

Q2 & H1 2021 results

27 July 2021

kpn. The network of the Netherlands



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 2020. 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 2020 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') is derived from EBITDA and is 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). Operational Free Cash Flow is defined as adjusted EBITDA AL minus capital expenditures ('Capex') being expenditures on PP&E and software. Free Cash Flow ('FCF') is defined as cash flow from continuing operating activities plus proceeds from real estate, minus Capex. Return on capital employed ('ROCE') is calculated by the net operating profit less adjustments for taxes ('NOPLAT') divided by capital employed, on a 4-quarter rolling basis. Net operating profit is the adjusted EBITA (excluding incidentals and amortization of other intangibles and including restructuring costs). KPN defines capital employed as the carrying amount of operating assets and liabilities, which excludes goodwill and the other intangibles. 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 2020. 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 2020, unless stated otherwise.

Highlights Q2: strategic execution and delivering ahead of schedule

- ▶▶ **Mass-market** service revenue growth delivered ahead of schedule
- ▶▶ **Consumer Mobile** service revenue growth, first time since Q1 2017
- ▶▶ **Consumer broadband** +23k net adds, of which 22k related to Oxxio acquisition
- ▶▶ **SME** seeing sequential growth, on track to stabilize service revenues by year end
- ▶▶ **Fiber** passed 3m households; Glaspoort JV operational
- ▶▶ **Mobile network** recognized as best network and fastest 5G in the Netherlands
- ▶▶ **Adj. EBITDA AL** growing; additional investments resulting in higher NPS
- ▶▶ **Structural additional capital returns to shareholders**, € 200m SBB in 2021

Accelerate to grow supported by three key pillars

Three strategic pillars...

1. Leverage & expand superior networks

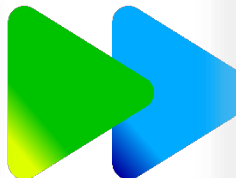
- Covering the Netherlands through fiber
- Low latency services via 5G and edge computing

2. Grow & strengthen customer footprint

- Outstanding digital experience
- Differentiated services for families and businesses

3. Simplify & streamline operating model

- New ways of digital working
- Continue strong and disciplined cost control program



...to support our ambition to

Connect the Netherlands to a sustainable future

- Leading the Dutch digitalization wave
- Recognized as ESG front runner

Grow mass-market service revenues and EBITDA

- Fiber fueling household revenue growth in B2C
- Segmented B2B approach, stabilize SME first

Provide attractive shareholder returns

- Covered by growing Free Cash Flow
- Progressive dividend, +3-5% annually

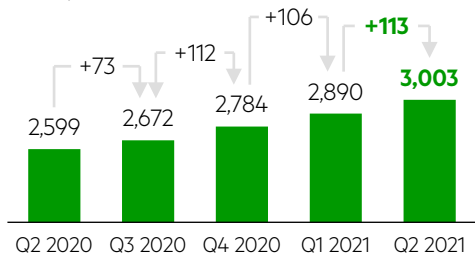


Expand
Superior network

Expand superior network: on track to reach ~80% fiber coverage by 2026

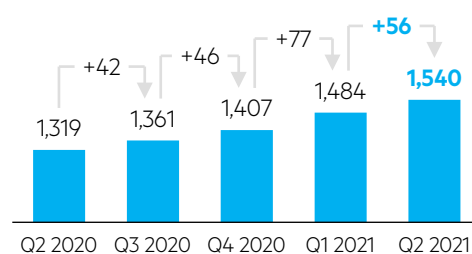
Passed the 3 million HP milestone

homes passed, k



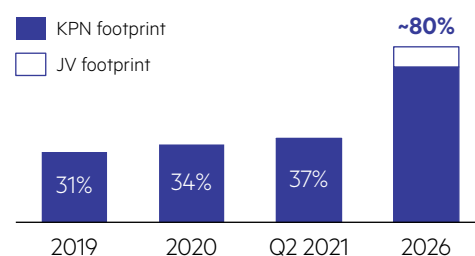
Strong FttH activation rate

homes activated own rollout, k



Jointly covering ~80% of NL by end 2026

homes passed, % of households



Last twelve months:

+403k HP own rollout¹

+46k HP on 3rd party FttH

Last twelve months:

+221k HA own rollout

~55% activation rate²

Glaspoort JV:

Operational per 9 June

12k footprint per end Q2

Best mobile network and fastest 5G in the Netherlands

Excellent 5G position



Differentiated
5G services



**Leading
5G ecosystem**



Leading in
Security



Track record in critical
networks and innovation

Ookla awards
Best mobile network
and
Fastest 5G
in the Netherlands

Best mobile network on all counts
supporting base growth

Highest download speed

Highest upload speed

Best coverage

Fastest 5G



Enhance
Customer focus

B2C: Preferred digital partner for households

Serving as a platform for household value growth



Best digital access

Convergence, fiber, WiFi & 5G fueling base growth



Best digital experience

MijnKPN app as cornerstone for customer interaction



Best digital third-party services

Entertainment partnerships driving household value

Achievements in H1 2021

Continued **SuperWiFi** campaign & attractive **1Gbps** proposition

Improved
MijnKPN app

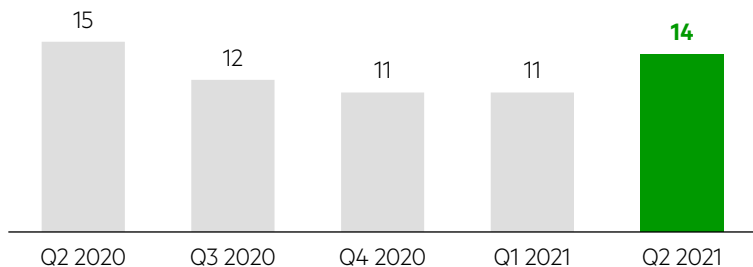
Unique partnership with Microsoft
Xbox Game Pass Ultimate

