

## ● Strategy, key performance and value creation model

# Executing our strategy at full speed

In 2019, KPN went full speed ahead with the execution of its strategy, positioning itself as a future-proof, high-quality, lean telco with premium consumer, business and wholesale customer relations. KPN continues to invest in its infrastructure to become the undisputed quality leader in the Netherlands. KPN aims for organic and sustainable growth of adjusted EBITDA AL and free cash flow in 2019–2021, enabling progressive dividend payments and deleveraging.

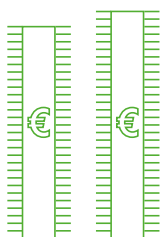
Strategic priorities 2019-2021	Main pillars	Main goals 2021	Progress per year-end 2019	Ref. to chapter
Building the best converged smart infrastructure	<ul style="list-style-type: none"> <li>Acceleration of fiber roll-out</li> <li>Full mobile network modernization</li> <li>Moving to all-IP</li> </ul>	<ul style="list-style-type: none"> <li>+1 million FttH households compared to end 2018</li> <li>100% 5G ready</li> <li>~45% of households at 1Gbps</li> <li>~70% of households at 200Mbps</li> <li>~50% virtualized network functions</li> <li>100% all-IP</li> </ul>	<ul style="list-style-type: none"> <li>+~120k FttH households</li> <li>Mobile network modernization started, around 640 sites 5G ready</li> <li>31% of households at 1Gbps<sup>1</sup></li> <li>61% of households at 200Mbps</li> <li>26% virtualized network functions</li> <li>Migration to IP portfolio well on track: ~175k legacy lines vs ~775k legacy lines end 2018</li> </ul>	Converged smart infrastructure (p. 32)
Focusing on profitable growth segments	<b>Consumer</b> <ul style="list-style-type: none"> <li>Best household access and customer experience</li> <li>Growing converged customer base and product penetration</li> <li>Focus on delivering value</li> </ul>	<ul style="list-style-type: none"> <li>+300k converged households</li> <li>70% postpaid base converged</li> </ul>	<ul style="list-style-type: none"> <li>+59k converged households</li> <li>63% postpaid base coverage</li> </ul>	Customer value (p. 18), Products & services (p. 35)
	<b>Business</b> <ul style="list-style-type: none"> <li>Converged simplified product portfolio</li> <li>Transformation of operating platform</li> <li>Lean and digital operations</li> </ul>	<ul style="list-style-type: none"> <li>Migrate 100% of SME base from legacy<sup>2</sup></li> <li>Migrate 100% of LE base from legacy<sup>2</sup></li> <li>Value over volume in LE &amp; Corporate</li> <li>Stabilized end-to-end adj. EBITDA AL by mid-2020</li> <li>Reduce IT systems by 75%</li> </ul>	<ul style="list-style-type: none"> <li>74% of SME base migrated</li> <li>53% of LE base migrated</li> <li>Significantly less revenues from low margin hardware deals</li> <li>In progress</li> <li>Ongoing IT integration</li> </ul>	Customer value (p. 18), Products & services (p. 35)
Accelerating simplification and digitalization	<ul style="list-style-type: none"> <li>New multi-year opex reduction program</li> <li>Lean operating model</li> <li>Digital customer journeys</li> <li>Automated back-end tasks</li> </ul>	<ul style="list-style-type: none"> <li>~€ 350m net indirect opex savings</li> <li>From 20 to 2 converged IT stacks, one for consumer and one for B2B</li> <li>From 5 to 1 core network(s)</li> <li>Simplified end-to-end organization</li> </ul>	<ul style="list-style-type: none"> <li>Net indirect opex savings € 141m</li> <li>Reduction converged IT stacks in progress</li> <li>3 core networks</li> <li>Disposals of NLDC, KPN International, Argeweb and announced disposal of KPN consulting</li> </ul>	Shareholder value (p. 21), Customer value (p. 18), Focused innovation & digitalization (p. 39)

1 Based on FttH broadband speed potential. As of March 2020, KPN will make this broadband speed commercially available for designated FttH areas.

