



# Restructuring Fixed

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All figures in this presentation are unaudited and based on IFRS. This presentation contains a number of non-GAAP figures, such as EBITDA and free cash flow. These non-GAAP figures should not be viewed as a substitute for our GAAP figures. Our non-GAAP measures may not be comparable to non-GAAP measures used by other companies. Certain figures may be subject to rounding differences.

All market share information in this quarterly report is based on management estimates based on externally available information, unless indicated otherwise.

For IFRS, we refer to the disclaimer in our press release dated April 18, 2005. Please note that IFRS accounting policies are not yet final and may change as a result of (amongst other things) changes in IFRS standards and interpretations, changes in regulatory requirements, additional review and analyses (including market trends) and audit procedures.

# Disclaimer

This presentation contains a number of non-GAAP figures, such as EBITDA and free cash flow. These non-GAAP figures should not be viewed as a substitute for our GAAP figures. Our non-GAAP measures may not be comparable to non-GAAP measures used by other companies. We define EBITDA as operating result before depreciation and impairments of PP&E and amortization and impairments of goodwill, licenses and other intangibles. The measure is used by financial institutions and credit-rating agencies as one of the key indicators of borrowing potential. Many analysts use EBITDA as a component for their (cash flow) projections. Note that our definition of EBITDA deviates from the literal definition of earnings before interest, taxes, depreciation and amortization. Either definition of EBITDA has limitations as an analytical tool and you should not consider it on isolation or as a substitute for analyses of our results as reported under IFRS or US GAAP.

In the past EBITDA was used as a measurement of certain aspects of operational performance and liquidity. We have used EBITDA as a component of our guidance. In view of the implementation of IFRS, and the resulting volatility of amortization, we believe that this is the most appropriate way of informing the financial markets on certain aspects of future company financial development. We do not view EBITDA as a measure of performance. In all cases a reconciliation of EBITDA and the nearest GAAP measure (operating result) will be provided. Going forward, we will continue to make comparison between guidance and actuals. For the purpose of this comparison, a number of items will be excluded

- Restructuring charges over € 20 million per event
- Impairments over € 20 million per event
- Book gains or losses over € 20 million per event

We define free cash flow as 'Cash flow from operating activities' minus 'Capital expenditures', both of which are common GAAP measures.

# Agenda

- ◆ New Fixed organization
- ◆ Transfer pricing
- ◆ Other restructuring
- ◆ Impact on reporting
- ◆ Q&A



