

## First Quarter 2018 Results

### Highlights

- Convergence delivers ongoing success in Consumer
  - +28k fixed-mobile households, now representing 43% of broadband base (Q1 2017: 39%)
  - +48k fixed-mobile postpaid customers, reaching 53% of postpaid base (Q1 2017: 45%)
- Competitive pressure on single-play services in Consumer; focus on retention of high value customers
  - KPN brand postpaid net adds flat while -20k no frills, -8k broadband net adds, +10k IPTV net adds
  - ARPU per household increased by 3.5% y-on-y to EUR 43, postpaid ARPU declined 7.3% y-on-y to EUR 18 (-1.2% y-on-y excluding the effect of regulation)
- Good progress with Business transformation
  - Continued increase of multi play seats in SME (+38k) providing solid platform for up and cross-sell opportunities
  - Growth in Internet of Things and IT Services, driven by security and cloud services
- Second wave Simplification program delivered ~EUR 150m run-rate savings end Q1 2018
- Full focus on The Netherlands; iBasis classified as discontinued operations

### Key figures\* (from continuing operations)

| Group financials (unaudited)<br>(in EUR m, unless stated otherwise) | Q1 2018      | Q1 2017      | Δ y-on-y        |
|---|--------------|--------------|-----------------|
| Revenues  | 1,402        | 1,451        | -3.4%           |
| <b>Adjusted revenues**</b>  | <b>1,402</b> | <b>1,451</b> | <b>-3.4%</b>    |
| EBITDA  | 555          | 529          | 4.9%            |
| <b>Adjusted EBITDA**</b>  | <b>569</b>   | <b>557</b>   | <b>2.3%</b>     |
| <i>Adjusted EBITDA margin The Netherlands</i>                       | <b>40.6%</b> | <b>38.3%</b> |                 |
| Operating profit (EBIT)   | 208          | 177          | 17%             |
| Profit for the period (net profit)                                  | 98           | 73           | 35%             |
| <b>Capex</b>  | <b>236</b>   | <b>264</b>   | <b>-11%</b>     |
| <b>Free cash flow</b>   | <b>122</b>   | <b>29</b>    | <b>&gt;100%</b> |

\* All non-IFRS terms are explained in the safe harbor section

\*\* Adjusted revenues and adjusted EBITDA reconciliations to be found on page 8

### Financial performance

- Adjusted revenues were 3.4% lower y-on-y in Q1 2018, or 1.3% lower excluding the effect of regulation. Growth driven by bundled services in Consumer, and IT and Professional Services in Business, was offset by less international traffic in Wholesale, price pressure in mobile and less handset revenues
- Adjusted EBITDA increased by 2.3% y-on-y in Q1 2018, or +3.9% excluding the effect of regulation. This was mainly driven by successful Simplification and digitalization of services
- Capex in Q1 2018 declined by 11% y-on-y to EUR 236m, mainly due to intrayear phasing
- Free cash flow of EUR 122m in Q1 2018 was EUR 94m higher compared to the same period last year, mainly due to higher EBITDA, lower interest paid and lower Capex

**Message from the CEO, Maximo Ibarra**

*“Over the past few years, KPN has successfully refocused its strategy on The Netherlands and concentrated on putting customers first. Both are moves which I, as the incoming CEO, fully support.*

*The Netherlands benefits from having high-quality networks and at the same time the Dutch market is one of the most competitive markets in Europe. In this environment, KPN has shown success with bundling of services and has already made good progress with its Simplification and digitalization initiatives, resulting in substantial quality improvements and savings. That said, we believe there is significant scope for further improvement through increasing the digitalization of our business, driving cost savings and potential new revenue streams.”*

**Outlook 2018 (continuing operations)**

- Adjusted EBITDA in line with 2017
- Capex ~EUR 1.1bn
- Free cash flow (excl. TEFD dividend) growing
- Additional cash flow via dividend from stake in Telefónica Deutschland

**Shareholder remuneration and financial profile**

KPN intends to pay a regular dividend per share of EUR 12 cents in respect of 2018 and grow its regular dividend in line with its free cash flow growth profile thereafter.

