Press release
24 July 2019

Second quarter 2019 results

Operational highlights

- Solid performance in Consumer convergence, partially due to Telfort integration
  - +41k fixed-mobile households (of which +38k Telfort), 48% of broadband base (Q2 2018: 44%)
  - +104k fixed-mobile postpaid customers (of which +54k Telfort), 62% of postpaid base (Q2 2018: 54%)

- Single-play services impacted by Telfort integration and ongoing competition
  - Fixed: -24k[1] broadband and -7k IPTV net adds; ARPU increased 6.0% y-on-y to € 46
  - Mobile: +17k KPN brand postpaid net adds, flat postpaid customer base across all brands; postpaid ARPU of € 17, flat q-on-q and 5.6% lower y-on-y
  - Consumer NPS +13 (Q2 2018: +13)

- Good progress with customer migrations in Business, negatively impacting revenues in short term
  - 59% of SME customers migrated from traditional fixed voice or legacy broadband services
  - Business NPS of +1 (Q2 2018: -4)

- Net indirect opex savings[2] of € 40m in Q2 2019, € 66m in H1 2019

- Progress in simplification of the company
  - Disposal of NLDC and international network announced
  - Sale of TEFD stake completed

Key figures*

Group financials (unaudited) *(in € m, unless stated otherwise)*	Q2 2018	Q2 2019	Δ y-on-y	H1 2018	H1 2019	Δ y-on-y
Adjusted revenues**	1,402	1,359	-3.1%	2,804	2,721	-3.0%
EBITDA	596	602	1.1%	1,194	1,172	-1.8%
Adjusted EBITDA after leases**	**573**	**594**	**3.6%**	**1,138**	**1,157**	**1.7%**
As % of Adjusted revenues	*40.9%*	*43.7%*		*40.6%*	*42.5%*	
Operating profit (EBIT)	218	221	1.6%	433	410	-5.3%
Net profit	142	128	-9.8%	245	217	-11%
Capex	245	269	9.9%	481	531	10%
Free cash flow (excl. TEFD dividend)	**222**	**147**	**-34%**	**343**	**216**	**-37%**

* All non-IFRS terms are explained in the safe harbor section
** Adjusted revenues and adjusted EBITDA after leases reconciliations to be found on page 8

Financial highlights

- Adjusted revenues 3.1% lower y-on-y
  - Growth in bundled services in Consumer, cloud and workspace services in Business and Wholesale
  - Offset by a decline in legacy services, continued pressure in mobile and lower hardware revenues

- Solid growth in adjusted EBITDA after leases (+3.6% y-on-y)
  - Effect of lower revenues fully offset by € 24m lower cost of goods & services, and € 40m net indirect opex savings[2] resulting from accelerated simplification and digitalization

- Net profit 9.8% lower y-on-y
  - Impacted by € 12m higher restructuring costs and € 31m lower finance income driven by less dividend received from the stake in Telefónica Deutschland, partly offset by € 7m lower income taxes

- Free cash flow (excluding TEFD dividend) of € 216m in H1 2019, € 127m lower compared to H1 2018
  - Negative change in working capital expected to recover in the second half of the year
  - Higher Capex y-on-y mainly due to accelerated fiber roll-out

[1] Corrected for migrations to, and new customers of, small business proposition (7k)
[2] Net savings in adjusted indirect opex after leases

Message from the CEO, Maximo Ibarra

"We made good progress with the execution of our strategy. We have started the brand integration in the second quarter and have seen strong interest in converged propositions from our Telfort customers, leading to strengthened household relationships. In Business, we continued with the execution of customer migrations to our future proof KPN EEN portfolio and 'value over volume' strategy.

KPN has a strong track record in cost management. Accelerated simplification and digitalization delivered substantial cost savings this quarter, resulting in a solid growth in adjusted EBITDA after leases.

On a final note, as announced in June, pressing family reasons have led me to resign as CEO of KPN and return to Italy. I am confident that I will leave KPN in very capable hands, backed by the strong Executive team that KPN has in place. I'd like also to thank the Boards, my team and everyone involved in KPN for their support during my tenure with the Company."

