

# Investor Presentation

**May 2017**

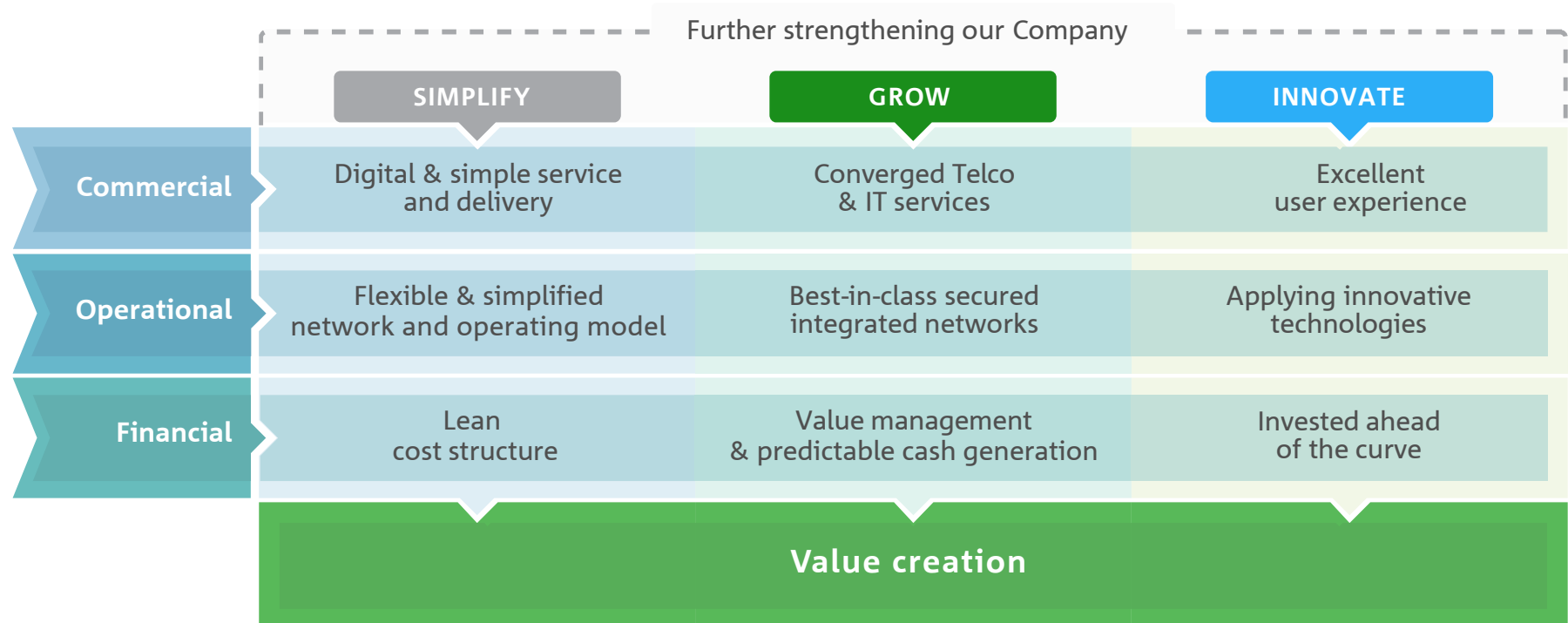


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- 1 **Strategy**
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# Strategy

Strategic choices embedded in organization



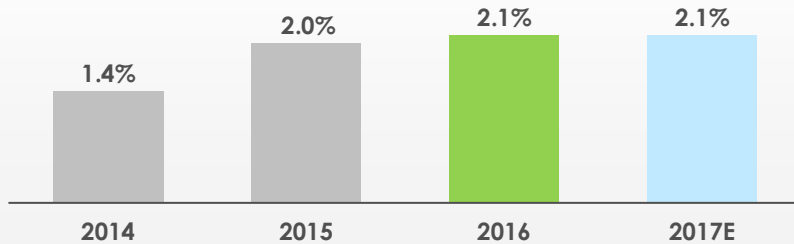
# External environment reassuring

Stable macro-economy with strong competitive position

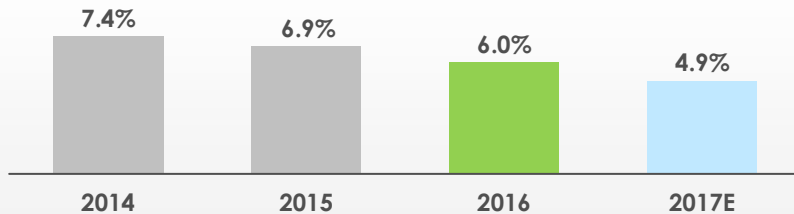


## STABLE MACRO ECONOMY

### GDP growth NL<sup>1</sup>



### Unemployment NL<sup>1</sup>



## STRONG COMPETITIVE POSITION
























	'16-'17	vs. '15-'16
The Netherlands	4	+1
Germany	5	-1
United Kingdom	7	+3
Denmark	12	-
Belgium	17	+2

<sup>1</sup> CPB (issued March 2017)  
<sup>2</sup> World Economic Forum; The Global Competitiveness Report 2016-2017

# External environment reassuring (cont'd)

KPN strongly positioned as leading integrated service provider



				
Mobile network	2G, 3G, 4G	2G, 3G, 4G	2G, 3G, 4G	4G + MVNO
Mobile network quality <sup>1</sup>				
Mobile market share <sup>2</sup>	42%	32%	19%	7%
Fixed network	FttC, FttH	Coax	Wholesale KPN	Wholesale KPN
Broadband market share <sup>3</sup>	40%	44%	N/A	4%
TV product perception <sup>4</sup>			N/A	
TV market share <sup>1</sup>	31%	51%	N/A	2%
Fixed-mobile convergence				
Business market presence	SME, LE, Corporate	SME, LE, Corporate	SME, LE	SME, LE
Business market capabilities				
Trusted brand				

<sup>1</sup> % of clients that agree on the reputation statement that their operator has the best network; Kantar TNS (Q4 2016)

<sup>2</sup> Total Dutch (Consumer and Business) mobile service revenue market share (Q4 2016)

<sup>3</sup> Telecompaper (Q4 2016)

<sup>4</sup> Independent market survey (Consumentenbond; Q4 2016)

# Key priorities for the coming years in Consumer

Consumer strategy centered around household



1

Increase penetration of fixed-mobile bundles

2

Reduce churn by increasing loyalty and customer satisfaction

3

Accelerate up- and cross-sell in bundles

4

Grow in TV via cloud-based IPTV platform

5

Benefit from growing mobile data usage

6

Further improve excellent customer experience

**Grow revenues, increase loyalty and reduce cost to serve**

# Continued growth of fixed-mobile bundles in Consumer

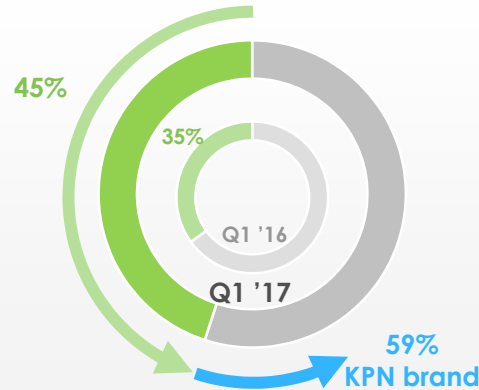
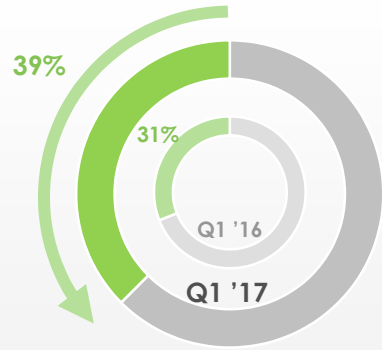
Clear benefits from convergence strategy



Customers in fixed-mobile bundles

Households<sup>1</sup>

Postpaid customers

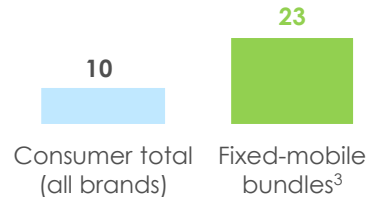


Multi-brand strategy to drive convergence further

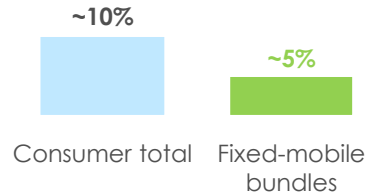


Clear convergence benefits

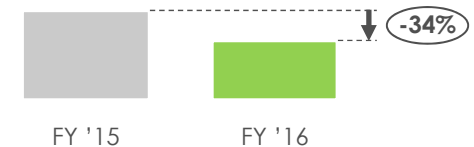
Higher NPS<sup>2</sup> (Q4 '16)



Lower churn<sup>3</sup> (Q4 '16)



Lower marketing expenses<sup>4</sup>

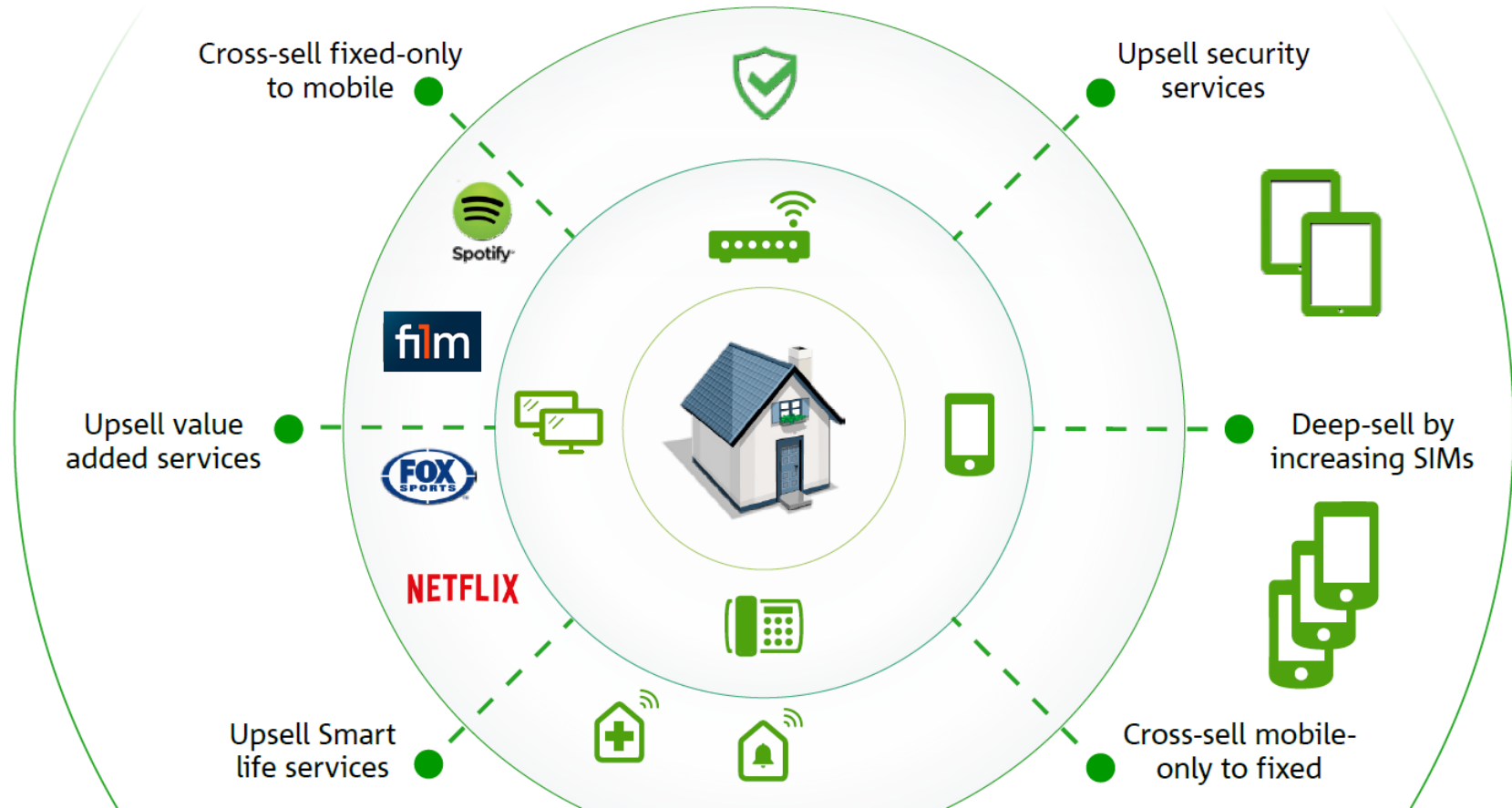


<sup>1</sup> As % of broadband customers  
<sup>2</sup> Source: Kantar TNS

<sup>3</sup> KPN brand  
<sup>4</sup> Consumer Marketing & Communication expenses

