

KPN announces Connect, Activate & Grow strategy

- Delivered sustainable Group service revenue growth, achieved key ambition of Accelerate to Grow strategy
- Staying frontrunner in ESG: fully embedded in Connect, Activate & Grow strategy
- Targeting continued service revenue growth, supported by leading converged portfolios in B2C and B2B
- Modernizing operating model to deliver quality improvements and indirect cost savings
- Completing fiber roll out and delivering ~80% fiber footprint end-2026, Capex remains at ~€ 1.2bn annually until 2026
- Capex coming down below € 1.0bn as of 2027 driven by finalization of fiber project
- Leading to 3-3-7 financial ambitions: ~3% service revenues CAGR, ~3% EBITDA CAGR and ~7% FCF CAGR until 2027
- Continuing policy of returning full Free Cash Flow to shareholders, ~€ 3.8bn cumulative distributions by 2027

Message from the CEO, Joost Farwerck

“We have delivered on the main ambitions of our Accelerate to Grow strategy launched end-2020. Our top line has returned to sustainable growth across all segments and the fiber roll out has progressed according to plan, further accelerated by our JV Glaspoort. I am proud of our people and grateful for their commitment to realize these ambitions. In the coming years, we will finish what we started and realize a fiber footprint of about 80% of the Netherlands by end-2026.

With our Connect, Activate & Grow strategy we go all out to connect everyone in the Netherlands to a sustainable future and create long-term value for all stakeholders. The initiatives to be a Responsible, Inclusive and Sustainable telco are fully embedded in our strategy and operating model. We have broadened the scope of our ESG approach. Our strategy leads to a telco that is delivering revenue growth, EBITDA growth, Free Cash Flow growth and an expanding return on capital.

We are aiming to maintain service revenue growth at a healthy level in the coming years. This will be supported by enhancing our leading positions in Consumer and Business, and continued growth in Wholesale. In Consumer, we will emphasize our focus on base management and customer loyalty through our Household 3.0 approach. In Business, we will leverage our platforms, portfolio and distribution channels to drive growth and increase our share of wallet.

We will take significant steps to further modernize our operating model, leveraging the power of automation and AI, realizing exceptional service experience and driving substantial savings in indirect costs. We expect adjusted EBITDA after leases to accelerate from our current run rate and grow in line with service revenue growth. In the coming years, we will invest more than € 4.5bn in our networks and the digitalization of the Netherlands whilst delivering a growing return on capital employed. Capex will remain stable until 2026, after which we will see a significant step down, resulting in a material inflection of our Free Cash Flow.

Our focus on creating value enables us to continue delivering attractive shareholder returns and we remain committed to our policy of returning all our Free Cash Flow to our shareholders. Effectively this means that we will distribute € 3.8bn to our shareholders over the next four years, with a higher portion of that coming from dividends.”

Outlook 2024 and ambitions 2027

KPN reiterates the FY 2023 outlook presented at its Q3 2023 results, and presents its outlook for FY 2024 and ambitions for FY 2027:

	FY 2023 outlook	FY 2024 outlook	FY 2027 ambitions ¹
Service revenues		~3%	~3% CAGR
Adjusted EBITDA AL	~€ 2,410m	~€ 2,480m	~3% CAGR
Capex	€ 1.2bn	~€ 1.2bn	<€ 1.0bn
Free Cash Flow	~€ 870m	~€ 870m	~7% CAGR
Regular DPS	€ 15ct	€ 17ct	~7% CAGR vs. 2024
Share buyback	€ 300m	€ 200m	up to € 1.0bn 2024-2027 period

Documents and related information: The presentation starts at 13.30 CET. A link to the webcast and all related documents will be published on KPN's website ir.kpn.com.