# New Fixed organization



## The cornerstones of our strategy

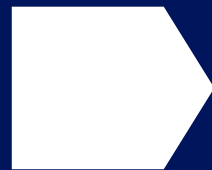
Attack



Defend

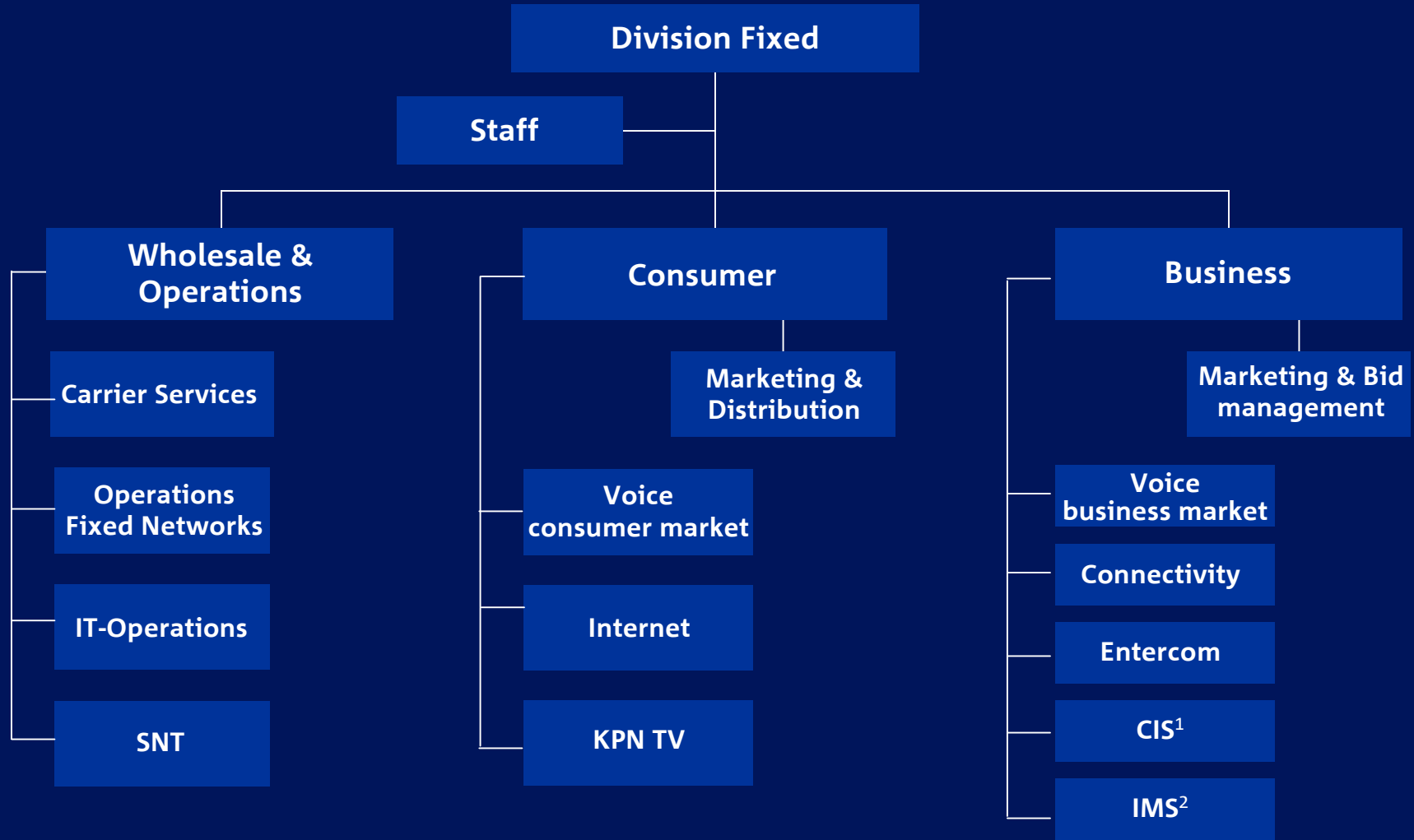


Exploit



Leadership of converging  
communications market

# New organization structure Division Fixed



1 Customer Interaction Services  
2 Integrated and Managed Solutions

# This restructuring in Fixed completes a process started two years ago



# Rationale restructuring Fixed

Achieving focus

- ◆ Increased effectiveness market approach and customer satisfaction
- ◆ Increased efficiency drive
- ◆ Increased transparency
- ◆ Supply chain reduction/integration
- ◆ Optimize organization for Next Generation Networks roll-out and introduction of IP services

