Third quarter 2019 results

Operational highlights

- Consumer performance impacted by strategic actions and ongoing competition
  - Record-high Consumer NPS of +18 (Q3 2018: +17)
  - Convergence: +5k fixed-mobile households, 49% of broadband base (Q3 2018: 45%); +15k fixed-mobile postpaid customers, 62% of postpaid base (Q3 2018: 56%)
  - Fixed: -17k[1] broadband and -2k IPTV net adds; ARPU increased 5.4% y-on-y to € 48
  - Mobile: +36k KPN brand postpaid net adds, -3k postpaid customer base across all brands; postpaid ARPU of € 17, flat sequentially and 6.3% lower y-on-y

- Good progress with customer migrations in Business
  - Business NPS improved to -1 y-on-y (Q3 2018: -2)
  - 68% of SME and 45% of LE customers migrated from traditional fixed voice or legacy broadband services

- Continued solid progress on simplification and digitalization of the company
  - Net indirect opex savings of € 37m in Q3 2019, € 103m YTD 2019

Key figures

Group financials (unaudited) *(in € m, unless stated otherwise)*	**Q3 2018**	**Q3 2019**	**Δ y-on-y**	**YTD 2018**	**YTD 2019**	**Δ y-on-y**
Adjusted revenues	1,398	1,372	-1.8%	4,202	4,093	-2.6%
EBITDA	588	808	37%	1,782	1,980	11%
Adjusted EBITDA after leases	**582**	**599**	**2.9%**	**1,720**	**1,756**	**2.1%**
As % of adjusted revenues	*41.6%*	*43.6%*		*40.9%*	*42.9%*	
Operating profit (EBIT)	202	429	>100%	635	839	32%
Net profit	94	314	>100%	338	530	57%
Capex	257	262	2.2%	737	793	7.6%
Free cash flow (excluding TEFD dividend, book profit NLDC, and revenue incidental in Wholesale)	**231**	**226**	**-2.2%**	**574**	**442**	**-23%**

Financial highlights

- Adjusted revenues 1.8% lower y-on-y
  - Growth in bundled services in Consumer, security and workspace services and Professional Services in Business, and Wholesale
  - Offset by a decline in legacy services, continued pressure in mobile and lower hardware revenues

- Growth in adjusted EBITDA after leases (+2.9% y-on-y)
  - Effect of lower revenues more than offset by € 37m net indirect opex savings resulting from accelerated simplification and digitalization

- Net profit of € 314m, € 220m higher y-on-y
  - Impacted by € 171m book profit from the sale of NLDC and an incidental € 20m release of revenue related provisions in Wholesale. Excluding incidentals, net profit would have increased with € 30m (+32% y-on-y)

- Free cash flow (excluding TEFD dividend, book profit NLDC, and revenue incidental in Wholesale) of € 442m YTD 2019, € 132m lower compared to YTD 2018
  - Negative change in working capital expected to partially recover in Q4 2019
  - Higher Capex y-on-y mainly due to accelerated fiber roll-out

[1] Corrected for migrations to, and new customers of, small business proposition (7k)

Message from the CEO, Joost Farwerck

"I am proud to have assumed the role of CEO of KPN. My primary focus will be to execute and deliver on the current strategy.

Overall, we made good progress on the execution of our strategy in the third quarter and our financial results were solid. Our quarterly performance continues to reflect a mix of an ongoing competitive environment and the impact of our strategic actions. The integration of the Telfort brand and customer migrations in our Business segment have an adverse effect on revenues in the short to medium term. On the other hand, we continue to execute strong and disciplined cost control resulting once again in solid growth in adjusted EBITDA after leases.

On the network side, we have further accelerated the ramp up of our fiber roll-out in the Netherlands and our mobile network modernization is delivering promising early results. We successfully tested our 5G network using multiple 5G field lab locations in the Netherlands. During these tests, we realized a download speed of 1.3 gigabit per second, demonstrating that we are on the forefront of 5G in the Netherlands.

We firmly believe that being a leader in sustainability is vital to preserving our competitive advantage and securing the long-term interests of all our stakeholders. I am therefore pleased that Dow Jones Sustainability Indices recently recognized KPN as the world's second most sustainable telecom company."

Outlook 2019 and 2019 – 2021 ambitions

	Outlook 2019	2019 – 2021 ambitions
Adjusted EBITDA AL	Slightly growing compared with 2018	Organic growth
Capex	€ 1.1bn	Stable at € 1.1bn annually
FCF (excl. TEFD dividend)	At least € 700m*	Three-year mid-single digit CAGR** driven by EBITDA AL growth
Regular DPS	€ 12.5 cents	Progressive dividend, supported by FCF

* Previous outlook: "Incidentally lower FCF compared with 2018 due to front-end loaded restructuring charges and adverse phasing of working capital"
** Three-year CAGR calculated from the end of 2018 to the end of 2021

Shareholder remuneration and financial profile

KPN intends to pay a regular dividend per share of € 12.5 cents in respect of 2019. An interim dividend of € 4.2 cents was paid in August 2019. KPN aims for sustainable FCF (excl. TEFD dividend) growth, driving a progressive regular dividend per share and deleveraging.

