

Q3 2021 results

26 October 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 Q3: SME service revenue growth, on track to reach FY outlook

- ▶▶ **Mass-market** service revenues continue to grow, supported by all segments
- ▶▶ **SME** service revenues growing in Q3, delivering on commitment ahead of schedule
- ▶▶ **Consumer and Business** mobile base momentum strong (+67k postpaid net adds)
- ▶▶ **Consumer mobile** service revenues showing 2.4% y-on-y growth
- ▶▶ **Adj. EBITDA AL** growing 1.4% y-on-y, supported by higher Group service revenues
- ▶▶ **Share buyback program**, 86% of € 200m for 2021 completed

Accelerate to grow supported by three key pillars

Three strategic pillars...

1. Leverage & expand superior networks

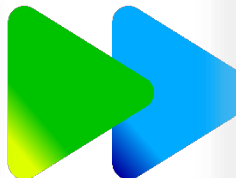
- Covering the Netherlands through fiber
- Low latency services via 5G and edge computing

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

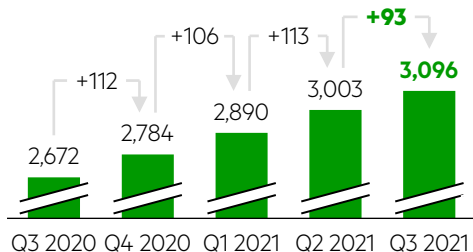
Provide attractive shareholder returns

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

Expand superior network: fiber roll out on track

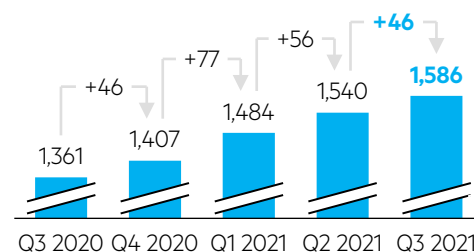
Continuously expanding fiber footprint¹

homes passed, k



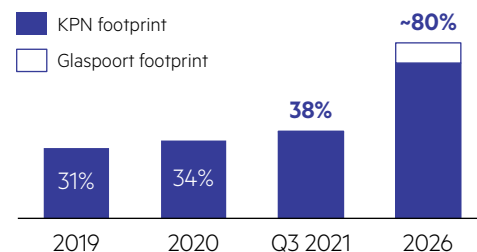
Strong FttH activation rate

homes activated own roll out, k



Jointly covering ~80% of NL by end 2026

homes passed, % of households



HP own roll out¹:

+424k last twelve months

+313k YTD 2021

Last twelve months:

+225k HA own roll out

Glaspoort JV:

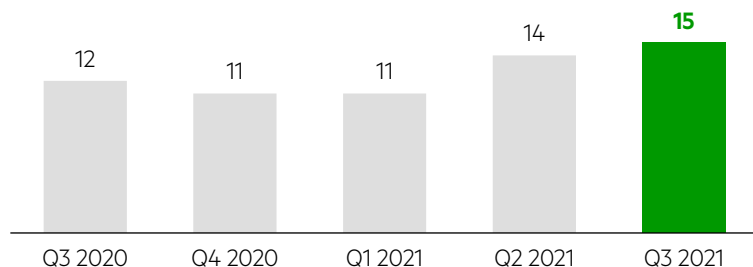
34k footprint per end Q3

B2C: Continued growth in mobile service revenues

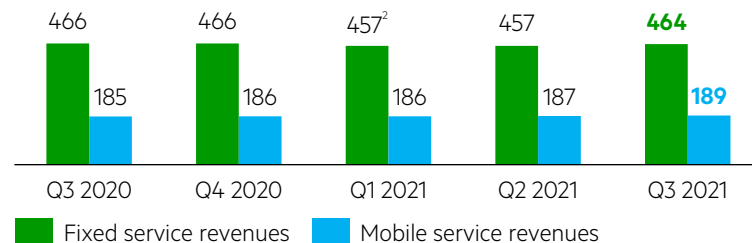
Key take-aways

- Mobile service revenues growing sequentially (+2.4% y-on-y), driven by 48k postpaid net adds LTM and growing ARPU
- Growth in Fixed-Mobile revenues (+3.5% y-on-y) driven by higher base and ARPA
- Fiber service revenue growth offsetting copper decline
- Lower Fixed service revenues y-on-y, fully driven by Legacy
- Strong recovery NPS (+15); seeing success of portfolio, quality of products and customer journey improvements