At the end of Q1 2018, KPN owned a stake of 7.7% in Telefónica Deutschland which is treated as a financial investment. KPN benefits from dividend payments by Telefónica Deutschland and the additional financial flexibility the stake provides. KPN intends to distribute the expected Telefónica Deutschland dividend over 2017 to its shareholders in the form of a special interim dividend.

KPN remains committed to an investment grade credit profile and expects to utilize its excess cash for operational and financial flexibility, (small) in-country M&A and/or shareholder remuneration. KPN has a credit rating of Baa3 with a stable outlook from Moody's, BBB with a stable outlook from Fitch Ratings and BBB- with a positive outlook from Standard & Poor's.

**All related documents can be found on KPN's website:**

[ir.kpn.com](http://ir.kpn.com)

**For further information:****Corporate Communications**

Media Relations

Tel: +31 70 4466300

E-mail: [press@kpn.com](mailto:press@kpn.com)

**Investor Relations**

Tel: +31 70 4460986

E-mail: [ir@kpn.com](mailto:ir@kpn.com)

**Formal disclosures:****Royal KPN N.V.**

Head of IR: Wouter Stammeijer

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 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 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.*

*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. The term service revenues refers to wireless service revenues.*

*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](http://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.*

## Financial and operating review The Netherlands

| <i>(in EUR m)</i>          | Q1 2018      | Q1 2017      | Δ y-on-y     |
|----------------------------|--------------|--------------|--------------|
| <b>Adjusted revenues</b>   |              |              |              |
| Consumer                   | 745          | 765          | -2.6%        |
| Business                   | 535          | 548          | -2.4%        |
| Wholesale                  | 151          | 177          | -15%         |
| Network, Operations & IT   | 9            | 4            | >100%        |
| Other (incl. eliminations) | -38          | -43          | -11%         |
| <b>The Netherlands</b>     | <b>1,401</b> | <b>1,451</b> | <b>-3.4%</b> |

### Consumer

KPN's data driven convergence strategy has led to a further strengthening of its position as the leading converged operator in The Netherlands. The targeted household approach enabled increased fixed-mobile bundling despite competitive pressure on single-play services. KPN has also enhanced the online customer journey through further digitalization of its customer interaction. This has led to increased customer contact via online channels, such as webcare and chat via the KPN website and MijnKPN app. Customer satisfaction in Consumer remained best-in-class with an NPS of +12 (Q1 2017: +13).

Adjusted revenues in Consumer declined 2.6% y-on-y in Q1 2018, fully driven by the effect of regulation and lower handset revenues resulting from the ongoing shift to SIM-only propositions. Residential revenues grew 2.1% y-on-y, supported by a higher ARPU per household and more households taking bundled propositions compared to the same period last year. In Q1 2018, mobile service revenues declined by 9.0% y-on-y, mainly due to regulation. Excluding the effect of regulation, mobile service revenues declined 2.9% y-on-y, resulting from price pressure in the mobile-only segment.

Across all brands, the number of fixed-mobile postpaid subscribers grew by 48k to 1,934k in Q1 2018, reaching 53% of the postpaid customer base (Q1 2017: 45%). Fixed-mobile penetration remains significantly higher within the high value KPN brand postpaid base, reaching 66% in Q1 2018 (Q1 2017: 59%). The number of fixed-mobile households grew by 28k to 1,280k, representing 43% of the total broadband customer base (Q1 2017: 39%).

In Q1 2018, KPN added 10k IPTV customers to its base. KPN redesigned the user interface of its leading IPTV app to offer a fully integrated and excellent TV experience on all devices. KPN's broadband net adds were -8k in Q1 2018. During the quarter KPN reduced promotions, illustrating its strong focus on value, while witnessing pressure on its single-play services. ARPU per household increased 3.5% y-on-y in Q1 2018.

