

Information about the company

Business overview – The Netherlands

Consumer segment

The Consumer Segment comprises the following activities: Voice Wireline, Wireless Services, Internet Services and Other, which includes TV and Media, KPN Retail, KPN.com and our Call Centers.

Strategy

In 2007 we continued to execute our 'attack-defend-exploit' strategy in our Consumer segment. Using our broad portfolio, strong brands and our experience in Customer Lifecycle Management techniques, we offered propositions tailored to consumer needs. In addition, we expanded the number of our retail shops to increase the possibilities of our multi-channel strategy. These important instruments helped us to 'attack' by driving new revenue streams, 'defend' by maintaining share in traditional markets and to 'exploit' by achieving a structurally lower cost base.

'Attack'

With VoIP as one of the leading broadband based applications and the spread of Internet applications to mobile, the importance of maintaining high, leading market shares is crucial for our future growth. In 2007, we remained the market leader in our core markets. Our broadband market share increased to 43.9% (compared to 40.9% in 2006) and in the VoIP market to approximately 39% (compared to 36% in 2006). By acquiring Tiscali's Dutch subsidiary, we were able to strengthen our position, adding 3.8% market share.

We showed continued strength in wireless services, with growth figures in all brands and covering all key segments. We started to act with challenging fixed-mobile propositions ('*MobielThuis*').

By continuously improving our post paid offerings, we succeeded to grow our most profitable customer base. At the same time, the 'mobile web' started to surge in 2007 as could be seen in an accelerating growth of the number of active customers and traffic. Our flat fee offerings proved to be very popular. With these packages we offer our customers an easy and cost-effective entry into Internet.

We attacked on TV by reshaping our portfolio and business model, leading to an accelerated growth in subscriber numbers, market share and revenues. From August 2007 we decreased the monthly subscription fees for Digitenne, offering the customer a large discount to comparable cable packages. We extended the reach of the Digitenne service to approximately 75% of Dutch households at December 2007.

Also in August, we re-branded our IPTV service 'Mine' to 'Interactieve TV' with a new, lower price for a basic package. As a result, our market share in the Dutch digital TV market increased from approximately 13% in 2006 to approximately 18% in 2007, illustrating the rapidly growing foothold we have in this important market.

'Defend'

In our traditional voice market we were operationally challenged by the trend towards VoIP and the introduction of wholesale line retail (WLR). A large decline in traffic minutes and PSTN/ISDN connection lines affected our 2007 results, however every quarter of 2007 showed a lower decline in our net line loss. In this shrinking market, we effectively defended our position by promoting attractive retention and loyalty offerings for traditional voice. In addition, we introduced a much simpler subscription portfolio with clear per minute-use propositions.

'Exploit'

In 2007, we aimed our marketing activities on cross- and upselling to our large customer base through attractive TV and mobile offerings. In particular, combined mobile/ADSL-only offers and combined broadband/TV offers were successful.

In terms of profitability, wireless had one of his strongest years. This favorable development reflects in particular our success to lower SAC/SRC levels, down 19% in 2007 compared to 2006.

We decided to close the shops with the Kral and KPN Klick formulas to reduce the number of retail formulas we deploy in The Netherlands in order to better align our high street presence with our existing brands. This was done to increase our distribution power and to reduce costs.

Brand strategy

Backed by a complete portfolio of offerings and solutions, we launched a portfolio rationalization program whereby we focused on our key retail brands: KPN, Hi and Telfort. The KPN brand is used for our regular offerings, Telfort is our challenger brand and Hi focuses on youngsters.