

Q4 & FY 2018 RESULTS

30 January 2019

Safe harbor

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 financial 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.

Financial information is based on KPN’s interpretation of IFRS as adopted by the European Union as disclosed in the Integrated Annual Report 2017 and do not take into account the impact of future IFRS standards or interpretations. 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.

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. A number of these factors are described (not exhaustively) in the Integrated Annual Report 2017. Forward-looking financial information does not take into account the impact of new IFRS standards or interpretations effective for future reporting periods (such as IFRS 16 Leasing). All forward-looking statements and ambitions stated in this financial report that refer to a growth or decline, refer to such growth or decline relative to the situation per 31 December 2018, unless stated otherwise.

Highlights FY 2018

Successful
Simplification

~€ 225m

run-rate Capex and opex
savings¹

Delivered on
full-year outlook

Adjusted EBITDA

+0.8% y-on-y

FY 2018: € 2,303m

FCF (excl. TEFD dividend)

+10% y-on-y

FY 2018: € 804m

Strategy update
2019 – 2021

**ORGANIC
SUSTAINABLE
GROWTH**

¹ Realized: end Q4 2018 vs. end Q4 2016

STRATEGY 2019 2021

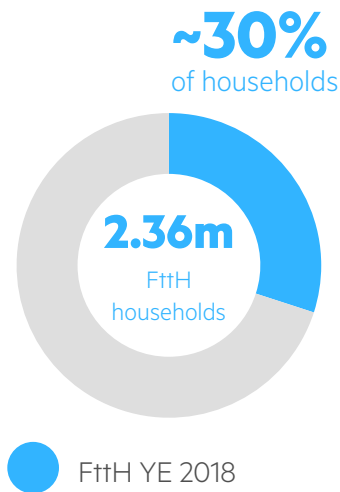
The best **converged
smart infrastructure.**

Focus on **profitable
growth** segments.

Acceleration of
simplification and
digitalization.

Preparing for accelerated fiber roll-out

Strong starting point



Increase access investments

Preparations for
+1m FttH households
in 2019 – 2021

5G trials and **mobile network modernization**
in progress

+1m FttH households

>40%

of households
by end 2021

Further strengthening household relationships

growing converged base

Converged
households

+91k (FY 2018)
46%¹

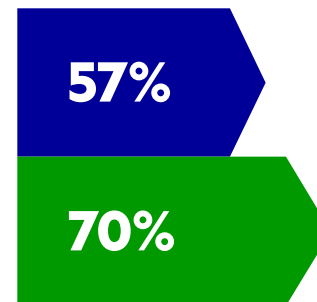
SIMs per
household

1.54

FY 2017: 1.51

Converged
postpaid base

All brands



KPN brand

¹ As % of broadband customers

Continued focus on value in Consumer in Q4 2018

and improving customer experience

Postpaid ARPU in line

€ 18

Q4 2017: € 18

Broadband base¹

+9k

Best-in-class NPS²

+14 +25
converged

Q4 2017: +13

¹ Corrected for migrations to and new customers of small business proposition (7k) launched in Q4 2017

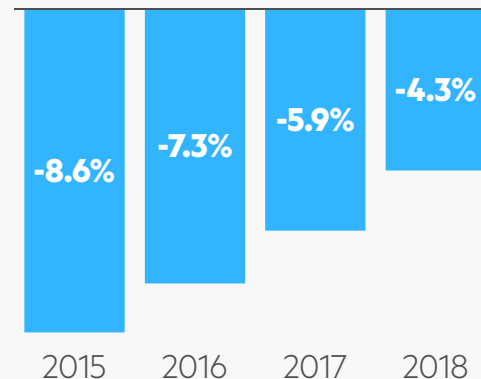
² Source: Kantar TNS

Progress made in Business, but still work to do

Adjusted revenues
y-on-y growth trend

	Q4 2018	FY 2018
Communication Services	-7.6%	-7.9%
Mobile service revenues	-6.3%	-6.3%
IoT	-10%	3.0%
Broadband & Network Services	-3.6%	-2.7%
Fixed voice	-9.2%	-13%
Other	-15%	-17%
IT Services (a.o. security, cloud, workspace)	-1.5%	12%
Professional Services & Consultancy	15%	8.8%
Total	-2.2%	-1.9%

