# KPN Investor Day: Consumer wireless

Strengthen - Simplify - Grow

Marco Visser

London, 10 May 2011

# Mobile Netherlands - profile

Entering a new era

**Profitable growth** | **Line in the sand** | **Value play**

Cash = king

Value maximization

Distribution

Brands

Customer Lifecycle Management

Customer centricity
Value maximization

**2000** | **2004** | **2007** | **2011** | **2015**

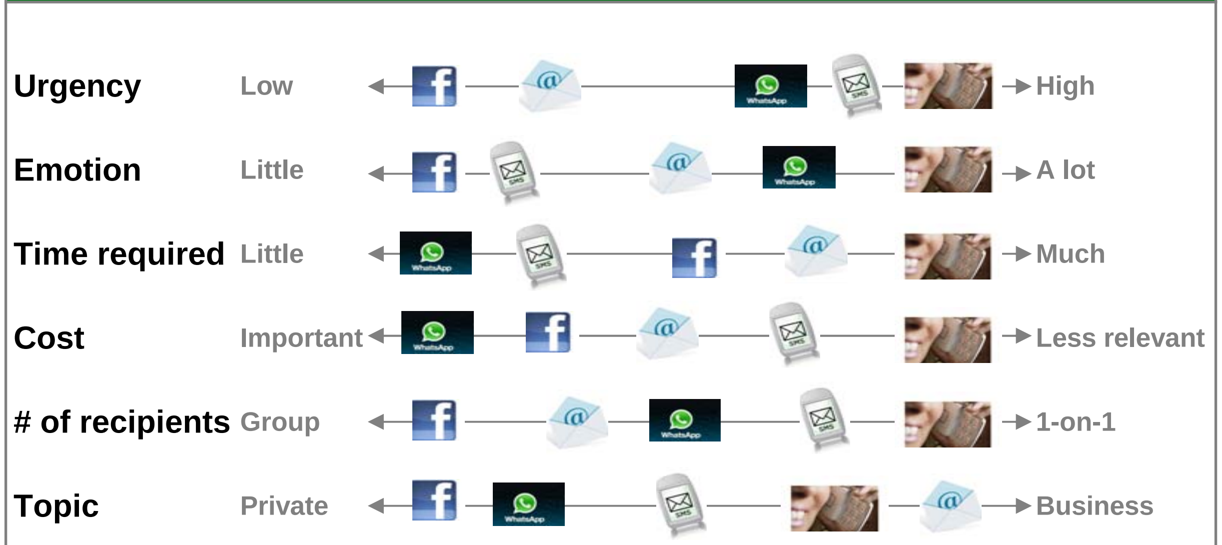
| | | |
|---|---|---|
| Short term cash flow maximization | Telfort acquisition | Best-in-class EBITDA margin (~50%) |
| EBITDA ++ | Relaunch Hi | Stable revenue share (~47%) |
| -/- 6% market share | SMS war | Increase distribution grip |
| iMode/UMTS | Increase share of indirect distribution | Consolidation |

**Implement initiatives to sustain share in competitive and changing market**

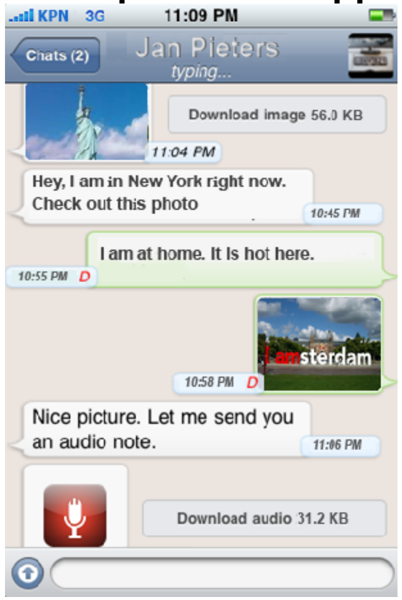
# Customer behavior

Traditional mobile voice and SMS are increasingly being substituted by data

**Attitude and communication behaviors are changing**




**Example: WhatsApp**




**New technologies facilitate**

- Accelerating penetration of advanced smartphones
- Popularity of social media
- Availability of easy to use 'apps' for instant messaging and mobile VoIP
- Proliferation of (free) WIFI hotspots

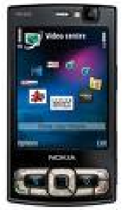
# Customer behavior (cont'd)

## Example of mobile bill of high value customer, before new initiatives

Illustrative[1]

### January 2010

Handset



Nokia N95 8Gb

***Usage***

*200 minutes*

*200 SMS*

*37 Mb data*

| ***Subscription*** | ***Cost*** |
|---|---|
| • *Hi 30 (225 credits)*[2] | *€ 30.00* |
| • *Data bundle* | *€ 9.95* |
| • *Out of bundle* | *€ 22.50* |
| **Total bill** | **€ 62.45** |

**Recent contract renewal**

### January 2011

Illustrative[1]

