

# Fourth Quarter and Annual Results 2016

1 February 2017





## 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 will be included in the Integrated Annual Report 2016. 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.

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 and speak only as of the date they are made. A number of these factors are described (not exhaustively) in the Integrated Annual Report 2015.

# Highlights Q4 and 2016



## Services & Innovation

- Addressable convergence base expanded by adding XS4ALL
- Strong improvement customer satisfaction in Business
- Successful introduction VoLTE
- FttH/FttC coverage at ~78% of households
- #1 Sustainable Datacenter award (EMEA)<sup>1</sup>

## Operational

- Focus on value and convergence in Consumer paying off
  - Increasing penetration of fixed-mobile bundles
    - 37% of broadband base
    - 43% of postpaid base
  - 18k IPTV net adds
  - 2k broadband net adds
  - 19k postpaid net adds, driven by the high value KPN brand
- Accelerated migrations to integrated solutions in Business
  - 27k multi play net adds (mainly SME)
  - Strengthening customer relations, but impacting revenues
  - Less customized work y-on-y

## Financial<sup>2</sup>

| € m   | Q4 '16       | FY '16       |
|---|--------------|--------------|
| <b>Adj. revenues</b>                          | <b>1,704</b> | <b>6,780</b> |
| % y-on-y                                      | -2.3%        | -3.4%        |
| <b>Adj. revenues NL</b>                       | <b>1,519</b> | <b>6,026</b> |
| % y-on-y                                      | -1.9%        | -2.4%        |
| <b>Adj. EBITDA</b>                            | <b>606</b>   | <b>2,428</b> |
| % y-on-y                                      | 4.1%         | 0.4%         |
| <b>Adj. EBITDA NL</b>                         | <b>602</b>   | <b>2,411</b> |
| % y-on-y                                      | 6.2%         | 1.3%         |
| <b>FCF</b> (excl. TEFD dividend) <sup>3</sup> | <b>370</b>   | <b>683</b>   |
| % y-on-y                                      | 66%          | 24%          |

- Intended regular dividend of € 10ct per share in respect of 2016
  - € 6.7ct final dividend expected in April 2017

- First wave Simplification program finalized: ~€ 460m run-rate savings realized<sup>4</sup>

<sup>1</sup> Source: Datacenter Dynamics

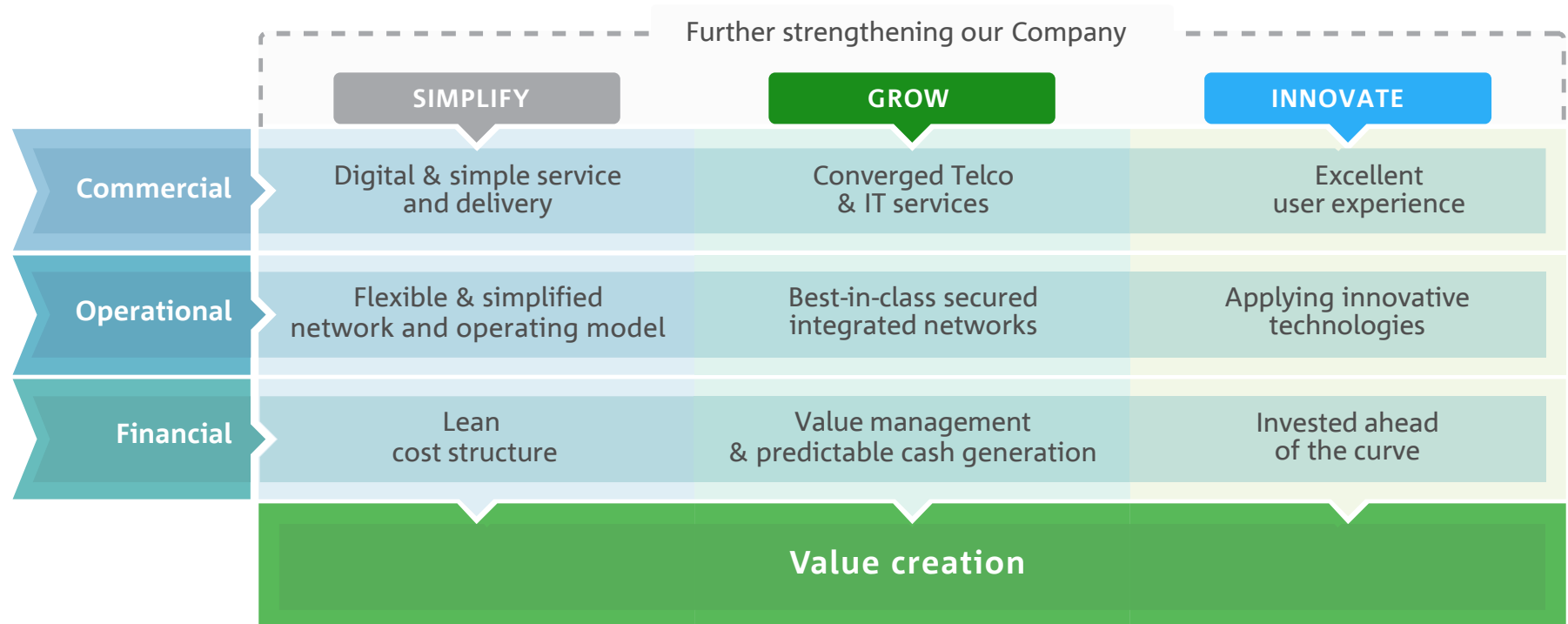
<sup>2</sup> All figures based on continuing operations, unless stated otherwise

<sup>3</sup> Q4 '16 excludes € 11m positive impact from cash optimization from bond tender in September; FY '16 excludes € 52m negative impact from cash optimization actions

<sup>4</sup> End Q4 '16 vs. end Q4 '13

# Delivering on strategic vision

Simplify, Grow, Innovate



# Key priorities on track



1

Accelerate up- and cross-sell in bundles

2

Grow in TV and IT services

3

Finalize Business transformation

4

Finalize build of flexible and simplified integrated network and operating model

5

Expand superior access position by deploying innovative technologies and increasing fiber penetration

6

Optimize financial framework and grow dividend

Simplify

Grow

Innovate

# Continued growth of fixed-mobile bundles in Consumer

1

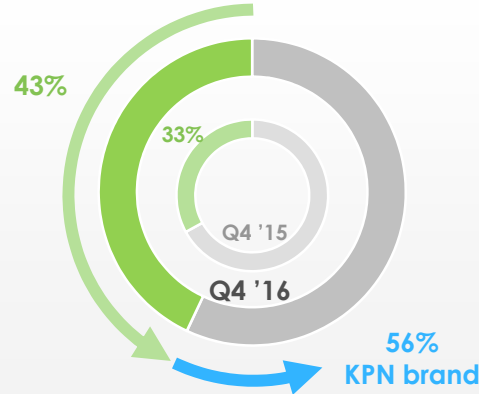
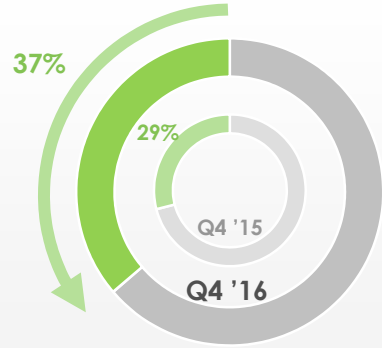


Clear benefits from convergence strategy

Customers in fixed-mobile bundles

Households<sup>1</sup>

Postpaid customers

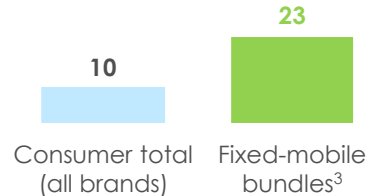


Multi-brand strategy to drive convergence further

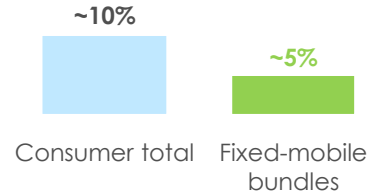


Clear convergence benefits

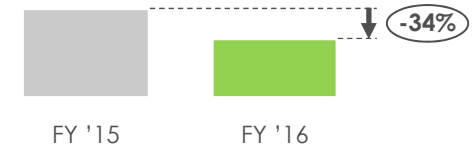
Higher NPS<sup>2</sup> (Q4 '16)



Lower churn<sup>3</sup> (Q4 '16)



Lower marketing expenses<sup>4</sup>



<sup>1</sup> As % of broadband customers  
<sup>2</sup> Source: Kantar TNS

<sup>3</sup> KPN brand  
<sup>4</sup> Consumer Marketing & Communication expenses

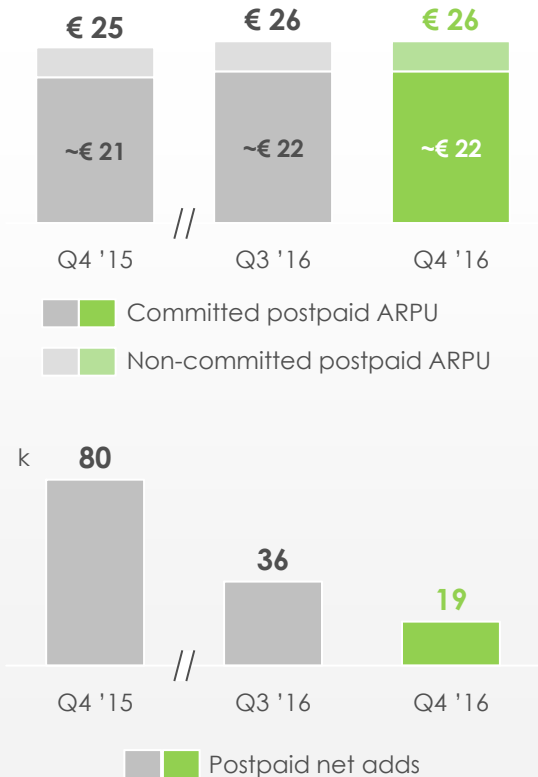
# Continued value focus in Consumer mobile

Strategic focus on KPN brand drives Customer Lifetime Value

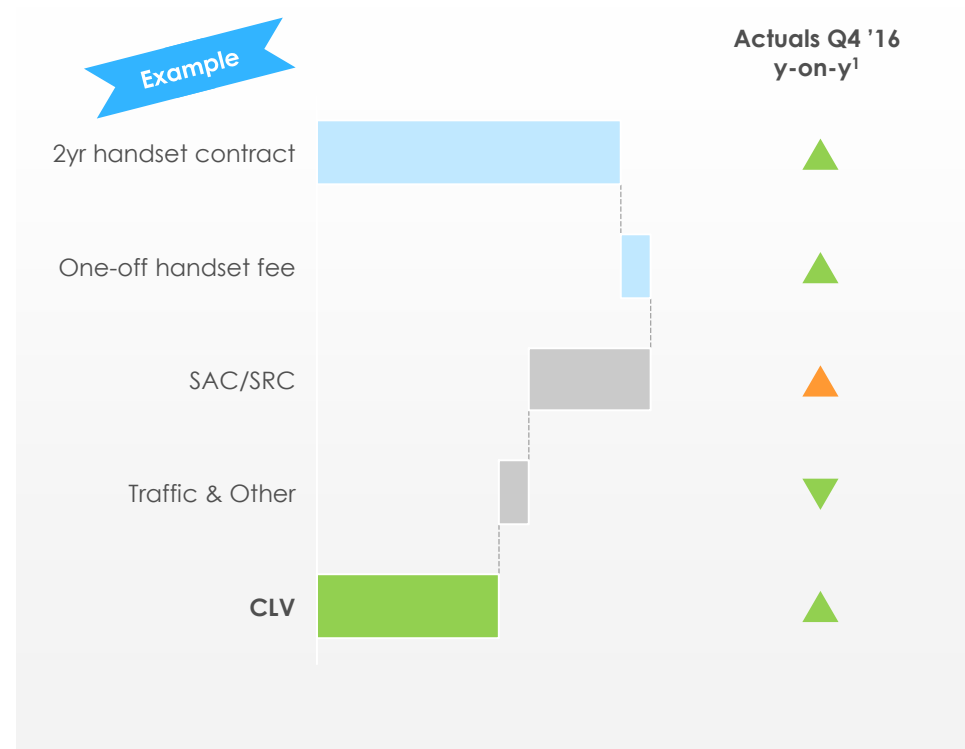
1



Focus on committed ARPU...