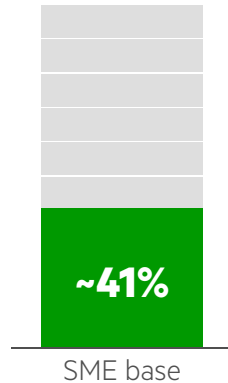
Gradually improving
organic revenue trend¹



¹ Revenues for FY 2017 and FY 2018 excluding M&A and hardware

Transformation of operating platform

Migrating customers from legacy services¹



Improving Business customer satisfaction (NPS)²



¹ Traditional fixed voice and legacy broadband

² Source: Kantar TNS

Financial highlights FY 2018

delivered on full-year outlook

Adjusted revenues

€ 5,639m

-1.9% y-on-y

FY 2017: € 5,749m

Adjusted EBITDA

€ 2,303m

+0.8% y-on-y

FY 2017: € 2,285m

Free cash flow
(excl. TEFD dividend)

€ 804m

+10% y-on-y

FY 2017: € 730m

Financial performance Q4 and FY 2018

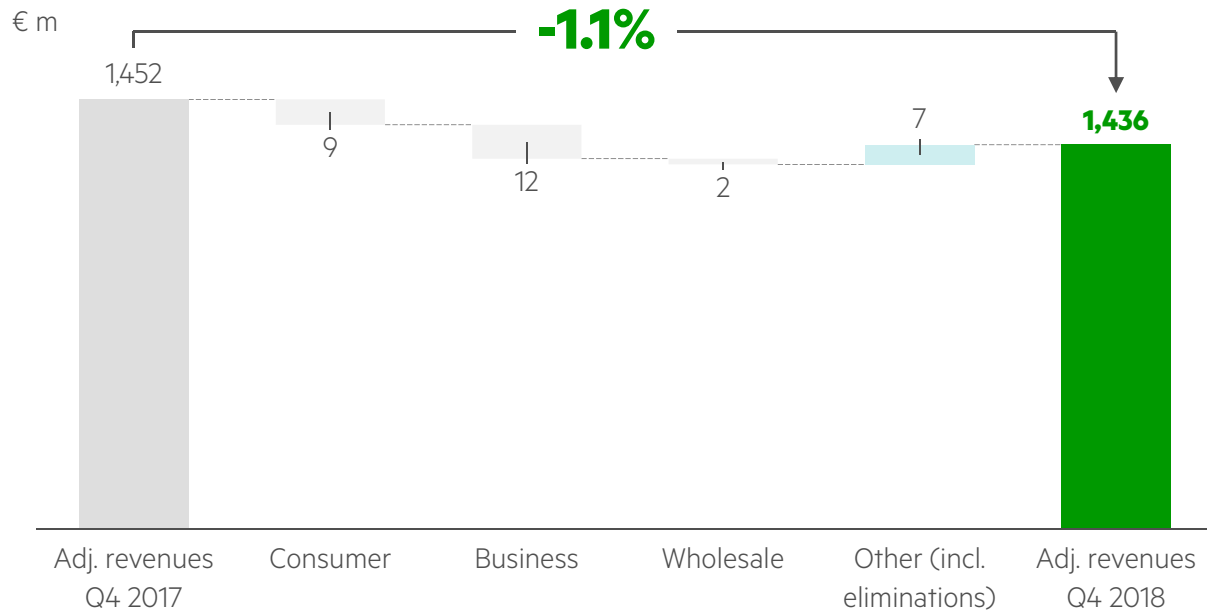
key P&L metrics

€ m	Q4 2018	Q4 2017	Δ y-on-y	FY 2018	FY 2017	Δ y-on-y