B2C: Turning the corner in mobile service revenues

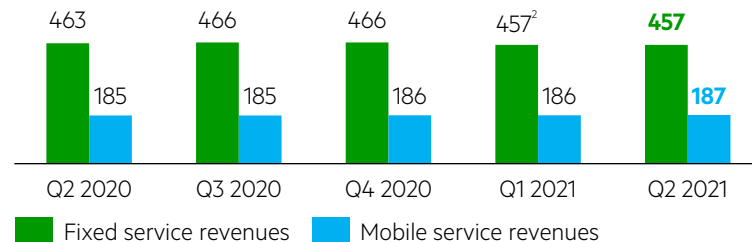
Key take-aways

- Mobile service revenues returning to y-on-y growth (+1.3%) for first time since Q1 2017
- Broadband net adds +23k, of which 22k related to Oxxio
- Growth in Fixed-Mobile revenues (+3.4%) driven by higher base and ARPA
- Lower Fixed service revenues, fully driven by Legacy
- NPS (+14) improving compared to Q1; seeing success of investments in customer support capacity

Successful investments leading to higher Consumer NPS¹



Service revenue trend (€ m)

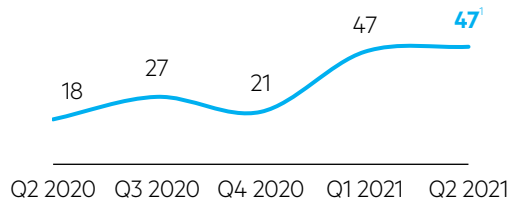


Segment revenues (€ m)

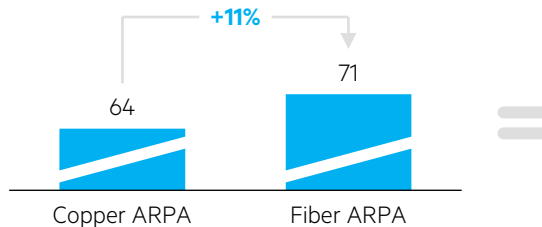
	Q2 2020	Q2 2021	Δ y-on-y
Fixed-Mobile	350	362	+3.4%
Fixed-only	203	194	-4.3%
Mobile-only	61	60	-0.6%
Legacy/other	35	28	-20%
Adjusted Consumer service revenues	648	644	-0.7%
Non-service & Other	58	63	+7.8%
Adjusted Consumer revenues	706	706	flat

B2C: Strong performance fiber and mobile portfolio

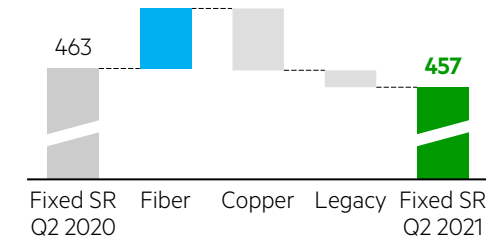
Improving fiber household net adds (k)



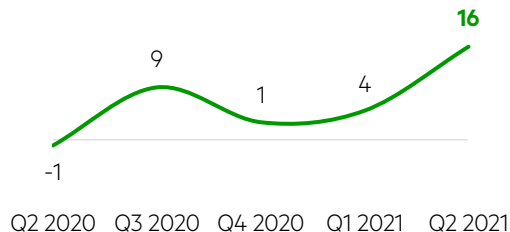
Customers willing to pay for quality (Q2 2021, €)



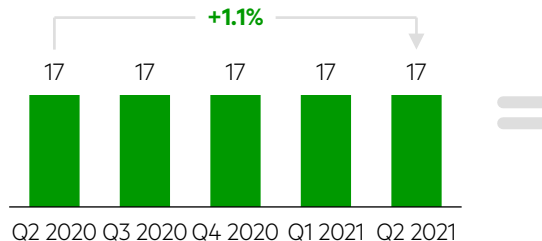
Fiber service revenues offset copper decline (€ m)



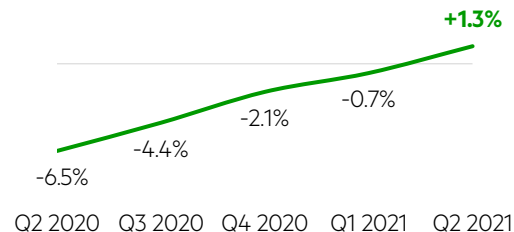
Positive postpaid net adds (k)



Stable postpaid ARPU (€)



Growing mobile service revenues (y-on-y)



B2B: Clearly segmented customer focus

Small & Medium Enterprises (SME)

- ▶▶ Modular future-proof portfolio

Converged propositions

- ▶▶ KPN Small Business
- ▶▶ KPN EEN

Return to growth

- ▶▶ Increased product density
- ▶▶ Customer migrations

~35%

~55%

Large & Corporate Enterprises (LCE)

- ▶▶ Modular future-proof portfolio

Converged proposition

- ▶▶ KPN Smart Combinations

Return to growth

- ▶▶ Drive cross & up-sell
- ▶▶ Customer migrations

~40%

~35%

Tailored Solutions

- ▶▶ Innovation with top customers

Converged proposition

- ▶▶ KPN Smart Integration

Optimize for value

- ▶▶ Sustainable relationships
- ▶▶ Customer retention

~25%

~10%

B2B Adj. service
revenues contribution

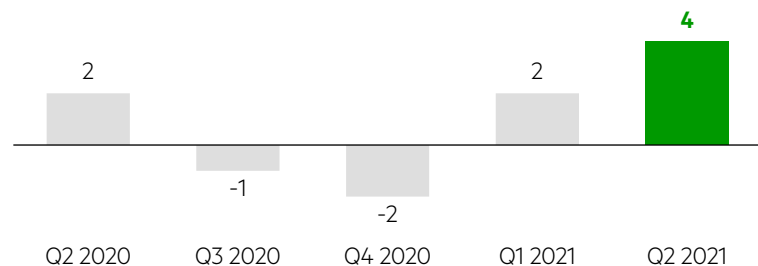
B2B Adj. EBITDA AL
contribution¹

B2B: Revenue pressure largely driven by LCE and Tailored Solutions

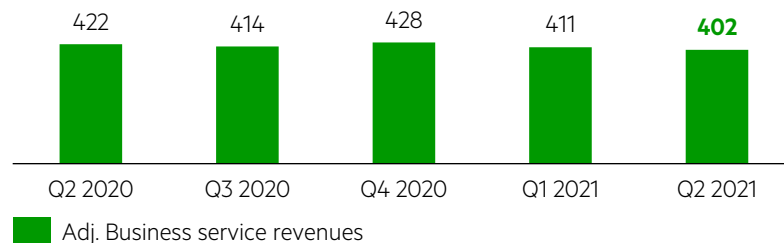
Key take-aways

- On track to stabilize SME service revenues supported by healthy base developments and effect of lapsing ISDN-2 decommissioning in Q3
- SME: growth in Broadband & Networking Services and IT Services offset by lower Fixed Voice and Mobile revenues
- LCE: lower revenues from Access & Connectivity and IT Services, continued good base development on target portfolio
- Record-high Business NPS of +4, mainly driven by customer migrations to target portfolio and reliability of products & services

