's Chris. Let me take the first question on the Capex side. Like the fiber Capex is not all Fiber-to-the-Home. So a big chunk of it is Fiber-to-the-Home. That contains Fiber-to-the-Home for new build and for overlay, so existing copper networks that we overlay. It also contains activations including light into that dark fiber.

But next to the Fiber-to-the-Home, fiber are also contains more backhaul related investment, so Fiber-to-the-Core, Fiber-to-the-Site, outer VDSL rings, etc. So you can't divide 450 to 500 [million] by a number of homes passed because a chunk of the fiber that's in the fiber bucket, is not all Fiber-to-the-Home. It's fiber backhaul related. So that helps to hopefully clarify your

question. The cost per home passed really is in the 750 to 800, 850 per home area. Differs of course per region.

And maybe on to network penetration. On average right our network penetration is about 50%. But over the country, it differs. You got areas where it's lower, areas where it's higher. So we see fiber allowing us to increase our penetration especially in the lower penetration areas. It decreases the risk of churn. It takes away – it will take away some share from our competitors. And secondly, the number of households in the Netherlands are still growing. So especially when you put a newly built house and we put fiber in there, you capture a bigger share of newly built houses.

So the answer to your question is one, penetration is not the same everywhere in the country. It differs. And that's what we pick up in our area selection tool. Secondly, you will get some share from competitors. And thirdly taking more share from newly built homes as the amount of new build homes in Holland is actually quite large.

**Operator:** Our following question is from Mr Konrad Zomer of ABN AMRO. Go ahead please.

**Konrad Zomer (ABN AMRO):** Hi, good afternoon. Thanks for taking my questions. Two related to fiber please. The first one is the percentage of homes activated is roughly 50%. How high do you think that could go and how high should it go to capture the growth that you expect?

And my second question is if you look at the Consumer business only, so excluding SME or Wholesale, why do you think that business should return to growth? And if you exclude fiber and a flat ARPU, do you still think that the underlying trend of that business could return to growth by the end of next year?

**Chris Figeo (CFO, KPN):** Hey, Konrad I'll take the first question on the penetration level. Indeed today homes activated of homes passed is around 50%. I mean the case works at around 50% penetration. I mean the NPV works. The NPV is positive. We think in areas we could move it to 60 if you select the areas wisely and market it well. We'd obviously love it to grow further. But it works in 50 [percent] and I think 60 [percent] is not unattainable especially if you look at the older vintage years, if you look at the first vintages of fiber that we rolled out that we actually got to penetration levels of over 60 [percent]. And it takes a bit of time to get there.

**Joost Farwerck (CEO, KPN):** And on Consumer Jean Pascal.

**Jean Pascal van Overbeke (Chief Consumer Market, KPN):** Yeah, so if I understand well the question is about how and why do we believe we can grow in the broadband consumer market. And so it's a combination of these two things. Well, as you probably, the essence of the question is really about the mix between DSL and fiber. And we see indeed today very different dynamic, right. On the DSL market we have still a decreasing market and a very highly growing markets on fiber. So obviously the more we cover the country with fiber, the more we are going to invert or balance these two dynamics and be able to compensate the de-growth in the DSL by growth in fiber which is only not in terms of number of customers but also in terms of value.

So what we see in the run rate that we have in the last quarters is that the DSL customer base is still decreasing indeed but at a lower pace than it used to be. And the fiber is growing very

fast. So we are now almost being at a point where we balance these two and we feel in the coming month and quarter we will be able to compensate the DSL loss with the fiber gain.

And on top of it, you have the pricing dynamic which on one side the fiber customers are spending more, equipping themselves better with our product. So you have a stable base with higher ARPU. And you know in the Dutch market you have a dynamic where every year you have a price increase which is going to increase again the ARPU next year. So stable towards growing base plus growing ARPU means we are quite confident that by the end of next year, we should be able to increase our revenue.

**Konrad Zomer (ABN AMRO):** Yeah, that's very clear. Thank you.

**Operator:** The next question is from Michael Bishop, Goldman Sachs. Go ahead please.

**Michael Bishop (Goldman Sachs):** Thanks, and good afternoon. I'd just like to ask a question firstly on the capital structure. And given you have outlined very detailed plans for the next two years, I was just wondering what discussions you had around keeping the current capital structure and the less than 2.5 times leverage target as opposed to say something like maintaining 2.5 times and regearing any EBITDA growth during the cycle given the visibility on Capex now.

And then the second question on Capex. I think previously we had seen some small Fiber-to-the-Home acquisitions. And given you are now very granular in terms of locking in the build capacity and also your longer-term target, is that something that's a bit more off the table now. We should just think that you do this all organically. Thanks very much.

**Chris Figgie (CFO, KPN):** Yeah, Michael let me take your question on the capital structure. Indeed we defined our net debt to EBITDA to not exceed 2.5 times. At this point in time, we are 2.4 [times] dropping to about 2.3 [times] by end of year, so very much close to the ceiling. We said look if nothing else happens, the debt ratio will drop to two times which means I need to go there because it is the potential for the group that we are in.

To me, it's a demonstration of the cash generating ability of KPN. So if you roll through our plans and you look at revenue stabilization, if you look at our wave of cost programs, our Capex stabilization and possibly move to the lower end of the €1.1 to €1.2 billion Capex envelope, this group has to spit out a lot of cash actually, which is a very, to me attractive prospect for the future.

