Q2 2019 RESULTS

24 July 2019

kpn

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.

Highlights Q2 2019

Strong cost management

Net indirect opex savings[1]

€ 40m

€ 66m YTD

Brand strategy: Telfort integration

+54k

converged postpaid customers

+38k

converged households

Fiber roll-out in progress

~40k

homes passed YTD

1 Indirect opex after leases, adjusted for the impact of restructuring costs and incidentals

STRATEGY 2019 2021

The best **converged smart infrastructure.**

Focus on **profitable growth** segments.

Acceleration of **simplification** and **digitalization.**

Update: accelerated fiber roll-out strategy

Started accelerated **FttH** roll-out

19

projects up and running

Testing first **XGS-PON** connections with customers

Ramping up **FttH** roll-out capacity

x4

homes passed per week by end of 2019

vs. **current** run rate

Finalizing **FttC** roll-out

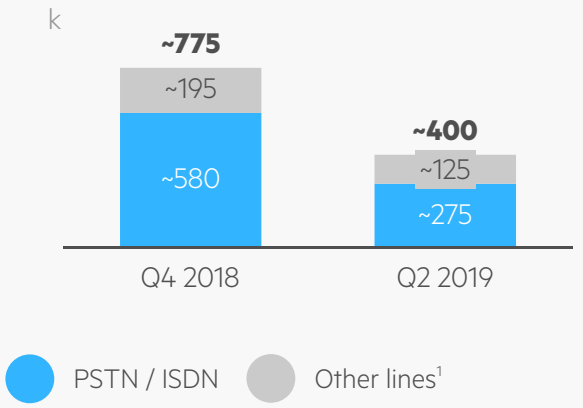
+180k

homes passed YTD

Part of **+500k households** ambition by end 2019

All-IP migration on track

Number of legacy lines steadily declining



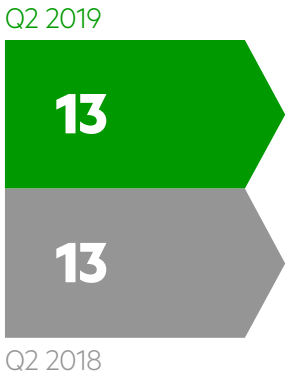
Shutting down legacy networks

PSTN SDH
ISDN **3G**
Copper in fiber areas

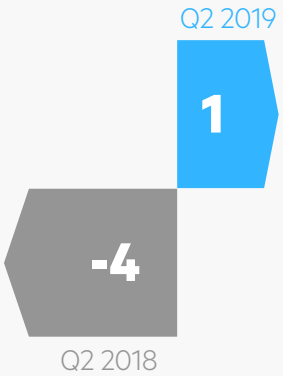
1 Core, ASAM, Epacity

Customer experience & recognition

Consumer NPS[1]



Business NPS[1]



Leading Business awards[2]

Global Microsoft **Security & Compliance** Partner of the Year **2019** award

KPN EEN nominated best offer for SME customers[2]

1 2018 restated as result of recalibration of relative weights of underlying businesses, source: Kantar TNS
2 Source: Computable awards

Brand strategy update: Telfort integration

Strengthened household relationships

Converged customer base +

Impact customer acquisition

Postpaid customer base =

Broadband customer base −

ARPU mix effect +

Simplification

FTE rationalization

All Telfort shops closed as of 1 May 2019

Lower IT spend

Faster innovation

Consumer convergence

solid performance, partially due to Telfort integration

Households

+41k converged households[1]

1,399k total converged households

48% converged broadband customers

Q2 2018: 44%

Postpaid

+104k converged postpaid base[1]

2,230k total converged SIMs

62% converged all brands

Q2 2018: 54%

72% converged KPN brand

Q2 2018: 67%

SIM cards

1.59 SIMs per household

Q2 2018: 1.52

1 38k fixed-mobile households and 54k fixed-mobile postpaid customers related to Telfort integration