...and Customer Lifetime Value



# TV focus point in household centered strategy

2



Highest quality of service through differentiated functionalities and leading network

Best-in-class IPTV services...

## High quality Content Delivery Network

- 161 Metro Core Locations
- Superior stable access speeds

## Superior functionality

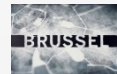
- In-app personalized TV offering
- Integrated access OTT services
- Available everywhere, incl. 4G

## Content aggregation

Basic content

Upsell content

Selective exclusive content



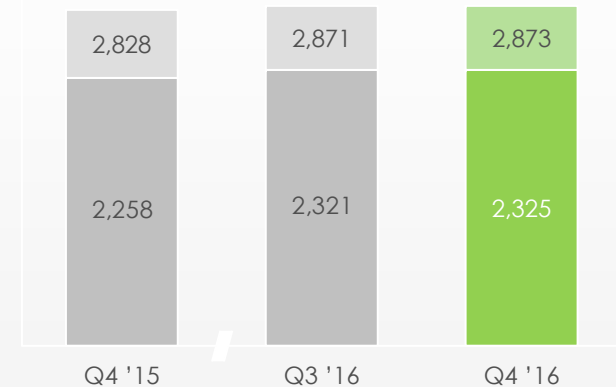
## Best rated TV services<sup>1</sup>



"Most stable TV connection"

"Highest quality equipment"

...driving continued TV growth



Total TV base (k)

Broadband base (k)

% IPTV of broadband base

<sup>1</sup> For nationwide operators, source: Dutch Consumers' Association (Consumentenbond), January 2017



# Migrations to integrated solutions strengthen business customer relations

3



Revenue challenges in Business remain

## Business revenue growth drivers

|                        |                                  | Q4 '16<br>adjusted<br>y-on-y growth | Q4 '16<br>% of total adjusted<br>revenues | FY '16<br>adjusted<br>y-on-y growth | FY '16<br>% of total adjusted<br>revenues |
|------------------------|----------------------------------|-------------------------------------|---|-------------------------------------|---|
|                        | <b>Business total</b>            | <b>-9.2%</b>                        |   | <b>-7.6%</b>                        |   |
| Mainly<br>SME          | <b>Single play wireless</b>      | <b>-9.4%</b>                        | <b>22%</b>                                | <b>-13%</b>                         | <b>23%</b>                                |
|                        | <b>Traditional fixed</b>         | <b>-22%</b>                         | <b>16%</b>                                | <b>-19%</b>                         | <b>17%</b>                                |
|                        | <b>Multi play</b>                | <b>27%</b>                          | <b>5.8%</b>                               | <b>27%</b>                          | <b>5.2%</b>                               |
| Mainly<br>LE&Corporate | <b>Network &amp; IT services</b> | <b>-11%</b>                         | <b>22%</b>                                | <b>-10%</b>                         | <b>22%</b>                                |
|                        | <b>Customized solutions</b>      | <b>-5.8%<sup>1</sup></b>            | <b>26%</b>                                | <b>-2.7%<sup>1</sup></b>            | <b>24%</b>                                |
|                        | <b>New services</b>              | <b>3.3%<sup>1</sup></b>             | <b>5.4%</b>                               | <b>27%<sup>1</sup></b>              | <b>5.4%</b>                               |

<sup>1</sup> Excludes migration of contract from New services to Customized solutions

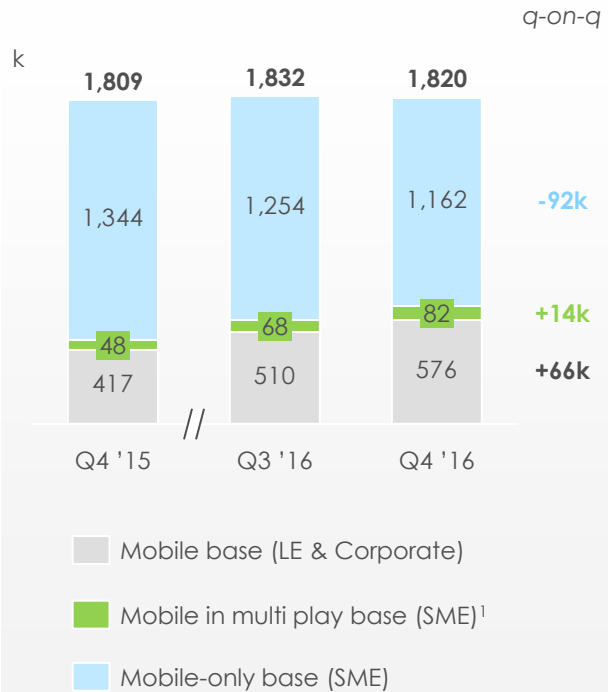
# SME: migrations to multi play accelerating

3

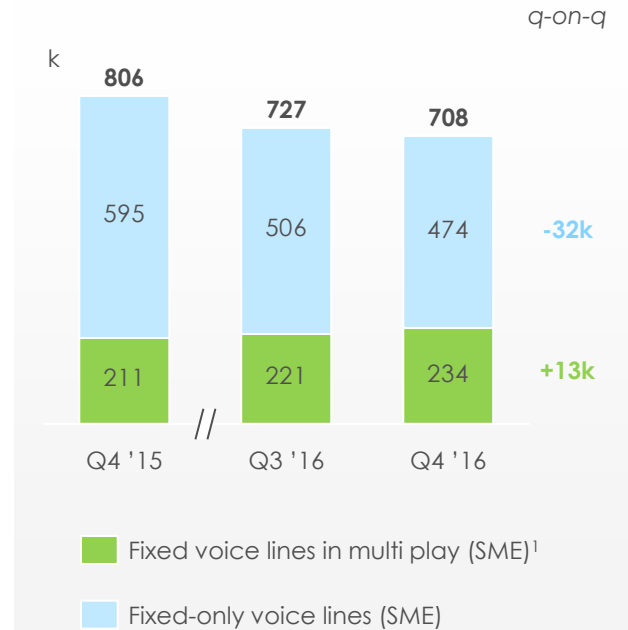


Mobile-only and traditional fixed impacted by accelerated migrations to integrated solutions

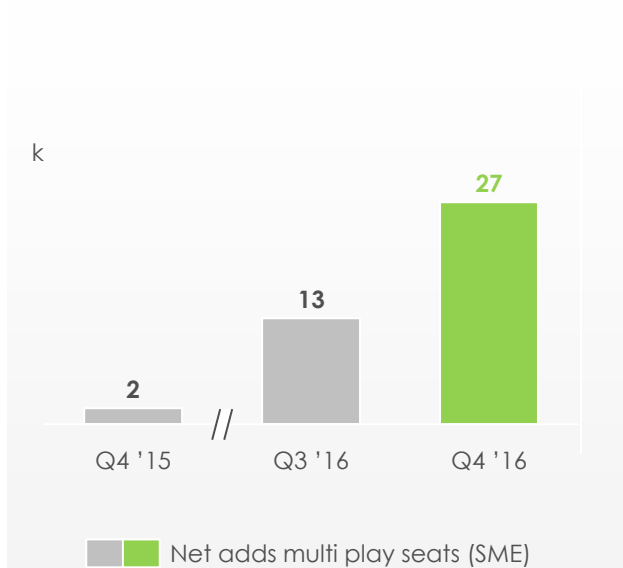
Migrations from mobile-only (SME) to multi play and LE & Corporate



Rationalization and migrations in fixed



Accelerated migrations to multi play



<sup>1</sup> Q4 '15 includes pro forma 201k multi play seats (of which 19k mobile and 182k fixed voice lines) following acquisition remaining shares RoutIT per Q2 '16

# LE & Corporate: migrations to integrated solutions and new technologies 3



Revenues impacted by rationalization, but order intake improving in 2016

Migrating legacy network services to new technologies

Example

Legacy VPN technology

Migration

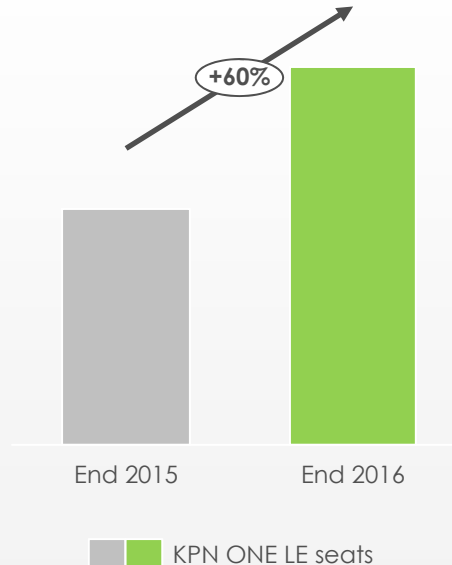
Customer Software Defined Network  
Flexible and scalable capacity

Technology partner



Meraki

Migrations to integrated solutions preventing churn, but impact revenues



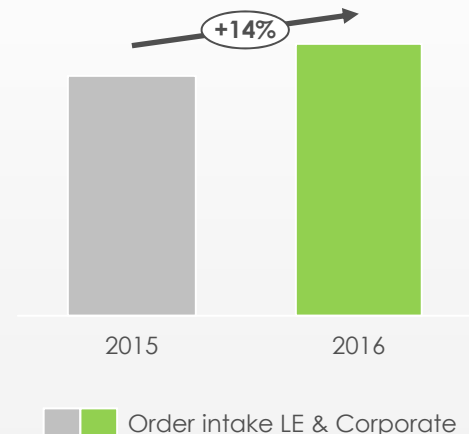
Order intake improving

✗ Gemeente Amsterdam

De Tien van Talking Traffic

SURF

Uwv



# Strengthening business market portfolio and infrastructure

3



## Leading infrastructure and strengthened market positioning

### Further strengthening infrastructure

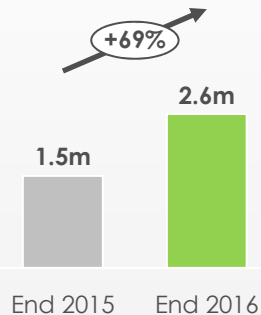
#### Deploying successful hybrid access strategy used in Consumer

Deregulation of FttO supports investments in business areas

#### Leading IoT infrastructure



Nationwide LoRa network



Strong base growth M2M

### Leading cloud & data center services



Carrier & cloud neutral colocation services



Managed Hybrid Cloud  
For Your Business

Launched in 2016

### Expanding scale and capabilities



Distribution



Cloud services



Security

# Operational excellence to improve business customer experience

3



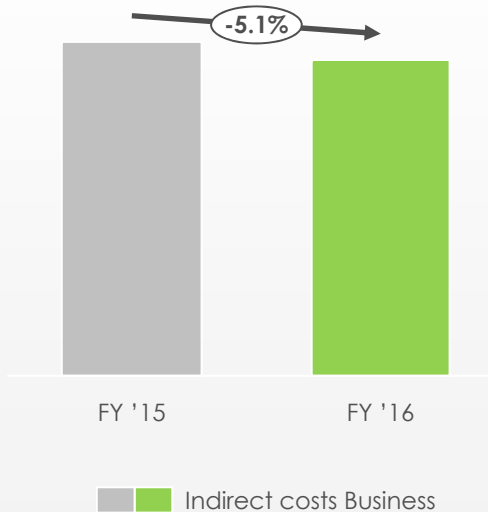
Business organization streamlined further

Simplification of  
portfolio and organization

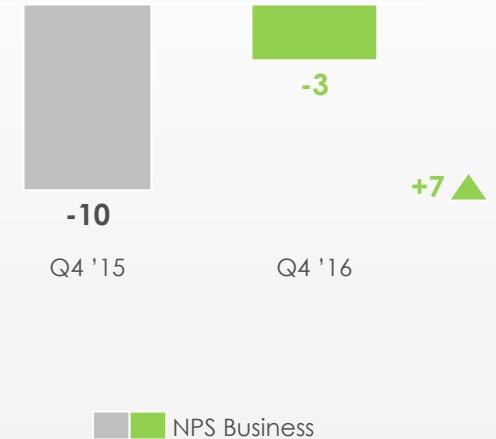


- 1 Migrating customers to single workspace platform
- 2 Reduced broadband portfolio in SME by 66%, focus on KPN ONE
- 3 Phased out 50% of legacy cloud products