So that means we are flexible on our capital structure. It doesn't need to drop below two. I don't strive to that. I'm just saying if we don't act, that's where we get. That just means that we've got much more flexibility going forward to invest or to distribute capital to our shareholders. So the 2.5 is the ceiling and we'll manage it to be in a very efficient way. Don't worry about it.

In terms of acquisitions our focus is and has always been to organically roll out fiber. We select the regions that we want to be in. We roll out fiber most efficiently. We try to avoid overbuild, but sometimes you bump into other providers that have come to an area that we find of interest. Then we engage in conversations with these other providers. And we often get to a solution. Sometimes we rent on their network. We rent and have a call option on the network or we even buy out the network. For buying other networks, we tend to be quite opportunistic. And say, look, it's a make versus buy decision. Is buying a network as good and as attractive as making

it ourselves? Does it meet our own IRR criteria? Is the seller willing to sell, then we might take it up. So we don't exploit or pursue a dedicated M&A strategy. It's something you roll in, you bump into when you roll out fiber in the country. And we have conversations with smaller providers, smaller overbuilders all the time.

So it's not off the cards. It's not on the cards. We tend to be opportunistic when we see these opportunities. And if they meet our return thresholds and create value to our shareholders, we still can do them. But our focus clearly is on organic rollout first.

**Michael Bishop (Goldman Sachs):** Thanks very much.

**Operator:** Our next question is from Steve Malcolm, Redburn. Go ahead please.

**Steve Malcolm (Redburn):** Yes. Good, afternoon guys. Thanks for doing this today, really interesting stuff. Yeah, a couple of questions. One on just going back to Capex. And on the non-fiber bit that you talked about, can you just first of all confirm that you're – what's happened to your set of assumptions around fiber take-up within the overall Capex envelope? And are they changed over the course of the year? Are you anticipating you'll be spending more?

And on the back of that, the € 100 million savings that you have shown to help fund the extra couple of € 100 million in fiber. Can you just again share some color on where that comes from and give us reassurance that it doesn't snap back in a couple of years' time having saved that money to spend on fiber?

And a quick one on tax. € 150 [million] guidance you have set for 2020. It looks like around a 20% tax rate which is pretty close to Dutch rate of 22%. Can you just help us understand how we think about that going forward, whether there's any adjustments we need to make to the statutory financials in the fiscal number, and how we think about that, those types of models being used beyond '22? Thank you very much.

**Chris Figgie (CFO, KPN):** On our Capex, on non-fiber, I think we have to be very careful on reducing it. To your question, will it flip back, also very low. I mean we are still actually taking measurable sensible steps. The acceleration and simplification of our programs are gradually making progress. So I think we've done a lot in the past years, and we still continue to do a lot. But we carefully prioritize where we spend our money on. So I don't see it flapping back immediately. I think we're trying to lock in that spend level and being very responsible around it.

So where does the savings in Capex come from? We've done a lot in our mobile network modernization. We will continue, we've done a lot already. We've done a lot on our platform and upgrades in IT. So gradually you're moving to the next wave of your simplification program and gradually some of the big heavy lifting is behind us. Maybe Babak, you can comment on it further?

**Babak Fouladi (Chief Technology & Digital Officer, KPN):** Yes, thank you very much, Chris. The flip side of the cost savings program that we have is also efficiency in the platforms and the products that we offer to our customers as well which enables us to make our Capex investment more efficient. We first look at the product portfolio as Marieke and Jean Pascal said. We've rationalized that. We simplified it for our customer bases. That in turn makes our application portfolio simpler. We've had about a 60% reduction in our application portfolio.



Reduction of that makes investment less on all those applications. Less investment on those means that the platforms themselves are virtualized.

They are put in the cloud. We closed down data centres, once again less Capex investments in that area as well. And then we bring – the IT spend will come down. We make also then our operations are much more software designed, automated, therefore once again less investment in new systems because now they are much more automated also giving us opex savings.

And of course the network rationalization that we have done enables us to focus on the fiber and the mobile investments that you have seen. With that investment in new technologies we are able to carry on the capital efficiencies for years to come.

**Chris Figuee (CFO, KPN):** Okay. And Steve to your third question on tax, I had actually prepared a whole narrative on fiscal unity and tax loss composition. But your question is more about the actual tax rate which is a lot more simpler to answer. The corporate tax rate is 25%. We tend to be effectively a bit lower for a couple of reasons.

First of all, you can always [have] permanent and timing differences in your fiscal accounting and your tax accounting. And secondly, there are still a chunk of costs and earnings at KPN are subject to the innovation box or other innovation rulings by the government that are taxed at a lower rate.

Now some of those innovation [tax rate] levels are changing. So the tax rate on innovation box is going up from 7% 9%. One of the small explanations why our tax rate is going up. But effectively KPN tends to be a little bit below the 25% mostly because of those differences, but especially because of us using some of the specific innovation arrangements that are taxed at a lower tax rate, so the blend will always be a little bit lower than 25%.

**Steve Malcolm (Redburn):** Chris, can I just follow-up quickly? I mean I think the corporate tax rate has being at 22% next year, isn't it? And a 150 guidance you're giving for 2022 looks like you are under 20% tax rate. So I'm still confused if you can offset 50% of your profit against losses why that € 150 [million] is such a high implied rate given the comments you made this morning?