Handset

Samsung galaxy S

***Usage***

*175 minutes*

*160 SMS*

*204 Mb data*

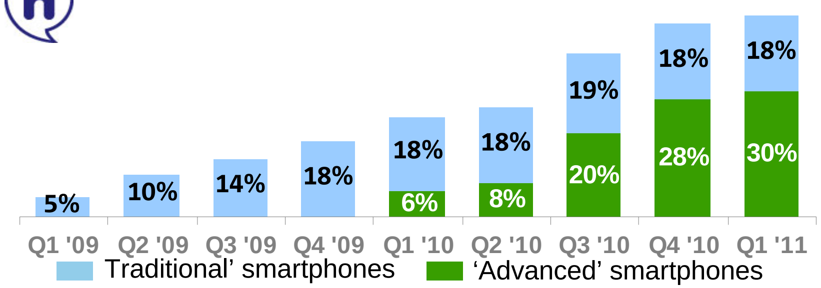
| ***Subscription*** | ***Cost*** |
|---|---|
| • *Hi 30 (225 credits)*[2] | *€ 30.00* |
| • *Data bundle* | *€ 9.95* |
| • *Out of bundle* | *€ 9.00* |
| **Total bill** | **€ 48.95** |

1 Example of high value postpaid Hi customer that renewed contract to advanced smartphone in past months
2 One voice minute is one credit; one SMS is 0.5 credits

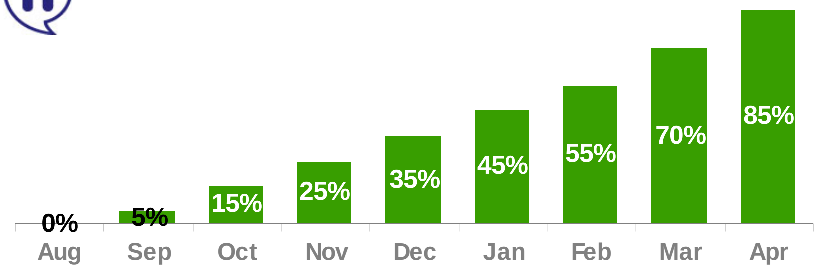
# Current trends amongst early adopters

## Use of applications lead to accelerating decline in SMS & out of bundle revenues

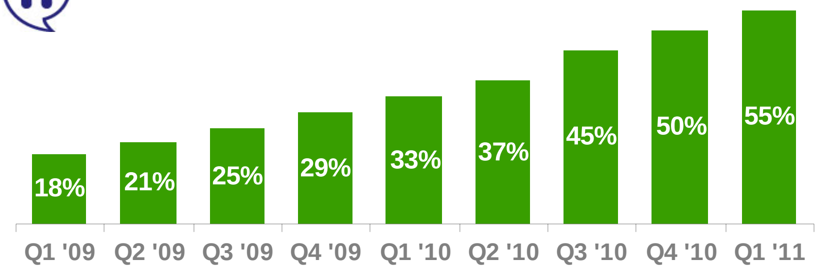
**(Advanced) smartphone penetration[1]**



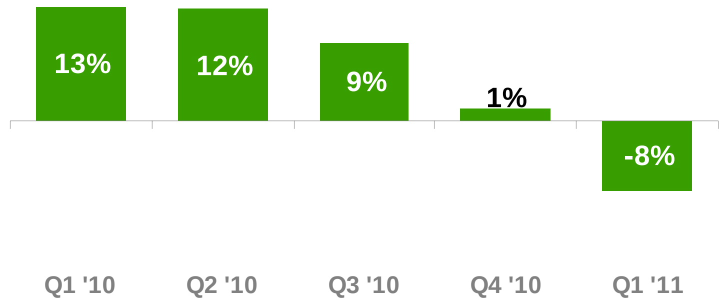

**Penetration of WhatsApp[2]**




**Penetration of 'flat fee' data packages[1]**




**Growth in outgoing SMS per customer**
*y-on-y*




Use of applications leads to lower out of bundle revenues

- Declining SMS traffic
- Making space for voice minutes within combined voice & SMS bundles

1 Based on postpaid customers of Hi brand (youth), considered early adopters
2 Based on Android phones only, KPN management estimate; postpaid customers of Hi brand (youth), considered early adopters

# Managing changing customer behavior

Short and long term measures

| Currently | Summer 2011 | Medium-term |
|---|---|---|
| **Stabilize ARPU traditional voice/SMS services** | **Introduce new data monetization models, increase data pricing** | **Build options for application monetization** |
| • Actively upsell customers to unlimited SMS bundle<br>• Actively upsell out of bundle customers to higher bundles<br>• Offer personal flat fee voice bundles to our top high value customers<br>• Offer 'suspend' pro-positions to current out of contract customers | • Offer integrated voice / SMS / data propositions<br>• Reduce Mb's in lower envelop bundles<br>• Introduce specific pricing for mVoIP<br>• Ensure transparent propositions and provide customers clear choices | • Investigate opportunities in application landscape i.e.<br>– Rich VoIP functionalities<br>– Cloud services<br>– KPN app store<br>– App store billing |