Outlook 2019 and 2019 – 2021 ambitions

	Outlook 2019	2019 – 2021 ambitions
Adjusted EBITDA AL	Slightly growing compared with 2018*	Organic growth
Capex	€ 1.1bn	Stable at € 1.1bn annually
FCF (excl. TEFD dividend)	Incidentally lower FCF compared with 2018 due to front-end loaded restructuring charges and adverse phasing of working capital**	Three-year mid-single digit CAGR*** driven by EBITDA AL growth
Regular DPS	€ 12.5 cents	Progressive dividend, supported by FCF

* Previous Adjusted EBITDA AL outlook: "In line with 2018"

** FCF outlook: Impact materially higher restructuring cash out in 2019 is partially mitigated by natural employee attrition, but this is in turn offset by change in working capital

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

Shareholder remuneration and financial profile

KPN intends to pay a regular dividend per share of € 12.5 cents in respect of 2019. An interim dividend of € 4.2 cents will be paid on 1 August 2019. The ex-dividend date is 26 July 2019. KPN aims for sustainable FCF (excl. TEFD dividend) growth, driving a progressive regular dividend per share and deleveraging.

KPN sold its remaining shares in Telefónica Deutschland on 13 June 2019. The proceeds, as well as the dividend received from Telefónica Deutschland on 24 May 2019, will be retained to increase operational and financial flexibility.

KPN remains committed to an investment grade credit profile and aims for a leverage ratio of <2.5x in the medium-term (Q2 2019: 2.4x). KPN has a credit rating of BBB with a stable outlook from Standard & Poor's and Fitch Ratings, and Baa3 with a stable outlook from Moody's.

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All related documents can be found on KPN's website:
ir.kpn.com

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Inside information: No
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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 2018. 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 are based on continuing operations and 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 2018 and do not take into account the impact of future IFRS standards or interpretations. Note that certain definitions used by KPN in this report deviate from the literal definition thereof 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. KPN defines revenues as the total of revenues and other income. Adjusted revenues are derived from revenues (including other income) and are adjusted for the impact of incidentals. KPN defines EBITDA as operating result before depreciation (including impairments) of PP&E and amortization (including impairments) of intangible assets. Adjusted EBITDA after leases ('adjusted EBITDA AL') are derived from EBITDA and are adjusted for the impact of restructuring costs and incidentals ('adjusted') and for lease costs, including depreciation of right-of-use assets and interest on lease liabilities ('after leases' or 'AL'). KPN defines Gross Debt as the nominal value of interest-bearing financial liabilities representing the net repayment obligations in Euro, excluding derivatives, related collateral, and leases, taking into account 50% of the nominal value of the hybrid capital instruments. In its Leverage Ratio, KPN defines Net Debt as Gross Debt less net cash and short-term investments, divided by 12 month rolling adjusted EBITDA AL excluding major changes in the composition of the Group (acquisitions and disposals). The Lease adjusted leverage ratio is calculated as Net Debt including lease liabilities divided by 12 month rolling adjusted EBITDA excluding major changes in the composition of the Group (acquisitions and disposals). Free Cash Flow ('FCF') 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 and adjusted for repayments of lease liabilities.

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 2018. 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.

Comparative figures regarding IFRS 16 and amendment IAS 12

Please note that non-material adjustments have been made to the 2018 financial figures, based on the latest insights from the IFRS 16 adoption and on the amendment to IAS 12. The impact of the adoption of IFRS 16 is unaudited and may be subject to change until the publication of KPN's Financial Statements 2019.

Financial and operating review KPN Group

(in € m)	Q2 2018	Q2 2019	Δ y-on-y	H1 2018	H1 2019	Δ y-on-y
Adjusted revenues						
Consumer	738	722	-2.1%	1,481	1,450	-2.1%
Business	536	507	-5.5%	1,069	1,013	-5.2%
Wholesale	155	159	2.4%	308	316	2.7%
Network, Operations & IT	2	1	-37%	8	3	-63%
Other (incl. eliminations)	-29	-30	2.7%	-61	-61	0.2%
KPN Group	**1,402**	**1,359**	**-3.1%**	**2,804**	**2,721**	**-3.0%**

Consumer

KPN saw solid growth of its converged customer base, supported by its strategic decision to focus on the KPN brand. In the second quarter, KPN began the integration of existing Telfort customers, while the acquisition of new Telfort customers has ended per 1 May 2019. More than half of new converged postpaid customers in Q2 are Telfort customers who now opt for a fixed-mobile combination with the KPN brand and receive additional benefits. This will strengthen KPN's household relationships as churn is significantly lower for converged customers. Convergence NPS is higher with +23 (Q2 2018: +25), compared to a Consumer NPS of +13 in Q2 2019 (Q2 2018: +13).