# Household at center of service model in Consumer

Significant opportunities to increase share of wallet per household



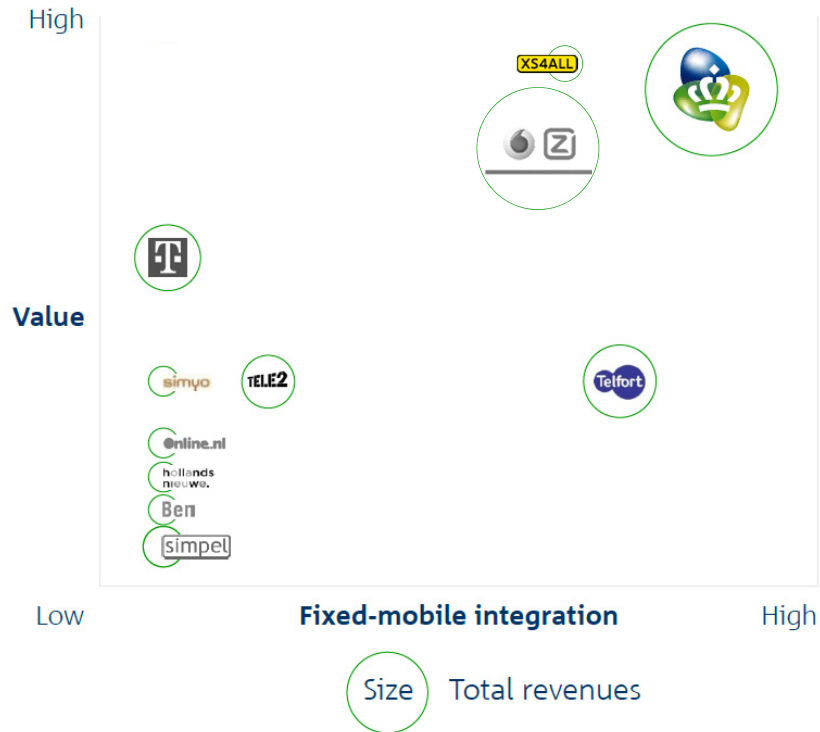


# Strong competitive positioning in Dutch market

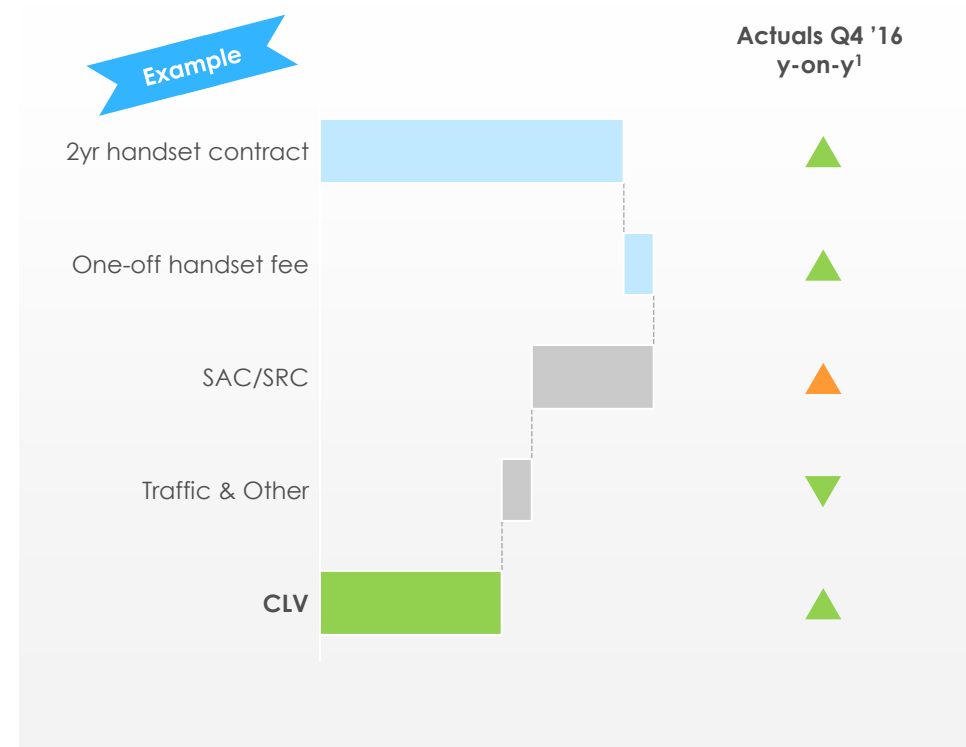
Covering all segments: focus on fixed-mobile bundling and high value



Leading converged position



Growing Customer Lifetime Value in mobile



# TV focus point in household centered strategy

Highest quality of service through differentiated functionalities and leading network



Best-in-class IPTV services...

## High quality Content Delivery Network

- 161 Metro Core Locations
- Superior stable access speeds

## Superior functionality

- In-app personalized TV offering
- Integrated access OTT services
- Available everywhere, incl. 4G

## Content aggregation

Basic content

Upsell content

Selective exclusive content

rtl



SBS



NETFLIX

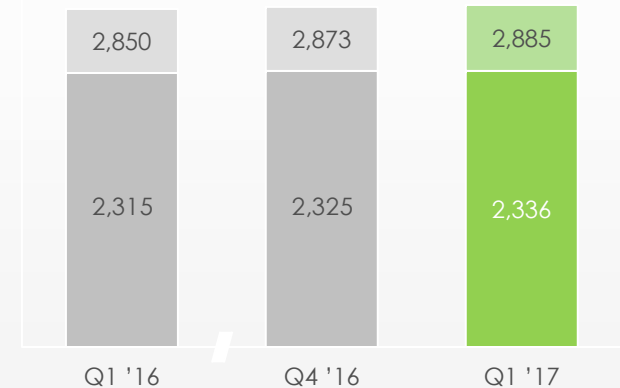
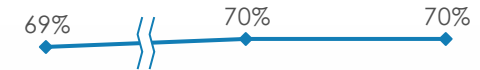


Best rated TV services<sup>1</sup>

"Most stable TV connection"

"Highest quality equipment"

...driving continued TV growth



Total TV base (k)

Broadband base (k)

% IPTV of broadband base

# Transforming into Business ICT service provider



1

Realize growth by strengthening and deepening customer relations

2

Clear market segmentation with a targeted sales approach

3

Strengthen portfolio & distribution via partnerships

4

Rationalize & simplify products and services to create standardized building blocks

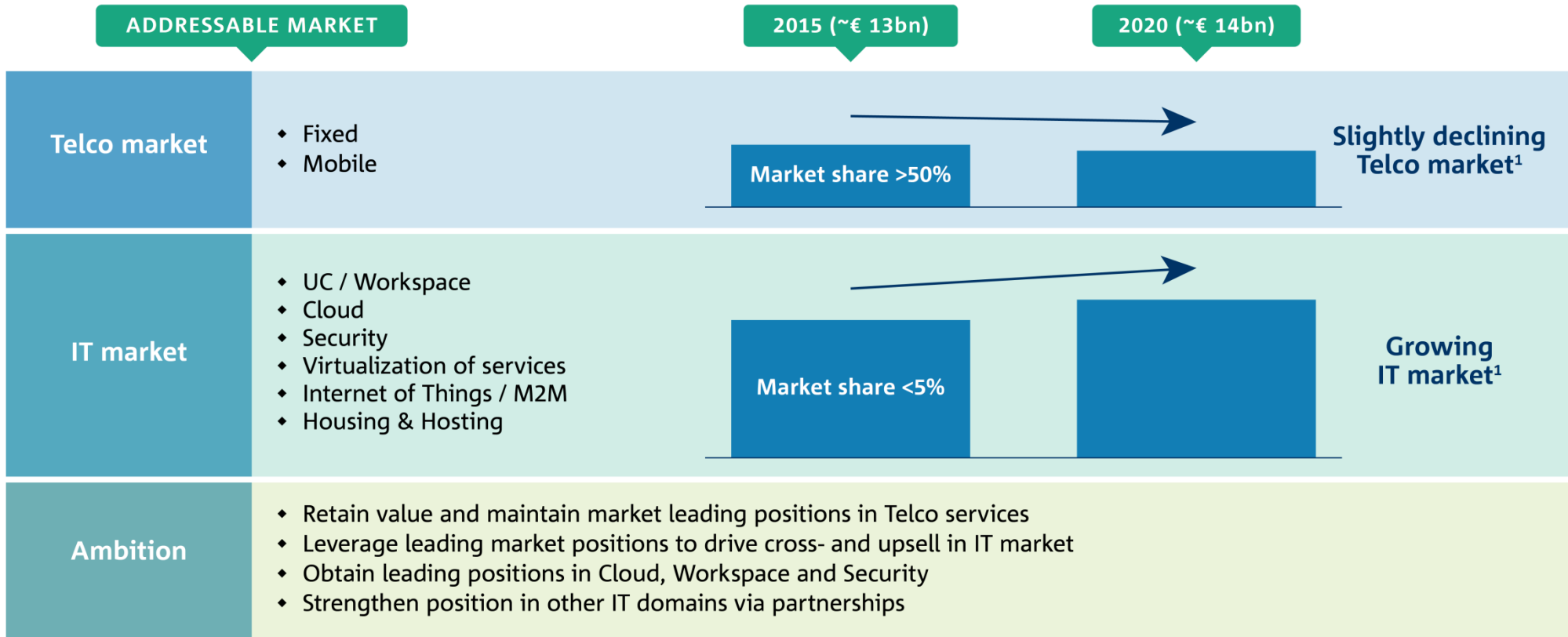
5

Operational excellence to improve customer experience

**Improve profitability and stabilize revenues**

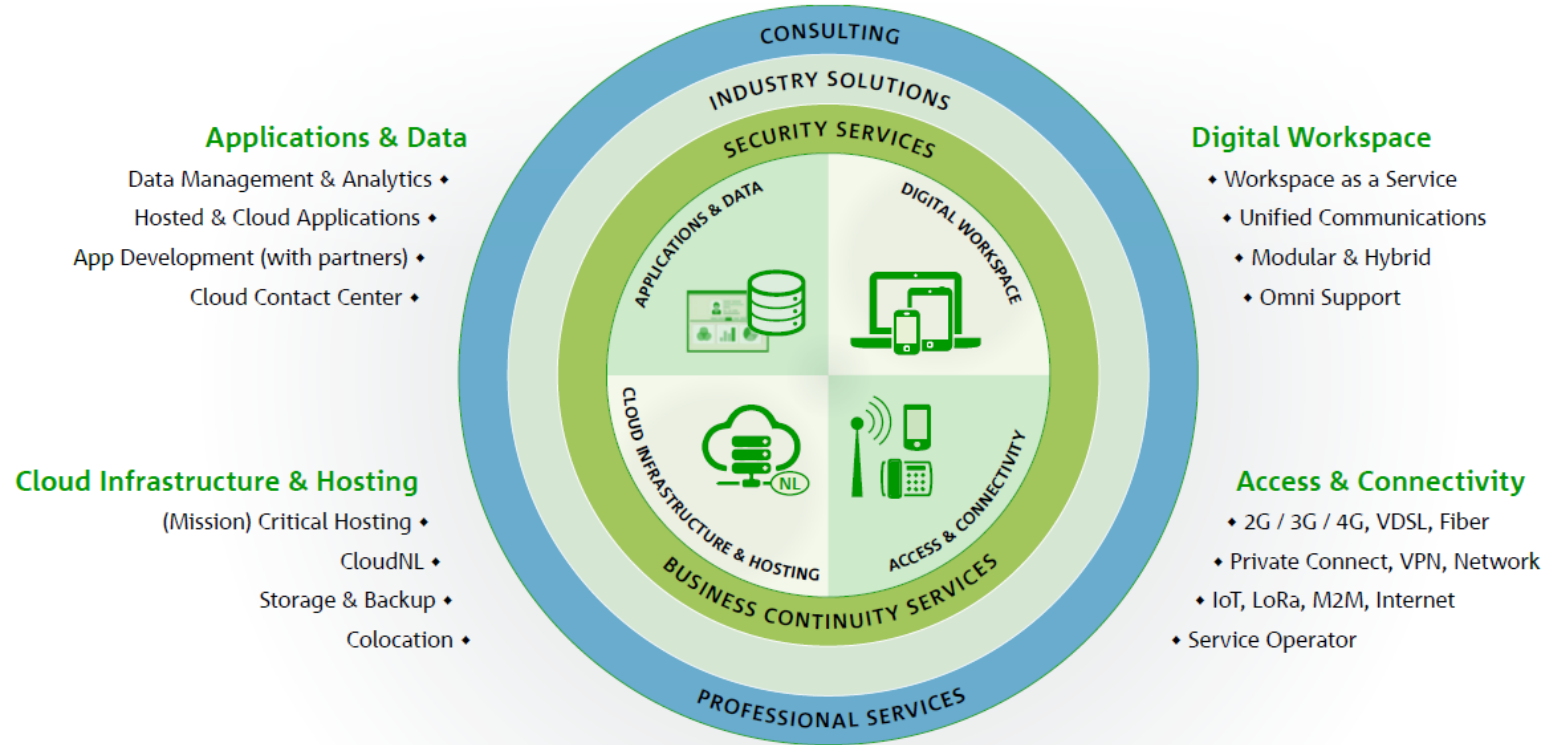
# Strengthening & deepening customer relations

