

Q3 2018 Results

24 October 2018





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 2017. 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. The figures shown in this report were rounded in accordance with standard business principles. As a result, totals indicated may not be equal to the precise sum of the individual figures.

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

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 2017.



Services, Sustainability & Organization

- Record-high customer satisfaction in both Business and Consumer segments¹
 - NPS Consumer: +17 (Q3 '17: +14)
 - NPS Business: +1 (Q3 '17: -5)
- KPN among most sustainable telcos in the world, being listed in DJSI World Index for 7th consecutive year
- Separated management for Consumer and Business to establish clear end-to-end responsibilities for both segments

Operational

- Ongoing success of convergence and value focus in Consumer
 - 68% of KPN brand postpaid in fixed-mobile bundle
 - +26k fixed-mobile households
 - € 2 ARPU per household growth in Residential y-on-y
- Successful bundling of services in Business
 - Continued growth of multi play seats² in SME, +37k net adds
- Professional Services supported by higher revenues from integrated solutions at KPN's larger customers

Financial³

€ m	Q3 '18	YTD '18
Adjusted revenues	1,399	4,202
y-on-y %	-1.6%	-2.2%
Adjusted EBITDA*	585	1,731
y-on-y %	-1.2%	0.8%
FCF (excl. TEFD dividend)	235	581
y-on-y %	-11%	14%

* Q3 '18 adjusted EBITDA flat (0.0%) y-on-y, excl. € 7m Collective Labor Agreement impact related to H1 '18, as indicated at Q2 '18 results

- Redeemed € 1.1bn hybrid bond, saving € 67m annual coupon from 2019 onwards

- Second wave Simplification program: ~€ 190m run-rate savings realized⁴

¹ Source: Kantar TNS, Consumer (all brands), Business (KPN brand)

² Multi play seats consist of the total number of fixed voice lines plus the total number of mobile SIMs in multi play

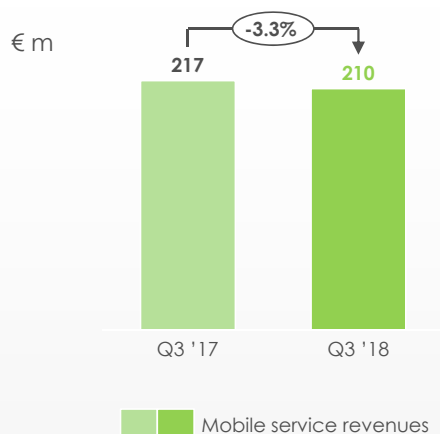
³ All figures based on continuing operations, unless stated otherwise. iBasis classified as discontinued operations

⁴ End Q3 '18 vs. end Q4 '16

Focus on value in competitive Consumer mobile environment



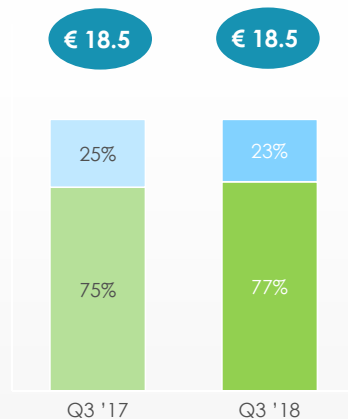
Service revenues impacted by lower base in mobile-only



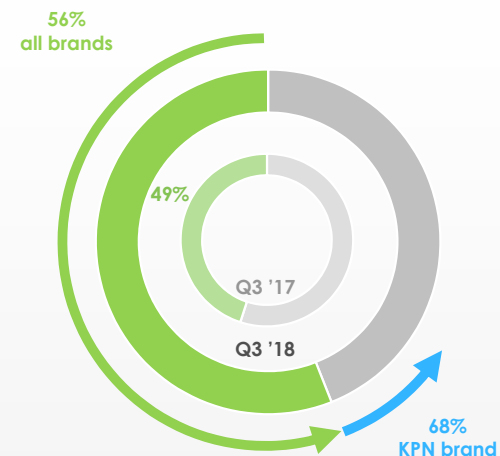
-2.5%

Growth of mobile service revenues
(Excluding regulation)