In a mobile market with price pressure, KPN continued its focus on retention of high value postpaid customers through its successful convergence strategy. This approach resulted in the KPN brand's customer base remaining flat in Q1 2018. Ongoing competitive dynamics in the no frills segment continued to impact Telfort and Simyo. Consequently, the total postpaid base declined by 20k in Q1 2018. Postpaid ARPU declined 7.3% y-on-y to EUR 18 (-1.2% y-on-y excluding the effect of regulation).

## Business

In Q1 2018, KPN has made further progress with migrating SME customers to KPN's integrated solution, KPN ÉÉN. This has led to reduced exposure to declining traditional single-play services and increased opportunities for up and cross-sell of IT services. For example, in Q1 2018, security services were added to the KPN ÉÉN proposition. During the first quarter of 2018, KPN added 38k multi play seats to its base. Furthermore, KPN introduced a fully converged proposition for self-employed and SoHo customers with less than five employees. Supported by its simplified portfolio Business NPS rose to -3 in Q1 2018 (Q1 2017: -6).

Adjusted revenues in Business declined 2.4% y-on-y in Q1 2018, driven by the effect of regulation and lower revenues from traditional single-play services. This was partly offset by growth in Internet of Things, IT Services and Professional Services & Consultancy.

Mobile service revenues declined 7.9% y-on-y in Q1 2018, mainly due to regulation and continued mobile price pressure, especially in the Corporate and Large Enterprise segments. In 2017, KPN decided not to enter a few mobile-only tender processes driven by a focus on value creation for its customers. In Q1 2018, this was reflected in the development of the mobile customer base in Business (-24k). In addition, mobile hardware revenues were lower in Q1 2018, resulting in lower Other revenues within Communication Services.

Revenues from KPN's Internet of Things (IoT) proposition increased 40% y-on-y in Q1 2018, partly driven by solid demand for KPN's fully integrated KPN Things platform. This platform combines IoT connectivity with additional services, such as data & analytics, consultancy services and IoT hardware. Over the past 12 months, KPN added 1.2m SIMs to its M2M base (4.0m SIMs end Q1 2018) and further strengthened its leading IoT position through the nationwide roll-out of its LTE-M network, complementing its connectivity offering besides LoRa and M2M.

Revenues from IT Services increased 18% y-on-y in Q1 2018, driven by growth in security and cloud services.

Revenues from Professional Services & Consultancy increased 4.8% y-on-y in Q1 2018, supported by higher revenues from integrated solutions at KPN's larger customers and additional revenues from consultancy services.

## Wholesale

In the first quarter of 2018, KPN extended its partnership with Tencent on the WeChat Go Europe offering. This KPN-enabled connectivity app for Chinese tourists travelling to Europe now also supports WeChat Pay. KPN benefits from a revenue share on these transactions. The partnership with Tencent was driven by KPN's fastest time-to-market for this proposition, enabled by Simplification and digitalization.

Adjusted revenues in Wholesale declined by EUR 26m or 15% y-on-y in Q1 2018. Lower regulated tariffs (MTA/FTA) and less low-margin international voice traffic impacted fixed Wholesale revenues. In addition, lower revenues from MVNOs, due to ongoing competitive dynamics in the Dutch mobile market led to lower mobile Wholesale revenues.

## Network, Operations & IT

KPN continuously upgrades the capacity and quality of its best-in-class integrated network and ICT infrastructure. In Q1 2018, KPN continued to implement its hybrid access strategy to larger cities and business parks, ensuring an optimized connection to deliver an excellent customer experience.

By migrating its Telfort mobile Business customers to the single multi-brand mobile business support system (BSS), KPN completed the integration of its mobile BSS in Q1 2018. This enables full decommissioning of KPN's legacy mobile IT platforms.