Consumer	758	766	-1.1%	2,992	3,044	-1.7%
Business	549	562	-2.2%	2,143	2,183	-1.9%
Wholesale	157	159	-1.5%	618	672	-8.0%
Other	-27	-35	-22%	-115	-150	-24%
Adjusted revenues¹	1,436	1,452	-1.1%	5,639	5,749	-1.9%
Adjusted direct costs ¹	343	346	-0.9%	1,302	1,365	-4.6%
Adjusted indirect costs ¹	521	539	-3.4%	2,034	2,100	-3.1%
Adjusted EBITDA¹	572	567	1.0%	2,303	2,285	0.8%
Reported						
EBITDA	530	531	-0.2%	2,186	2,169	0.8%
EBIT	177	169	4.4%	789	755	4.4%
Net profit ²	-45	56	n.m.	280	390	-28%

¹ Adjusted for the impact of restructuring costs and incidentals

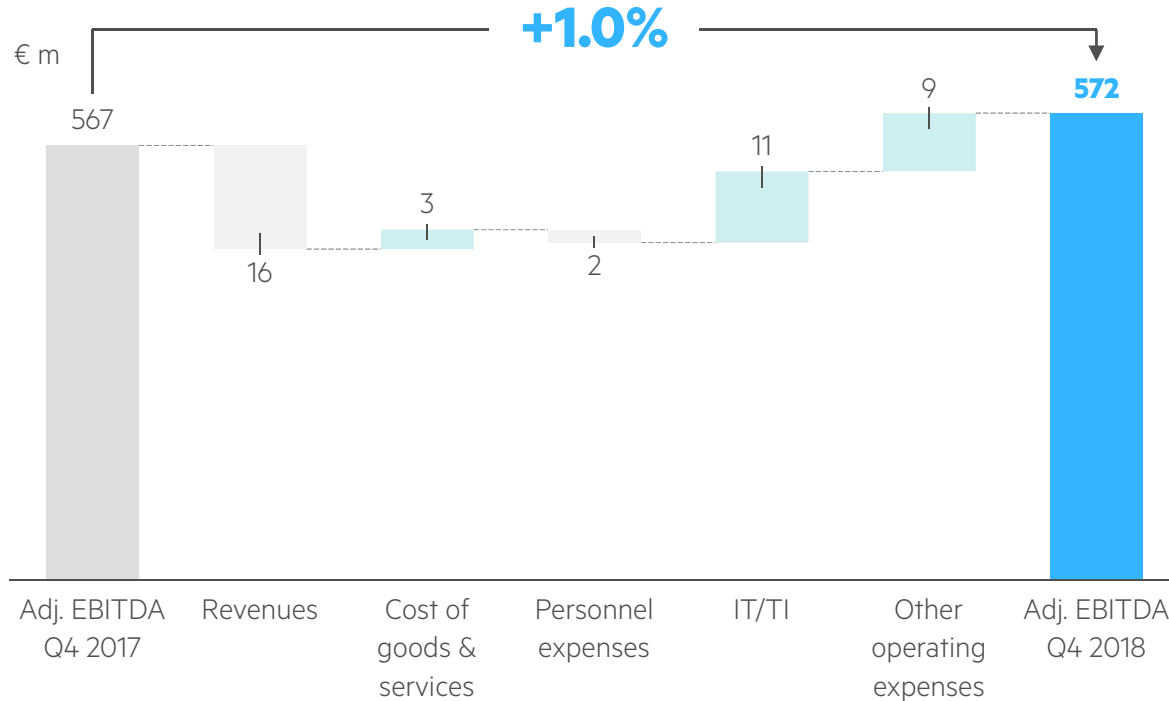
² Q4 and FY 2018 net profit impacted by € 107m one-off related to revaluation of DTA due to reduction of corporate income tax rate