Stabilizing postpaid ARPU due to increasing KPN share in brand mix



Successful value focused convergence strategy

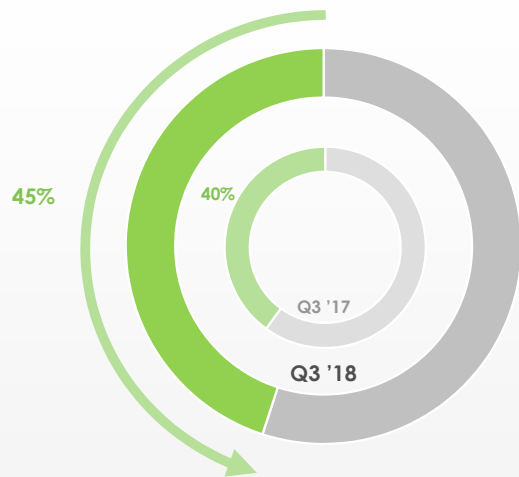


Q3 '18: +53k F-M postpaid customers

Successful converged household strategy in Consumer Residential



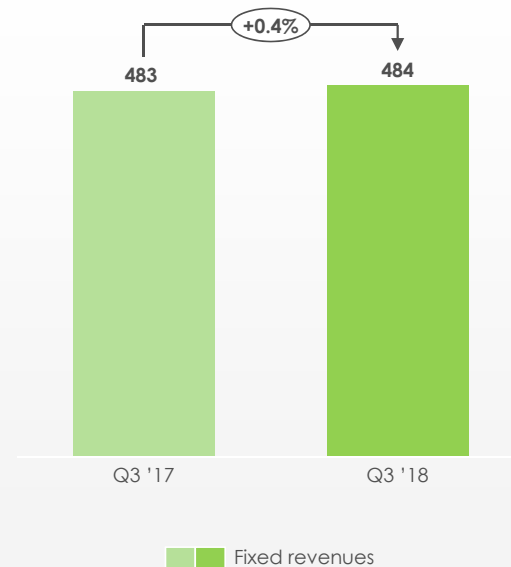
Solid convergence take-up



Q3 '18: +26k F-M
broadband customers

Continued growth fixed revenues

€ m



Business transformation taking shape

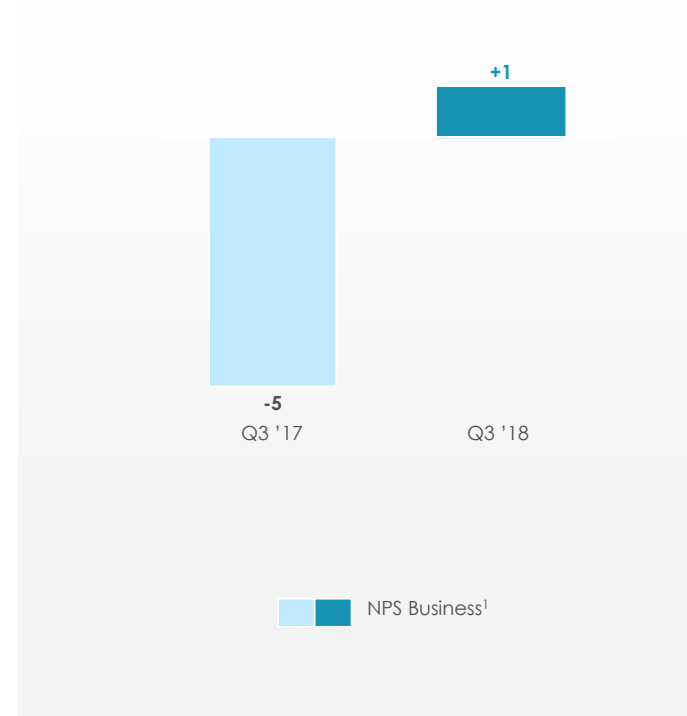
Customer satisfaction positive for the first time



Business revenue growth drivers

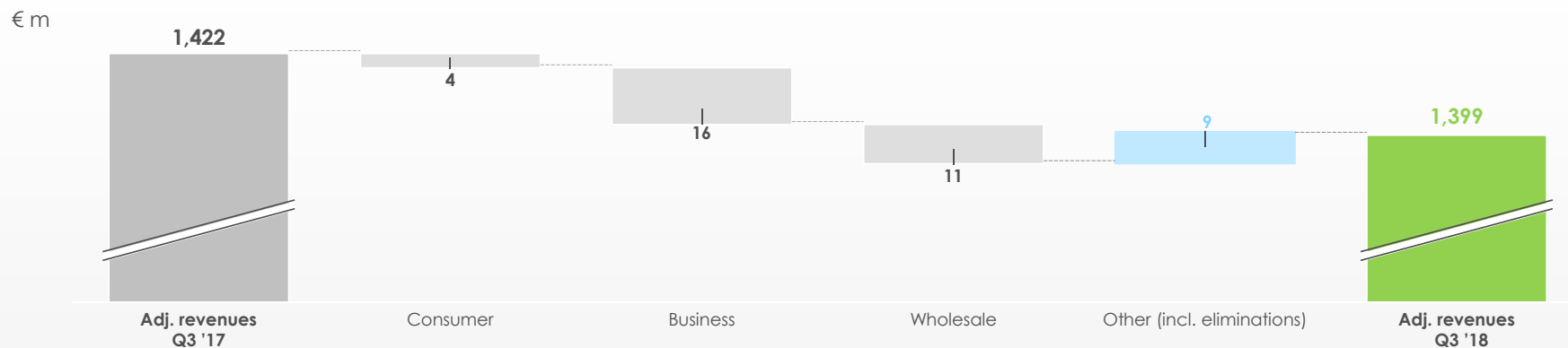
	Q3 '18 adjusted y-on-y growth	Q3 '18 % of total adj. revenues
Communication Services	-7.9%	63%
Mobile service revenues	-4.9%	24%
IoT	-10%	2.2%
Broadband & Network services	-4.4%	17%
Fixed voice	-1.2%	13%
Other	-1.6%	7.1%
IT Services (a.o. security, cloud, workspace)	6.2%	15%
Professional Services & Consultancy	6.1%	22%
Business total	-3.0%	

Record-high NPS



¹ Source: Kantar TNS (KPN brand)