In Q2 2019, the converged postpaid customer base grew by 104k (of which 54k due to Telfort integration) to 2,230k, representing 62% of postpaid customers (Q2 2018: 54%). Fixed-mobile penetration for the high value KPN brand postpaid customers reached 72% (Q2 2018: 67%). Converged households grew by 41k (of which 38k due to Telfort integration) to 1,399k, representing 48% of broadband customers. KPN's growing converged customer base makes it more resistant to competitive pressure in the mobile market and enables KPN to create value through lower churn for these customers and higher ARPU per converged household.

KPN's broadband net adds were -24k, adjusted for migrations from Consumer to the proposition for small businesses and new customers for this proposition (7k). The IPTV customer base declined by 7k. The decline in broadband and IPTV customers is mainly driven by the brand rationalization as acquisition of Telfort customers was discontinued per 1 May 2019. Furthermore, it was also impacted by the announcement of price adjustments and by communication on changes in TV content offering in April this year. In Q2 2019, Residential revenues grew 0.8% y-on-y, driven by increasing revenues from bundled services. Fixed ARPU increased 6.0% y-on-y to € 46 in Q2 2019. Price adjustments in fixed were effective from 1 June 2019.

In an ongoing competitive mobile market, KPN continues to focus on its high value KPN brand. The new mobile propositions launched in Q1 2019 successfully mitigated the discontinued acquisition of Telfort postpaid customers in the second quarter. This resulted in 17k postpaid net adds for the KPN brand, while the total postpaid customer base remained flat. Postpaid ARPU was € 17, flat compared to Q1 2019 and 5.6% lower y-on-y. Mobile service revenues declined 5.8% y-on-y, mainly driven by lower postpaid ARPU.

Adjusted revenues in Consumer declined by 2.1% y-on-y in Q2 2019, fully driven by lower mobile service revenues and lower mobile handset sales.

Business

In the Business segment, KPN focuses on value over volume, a strategy designed to leveraging KPN's leading market positions, high-quality brand perception, and solid reputation to develop more profitable revenues in the years to come. Part of this strategy is emphasis on a future-proof, simplified product portfolio and network upgrades with improved access speeds. KPN's one-stop-shop of standardized and converged solutions are designed to replace tailor made single-play services as customers are moving away from traditional on-premise IT environments to (public) cloud solutions. The newly introduced Cloud Communications and Secure Networking propositions are the first of new Smart Combinations to come for the Business Market.

In the quarter, KPN continued to migrate customers to KPN EEN and its small business proposition. At the end of Q2 2019, 59% of SME customers and 33% of LE customers eligible for migration have migrated from legacy services. Although negatively impacting service revenues from Fixed Voice in the shorter term due to rationalization, this provides significant opportunities for up and cross-sell of additional services and cost reductions from moving to lean and digital operations. In addition, it supports lower churn as the future proof KPN EEN platform improves customer experience and value creation for customers.

Business customer satisfaction in the quarter improved to an NPS of +1 (Q2 2018: -4). Customer recognition is also evidenced by several awards and award nominations. During the quarter, KPN integrated its entire security services portfolio under the name of KPN Security. KPN's subsidiary InSpark was winner of Microsoft's "Global Security & Compliance Partner of the Year 2019" award and the KPN EEN platform is nominated as "Best offer for SME" by Computable. This nomination shows that customers benefit from the simplified product portfolio.

In the quarter, adjusted revenues in Business declined 5.5% y-on-y. This decline was impacted considerably by planned strategic actions we undertook in the segment, such as the migrations from traditional technology to KPN EEN and by lower revenues from hardware and licenses compared to last year due to KPN's 'value over volume' strategy. The service revenue trend in the Business segment was less negative than total revenue trend as non-service revenues declined strongly in Q2 2019.

In Q2 2019, revenues from Communication Services declined 8.0% y-on-y. This was mainly driven by lower revenues from Fixed Voice (-17% y-on-y) because pro-active migrations to KPN EEN cloud telephony continue, and by lower mobile service revenues (-8.4% y-on-y) because of the ongoing competitive environment, particularly in the Large Enterprise segment. This was partly offset by growth of KPN's IoT solution (+11% y-on-y). Over the past 12 months KPN's M2M base grew by 1.3m SIMs to 5.6m at the end of Q2 2019.