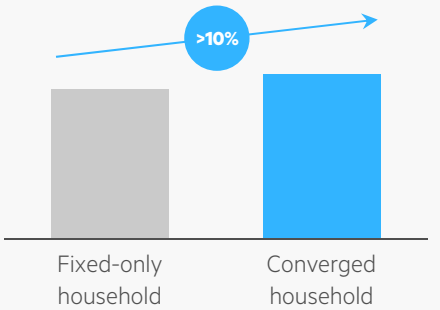
Convergence offers clear benefits

Market leading NPS[1]

+23

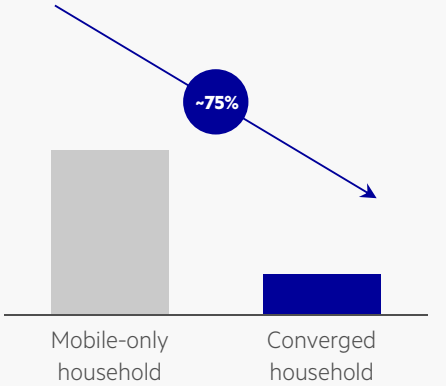
+13
Consumer total

Higher value per household



Fixed ARPU

Lower mobile churn



KPN brand
1 Source: Kantar TNS

Consumer Fixed

Broadband base[1]

-24k

Partly impacted by brand strategy & price adjustments

Fixed ARPU

€ 46 +6.0% y-on-y

Price increase effective from 1 June 2019

Residential revenues

+0.8% y-on-y

Bundled services ↑
Traditional voice + Digitenne ↓

1 Corrected for migrations to and new customers of small business propositions (7k) launched in Q4 2017

Consumer Mobile

Growing postpaid base KPN brand

+17k net adds KPN brand

Q1 2019: -1k

flat customer base all brands

Postpaid ARPU stable q-on-q

€ 17

Q2 2018: € 18

-5.6% y-on-y

Mobile service revenues

€ 197m

Q2 2018: € 209m

-5.8% y-on-y

Business revenue trend

Adjusted revenues y-on-y growth trend

	Q2 2019
Communication Services	**-8.0%**
Mobile service revenues	-8.4%
IoT	11%
Broadband & Network Services	-1.0%
Fixed voice	-17%
Other	-8.9%
IT Services (a.o. security, cloud, workspace)	**-3.1%**
Professional Services & Consultancy	**0.5%**
Total revenue	**-5.5%**

Revenue y-on-y trend Q2 2019

considerably

impacted by migrations & 'value over volume'[1]

+9% y-on-y IT Services

excluding **hardware & licenses** revenues

1 Based on management estimates

Migrations from legacy portfolio accelerating

SME customers

59% SME base migrated[1]

Q1 2019: 50%

100% mid-2020

LE customers

33% LE base migrated[1]

Q1 2019: 25%

100% in 2020

Small business portfolio

34% converged customers

Q1 2019: 33%

+7k net adds in Q2 2019

1 Migrated from traditional fixed voice and legacy broadband services

KPN's value over volume strategy

premium, value, trustworthy, focus

Customer retention

Strong customer **relationships**

Repricing

Increase share of wallet

Up and cross-sell services

(e.g. cloud, security, workspace)

Improve customer lifetime value

Higher NPS

Reduced churn

Reduced cost to serve

Financial highlights Q2 2019

Adjusted revenues

€ 1,359m

-3.1% y-on-y

Q2 2018: € 1,402m

Adjusted EBITDA after leases

€ 594m

+3.6% y-on-y

Q2 2018: € 573m

Free Cash Flow

(excl. TEFD dividend)