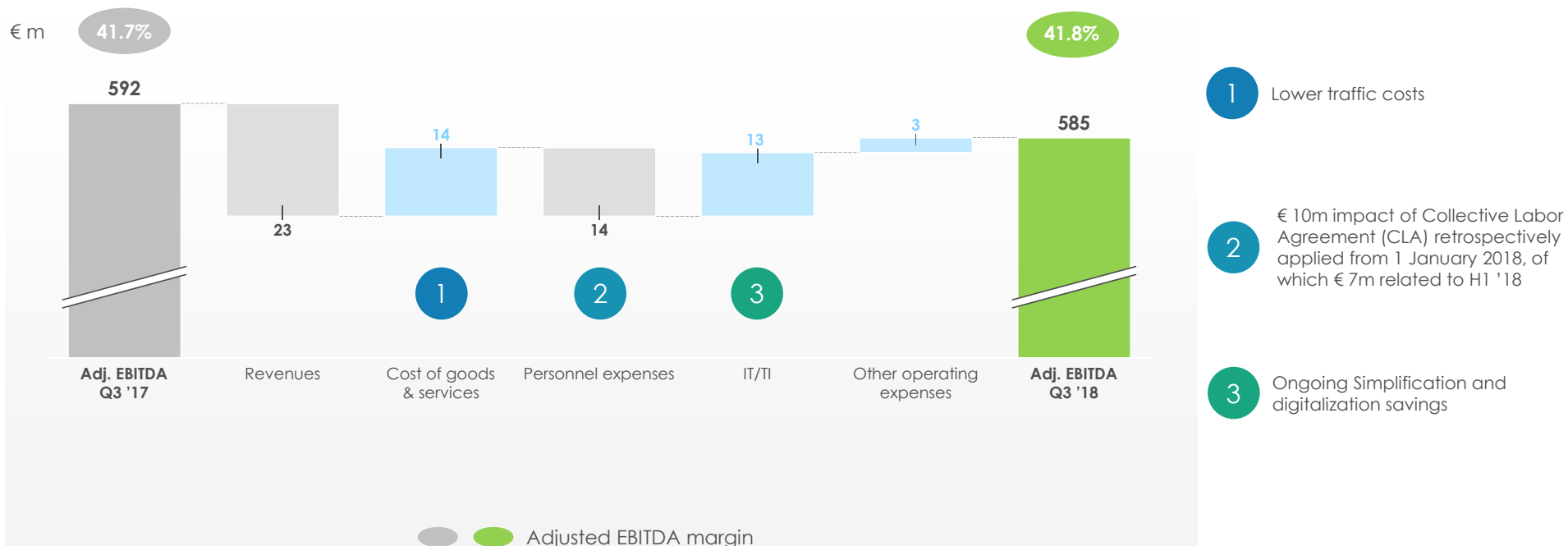
Adjusted revenues declined by 1.6%



Adjusted EBITDA flat y-on-y, excluding CLA impact related to H1 '18



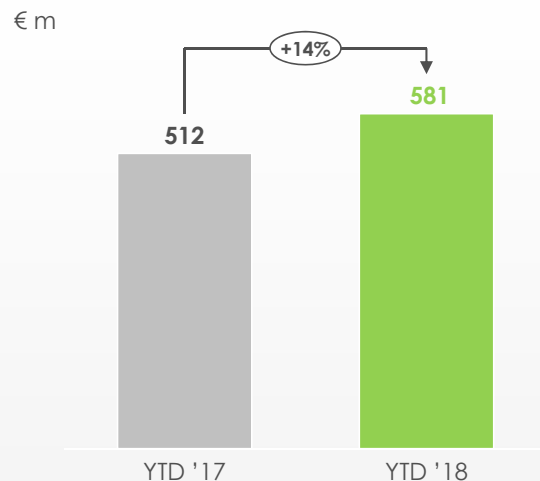
Adjusted EBITDA decreased by 1.2%



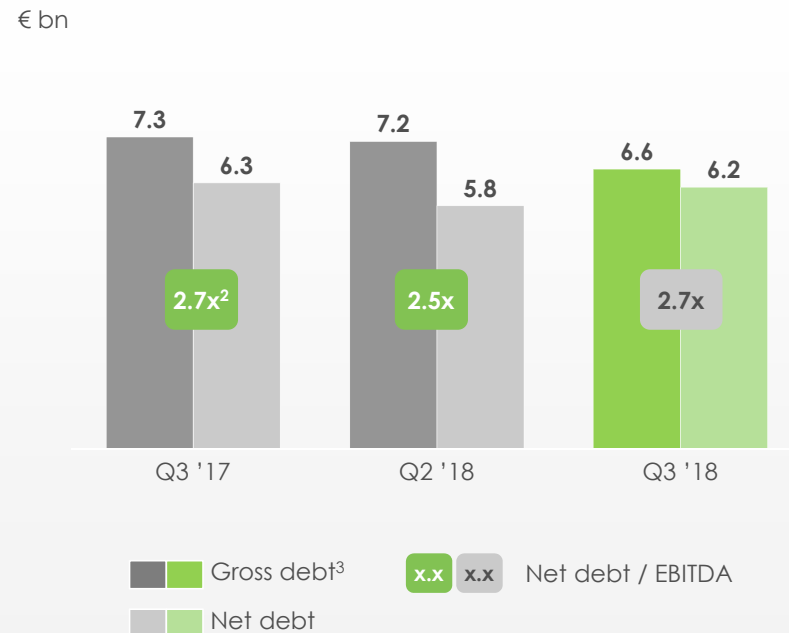
Solid financial position supported by growing free cash flow



Growing free cash flow¹



Redeemed € 1.1bn hybrid bond from existing cash



¹ Excluding TEFD dividend

² Q3 2017 based on management estimates

³ 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



Outlook 2018¹

- Adjusted EBITDA in line with 2017
- Capex ~€ 1.1bn
- Free cash flow (excl. TEFD dividend) growing to ~€ 800m
 - Previous outlook: Free cash flow (excl. TEFD dividend) growing

Shareholder remuneration

- Intended regular DPS of € 12ct in respect of 2018
- Intention to grow regular DPS in line with FCF growth profile
- Excess cash could be utilized for
 - Operational / financial flexibility
 - (Small) in-country M&A
 - Shareholder remuneration



Accelerate up and cross-sell in bundles

Grow in TV and IT services

Finalize Business transformation

Finalize build of flexible and simplified integrated network and operating model

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

Optimize financial framework and grow dividend

Simplify

Grow

Innovate

Q3 2018 – Information Pack

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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

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Leading in Corporate Social Responsibility



Successful CSR strategy¹

2017

Employee Engagement



80%

vs. 77% in 2016

Environment



24%

Less energy consumption
vs. 2010

Privacy & Security



70%

of Dutch people believe
their data is safe with KPN

Recognition



Social and environmental achievements in Q3 '18

- KPN included in the Dow Jones Sustainability World Index for the 7th consecutive year
- KPN's charity fund started a partnership with social partner Scribit that enables blind people to experience online videos by adding voice overs describing the images
- KPN KlasseContact had 100 new placements in Q3 2018, bringing the total number of users of KPN KlasseContact to 881
- KPN and Telfort employees trained in dealing with people with dementia

¹ As disclosed in KPN's Integrated Annual Report 2017

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Group results Q3 '18 (continuing operations)