## Operating expenses The Netherlands

| <i>(in EUR m)</i>                            | Q1 2018    | Q1 2017    | Δ y-on-y     |
|--|------------|------------|--------------|
| <b>Opex The Netherlands (excl. D&amp;A)*</b> | <b>833</b> | <b>895</b> | <b>-6.9%</b> |
| Cost of goods & services                     | 318        | 346        | -8.2%        |
| Personnel expenses                           | 292        | 289        | 1.0%         |
| IT/TI  | 115        | 132        | -13%         |
| Other operating expenses                     | 108        | 128        | -16%         |
| <b>Adjusted EBITDA The Netherlands</b>       | <b>569</b> | <b>556</b> | <b>2.2%</b>  |

\* Adjusted for restructuring costs and incidentals. For further details refer to page 8

In Q1 2018, adjusted EBITDA for The Netherlands was 2.2% higher y-on-y, or +3.8% y-on-y excluding the effect of roaming regulation. EBITDA growth was mainly driven by significant quality improvements through digitalization of services and Simplification. KPN's EBITDA margin for The Netherlands increased to 40.6% (Q1 2017: 38.3%).

In Q1 2018, costs of goods and services were supported by lower traffic costs, due to the reduction of regulatory tariffs (MTA/FTA).

Simplification and digitalization initiatives are delivering structural savings. For example, KPN's improved online customer journey and further digitalized customer interactions delivered an 11% increase of online customer contact and a 21% reduction of calls compared to the same period last year. Costs related to contact centers fell 14% y-on-y in Q1 2018. Simplification also resulted in lower IT/TI costs, which declined 13% y-on-y in Q1 2018. Lower other operating expenses were driven by lower costs for billing & collection, marketing, and housing & facilities. The second wave of KPN's Simplification program has generated run-rate savings of approximately EUR 150m by end Q1 2018, compared to the end of Q4 2016. KPN is well on track to realize its ambition of at least EUR 350m run-rate savings by the end of 2019.

## iBasis

On 7 March 2018, KPN announced that it reached an agreement to sell iBasis to Tofane Global. Therefore, KPN has accounted for iBasis as discontinued operation as per Q1 2018. iBasis continues to be included in KPN's segment reporting until the sale is completed.

## **Profit, Capex, FCF and financial position KPN Group** (continuing operations)<sup>1</sup>

In Q1 2018, group operating profit (EBIT) increased 17% y-on-y to EUR 208m due to higher EBITDA and lower depreciation charges. Net profit of EUR 98m in Q1 2018 was 35% higher compared to last year, driven by higher EBIT, partly offset by higher taxes.

Capex decreased 11% y-on-y to EUR 236m in Q1 2018. Compared to Q1 2018, Capex is expected to increase in the remainder of the year as a result of hybrid access investments in larger cities and business parks.

Free cash flow of EUR 122m in Q1 2018 was EUR 94m higher compared to last year, as a result of higher EBITDA, EUR 35m less interest paid as a result of a bond redemption in Q1 2017 and lower Capex, mainly related to phasing throughout the year.

Net debt amounted to EUR 5.8bn at the end of Q1 2018, which was EUR 0.2bn lower compared to the end of Q4 2017. The reduction in net debt was mainly driven by free cash flow generation in Q1 2018 and the sale of Telefónica Deutschland shares. As of 31 March 2018, net debt to EBITDA was 2.5x (Q4 2017: 2.6x). This includes the equity credit on hybrid bonds representing 0.4x net debt to EBITDA. The average coupon on senior bonds declined y-on-y to 3.8% (Q1 2017: 4.1%), mainly due to an adjustment of the interest duration of KPN's bond portfolio and the redemption of a EUR 720m bond (4.75% coupon) in January 2017.

At the end of Q1 2018, Group equity amounted to EUR 3,460m, a reduction of EUR 23m compared to the end of Q4 2017. This was mainly driven by a revaluation of KPN's stake in Telefónica Deutschland and of hedge reserves, partly offset by net income generated during the quarter.