**Chris Figuee (CFO, KPN):** I think what's at stake is that if – now I'm going to go into fiscal unity anyway. So if you think about our business, you've got a fiscal unity and you've got tax losses in history that are compensating future tax gains, taxable gains. Now there are two types of losses; termination losses and liquidation losses.

We've used the liquidation losses by the end of the year and moving to termination losses at the end of the next year. The issue of termination losses [is] that they don't cover all parts of the fiscal unity at KPN. So some of our earnings cannot be offset against those because those businesses were added to our group after we decided to liquidate the relevant businesses.

So we have got a chunk of earnings that is no longer covered by liquidation losses. They were covered by termination losses, but not by liquidation losses. So that's where next to the kind of new tax laws that actually limit the amount of the uses of your tax loss as your profitability is one thing. You can only use against 50% of your net earnings. Secondly, there is a chunk of earnings that is not covered by liquidation losses. It's the interplay between those two and to add to that the complexity of the innovation box and tax changes there, that leads to a number. I can't make life more simple to you. That's unfortunately the way the tax law works, but it's a

combination of the changing tax laws around what you can use in tax in general, and secondly us moving from termination – from liquidation to – termination to liquidation losses and how do we apply the KPN fiscal unity.

**Steve Malcolm (Redburn):** Okay, understood. But in that result we should be looking at high teens cash tax rate beyond 2022?

**Chris Figea (CFO, KPN):** Sorry the high – sorry the high?

**Steve Malcolm:** A high teens net cash tax rate from 2022 and that the net results of – I'll leave all the details up to you Chris, but.

**Chris Figea (CFO, KPN):** Fair enough if you apply to the total taxable amount, the blend of taxable and non-taxable earnings together probably would give a mid to high-teens effective tax rate.

**Steve Malcolm (Redburn):** Great. Thanks very much.

**Operator:** The next question is from Mr Polo Tang, UBS. Go ahead please.

**Polo Tang (UBS):** Yeah, hi. I've got two questions. The first one around your EBITDA guidance, and the second some clarification around business. So just in terms of your EBITDA guidance you are guiding for EBITDA to be € 2.32 billion this year and for it to grow by just over a € 130 million to more than € 2.45 billion in 2023. But given that you've got € 250 million of incremental savings and given that you've got return on the top-line growth, is your EBITDA guidance not conservative or are there other factors to consider – to - that would offset an impact to EBITDA?

Second question is really just around business. You are calling for stabilization in your Large Enterprise and Corporate revenues and growth in SME revenues. But can you clarify what you're assuming in terms of the macro environment in COVID-19 impacts for 2021 and beyond? And also for business, can you clarify the concentration of revenues and maybe give some indication in terms of your top 10 customers what percentage of Large Enterprise and Tailored Solutions revenues would they account for? Thank you.

**Joost Farwerck (CEO, KPN):** You take the EBITDA guidance?

**Chris Figea (CFO, KPN):** Yeah.

**Joost Farwerck (CEO, KPN):** Chris takes the first question and Marieke, you take the second.

**Marieke Snoep (Chief Business Market, KPN):** Absolutely.

**Chris Figea (CFO, KPN):** Yeah. So when it comes to the EBITDA us moving to €2.45 billion of EBITDA in 2023 is conservative, I think it's realistic. So now that we think we can achieve with a fair degree of certainty if you wish. Is it conservative? Possibly a bit. But at least it's realistic, I think that's most important at this point in time to give a realistic outlook and with some degree of conservativeness around it.

In terms of the macro-environment assumptions, actually we are assuming continuation as of today. So obviously we don't know if and how and where and when COVID is going to change. So the assumption effectively is as it is today we don't plan in for massive return of roaming revenues. So that could be a degree of conservativeness in our estimates.

At the same time, we also don't factor in a massive wave of bankruptcies. So it's kind of the stumbling on of the economy as it is today with upside if the economy recovers. If of our clients

start to travel again and making roaming revenues. There's some downside if the economy falls over the cliff and the amount of bankruptcies rises.

So the best thing we know is continue the line as yesterday with a continued low travel subdued economic environment, but not falling off a cliff as well. And we think that actually is a reasonable and again slightly conservative outlook given that probably at some point in time a vaccine will be there and the world will gradually return to normal. But we found it was too early to plan it in, to book it into our revenue guidance.

**Marieke Snoep (Chief Business Market, KPN):** So then following up on B2B. So first of all we have a very clear and segmented approach. We have the SME segments. You should just think about half of the companies in that segment are with KPN. We have the LECE segment. We have around 1900 customers there and then we have our Tailored Solution. You should think about double-digit [number of] customers there. So that's one.

When we look at SME, we will see that our migrations will have finalized completely to KPN One and KleinZakelijk next year. Our target portfolio year allowing us for that cross and upsell against the lower cost structure. We already see growth on every core product we have there in the market. So that gives us a lot of proof points that will only continue going forward. We will have 6% in our legacy services in that segment, but we will not actively migrate those services. You should think about PSTN but also like telephone conference services that will just deliver to clients in that specific segment, not migrations as we have defined and will be done.

In the LECE segment we see already that we have also there, modular tailored core product, slightly more advanced like cloud communications, secure networking and modern workspace together with our partner Microsoft. We see those new areas growing every single week. So we see our new portfolio growing. We see broadband growth in that segment, and we see mobile SIM growth in that segment already this year. We do however see that the impact of the new revenues coming in is not yet compensating for our rationalization that will continue because it's a more complex situation with those customers and our migration impact next year. So we expect the LECE is lagging with one to two years to the SME segment.