Quality steering leading to higher Consumer NPS¹



Service revenue trend (€ m)

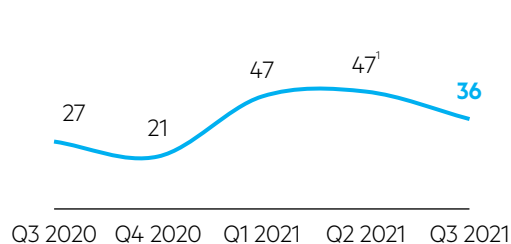


Segment revenues (€ m)

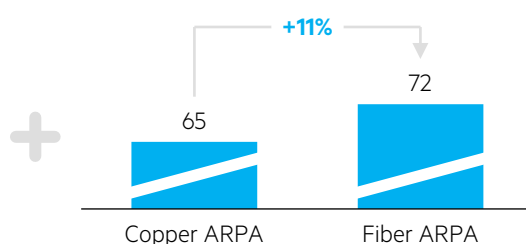
	Q3 2020	Q3 2021	Δ y-on-y
Fixed-Mobile	356	368	+3.5%
Fixed-only	202	197	-2.6%
Mobile-only	60	61	+0.4%
Legacy/other	33	27	-18%
Adjusted Consumer service revenues	651	653	+0.2%
Non-service & Other	62	66	+7.0%
Adjusted Consumer revenues	713	719	+0.8%

B2C: Strong performance fiber and mobile portfolio

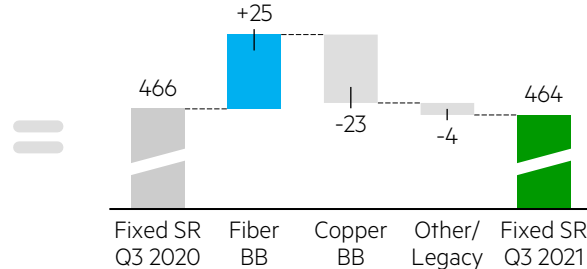
Continued growth fiber household net adds (k)



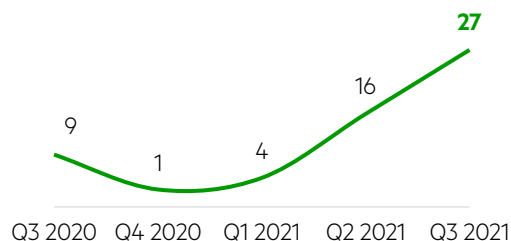
Customers willing to pay for quality (Q3 2021, €)



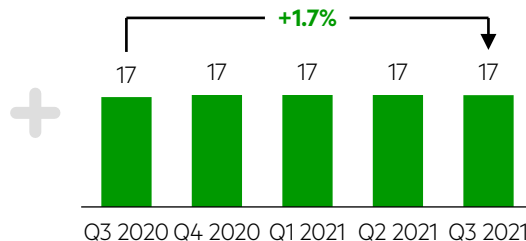
Fiber broadband SR offsetting copper decline (€ m)



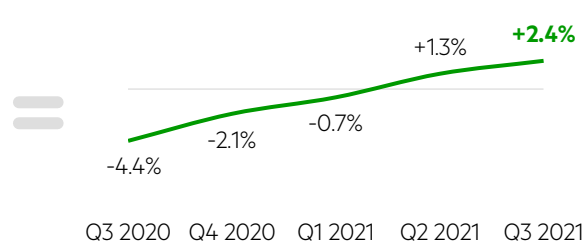
Acceleration in postpaid net adds (k)



Growing postpaid ARPU (€)



Sequential mobile service revenue growth (y-on-y)