Adjusted revenues declined by 1.1% in Q4 2018



FY 2018: € 5,639m
-1.9% y-on-y
FY 2017: € 5,749m

Adjusted EBITDA supported by Simplification



FY 2018: € 2,303m

+0.8% y-on-y

FY 2017: € 2,285m

2nd wave Simplification yielded € 225m savings

the final year will roll-over in new program

2nd wave Simplification program realized
run-rate Capex and opex savings

~€ 225m

end Q4 2018¹

New net opex reduction program
savings target²

~€ 350m

2019 – 2021

¹ Realized: end Q4 2018 vs. end Q4 2016

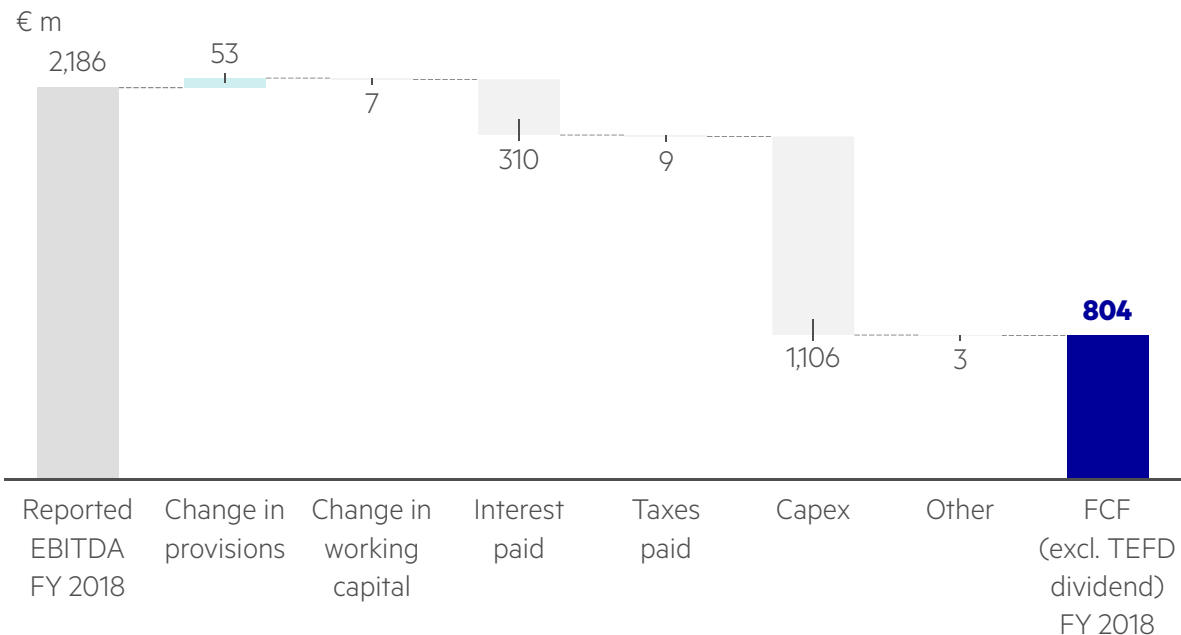
² Indirect opex adjusted for the impact of restructuring costs and incidentals

Financial performance Q4 and FY 2018

key cash flow metrics

€ m	Q4 2018	Q4 2017	Δ y-on-y	FY 2018	FY 2017	Δ y-on-y
EBITDA	530	531	-0.2%	2,186	2,169	0.8%
Interest paid / received	-70	-73	-4.0%	-310	-351	-12%
Tax paid / received	16	-	n.m.	-9	-13	-33%
Change in provisions	19	25	-21%	53	54	-1.5%
Change in working capital	95	124	-24%	-7	-10	-32%
Other movements (incl. TEFD dividend)	2	3	-49%	46	80	-43%
Net CF from operating activities	591	610	-3.1%	1,959	1,929	1.5%
Capex	-368	-392	-6.0%	-1,106	-1,131	-2.2%
Proceeds from real estate	-	-	n.m.	5	2	>100%
Free cash flow	223	218	2.2%	858	800	7.2%
TEFD dividend	-	-	n.m.	54	70	-23%
Free cash flow (excl. TEFD dividend)	223	218	2.2%	804	730	10%