When it comes to our top customers and I will not mention the top ten customers, but I will mention that these are very long-lasting relationships. And for some customers it's an [obligation] as KPN to serve these customers and to digitize Netherlands with these customers. We have full P&L per customer here. And what we do there is we standardize our way of working. We up the core. We partner with other companies to deliver the use cases to those customers. And we optimize those – that specific segment actually per customer on the right win for the customer and a win for KPN. So that's it on the segment and on the growth story behind that – those segments.

When we look at COVID, around 10% of our SME base is in the highly impacted areas like restaurants, like events management, and like travel. So a small part of the base is in that segment. We do see of course the impact this year of roaming.

We also see the impact of delayed IT projects. So we will – when we look at the LECE segments we see some companies that might rationalize their products as a result of, but we also see mainly for example the public sector where we are very big ramping up their investments now to go from bricks to clicks and to really solve their technical depth right now and digitize and take advantage of the digitized customer.

So we don't – what we do see currently is that the bankruptcies in Holland are not increasing and that's because our government is heavily investing to keep all entrepreneurs in Holland alive. So they are really vested in making sure that the impact on our economy and our businesses is minimal. And that's why we've planned prudently for the roaming in our next year's plans. So roaming not to return anytime soon, and we're awaiting the final effect when the government regulations will cease to exist mid next year. So that's it.

**Joost Farwerck (CEO, KPN):** So Polo, as you know we've talked a lot about B2B and how to stabilize and grow the business there. I think it's very useful that we will start disclosing the sub segments as from Q1 next year because then we see where we can make our profits. Then we can show you and how we run it and how we stabilize it. So also for us it was quite useful to organize it like that.

**Polo Tang (UBS):** Thanks.

**Operator:** The next question is from Mr Ulrich Rathe, Jefferies. Go ahead please, sir.

**Ulrich Rathe (Jefferies):** Thank you. My first question comes back to the fiber take-up volume. You – in your answers to the various questions on that so far, you seem to say there is an element here at least of market share gains from cable specifically gaining from the main other networks you have in the Netherlands.

Now and I heard also here that you talked about drawing a line in the sand on volume loss. Is this related? Do you ultimately feel that there is room for you to essentially turn around the situation and then go back into a bit of share gain versus cable and they would be okay with it? Or do you – what are you anticipating in terms of a competitive reaction? Because I do remember there was a period in the past where there was a pretty destructive price type competition for share in broadband between cable and KPN? And what makes you confident that this wouldn't happen on the fiber rollout?

My second question is on the non-fiber Capex, would it be possible maybe to outline the main areas where you can cut back so sharply? I'm not entirely sure I fully understand that because it was – you have said that one-seventh of the overall Capex comes from – is related to direct revenue. But then it is the relatively small part there that you're cutting back quite sharply. So what is that? Thank you.

**Joost Farwerck (CEO, KPN):** Jean Pascal, can you take the first one, and Babak the second?

**Jean Pascal van Overbeke (Chief Consumer Market, KPN):** Yeah, sure. So indeed, so we are convinced that by deploying fiber and accelerating our deployment there is an opportunity to regain some share. Now we are not focusing massively on volume share, but rather focused as usual with KPN as a premium positioning on revenue share. But nevertheless, we think that there is a space for us to regain some market share, volume share.

But the disruption we expect to bring here is not that disruptive in a way up to we think being forcing the competition to react in a very reactive, aggressive way mostly by playing on prices or other tactics. So we think that the way we look at it is that we stopped to decrease. We start to re-increase revenue share and volume share.

But we're not going to war. We're not going to try to disrupt the market up to the point that everybody has to react to what we do. We think that we have been always leading into premium pricing and positioning and quality of service. And we're going to continue to do that. So if there

is sometimes some war happening, it would be on that segment. But we're not planning to disrupt the market up to forcing our competition to do less rational pricing tactics on the market. So we don't expect an aggressive reaction from our colleagues competitors.

**Babak Fouladi (Chief Technology & Digital Officer, KPN):** Great, thank you very much, Jean Pascal. On the Capex, if you saw through the presentation in 2018 and the non-Capex, we were hovering around €980 million, and this year about €700 million to €750 million. So your question is break that down. Where does the Capex efficiencies come in? If we take the fiber out, we can now say part of the non-fiber Capex is consumer driven Capex. Those are CPEs as Chris mentioned. Those are related directly to the sales that we have. So we put that aside. A big part of the Capex is IT. We have done massive rationalizations throughout the past couple of years. We used to have about 20 different stacks and now our architecture is based on two stacks. One for B2C and one for B2B.

That enables us to just do the investments on our target architecture going forward and not on all of the legacy stuff. And all of the applications that we have built in IT are now cloud based virtualized. Therefore, the investments are significantly more efficient going forward.

Our core, traffic is increasing, but we're introducing new technologies. We're consolidating our data centres, and also the back one on the transmissions. Once again, future-proof investments at the beginning has enabled us to make it efficient going forward. We have investment in mobile. As you know, we've gone through a mobile modernization. So we had a peak and now the investment is standardizing itself to standardized levels.