Business NPS improved¹



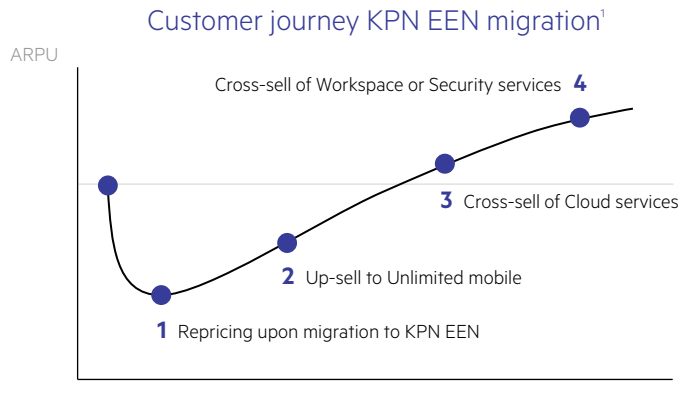
Service revenue trend (€ m)



Segment revenues (€ m)	Q2 2020	Q2 2021	Δ y-on-y
SME	141	136	-3.1%
LCE	173	162	-6.2%
Tailored Solutions	108	103	-4.2%
Adjusted Business service revenues	422	402	-4.7%
Non-service & Other	29	27	-5.2%
Adjusted Business revenues	451	430	-4.7%

B2B: On track to stabilize SME service revenues by end 2021

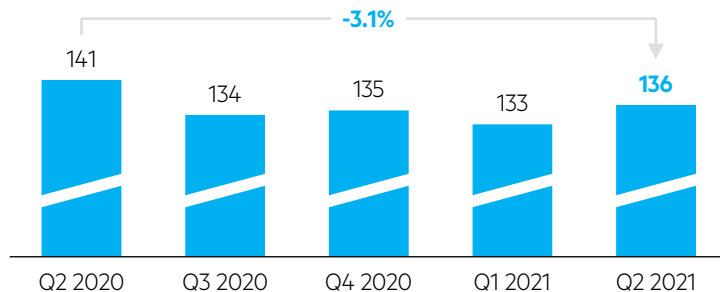
Solid up and cross-sell opportunities in KPN EEN...



2-play customers: **+13%** y-on-y

3-play customers: **+56%** y-on-y

...fueling SME service revenue stabilization by end 2021 (€ m)



+2.6% q-on-q

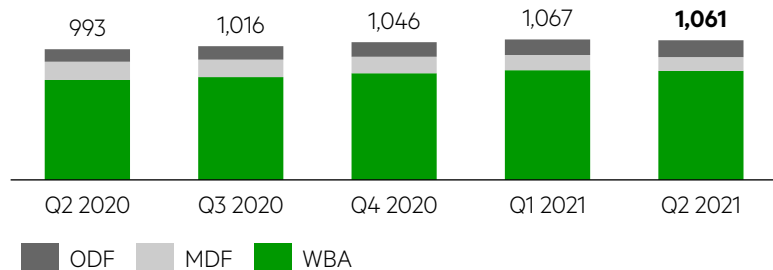
driven by IT and Broadband & Network services

Wholesale: Sustainable growth from open access model

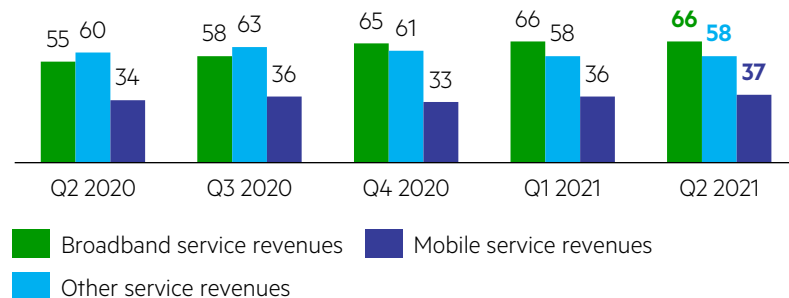
Key take-aways

- Wholesale revenues increased, mainly driven by Broadband
- Added +16k broadband lines (corrected for -22k Oxxio) and +23k postpaid customers
- Success of open wholesale policy is backed by renewed broadband and MVNO agreements, ensuring customers have abundant choice of service providers

Broadband customer base (k)



Service revenue trend (€ m)



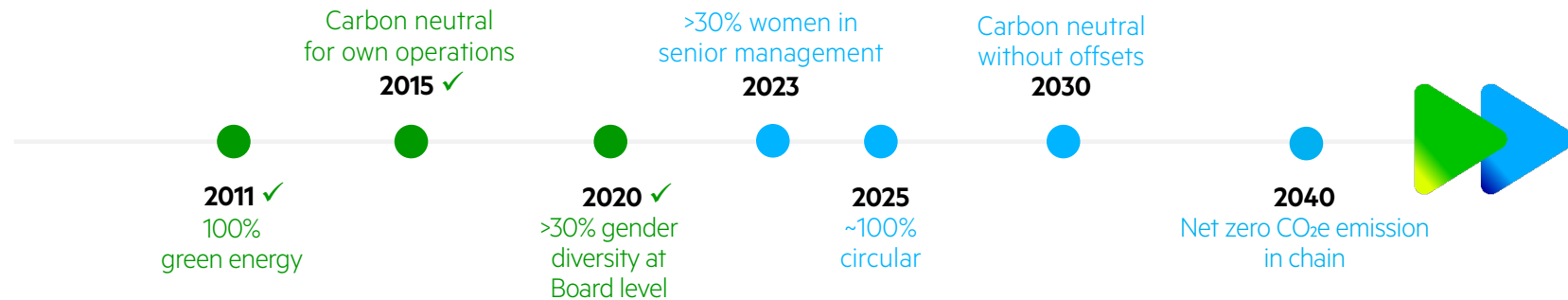
Segment revenues (€ m)

	Q2 2020	Q2 2021	Δ y-on-y
Mobile	34	37	+10%
Broadband	55	66	+20%
Other	60	58	-2.3%
Adjusted Wholesale service revenues	149	162	+8.9%
Non-service & Other	1	1	+14%
Adjusted Wholesale revenues	149	163	+9.0%

ESG milestones and ambitions: aiming for net zero emissions by 2040

Important milestones crossed...