Leverage leading position in Telco to grow market share in IT



# KPN well positioned to deliver on customer needs

Standardized building blocks to deliver productivity



# Strengthening business market portfolio and infrastructure

## Leading infrastructure and strengthened market positioning



### Further strengthening infrastructure

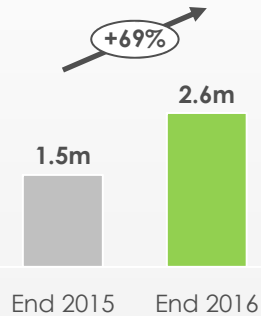
#### Deploying successful hybrid access strategy used in Consumer

Deregulation of FttO supports investments in business areas

#### Leading IoT infrastructure



Nationwide LoRa network



Strong base growth M2M

### Leading cloud & data center services



Carrier & cloud neutral colocation services



Managed Hybrid Cloud  
For Your Business

Launched in 2016

### Expanding scale and capabilities



Distribution



Cloud services



Security

# Operational excellence to improve business customer experience

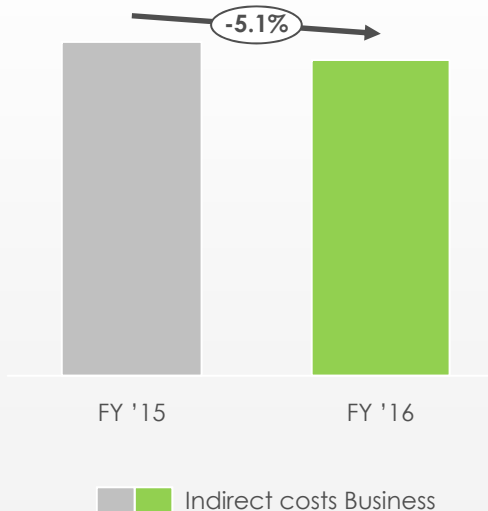


Business organization streamlined further

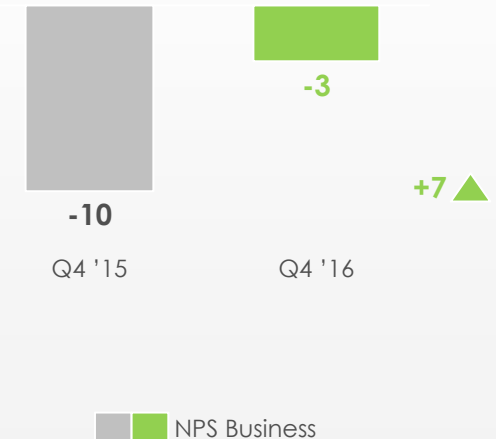
Simplification of  
portfolio and organization

- Portfolio rationalization
- Automation of delivery and service
- Online self-care portal
- First Time Right
- Agile working environment
- FTE reductions in supporting roles

Further progress on  
indirect cost reductions



Strong improvement NPS<sup>1</sup>



# Expanding superior network position



1

Simplify operating model to improve customer experience and operational effectiveness

2

Expand superior access position by deploying innovative technologies and increasing fiber penetration

2

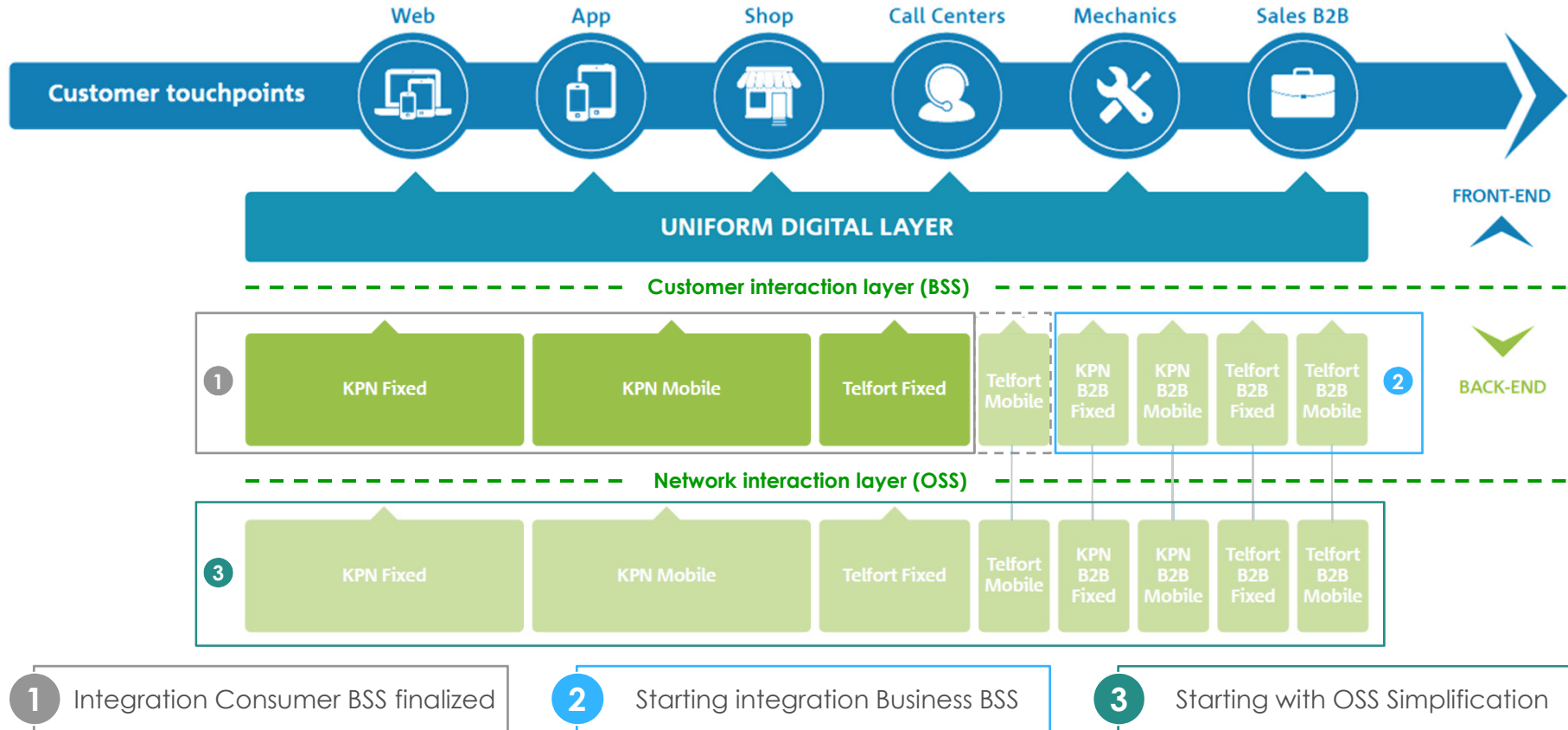
Finalize build of flexible and simplified integrated network

**Ensuring best-in-class customer experience**



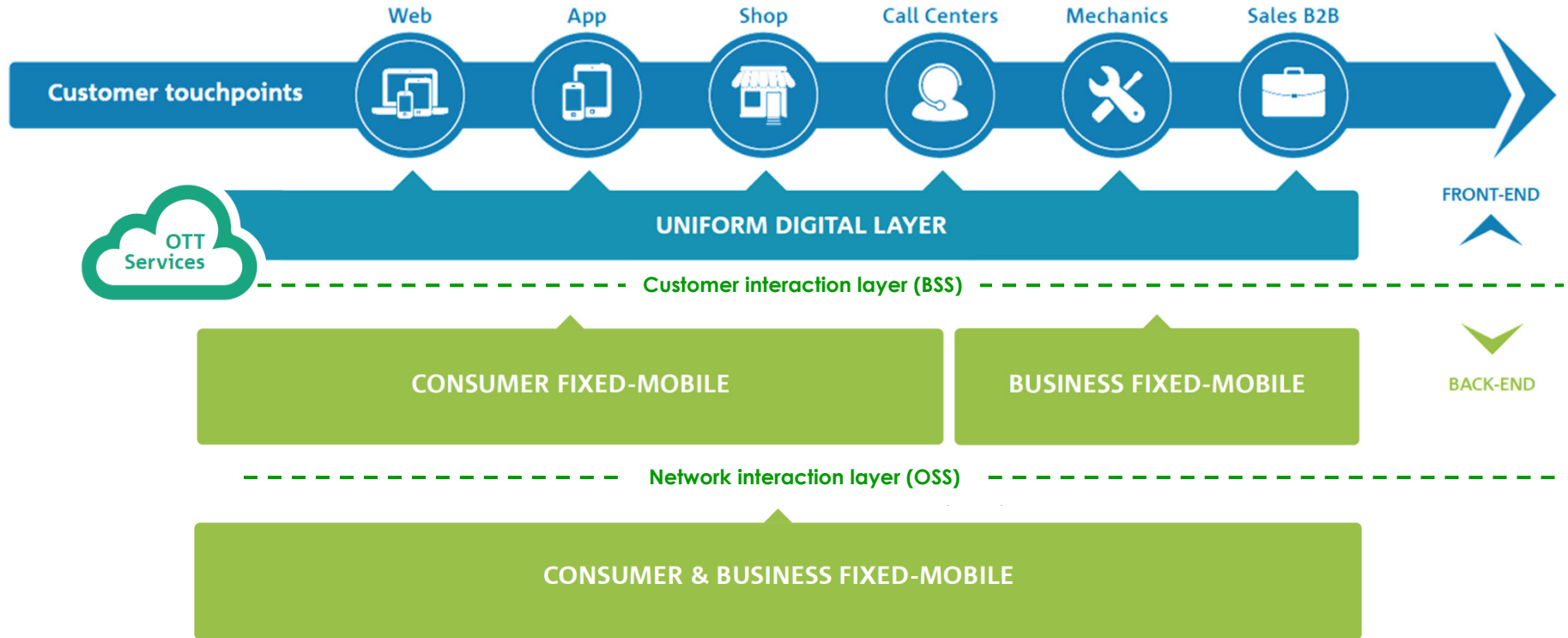
# Gradual approach to simplify operating model