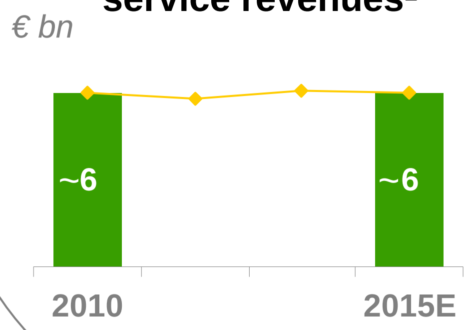
# Dutch mobile market outlook

Size of mobile market is expected to remain relatively stable

**Revenue cannibalization from IP substitution**

- Mobile VoIP
- SMS-replacing apps

**Dutch mobile market service revenues[1]**

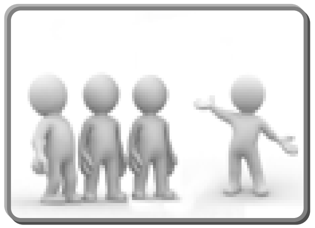



**Opportunities from mobile data**

- Tiered data pricing
- Multiple simcards for various devices
- New services
  - Music
  - Payment
  - 3G TV

**Potential new entrants**

- Potential new entrant going for market share



**Continued regulatory pressure**

- MTA voice
- MTA SMS
- Data roaming

1 Management estimate

# 2015 strategic objectives

## Adjusting value strategy to sustain market share in changing market

### Strategic initiatives

1 Future proof portfolio
- From volume based bundles to integrated data and voice bundles
- Application based and quality based differentiation
- Multi-device propositions

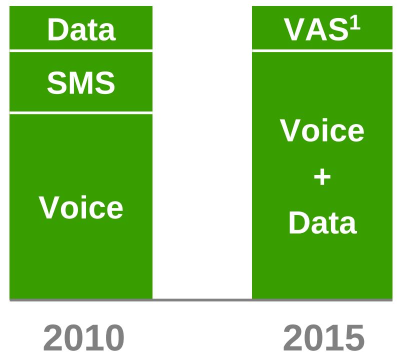
2 Optimize distribution
- Expand footprint KPN stores
- Introduce XXL experience stores

3 Develop growth opportunities
- Fixed-Mobile convergence
- SoHo/SME
- Data cards
- Regionalization/ big cities

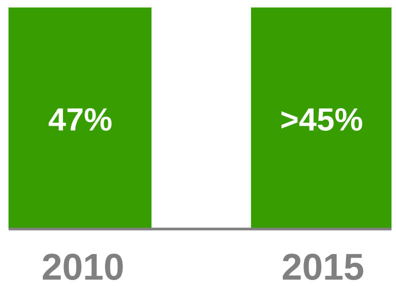
4 Improve quality
- Best-in-class service experience
- Best-in-class network

### Key 2015 objectives

**Successful migration to data**




**Sustain mobile NL market share[2]**




1 Value Added Services, e.g. apps
2 Service revenue market share

# ❶ Future proof portfolio

## Successful migration to data centric bundles

| From | To |
|---|---|
| Data | VAS[1] |
| SMS | Voice + Data |
| Voice | |
| Volume based bundles | Integrated data and voice bundles + VAS |

**First steps**

- Integrated bundles
  – Data bundles no longer sold separately
- MB differentiated per bundle
- Speed differentiation
- mVoIP tariffs
- USP per brand

**Future steps**

- Application based packaging
  – Music, video, internet, social media
- Multi-device propositions around mobile data

1 Value Added Services, e.g. apps

# 2 Distribution optimization

Improve brand and distribution effectiveness

## Expand own distribution footprint

- Expand footprint
  - KPN stores from 213 to ~300
- New format
  - Introduce new KPN XXL experience stores
- Focus on underperforming areas
  - Grow market share in big cities


## Leverage niche channels

- Specific KPN brands targeting specific customer groups, e.g. online, cultural
- Cover remaining part of the market through wholesale partners, with complementary distribution

# 3 Growth opportunities

Leverage capabilities on specific segments and adopt regionalization approach

### Fixed - Mobile convergence

- KPN as first-mover
- Converged fixed and mobile portfolio


### Regionalization/ big cities

- Regional sales communication
- Regional offers
- Proven success in Belgium and Germany

### SME/ SoHo

- Extend multi-brand approach
- Increase direct distribution footprint and online
- Tailor propositions

### Data cards

- Extend portfolio
- Realize strategic partnerships

# 4 Quality and costs

Realize best-in-class customer service

## Best-in-class service experience

Best in class CRM and billing

+

Accelerated self service

Reduced service calls
Improved NPS scores
Lower churn


## Best-in-class network

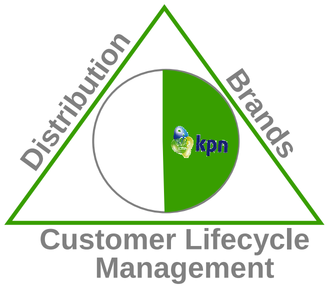
1. Highest download throughput
2. Lowest percentage of dropped calls
3. Frontrunner on LTE/ HSPA
4. Sufficient spectrum to serve customer base and safeguard growth