Revenues from IT Services declined 3.1% y-on-y in Q2 2019. Growth in cloud and workspace services was fully offset by lower revenues from licenses and hardware, which supported KPN's IT Services revenues in Q2 2018. Excluding this effect from hardware and licenses, revenues from IT Services would have grown approximately 9% y-on-y.

In the second quarter, revenues from Professional Services & Consultancy were in line with last year (+0.5% y-on-y). KPN continued to experience pressure in the Large Enterprise and Corporate segments as customers focus on simplifying their IT landscape with a value-for-money approach. This can result in repriced extended contracts or contracts lost, however this is in line with KPN's 'value over volume' strategy.

Wholesale

Adjusted revenues in Wholesale increased by 2.4% y-on-y in Q2 2019. This was driven by higher mobile service revenues as a result of a higher number of data users and increasing data usage. Declining fixed revenues from traditional fixed portfolio (WLR, MDF) and international terminating traffic were largely offset by higher revenues from Wholesale Broadband Access (WBA) with more customers taking these services.

Network, Operations & IT

KPN continued to ramp up its accelerated fiber roll-out strategy, having started construction with several field services contractors in 19 different areas in the Netherlands since the start of the year. This will position KPN to deliver on the one million extra FttH households by end 2021. Furthermore, in a test environment but with live customers, KPN has realized its first XGS-PON connection together with Nokia. This will further strengthen the performance of KPN's fiber network.

In its aim to improve mobile networks in the coming years and making it 5G-ready by the end of 2021, KPN signed a memorandum of understanding with Huawei to modernize its mobile radio and antenna network. According to KPN's multi-vendor policy, preparations are made to contract a different and Western supplier for the realization of a new mobile core network.

Furthermore, KPN made solid progress in becoming All-IP by the end of 2021. Currently approximately 400k lines are left to be migrated to goal portfolio.

Operating expenses*

(in € m)	Q2 2018	Q2 2019	Δ y-on-y	H1 2018	H1 2019	Δ y-on-y
Cost of goods & services	326	302	-7.3%	648	611	-5.6%
Personnel expenses	276	252	-8.6%	558	529	-5.3%
IT/TI	101	91	-9.5%	214	184	-14%
Other operating expenses	81	77	-5.2%	156	154	-0.7%
Total adjusted operating expenses	**785**	**723**	**-7.8%**	**1,575**	**1,479**	**-6.1%**
Depreciation right-of-use asset	36	35	-2.2%	74	70	-4.9%
Interest lease liabilities	8	7	-14%	17	15	-13%
Total adjusted indirect operating expenses after leases	**502**	**463**	**-7.9%**	**1,019**	**952**	**-6.5%**
Adjusted EBITDA after leases	**573**	**594**	**3.6%**	**1,138**	**1,157**	**1.7%**

* Operating expenses adjusted for restructuring and incidentals, excluding D&A

Adjusted EBITDA after leases increased 3.6% y-on-y in Q2 2019. Lower revenues were fully offset by lower costs of goods & services and savings from accelerated simplification and digitalization. In Q2 2019, the adjusted EBITDA AL margin increased to 43.7% (Q2 2018: 40.9%).

In Q2 2019, costs of goods & services declined 7.3% y-on-y, partly supported by lower hardware and licenses revenues in Business and lower mobile handset sales. Personnel expenses declined 8.6% y-on-y, due to a reduction in own and temporary personnel. IT/TI expenses declined 9.5% y-on-y in Q2 2019, largely driven by simplification of networks, contract renegotiations with suppliers and insourcing.

Accelerating simplification and digitalization drives substantial improvements in quality and customer experience and results in structural savings. In Q2 2019, the program realized indirect opex savings[3] of € 40m. Total indirect opex savings since the start of 2019 are € 66m. KPN expects to realize approximately € 350m net indirect opex savings over the period 2019 – 2021[3].

[3] Indirect opex after leases, adjusted for the impact of restructuring costs and incidentals

Profit, Capex, FCF and financial position KPN Group

In Q2 2019, Group operating profit (EBIT) increased € 3m, or 1.6% y-on-y to € 221m. Higher EBITDA, driven by strong cost savings was partly offset by higher depreciation charges.