Further progress on  
indirect cost reductions



Strong improvement NPS<sup>1</sup>

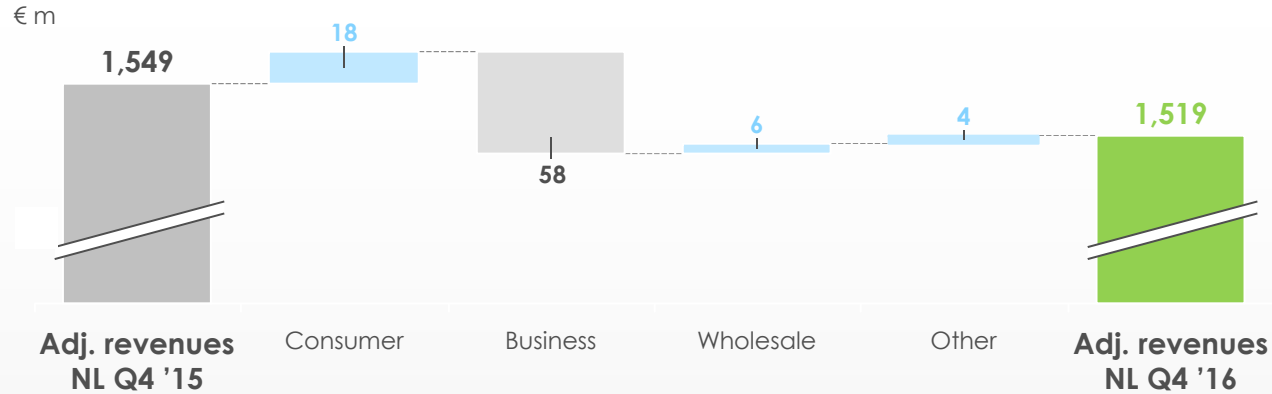


<sup>1</sup> Source: Kantar TNS; KPN brand

# Revenue trend<sup>1</sup> The Netherlands improving in Q4



Adjusted revenues NL declined by 1.9%



+2.6%  
y-on-y

Consumer Residential  
revenues

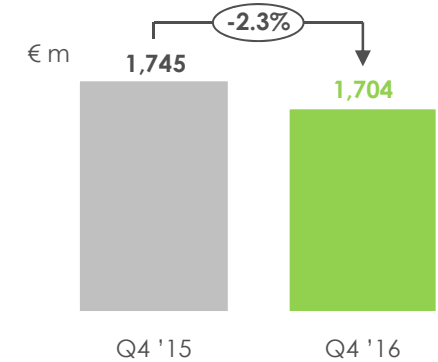
+2.1%  
y-on-y<sup>2</sup>

Consumer Mobile  
service revenues

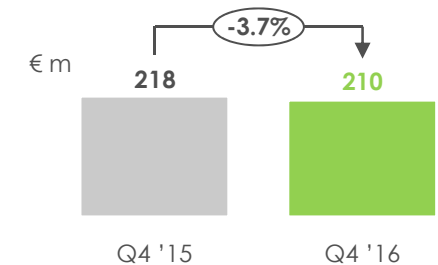
-9.2%  
y-on-y

Business  
revenues

Adjusted revenues KPN Group



Adjusted revenues iBasis

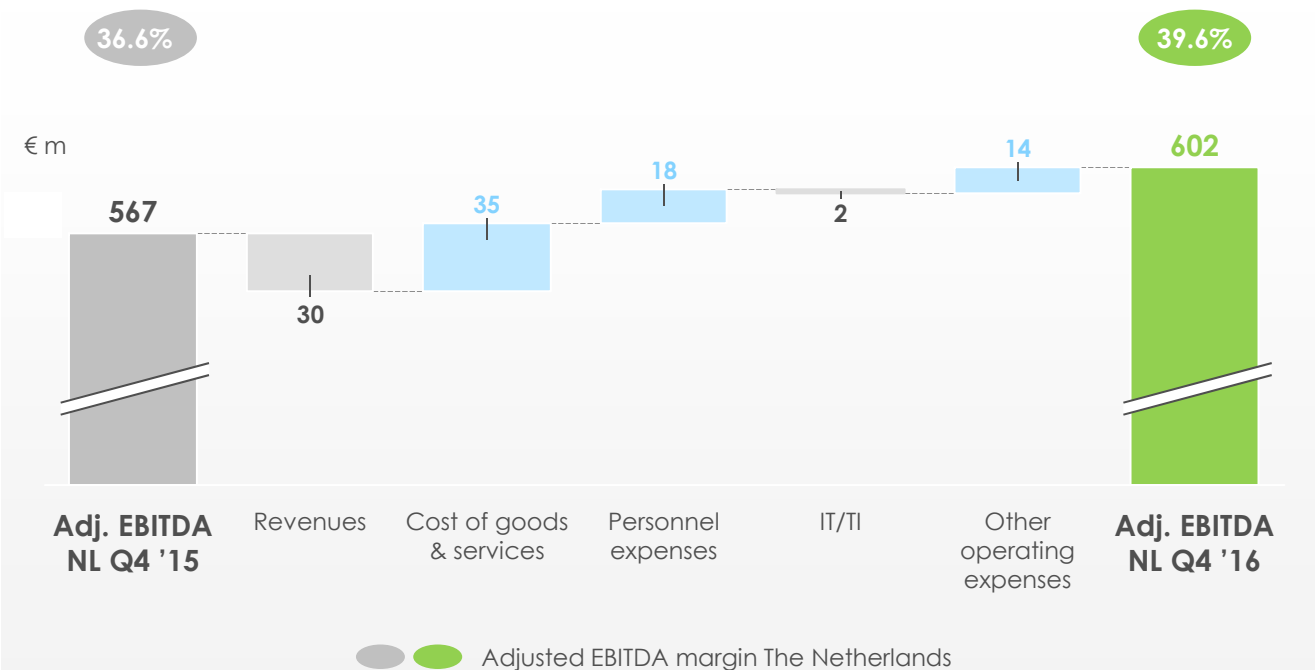


<sup>1</sup> All figures based on continuing operations, unless stated otherwise  
<sup>2</sup> Excl. tax benefit

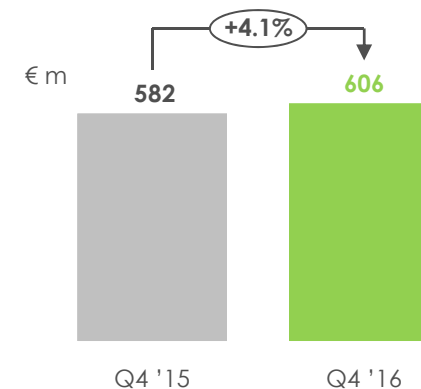
# Adjusted EBITDA<sup>1</sup> The Netherlands improving



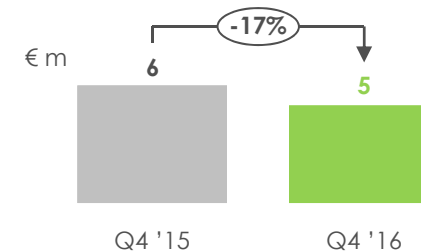
Adjusted EBITDA NL increased by 6.2%<sup>2</sup>



Adjusted EBITDA KPN Group



Adjusted EBITDA iBasis



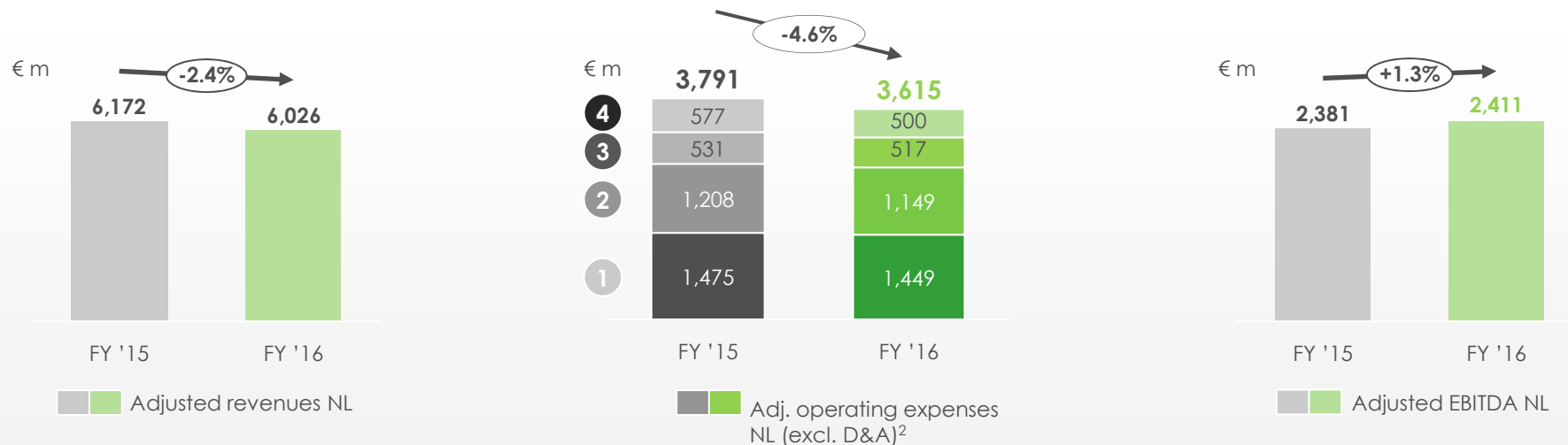
<sup>1</sup> All figures based on continuing operations, unless stated otherwise  
<sup>2</sup> The presented categories show adjusted numbers and differ from the opex breakdown as presented in KPN's Integrated Annual Report 2015

# Strong progress in reducing spend levels The Netherlands<sup>1</sup>

Simplification drives quality improvements at reduced spend levels



FY '16 opex reduction (€ 176m) supporting margins



|                                       |              |                             |              |  |              |                      |             |
|---------------------------------------|--------------|-----------------------------|--------------|--|--------------|----------------------|-------------|
| <b>1 Cost of goods &amp; services</b> | <b>-1.8%</b> | <b>2 Personnel expenses</b> | <b>-4.9%</b> | <b>3 IT/IT expenses</b>                              | <b>-2.6%</b> | <b>4 Other opex</b>  | <b>-13%</b> |
| Traffic                               | ▼            | Own personnel               | ▼            | Savings mainly from decommissioned legacy IT systems | ▼            | Marketing & Comm.    | ▼           |
| Cost of goods sold                    | ▼            | External personnel          | ▼            |  |              | Billing & Collection | ▼           |
| SAC/SRC                               | ▼            |                             |              |  |              | Housing Facilities   | ▼           |

▼▲ Low-to-mid single digit %    ▼▲ Mid-to-high single digit %    ▼▲ Double digit %

<sup>1</sup> All figures based on continuing operations, unless stated otherwise  
<sup>2</sup> The presented categories show adjusted numbers and differ from the opex breakdown as presented in KPN's Integrated Annual Report 2015