Starting second wave of Simplification program



# Gradual approach to simplify operating model (cont'd)

2017-2019: Evolving into next generation Telco

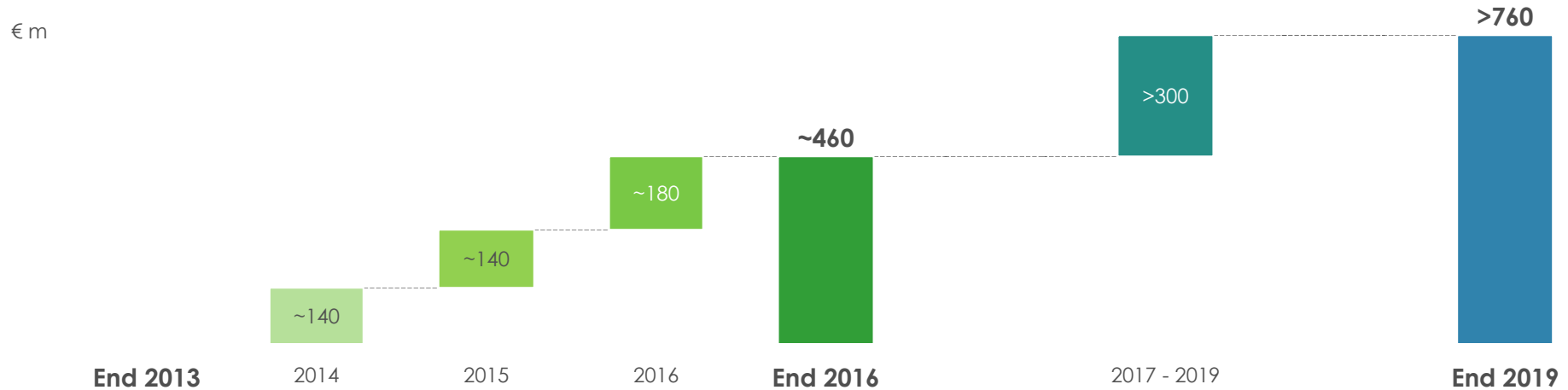


# Simplifying our operating model

Second wave of Simplification program to deliver significant savings



Simplification program run-rate opex and Capex savings



FIRST WAVE

SECOND WAVE

FROM

Product centric

TO

Customer centric

TO

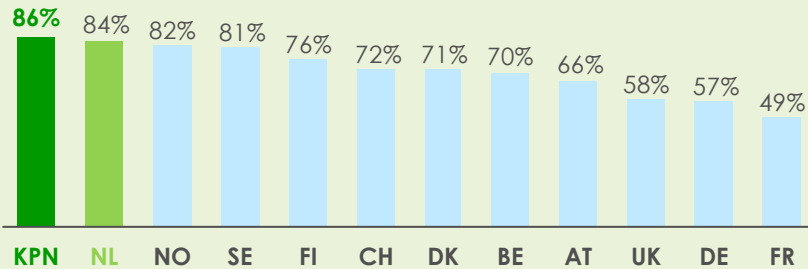
Next generation Telco

# Best mobile access provider

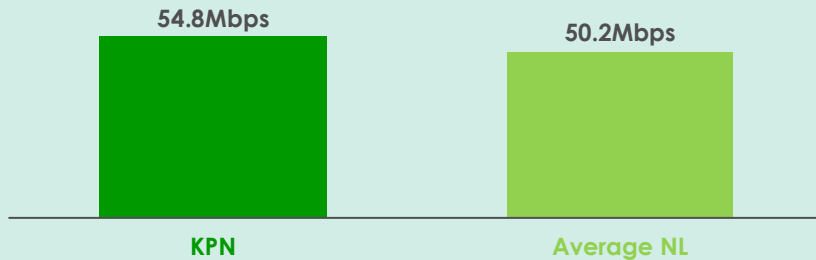
Investment-led strategy enabling superior customer experience



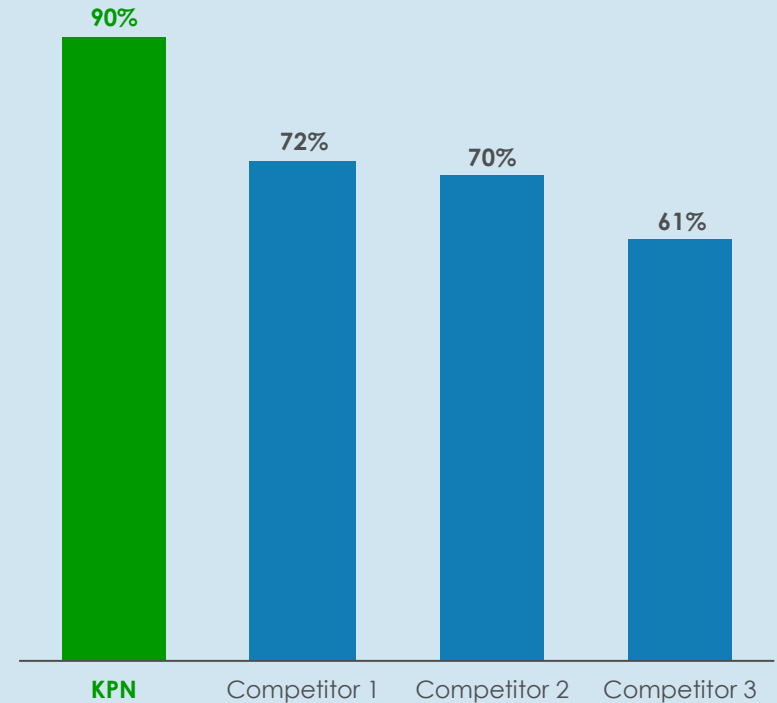
Most time spent on LTE<sup>1</sup>



Competitive speeds on LTE<sup>2</sup>



Best mobile network according to customers<sup>3</sup>



1 OpenSignal; The state of LTE (November 2016)

2 Ookla (April 2017)

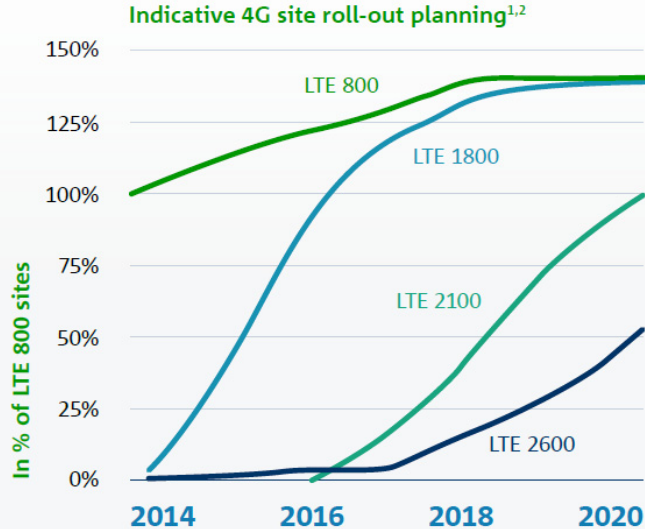
3 % of clients that agree on the reputation statement that their operator has the best network; Kantar TNS (Q4 2016)

# Staying ahead of demand for mobile data

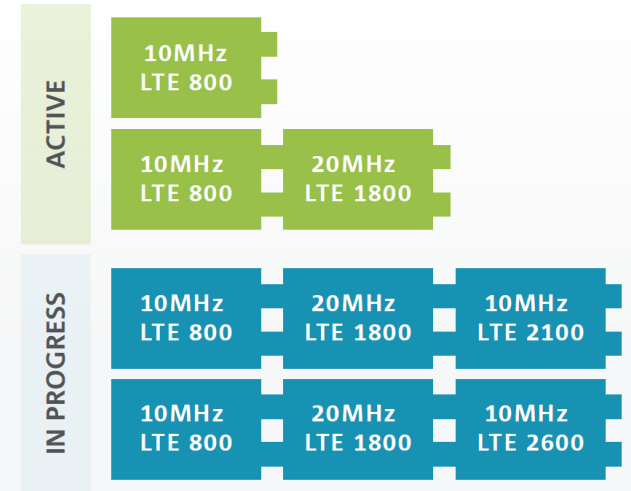
Fully utilizing spectrum position for excellent customer experience



## 4G CAPACITY ROLL-OUT AHEAD OF DATA GROWTH



## UTILIZING FULL SPECTRUM TO DEPLOY CARRIER AGGREGATION



Increasing capacity and enabling  
download speeds up to 400Mbps

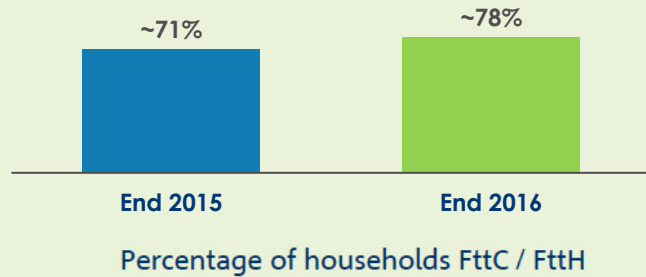
<sup>1</sup> Rebased to LTE 800 sites end 2014  
<sup>2</sup> Excluding small cells

# Best fixed access provider

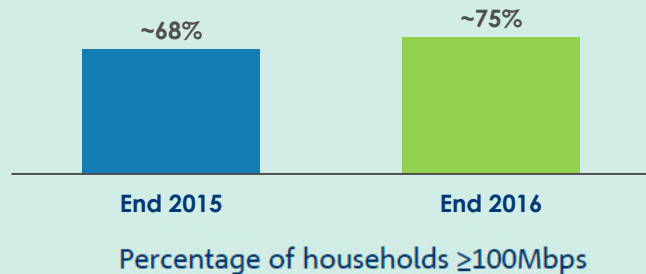
Investment-led strategy enabling superior customer experience



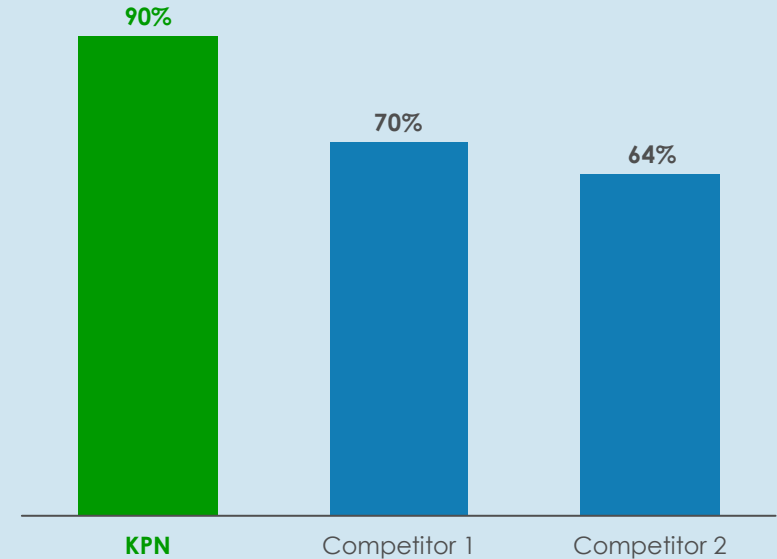
## Rising FttC / FttH penetration



## Driving coverage 100Mbps



## Best fixed network according to customers<sup>1</sup>



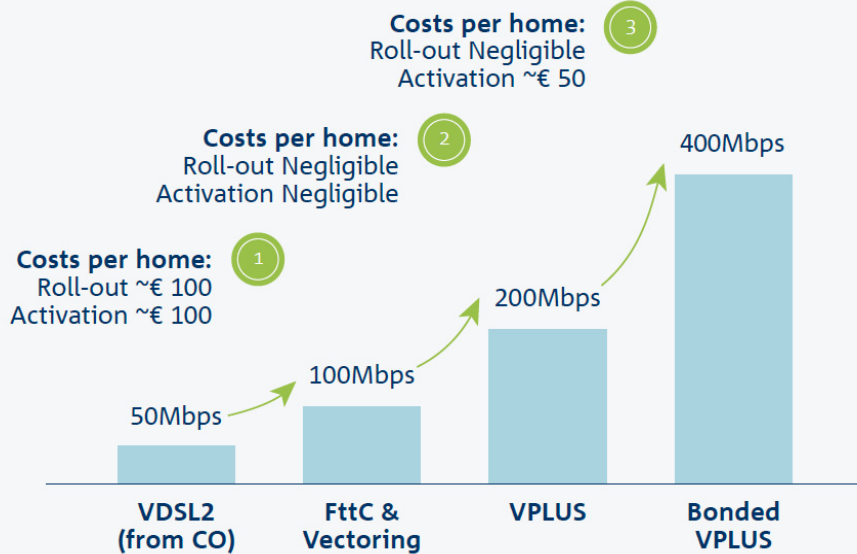
<sup>1</sup> % of clients that agree on the reputation statement that their operator has the best network; Kantar TNS (Q4 2016)