# Design principles new Fixed organization

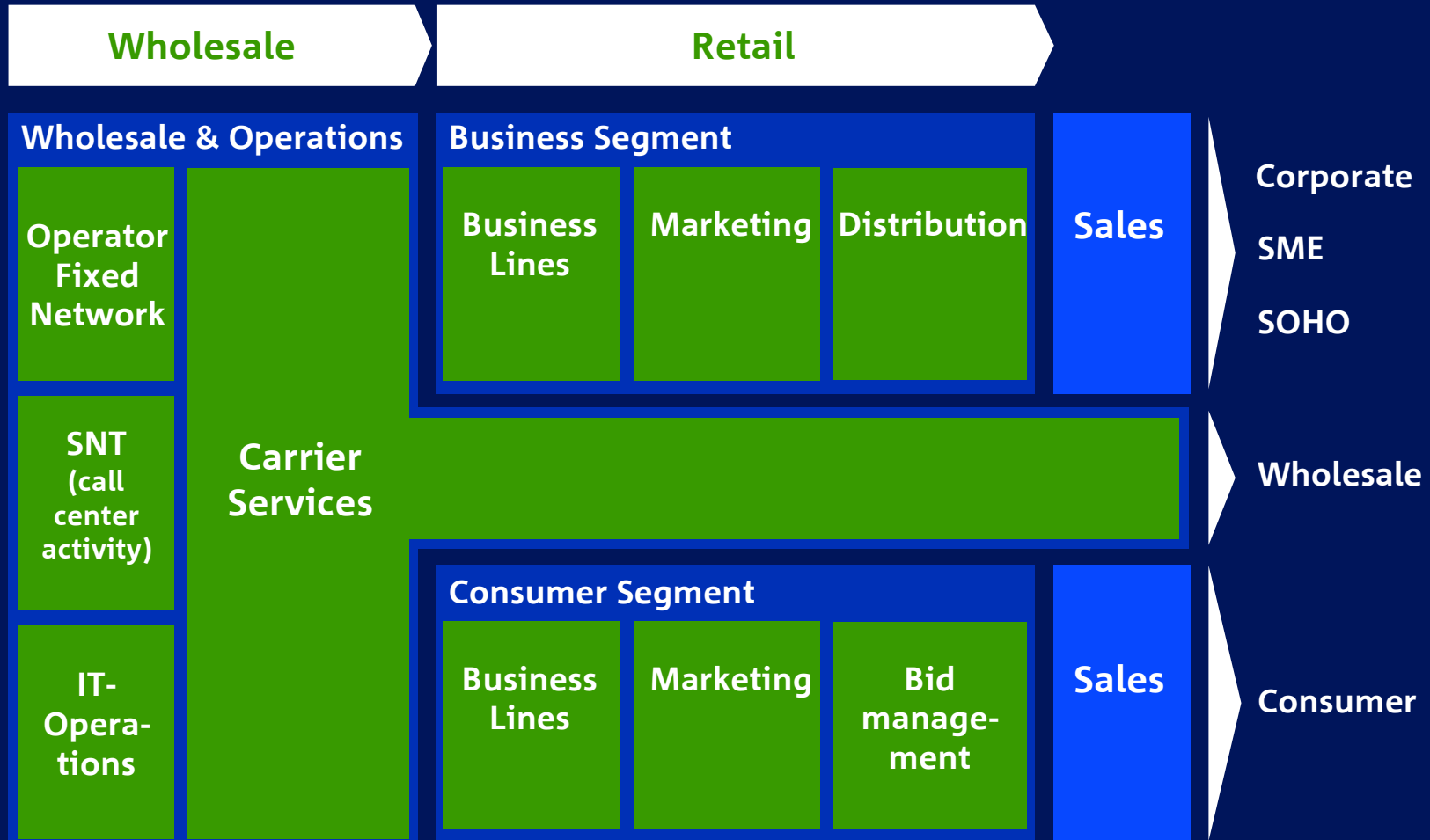
Simplification is key

- ◆ Position retail segments with strong market focus
- ◆ Separately position wholesale and operator activities to serve both internal and external market
- ◆ As consequence the generic assets have been concentrated in the wholesale segment and the customer specific assets in the retail segments
- ◆ Simplify internal financial flows and segment/Business line interaction costs through other model of transfer pricing
- ◆ Concentrate all IT activities to increase efficiency and effectiveness
- ◆ Integrate call center activities to increase customer satisfaction

## Specific changes in the Fixed structure

- ◆ Split Fixed Telephony into Voice Consumer and Voice Business to ensure unshared Profit & Loss responsibility market segments
- ◆ New business lines Internet and KPN TV to align with Triple Play strategy within market segment Consumer
- ◆ Integration of SNT services
  - Full integration of teleconferencing, teleconnect, callfactory and 0800/0900 services leading to business line Customer Interaction Services within Segment Business
  - Call center activities for core customers are allocated to Wholesale & Operations
  - Sale/outsourcing of non-core SNT business
- ◆ Formation of IT Operations within Wholesale & Operations to achieve IT rationalization ambition