...and an ambitious agenda



Rankings & awards



The background of the image shows a museum gallery. On the left, a large, dark-framed painting depicts a historical battle scene with many figures in 17th-century attire. In the foreground, a young girl with blonde braids, wearing a blue patterned cardigan, is looking at a tablet computer held by an adult. Other visitors are visible in the background, including a man in a grey jacket. The gallery has dark blue walls and classical columns. Above the columns, there are red plaques with names like 'VAN HARMEN', 'WILLEMSDOCHTER', and 'VAN SVYDTE'.

Deliver
Financial ambitions

Financial performance: on track to reach full-year outlook

Adjusted revenues

Q2 2021	H1 2021
€ 1,296m	€ 2,586m
+0.2%	-1.4%
Q2 2020	H1 2020
€ 1,292m	€ 2,622m

Adj. net indirect opex savings

Q2 2021	H1 2021
€ 9m	€ 30m
Ambition 2021-2023	
€ >250m	

Adjusted EBITDA AL

Q2 2021	H1 2021
€ 589m	€ 1,156m
+0.6%	-0.3%
Q2 2020	H1 2020
€ 585 m	€ 1,160m

Q2 adjusted revenues **+0.2%** y-on-y

- Driven by non-service revenues
- Service revenue growth in B2C Mobile and Wholesale partly offset by lower revenues in B2C Legacy and B2B

Net profit

Q2 2021	H1 2021
€ 800m ¹	€ 941m ¹
>100%	>100%
Q2 2020	H1 2020
€ 135m	€ 255m

ROCE

Q2 2021	H1 2021
10.3%	
+50bps	
H1 2020	
9.8%	

Leverage ratio

H1 2021
2.2x
H1 2020
2.3x

Q2 adjusted EBITDA AL **+0.6%** y-on-y

- Despite additional investments in customer support

Operational Free Cash Flow

Q2 2021	H1 2021
€ 284m	€ 531m
-2.1%	-9.6%
Q2 2020	H1 2020
€ 291m	€ 588m

Capex

Q2 2021	H1 2021
€ 304m	€ 625m
+3.3%	+9.2%
Q2 2020	H1 2020
€ 295m	€ 572m

Free Cash Flow

Q2 2021	H1 2021
€ 179m	€ 301m
+1.2%	+17%
Q2 2020	H1 2020
€ 177m	€ 257m

H1 FCF of € 301m **(+17%** y-on-y)

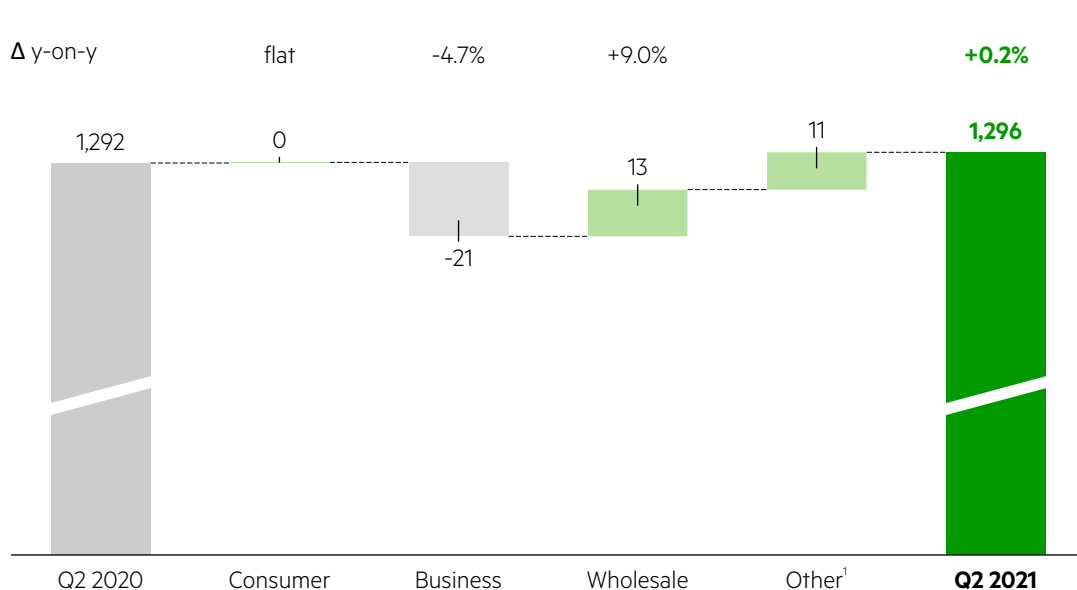
- Higher Capex and cash taxes paid, more than offset by less investments in working capital, lower cash interest paid, and cash restructuring

ROCE of **10.3%** +50bps y-on-y

- Driven by higher NOPLAT

Adjusted revenue growth Wholesale and Other partly offset by B2B

Adjusted revenues (€ m)



Consumer revenues flat as growth in mobile service revenues was offset by Legacy services

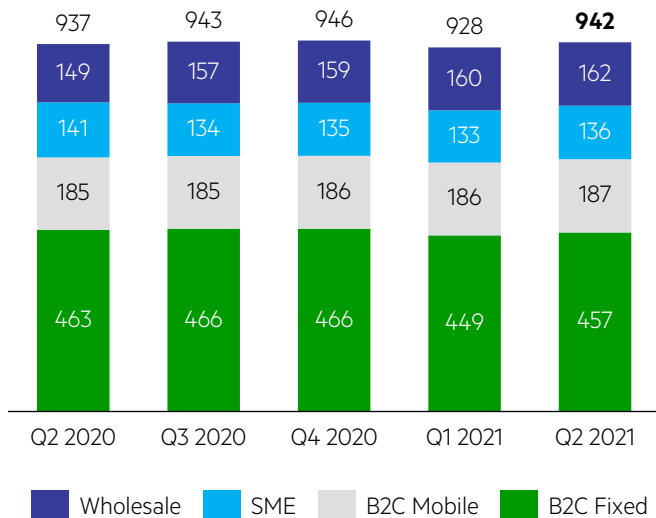
Business revenue decline mostly driven by LCE and Tailored Solutions, which were still strong in Q2 last year