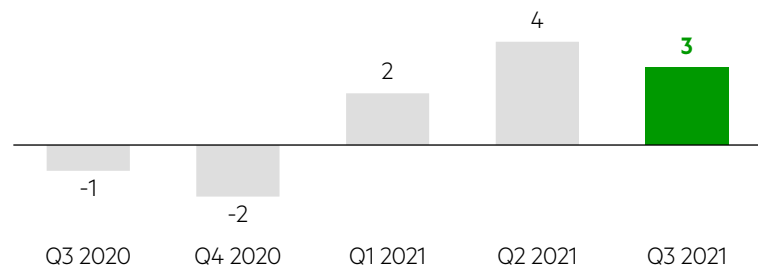


B2B: Revenue trend improving due to growth in SME

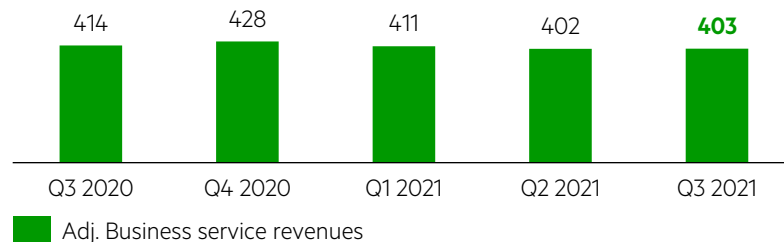
Key take-aways

- Inflection SME service revenues supported by continued good broadband and mobile base developments
- SME: growth Broadband & Networking and IT Services, stabilizing Mobile service revenues, partly offset by lower Fixed Voice
- LCE: lower revenues from Access & Connectivity and IT Services, continued good base growth and migrations to target portfolio
- Business NPS improving y-on-y to +3, mainly driven by customer centricity and reliability of products & services

Business NPS improved y-on-y¹



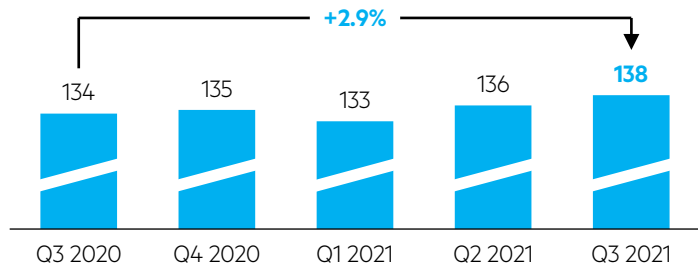
Service revenue trend (€ m)



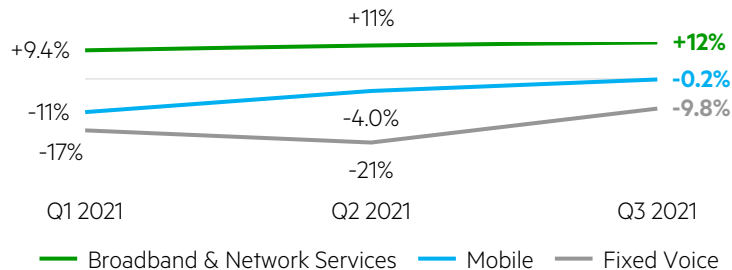
Segment revenues (€ m)	Q3 2020	Q3 2021	Δ y-on-y
SME	134	138	+2.9%
LCE	170	160	-5.7%
Tailored Solutions	110	104	-5.2%
Adjusted Business service revenues	414	403	-2.7%
Non-service & Other	24	26	+5.4%
Adjusted Business revenues	438	428	-2.3%

B2B: Attractive KPN EEN proposition driving turnaround in SME

Financial turnaround in SME service revenues, due to...

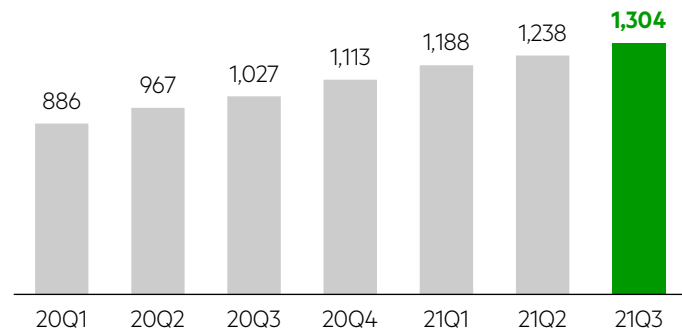


...growing Broadband, stabilizing Mobile & less decline Fixed Voice



Solid base trends in KPN EEN (k)