Net profit of € 128m was € 14m, or 9.8% lower y-on-y in Q2 2019. Higher operating profit and lower taxes were offset by lower finance income, driven by less dividend received from the stake in Telefónica Deutschland.

Capex increased by 9.9% to € 269m in Q2 2019, mainly driven by higher fixed access investments. Capex in H1 2019 increased by 10% to € 531m.

Free cash flow (excl. TEFD dividend) of € 147m in Q2 2019 was € 75m, or 34% lower y-on-y. Free cash flow (excl. TEFD dividend) of € 216m in H1 2019 was € 127m, or 37% lower compared to the same period last year. The strong y-on-y decline in H1 2019 was mainly driven by € 83m higher impact from change in working capital, € 50m higher Capex, partly offset by € 17m lower cash taxes paid and € 9m lower cash interest paid. The change in working capital is partly driven by higher Capex in Q4 2018 leading to additional payments in H1 2019, by intra-year phasing, and by lower opex due to cost savings.

As of 30 June 2019, net debt amounted to € 5,554m, € 90m lower compared to the end of Q1 2019. The movement in net debt was mainly driven by the sale of the remaining stake in Telefónica Deutschland and free cash flow generation during the quarter, partly offset by the final dividend payment over 2018 in April 2019. At the end of Q2 2019, KPN's leverage ratio was 2.4x (Q1 2019: 2.5x). This includes the equity credit on the hybrid bonds representing 0.2x net debt to EBITDA. In Q2 2019, the average coupon on senior bonds was 3.5%, 30bps lower y-on-y.

At the end of Q2 2019, Group equity amounted to € 1,674m, a decrease of € 260m compared to 31 March 2019. This was mainly driven by the final dividend payment over 2018 in April 2019, partly offset by net profit generated during the quarter.

Analysis of adjusted results Q2 and H1 2019

The following table shows the reconciliation between reported revenues and adjusted revenues:

Revenues *(in € m)*	**Q2 2018**	**Q2 2019**	**Δ y-on-y**	**H1 2018**	**H1 2019**	**Δ y-on-y**
Consumer	738	722	-2.1%	1,481	1,450	-2.1%
Business	536	507	-5.5%	1,069	1,013	-5.2%
Wholesale	155	159	2.4%	308	316	2.7%
Network, Operations & IT	2	1	-37%	8	3	-63%
Other (incl. eliminations)	-29	-30	2.7%	-61	-61	0.2%
Total revenues	**1,402**	**1,359**	**-3.1%**	**2,804**	**2,721**	**-3.0%**
Revenues incidentals						
Consumer	-	-	n.m.	-	-	n.m.
Business	-	-	n.m.	-	-	n.m.
Wholesale	-	-	n.m.	-	-	n.m.
Network, Operations & IT	-	-	n.m.	-	-	n.m.
Other (incl. eliminations)	-	-	n.m.	-	-	n.m.
Total revenues incidentals	**-**	**-**	**n.m.**	**-**	**-**	**n.m.**
Consumer	738	722	-2.1%	1,481	1,450	-2.1%
Business	536	507	-5.5%	1,069	1,013	-5.2%
Wholesale	155	159	2.4%	308	316	2.7%
Network, Operations & IT	2	1	-37%	8	3	-63%
Other (incl. eliminations)	-29	-30	2.7%	-61	-61	0.2%
Total adjusted revenues	**1,402**	**1,359**	**-3.1%**	**2,804**	**2,721**	**-3.0%**

There were no revenue related incidentals in H1 2019 and H1 2018.

The following table shows the reconciliation between reported EBITDA and adjusted EBITDA after leases:

(in € m)	**Q2 2018**	**Q2 2019**	**Δ y-on-y**	**H1 2018**	**H1 2019**	**Δ y-on-y**
EBITDA	**596**	**602**	**1.1%**	**1,194**	**1,172**	**-1.8%**
Incidentals	-	-	n.m.	-	-	n.m.
Restructuring	-22	-34	56%	-35	-70	100%
Lease-related expenses						
Depreciation right-of-use asset	36	35	-2.2%	74	70	-4.9%
Interest lease liabilities	8	7	-14%	17	15	-13%
Adjusted EBITDA after leases	**573**	**594**	**3.6%**	**1,138**	**1,157**	**1.7%**

There were no EBITDA related incidentals in H1 2019 and H1 2018.