Once again, the mobile investments that we're doing, we're putting seven bands in all of our sites from the very beginning. So that brings us for future growth, ready for future growth quite a bit. All of the backhaul transmissions are one gig enabled. And fiber to the sites are already at 90%. So once again that peak is gone and we can do the savings going forward.

We have investments in service platforms like TV or value-added services. Again, our investments have peaked and now we're actually making it efficient going forward. And as Marieke was saying, with the standardization of the portfolios that we have to our business customers, we also start seeing that we don't have to invest in some of the legacy applications that we invested only on the new stuff. And all the new stuff are now software defined. They're cloud based, therefore making Capex efficiency possible.

**Ulrich Rathe (Jefferies):** Thank you very much. Thank you.

**Operator:** The next question is from Emmanuel Carlier of Kempen. Go ahead please.

**Emmanuel Carlier (Kempen):** Hi, good afternoon. Thanks for taking my questions. I have two. So first of all on the cost savings target, could you quantify how much of the savings are unique to KPN because you brought it down in five buckets. But it looks like most of them are kind of savings that also apply to your competitors. So just wondering how much that will stay in terms of savings.

And then secondly, it looks like your guidance assumes that peers will not build fiber, but how realistic is that? And why do you believe that it's realistic? Because if you intend to gain market share, I would expect that the cable operators will try to defend that and maybe selectively roll out some fiber. Thank you.

**Joost Farwerck (CEO, KPN):** Well, maybe to start with your second question, look, we've done one third of the Netherlands. And we're busy there for more than a decade. And we think it is important especially for KPN to scale up. So we're proud of where we are, 300,000 lines this year, and we scale up to 500,000 next year. And doing that in a couple of years will add a number of households to our footprint which is important to us.

But we're also lock in most of the construction capacity that's used today for the consolidated market. And of course, we're not against other third parties to roll out fiber as well. That's why we say we will not do a 100%. And I think it's fair to anticipate on others to roll out fiber as well. And every now and then we meet others and we try to work together. So I'm pretty convinced that for the coming three years we can add 1.5 million and reach the level of 50% and after that continue, but there will be others that rollout fiber as well because that's the hot infrastructure future proof and very important for the Netherlands. On cost savings, Chris?

**Chris Figeo (CFO, KPN):** Well, yeah, Emmanuel, are these cost savings unique to us? In all fairness, to some extent yes, to some extent no. I think some of the things we do others could do as well. So it's the execution that really counts. And I'm proud of our execution skills and what we delivered in the past. So what stands out is not our plans, what stands out is our ability to deliver.

Where could we be unique, decommissioning copper. I mean not everybody can do decommission their existing network. That's somewhat unique to us and moving from the old network to a new network, that's the unique thing to us. I think we might have a little bit more legacy to others – than others in our networks and in our products.

We've got a big B2C and a big B2B environment. So we've got more legacy. You've got also more cost to save. So to me it is – I can't give you a percentage. Some of it will be - you know compared to others and it boils down to execution and delivery. Some of it's unique to KPN. And given our legacy – existing multiplication of IT stacks or networks and the fact that we're decommissioning copper.

How it stacks up to competition, I honestly don't know. You could ask them. For me, it's important that we'll deliver on the € 250 million as we've delivered on the € 350 million before.

**Joost Farwerck (CEO, KPN):** Yeah, and we have a good track record when it comes to opex savings and we will always be super focused on cost cutting and cost savings as we did in the past.

**Emmanuel Carlier (Kempen):** Maybe two very small follow-ups. With respect to the cost savings, how much will that result in restructuring costs? And with respect to the fiber question, so is it correct then to assume that your plans does not assume that VodafoneZiggo for example which starts building fiber in the coming years? Thank you.

**Chris Figeo (CFO, KPN):** Well on your restructuring charges if you recall well in 2019 with a € 128 million of restructuring charges. This year, it will be significantly less for the full year, I mean we're three quarters on the way. So it's fair to predict that it's going to be about half of that in this year. I think next year is going to be probably around the same level and then lower a bit further.

Please note that for example this year the restructuring that we're doing in this year, the – are kind of backend loaded due to the COVID situation. So that means that some of the

restructuring spend cash out this year is going to overflow into next year. I mean we will make the announcement right now. And the cash payment is going to happen next year.

So think about € 128 million was 2019. Half of it is going to be this year. Next year is going to be the same number, but underlying is going to be lower because there's going to be some overflow from the backend loaded restructuring this year into next year, and then gradually come down. So it's not going to go to nil. But we do see and do expect restructuring charges to come down gradually over time.

**Joost Farwerck (CEO, KPN):** And on your fiber question, yeah, it's not up to us to consider what VodafoneZiggo is going to do. But currently they're in the upgrade of the network to DOCSIS 3.1; but listen, we have an open access model. We have an open network. So they're always welcome to join us on our fiber network.

**Emmanuel Carlier (Kempen):** Thank you.

**Operator:** Next question is from Miss Siyi He of Citi. Go ahead, please.

**Siyi He (Citi):** Hello, hi. Thank you for taking my questions. I've two please. The first one is actually a clarification. I think your answers to fiber seems to suggest that why you could go higher with a market share to about 60% on your fiber network, but you might not maximize opportunity in your fiber market share case just to balance the competitive dynamic. Just wondering if this is the right way to think about your fiber plans, and whether that's a base case built in your IRR calculations?