# Concluding remarks

## Sustain share in competitive and changing market

**OTT / OEM[1] players**


**Value strategy**




**New entrants**


**Different playing field**

**Different players**

**Future proof portfolio**

1

**Optimize distribution**

2


**Develop growth opportunities**

3

**Improve quality**

4


1 OTT = Over-the-top; OEM = Original Equipment Manufacturer

# KPN Investor Day: Consumer wireline

Strengthen - Simplify - Grow

Joost Farwerck

London, 10 May 2011

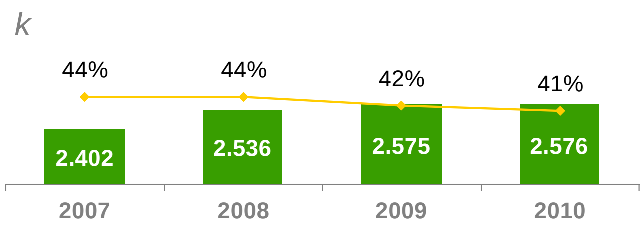
# Key messages
Consumer wireline

- Clear strategic initiatives targeting > 45% broadband market share by 2015
- Focusing on increasing number of RGUs
- Improving TV and broadband propositions to differentiate from the market
- Focus on first class customer service and delivery processes
- Expanding the addressable market
  - VDSL upgrades including nationwide bonding
  - Rolling out Fiber-to-the-Home in attractive areas
  - IPTV and Fiber-to-the-Home via all brands
- Targeted commercial investments via regional approach

# Consumer wireline - profile

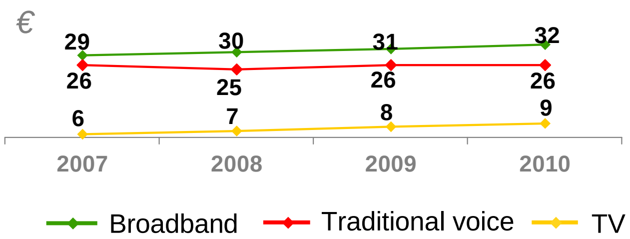
Managing the market for value

**Broadband customer base and market share**



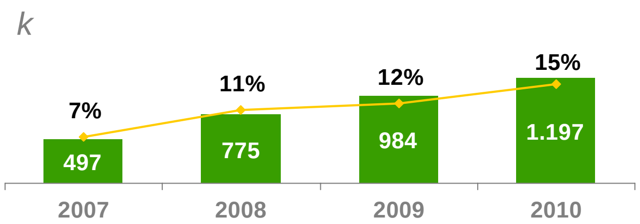

- Stable base
- Declining market share
- Cable key competition

**Broadband, Traditional voice & TV ARPU**



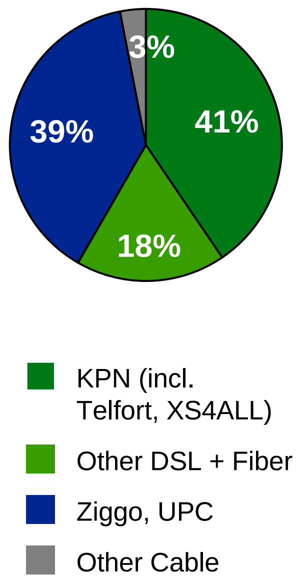

- Stable to rising ARPUs
- Slightly increasing # of RGUs per connection
  - Dec 2009: 1.75
  - Dec 2010: 1.81

**TV customer base and market share**




- Growing TV share
- IPTV key component in triple-play
- Digitenne[1] subscriber base: ~ 900k
- IPTV subscriber base: ~ 360k as per Q1 2011