Wholesale revenue growth driven by Broadband service revenues

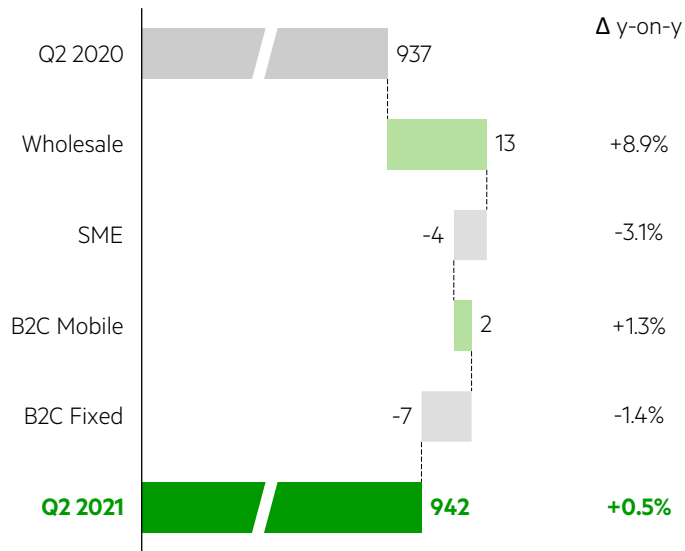
Other revenue growth partly supported by non-recurring IPR benefits

Mass-market service revenue growth delivered ahead of schedule

Development mass-market service revenues (€ m)

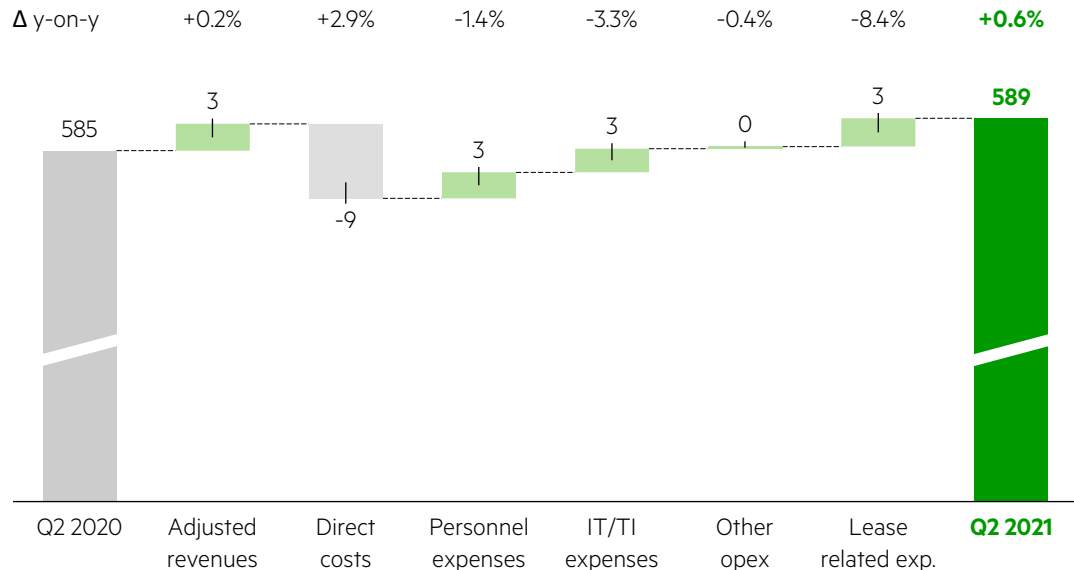


Growth driven by Wholesale and B2C Mobile (€ m)



Adjusted EBITDA AL growth driven by higher revenues

Adjusted EBITDA AL (€ m)



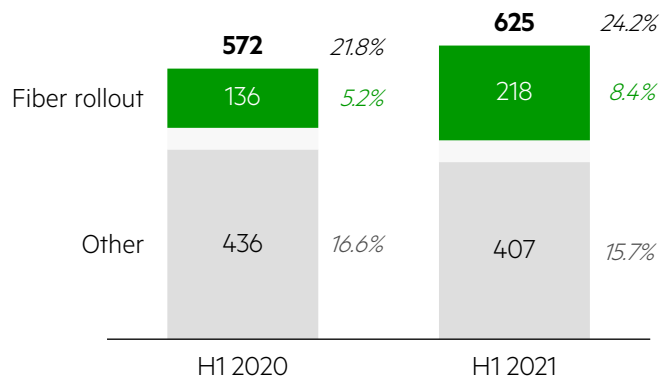
Direct costs impacted by successful promotions and handset sales in Consumer and increased traffic in Wholesale

Personnel driven by ongoing digital transformation of KPN, while having insourced >250 FTE as well

Lease related savings driven by lower level of leases

Making clear investment decisions: accelerating fiber

Increasing fiber Capex (€ m, % of sales)