And my second question is shareholder remuneration. And your balance sheet is very strong and dividend is very well covered. And maybe you could talk us through your thinking behind the 3-5% growth CAGR, your dividend policy? And given the deleverage trajectory, when do you think that you would be in position to maybe consider additional shareholder remuneration like buybacks? Thank you.

**Chris Figuee (CFO, KPN):** Okay, let me say a few words on the assumptions. If you look at the history and as I said the older vintage years when we rolled out fiber, we achieved penetration rates of about 60% without going into all-out war with competition. So in a reasonably stable and rational market, we're able to achieve quite high penetration in fiber.

Also this year when you look at the fiber net adds, the fiber net adds are positive and growing. And we expect the growth to continue next year without risking like massive market disruptions. So the fiber business case works at lower levels than 60%. I'm just saying look if you look at history, we've been able to achieve a 60% type of penetration over six, seven years of time without disrupting the market.

So I believe we can go to fair amount of penetration, possibly higher than the average penetration that we're having today. Gradually over time that doesn't make or break, but it helps business case of course but it is not the threshold. So the business case is actually with a lower level of penetration already.

When it comes to our balance sheet, well, I thank you for the compliments of our strong balance sheet. We of course appreciate that. And we concur, our balance sheet is strong. Liquidity is strong. Dividend is well covered. We're projecting 3-5% dividend growth. If we deliver on our plans, so I think we could move to the upper end of that range. That will clearly be our desire to do so. Could we do more with the excess cash or our balance sheet flexibility?

Today, our net debt to EBITDA is around 2.4 times. So it's not even that far off from our ceiling. If the debt leverage ratio drops towards lower levels and the headroom towards our ceiling becomes larger, then surely, we find additional ways to deploy that cash. Traditionally there are three ways to do it.

Delevering, that's no longer really required. Inorganic opportunities, they will probably be relatively small and not consuming the entire debt or cash headroom. So it's fair to think about shareholder remuneration going forward which to me comes on the one end of seeking the upper end of our dividend growth path and then possibly supplementary ways of distributing our shareholders. But I think we should deliver first and then distribute it to you guys.

**Siyi He (Citi):** That's very clear. Thank you.

**Operator:** Next question is from and found Joshua Mills, Exane BNP Paribas. Go ahead please.

**Joshua Mills (Exane BNP Paribas):** Hi, guys. Thank you very much for taking the questions. Two from me. The first is on the slide number 20 of the presentation where you lay out all the assumptions to your fiber returns. And on here you're showing there's a € 4 retail ARPU uplift expected for moving customers from copper to fiber. I just would like to kind of understand how confident you are in that number longer term and how you get to it, because if we go back two years, I think you cited the fiber uplift on ARPU is around €6. And you can argue that what that shows is some of the early adopters are some of the higher spending customers today and maybe longer term the price differential may not be as high. So just to understand your sensitivity around that and how you get to that € 4 figure would be very helpful.

And then the second question is on your construction cost per home passed for Capex. So again, going back to the last Capital Markets Day and even the Capital Markets Day before that, there was at that point in time an ambition to bring fiber build costs down towards the kind of €500 to €600 level I believe. Now it would just be very good to know why the cost is higher.

Is it because the areas you're building to are more expensive? And then are there any factors at play? And then on top of that €700 to €900 how should we think about the cost of connecting the homes to fiber and that will be great. Thank you.

**Joost Farwerck (CEO, KPN):** Jean Pascal can you take the ARPU question?

**Jean Pascal van Overbeke (Chief Consumer Market, KPN):** Yeah, so if I understand what the question is about, how sustainable is the ARPU difference - gap between DSL and fiber and how sustainable is the growth in ARPU in fiber? Two variables there. The first one is that in this context today even more than ever customers would need more and more of their internet connection.

Fiber offers upgrade possibilities that DSL doesn't offer. So we can upgrade speed further and a lot faster than what you can do with DSL. And we can see already that customers that are choosing fiber, choose faster and better upgrades to their product than what they're choosing on DSL. So the demand for high access, high bandwidth and speed is going to increase. And these are today in the Dutch market an opportunity that you monetize. It's not free to increase your speed. So that's one of the access.

The other one is that by deploying fiber we kind of also deploy kind of future proof technology. And we know that convergence as much as today was mostly about bundling fixed and mobile is evolving. And that's the reason why we launched Hüssel. We mentioned it earlier towards



multiple dimension bundles where it's just not going to be about access, but about services as well like gaming or content or other entertainment products for households or even about remote working solutions. So all of that are going to be opportunities that will be offered to fiber customers to upsell, to upgrade themselves into better products than what they have today. So we think that there is this double component to it. One is the pure quality of that network which allows you to do better speed, better connectivity. And the other one is to be open to future bundling of additional services and products. So we think that it's sustainable to imagine that there will be a differential in terms of ARPU. And this ARPU is going to probably, and we believe so is going to continue to grow in the future.