**Broadband market share, %**

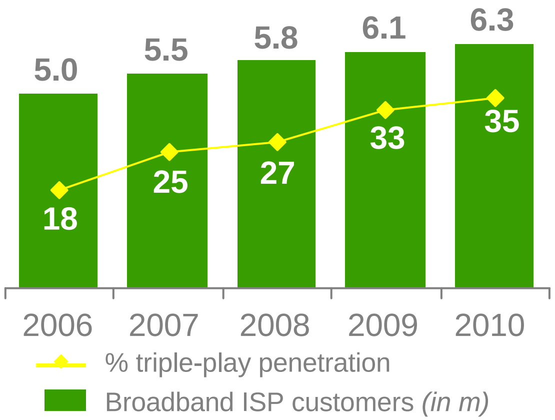



1 Digitenne used as primary TV connection

# Market context

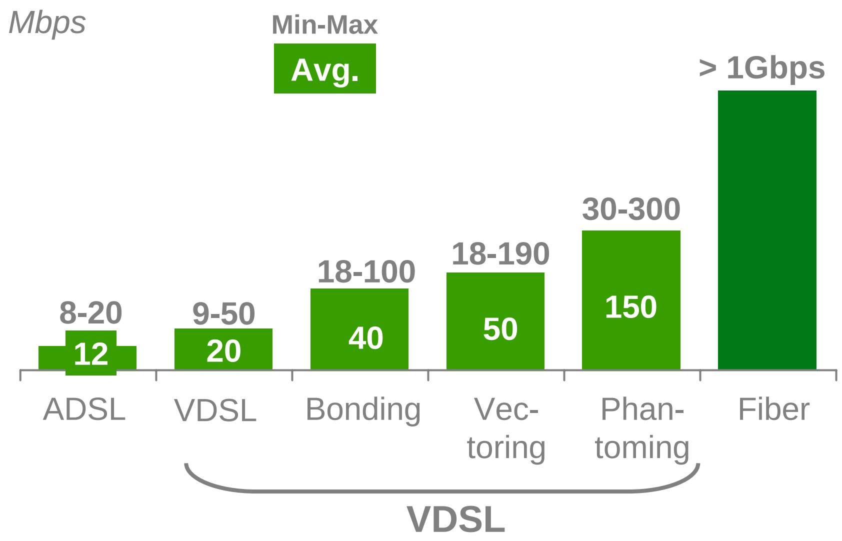
Moving to triple-play, new TV features increasing need for bandwidth

## Dutch broadband market evolving towards triple-play




- Dutch broadband penetration at 88%
- Continued increase in triple-play penetration
  - Line loss expected to continue
  - RGUs per connection to increase
- TV is key differentiator
- New features push demand for bandwidth: e.g., Multi-screen, Uploading, HDTV

## Promising technical developments enable VDSL bandwidth increase




- New copper upgrades enable short and medium-term bandwidth increase
- ~ 90% of Dutch market connected with double copper pair, of which ~ 60% fully prepared, therefore pair bonding on VDSL widely possible
- Fiber is superior technology in the long run

# 2015 strategic objectives

Win broadband market share through successful triple and quadruple-play

## Strategic initiatives

1


- Improve & differentiate proposition on copper and fiber
- Converged Fixed-Mobile offering

2


Step up customer service and provide in-home integration services

3

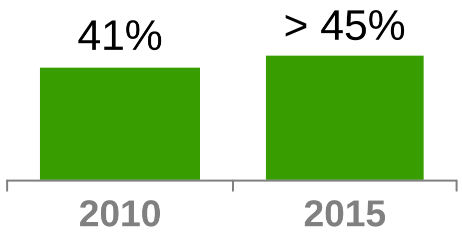

Expand addressable market with nationwide VDSL upgrades and FttH roll-out in promising areas

4

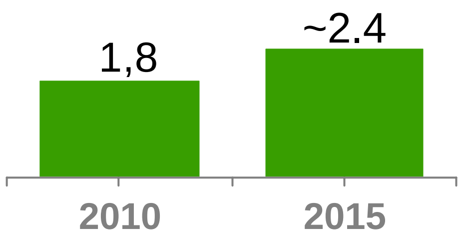

Targeted commercial investments following a regional approach

## Key 2015 objective

### Broadband market share




### RGUs per connection



# 1 Customer proposition improvement

## Improve and differentiate propositions

| Vision | Short term proposition improvements | Superior offers with FttH |
|---|---|---|
|  A great user experience… | **Enhanced and more flexible interface**<br><br>**Improved quality**<br>• Faster zapping<br>• Improved image quality |  0.5-1 Gbps |
|  …with access to all content… | **Content**<br>• More channels<br>• OTT content via TV<br><br>**High-end TV**<br>• HD packages<br>• 3D experiments<br><br>**Additional features**<br>• Gaming<br>• Music | |
|  …across all screens… | **TV on other devices**<br>• TV on second screen<br>• WebTV on PCs and tablets<br>• Introduce quadruple play<br><br>**Functionalities**<br>• Uniform interface |  Best HD quality |
|  …shared with all your friends | **Integration with social media**<br>• Apps for smartphones with EPG (linked to social media)<br>• Recommendation functionality<br>• Social networks functionality on TV | |

# 1 Converged Fixed-Mobile offering

## Benefit from quadruple-play offering

### KPN uniquely positioned for quadruple-play in NL

- Customer benefits from quadruple-play proposition:
  - Convergence between devices
  - Demand for extra functionality
  - Benefit from bundled prices
  - Single provider convenience
- KPN best positioned to capture benefits from this trend
  - Nation wide fixed network and best mobile network in the Netherlands
  - 360° customers view
  - Benefit from churn reduction on both mobile and fixed

### Taking initiative to increase Fixed-Mobile convergence

- Device convergence on TV/BB roadmap, such as:
  - TV on PCs and tablets
  - TV on mobile
  - Improved usability of receiving KPN TV on fixed and mobile
- Develop bundles
  - Reduce churn of mobile and fixed customers
  - Avoid margin erosion

# Customer service optimization

2

Quality improvements in customer service and efficiency

## Improvements on customer process

- Improved delivery time broadband / TV
- Proactive quality monitoring
- ‘First time right’ and ‘zero waste’ on key processes