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<sup>1</sup> iBasis accounted for as discontinued operation as per Q1 2018

## Analysis of adjusted results Q1 2018

The following table shows the key items between reported and adjusted revenues.

| Revenues<br>(in EUR m)                  | Q1 2018<br>reported | Incidentals | Q1 2018<br>adjusted | Q1 2017<br>reported | Incidentals | Q1 2017<br>adjusted | Δ y-on-y<br>reported | Δ y-on-y<br>adjusted |
|---|---------------------|-------------|---------------------|---------------------|-------------|---------------------|----------------------|----------------------|
| Consumer                                | 745                 | -           | 745                 | 765                 | -           | 765                 | -2.6%                | -2.6%                |
| Business                                | 535                 | -           | 535                 | 548                 | -           | 548                 | -2.4%                | -2.4%                |
| Wholesale                               | 151                 | -           | 151                 | 177                 | -           | 177                 | -15%                 | -15%                 |
| Network, Operations & IT                | 9                   | -           | 9                   | 4                   | -           | 4                   | >100%                | >100%                |
| Other (incl. eliminations)              | -38                 | -           | -38                 | -43                 | -           | -43                 | -11%                 | -11%                 |
| <b>The Netherlands</b>                  | <b>1,401</b>        | -           | <b>1,401</b>        | <b>1,451</b>        | -           | <b>1,451</b>        | <b>-3.4%</b>         | <b>-3.4%</b>         |
| <i>iBasis (discontinued operations)</i> | 129                 | -           | 129                 | 193                 | -           | 193                 | -33%                 | -33%                 |
| Other activities                        | -                   | -           | -                   | -                   | -           | -                   | >100%                | >100%                |
| Intercompany revenues                   | -15                 | -           | -15                 | -26                 | -           | -26                 | -41%                 | -41%                 |
| <b>KPN Group</b>                        | <b>1,515</b>        | -           | <b>1,515</b>        | <b>1,619</b>        | -           | <b>1,619</b>        | <b>-6.4%</b>         | <b>-6.4%</b>         |
| <i>of which discontinued operations</i> | -113                | -           | -113                | -168                | -           | -168                | -32%                 | -32%                 |
| <b>KPN Group continuing operations</b>  | <b>1,402</b>        | -           | <b>1,402</b>        | <b>1,451</b>        | -           | <b>1,451</b>        | <b>-3.4%</b>         | <b>-3.4%</b>         |

There were no revenue incidentals in Q1 2018 and Q1 2017.

The following table shows the key items between reported and adjusted EBITDA.

| EBITDA<br>(in EUR m)             | Q1 2018<br>reported | Incidentals | Restruc-<br>turing | Q1 2018<br>adjusted | Q1 2017<br>reported | Incidentals | Restruc-<br>turing | Q1 2017<br>adjusted | Δ y-on-y<br>reported | Δ y-on-y<br>adjusted |
|----------------------------------|---------------------|-------------|--------------------|---------------------|---------------------|-------------|--------------------|---------------------|----------------------|----------------------|
| <b>The Netherlands</b>           | <b>555</b>          | -           | <b>-13</b>         | <b>569</b>          | <b>532</b>          | <b>-11</b>  | <b>-14</b>         | <b>556</b>          | <b>4.4%</b>          | <b>2.2%</b>          |
| <i>iBasis (disc. operations)</i> | 6                   | -           | -                  | 6                   | 5                   | -           | -                  | 5                   | 19%                  | 19%                  |
| Other activities                 | -1                  | -           | -1                 | 1                   | -3                  | -           | -4                 | -                   | -83%                 | >100%                |
| <b>KPN Group</b>                 | <b>561</b>          | -           | <b>-15</b>         | <b>575</b>          | <b>534</b>          | <b>-11</b>  | <b>-17</b>         | <b>562</b>          | <b>5.0%</b>          | <b>2.4%</b>          |
| <i>of which disc. operations</i> | -6                  | -           | -                  | -6                  | -5                  | -           | -                  | -5                  | 20%                  | 20%                  |
| <b>KPN Group cont. ops.</b>      | <b>555</b>          | -           | <b>-15</b>         | <b>569</b>          | <b>529</b>          | <b>-11</b>  | <b>-17</b>         | <b>557</b>          | <b>4.9%</b>          | <b>2.3%</b>          |

The following table specifies the opex incidentals in more detail.

| Opex incidentals (in EUR m) | Opex category            | Q1 2018  | Q1 2017    |
|-----------------------------|--------------------------|----------|------------|
| Change of provisions        | Other operating expenses | -        | -11        |
| <b>KPN Group</b>            |                          | <b>-</b> | <b>-11</b> |