# Ready to upgrade if demand changes

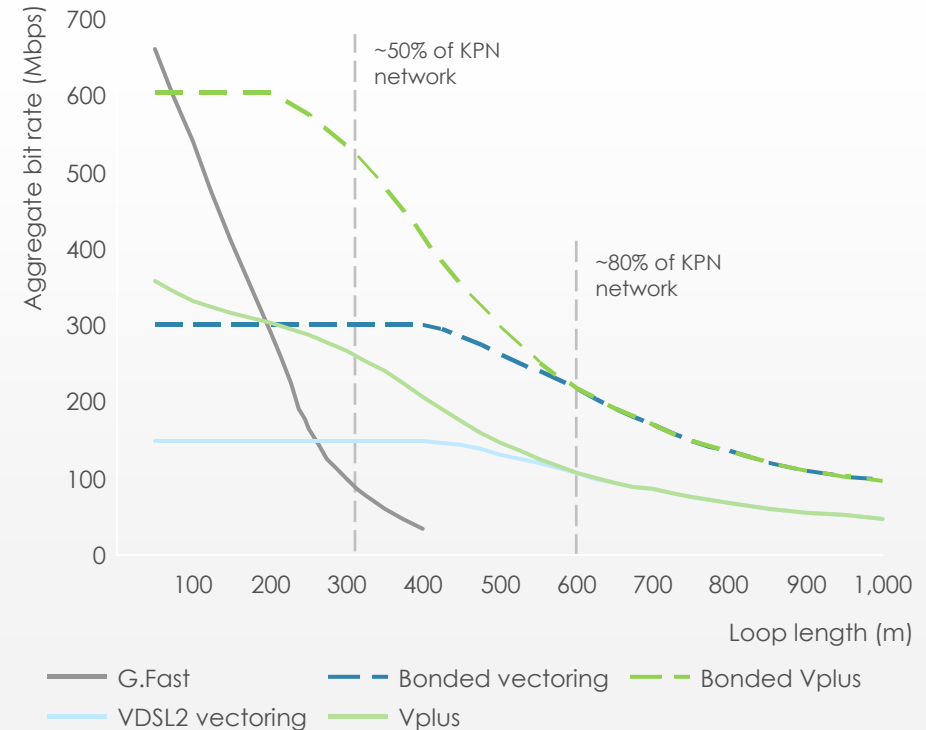
Large step taken with FttC upgrades in 2016



Cost and time efficient upgrades



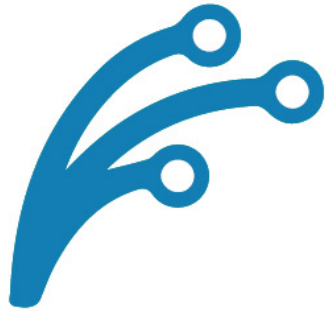
Vplus delivering highest stable speeds without changing network architecture<sup>1</sup>



<sup>1</sup> Source: Nokia; bonded speeds based on KPN management estimate

# Build flexible and simplified integrated network

Three steps to achieve objective



1 Rationalize

**Simplify and reduce spend**

Started 2010  
Expected completion 2019



2 Decentralize

**Content closer to customer**

Started 2015  
Expected completion 2017



3 Virtualize

**Increase network efficiency & effectiveness**

Scope mainly  
2017 and onwards

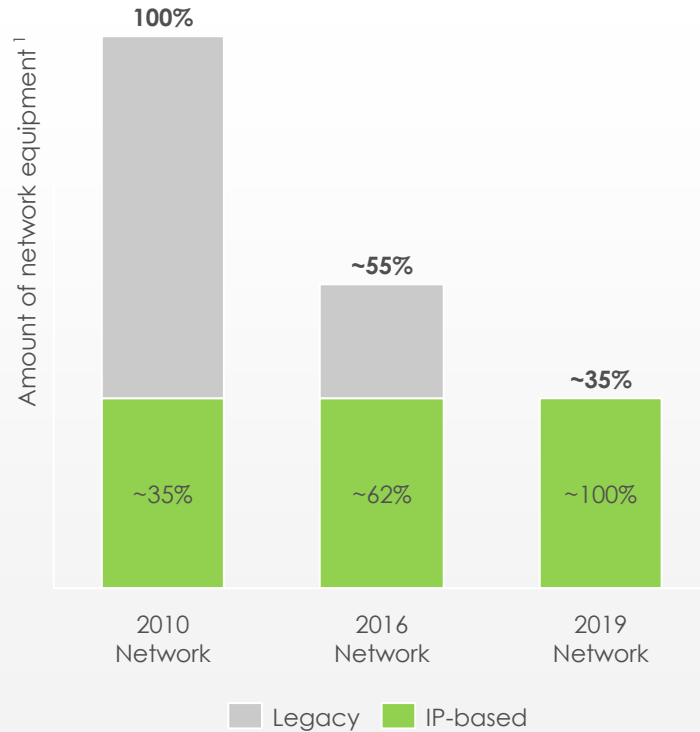


# Network rationalization to prepare for virtualization

Reducing complexity and associated costs to enable flexibility

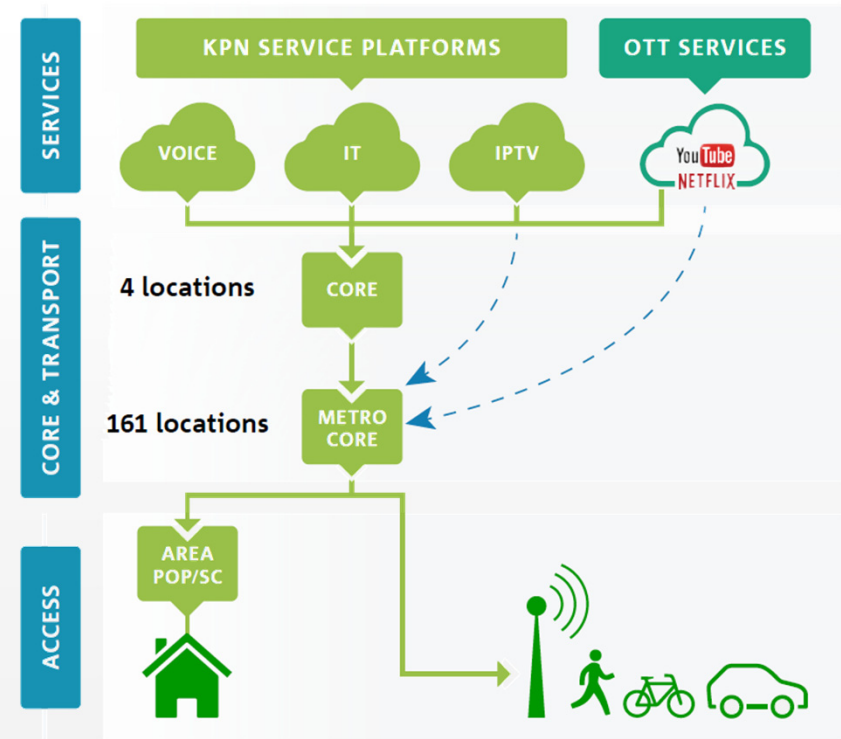


IP transformation on track



¹ Rebased (amount of network equipment used in 2010 = 100%)

Decentralize, bringing services closer to customers

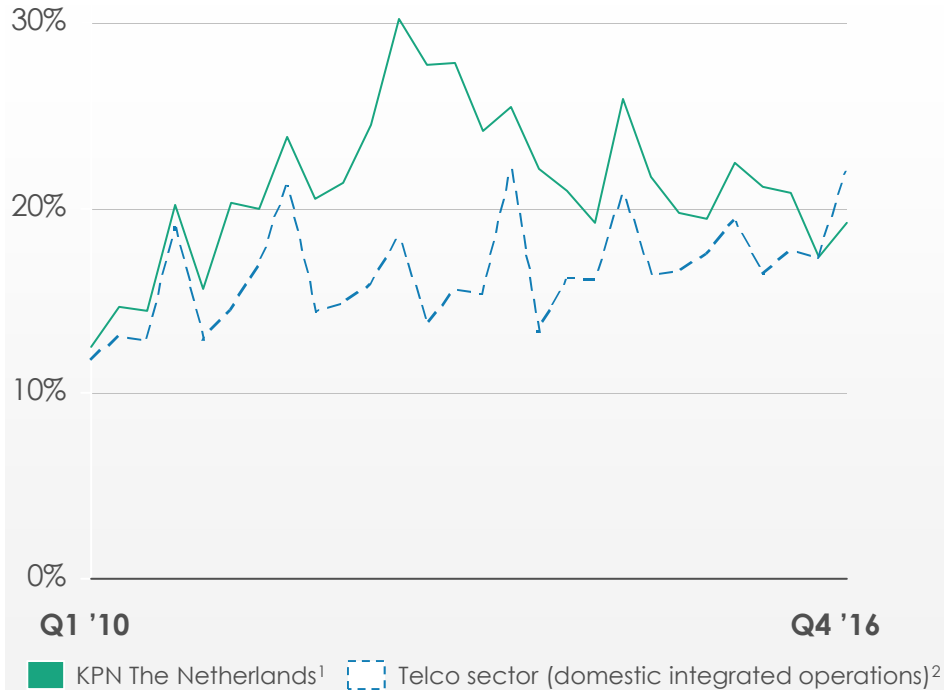


# Ahead of the Capex curve

KPN built strong fundamentals in past years

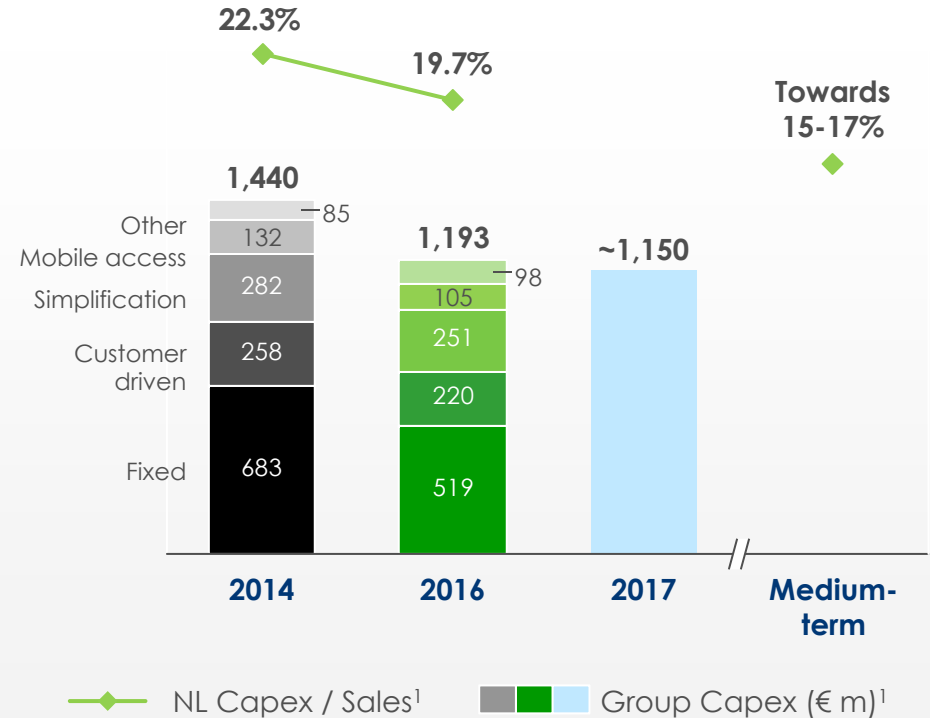


## KPN INVESTED AHEAD OF THE CURVE



<sup>1</sup> Capex adjusted to include Reggefiber Capex before consolidation  
<sup>2</sup> Euro Telco sector based on company reports, management estimates

## REDUCING CAPEX



# Growing free cash flow to drive shareholder value

Developing towards highly cash generative company



## Strong free cash flow potential

- 1 Grow revenues in Consumer, stabilize in Business
- 2 Rigorous focus on driving down costs
- 3 Capex levels trending down
- 4 Lower interest payments going forward
- 5 Limited cash taxes in The Netherlands

## Solid financial position

- Committed to investment grade credit profile
- 9.5% Telefónica Deutschland stake provides additional financial flexibility

## Commitment to growing shareholder returns

- Free cash flow growth to drive growing shareholder remuneration

# Key priorities for the coming years



1

Accelerate up- and cross-sell in bundles

2

Grow in TV and IT services

3

Finalize Business transformation

4

Finalize build of flexible and simplified integrated network and operating model

5

Expand superior access position by deploying innovative technologies and increasing fiber penetration