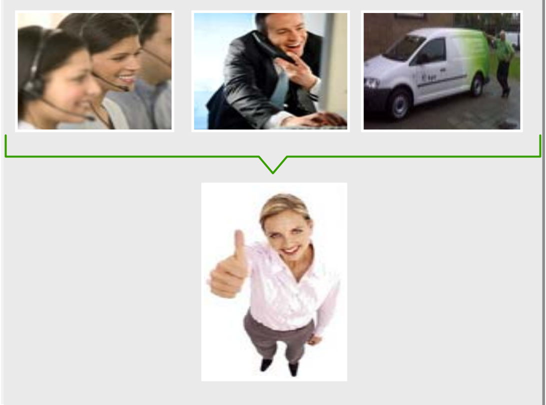
## First class service points

- Nationwide first class service points by improving website and call centers
- Local XXL-stores as service points
- @Home: In-house integration services formula

*“Here to help”*

## One KPN customer unit

- 1 customer process
- 1 program to improve



## Enablers

- Culture of customer centricity in frontline and back-office
- Online self-care environment
- Process redesign to reduce waste
- Performance management

# 3 Addressable market expansion

VDSL upgrades and fiber roll-out expanding coverage

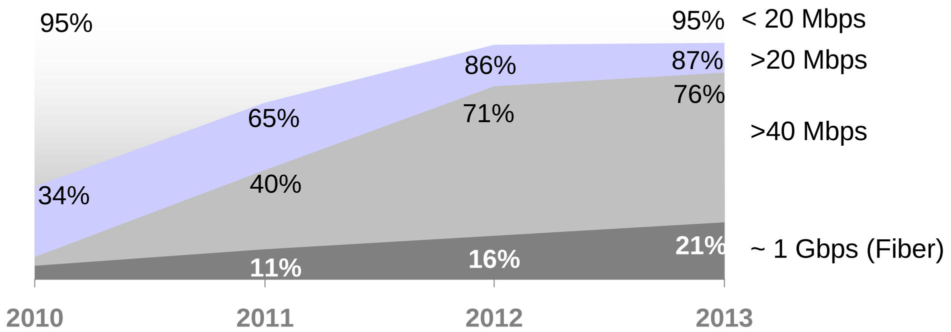
## Actions to expand the addressable market

- Upgrades of copper network
  - Acceleration VDSL outer rings ongoing
  - Pair bonding, full launch Q4 2011
  - Vectoring, H2 2012
  - Phantoming R&D ongoing, earliest launch 2013
- In full preparation with Alcatel-Lucent and ZTE

- Selectively targeted fiber roll-out in promising areas through Reggefiber JV
  - Securing regional strength and long-term position
- Ongoing gradually roll-out leads to >20% FttH coverage in 2013

## Increasing coverage with high guaranteed speeds

% coverage of Dutch market, guaranteed speeds

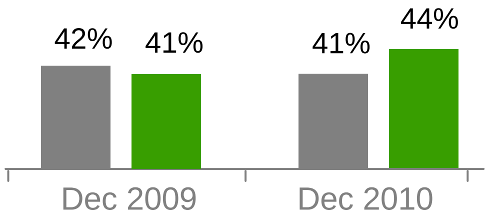



- Guaranteed minimum speeds
- 2011: ~ 40% of Dutch households covered with >40Mbps
- 2012: ~ 70% of Dutch households covered with >40Mbps

# 3 Positive results in KPN FttH areas

Fiber areas show promising uptake in market share and ARPU

## Broadband market share

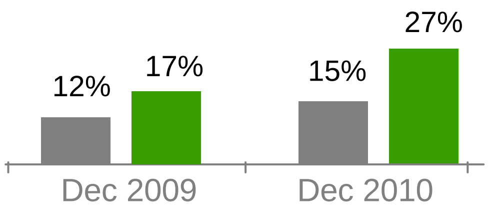



Fiber area +3%

National -1%

= KPN national average = KPN FttH area[1]

## TV market share




Fiber area +10%

National +2%

= KPN national average = KPN FttH area[1]

## Good developments in KPN FttH areas

- Broadband and TV show promising market share uptakes
- 40% of broadband gross adds are new customers
- Significant ARPU increase thanks to increased upsell


1 Based on all KPN FttH areas that were rolled out at Dec 09

# 4 Maximize value through regional approach

Commercial approach differentiated on regional characteristics and likelihood of success

### Expand offering across all brands

- Offer IPTV and FttH to Telfort and XS4ALL customers this year
- Expanding addressable market

Telfort.

XS4ALL

### Focus on churn reduction and gross adds increase per area

- Cross-sell TV
- Create more traffic to shops by hardware promotions
- Expanding distribution footprint


### Grow FttH in attractive area's

- Expand roll-out via aggregated demand
- Focus on most promising areas
- Dual-play offering
- Proactive migration in KPN FttH areas


1 English translation: Lelystad wants fiber

# Concluding remarks

- Clear strategic initiatives targeting > 45% broadband market share by 2015
- Focusing on increasing number of RGUs
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- Expanding the addressable market
  - VDSL upgrades including nationwide bonding
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- Targeted commercial investments via regional approach

# KPN Investor Day: Germany

Strengthen - Simplify - Grow

Thorsten Dirks

London, 10 May 2011

# Key messages
## Germany

- Winning challenger strategy for data
- Strong growth potential
- All building blocks in place