2 Traditional fixed-voice and legacy broadband.

**Adjusted EBITDA AL<sup>1,2</sup>**

€ million



2,290  
2018  
2,317  
2019

Restated<sup>3</sup>**Adjusted EBITDA AL margin<sup>1,2</sup>**

41%  
2018  
42%  
2019

Restated<sup>3</sup>**Free cash flow<sup>1,4</sup>**

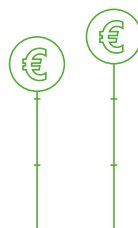
€ million



795  
2018  
726  
2019

Restated<sup>3</sup>**Capital expenditure<sup>1</sup>**

€ million



1,106  
2018  
1,115  
2019

**Shareholder return**Return on capital employed<sup>5</sup>

9.0%  
2018<sup>3</sup>  
9.2%  
2019

Regular dividend ordinary share

€12 ct  
2018  
€12.5 ct  
2019

**Total shareholder return (TSR)**

KPN 7.5% 2019 Telco index 5.1% 2019



— KPN  
— Stoxx Europe 600 Telecommunications Index\*

**Network speed**

Average 4G download speed mobile network per year-end



58Mbps  
2017  
53Mbps  
2018  
68Mbps  
2019

Average maximum download speed broadband fixed per year-end



202Mbps  
2017  
221Mbps  
2018  
236Mbps  
2019

**Energy consumption in petajoules**

Energy consumed by KPN



2,832  
2017<sup>7</sup>  
2,841  
2018<sup>7</sup>  
2,728  
2019

Estimated energy consumption saving by KPN customers<sup>8</sup>

1,804  
2017<sup>7</sup>  
2,511  
2018<sup>7</sup>  
2,527  
2019

**Converged services**Households in fixed-mobile bundles<sup>9</sup>

42%  
2017  
46%  
2018  
49%  
2019

**Customer satisfaction**

Net Promoter Score in Consumer



13  
2017  
14  
2018  
19  
2019

**Transformation of operating platform**% SME base migrated from legacy services<sup>10</sup>

9%  
2017  
41%  
2018  
74%  
2019

Postpaid customers in fixed-mobile bundles



51%  
2017  
57%  
2018  
63%  
2019

Net Promoter Score in Business



-1  
2017  
-1  
2018<sup>11</sup>  
-4  
2019

**Reputation**

RepTrak Pulse score



70.5  
2017  
72.6  
2018  
74.4  
2019

1 Based on continuing operations.

2 KPN defines EBITDA as operating result before depreciation (incl. impairments) of PP&amp;E and amortization (incl. impairments) of intangible assets. Adjusted EBITDA after leases are derived from EBITDA and are adjusted for the impact of restructuring costs and incidentals ('adjusted') and for lease costs, incl. depreciation of right-of-use assets and interest on lease liabilities ('after leases' or 'AL'). Reconciliations can be found in Appendix 1.

3 Comparative financial information for 2018 has been restated to reflect the implementation of IFRS 16.

4 Free cash flow after leases excluding Telefónica Deutschland dividend.

5 Net operating profit less adjustments for taxes divided by capital employed.

6 Rebased to KPN's closing price of the last trading day of prior year.

7 Restated for the sale of NLDC.

8 Estimated energy consumption saved by customers from using our IT solutions. See Appendix 3 for further details.

9 As percentage of broadband customers.

10 Percentage of SME customers migrated from traditional fixed-voice or legacy broadband services starting August 2017.

11 NPS Business 2018 has been restated, see Appendix 3 for the new NPS Business calculation. The reported figure for 2017 has not been restated.

● Strategy, key performance and value creation model

# Delivering value on the short and long term

## Our valuable assets



Loyal customer base and digital era demands (p. 56)



Strong partnerships and supplier base (p. 56)



Future-proof infrastructure and mobile spectrum (p. 57)



Skilled and motivated workforce (p. 57)



Solid financial basis (p. 57)



Green energy (p. 57)

**Purpose:**

We make life more free, fun and easy. We aim to connect everything and everybody in an innovative, reliable and sustainable way. (p.8)

**Ambition:**

To be at the very heart of our customers' connected life, we want to be their trusted companion by offering best-in-class quality in terms of access, service and customer experience.

**Strategic priorities:**

- Building the best converged smart infrastructure.
- Focusing on profitable growth segments.
- Accelerating simplification and digitalization. (p. 12)

**Core activities:**

- Invest in a future-proof secure, reliable, high-quality network.
- Offer high-quality products and services with a best-in-class customer experience.
- Automating and digitalizing where possible, thereby simplifying IT stacks, networks and our organization.

**How we operate:**

Deliver end-to-end teamwork, speed in execution and first time right for our customers.



Governance (p. 58)



Compliance (p. 66)



Risk and control (p. 66)

## Our performance

## Value we create

## Long-term impact on society



Converged smart infrastructure (p. 32)



Flexible, simple and converged products and services (p. 35)



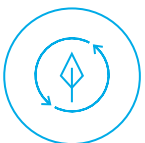
Focused innovation and digitalization (p. 39)



Safeguarded privacy and security (p. 42)



Sustainable employability (p. 45)



Environmental performance and responsible supply chain (p. 48)



**Customer value:**  
Customer in control of secure, reliable and seamless connectivity (p. 18)



**Shareholder value:**  
Organic sustainable growth (p. 21)



Secure, future-proof connectivity (p. 26)



Social and digital inclusion (p. 26)



Environmental impact (p. 26)





Network of the future continues growing

# “Proud that we can connect households with the most future-proof network there is”

— **Willem Offerhaus**

Director Executive Relations & Strategic Projects

For more than 100 years, KPN has ensured that everyone in the Netherlands is properly connected – with each other and now, with all the exciting things made possible by the latest digital techniques. We will continue doing this in the future. KPN's ambition is to have about one million additional FttH households throughout the Netherlands by the end of 2021, on top of the 2.3 million households by end 2018. Construction or advanced preparation for this have already begun in more than 70 areas.

Following Zwolle, Apeldoorn, Nijmegen, Arnhem, Alkmaar and The Hague,

Amsterdam is the next big city to get fiber connections.

“We are proud to be able to roll out fiber in our Dutch capital, and thus fulfill our main social responsibility: connecting households with the most future-proof network there is,” says Willem Offerhaus, KPN director Executive Relations & Strategic Projects. “What’s more, we’re talking about a substantial investment, because the installation of fiber optic in a city like Amsterdam is complex.”

Fiber is very stable, has huge capacity, and offers equal download and upload

speeds. Data usage will continue to increase substantially in the coming years, not only through more intensive internet usage and an increasing number of devices, but also because of online gaming, Artificial Intelligence and the Internet of Things.