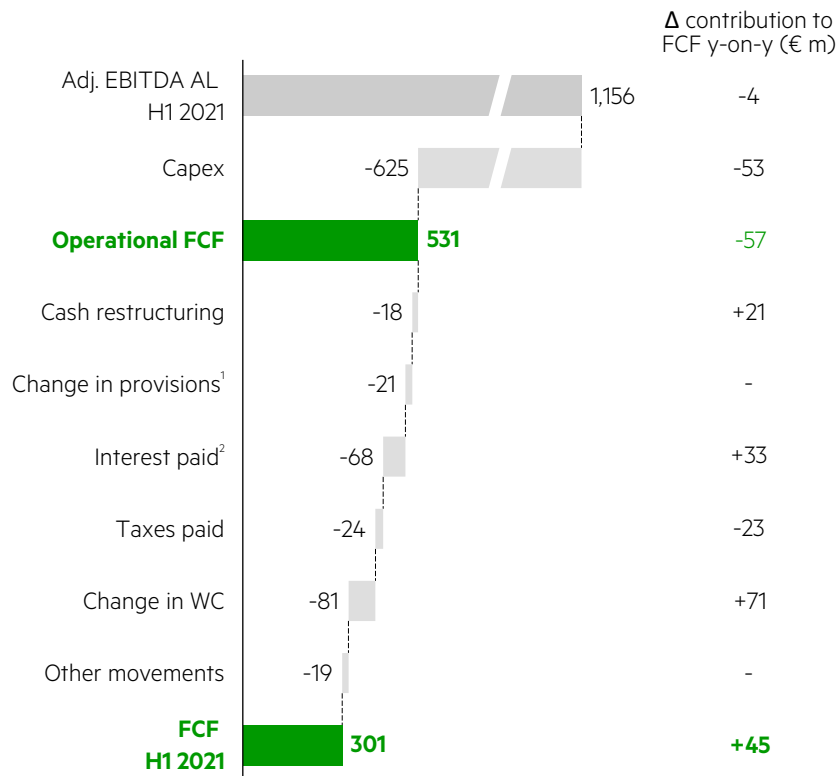
Lower **other Capex** mainly driven by rationalization and increased effectiveness in

- Copper infrastructure
- IT
- Mobile access

Step up in fiber rollout Capex in **2021**
to € 450-500m

Lower fiber Capex after **2026**

Strong underlying cash generation



- Free Cash Flow of **€ 301m**, 17% higher y-on-y
- More favorable working capital developments
 - Lower cash interest paid
 - Lower cash restructuring

Partly offset by

- Higher Capex due to accelerated fiber rollout
- Higher cash taxes paid

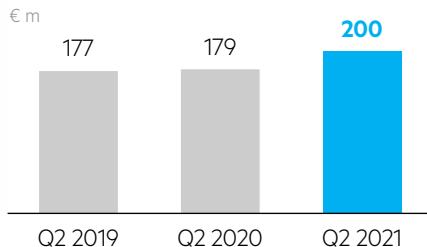
- Cash & short-term investments of **€ 795m** per 30 June 2021

(€m)	H1 2020	H1 2021	Δ y-on-y
Free Cash Flow	257	301	+17%
<i>As % of adj. revenues</i>	<i>9.8%</i>	<i>11.7%</i>	
Acquisitions & disposals	29	216	>100%
Change in short-term investments	275	15	-94%
Other investing cash flow	-36	-7	-80%
Dividends paid	-348	-365	+4.8%
Other financing cash flow	-37	-212	>100%
Total cash flow from discontinued operations	2	-3	n.m.
Change in net cash & cash equivalents	140	-54	n.m.

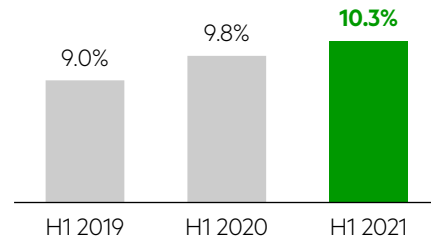
Steadily improving Return on Capital

NOPLAT

- ▶▶ Improving adjusted EBITDA AL
- ▶▶ Lower restructuring charges

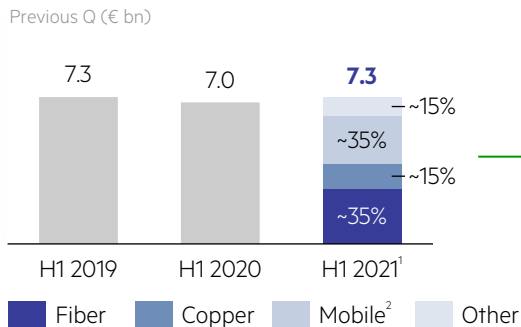


ROCE



Capital employed

- ▶▶ Increase due to spectrum licenses acquired in July 2020



Glaspoort JV implications on P&L and balance sheet

P&L

Consolidated figures (€ m)		2021	
Income statement		Q1	Q2
Revenues		1,290	2,136
EBITDA		599	1,459
Operating profit		235	1,093
Profit before income tax		182	1,035
Income taxes		(40)	(235)
Profit for the period		141	800

1

Includes € 840m incidental book gain (transaction value -/- goodwill)

2

Includes € 191m taxes related to creation of JV

3

Includes net effect of € 649m

Balance sheet

Consolidated figures (€ m)		2021	
Balance sheet		Q1	Q2
Goodwill		1,496	1,432
...			
Other non-current assets		936	1,418
Current assets		1,401	1,605
of which cash and cash equivalents		459	546
Total equity		2,731	3,228

1

Reduction of goodwill related to JV (€ 64m)

2

Includes book value of 50% ownership + Financial asset for future payments by APG (discounted)

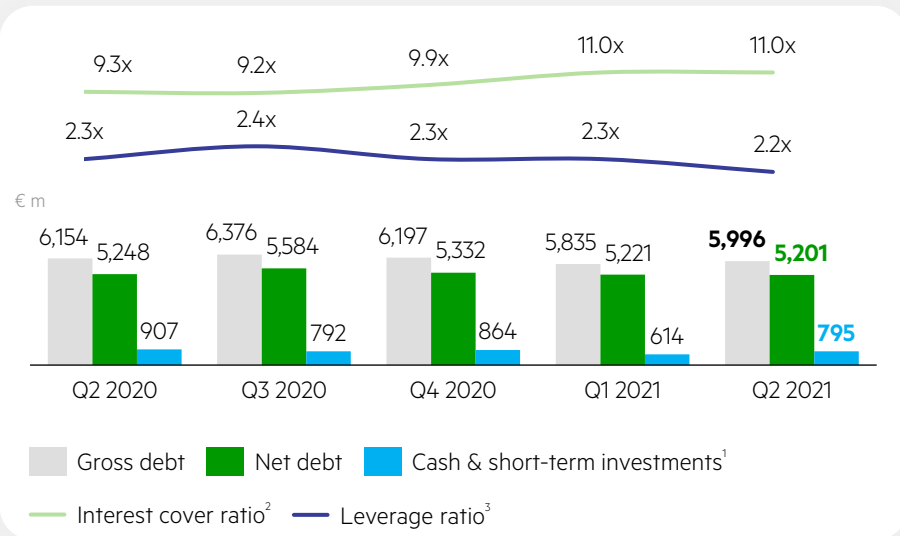
3

Includes initial payment (€ 238m)