# Split between wholesale and retail

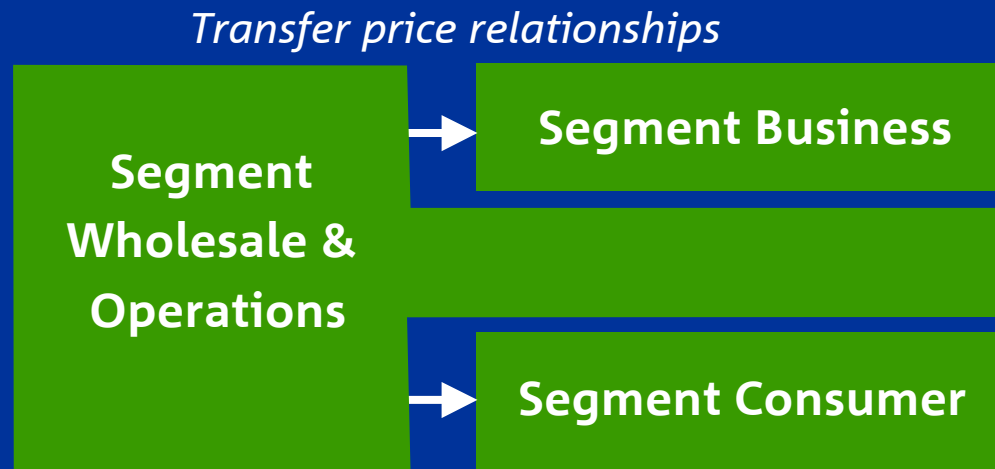




# Transfer pricing



# Transfer pricing



- ◆ Clarity on transfer price relationships leads to more focus in the control of the segments and the right management focus
- ◆ Simple and transparent reporting on performance of segments within KPN and to the market

## Transfer pricing per category

- ◆ In determining transfer pricing the following model is used
  - Wholesale prices for identical products already sold wholesale
  - Retail minus prices for regulated retail products
  - Cost based prices for non-regulated retail products
- ◆ In principle transfer prices are determined once a year

# Financial flows simplified in the new model

## Old situation

- ◆ Multidirectional flows
- ◆ Different types of flows, various PxQ flows and several lump sum flows
- ◆ Business Units have interactions with multiple parties
- ◆ Large number of internal sales from Business Units to other parts of Division Fixed



## New model

- ◆ Financial flows from retail units to Wholesale
- ◆ Flows are volume driven while internal pricing is based on pre-fixed transfer price schemes
- ◆ Retail units interact with Wholesale
- ◆ Limited internal sales by Business Lines