(€ m)	Q3 '18	Q2 '18	Q3 '17	y-on-y %
Revenues	1,399	1,402	1,412	-0.9%
Adjusted revenues	1,399	1,402	1,422	-1.6%
Operating expenses (excl. D&A)	853	847	853	0.1%
EBITDA	546	555	559	-2.4%
Adjusted EBITDA	585	577	592	-1.2%
Depreciation	243	240	247	-1.7%
Amortization	109	105	101	7.7%
Operating expenses	1,205	1,192	1,201	0.3%
Operating profit	194	210	211	-8.1%
Net finance costs	-79	-25	-85	-6.9%
Share of profit of associates and joint ventures	1	-	-	n.m.
Profit before taxes	117	185	127	-7.9%
Income tax	-27	-48	-27	-2.0%
Profit for the period	90	137	99	-9.5%

Group results YTD '18 (continuing operations)



(€ m)	YTD '18	YTD '17	y-on-y %
Revenues	4,202	4,290	-2.0%
Adjusted revenues	4,202	4,297	-2.2%
Operating expenses (excl. D&A)	2,547	2,652	-4.0%
EBITDA	1,656	1,638	1.1%
Adjusted EBITDA	1,731	1,718	0.8%
Depreciation	725	741	-2.3%
Amortization	319	310	2.8%
Operating expenses	3,590	3,703	-3.1%
Operating profit	612	586	4.4%
Net finance costs	-185	-161	15%
Share of profit of associates and joint ventures	2	-	n.m.
Profit before taxes	429	426	0.7%
Income tax	-103	-92	13%
Profit for the period	326	334	-2.5%

Group cash flow Q3 '18 (continuing operations)



(€ m)	Q3 '18	Q3 '17	y-on-y %
EBITDA	546	559	-2.4%
Interest paid/received	-78	-82	-5.6%
Tax paid/received	-	-	n.m.
Change in provisions ¹	26	3	>100%
Change in working capital ¹	-4	19	n.m.
Other movements	1	3	-70%
Net cash flow from operating activities	491	502	-2.1%
Capex	-257	-239	7.3%
Proceeds from real estate	-	2	-100%
Free cash flow	235	264	-11%
Coupon on perpetual hybrid	-67	-67	0.0%

¹ Excluding changes in deferred taxes

Group cash flow YTD '18 (continuing operations)



(€ m)	YTD '18	YTD '17	y-on-y %
EBITDA	1,656	1,638	1.1%
Interest paid/received	-240	-278	-14%
Tax paid/received	-25	-13	89%
Change in provisions ¹	34	30	15%
Change in working capital ¹	-101	-134	-25%
Other movements	44	77	-43%
Net cash flow from operating activities	1,368	1,319	3.7%
Capex	-737	-739	-0.2%
Proceeds from real estate	5	2	>100%
Free cash flow	635	582	9.1%
Coupon on perpetual hybrid	-67	-67	0.0%

¹ Excluding changes in deferred taxes

Dutch mobile service revenues



Service revenues (€ m)	Q3 '18	Q3 '17	y-on-y %
Consumer	210	217	-3.3%
Business ¹	137	145	-5.4%
Other ²	43	41	2.6%
KPN The Netherlands	389	403	-3.4%

¹ Includes M2M service revenues

² Includes amongst others Wholesale mobile service revenues and visitor roaming



Regions (€ m)	P&L		Cash flow	
	YTD '18	YTD '17	YTD '18	YTD '17
The Netherlands	-103	-92	-25	-13
Other	-5	-4	-3	1
Total reported tax	-108	-96	-28	-12
<i>Of which discontinued operations</i>	-5	-4	-3	1
Reported tax from continuing operations	-103	-92	-25	-13
<i>Effective tax rate continuing operations</i>	24.1%	21.6%		

- The effective tax rate for YTD '18 is mainly influenced by one-off effects and the Innovation Box facility
 - Without one-off effects¹ the effective tax rate would have been ~23% in YTD '18
- For the 2018-2019 period, the effective tax rate is expected to be ~23%, excluding one-off effects¹ and the potential impact of the intended Dutch corporate tax rate change

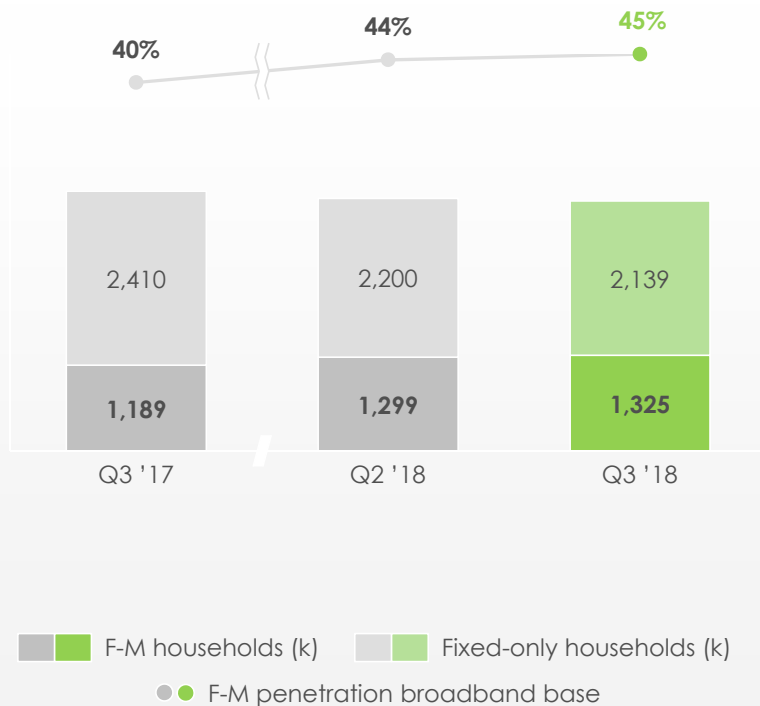
¹ Amongst others, tax law changes, settlements with tax authorities, impairments, revaluations