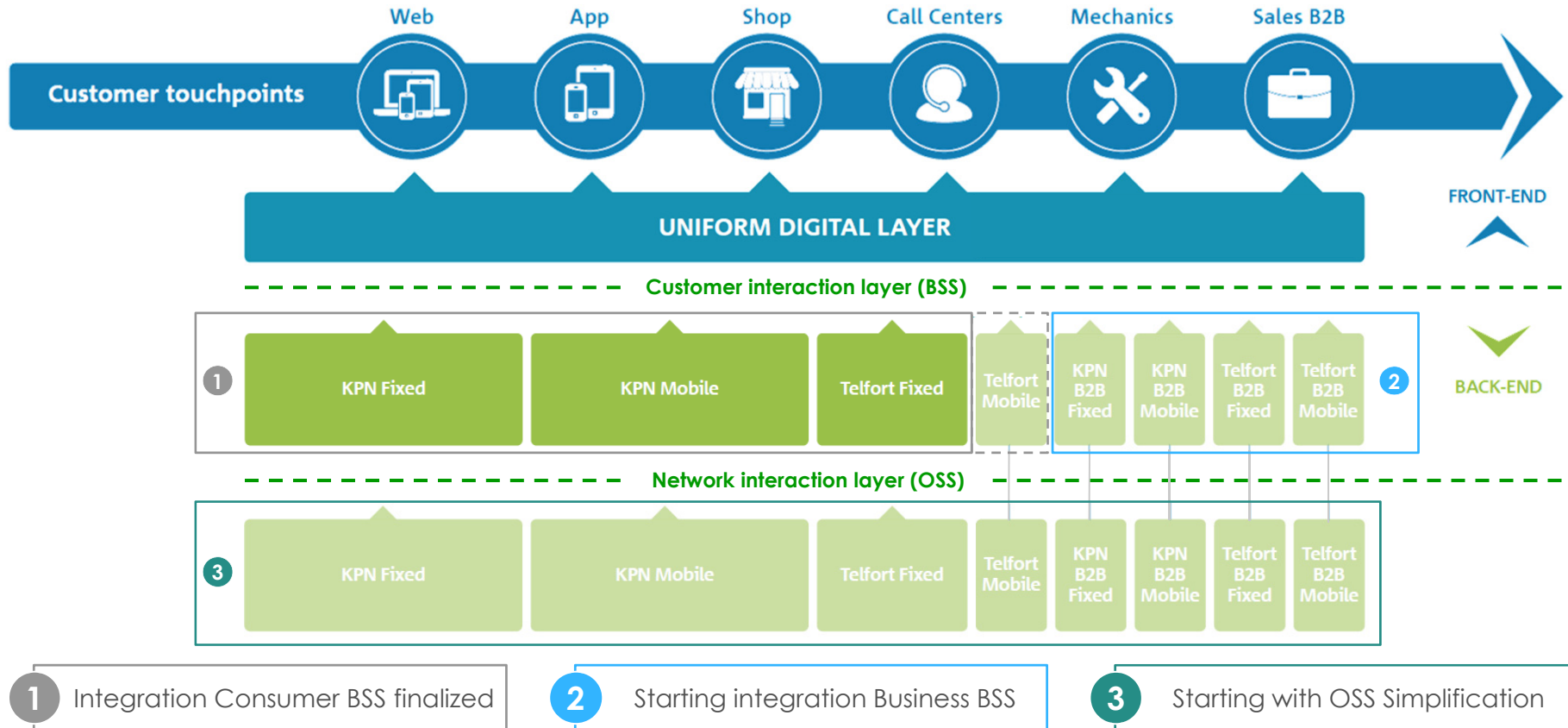


# Continue towards flexible and simplified network and operating model

4



Starting second wave of Simplification program



# Further quality improvements to lead to additional savings

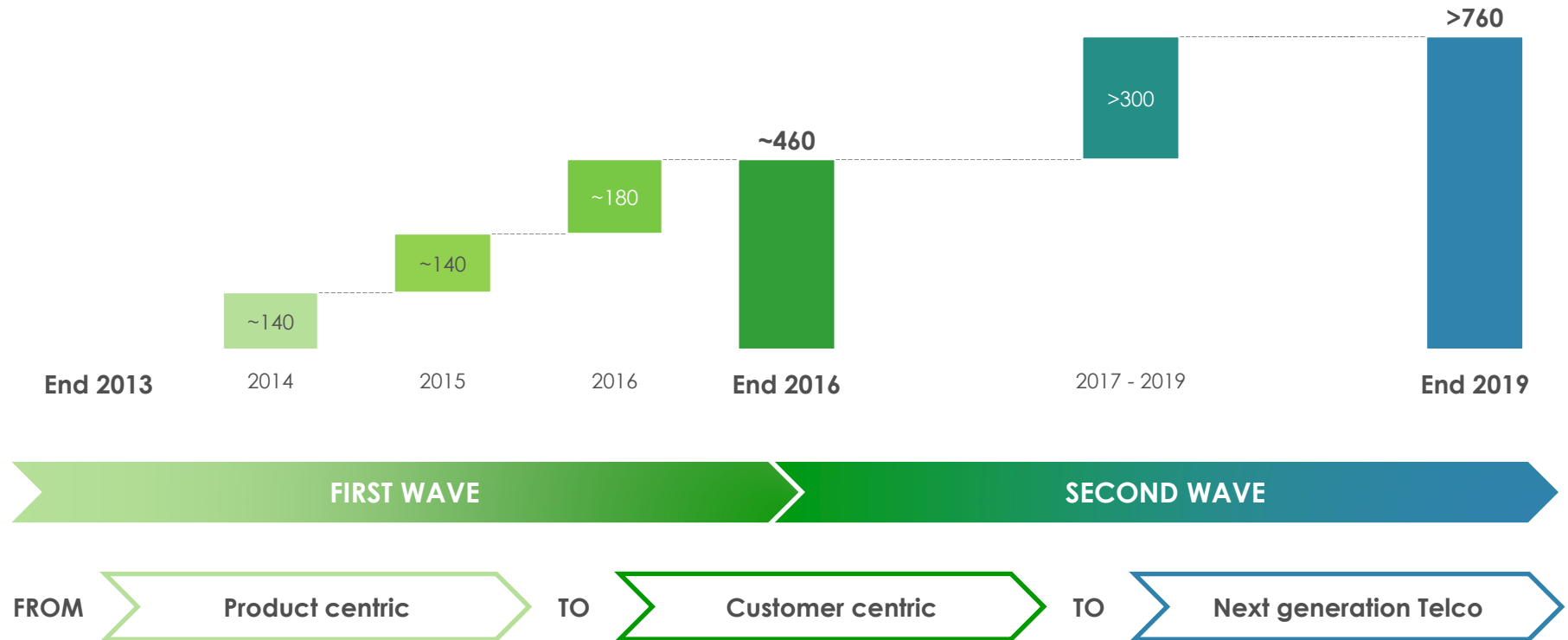
Second wave of Simplification program to yield >€ 300m in run-rate savings

4



## Simplification program run-rate opex and Capex savings

€ m



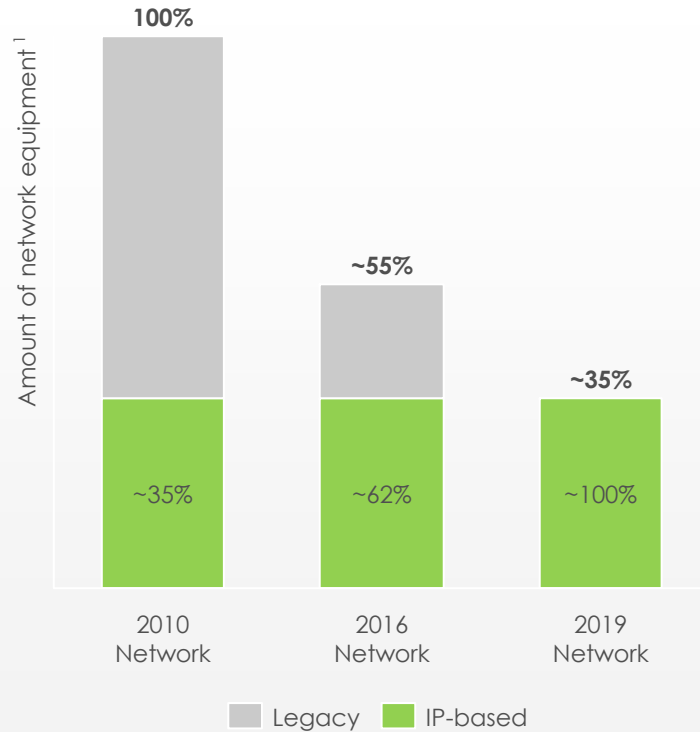
# Creating a flexible and simplified integrated network

Improving quality of service and preparing for virtualization

4

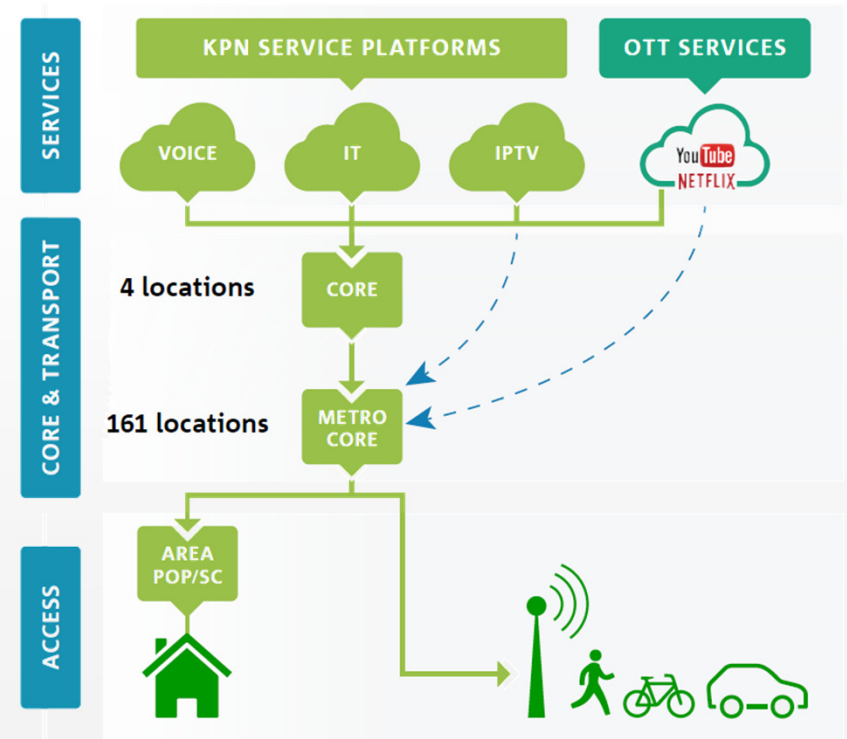


IP transformation on track



<sup>1</sup> Rebased (amount of network equipment used in 2010 = 100%)

Decentralize, bringing services closer to customers

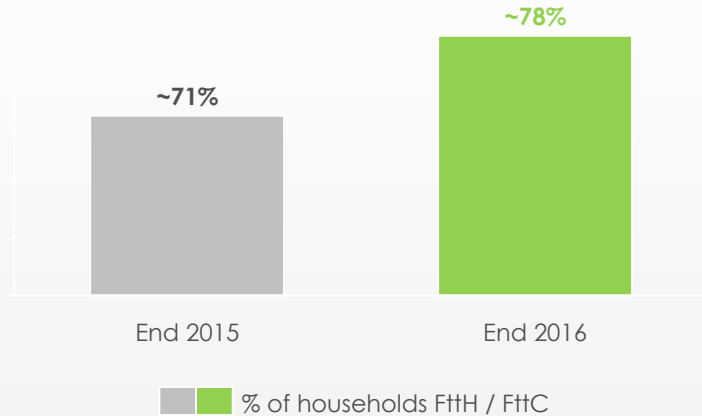


# Next generation access available for majority of households

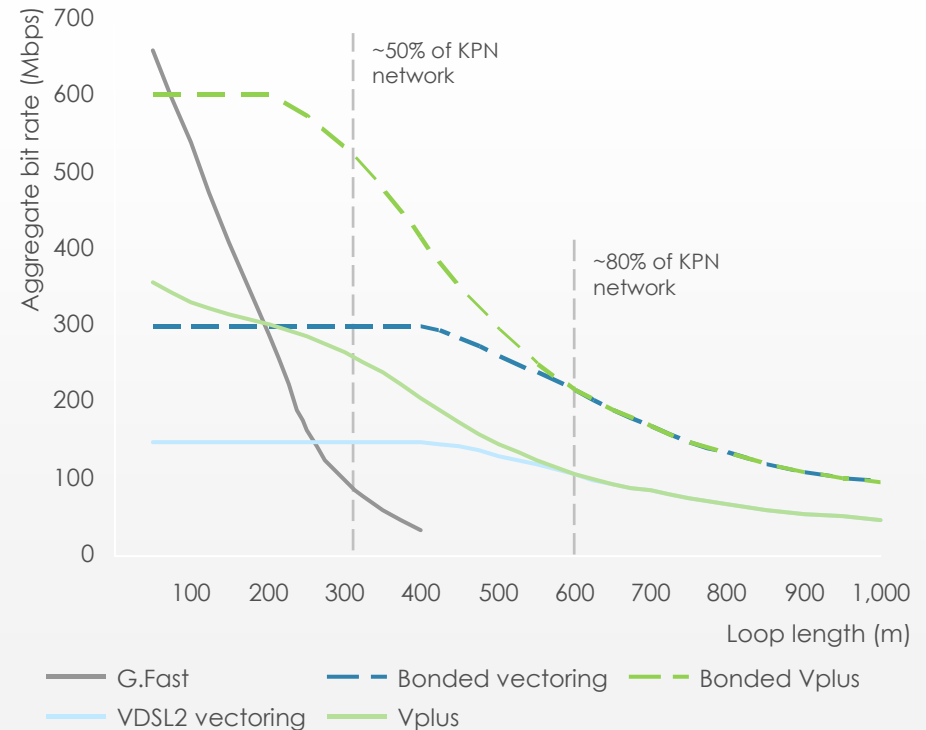
5



FttH/FttC coverage at ~78% of households



Vplus delivering highest stable speeds without changing network architecture<sup>1</sup>