4

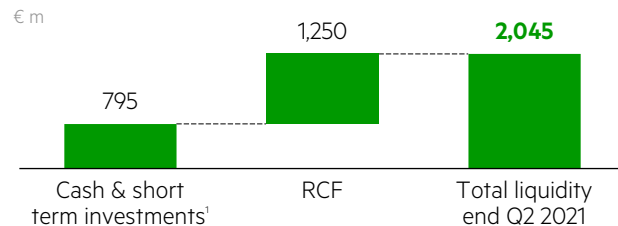
Includes net effect of € 649m in profit for the period

Robust liquidity position, committed to investment-grade credit profile

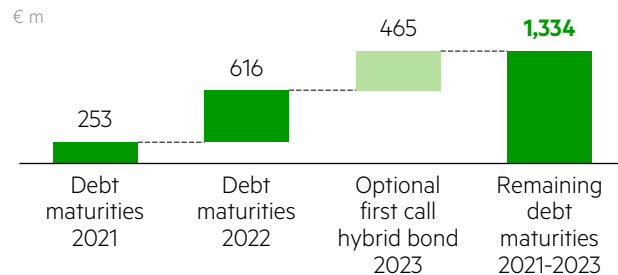


- ▶▶ Net debt € 20m lower quarter on quarter, driven by initial payment for Glaspoort JV and FCF generation, partly offset by final dividend payment
- ▶▶ Average cost of senior debt was 2.76% in Q2 2021, 19bps lower y-on-y

Robust liquidity...



...covering debt maturities until 2023



1. At 30 June 2021, KPN had € 210m outstanding under its € 1bn STEP-labelled Euro Commercial Paper program

2. LTM adjusted EBITDA AL / LTM net interest paid (excl. lease interest, incl. perpetual hybrid coupon)

3. Net debt (excl. leases) / LTM adjusted EBITDA AL

2021 outlook and 2023 ambitions reiterated

	Achievements H1 2021	Outlook FY 2021	Ambitions FY 2023
Adjusted EBITDA AL	€ 1,156m	~€ 2,345m	>€ 2,450m
Capex	€ 625m	€ 1,200m	€ 1.1-1.2bn
Free Cash Flow	€ 301m	~€ 765m	>€ 870m
Regular DPS	€ 4.5 cents interim dividend ¹	€ 13.6 cents +4.6% y-on-y	Progressive dividend +3-5% annual growth

Disciplined financial framework aimed at long-term value creation

Successful strategy execution

1) Creating long-term value for stakeholders

2) Healthy multi-year cash generation perspective

- Recurring FCF (>€ 870m in 2023)
- Incidental cash flows

Disciplined, value creating reinvestment

Capex: € 12bn

- Fiber € 450-500m
- Non-fiber ↓

Maintaining robust balance sheet

Leverage:

<2.5x

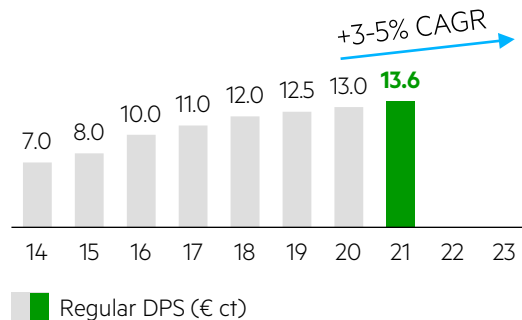
Q2 2021: 2.2x

Progressive regular dividend

+3-5% annually

Excess cash

Optimal utilization benefitting all stakeholders



Value creating growth opportunities
(e.g. M&A, spectrum)

Additional capital returns
structural part of shareholder remuneration

€ 200m share buyback
in 2021

Closing remarks: strategic execution and delivering ahead of schedule

- ▶▶ **Mass-market** service revenue growth delivered ahead of schedule
- ▶▶ **Consumer Mobile** service revenue growth, first time since Q1 2017
- ▶▶ **Consumer broadband** +23k net adds, of which 22k related to Oxxio acquisition
- ▶▶ **SME** seeing sequential growth, on track to stabilize service revenues by year end
- ▶▶ **Fiber** passed 3m households; Glaspoort JV operational
- ▶▶ **Mobile network** recognized as best network and fastest 5G in the Netherlands
- ▶▶ **Adj. EBITDA AL** growing; additional investments resulting in higher NPS
- ▶▶ **Structural additional capital returns to shareholders**, € 200m SBB in 2021



Accelerate
to grow

Appendices

- I Tax
- II Debt portfolio
- III Treatment of hybrid bonds
- IV Spectrum

I: Tax Q2 and H1 2021

Regions (€ m)	P&L		Cash flow		P&L		Cash flow	
	Q2 2020	Q2 2021	Q2 2020	Q2 2021	H1 2020	H1 2021	H1 2020	H1 2021
The Netherlands	-36	-235	-	-14	-66	-275	-	-24
Other	-	-	-	-	-	-	-	-
Total reported tax	-36	-235	-	-14	-66	-275	-	-24
Of which discontinued operations	-	-	-	-	-	-	-	-
Reported tax from continuing operations	-36	-235	-	-14	-66	-275	-	-24
Effective tax rate continuing operations	21.0%	22.7%			21.1%	22.6%		

The effective tax rate for Q2 2021 was mainly influenced by the Innovation Box facility and one-off effects

►► Excluding one-off effects¹ the effective tax rate would have been ~22% in Q2 2021

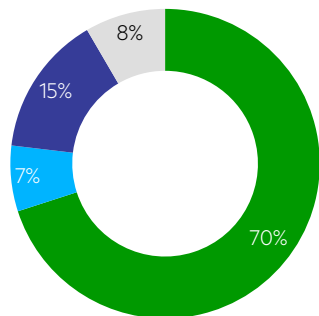
The effective tax rate H1 2021 was mainly influenced by the Innovation Box facility and one-off effects

For 2021, the effective tax rate is expected to be ~22% excluding one-off effects¹

Next to the operating cash flow stated above, an amount of € 6m was paid related to investing activities (Glaspoort) in June 2021