**Joost Farwerck (CEO, KPN):** And your question on construction costs on fiber. It really depends on the areas to select. So we can do it for like €400 or go far above €2000. So it's difficult to talk about fiber rollout costs blended. And so it depends on the areas to select. It's not that significant for our business case. That's all about the ARPU and penetration. But of course we aim for construction costs and reduction there as well. And the connection fee, Chris, you can –

**Chris Figuee (CFO, KPN):** Yeah, well that's €750 to €850 per home passed, gets you to a line actually nearing the front door depending a bit on your house. So it's very close to the house. It's nearing to enter the house already, then actually activating the customer makes that additional investment. If you look at those investments the cost, the hardware cost to sending a mechanic in could be depending on the house and the situation, € 150 to € 200 per home. To me, that's kind of acquisition costs. So if I were to model it out, you could either model it in your cost per home activated, but then you take up the margin or you put in the margin you make on fiber, but think about moving from the line. The fiber line sticks out of the ground next to the front door into the house into – well, almost into the settop box. That last – not even last mile, so actually the last 50 centimetres could be around €150 to €200 including mechanic costs, settop box and everything

**Joost Farwerck (CEO, KPN):** for a fully activated household.

**Chris Figuee (CFO, KPN):** For a fully activated household, for which you're sure that the client is going to be a client and giving you an ARPU uplift going forward.

**Joshua Mills (Exane BNP Paribas):** Yeah, thanks. So that's clear. Just to come back on the €4 ARPU number. I'm sorry to just get a clarification here. But is the €4 difference, the price difference you see between your average fiber base and your average copper base today, always €4 the amount which people pay extra when they move from copper to fiber. Because I'm just trying to understand why that obviously fiber customers' they might be higher quality and they will spend more anyway or there's an actual ARPU uplift in incremental spend that we should be putting into our model, and where you get that € 4 from when we think about building the fiber returns?

**Joost Farwerck (CEO, KPN):** So we do not differentiate in prices between copper and fiber. So the main difference is in the speed. Customers on fiber, they buy higher speed.

**Jean Pascal van Overbeke (Chief Consumer Market, KPN):** And also higher penetration of television products and other content products.

**Joshua Mills (Exane BNP Paribas):** Okay, thank you.

**Operator:** Next question is from Paul Sidney, Credit Suisse. Go ahead please.

**Paul Sidney (Credit Suisse):** Yeah, thank you very much and good afternoon, everyone. Just a couple of questions from me please. The first one is just a follow up on the previous question. We've clearly discussed that € 4 retail ARPU uplift in a few questions on the call. I just wondered would it be possible to get more detail on the Wholesale rates? What is the current copper Wholesale rate on average and what's your expectation of the uplift you get when your Wholesale and partners upgrade a customer from copper to fiber?

And then the second question is just on 5G Capex. And we haven't heard much discussion specifically today on 5G Capex. And I think the answer to the previous question was that mobile Capex maybe peaks at least for the medium term, maybe I got that wrong or just maybe a clarification on mobile Capex and how 5G Capex feed into the next few years especially given that the mid-3 GHz spectrum auction still seems a long way off. Thank you.

**Joost Farwerck (CEO, KPN):** Babak, can you take that question on the 5G Capex?

**Babak Fouladi (Chief Technology & Digital Officer, KPN):** Yeah, thank you very much. So yeah, we started our modernization in early 2019. So as we've modernized our mobile sites, all of the base bands in the radio units are getting us ready. We've launched on 700 [Mhz]. But as you mentioned 3.5 [GHz] will be probably auctioned in 2022. So the network is already – the radios that we have installed is already ready for the 3.5 [GHz] upgrades. We of course need to put the antenna up. But the base and the radio units are already 3.5 [GHz]. So a lot of the investments in this modernization has been made for the 3.5 [GHz] upgrades coming up in the next several years to come.

And also just to add up, I'm very proud of that as well. That on top of the actual radio units and the antennas, the backhaul and the transmissions I think we have one of the highest penetrations of Fiber-to-the-Site in Europe at 90%. And all of them are at 1 GB plus enabled. So once again, ready for the 3.5 [GHz] when we roll out in 2022 and onwards.

**Joost Farwerck (CEO, KPN):** And your question on Wholesale rates, copper compared to fiber. Yeah, the market moved to Wholesale Broadband Active connections. So we're connecting most of our customers on the Wholesale side not on the passive layer but on the active layer. Price scheme by the way is on our website. But if I'm not mistaken, the Wholesale rate for WBA line on copper is around € 14.80. And for a fiber line is around € 24 on average. And of course, that depends on the speed. It moves up when the speed gets higher. So there's a big difference between Wholesale copper and active fee.

**Paul Sidney (Credit Suisse):** Could I have a quick follow up, Joost. So obviously does that mean that actually going forward pretty agnostic about whether you sign up a Wholesale fiber customer versus a retail customer on those Wholesale rates?

**Chris Figeo (CFO, KPN):** Well, that's well agnostic. And I mean look, to some extent when a customer is a customer from a margin perspective for KPN is course, it's more beneficial to have a customer on retail than on Wholesale because you get a higher share for example TV products, etc. So in general, our retail customer generally bring a little bit more profit than Wholesale customers. But then at the end of the day we're actually happy with every customer that's on our network.

**Joost Farwerck (CEO, KPN):** And it is indeed about profitability because in the Telfort base, we had customers that were less profitable than on the Wholesale side. So one of the reasons to move Telfort into the KPN base and be more efficient on that, that's all about profitability. So like Chris is saying, yeah, we welcome all users on our network, also on the Wholesale side. And that's why we have 52% penetration on our network today.