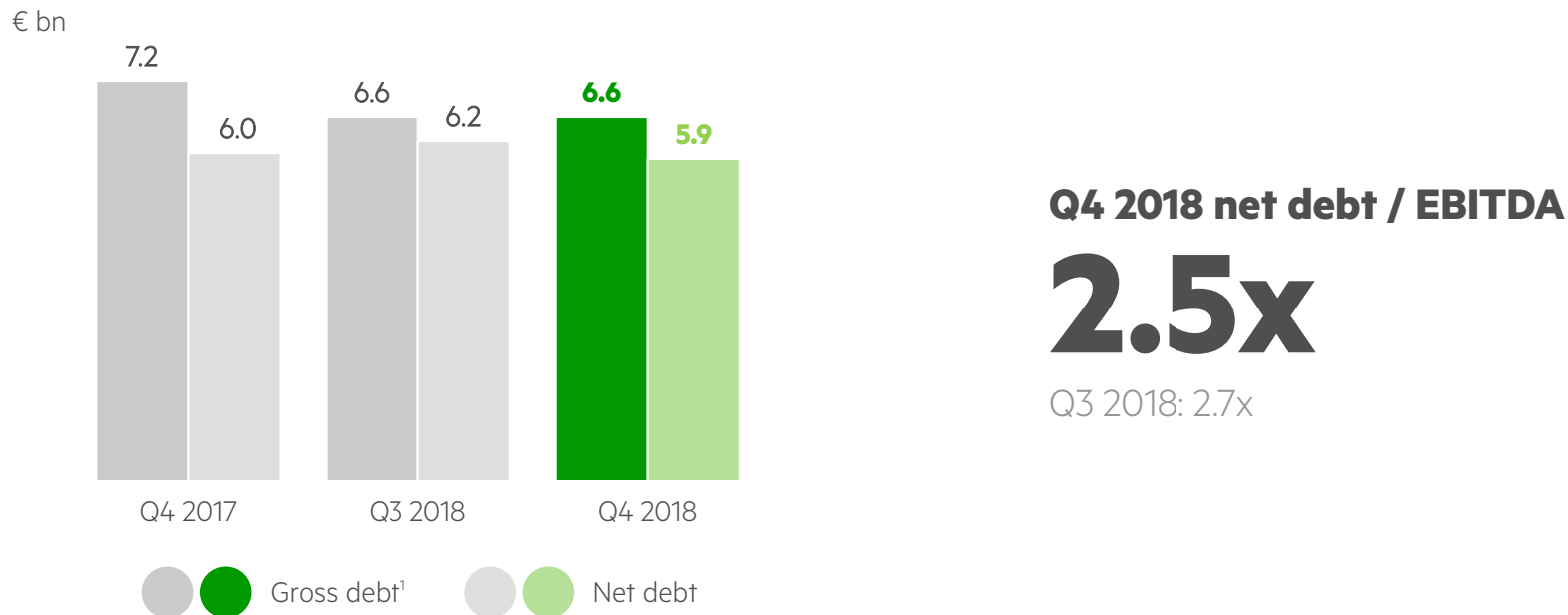
Free cash flow growth in FY 2018



FY 2018
+10% y-on-y

FY 2017: € 730m

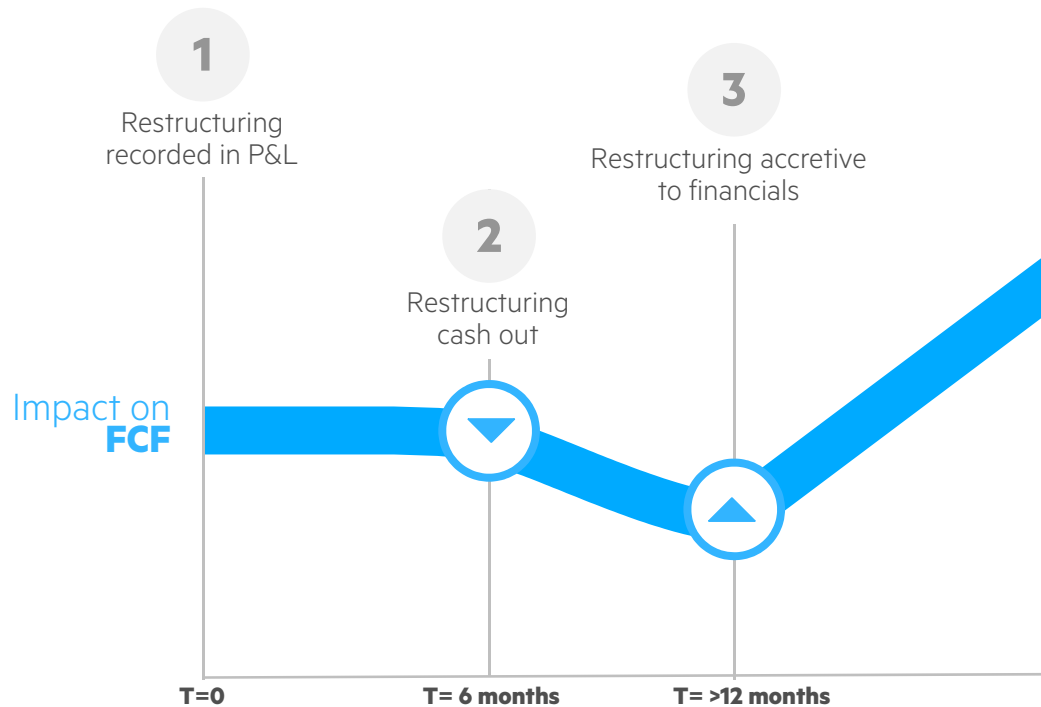
Solid financial position



¹ 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

Restructuring accretive

benefits back-end loaded



Outlook 2019 and 2019 – 2021 ambitions

organic sustainable growth

	Outlook 2019	2019 – 2021 ambitions
Adjusted EBITDA	In line with 2018	Organic growth
Capex	€ 1.1bn	Stable at € 1.1bn annually
FCF (excl. TEFD dividend)	Front-end loaded restructuring charges leading to incidentally lower FCF compared with 2018	Three-year mid-single digit CAGR ¹ driven by EBITDA growth
Regular DPS	€ 12.5 cents	Progressive dividend, supported by FCF

¹ Three-year CAGR calculated from the end of 2018 to the end of 2021

**ORGANIC
SUSTAINABLE
GROWTH**

**Value
over
volume.**

**Lean
operating
model.**

INFORMATION PACK

CSR
Dutch mobile service revenues
Tax
KPI overview
Debt portfolio
Treatment of hybrid bonds
Fixed infrastructure
TEFD stake - accounting treatment



Doing business in a sustainable manner

Leading position in benchmarks

MEMBER OF

**Dow Jones
Sustainability Indices**

In Collaboration with RobecoSAM 



Reputation ranking