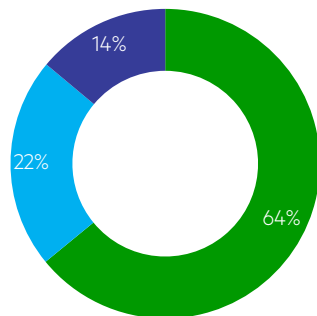
II: Debt portfolio

Nominal debt by type¹



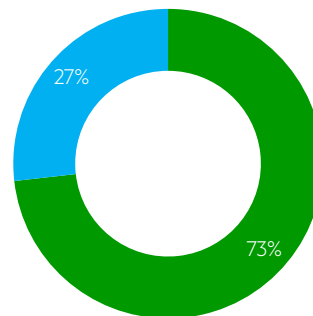
- Eurobonds
- Global bonds
- Hybrid bonds
- Loans & other

Nominal debt by currency¹



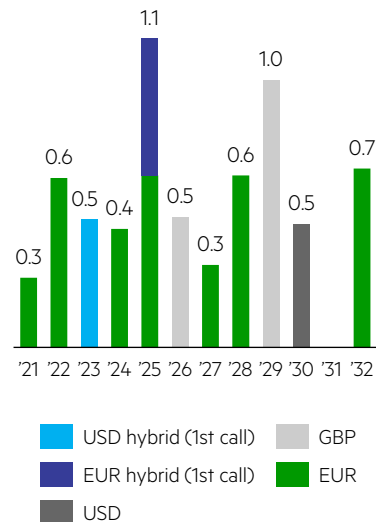
- EUR
- GBP¹
- USD¹

Fixed vs. floating interest¹



- Fixed
- Floating

Debt redemption profile² (€ bn)



III: Treatment of hybrid bonds

KPN & Credit rating agencies

Rating agencies recognize hybrid bonds as

50% equity

50% debt

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

EUR tranche is a perpetual instrument, accounted for as **equity**

- ▶▶ Coupon payments treated as **equity distribution** (dividend), hence not expensed through P&L, not included in FCF, but in financing cash flow¹

USD tranche has 60 years specified maturity, accounted for as **financial liability**

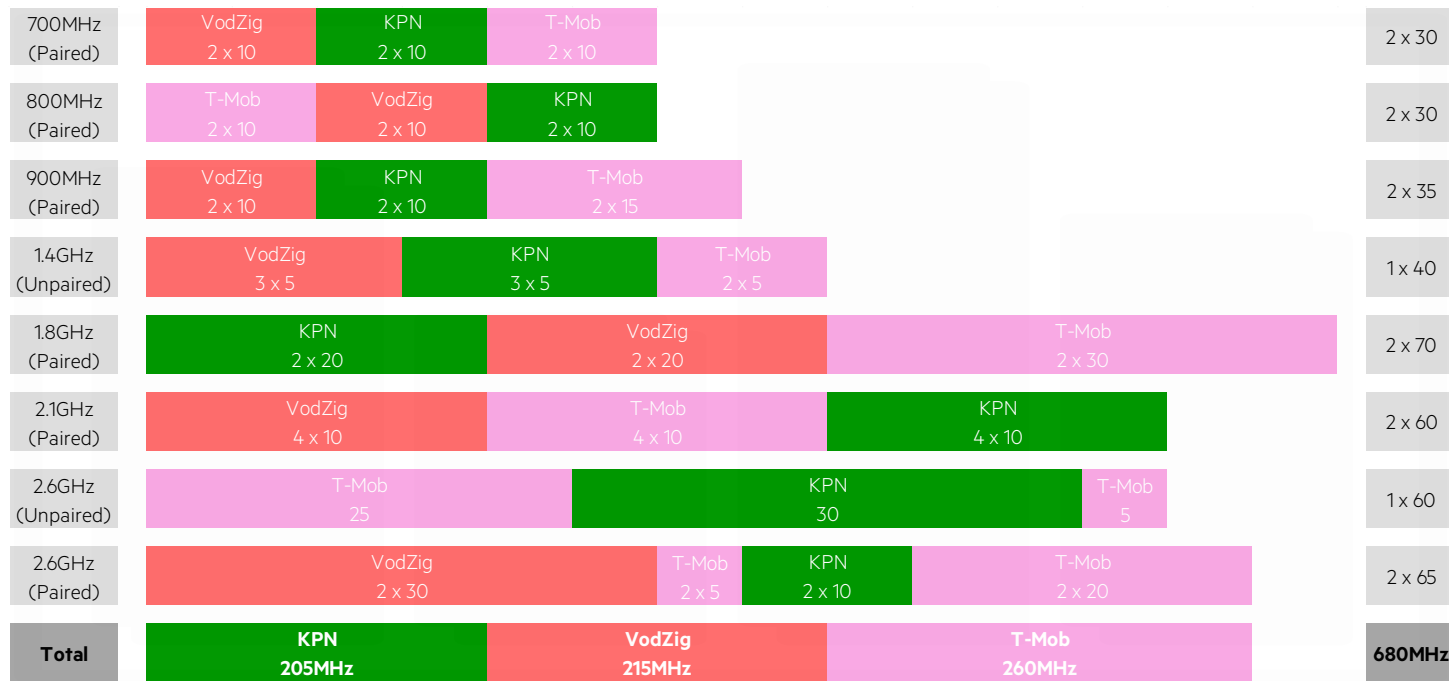
- ▶▶ Coupon payments treated as **regular bond coupon**, hence expensed through P&L, included in FCF

Tranche	Nominal	KPN net debt	Maturity	Rates ²	IFRS principal	IFRS coupon
USD 0.6bn 7.000%	€ 465m	€ 233m	60 years (1st-call Mar-2023)	6.344%	Liability	Interest paid (incl. in FCF)
EUR 0.5bn 2.000%	€ 500m	€ 250m	Perpetual (1st-call Feb 2025)	2.000%	Equity	Financing cash flows (not incl. in FCF)
Total	€ 965m	€ 483m				

1. Cash flow item 'Paid coupon perpetual hybrid bonds'

2. Rates after swaps. USD tranche has semi-annual coupon payments (March / September); EUR tranche has annual coupons (February)

IV: Spectrum in the Netherlands





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