# Other restructuring



# Group restructuring

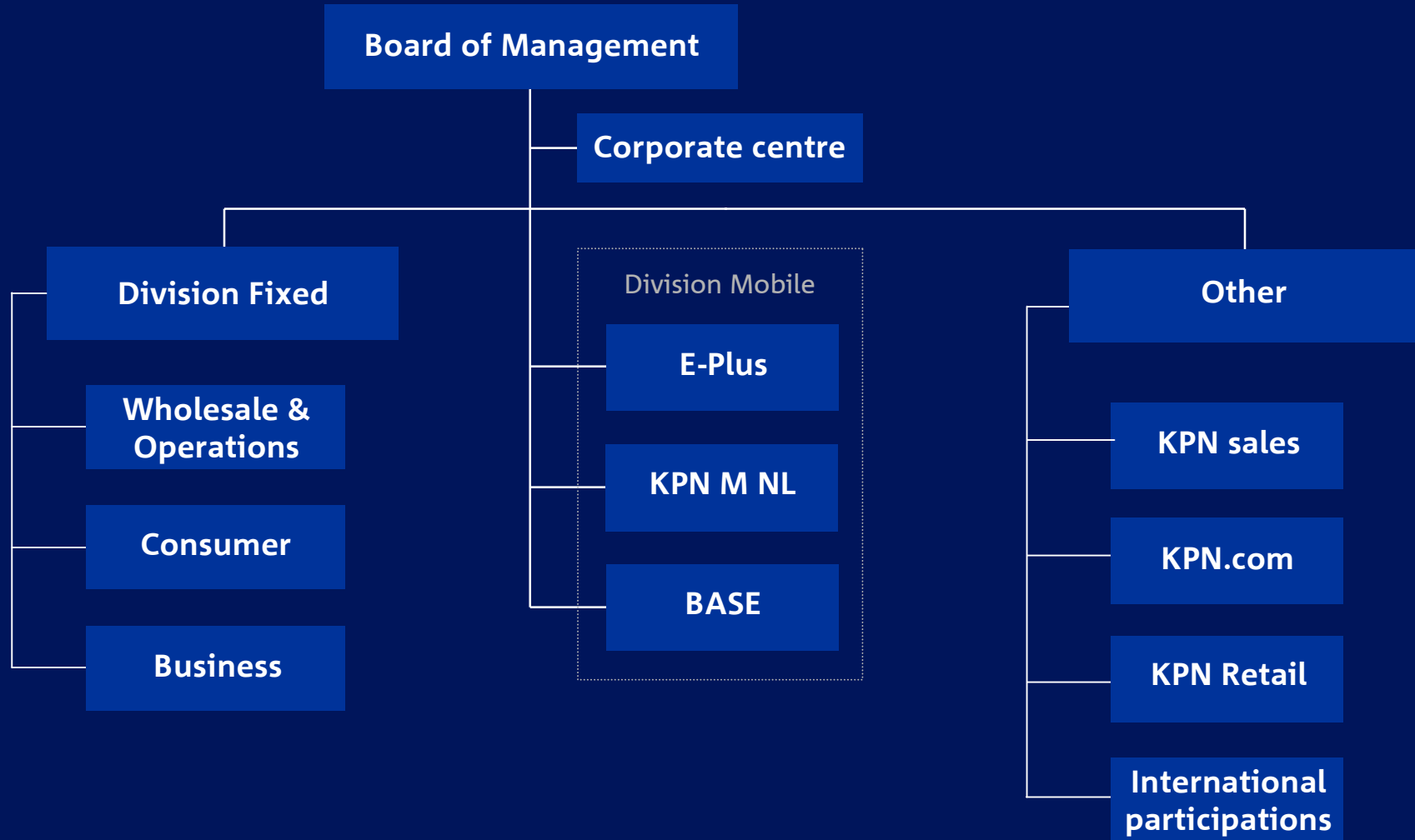
## Rationale

- ◆ Reduction overhead through eliminating duplication
- ◆ Reduction complexity of top structure and processes

## Design principles of new organization

- ◆ Elimination Mobile headquarters
- ◆ Concentration of distribution channels
- ◆ Elimination KPN Services
  - All activities with a business function are allocated to the business
  - Departments that report directly to the Board of Management are concentrated in the Corporate Center reported under Other
  - Allocation of real estate activities to Wholesale & Operations