€ 147m

-34% y-on-y

Q2 2018: € 222m

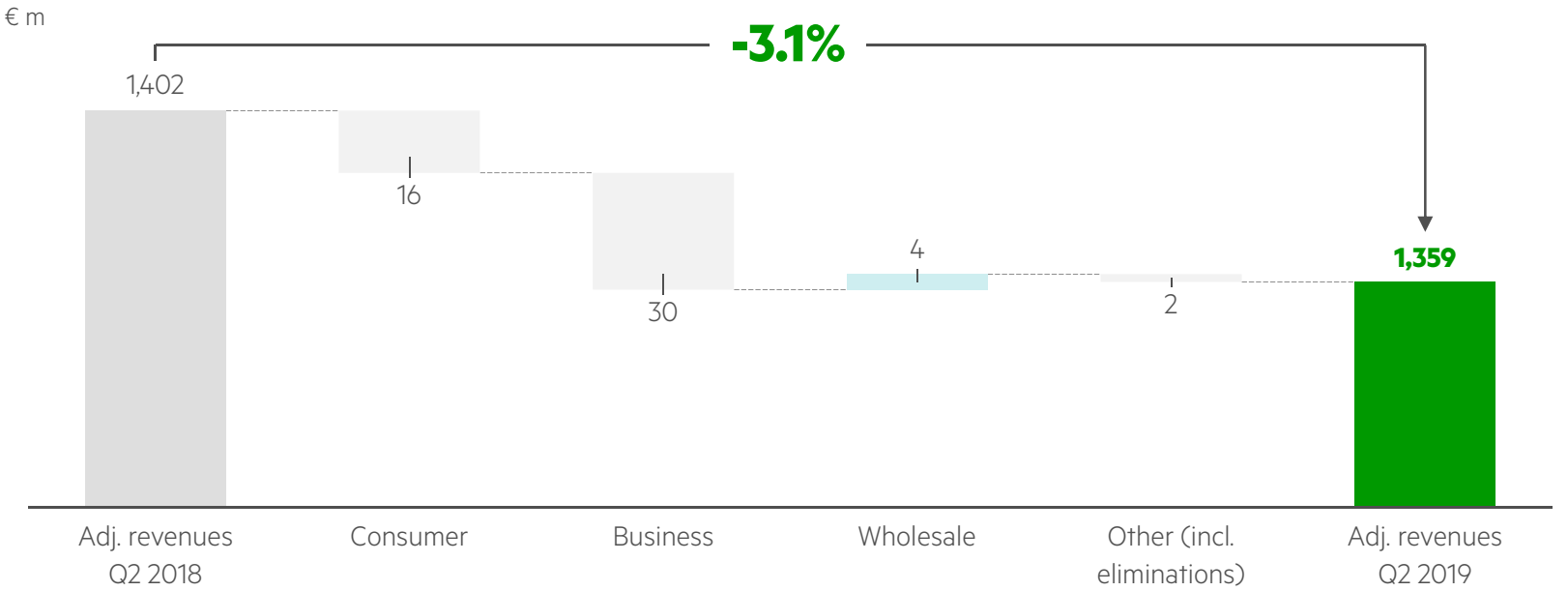
Financial performance Q2 and H1 2019

key P&L metrics

€ 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%
Other	-27	-29	6.0%	-53	-58	-9.4%
Adjusted revenues[1]	**1,402**	**1,359**	**-3.1%**	**2,804**	**2,721**	**-3.0%**
Adjusted direct costs[1]	326	302	-7.3%	648	611	-5.6%
Adjusted indirect costs after leases[1]	502	463	-7.9%	1,019	952	-6.5%
Adjusted EBITDA after leases[1]	**573**	**594**	**3.6%**	**1,138**	**1,157**	**1.7%**
Reported						
EBITDA	596	602	1.1%	1,194	1,172	-1.8%
EBIT	218	221	1.6%	433	410	-5.3%
Net profit	142	128	-9.8%	245	217	-11%