# Challenger strategy

## Strong performance in competitive German market

### Proven track record with 2010 ramp-up year for growth in mobile data

% = E-Plus service revenue market share

~13% → ~16%

**Proven track record**

- Focused on mass market needs
- Low-cost to serve
- Multi-brands & segments
- Wholesale partnerships
- Innovative propositions

**2010: Ramp-up year**

- Acquired valuable spectrum
- Disruptive vendor partnerships
- Accelerated data network roll-out
- Positioned BASE brand for data
- First regional data attacks

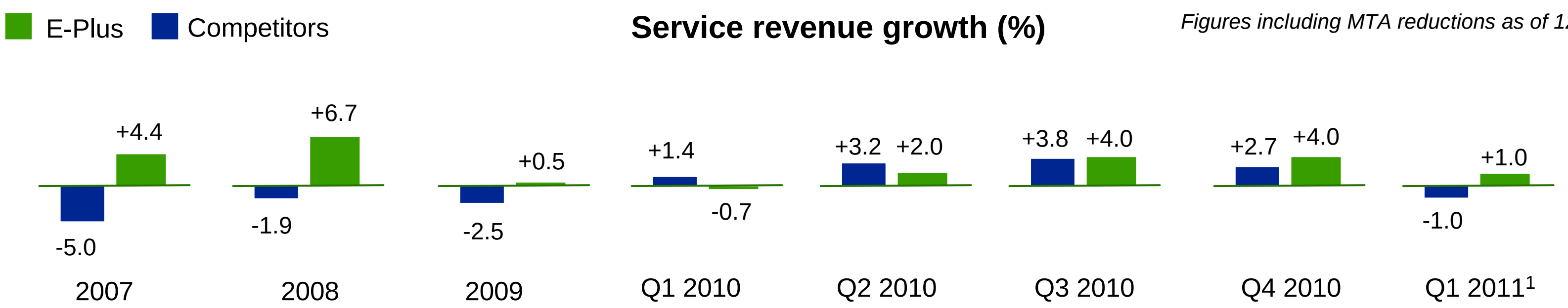
**Voice + SMS** → **Data**

**2006** — **2010**

### Market outperformance

**Service revenue growth (%)**

*Figures including MTA reductions as of 12/2010*

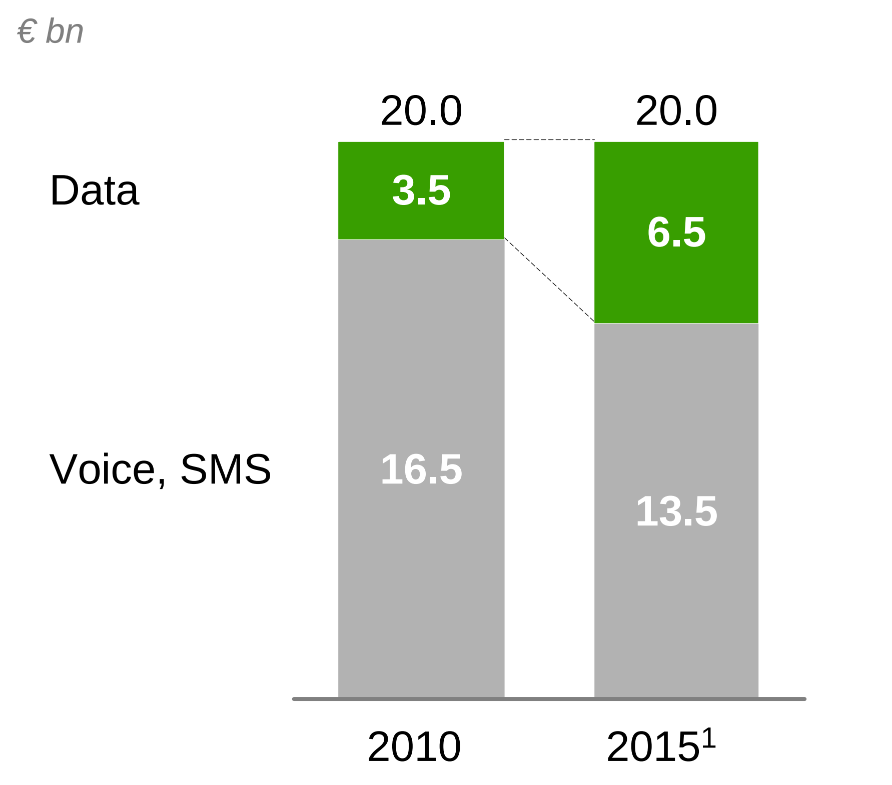



1 Management estimate

# Market context

Overall market size stable due to strong growth in mobile data

**German market service revenues**




- **Overall service revenue market size stable**
- **Voice market** will further decline due to MTA impact and competitive pricing pressure
- **Substitution of voice/SMS** through „over-IP" still negligible but expected to increase 2012+
- **Data uptake**, driven by both smartphones and dongles; major opportunity for E-Plus

