



# KPN Integrated Annual Report 2018

The power of connection

&gt; Introduction by CEO Maximo Ibarra

# At the heart of the connected world

Every day, new technologies are bringing new opportunities. For KPN and the Netherlands. And this is just the beginning.

Technologies such as 5G will soon enable companies in the port of Rotterdam to optimize manufacturing, better predict industrial maintenance and further improve safety. Among the life-changing technologies we are seeing are those that enable patients and healthcare specialists to exchange data, so that people who need care can stay in their home. The Internet of Things (IoT) is providing precision agriculture solutions, aligning sensors and drones, which results in less use of soil, water and pesticides. These technologies are

creating a society in which people and devices are increasingly connected. In this society, connecting is our core mission. We want to be our customers' trusted companion by offering undisputed quality in access, service and customer experience.

For me, this year was also a new beginning, since I assumed the CEO role in April 2018. After an in-depth introduction to the company and a thorough analysis of its market position, we outlined an updated strategy for the future. I'm proud to be part of this great company, with its strong reputation, solid financial position, skilled people and global leadership in sustainability.

**We are  
determined to  
become the  
undisputed quality  
leader in  
the Netherlands**





From our store assistant to our webcare specialist, from our field engineer to our senior manager, our employees work hard – day in, day out – to make KPN the undisputed quality leader of the Netherlands. Our customer-centric and service-driven approach is underpinned by high customer satisfaction (NPS) in both Business and Consumer segments.

The Netherlands leads the way in the development and adoption of digital technologies, but there are undoubtedly challenges ahead. The Dutch telecommunications market is highly regulated, we face fierce competition and people expect excellent networks. Both consumers and businesses increasingly want converged propositions, over which they can be in full control. They are looking for one-stop-shop service delivery, a seamless connectivity experience and the highest quality products and services. This is further driven by the broader trends of IoT and cloud services. This evolving landscape means we need to be more flexible, improve our time to market and deliver innovation to our customers faster than ever.

To ensure KPN delivers growth again, we kickstarted several initiatives to shape our strategy for the period 2019-2021. Our ambition for the next three years – as announced in November 2018 – is to deliver organic sustainable growth of adjusted EBITDA and free cash flow. We are positioning KPN as a future-proof, high-quality, lean telco with strong premium consumer and business customer relations. To further strengthen our execution power, we now manage our operations through an Executive Committee. My main message is that we want to build the best converged smart infrastructure, focus on the best customer experience and profitable converged services and accelerate simplification and digitalization within the company.

We operate in a capital-intensive industry. As data usage continues to grow exponentially and the world becomes more and more connected, we need to invest in our core asset: infrastructure. In line with our ambition to have the best infrastructure in the country, we will accelerate the roll-out of Fiber to the Home. An additional 1 million households will be powered by KPN by the end of 2021. In doing so, we will connect more than 40% of Dutch households to fiber, the most future-proof technology. Also, business parks will be powered by KPN because we will improve access speed to them and deliver >100 Mbps to 70% of these parks by the end of 2019.

We will modernize our mobile network through a 5G-ready equipment upgrade. With the launch of four different 5G Field

Labs, we are exploring, together with our customers and tech partners, the value of the new-generation mobile networks through a variety of use cases. Crucially, we will continue to invest in the development of our security requirements. We want to contribute to a safe digital society and make sure that our customers trust us to handle their data with care.



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Building the best converged smart infrastructure is key in what we want to achieve in both the Consumer segment and the Business segment. In the Consumer segment, our aim is to add another 300,000 households to our converged propositions and to have 70% of our postpaid base converged by the end of 2021. In the Business segment, our aim is to have 100% of our SME customers on KPN ÉÉN, our innovative and easily scalable OTT platform for fixed and mobile business communications by mid-2020. We will reduce our product portfolio in the Business segment with 50% by end of 2021, to be more efficient, to improve our time to market and to create more value. Furthermore, we want to transform our operations to be more lean and digital. Our aim is to grow profitable revenues by leveraging our leading market positions.

We must ensure that KPN is efficient and has lean operations. We must be super-fast because speed is key to success. Faster digitalization and automation, which are inherent to the

telecom industry, will lead to more organizational simplification and result in around EUR 350m net indirect opex savings over the period 2019–2021.

It is in this context and in the current competitive environment that we are rationalizing our brand portfolio and focusing on our strong KPN-brand. The KPN brand is ready to serve all customer groups in the various segments, from budget services to premium services.

To introduce the new strategy to our employees, I visited all KPN locations in the Netherlands towards the end of 2018. During these sessions, we gained ideas and received feedback from our employees. This is valuable because it's the people who make the difference in our business. Now that our strategy is clear, everyone will focus on executing it, which is the best recipe for success.

Doing business in a sustainable manner remains our top priority. In 2018, KPN was ranked third in the World Index of the Dow Jones Sustainability Index. By 2025, we plan to have circular operations of close to 100%. Our KPN Mooiste Contact Fonds, which sits at the heart of the company, celebrated its 10-year anniversary in 2018. The fund has, over the years, connected socially isolated people with our technologies and with more than 20,000 voluntary contributions from KPN employees.

I hope you enjoy reading this Integrated Annual Report. It offers insight into our achievements over the past year, our new strategic focus, segment performance and especially how we create value – for the company and for society. KPN has been the Netherlands' connectivity partner for more than a century. In that role, we will continue to innovate and invest in our strong network to create the future digital highway of the Netherlands. We want the country's households and businesses to be powered by KPN because we believe in the power of connection. Now and for decades to come.



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## Amsterdam Zuidoost becoming a smart city

IoT

5G

AI

Together with the Municipality of Amsterdam, KPN is working on smart 5G applications in the area of the Johan Cruijff ArenA. We are testing technologies that make visitors to this area feel safer and more comfortable. Crowd control, for instance: thanks to artificial intelligence, which recognizes patterns on the basis of image, you can see where potential problems may arise at major events. And there are many more possibilities.