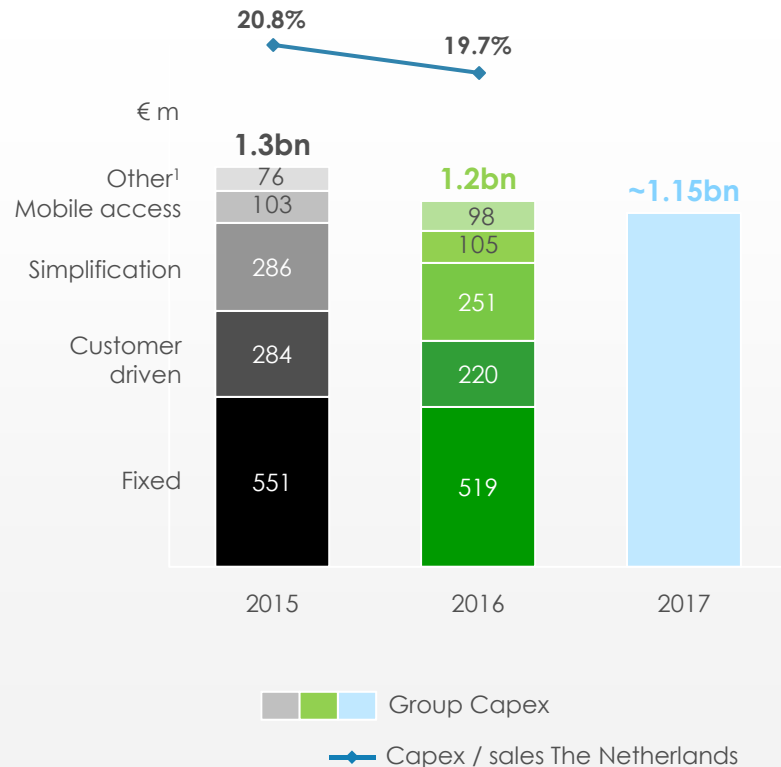
<sup>1</sup> Source: Nokia; bonded speeds based on KPN management estimate

# KPN is ahead of the Capex curve

5



## Capex lower y-on-y



1 Includes iBasis Capex

## Capex projects 2017

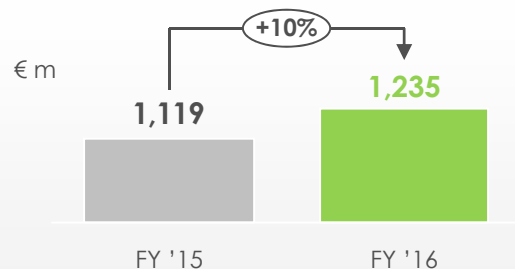
- Investments in second wave Simplification program
- Further strengthening core network and mobile network capacity
- Continued hybrid access roll-out in Business and selected Consumer areas



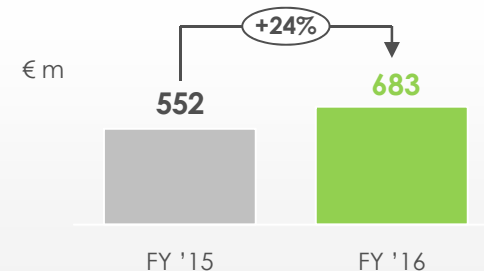
# Free cash flow<sup>1</sup> growth



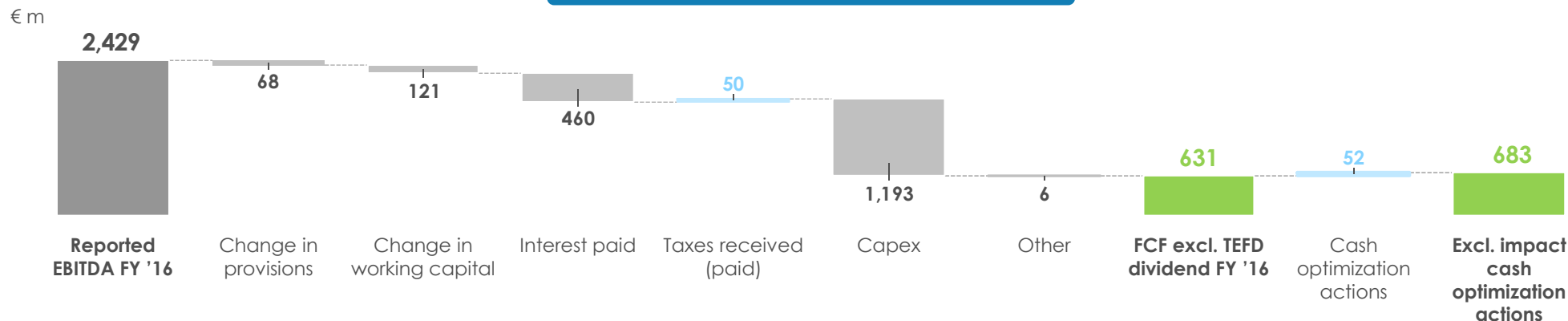
## Growing operating free cash flow<sup>2</sup>...



## ...and free cash flow<sup>3</sup>



## Free cash flow components



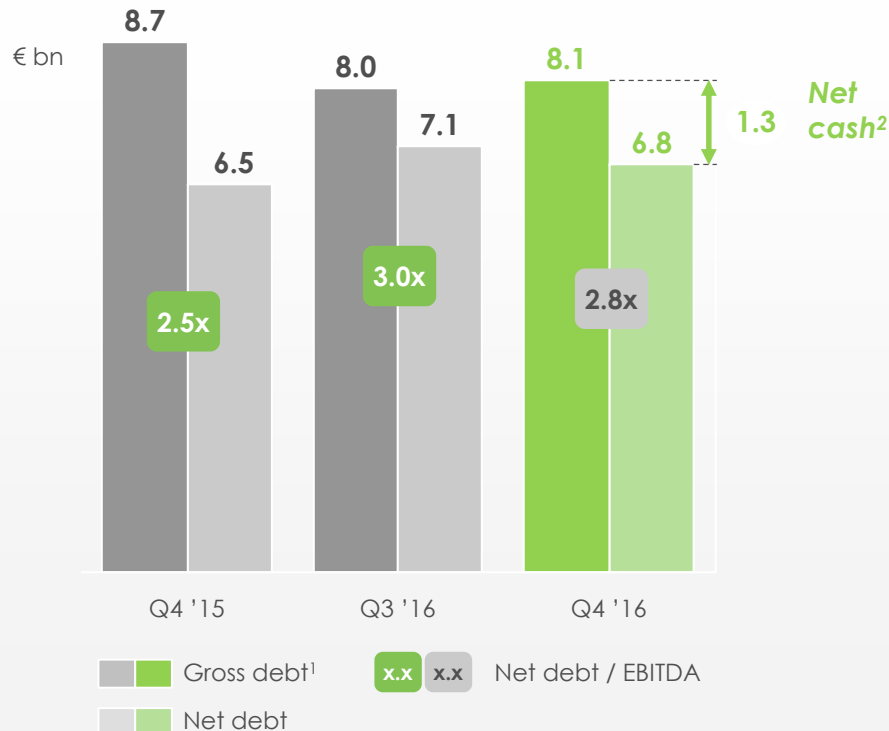
<sup>1</sup> All figures based on continuing operations, unless stated otherwise

<sup>2</sup> Adjusted EBITDA minus Capex

<sup>3</sup> Excluding TEFD dividend; FY '16 excludes € 52m negative impact from cash optimization, consisting of € 40m working capital impact related to reduced payment terms and € 12m additional interest related to the bond tender completed in September



## Lower gross debt y-on-y



## Debt portfolio

- Net debt € 0.3bn lower vs. Q3 '16
  - Mainly a result of cash generation in Q4 '16
- Net debt € 0.3bn higher vs. Q4 '15
  - Q4 '15 included € 805m proceeds from sale of ~5% TEFD, ~70% distributed to KPN shareholders in June 2016
- Average coupon senior bonds 4.1% (Q4 '15: 5.1%)
- € 720m bond redemption on 17 January 2017
  - Financed from available cash
  - Coupon of 4.75%
  - € 34m cash interest savings in 2018

## Financial flexibility

- Additional financial flexibility via 15.5% stake in Telefónica Deutschland

<sup>1</sup> Gross debt defined 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

<sup>2</sup> Including short-term investments (not taking into account 15.5% Telefónica Deutschland stake)



## Outlook 2017

- Adjusted EBITDA in line with 2016
  - Including ~€ 40-50m roaming regulation impact
- Capex ~€ 1.15bn
- Free cash flow (excl. TEFD dividend) growing<sup>1</sup>
- Additional cash flow via expected dividend from 15.5% stake in Telefónica Deutschland

## Shareholder remuneration

- Intended DPS of € 11ct in respect of 2017
- Intention to grow regular DPS in line with FCF growth profile thereafter
- Intention to pass-through TEFD dividend
- Excess cash could be utilized for
  - Operational / financial flexibility
  - (Small) in-country M&A
  - Shareholder remuneration

<sup>1</sup> Compared to 2016 free cash flow, after adjusting for the impact of cash optimization actions, of € 683m



# Q&A

Key priorities on track



1

Accelerate up- and cross-sell in bundles

2

Grow in TV and IT services

3

Finalize Business transformation

4

Finalize build of flexible and simplified integrated network and operating model

5

Expand superior access position by deploying innovative technologies and increasing fiber penetration

6

Optimize financial framework and grow dividend

Simplify

Grow

Innovate

## Q4 2016 – Information Pack

*For further information please contact*

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

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- 7 Fixed infrastructure
- 8 Telefónica Deutschland stake

# KPN ADR program

KPN has a sponsored Level 1 ADR program



|                                   |   |
|-----------------------------------|---|
| Bloomberg ticker                  | KKPNY   |
| Trading platform                  | Over-the-counter (OTC)                                  |
| CUSIP                             | 780641205   |
| Ratio                             | 1 ADR : 1 Ordinary Share                                |
| Depository bank                   | Deutsche Bank Trust Company Americas                    |
| Depository bank contact           | Jonathan Montanaro                                      |
| ADR broker helpline               | +1 212 250 9100 (New York)<br>+44 207 547 6500 (London) |
| E-mail                            | adr@db.com  |
| ADR website                       | www.adr.db.com  |
| Depository bank's local custodian | Deutsche Bank, Amsterdam                                |

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- 7 Fixed infrastructure
- 8 Telefónica Deutschland stake

# Corporate Social Responsibility Strategy



## Successful CSR strategy<sup>1</sup>

2015

18%

vs. 2010



Energy  
reduced

77%

vs. 70% end 2014



Engaged  
employees

73%<sup>2</sup>

vs. 69% end 2014



Secure  
connectivity



Recognition



MEMBER OF  
**Dow Jones  
Sustainability Indices**  
In Collaboration with RobecoSAM



<sup>1</sup> As disclosed in KPN's Integrated Annual Report 2015  
<sup>2</sup> Dutch people that believe their data is safe with KPN

## Social and environmental achievements

- #1 Sustainable Datacenter award (EMEA) by Datacenter Dynamics



- #5 in Workplace Pride Global Benchmark
- KPN sponsors exhibition 'Mad about Surrealism' at museum Boijmans & van Beuningen
- KPN awarded Sponsor of the year award