TOP 3 European
Telcos
RepTrak Pulse 2017

Achievements in Q4 2018

Expanded circular manifesto with suppliers to achieve a near to 100% circular company by 2025

70% of annual spend on network equipment and hardware for the provision of services to customers covered by agreements

160 New KlasseContact placements in Q4 2018

Dutch mobile service revenues

€ m	Q4 2018	Q4 2017	Δ y-on-y	FY 2018	FY 2017	Δ y-on-y
Consumer	206	211	-2.2%	833	887	-6.1%
Business ¹	134	144	-6.7%	549	581	-5.6%
Other ²	43	45	-4.4%	162	159	1.9%
Total The Netherlands	383	399	-4.1%	1,544	1,627	-5.1%

¹ Includes M2M service revenues

² Includes amongst others Wholesale mobile service revenues and visitor roaming

Tax FY 2018

Regions (€ m)	P&L		Cash flow	
	FY 2018	FY 2017	FY 2018	FY 2017
The Netherlands	-233	-119	-9	-13
Other	-5	-17	-4	1
Total reported tax	-238	-136	-13	-12
<i>Of which discontinued operations</i>	<i>-5</i>	<i>-17</i>	<i>-4</i>	<i>1</i>
Reported tax from continuing operations	-233	-119	-9	-13
<i>Effective tax rate continuing operations</i>	<i>44.6%</i>	<i>23.4%</i>		

The effective tax rate for FY 2018 is mainly influenced by corporate income tax rate adjustments, other one-off effects and the Innovation Box facility