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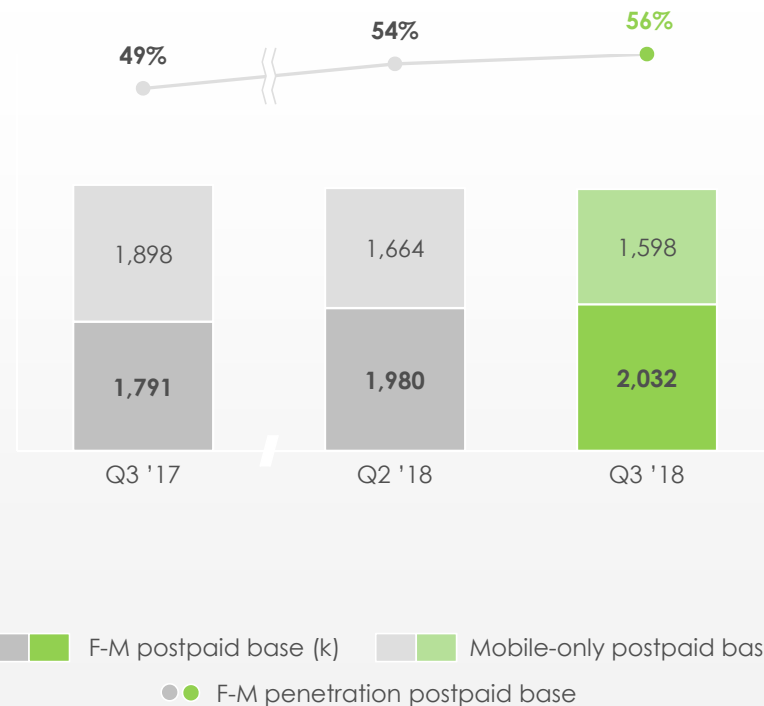
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Fixed-Mobile household development



Fixed-Mobile postpaid development

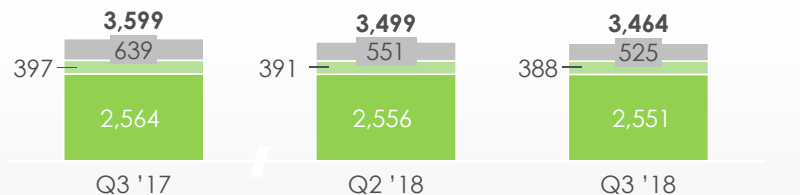


Consumer (cont'd)

Residential KPIs

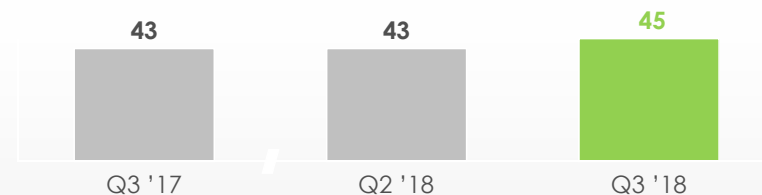


Household base

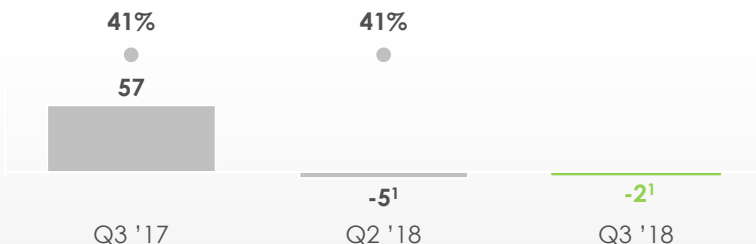


Not bundled (PSTN & Digitenne) (k)
 Bundled (k)

ARPU per household (€)



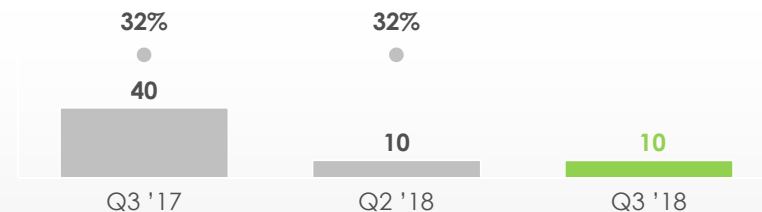
Broadband



Net adds (k)²

Broadband market share³

IPTV



Net adds (k)²

TV market share³

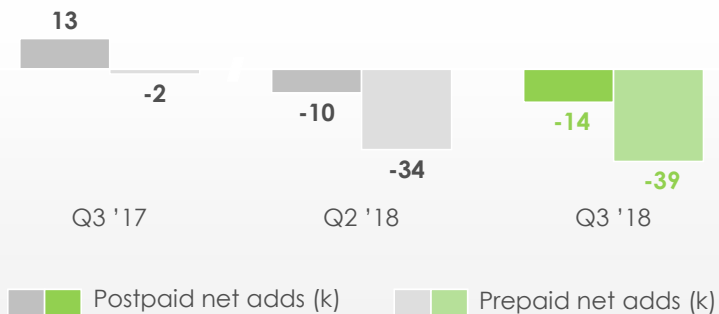
1 Corrected for migrations to and new customers of small business proposition (6k in Q2 '18 and Q3 '18) launched in Q4 2017
 2 Including acquisition of Solcon in Q3 '17, 47k in broadband and 17k in IPTV
 3 Source: Telecompaper

Consumer (cont'd)