# New organization structure KPN

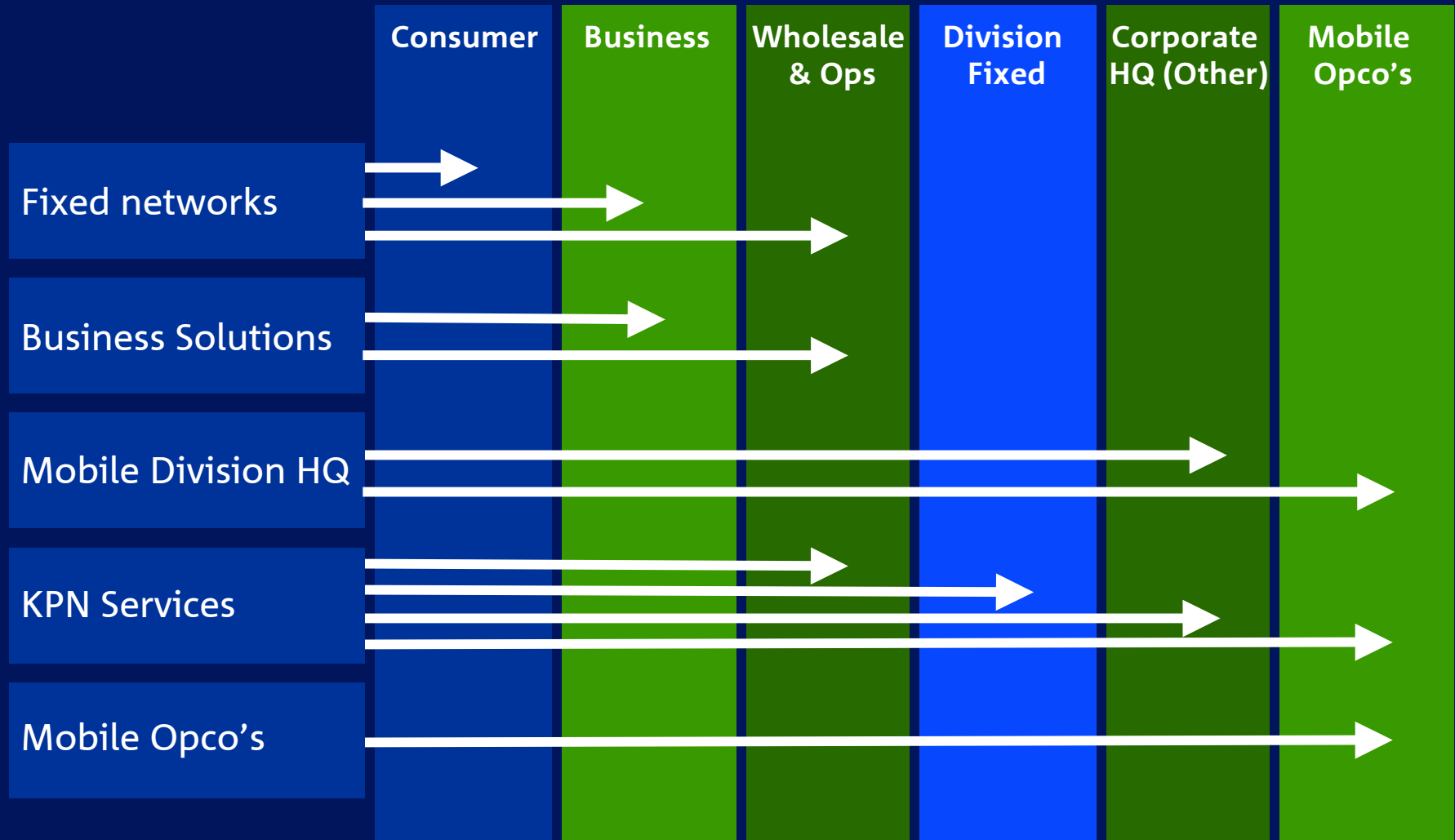




# Impact on reporting



# Structure change in a nutshell



## Impact on reporting

- ◆ Overall 2004 numbers do not change
- ◆ Underlying business trends do not change
- ◆ Revenue, EBITDA, EBITDA margins and Operating profit of all three divisions change on account of transfers of activities between the Divisions
- ◆ Total revenues (mainly internal) of entities within segment Wholesale & Operations increase as a result of the concentration of wholesale activities
- ◆ Intercompany revenues change

## Changes to external reporting as a result of the new organization

Overall impact on revenues, EBITDA and Operating profit

### Old FY 2004

Revenues	€ mn
Mobile	5,255
Fixed	7,154
Other	457
Intercompany sales	-1,047
<b>Total</b>	<b>11,819</b>