**Paul Sidney (Credit Suisse):** That's perfect. Thank you very much.

**Operator:** Next question is from Nawar Cristini of Morgan Stanley. Go ahead please.

**Nawar Cristini (Morgan Stanley):** Thank you very much for taking my questions. I have a follow-up on the COVID-19 impact on B2B. So beyond the risk of bankruptcy that you discussed, I would be interested also to hear your take on potential impact on the competitive dynamics as well. So could you discuss the competitive dynamics you see at the moment in the B2B market across the different segments? And whether you are anticipating any change in the competitive intensity as B2B clients are likely to look for cost savings given the COVID-19 backdrop?

And secondly, you indicated that the ultimate fiber coverage goal is 80%. Could you elaborate a little bit on the thinking process behind this particular number and the potential timeframe as well? Thank you.

**Joost Farwerck (CEO, KPN):** Marieke, could you –

**Marieke Snoop (Chief Business Market, KPN):** Yes, so let me first take the COVID impact. As said, in SME we've have about 10% of our base in categories that are at risk. We have already addressed that. So let's zoom into the bigger customers and whether they might rationalize. We see about that 20% of our LECE base also might have areas where they want to rationalize costs.

But what we especially see now in this moment is how relevant we are in the services. So we also like I said, see a huge demand not to cut costs now on digitization. We actually see for example the public sector doubling down on their digital investments to leverage the digitized customer that they have now or the digitized – yeah, person in Holland when you talk about municipalities for example.

So yes, we are looking into might some customers optimize, we'll think with our customers. But our whole business case is also about cross and upselling our products to our customers. We have so much more in our one-stop-shop than only traditional access and only the fixed and traditional broadband and voice. So we are really geared towards that. And we'll make sure that we get a nice solution for our customers. They buy more for the same price. They get more for the same price that they have today. And we make our relationship very, very future proof.

When I look at competitive areas, we still see some pressure on mobile, mobile ARPUs in the B2B market especially in the LECE segment. But again, COVID has sort of really made our products more relevant than ever. So we see that our customers really are staying longer with us. That's what we see at KPN on all our products because they love the reliability, and they love the security by design. So at this moment, I do not see the competition heating up. I see the same competitiveness as always. So some price pressure on mobile in the top segment. We hope that with also our 5G [value added services], we have a brilliant business case to bring mobile back to KPN because we are the only one to deliver those business [value added

services] on 5G for our customers. And we already see that happening, customers choosing us because we can develop the new business models on mobile with them towards the future. We continue to believe in bundling when it comes to mobile. And when it comes to an IP-based world, we also see more competition in IP-based world. But then again, we trust the quality of our products and our propositions. And we don't see the competition heating up at this moment. So I hope that answers your question.

**Joost Farwerck (CEO, KPN):** And on – I'm sorry I didn't get your second question. Would you be so kind to repeat it?

**Nawar Cristini (Morgan Stanley):** Of course. So my question was on the ultimate fiber coverage goal. In one of the slides in the presentation, in the presentation you indicated that the ultimate goal is to reach 80% coverage of households. So I was interested to better understand what is the particular – basically what is the thinking process behind this particular number. Why is it 80%, not less, and not more? And the potential timeframe to reach that 80%?

**Joost Farwerck (CEO, KPN):** Yeah, so that 80% is of course a big ambition that fits a company like KPN. But for me now it's more important to focus on the coming three to five years and first follow that roll out scheme. And then we'll see where we end up. It's also realistic to say that already 10% in the Netherlands is covered by third party fiber initiatives. And there's a possibility that also these initiatives will further expand their footprint, but let's put it this way. Let's first take the first three years and see where we get in 2023.

**Nawar Cristini (Morgan Stanley):** That's helpful. Thank you.

**Joost Farwerck (CEO, KPN):** Thank you.

**Operator:** Our final question is from Mr Usman Ghazi, Berenberg. Go ahead please sir.

**Usman Ghazi (Berenberg):** Hi, thank you very much for giving me an opportunity to ask again. I just wanted to come back to the business segment where you show the service revenue trend of minus 2.6%, and excluding the migrations, etc. Could you tell us what the minus 2.6% looks like between the LE and SME segment please?

And then my second question is just to understand the copper switch off to 2.3 million kind of addresses, is that only allowed to be done in 2023, right? I believe it's October 2023. So is it right to assume that the bulk of your savings in this wave do not include the savings from the copper switch off? Thanks.

**Joost Farwerck (CEO, KPN):** Now to start with your second question, that is right. We do not anticipate on cost gains from copper switch off because we will – we announced it, but we have to wait until 2023 before we start it. It's a huge opportunity I think, because it's about – not only about switching off copper, street cabinets and number exchanges but also to free up real estate and sell it. But that's for later, that's not in our current cost program.

Your first question was on service revenues on LE and SME. Did you get that, Marieke?

**Marieke Snoep (Chief Business Market, KPN):** Yes, I did. Well, I'm sorry to say we won't disclose specific splits in the 2.6%. What I will tell you is what the 2.6% consists of. And that is mobile price pressure and that's also price pressure on our core – on our VPN services. And that's sort of augmented back by the growth that we see. I'm happy to say that we have a

growing mobile base and – in all segments and that we see growth across the board on our core portfolio. But the price – so price pressure is the main driver in the minus 2.6%, mobile or VPN.

**Usman Ghazi (Berenberg):** Thank you.

**Joost Farwerck (CEO, KPN):** Thank you. So well that concludes our Strategy Update for today. Thank you all for attending. Hope to see you soon or speak to you soon. Stay healthy and until next time. Thank you very much.

[END OF TRANSCRIPT]