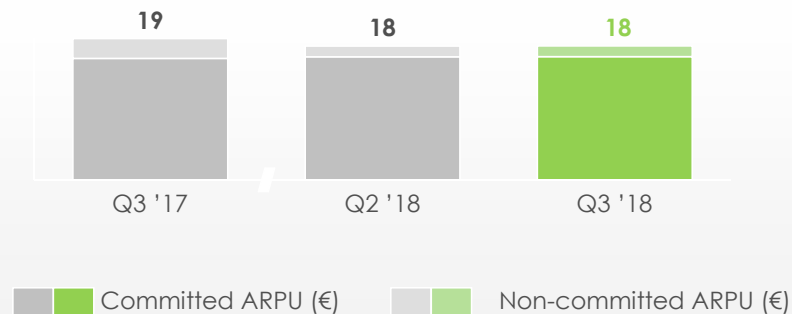
Mobile KPIs



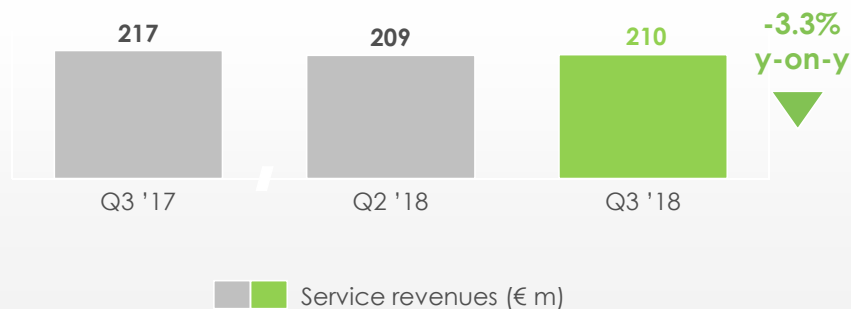
Mobile net adds



Mobile postpaid ARPU

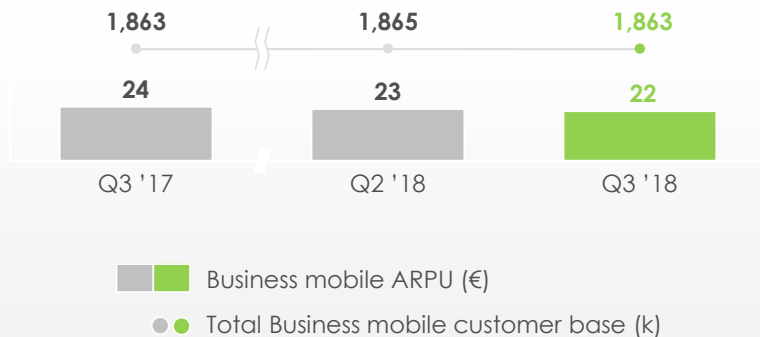


Wireless service revenues

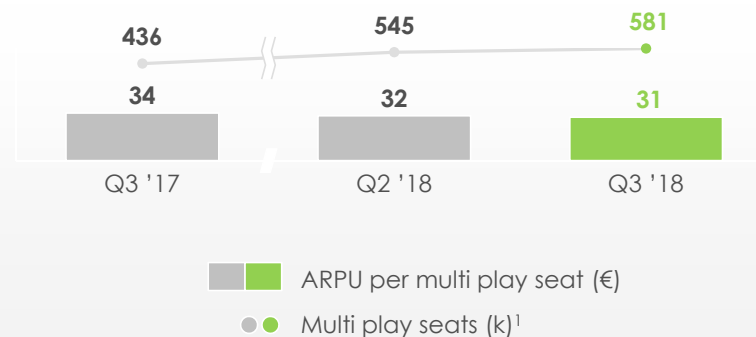




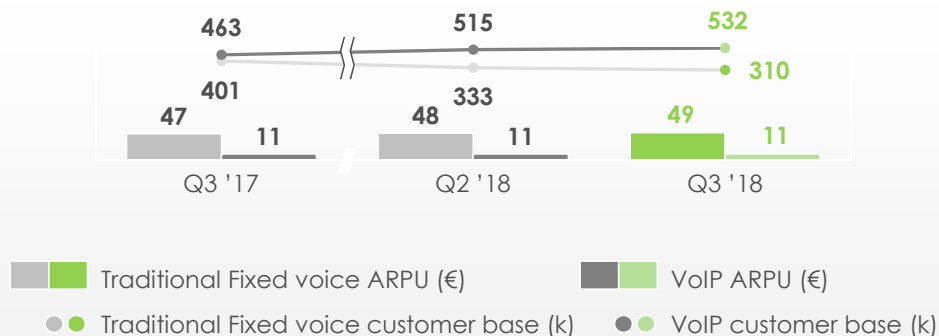
Total Mobile



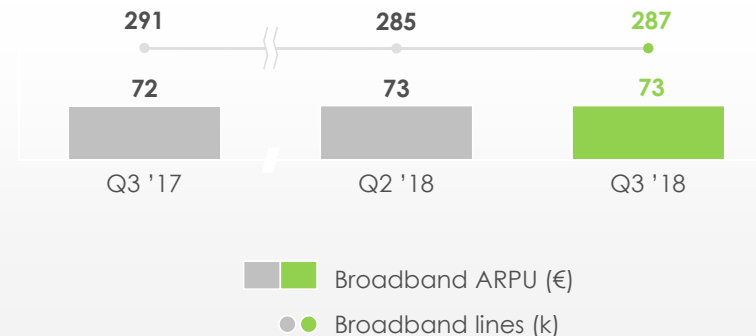
Multi play (mainly SME)



Fixed voice



Broadband



¹ Multi play seats consist of the total number of fixed voice lines plus the total number of mobile SIMs in multi play

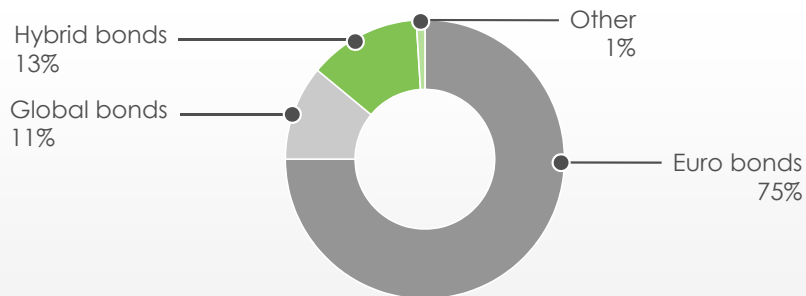
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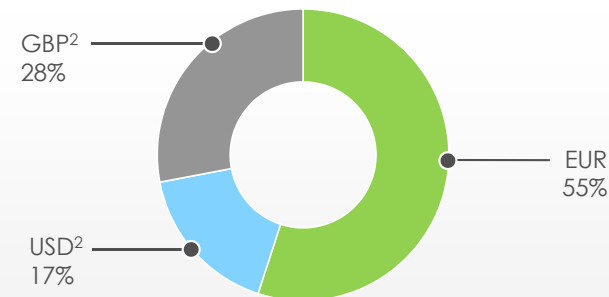
Debt portfolio