6

Optimize financial framework and grow dividend

Simplify

Grow

Innovate

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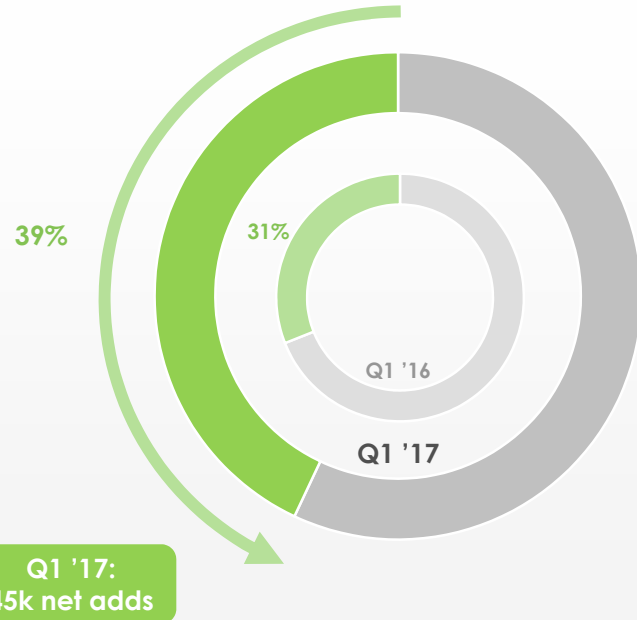
- 1 Strategy
- 2 Performance**
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# Continued growth fixed-mobile bundles in Consumer

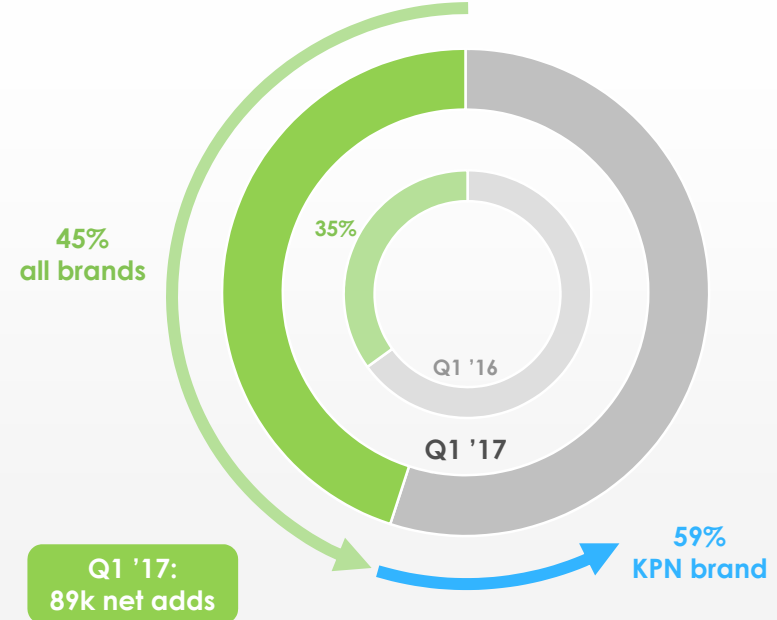
Successful up- and cross-sell into mobile



Households in fixed-mobile bundles<sup>1</sup>



Postpaid customers in fixed-mobile bundles

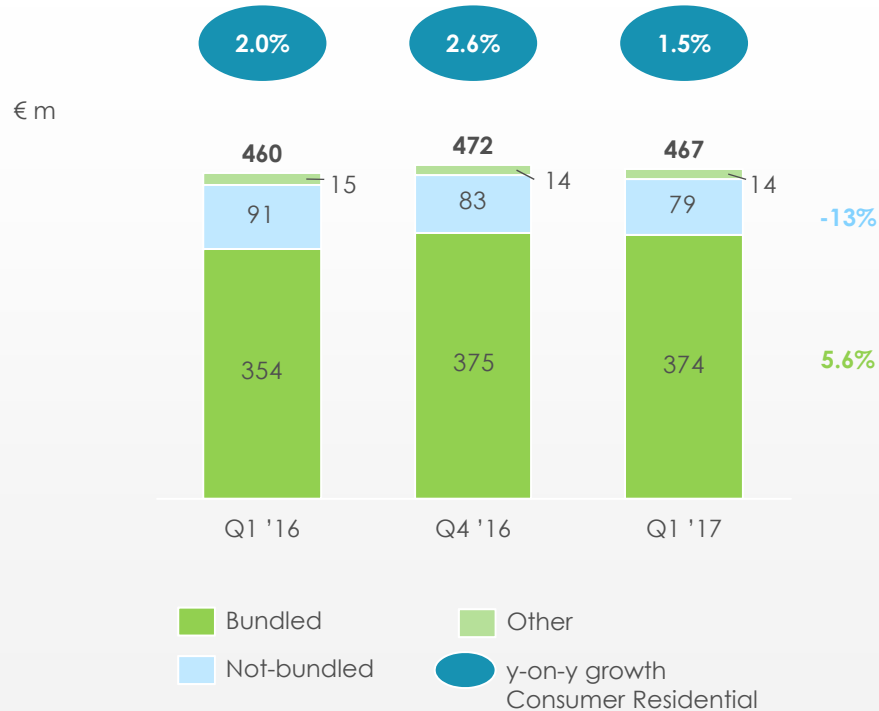


<sup>1</sup> As % of broadband customers

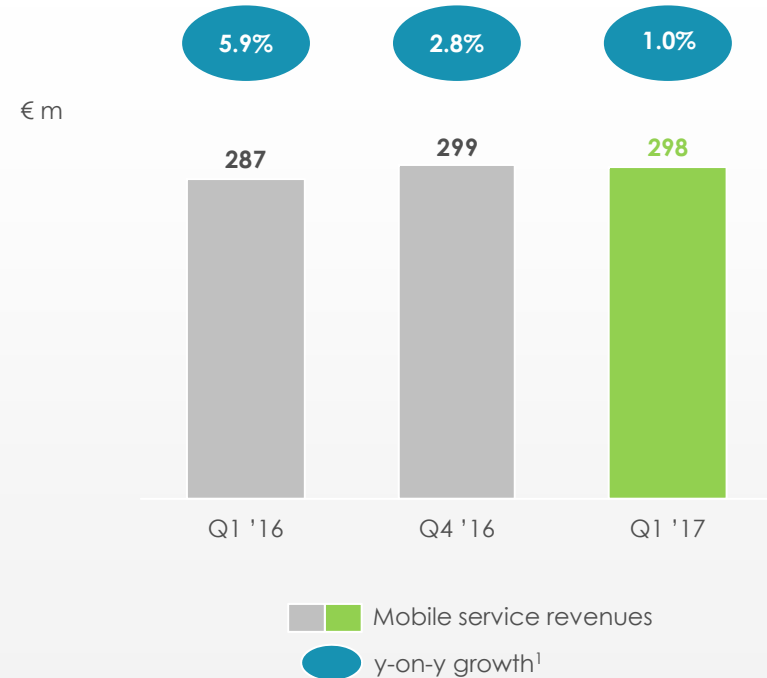
# Strong household proposition driving service revenue growth



## Fixed revenue growth driven by bundled services



## Continued mobile service revenue growth



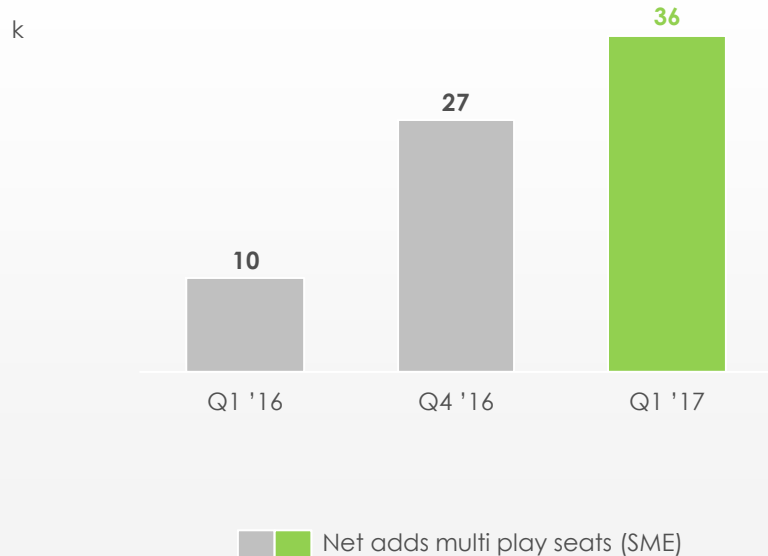
<sup>1</sup> Excluding tax benefit and regulation impact

# Focus on migrating Business customers to multi play

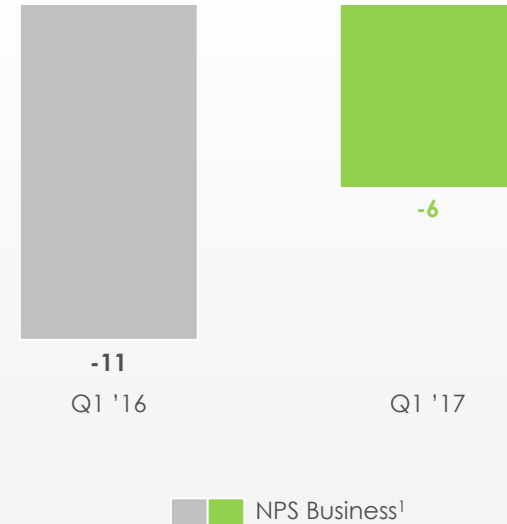
Rising customer satisfaction y-on-y



Further growth in multi-play seats



NPS Business improving y-on-y





# Migrations to integrated solutions strengthen business customer relations



## Executing on quality programs

### Business revenue growth drivers

		Q1 '17 adjusted y-on-y growth	Q1 '17 % of total adjusted revenues	
<hr/>				
Mainly SME	Business total	-6.9%		
	Single play wireless	-13%	22%	1
	Traditional fixed	-18%	16%	
	Multi play	30%	6.3%	2
<hr/>				
Mainly LE&Corporate	Network & IT services	-5.3%	22%	
	Customized solutions	0.0%	24%	3
<hr/>				
	New services	3.6%	5.3%	

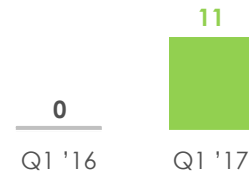
- 1 Repricing and migrations to multi play
- 2 Accelerating migrations to multi play in SME
- 3 Supported by take-up of integrated solutions

### Improving customer satisfaction by simplifying processes

Example

NPS Customer Service  
(self-employed + SME)

Registered client  
service tickets

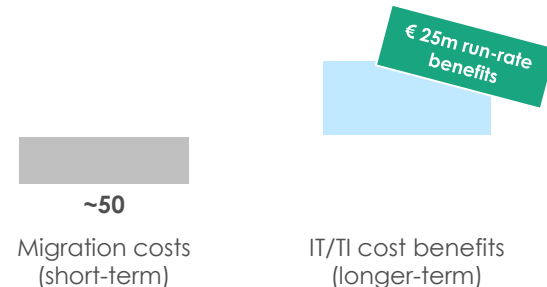


### Streamlining organization

Example

Benefits end-of-sale legacy internet portfolio  
to become visible after several years