providing platform for up and cross-sell opportunities



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

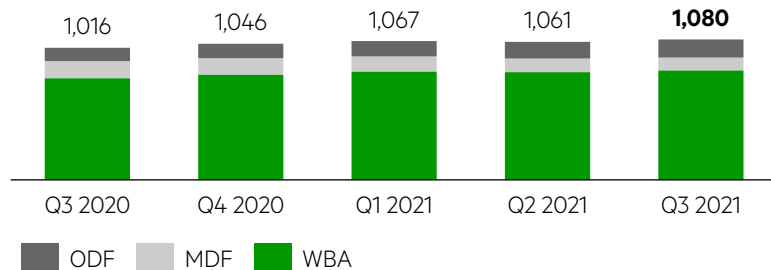
3-play customers: **+46%** y-on-y

Wholesale: Sustainable growth from open access model

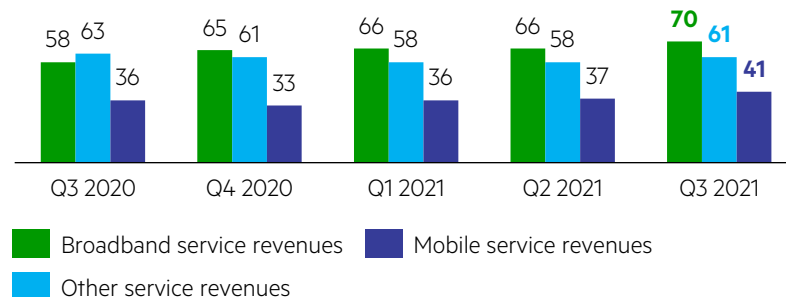
Key take-aways

- Wholesale revenues increased, driven by Broadband and Mobile
- Added 18k broadband lines and 33k postpaid customers
- Successful open wholesale policy, ensuring customers have abundant choice of service providers
- Signed several renewed long-term agreements with broadband providers & MVNOs in the past months

Broadband customer base (k)



Service revenue trend (€ m)



Segment revenues (€ m)

	Q3 2020	Q3 2021	Δ y-on-y
Mobile	36	41	+15%
Broadband	58	70	+20%
Other	63	61	-3.4%
Adjusted Wholesale service revenues	157	172	+9.4%
Non-service & Other	4	-	-90%
Adjusted Wholesale revenues	161	173	+7.2%



Deliver
Financial ambitions

Financial performance: on track to reach full-year outlook

Adjusted revenues

Q3 2021	YTD 2021
€ 1,312m	€ 3,898m
+1.0%	-0.6%
Q3 2020 € 1,299m	YTD 2020 € 3,920m

Adj. net indirect opex savings

Q3 2021	YTD 2021
€ -4m	€ 26m
Ambition 2021-2023 >€ 250m	

Adjusted EBITDA AL

Q3 2021	YTD 2021
€ 607m	€ 1,763m
+1.4%	+0.3%
Q3 2020 € 598m	YTD 2020 € 1,759m

Q3 adjusted revenues **+1.0%** y-on-y

- Service revenue growth in all mass-market segments
- Inflection SME service revenues, continued growth Consumer mobile and Wholesale

Net profit

Q3 2021	YTD 2021
€ 185m	€ 1,126m
+40%	>100%
Q3 2020 € 132m	YTD 2020 € 386m

Liquidity position

Q3 2021
€ 1.7bn
Cash & short-term investments: € 724m Committed undrawn facilities: € 1.0bn RCF

Leverage ratio

Q3 2021
2.3x
Q3 2020 2.4x

Q3 adjusted EBITDA AL **+1.4%** y-on-y

- Supported by higher Group service revenues (+0.7% y-on-y)

Operational Free Cash Flow

Q3 2021	YTD 2021
€ 348m	€ 879m
+12%	-2.3%
Q3 2020 € 312m	YTD 2020 € 900m

Capex

Q3 2021	YTD 2021
€ 259m	€ 884m
-9.7%	+2.9%
Q3 2020 € 286m	YTD 2020 € 859m

Free Cash Flow

Q3 2021	YTD 2021
€ 232m	€ 533m
-3.8%	+7.1%
Q3 2020 € 241m	YTD 2020 € 498m

YTD FCF of € 533m (**+7.1%** y-on-y)