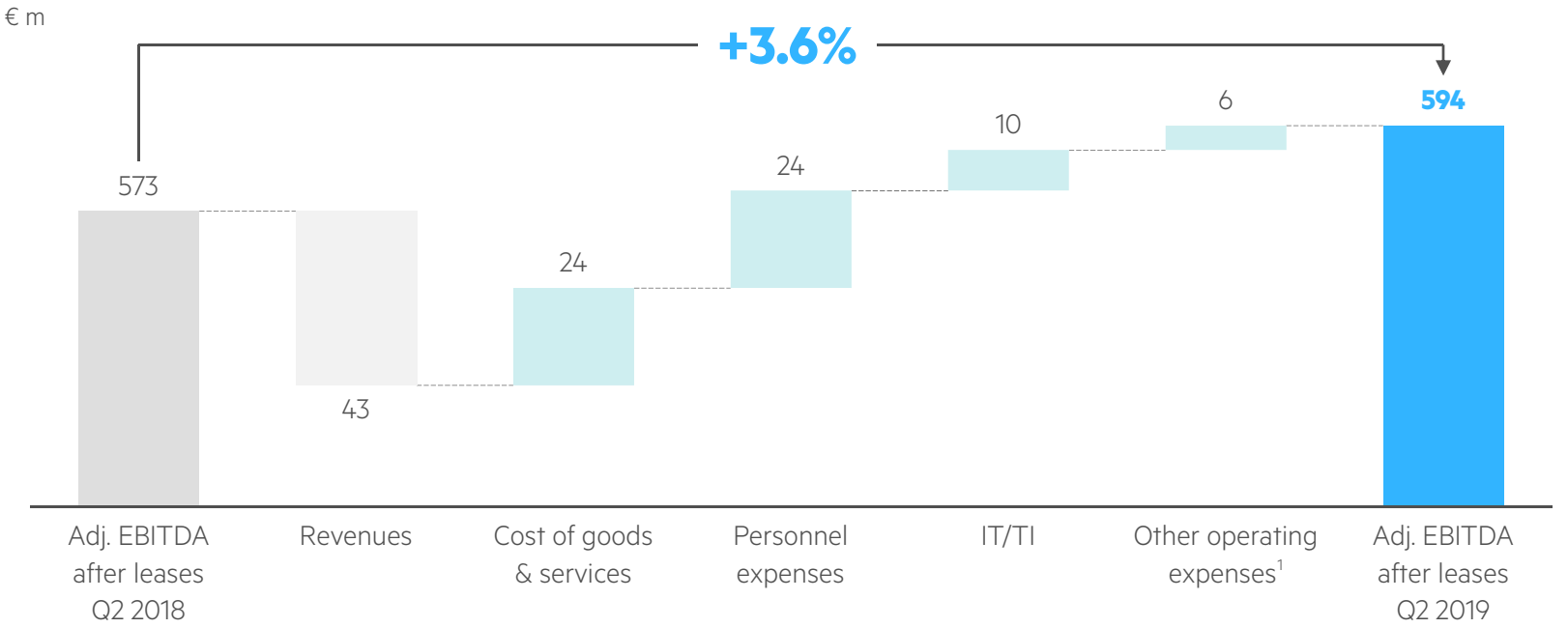
1 Adjusted for the impact of restructuring costs and incidentals

Adjusted revenues declined y-on-y



Solid growth Adjusted EBITDA AL

supported by simplification and digitalization



1 Incl. lease-related expenses

Indirect opex savings program on track

€ 66m
net savings YTD[1]

~€ 350m
target 2019 – 2021[1]