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- 4 Group KPI overview
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# Group results Q4 '16 (continuing operations)



| (€ m)  | Q4 '16       | Q3 '16       | Q4 '15       | y-on-y %     |
|--|--------------|--------------|--------------|--------------|
| Revenues   | 1,723        | 1,718        | 1,745        | -1.3%        |
| <b>Adjusted revenues</b>                         | <b>1,704</b> | <b>1,711</b> | <b>1,745</b> | <b>-2.3%</b> |
| <b>Operating expenses (excl. D&amp;A)</b>        | <b>1,097</b> | <b>1,053</b> | <b>1,167</b> | <b>-6.0%</b> |
| EBITDA   | 626          | 665          | 578          | 8.3%         |
| <b>Adjusted EBITDA</b>                           | <b>606</b>   | <b>662</b>   | <b>582</b>   | <b>4.1%</b>  |
| Depreciation                                     | 254          | 251          | 282          | -9.9%        |
| Amortization                                     | 126          | 122          | 136          | -7.4%        |
| <b>Operating expenses</b>                        | <b>1,477</b> | <b>1,426</b> | <b>1,585</b> | <b>-6.8%</b> |
| <b>Operating profit</b>                          | <b>246</b>   | <b>292</b>   | <b>160</b>   | <b>54%</b>   |
| Net finance costs                                | -99          | -246         | 127          | n.m.         |
| Share of profit of associates and joint ventures | -1           | 1            | 1            | n.m.         |
| <b>Profit before taxes</b>                       | <b>146</b>   | <b>47</b>    | <b>288</b>   | <b>-49%</b>  |
| Income tax                                       | -31          | -2           | -34          | -8.8%        |
| <b>Profit after taxes</b>                        | <b>115</b>   | <b>45</b>    | <b>254</b>   | <b>-55%</b>  |



# Group results FY '16 (continuing operations)



| (€ m)  | FY '16       | FY '15       | y-on-y %     |
|--|--------------|--------------|--------------|
| Revenues   | 6,806        | 7,008        | -2.9%        |
| <b>Adjusted revenues</b>                         | <b>6,780</b> | <b>7,018</b> | <b>-3.4%</b> |
| <b>Operating expenses (excl. D&amp;A)</b>        | <b>4,377</b> | <b>4,684</b> | <b>-6.6%</b> |
| EBITDA   | 2,429        | 2,324        | 4.5%         |
| <b>Adjusted EBITDA</b>                           | <b>2,428</b> | <b>2,419</b> | <b>0.4%</b>  |
| Depreciation                                     | 1,008        | 1,105        | -8.8%        |
| Amortization                                     | 537          | 511          | 5.1%         |
| <b>Operating expenses</b>                        | <b>5,922</b> | <b>6,300</b> | <b>-6.0%</b> |
| <b>Operating profit</b>                          | <b>884</b>   | <b>708</b>   | <b>25%</b>   |
| Net finance costs                                | -417         | -105         | >100%        |
| Share of profit of associates and joint ventures | -1           | 2            | n.m.         |
| <b>Profit before taxes</b>                       | <b>466</b>   | <b>605</b>   | <b>-23%</b>  |
| Income tax                                       | -96          | -81          | 19%          |
| <b>Profit after taxes</b>                        | <b>370</b>   | <b>524</b>   | <b>-29%</b>  |

# Group cash flow Q4 '16 (continuing operations)



| (€ m)  | Q4 '16     | Q4 '15     | y-on-y %    |
|--|------------|------------|-------------|
| <b>EBITDA</b>                                  | <b>626</b> | <b>578</b> | <b>8.3%</b> |
| Interest paid/received                         | -61        | -71        | -14%        |
| Tax paid/received                              | 6          | 31         | -81%        |
| Change in provisions <sup>1</sup>              | -19        | -43        | -56%        |
| Change in working capital <sup>1</sup>         | 127        | 81         | 57%         |
| Other movements                                | -2         | 1          | n.m.        |
| <b>Net cash flow from operating activities</b> | <b>677</b> | <b>577</b> | <b>17%</b>  |
| Capex  | -298       | -355       | -16%        |
| Proceeds from real estate                      | 2          | 1          | 100%        |
| <b>Free cash flow</b>                          | <b>381</b> | <b>223</b> | <b>71%</b>  |
| Coupon on perpetual hybrid                     | -          | -          | n.m.        |

<sup>1</sup> Excluding changes in deferred taxes

# Group cash flow FY '16 (continuing operations)



| (€ m)  | FY '16       | FY '15       | y-on-y %     |
|--|--------------|--------------|--------------|
| <b>EBITDA</b>                                  | <b>2,429</b> | <b>2,324</b> | <b>4.5%</b>  |
| Interest paid/received                         | -460         | -485         | -5.2%        |
| Tax paid/received                              | 50           | 18           | >100%        |
| Change in provisions <sup>1</sup>              | -68          | -44          | 55%          |
| Change in working capital <sup>1</sup>         | -121         | 30           | n.m.         |
| Other movements                                | 94           | 153          | -39%         |
| <b>Net cash flow from operating activities</b> | <b>1,924</b> | <b>1,996</b> | <b>-3.6%</b> |
| Capex  | -1,193       | -1,300       | -8.2%        |
| Proceeds from real estate                      | 10           | 2            | >100%        |
| <b>Free cash flow</b>                          | <b>741</b>   | <b>698</b>   | <b>6.2%</b>  |
| Coupon on perpetual hybrid                     | -67          | -67          | 0.0%         |

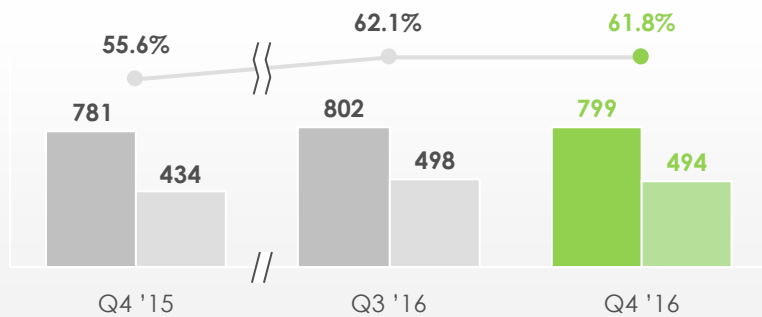
<sup>1</sup> Excluding changes in deferred taxes

# Financials by segment

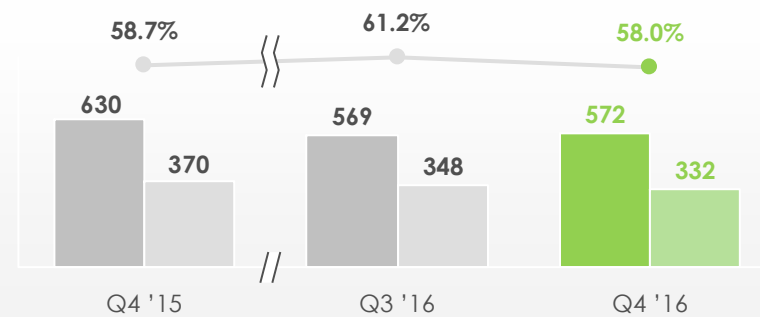
The Netherlands



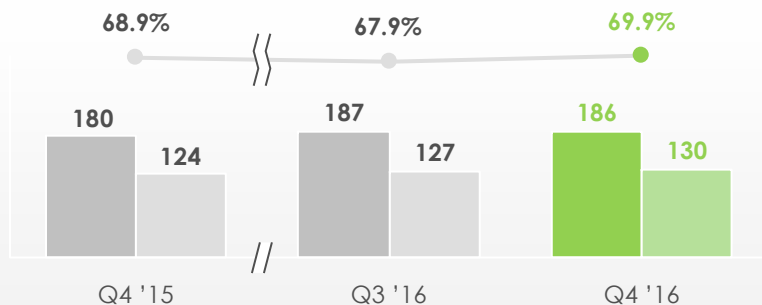
## Consumer



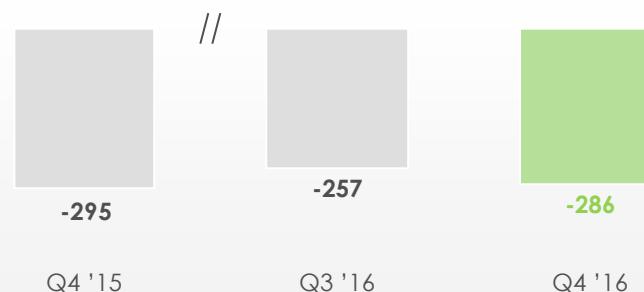
## Business



## Wholesale



## Network, Operations & IT



Adjusted revenues (€ m)

Adjusted EBITDA (€ m)

Adjusted EBITDA margin



| Service revenues (€ m)     | Q4 '16     | Q4 '15     | y-on-y %    |
|----------------------------|------------|------------|-------------|
| Consumer                   | 299        | 284        | 5.3%        |
| Business <sup>1</sup>      | 162        | 176        | -8.0%       |
| Other <sup>2</sup>         | 40         | 38         | 5.3%        |
| <b>KPN The Netherlands</b> | <b>501</b> | <b>498</b> | <b>0.6%</b> |

| FY '16       | FY '15       | y-on-y %     |
|--------------|--------------|--------------|
| 1,178        | 1,160        | 1.6%         |
| 678          | 711          | -4.6%        |
| 156          | 154          | 1.3%         |
| <b>2,012</b> | <b>2,025</b> | <b>-0.6%</b> |

| SAC/SRC per subscriber (€)          | Q4 '16 | Q4 '15 | y-on-y % |
|-------------------------------------|--------|--------|----------|
| Consumer (postpaid) <sup>3</sup>    | 218    | 211    | 3.3%     |
| Business (mobile only – mainly SME) | 177    | 199    | -11%     |

1 Includes mobile-only (mainly SME) service revenues and partial allocation of Multi play (mainly SME) and Customized solutions (mainly LE & Corporate) revenues to mobile service revenues

2 Includes amongst others Wholesale mobile service revenues and visitor roaming

3 Including handset subsidies, commissions and SIM costs



| Regions (€ m)                                   | P&L        |            | Cash flow |           |
|---|------------|------------|-----------|-----------|
|   | Q4 '16     | Q4 '15     | Q4 '16    | Q4 '15    |
| The Netherlands                                 | -31        | -34        | 6         | 31        |
| Belgium   | -          | -28        | -         | -         |
| Other   | -          | -          | -         | -         |
| <b>Total reported tax</b>                       | <b>-31</b> | <b>-62</b> | <b>6</b>  | <b>31</b> |
| <i>Of which discontinued operations</i>         | -          | -28        | -         | -         |
| <b>Reported tax from continuing operations</b>  | <b>-31</b> | <b>-34</b> | <b>6</b>  | <b>31</b> |
| <i>Effective tax rate continuing operations</i> | 21.1%      | 11.8%      |           |           |

- The effective tax rate for Q4 '16 is influenced by one-off effects and a change of the mix of profits and losses in the various countries
  - Without one-off effects, in Q4'16 the effective tax rate would have been ~22%
- The effective tax rate Q4 '15 was 11.8%, mainly due to recognition of liquidation losses
- For the 2017-2018 period, the effective tax rate, excluding one-off effects<sup>1</sup>, is expected to be ~21%

<sup>1</sup> Amongst others, settlements with tax authorities, impairments, revaluations



| Regions (€ m)                                   | P&L        |             | Cash flow |           |
|---|------------|-------------|-----------|-----------|
|   | FY '16     | FY '15      | FY '16    | FY '15    |
| The Netherlands                                 | -91        | -76         | 52        | 22        |
| Belgium   | 3          | -26         | -         | 1         |
| Other   | -5         | -5          | -2        | -4        |
| <b>Total reported tax</b>                       | <b>-93</b> | <b>-107</b> | <b>50</b> | <b>19</b> |
| <i>Of which discontinued operations</i>         | 3          | -26         | -         | 1         |
| <b>Reported tax from continuing operations</b>  | <b>-96</b> | <b>-81</b>  | <b>50</b> | <b>18</b> |
| <i>Effective tax rate continuing operations</i> | 20.6%      | 13.4%       |           |           |

- The effective tax rate FY '16 was 20.6%
  - The effective tax rate is influenced by one-off effects and a change of the mix of profits and losses in the various countries. Without one-off effects, the effective tax rate would have been ~22% in FY 2016
- The effective tax rate FY '15 was 13.4%, mainly due to reversals related to previous years and recognition of liquidation losses
- For the 2017-2018 period, the effective tax rate, excluding one-off effects<sup>1</sup>, is expected to be ~21%

<sup>1</sup> Amongst others, settlements with tax authorities, impairments, revaluations