EBITDA	€ mn
Mobile	1,697
Fixed	3,030
Other	108
<b>Total</b>	<b>4,835</b>

Operating profit	€ mn
Mobile	870
Fixed	1,746
Other	29
<b>Total</b>	<b>2,645</b>

### New

5,264
7,249
389
-1,083
<b>11,819</b>

1,709
3,118
8
<b>4,835</b>

881
1,809
-45
<b>2,645</b>

# Segment reporting in Fixed up to Operating profit

Full year 2004

	Wholesale & Operations	Consumer	Business	Other	Total Fixed
<b>Revenues</b>	5,256	2,441	2,949	-3,397 <sup>1</sup>	7,249
<b>Expenses</b>	4,215	2,064	2,567	-3,406 <sup>1</sup>	5,440
<b>EBITDA</b>	2,264	396	449	9	3,118
<b>Depreciation</b>	1,196	6	56	0	1,258
<b>Amortization</b>	27	13	11	0	51
<b>Operating profit</b>	1,041	377	382	9	1,809

<sup>1</sup> Including - € 3,474 mn intradivision

# Revenue disclosure Fixed 2004

## Reporting on revenues

	€ mn
Fixed telephony	3,306
Carrier Services	2,729
Other	1,932
Intercompany FN	-1,795
<b>Fixed Networks</b>	<b>6,172</b>
Connectivity	1,319
IMS	423
Entercom	439
Other	0
Intercompany BS	-172
<b>Business Solutions</b>	<b>2,009</b>
<b>Intradivision</b>	<b>-1.027</b>
<b>Fixed old</b>	<b>7,154</b>



€ mn	
1,756	Voice
683	Internet
2	Other <sup>1</sup>
<b>2,441</b>	<b>Consumer</b>
1,387	Voice
788	Connectivity
423	IMS
439	Entercom
-88	Other <sup>1</sup>
<b>2,949</b>	<b>Business</b>
4,403	Carrier services
1,454	Other
-601	Intercompany W&O
<b>5,256</b>	<b>Wholesale &amp; Operations</b>
<b>-3,397</b>	<b>Intradivision</b>
<b>7,249</b>	<b>Fixed new</b>

<sup>1</sup> Including intradivision sales

# Revenue disclosure Fixed 2004

## Reallocation main activities Fixed Networks

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- 1 Consumer voice activities
- 2 Dial up internet
- 3 BU broadband and ISP's
- 4 Business voice activities
- 5 0800/0900, teleconferencing to CIS
- 6 Increase caused by transfer pricing resulting from asset reallocation
- 7 Transferal of a.o. Operator fixed networks, IT operations, SNT

1 Including intradivision sales

# Revenue disclosure Fixed 2004

## Reallocation main activities Business Solutions

Connectivity	1,319
IMS	423
Entercom	439
Other	0
Intercompany BS	-172
<b>Business Solutions</b>	<b>2,009</b>

1 →  
2 →  
3 →

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- 1 Decrease revenues because of asset reallocation to Wholesale & Operations
- 2 One-on-one transferal
- 3 One-on-one transferal

1 Including intradivision sales

# Operating margins 2004

EBITDA margins Old	
<b>Mobile</b>	<b>32.3%</b>
◆ E-Plus	26.8%
◆ The Netherlands	40.2%
◆ BASE	27.8%
<b>Fixed</b>	<b>42.4%</b>
◆ Fixed Networks	35.8%
◆ Business Solutions	41.0%
Other	23.6%
<b>Total</b>	<b>40.9%</b>



EBITDA margins New	
<b>Mobile</b>	<b>32.5%</b>
◆ E-Plus	26.8%
◆ The Netherlands	39.8%
◆ BASE	27.8%
<b>Fixed</b>	<b>43.0%</b>
◆ Wholesale & Operations	43.1%
◆ Consumer	16.2%
◆ Business	15.2%
Other	2.1%
<b>Total</b>	<b>40.9%</b>

## Conclusion

The restructuring will allow KPN to

- ◆ Increase effectiveness market approach and customer satisfaction
- ◆ Increase efficiency drive and further lower cost base
- ◆ Increase transparency
- ◆ Optimize organization for Next Generation Networks roll-out and introduction of IP services



## Q&A

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