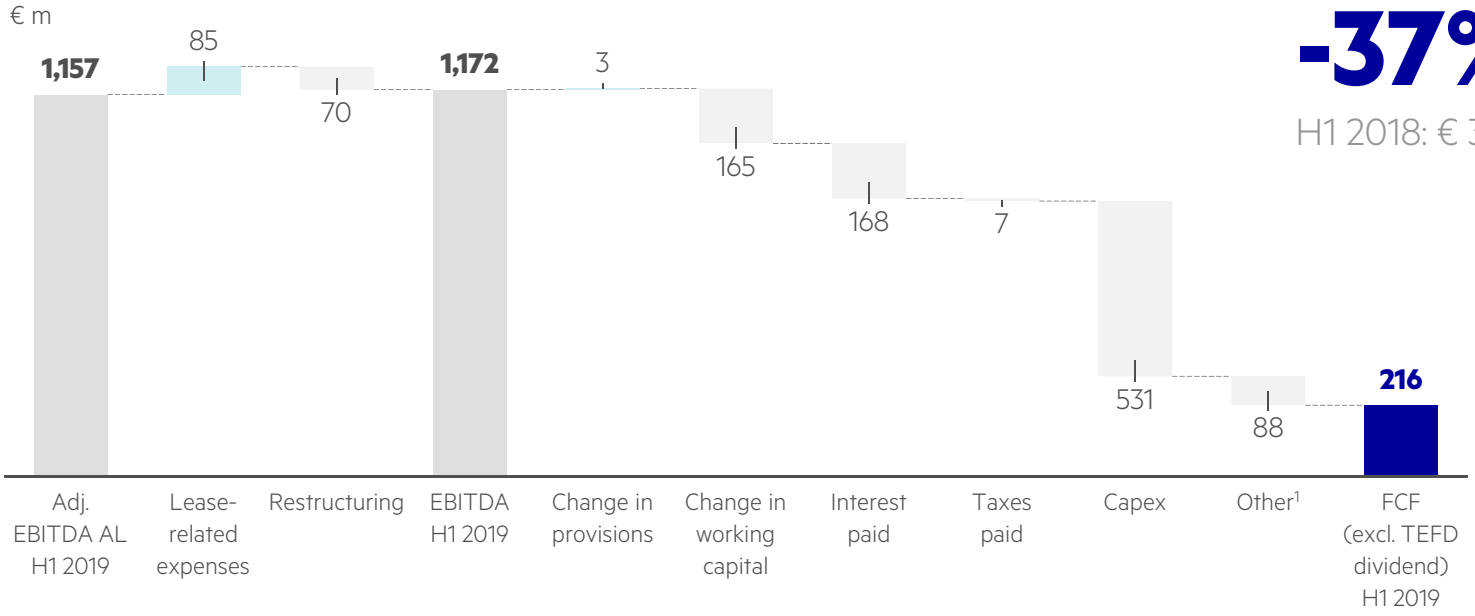
1 Indirect opex after leases, adjusted for the impact of restructuring costs and incidentals

Financial performance Q2 and H1 2019 – FCF

y-on-y mainly impacted by working capital

€ m	Q2 2018	Q2 2019	Δ y-on-y	H1 2018	H1 2019	Δ y-on-y
Adjusted EBITDA after leases	**573**	**594**	**3.6%**	**1,138**	**1,157**	**1.7%**
Interest lease liabilities	8	7	-14%	17	15	-13%
Depreciation right-of-use asset	36	35	-2.2%	74	70	-4.9%
Restructuring	-22	-34	56%	-35	-70	100%
Incidentals	-	-	n.m.	-	-	n.m.
EBITDA	**596**	**602**	**1.1%**	**1,194**	**1,172**	**-1.8%**
Interest paid / received	-50	-43	-15%	-177	-168	-4.9%
Tax paid / received	-20	-8	-61%	-25	-7	-70%
Change in provisions	-	-	n.m.	8	3	-60%
Change in working capital	-18	-103	>100%	-82	-165	>100%
Other movements (incl. TEFD dividend)	47	23	-52%	43	24	-44%
Net CF from operating activities	**554**	**472**	**-15%**	**962**	**859**	**-11%**
Capex	-245	-269	9.9%	-481	-531	10%
Proceeds from real estate	-	-	n.m.	5	-	-93%
Repayments of lease liabilities	-34	-31	-6.5%	-89	-89	-0.1%
Free cash flow	**276**	**171**	**-38%**	**397**	**240**	**-40%**
TEFD dividend	54	24	-56%	54	24	-56%
Free cash flow (excl. TEFD dividend)	**222**	**147**	**-34%**	**343**	**216**	**-37%**