- Without one-off effects¹ the effective tax rate would have been ~23% in FY 2018

For the 2019, 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 Among others, tax law changes, settlements with tax authorities, impairments, revaluations

KPI overview

Consumer fixed

	Q4 2018	Q4 2017
Household base (k)		
F-M households	1,343	1,253
Fixed-only households	2,093	2,323
Total households	3,436	3,576
F-M penetration broadband base	46%	42%
Bundled	2,556	2,571
Not-bundled (BB-only)	385	396
Not-bundled (PSTN & Digitenne)	495	608
Total households	3,436	3,575
Net adds (k)		
Broadband	2	7
IPTV	22	21
ARPU per household (€)	46	44

Consumer mobile

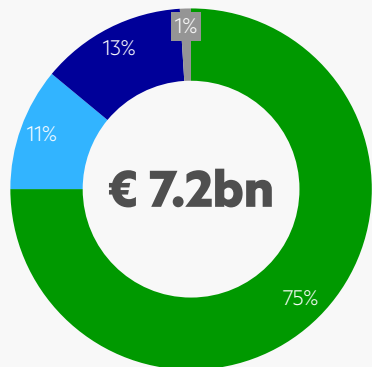
	Q4 2018	Q4 2017
Postpaid base (k)		
F-M postpaid customers	2,065	1,886
Mobile-only postpaid customers	1,547	1,788
Total postpaid base	3,612	3,674
F-M penetration postpaid base	57%	51%
Net adds (k)		
Postpaid	-19	-15
Prepaid	-76	-7
Postpaid ARPU (€)	18	18
Wireless service revenues (€ m)	206	211

Business

	Q4 2018	Q4 2017
Customer base (k)		
Mobile	1,855	1,882
Traditional Fixed voice	287	382
VoIP	544	487
Broadband	289	285
ARPU (€)		
Mobile	22	23
Traditional Fixed voice	49	47
VoIP	11	9
Broadband	73	71

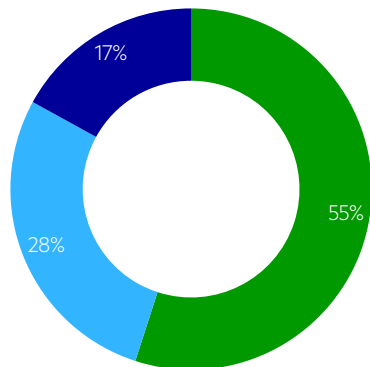
Debt portfolio

Nominal debt¹
by type



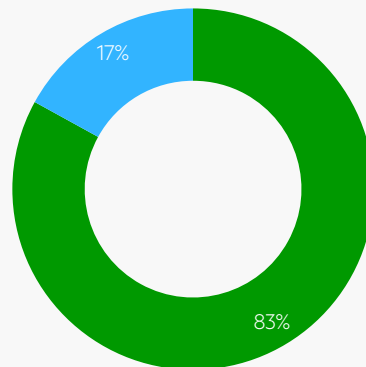
- Eurobonds
- Global bonds
- Hybrid bonds
- Other