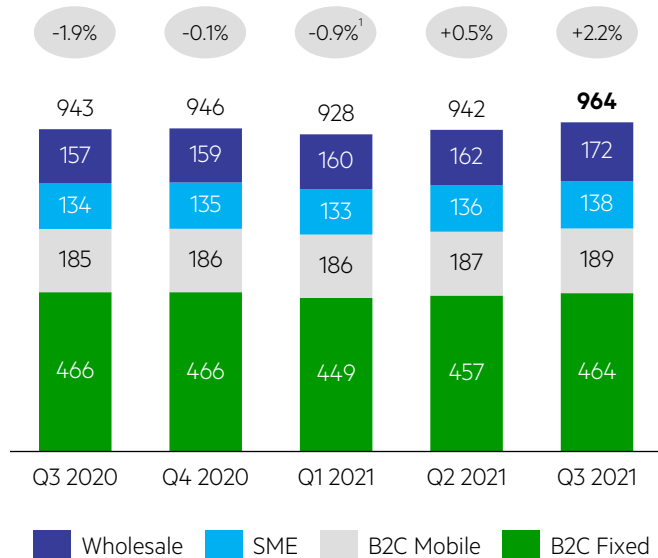
- Higher cash taxes paid and higher Capex
- More than offset by less investments in working capital, lower cash interest paid and lower cash restructuring spend

Strong liquidity position of € 1.7bn

Further mass-market service revenue growth, supported by all segments

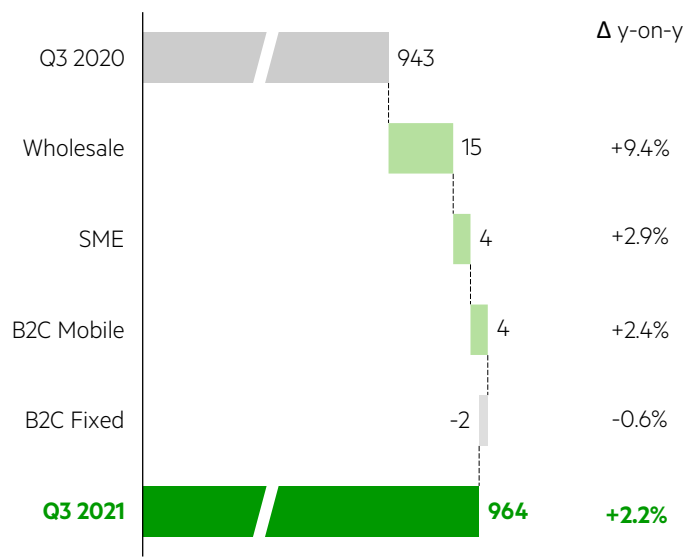
Sequential mass-market service revenue growth since Q1

(€ m)