FCF development in H1 2019



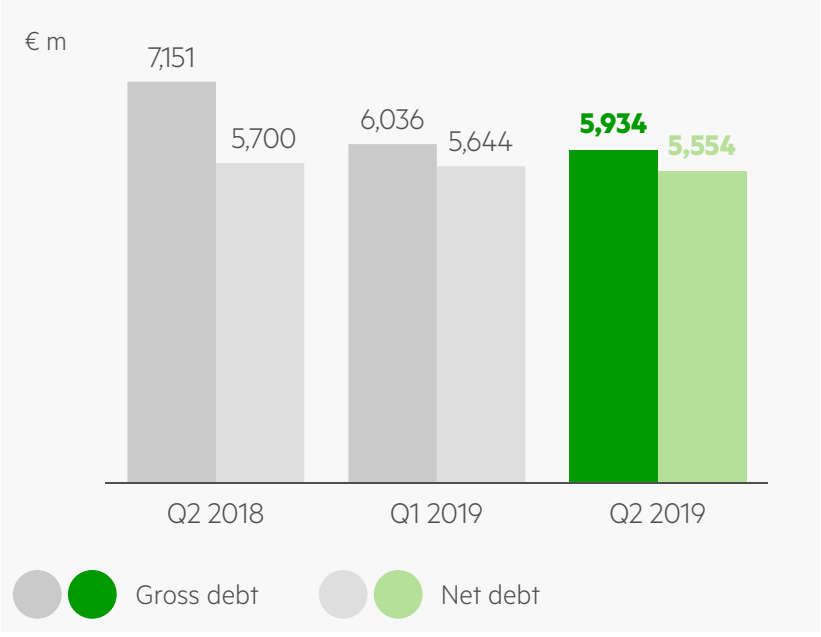
H1 2019

-37% y-on-y

H1 2018: € 343m

1 Incl. repayments of lease liabilities

Solid financial position



Senior bond redeemed

£ 96m

6.0% coupon[1]

Q2 2019 leverage ratio

2.4x

Q1 2019: 2.5x

1 Swapped to € 123m with a fixed rate of 4.58%

Outlook 2019 and 2019 – 2021 ambitions

organic sustainable growth

	Outlook 2019	2019 – 2021 ambitions
Adjusted EBITDA AL	Slightly growing compared with 2018[1]	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[2]	Three-year mid-single digit CAGR[3] driven by EBITDA AL growth
Regular DPS	€ 12.5 cents	Progressive dividend, supported by FCF

1 Previous Adjusted EBITDA AL outlook: "In line with 2018"
2 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
3 Three-year CAGR calculated from the end of 2018 to the end of 2021

ORGANIC
SUSTAINABLE
GROWTH

Value over volume.

Lean operating model.

INFORMATION PACK

CSR
Tax
KPI overview
Debt portfolio
Treatment of hybrid bonds
Fixed infrastructure
Spectrum

Doing business in a sustainable manner

Leading position in benchmarks

MEMBER OF
Dow Jones
Sustainability Indices
In Collaboration with RobecoSAM

EURONEXT
vigeo eiris
INDICES

Reputation ranking[1]

#1 Dutch companies

RepTrak Pulse 2019

Achievements in Q2 2019

Reuse & recycle KPN and Apple started a collaboration on recycling iPhones

Society Pilot to give emergency vehicles green traffic lights as they rush to an emergency

102 New KlasseContact placements in Q2 2019

1 Industry adjusted, source: Reputation institute

Tax Q2 and H1 2019

	P&L				Cash flow			
Regions (€ m)	Q2 2018	Q2 2019	H1 2018	H1 2019	Q2 2018	Q2 2019	H1 2018	H1 2019
The Netherlands	-44	-37	-68	-61	-20	-8	-25	-7
Other	-1	-	-3	-	-2	-	-3	-
Total reported tax	**-45**	**-37**	**-71**	**-61**	**-22**	**-8**	**-28**	**-7**
Of which discontinued operations	-1	-	-3	-	-2	-	-3	-
Reported tax from continuing operations	**-44**	**-37**	**-68**	**-61**	**-20**	**-8**	**-25**	**-7**
Effective tax rate continuing operations	23.5%	22.4%	21.7%	22.0%				

The effective tax rate for Q2 2019 was mainly influenced by corporate income tax rate adjustments, other one-off effects and the Innovation Box facility

- Without one-off effects[1] the effective tax rate would have been ~23% in Q2 2019

For 2019, the effective tax rate is expected to be ~23%, excluding one-off effects[1]