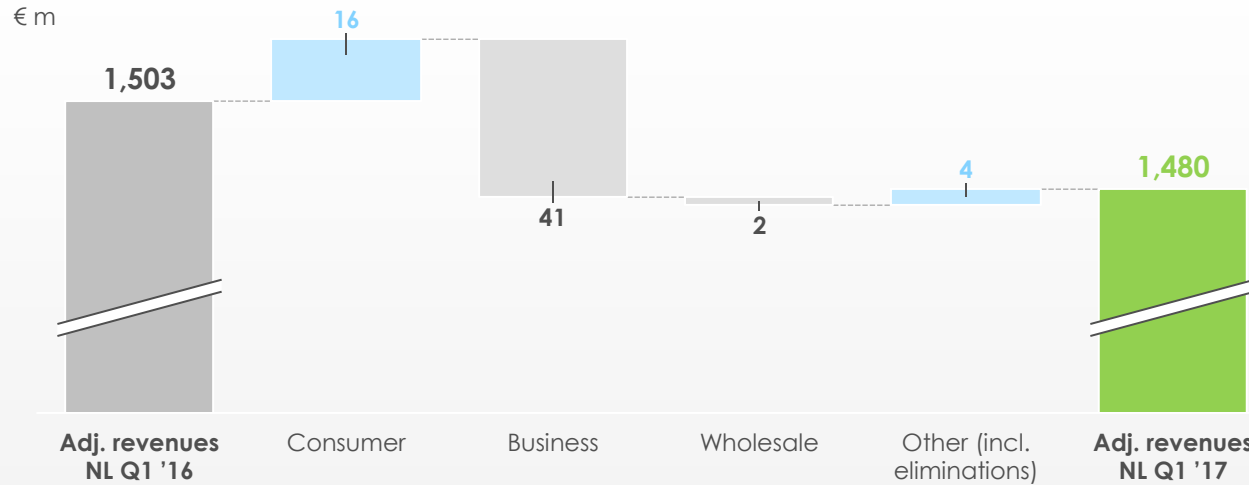
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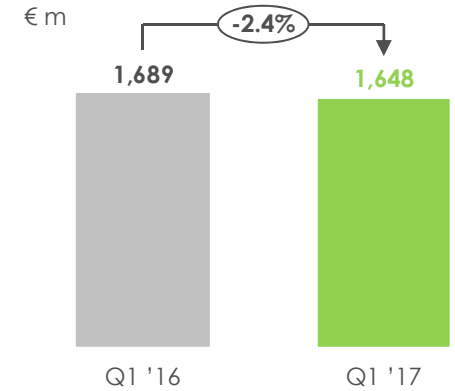
# Revenue trend The Netherlands improving



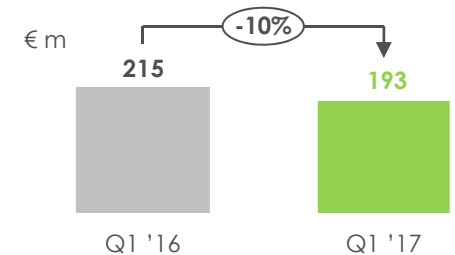
Adjusted revenues NL declined by 1.5% (Q4 '16: -1.9%)



Adjusted revenues KPN Group



Adjusted revenues iBasis

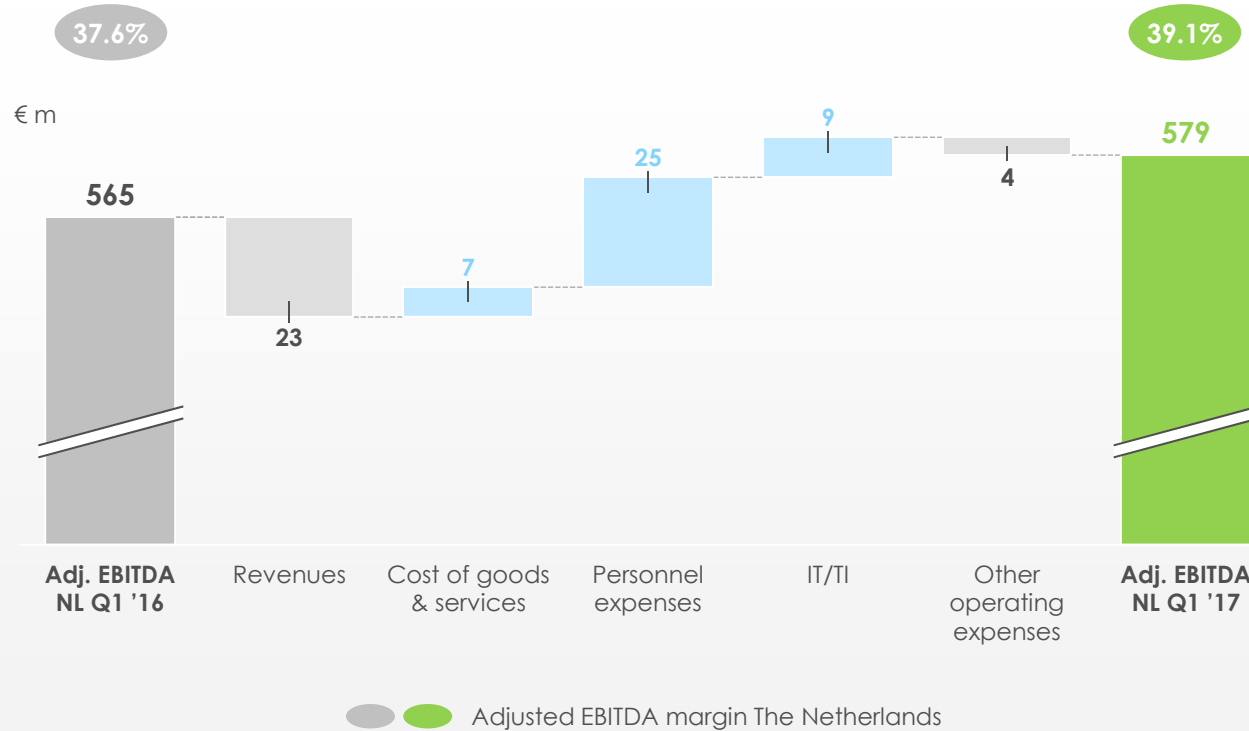


# Adjusted EBITDA supported by improved operational efficiency

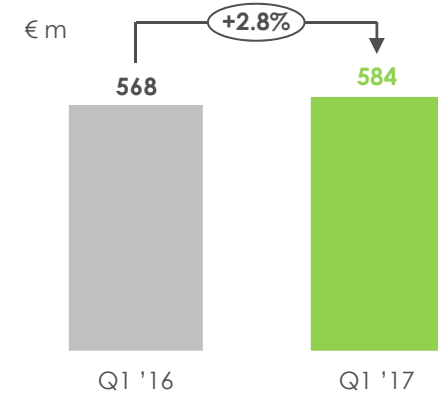
Simplification driving lower personnel and IT/TI expenses



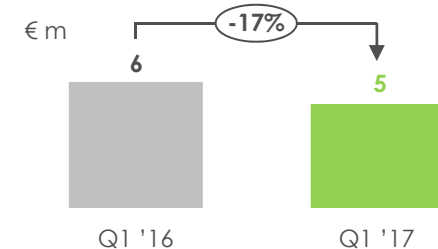
Adjusted EBITDA NL increased by 2.5%<sup>1</sup>



Adjusted EBITDA KPN Group



Adjusted EBITDA iBasis



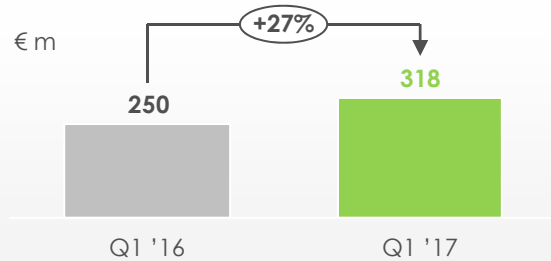
<sup>1</sup> Adjusted for restructuring costs and incidentals. The presented categories show adjusted numbers and differ from the opex breakdown as presented in KPN's Integrated Annual Report 2016

# Free cash flow growth

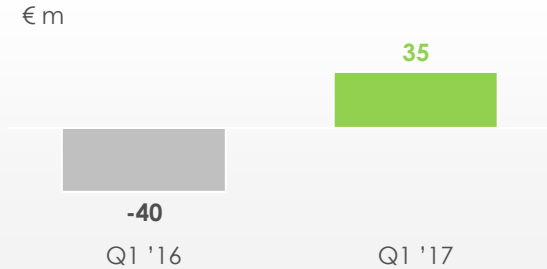
Q1 FCF influenced by intrayear phasing



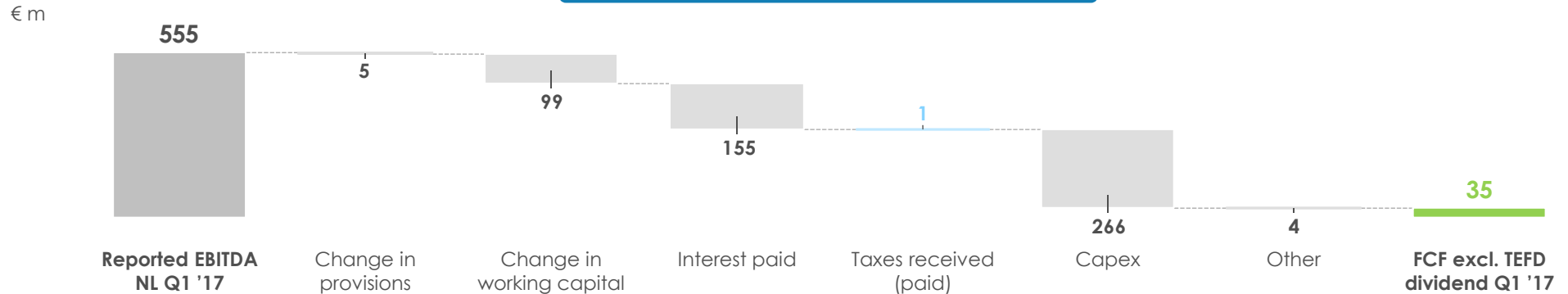
Growing operating free cash flow<sup>1</sup>...



...and free cash flow<sup>2</sup>



Free cash flow components

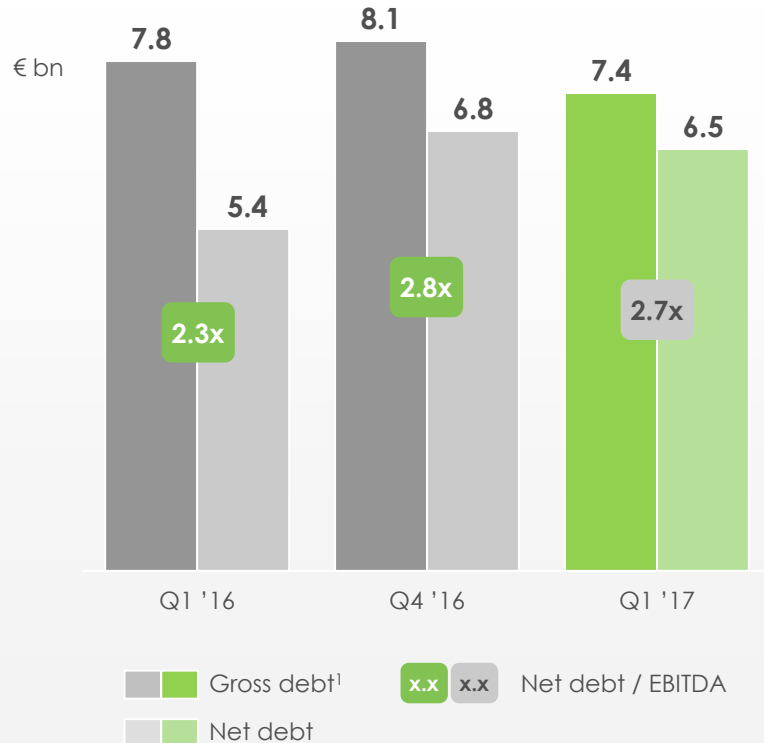


<sup>1</sup> Adjusted EBITDA minus Capex  
<sup>2</sup> Excluding TEFD dividend

# Solid financial position



## Lower gross debt y-on-y



## Debt portfolio

- Gross debt € 0.71bn lower vs. Q4 '16
  - € 720m bond redemption in January
- Net debt € 0.22bn lower vs. Q4 '16
  - Telefónica shares partly sold, reducing net debt
- Average coupon senior bonds 4.1% (Q1 '16: 5.0%)

## Financial flexibility

- Additional financial flexibility via 9.5% stake in TEFD

<sup>1</sup> Gross debt defined as the nominal value of interest bearing financial liabilities, excluding derivatives and related collateral, representing the net repayment obligations in Euro, taking into account 50% of the nominal value of the hybrid capital instruments

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# KPN ADR program

KPN has a sponsored Level 1 ADR program



Bloomberg ticker	KKPNY
Trading platform	Over-the-counter (OTC)
CUSIP	780641205
Ratio	1 ADR : 1 Ordinary Share
Depository bank	Deutsche Bank Trust Company Americas
Depository bank contact	Jonathan Montanaro
ADR broker helpline	+1 212 250 9100 (New York) +44 207 547 6500 (London)
E-mail	adr@db.com
ADR website	www.adr.db.com
Depository bank's local custodian	Deutsche Bank, Amsterdam