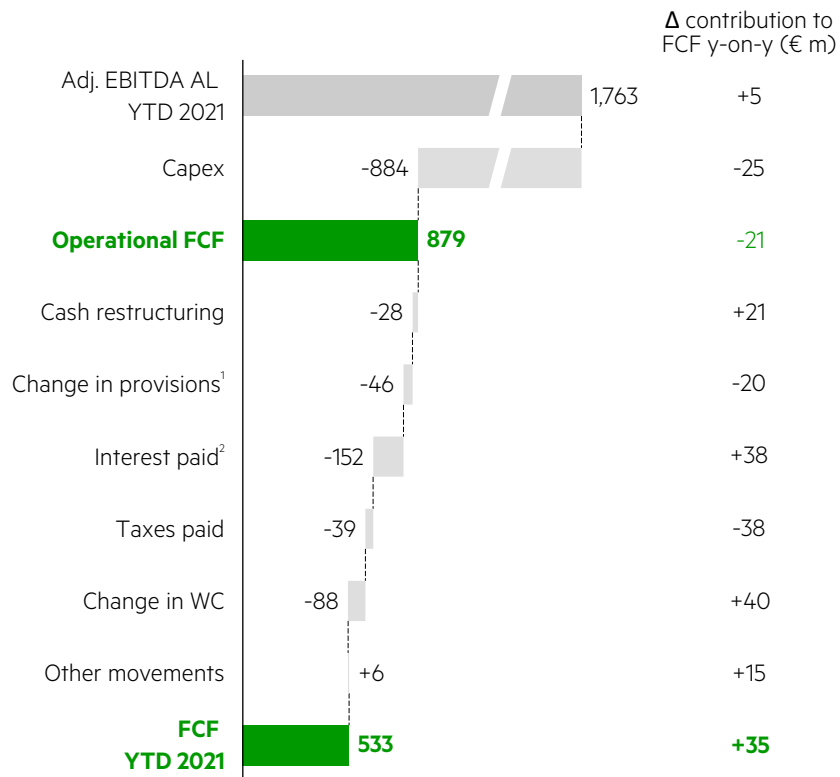


Growth driven by Wholesale, SME and Consumer mobile

(€ m)



Strong underlying cash generation



►► Free Cash Flow of **€ 533m** YTD 2021, 71% higher y-on-y

- More favorable working capital developments
- Lower cash interest paid
- Lower cash restructuring

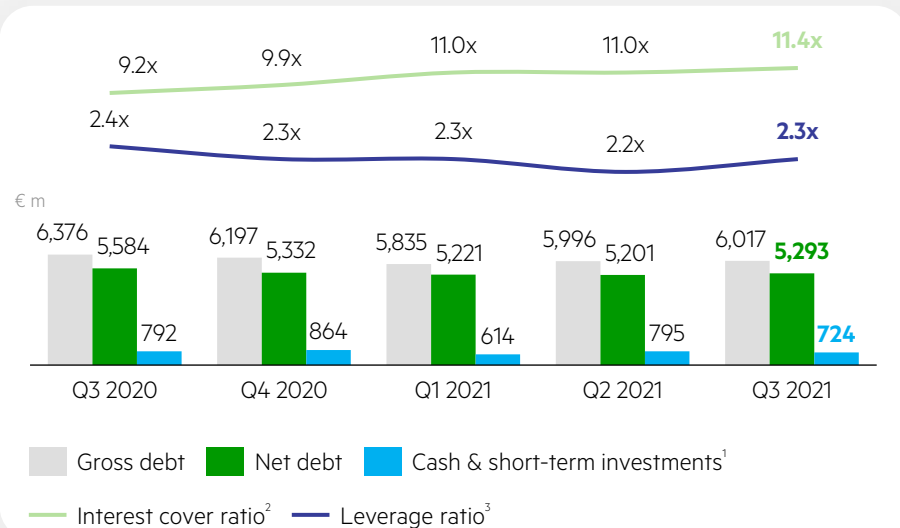
Partly offset by

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

►► Cash & short-term investments of **€ 724m** per 30 September 2021

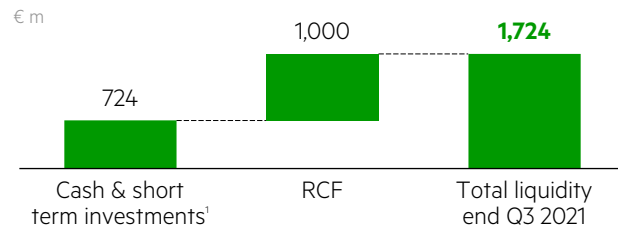
(€m)	YTD 2020	YTD 2021	Δ y-on-y
Free Cash Flow	498	533	+7.1%
<i>As % of adj. revenues</i>	12.7%	13.7%	
Acquisitions & disposals	28	177	>100%
Change in short-term investments	275	110	-60%
Other investing cash flow	-419	-8	-98%
Shareholder distributions	-529	-644	+22%
Other financing cash flow	173	-194	n.m.
Total cash flow from discontinued operations	-1	-4	>100%
Change in net cash & cash equivalents	25	-30	n.m.