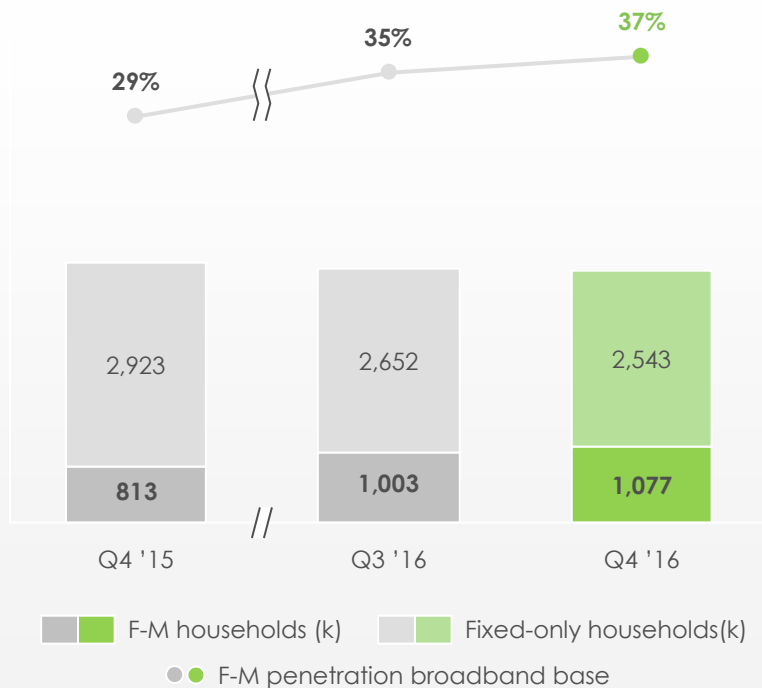
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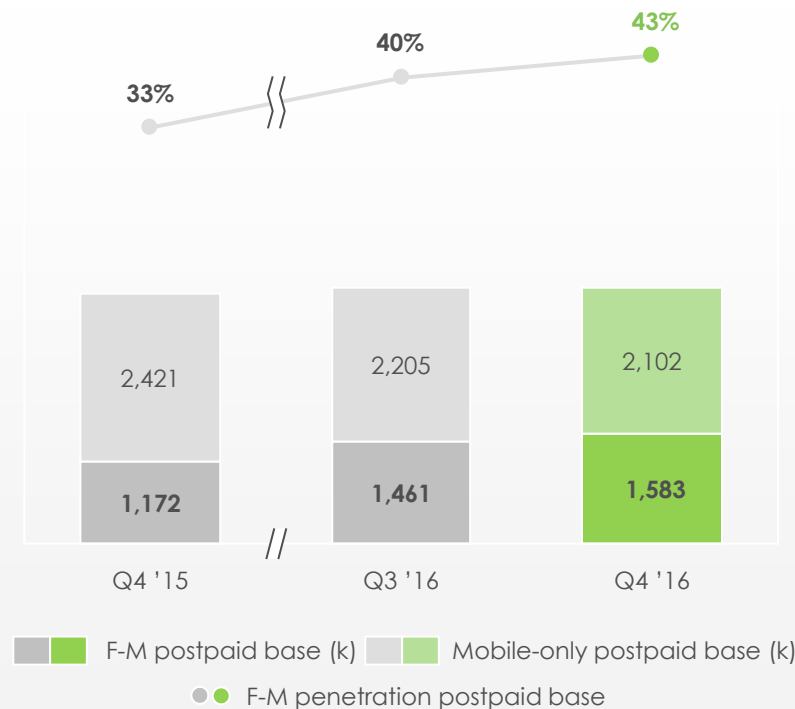




### Fixed-Mobile household development



### Fixed-Mobile postpaid development

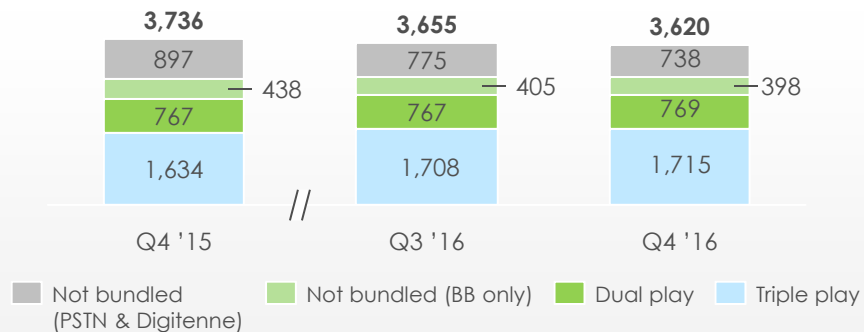


# Consumer (cont'd)

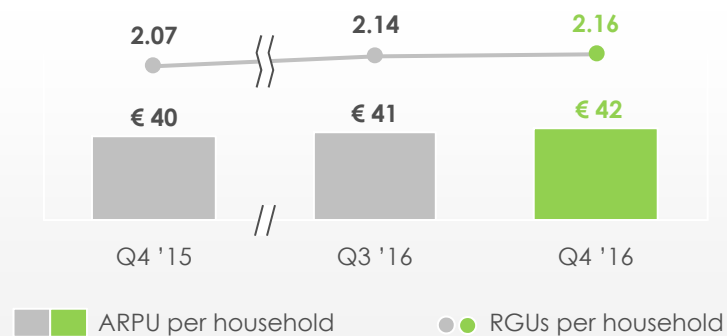
## Residential KPIs



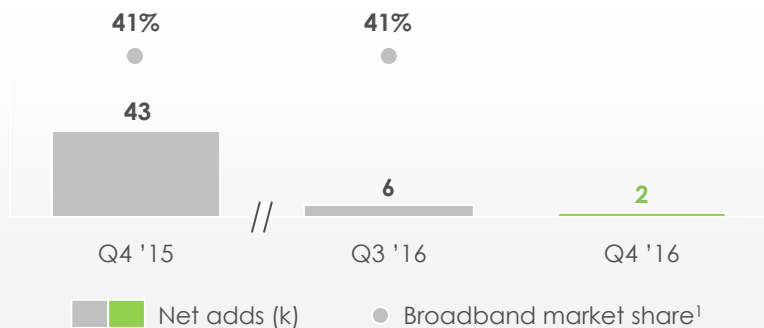
### Household base (k)



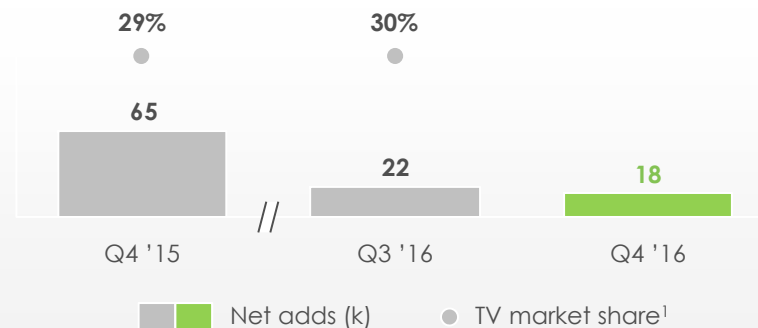
### RGUs and ARPU per household



### Broadband



### IPTV



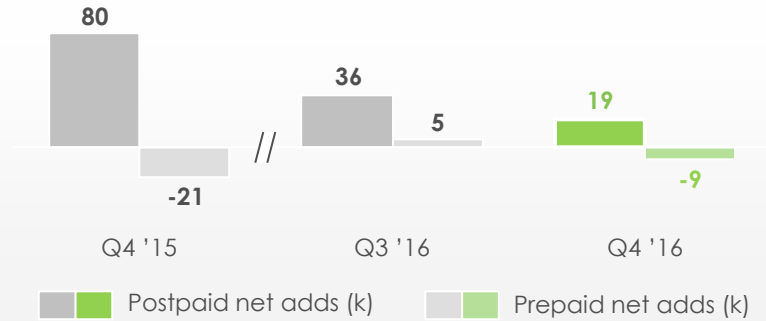
<sup>1</sup> Source: Telecompaper

# Consumer (cont'd)

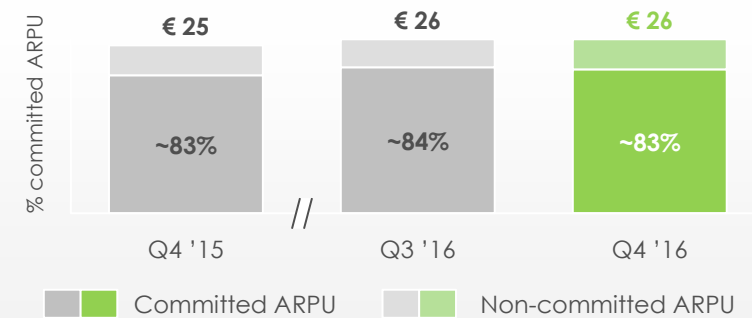
## Mobile KPIs



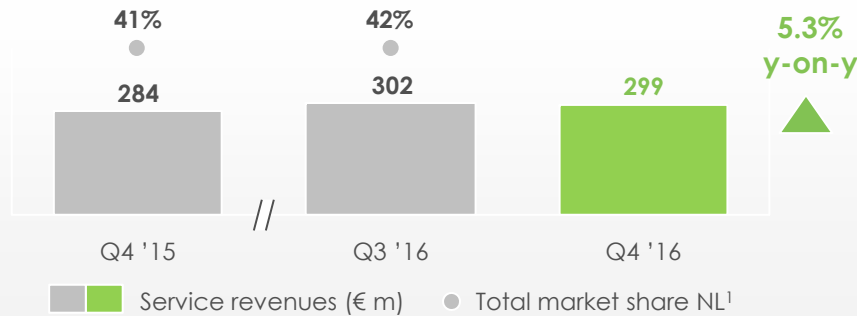
### Mobile net adds



### Mobile postpaid ARPU

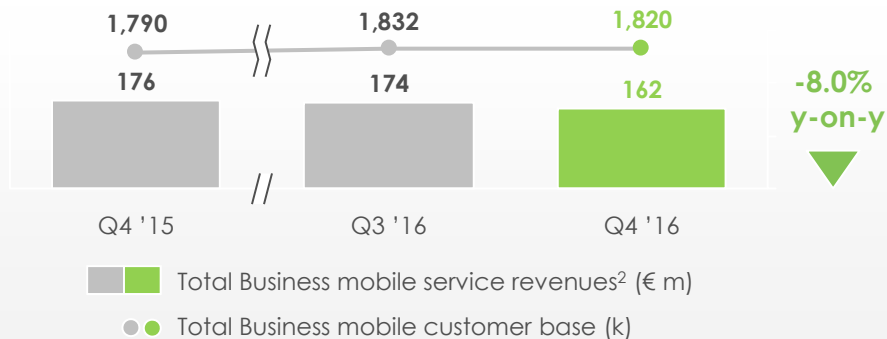


### Wireless service revenues

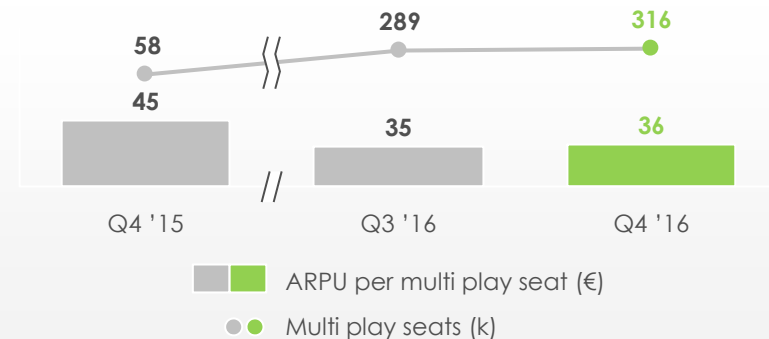




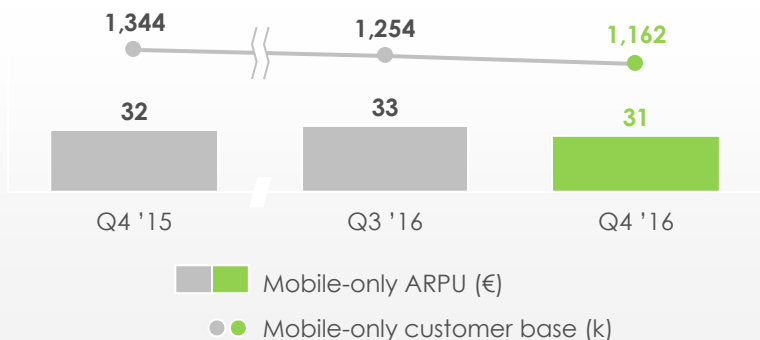
## Total Business Mobile<sup>1</sup>



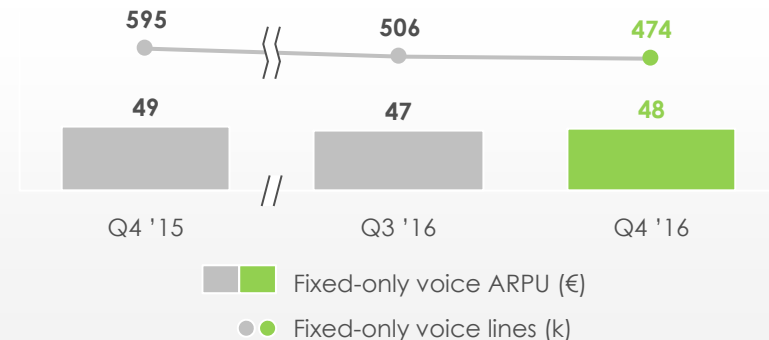
## Multi play (mainly SME)<sup>3</sup>



## Mobile-only (mainly SME)<sup>1</sup>



## Fixed-only (mainly SME)



<sup>1</sup> Including migration of 32k Dekatel customers per Q3 '16, following acquisition of Dekatel  
<sup>2</sup> Includes mobile-only (mainly SME) service revenues and partial allocation of Multi play (mainly SME) and Customized solutions (mainly LE & Corporate) revenues to mobile service revenues  
<sup>3</sup> Including migration of 201k RoutIT multi play seats per Q2 '16, following acquisition remaining shares RoutIT