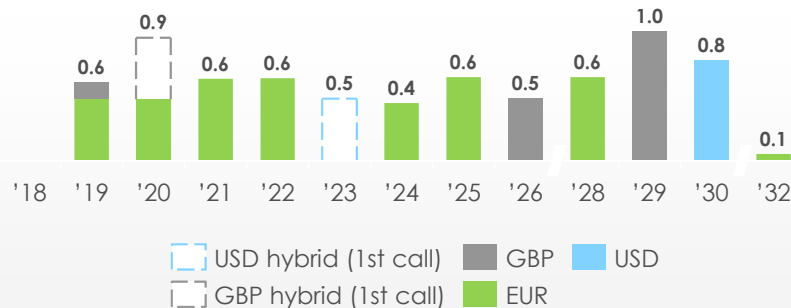
Breakdown nominal debt¹ (total € 7.2bn)



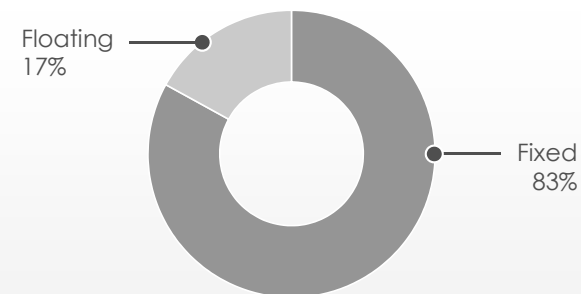
Nominal debt by currency



Bond redemption profile (€ bn)



Fixed vs. floating interest³



¹ Based on the nominal value of interest bearing liabilities after swap to EUR, including GBP 400m hybrid bond and USD 600m hybrid bond

² Foreign currency amounts hedged into EUR

³ Excludes bank overdrafts

Treatment of hybrid bonds



KPN & Credit rating agencies

- Each tranche of the hybrid bonds is recognized as 50% equity and 50% debt by the rating agencies
- Definition of KPN net debt includes: '[...], taking into account 50% of the nominal value of any hybrid capital instrument'
 - Hybrid bonds are part of KPN's bond portfolio
 - Independent of IFRS classification
 - In line with treatment by credit rating agencies

IFRS

- GBP and USD tranche have 60 years specified maturity, accounted for as financial liability
 - Coupon payments treated as regular bond coupon, hence expensed through P&L, included in FCF

Tranche	Nominal	KPN net debt	Maturity	Rates (swapped) ¹	IFRS principal	IFRS coupon
GBP 0.4bn 6.875%	€ 460m	€ 230m	60 years (first-call Mar-2020)	6.777%	Liability	Interest paid (incl. in FCF)
USD 0.6bn 7.000%	€ 465m	€ 233m	60 years (first-call Mar-2023)	6.344%	Liability	Interest paid (incl. in FCF)
Total	€ 925m	€ 463m				

¹ USD tranche has semi-annual coupon payments (March / September); GBP tranche has annual coupon payments in March

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IFRS 15 changed revenue recognition rules

Example 1: Handset sales via own channels



Accounting for this example

Contract components (€)	Value	Revenue / Cost
Contract duration (months)	24	
Monthly subscription	50	1,200
Initial handset payment	48	48
Handset value	528	-528
EBITDA contract lifetime		720

Under IFRS 15:

- Handset delivery at purchase is accounted for as non-service revenues
- Handset revenues consist of:
 - Initial payment (€ 48)
 - Amount to be recovered over the contract period (€ 480)
- No impact on free cash flow from accounting change
 - Higher EBITDA in month 1 (€ 460) is offset by change in working capital

IFRS 15	P&L	(€)	Month 1	Month 2	...	Month 24	Total
		Non-service revenue (handset)	528	-	...	-	528
		Service revenues	30	30	...	30	720
		Total revenues	558	30	...	30	1,248
		Opex (SAC)	-528	-	...	-	-528
		EBITDA	30	30	...	30	720
	Balance Sheet	Contract asset (working capital)	Month 1	Month 2	...	Month 24	Total
		Add: handset receivable	480	-	...	-	480
		Less: monthly billing	-20	-20	...	-20	-480
		Closing balance	460	440	...	-	-
IAS 18	P&L	(€)	Month 1	Month 2	...	Month 24	Total
		Non-service revenues (handset)	48	-	...	-	48
		Service revenues	50	50	...	50	1,200
		Total revenues	98	50	...	50	1,248
		Opex (SAC)	-528	-	...	-	-528
		EBITDA	-430	50	...	50	720

IFRS 15 changed revenue recognition rules (cont'd)

Example 2: Handset sales via third parties



Accounting for this example

Contract components (€)	Value	Revenue / cost
Contract duration (months)	24	
Monthly subscription	50	1,200
Dealer fee (handset)	480	-480
Dealer fee (subscription)	120	-120
EBITDA contract lifetime		600

Under IFRS 15:

- At purchase, dealer fees are recognized on the balance sheet
 - Handset revenues and handset dealer fee are no longer included in revenue and SAC
- Dealer subscription fee is spread over the contract lifetime as SAC
- No impact on free cash flow from accounting change
 - Higher EBITDA in month 1 (€ 575) is offset by change in working capital (contract asset) and change in provisions (non-current assets)