Robust liquidity position, committed to investment-grade credit profile

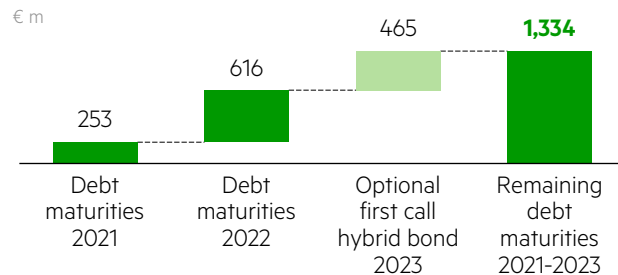


- Net debt € 92m higher q-on-q driven by interim dividend payment and share buyback, partly offset by FCF generation in Q3 2021
- Average cost of senior debt was 2.81% in Q3 2021, in line with Q3 2020

Robust liquidity...



...covering debt maturities until 2023



2021 outlook and 2023 ambitions reiterated

	Achievements YTD 2021	Outlook FY 2021	Ambitions FY 2023
Adjusted EBITDA AL	€ 1,763m	~€ 2,345m	>€ 2,450m
Capex	€ 884m	€ 1,200m	€ 1.1-1.2bn
Free Cash Flow	€ 533m	~€ 765m	>€ 870m
Regular DPS	€ 4.5 cents interim dividend	€ 13.6 cents +4.6% y-on-y	Progressive dividend +3-5% annual growth

Highlights Q3: SME service revenue growth, on track to reach FY outlook

- ▶▶ **Mass-market** service revenues continue to grow, supported by all segments
- ▶▶ **SME** service revenues growing in Q3, delivering on commitment ahead of schedule
- ▶▶ **Consumer and Business** mobile base momentum strong (+67k postpaid net adds)
- ▶▶ **Consumer mobile** service revenues showing 2.4% y-on-y growth
- ▶▶ **Adj. EBITDA AL** growing 1.4% y-on-y, supported by higher Group service revenues
- ▶▶ **Share buyback program**, 86% of € 200m for 2021 completed



Accelerate
to grow

Appendices

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

I: Tax Q3 and YTD 2021

Regions (€ m)	P&L		Cash flow		P&L		Cash flow	
	Q3 2020	Q3 2021	Q3 2020	Q3 2021	YTD 2020	YTD 2021	YTD 2020	YTD 2021
The Netherlands	-47	-39	-	-15	-114	-315	-	-39
Other	1	-	-	-	1	-	-	-
Total reported tax	-46	-39	-	-15	-113	-315	-	-39
Of which discontinued operations	-	-	-	-	-	-	-	-
Reported tax from continuing operations	-46	-39	-	-15	-113	-315	-	-39
Effective tax rate continuing operations	26.0%	17.5%			22.9%	21.8%		

The effective tax rate for Q3 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 Q3 2021

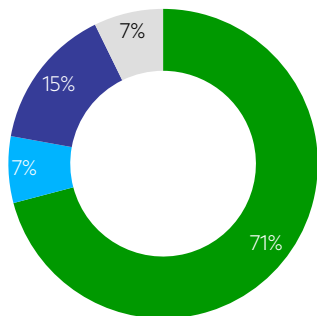
The effective tax rate YTD 2021 was mainly influenced by the Innovation Box facility and one-off effects

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

Next to the operating cash flow stated above, € 24m taxes were paid related to investing activities (Glaspoort) since June 2021

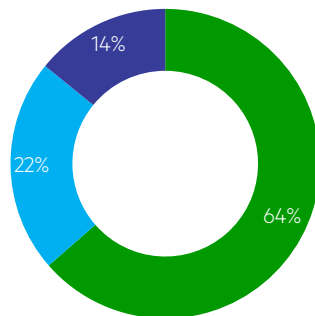
II: Debt portfolio

Nominal debt by type¹



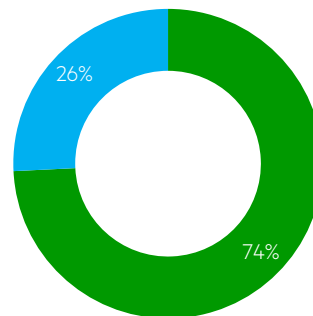
- Eurobonds
- Global bonds
- Hybrid bonds
- Loans & other