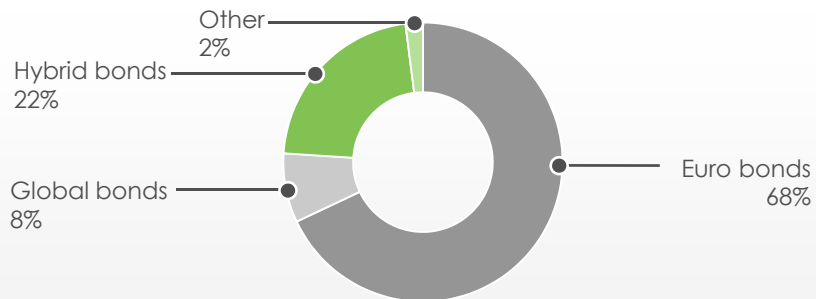
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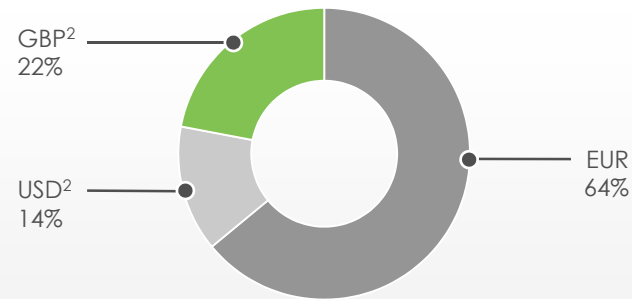
# Debt portfolio



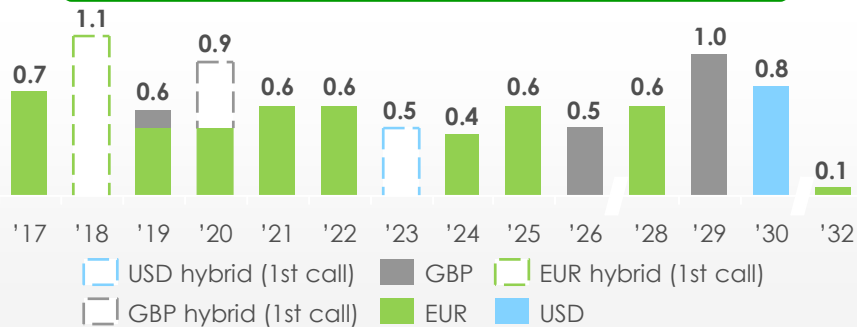
## Breakdown nominal debt<sup>1</sup> (total € 9.0bn)



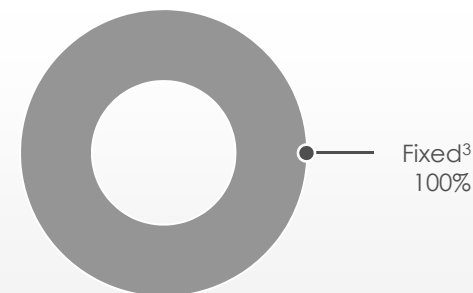
## Nominal debt by currency



## Bond redemption profile (€ bn)



## Fixed vs. floating interest



<sup>1</sup> Based on the nominal value of interest bearing liabilities after swap to EUR, including € 1.1bn hybrid bond, GBP 400m hybrid bond and USD 600m hybrid bond

<sup>2</sup> Foreign currency amounts hedged into EUR

<sup>3</sup> 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

- EUR tranche is a perpetual, accounted for as equity
  - Coupon payments treated as equity distribution, hence not expensed through P&L, not included in FCF, but in financing cash flow<sup>1,2</sup>
- 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) <sup>1</sup> | IFRS principal | IFRS coupon   |
|------------------|-----------------|-----------------|--------------------------|------------------------------|----------------|---|
| EUR 1.1bn 6.125% | € 1,100m        | € 550m          | Perpetual (non-call 5.5) | 6.125%                       | Equity         | Financing cash flow <sup>2</sup> (not incl. in FCF) |
| GBP 0.4bn 6.875% | € 460m          | € 230m          | 60 years (non-call 7)    | 6.777%                       | Liability      | Interest paid (incl. in FCF)                        |
| USD 0.6bn 7.000% | € 465m          | € 233m          | 60 years (non-call 10)   | 6.344%                       | Liability      | Interest paid (incl. in FCF)                        |
| <b>Total</b>     | <b>€ 2,025m</b> | <b>€ 1,013m</b> |                          |                              |                |   |

<sup>1</sup> EUR tranche had short first coupon payment (0.5 years was payable in September 2013), annual coupon payments in September thereafter; USD tranche has semi-annual coupon payments (March / September); GBP tranche has annual coupon payments in March

<sup>2</sup> Cash flow item 'Paid coupon perpetual hybrid bonds'

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# Spectrum in The Netherlands

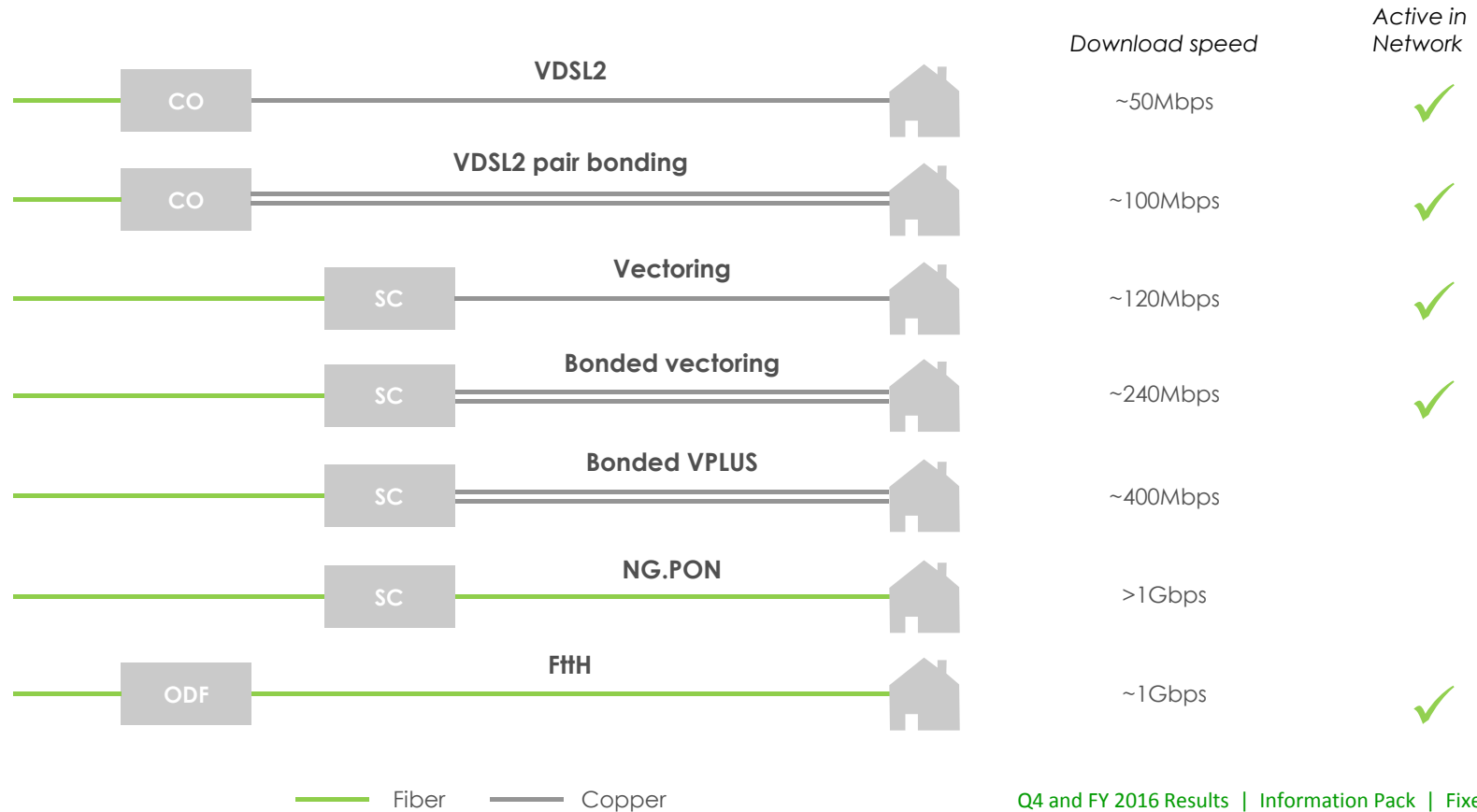


|                      |                 |                 |                 |                |                 |               |  |          |
|----------------------|-----------------|-----------------|-----------------|----------------|-----------------|---------------|--|----------|
| 800MHz<br>(Paired)   | Tele2<br>2*10   | VOD<br>2*10     | KPN<br>2*10     |                |                 |               |  | 2*30     |
| 900MHz<br>(Paired)   | VOD<br>2*10     | KPN<br>2*10     | T-Mob<br>2*15   |                |                 |               |  | 2*35     |
| 1.8GHz<br>(Paired)   | KPN<br>2*20     | VOD<br>2*20     | T-Mob<br>2*30   |                |                 |               |  | 2*70     |
| 2.1GHz<br>(Paired)   | VOD<br>2*14.6   | KPN<br>2*14.8   | T-Mob<br>2*10   | KPN<br>2*5     | VOD<br>2*5      | T-Mob<br>2*10 |  | 2*59.4   |
| 2.6GHz<br>(Unpaired) | T-Mob<br>25     | KPN<br>30       | Tele2<br>5      |                |                 |               |  | 1*60     |
| 2.6GHz<br>(Paired)   | VOD<br>2*10     | Ziggo4<br>2*20  | T-Mob<br>2*5    | KPN<br>2*10    | Tele2<br>2*20   |               |  | 2*65     |
| Total                | KPN<br>169.6MHz | VOD<br>139.2MHz | T-Mob<br>165MHz | Tele2<br>65MHz | Ziggo4<br>40MHz |               |  | 578.8MHz |

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# Fixed infrastructure



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### Balance sheet

- Stake included as financial asset<sup>1</sup>
- Fair value of KPN's stake based on Telefónica Deutschland's share price and adjusted quarterly
  - Fair value movements recorded in *other comprehensive income*
  - Significant or prolonged value decreases booked as an impairment through the P&L within *net finance costs*

### P&L

- Dividends received reported as finance income within *net finance costs*
- Upon sale of (part of) the stake, all related capital gains or losses recognized through the P&L as *financial income*
- Significant or prolonged value decreases booked as an impairment through the P&L within *net finance costs*

### Cash flow statement

- Dividends received part of operating cash flow and free cash flow as *dividends received*

### Tax

- Dividends, not qualifying as specific capital repayments, received and/or capital gains realized (proceeds above tax book value) on KPN's stake are subject to Dutch corporate income tax
- Deferred tax asset can be utilized to offset income related to KPN's stake

<sup>1</sup> Defined under IFRS as available-for-sale financial asset