¹ CAGR compared to FY 2023, unless stated otherwise

Strategic priorities

KPN aims to connect everyone in the Netherlands to a sustainable future and to create long-term value for all stakeholders with its Connect, Activate & Grow strategy by creating loyal customers, engaging society & people, and delivering attractive, sustainable shareholder returns. The three key strategic missions are:

1. Connect with our customers to deliver on their needs
 - o Earning our customers' loyalty through converged services & solutions that are truly relevant to them
2. Activate our best network, platforms, partners & assets
 - o Delivering the best digital experience to our customers over our world-leading, always-on networks
3. Grow sustainably by modernizing and simplifying our business
 - o Transforming our operating model with AI-powered automation and developing a future-ready workforce

Fiber

KPN will continue its large scale fiber roll out program. The combined fiber footprint of KPN and Glaspoort was 55% of the Netherlands at the end of Q3 2023, on track to cover ~80% of Dutch households by the end of 2026. At this moment, KPN has a much larger homes connected percentage compared to its main competitors and intends to maintain this competitive advantage, through improvements to the end-to-end fiber value chain. This is important as KPN continues to see an attractive fiber business case, with market share gains in fiber areas and higher ARPU levels compared to copper.

Customers, networks and operating model

In 2022, KPN returned to service revenue growth, and it intends to deliver continued sustainable service revenue growth across all segments going forward. In Consumer, KPN aims to become the market leader in terms of service revenue market share. This will be supported by the extensive fiber roll out and KPN's increased focus on customer loyalty and base management. Through its Household 3.0 approach, customers will be able to access an unrivalled range of services, such as OTT packages, security and gaming, on top of the highest quality fiber and 5G connectivity. In Business, KPN is the clear market leader and will further develop its digital ecosystem. The converged portfolios in SME and LCE will be levered to increase share of wallet and drive further growth. Tailored Solutions is positioned as a strategic IT and integration partner, delivering value adding ICT solutions on top of the connectivity portfolio to the largest customers. Wholesale will remain the preferred connectivity partner for broadband and mobile services, and will deliver innovative services through new building blocks. KPN will continue to build the best secure networks and digital infrastructure of the Netherlands. In fixed, KPN will complete its large scale fiber roll out and continue the decommissioning of the copper network in fiber areas. In mobile, KPN has been recognized as the best network in the world and it intends to keep a leading position. Furthermore, KPN will further digitize its customer facing processes to offer the best digital customer experience. There is scope to modernize the operating model of KPN. In the coming years, simplification and automation should drive significant quality improvements, efficiencies and indirect opex savings for the company.

Outlook

In the last years, KPN has delivered accelerating service revenue growth at attractive margins. For the 2024-2027 period, KPN targets a CAGR of ~3% for both service revenues and adjusted EBITDA after leases. Capex will remain at ~€ 1.2bn until 2026 and drop below € 1.0bn in 2027 as the level of fiber Capex will come down materially in that year. The growing EBITDA will result in an Operational Free Cash Flow growing annually by ~6% on average. However, higher cash taxes and interest payments will make Free Cash Flow growth in the short-term more moderate. KPN expects a Free Cash Flow CAGR of ~7% over the 2024-2027 period, with growth back-end loaded due to the Capex development. KPN's ROCE has improved materially reaching 13.7% at H1 2023 and is expected to grow to 15% by 2027.

Capital allocation

KPN's capital allocation policy aims to continue long-term value creation for all stakeholders. The company remains committed to its solid financial position and investment grade credit profile, targeting a leverage ratio <2.5x in the medium-term. This provides room for value creating growth opportunities, such as spectrum acquisitions and small M&A. KPN aims to maintain its attractive shareholder remuneration policy by returning all Free Cash Flow to its shareholders. For 2024, KPN will grow the share of dividends within the total shareholder distribution as it intends to pay a regular dividend of € 17 cents per share (+13% y-on-y) and execute a € 200m share buyback. For the years 2025-2027, dividend per share is expected to grow at a CAGR of ~7% and the remainder of Free Cash Flow is expected to be returned through share buybacks. Over the 2024-2027 period, KPN targets cumulative shareholder distributions of ~€ 3.8bn (~30% of current market capitalization), of which up to € 1.0bn in share buybacks.

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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 2022. 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 2022 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 AL 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, excluding M&A. 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 2022. 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 2022, unless stated otherwise.