KPN remains committed to an investment grade credit profile and aims for a leverage ratio of <2.5x in the medium-term (Q3 2019: 2.3x). KPN has a credit rating of BBB with a stable outlook from Standard & Poor's and Fitch Ratings, and Baa3 with a stable outlook from Moody's.

Press release
25 October 2019

All related documents can be found on KPN's website:
[ir.kpn.com](ir.kpn.com)

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25/10/2019; 7:30h

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

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.

Financial and operating review KPN Group

(in € m)	Q3 2018	Q3 2019	Δ y-on-y	YTD 2018	YTD 2019	Δ y-on-y
Adjusted revenues						
Consumer	748	731	-2.2%	2,230	2,182	-2.1%
Business	520	502	-3.6%	1,589	1,514	-4.7%
Wholesale	157	166	5.2%	465	482	3.6%
Network, Operations & IT	1	1	-22%	9	4	-56%
Other (incl. eliminations)	-29	-27	-5.5%	-90	-89	-1.6%
KPN Group	**1,398**	**1,372**	**-1.8%**	**4,202**	**4,093**	**-2.6%**

Consumer

KPN's focus on value and convergence enabled it to further strengthen its position as a leading converged operator in the Netherlands. This was visible in an increased fixed-mobile customer base and solid growth of KPN brand postpaid customers. KPN further enhanced the customer experience through a repositioning of the brand and the launch of a new fully converged proposition in the beginning of October. This new proposition is the first fully flexible household proposition in the Netherlands and provides complete freedom for customers to mix and match services to their needs.

In Q3 2019, Consumer NPS increased to a record-high +18 (Q3 2018: +17). Following a quarter that was strongly supported by the integration of the Telfort brand, in Q3 2019 KPN's converged household base grew by 5k to 1,404k, representing 49% of broadband customers (Q3 2018: 45%). The converged postpaid customer base grew by 15k to 2,246k, representing 62% of postpaid customers (Q3 2018: 56%). Fixed-mobile penetration for the high value KPN brand postpaid customers reached 73% (Q3 2018: 68%).

KPN's broadband net adds were -17k, adjusted for migrations from Consumer to the proposition for small businesses and new customers for this proposition (7k). The IPTV customer base declined by 2k. The decline in broadband and IPTV customers was mainly driven by the integration of the Telfort brand as acquisition of customers at the lower end of the market was discontinued. Fixed ARPU increased 5.4% y-on-y to € 48 in Q3 2019, mainly driven by price adjustments effective 1 June 2019, higher inflow ARPU following the integration of Telfort and a declining customer base for PSTN and Digitenne services. Fixed revenues grew 0.1% y-o-y. Increasing revenues from bundled services were largely offset by lower revenues from legacy services.

The full focus on the high value KPN brand resulted in 36k postpaid net adds for the KPN brand in Q3 2019. Ongoing dynamics in the no-frills market continued to impact Telfort and Simyo. Consequently, the total postpaid customer base declined with 3k in Q3 2019. Postpaid ARPU remained flat q-on-q at € 17 (-6.3% y-on-y) and inflow ARPU increased sequentially. Mobile service revenues declined 7.6% y-on-y, mainly driven by lower postpaid ARPU and continued pressure on the prepaid segment.

Adjusted revenues in Consumer declined by 2.2% y-on-y in Q3 2019, fully driven by lower mobile service revenues and lower mobile handset sales.

Business

In the Business segment, KPN focuses on value-over-volume, a strategy designed to leverage KPN's leading market positions, high-quality brand perception, and solid reputation to develop more profitable revenues in the years to come. Part of this strategy is an emphasis on a future-proof, simplified product portfolio and network upgrades with improved access speeds. KPN's one-stop-shop of standardized and converged solutions is designed to replace tailor made single-play services as customers are moving away from traditional on-premise IT environments to (public) cloud solutions.

As of September 1, the service for ISDN (1/2) and PSTN multiple has ended and KPN will shut down these lines starting with the SME segment till definite shutdown of the service per 1 April 2020. Since the announcement, most ISDN customers have now switched to a future-proof alternative like KPN EEN, KPN Kleinzakelijk (small business proposition), or Smart Combinations. At the end of Q3 2019, 68% of SME customers and 45% of LE customers eligible for migration have migrated from traditional fixed voice or legacy broadband services. Although negatively impacting service revenues from Fixed Voice in the shorter term mainly due to rationalization, this provides significant opportunities for up and cross-sell of additional services on the target portfolio and cost reductions from moving to lean and digital operations. In addition, it supports lower churn as the future-proof KPN EEN platform, KPN Kleinzakelijk, and Smart Combinations improve customer experience and value creation for customers.

The newly introduced Cloud Communications and Secure Networking propositions for LCE are the first of new Smart Combinations to come for the Business Market. The other Smart Combinations propositions will follow in coming quarters. In this area too, migrations will lead to lower revenues after introduction but will improve loyalty and reduce churn.