IFRS 15	P&L	(€)	Month 1	Month 2	...	Month 24	Total
		Service revenues	30	30	...	30	720
		Total revenues	30	30	...	30	720
		Opex (SAC)	-5	-5	...	-5	-120
		EBITDA	25	25	...	25	600
	Balance Sheet	Contract asset (working capital)	Month 1	Month 2	...	Month 24	Total
		Add: handset receivable	480	-	...	-	480
		Less: monthly billing	-20	-20	...	-20	-480
		Closing balance	460	440	...	-	-
		Contract cost (non-current)	Month 1	Month 2	...	Month 24	Total
IAS 18	P&L	Add: contract cost	120	-	...	-	120
		Less: amortization	-5	-5	...	-5	-120
		Closing balance	115	110	...	-	-
		(€)	Month 1	Month 2	...	Month 24	Total
		Service revenues	50	50	...	50	1,200
		Total revenues	50	50	...	50	1,200
		Opex (SAC)	-600	-	...	-	-600
		EBITDA	-550	50	...	50	600

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Spectrum in The Netherlands

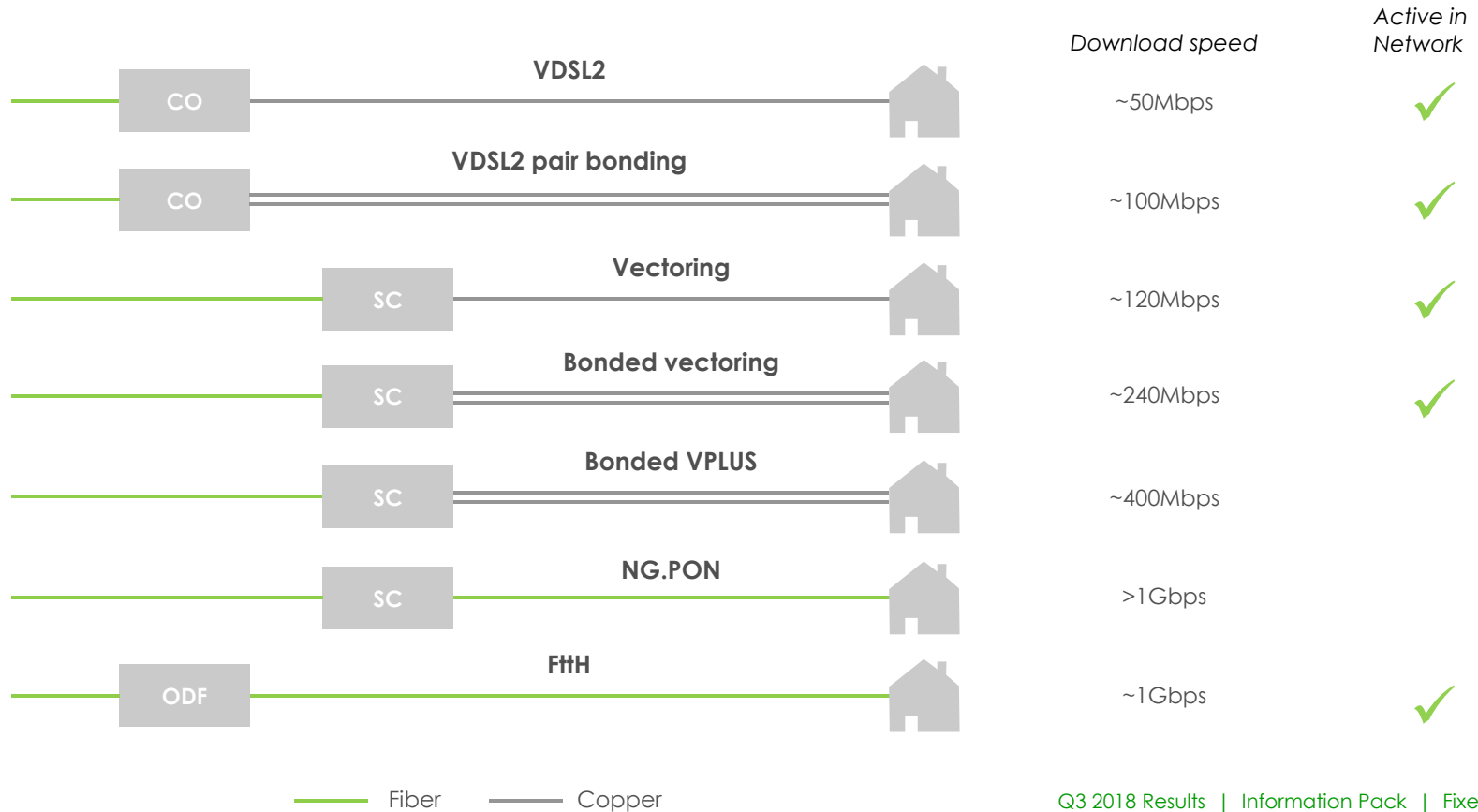


800MHz (Paired)	Tele2 2*10	VodZig 2*10	KPN 2*10				2*30	
900MHz (Paired)	VodZig 2*10	KPN 2*10	T-Mob 2*15				2*35	
1.8GHz (Paired)	KPN 2*20		VodZig 2*20		T-Mob 2*30		2*70	
2.1GHz (Paired)	VodZig 2*14.6	KPN 2*14.8	T-Mob 2*10	KPN 2*5	VodZig 2*5	T-Mob 2*10	2*59.4	
2.6GHz (Unpaired)	T-Mob 25		KPN 30			Tele2 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

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Fixed infrastructure



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Balance sheet

- Stake included as financial asset¹
- Fair value of KPN's stake based on Telefónica Deutschland's share price and adjusted quarterly
 - Fair value movements recorded in *other comprehensive income*
 - Due to IFRS 9, as of 1 January 2018, fair value movements are no longer recycled to the P&L (neither at sale nor at impairments)

P&L

- Dividends received reported as finance income within *net finance costs*

Cash flow statement

- Dividends received part of operating cash flow and free cash flow as *dividends received*

Tax

- Dividends, not qualifying as specific capital repayments, received and/or capital gains realized (proceeds above tax book value) on KPN's stake are subject to Dutch corporate income tax
- Deferred tax asset can be utilized to offset income related to KPN's stake

¹ Defined under IFRS as available-for-sale financial asset