1 Management estimate

# 2015 strategic objectives

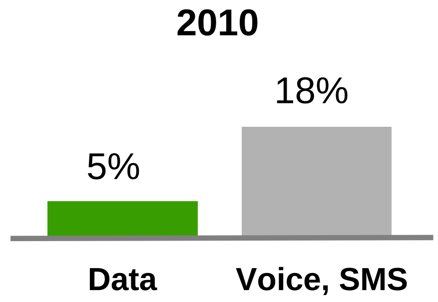
## Grow mobile Challenger strategy with data

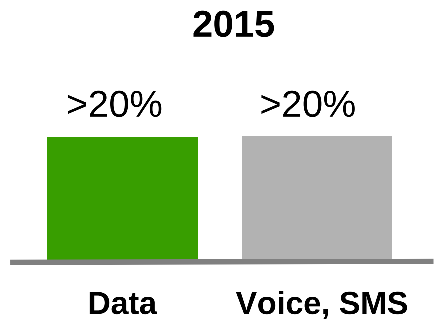
### Strategic initiatives

| | |
|---|---|
| **Network** | • Mobile broadband network for mass market<br>• Quality on eye-level with competition<br>• Clear cost leadership |
| **Commercial** | • Innovative value for money data propositions<br>• Upgrade customer base<br>• Capture market growth |
| **Brand** | • Further strengthen lead brand BASE<br>• Continue multi-brand / segment strategy<br>• Expand wholesale partnerships for voice/data |
| **Distribution** | • Regionalized go-to-market approach<br>• Further strengthen captive channels |

### Key 2015 objective

**Service revenue market share**



# Mobile data strategy - Network

Quality on eye-level with competition - at lowest cost to serve

## Building blocks

- **Mobile data network for mass market user**
  - Quality on eye-level with competition
  - Lowest cost to serve
- **Cost leadership**
  - Disruptive vendor deals and focus on HSPA+
  - Regional prioritized roll-out, build-to-demand
  - Off-load indoor data traffic through customer Wifi
- **Future proof approach**
  - Instant (soft-) upgrade from HSPA+ to LTE anytime
  - Ability to use existing 900 MHz spectrum for data
- **Accelerated roll-out based on multiple partnerships**
  - EOY 2011: >75% of own base covered (up to 21 Mbps)
  - EOY 2012: >80% of total pop covered (up to 42 Mbps)

## Facts

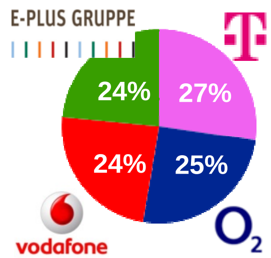
| 2009 | 2010 | 2011 | 2012+ |
|---|---|---|---|
| 2 | 9 | 12 | >15 |

**Mobile broadband roll-out: no. of site upgrades/day**

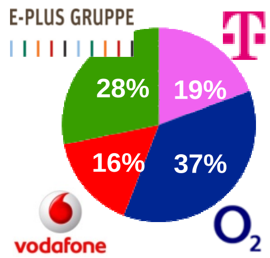
**70 MHz** → **140 MHz**

**E-Plus spectrum before auction[1]**

**E-Plus spectrum after auction***




**Total FDD spectrum**




**Total FDD spectrum per customer**

1 FDD/TDD spectrum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# Mobile data strategy - Commercial

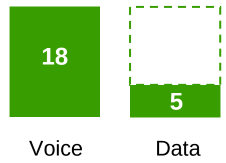
Strong growth potential - value for money data propositions

## Building blocks

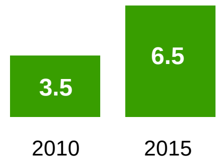
- **Strong growth potential**
  - Upgrade customer base
  - Capture market growth
- **Winning smartphone proposition**
  - Internet inside / private label
  - Optimized SAC through lease model

- **Additional growth from embedded-SIM / dongle business**
  - Wholesale deals for „embedded SIMs“
  - Leveraging our network capacity advantage


## Facts




**Market share 2010 (%)**




**Data market (€ bn)**


**Smartphone take-rate**

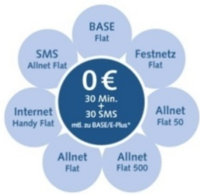

**Pure data service revenues**

**Q1 2011 YoY growth rates**

# Brand / distribution strategy

Further strengthen key elements of Challenger model

## Building blocks



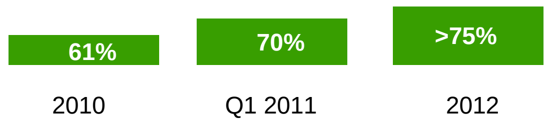

- **Further strengthen BASE brand**
  - Continue to push brand awareness
  - Further increase Net Promoter Score
- **Expand multi-brand/segment approach**
  - Expand into new segments
  - Leverage full wholesale partner pipeline to address new segments in voice & data
- **Further exploit regionalization potential**
  - Increase captive channel share in growth regions
  - Regional go-to-market and network yield management approach for data

## Facts

**Net promotor score Q1 2011**
*BASE most popular brand*


**BASE brand awareness**
*Strong upside in further pushing awareness*


**Captive channel share**
*Post-paid transactions through own channels*



# Concluding remarks

Germany

- Winning challenger strategy for data
- Strong growth potential
- All building blocks in place