1 Among others, tax law changes, settlements with tax authorities, impairments, revaluations

KPI overview

Consumer fixed

	Q2 2018	Q2 2019
Household base (k)		
F-M households	1,299	1,399
Fixed-only households	2,200	1,933
Total households	**3,499**	**3,332**
F-M penetration broadband base	44%	48%
Bundled	2,556	2,534
Not-bundled (BB-only)	391	369
Not-bundled (PSTN & Digitenne)	551	429
Total households	**3,499**	**3,332**
Net adds (k)		
Broadband	-11	-31
IPTV	10	-7
Fixed ARPU (€)	43	46

Consumer mobile

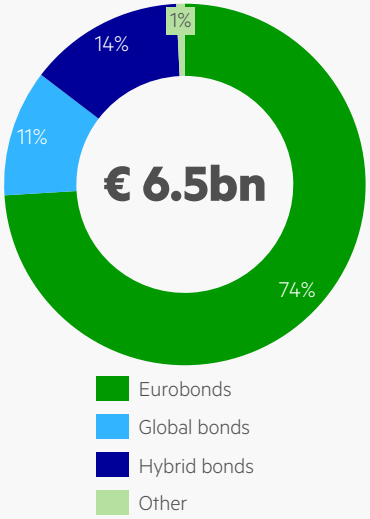
	Q2 2018	Q2 2019
Postpaid base (k)		
F-M postpaid customers	1,980	2,230
Mobile-only postpaid customers	1,664	1,375
Total postpaid base	**3,644**	**3,605**
F-M penetration postpaid base	54%	62%
Net adds (k)		
Postpaid	-10	-
Prepaid	-34	-83
Postpaid ARPU (€)	18	17
Wireless service revenues (€ m)	209	197

Business

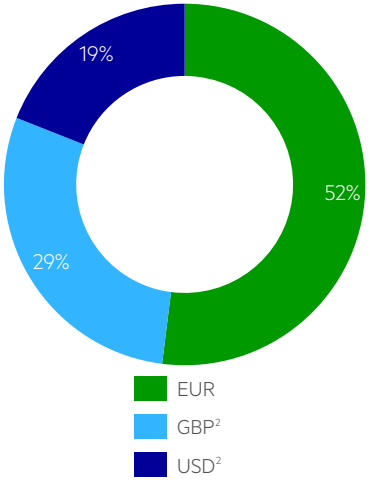
	Q2 2018	Q2 2019
Customer base (k)		
Mobile	1,865	1,811
Traditional Fixed voice	333	233
VoIP	515	579
Broadband	285	309
ARPU (€)		
Mobile	23	22
Traditional Fixed voice	48	49
VoIP	11	11
Broadband	73	70

Debt portfolio

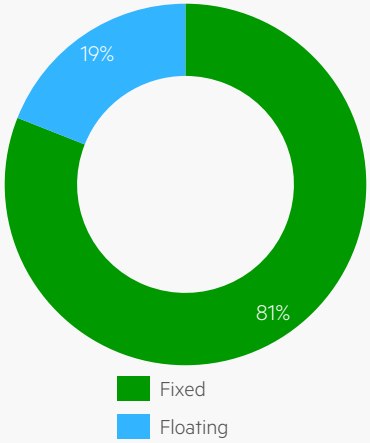
Nominal debt[1] by type



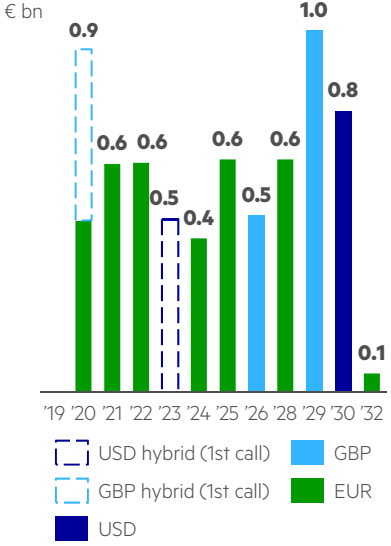
Nominal debt by currency



Fixed vs. floating interest[3]



Bond redemption profile



1 Based on the nominal value of interest-bearing liabilities after swap to EUR, including GBP 400m hybrid bond and USD 600m hybrid bond
2 Foreign currency amounts hedged into EUR
3 Excludes bank overdrafts