Nominal debt
by currency



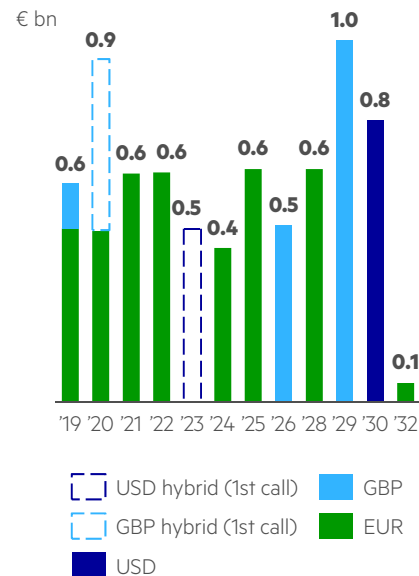
- EUR
- GBP²
- USD²

Fixed vs. floating
interest³



- Fixed
- Floating

Bond redemption
profile



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

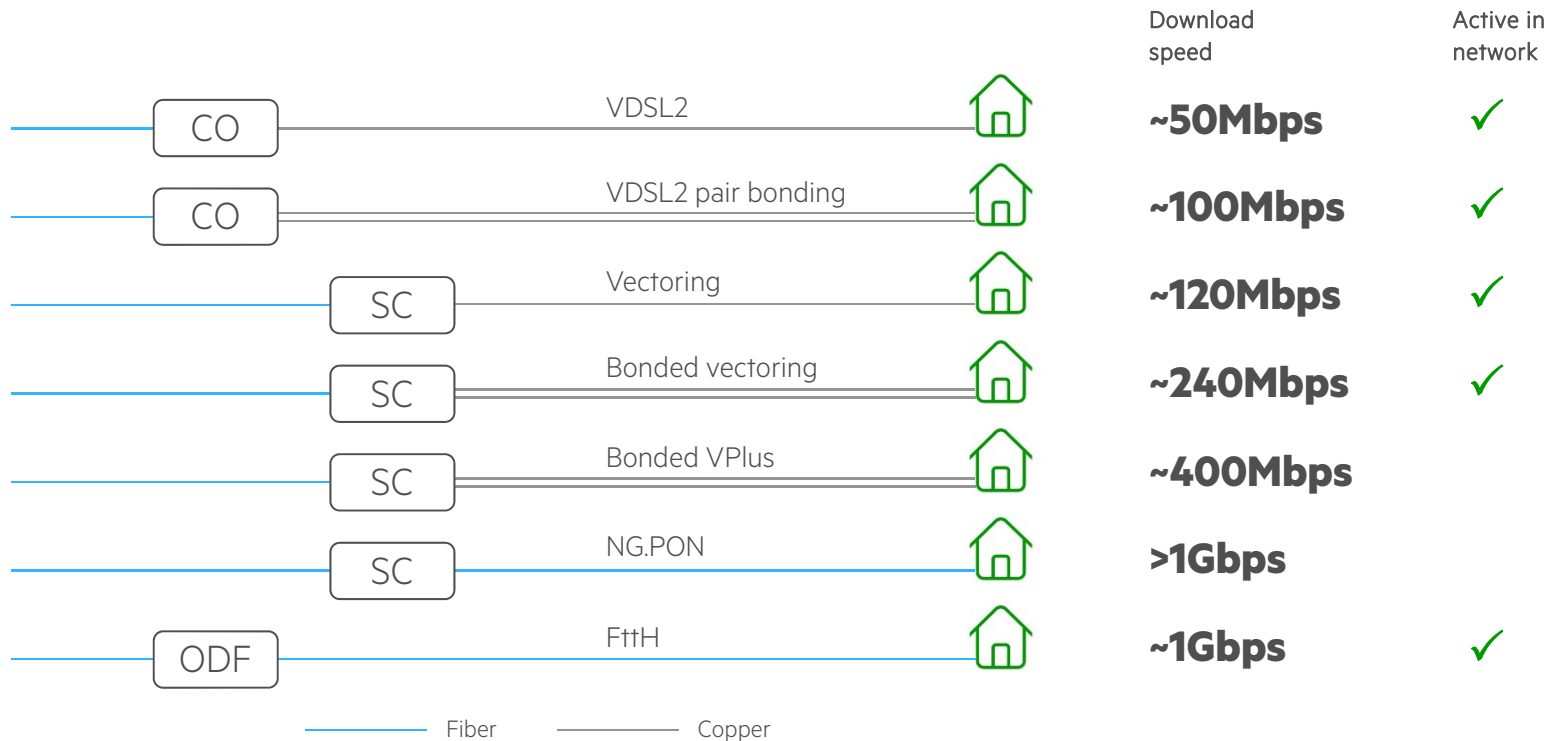
GBP and USD tranche have 60 years specified maturity, accounted for as financial liability

- 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

Fixed infrastructure



Telefónica Deutschland stake

accounting treatment

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 reported as finance income within *net finance costs*

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 equity investment measured at fair value through other comprehensive income



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