# Leading in Corporate Social Responsibility



## Successful CSR strategy

2016

### Quality & Reliability



79%

of Business customers agree that KPN has the best fixed network

### Environment



20%

less energy consumption vs. 2010

### Privacy & Security



96%

of customers who were infected by malware helped within 8 hours



## Recognition

MEMBER OF  
**Dow Jones Sustainability Indices**  
In Collaboration with RobecoSAM



## Social and environmental achievements

- KPN tests combination of DSL and 4G for access in remote areas
- KPN's e-health network enables home dialysis for patients of the FlevoHospital
- Mooiste Contact Fonds connects 723 chronically ill children
- Over 1,700 disabled children and their families joined the 'Schaatsvriendendag'
- KPN is main sponsor of the exhibition 'Gek van surrealisme' at Boijmans van Beuningen





Service revenues (€ m)	Q1 '17	Q1 '16	y-on-y %
Consumer	298	287	3.8%
Business <sup>1</sup>	160	175	-8.6%
Other <sup>2</sup>	38	35	8.6%
<b>KPN The Netherlands</b>	<b>496</b>	<b>497</b>	<b>-0.2%</b>

SAC/SRC per subscriber (€)	Q1 '17	Q1 '16	y-on-y %
Consumer (postpaid) <sup>3</sup>	193	221	-13%
Business (mobile only – mainly SME)	158	175	-9.7%

<sup>1</sup> Includes mobile-only (mainly SME) service revenues and partial allocation of Multi play (mainly SME) and Customized solutions (mainly LE & Corporate) revenues to mobile service revenues

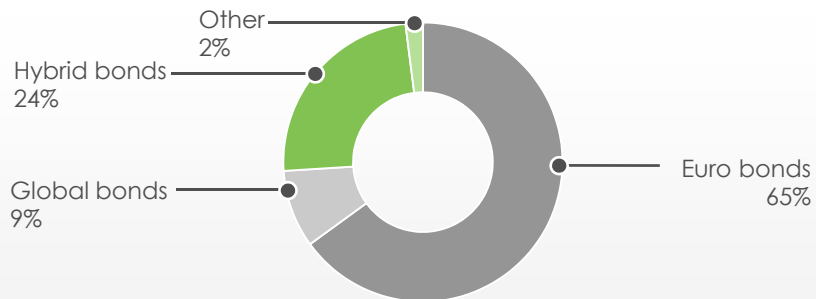
<sup>2</sup> Includes amongst others Wholesale mobile service revenues and visitor roaming

<sup>3</sup> Including handset subsidies, commissions and SIM costs

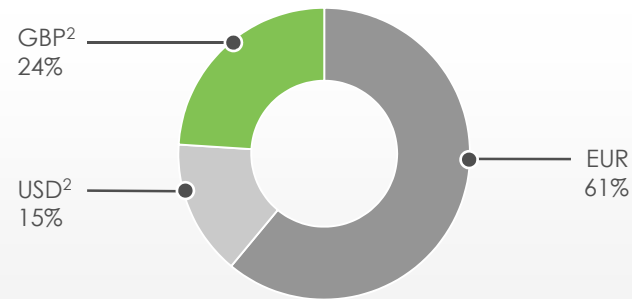
# Debt portfolio



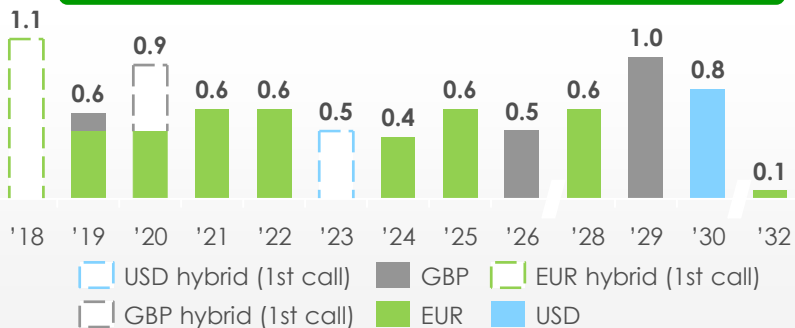
## Breakdown nominal debt<sup>1</sup> (total € 8.3bn)



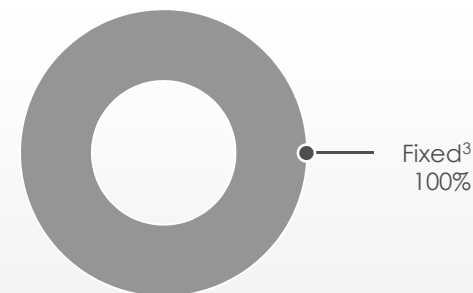
## Nominal debt by currency



## Bond redemption profile (€ bn)



## Fixed vs. floating interest



<sup>1</sup> Based on the nominal value of interest bearing liabilities after swap to EUR, including € 1.1bn hybrid bond, GBP 400m hybrid bond and USD 600m hybrid bond

<sup>2</sup> Foreign currency amounts hedged into EUR

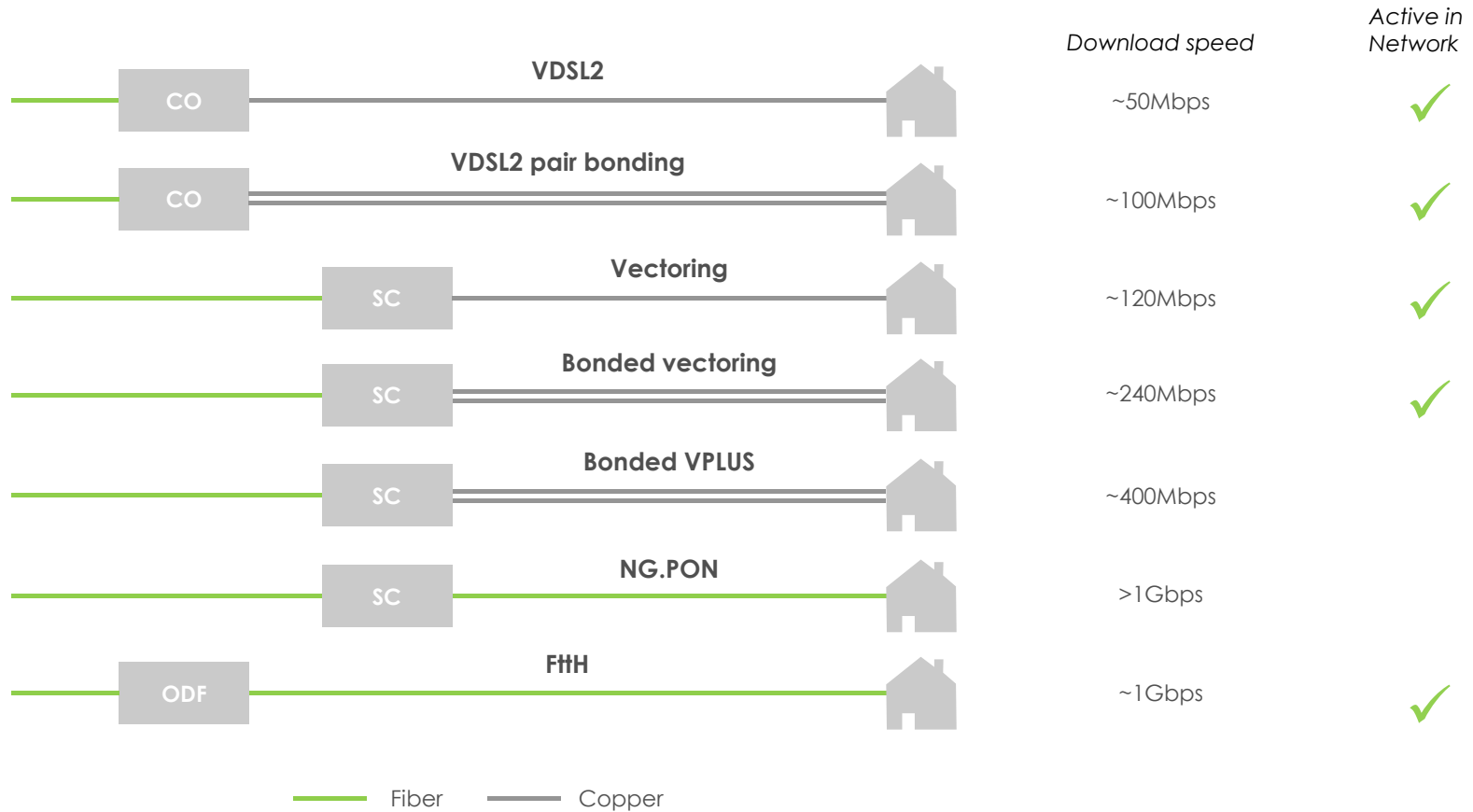
<sup>3</sup> Excludes bank overdrafts

# Spectrum in The Netherlands



800MHz (Paired)	Tele2 2*10	VodZig 2*10	KPN 2*10				2*30	
900MHz (Paired)	VodZig 2*10	KPN 2*10	T-Mob 2*15				2*35	
1.8GHz (Paired)	KPN 2*20		VodZig 2*20		T-Mob 2*30		2*70	
2.1GHz (Paired)	VodZig 2*14.6		KPN 2*14.8	T-Mob 2*10	KPN 2*5	VodZig 2*5	T-Mob 2*10	2*59.4
2.6GHz (Unpaired)	T-Mob 25			KPN 30		Tele2 5	1*60	
2.6GHz (Paired)	VodZig 2*30			T-Mob 2*5	KPN 2*10	Tele2 2*20		2*65
Total	KPN 169.6MHz		VodZig 179.2MHz		T-Mob 165MHz		Tele2 65MHz	578.8MHz

# Fixed infrastructure





## Alternative performance measures and management estimates

This financial report contains a number of alternative performance measures (non-GAAP figures) to provide readers with additional financial information that is regularly reviewed by management, such as EBITDA and Free Cash Flow ('FCF'). These non-GAAP figures should not be viewed as a substitute for KPN's GAAP figures and are not uniformly defined by all companies including KPN's peers. Numerical reconciliations are included in KPN's quarterly factsheets and in the Integrated Annual Report 2016. KPN's management considers these non-GAAP figures, combined with GAAP performance measures and in conjunction with each other, most appropriate to measure the performance of the Group and its segments. The non-GAAP figures are used by management for planning, reporting (internal and external) and incentive purposes. KPN's main alternative performance measures are listed below.

KPN defines EBITDA as operating result before depreciation (including impairments) of PP&E and amortization (including impairments) of intangible assets. Note that KPN's definition of EBITDA deviates from the literal definition of earnings before interest, taxes, depreciation and amortization and should not be considered in isolation or as a substitute for analyses of the results as reported under IFRS as adopted by the European Union. In the Net Debt / EBITDA ratio, KPN defines Net Debt as the nominal value of interest bearing financial liabilities excluding derivatives and related collateral, representing the net repayment obligations in Euro, taking into account 50% of the nominal value of the hybrid capital instruments, less net cash and short-term investments, and defines EBITDA as a 12 month rolling total excluding restructuring costs, incidentals and major changes in the composition of the Group (acquisitions and disposals). Free Cash Flow is defined as cash flow from continuing operating activities plus proceeds from real estate, minus capital expenditures (Capex), being expenditures on PP&E and software. Operating free cash flow is defined as adjusted EBITDA minus Capex. Revenues are defined as the total of revenues and other income unless indicated otherwise. Adjusted revenues and adjusted EBITDA are derived from revenues (including other income) and EBITDA, respectively, and are adjusted for the impact of restructuring costs and incidentals. The term service revenues refers to wireless service revenues.

All market share information in this financial report is based on management estimates based on externally available information, unless indicated otherwise. For a full overview on KPN's non-financial information, reference is made to KPN's quarterly factsheets available on [ir.kpn.com](http://ir.kpn.com)

## Forward-looking statements

Certain statements contained in this financial report constitute forward-looking statements. These statements may include, without limitation, statements concerning future results of operations, the impact of regulatory initiatives on KPN's operations, KPN's and its joint ventures' share of new and existing markets, general industry and macro-economic trends and KPN's performance relative thereto and statements preceded by, followed by or including the words "believes", "expects", "anticipates", "will", "may", "could", "should", "intends", "estimate", "plan", "goal", "target", "aim" or similar expressions.

These forward-looking statements rely on a number of assumptions concerning future events and are subject to uncertainties and other factors, many of which are outside KPN's control that could cause actual results to differ materially from such statements and speak only as of the date they are made. A number of these factors are described (not exhaustively) in the Integrated Annual Report 2016.