Treatment of hybrid bonds

KPN & credit rating agencies

Each tranche of the hybrid bonds is recognized as 50% equity and 50% debt by the rating agencies

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

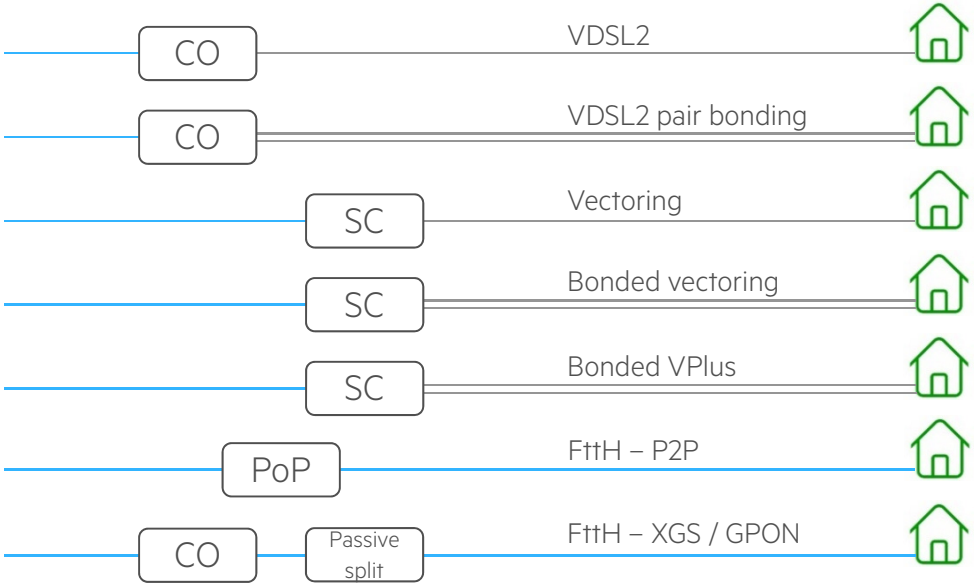
GBP and USD tranche have 60 years specified maturity, accounted for as financial liability

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

Tranche	Nominal	KPN net debt	Maturity	Rates (swapped)[1]	IFRS principal	IFRS coupon
GBP 0.4bn 6.875%	€ 460m	€ 230m	60 years (1st-call Mar-2020)	6.777%	Liability	Interest paid (incl. in FCF)
USD 0.6bn 7.000%	€ 465m	€ 233m	60 years (1st-call Mar-2023)	6.344%	Liability	Interest paid (incl. in FCF)
Total	**€ 925m**	**€ 463m**				

1 USD tranche has semi-annual coupon payments (March / September); GBP tranche has annual coupon payments in March

Fixed infrastructure



Download speed	Active in network
~50Mbps	✓
~100Mbps	✓
~120Mbps	✓
~240Mbps	✓
~400Mbps	
~1Gbps	✓
Up to **10Gbps**	

Fiber — Copper

Spectrum in the Netherlands

800MHz (Paired)	**T-Mob** 2*10	**VodZig** 2*10	**KPN** 2*10					**2*30**
900MHz (Paired)	**VodZig** 2*10	**KPN** 2*10	**T-Mob** 2*15					**2*35**
1.8GHz (Paired)	**KPN** 2*20	**VodZig** 2*20	**T-Mob** 2*30					**2*70**
2.1GHz (Paired)	**VodZig** 2*14.6	**KPN** 2*14.8	**T-Mob** 2*10	**KPN** 2*5	**VodZig** 2*5	**T-Mob** 2*10		**2*59.4**
2.6GHz (Unpaired)	**T-Mob** 25	**KPN** 30	**T-Mob** 5					**1*60**
2.6GHz (Paired)	**VodZig** 2*30	**T-Mob** 2*5	**KPN** 2*10	**T-Mob** 2*20				**2*65**
Total	**KPN 169.6MHz**	**VodZig 179.2MHz**	**T-Mob 230MHz**					**578.8MHz**

T-Mobile including Tele2

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