Nominal debt by currency¹



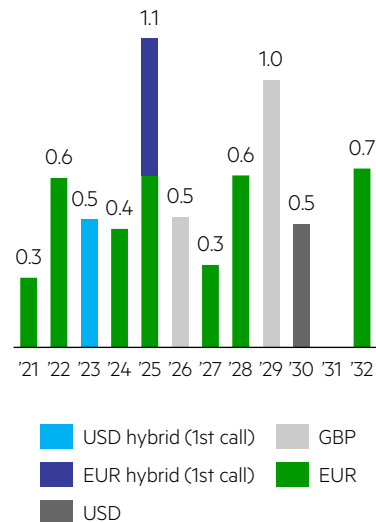
- EUR
- GBP
- USD

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**

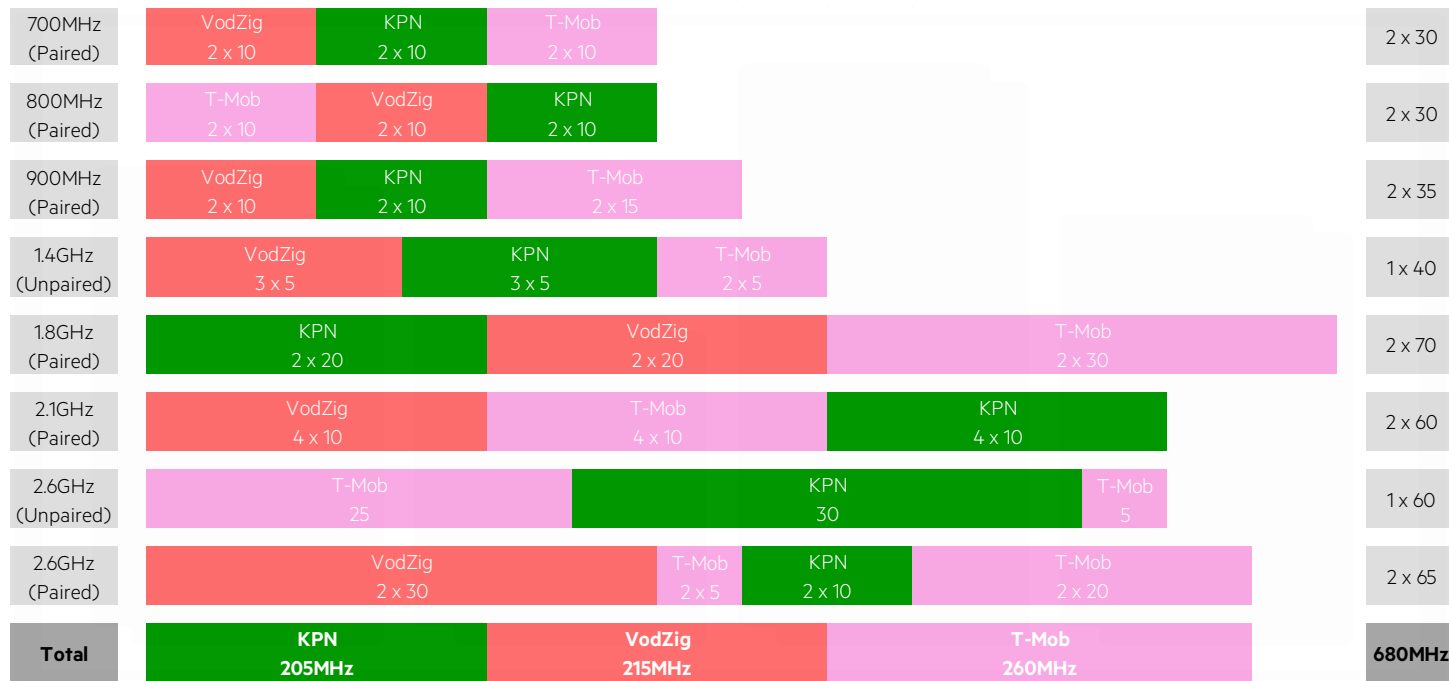
- ▶ Coupon payments treated as **regular bond coupon**, hence expensed through P&L, included in FCF

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





KPN Investor Relations

 ir.kpn.com