During the quarter, KPN Security won the tender for municipal procurement of ‘GGI-Veilig’. This concerns the delivery of security products and services to more than 330 municipalities and municipal partnerships. Business customer satisfaction in the quarter improved y-on-y to an NPS of -1 (Q3 2018: -2).

In the third quarter, adjusted revenues in Business declined 3.6% y-on-y mainly due to Communication Services partially compensated by IT services and Professional Service & Consultancy. This decline was impacted considerably by planned strategic actions KPN undertook in the segment, such as the migrations from traditional technology to KPN EEN and by lower revenues from hardware compared to last year due to KPN’s ‘value over volume’ strategy. KPN continued to experience pressure in the Large Enterprise and Corporate segments as customers focus on simplifying their IT landscape with a value-for-money approach. The service revenue trend in the Business segment was less negative than the trend for total revenues in Q3 2019.

In Q3 2019, revenues from Communication Services declined 8.9% y-on-y. This was mainly driven by lower revenues from Fixed Voice (-21% y-on-y) because pro-active migrations to KPN EEN cloud telephony continued, and by lower mobile service revenues (-7.7% y-on-y) because of the ongoing competitive environment, particularly in the Large Enterprise segment. This was partly offset by growth of KPN’s IoT solution (+24% y-on-y). Over the past 12 months KPN’s M2M base grew by 1.4m SIMs to 5.9m at the end of Q3 2019.

Revenues from IT Services increased 1.2% y-on-y in Q3 2019, mainly driven by security and workspace services.

Revenues from Professional Services & Consultancy grew 9.3% y-on-y in the quarter. This was mainly driven by new customers and more cross and up-sell on existing customers.

Wholesale

Adjusted revenues in Wholesale increased by 5.2% y-on-y in Q3 2019. Higher mobile service revenues were driven by a higher number of data users and increasing data usage. Higher fixed revenues were mainly driven by Wholesale Broadband Access (WBA), partly offset by lower revenues from traditional fixed portfolio (WLR) and international terminating traffic. The sale of KPN’s data center subsidiary NLDC was closed on 30 September 2019.

Network, Operations & IT

KPN has started the modernization of its mobile network, in its aim to improve mobile networks in the coming years and making it 5G-ready by the end of 2021. In The Hague area, the first sites were upgraded with the latest mobile RAN equipment. The new sites are capable of using six to eight spectrum bands, compared to an average of four bands in our existing network. In addition, mobile sites are upgraded with (massive) MIMO technology and the backhaul is upgraded to 10Gbps. First results are encouraging, with download speeds significantly improving following the upgrade.

In its aim to deliver on one million extra FttH households by end 2021, KPN continued to ramp up its accelerated fiber roll-out. Construction, or advanced preparation thereof has currently started in more than 60 areas. Since the start of the year, KPN has connected approximately 70k homes with FttH. Furthermore, KPN commissioned its first operational DSLAM with G-PON and XGS-PON. This will further strengthen the performance of KPN’s fiber network.

Operating expenses*

(in € m)	Q3 2018	Q3 2019	Δ y-on-y	YTD 2018	YTD 2019	Δ y-on-y
Cost of goods & services	330	328	-0.7%	978	939	-3.9%
Personnel expenses	272	244	-10%	831	773	-7.0%
IT/TI	96	85	-12%	310	269	-13%
Other operating expenses	72	75	4.0%	228	230	0.8%
Total adjusted operating expenses	**771**	**732**	**-5.0%**	**2,346**	**2,211**	**-5.8%**
Depreciation right-of-use asset	37	34	-7.6%	111	104	-5.8%
Interest lease liabilities	8	7	-11%	25	22	-12%
Total adjusted indirect operating expenses after leases	**486**	**446**	**-8.3%**	**1,505**	**1,398**	**-7.1%**
Adjusted EBITDA after leases	**582**	**599**	**2.9%**	**1,720**	**1,756**	**2.1%**

* Operating expenses adjusted for restructuring and incidentals, excluding D&A

Adjusted EBITDA after leases increased 2.9% y-on-y in Q3 2019. Lower revenues were fully offset by savings from accelerated simplification and digitalization. In Q3 2019, the adjusted EBITDA AL margin increased to 43.6% (Q3 2018: 41.6%).

In Q3 2019, costs of goods & services declined 0.7% y-on-y, supported by lower traffic costs. Personnel expenses declined 10% y-on-y, due to a reduction in own and temporary personnel. IT/TI expenses declined 12% y-on-y in Q3 2019, largely driven by simplification of networks and contract renegotiations with suppliers.

Accelerating simplification and digitalization drives substantial improvements in quality and customer experience and results in structural savings. In Q3 2019, the program realized indirect opex savings of € 37m. Total indirect opex savings since the start of 2019 are € 103m. KPN expects to realize approximately € 350m net indirect opex savings over the period 2019 – 2021.

Profit, Capex, FCF and financial position KPN Group

In Q3 2019, Group operating profit (EBIT) increased € 227m y-on-y to € 429m. This was mainly driven by a book gain of € 171m on the sale of KPN's data center subsidiary NLDC and an incidental € 20m release of revenue related provisions in Wholesale. Excluding these effects, EBIT would have grown 18% y-on-y, mainly driven by disciplined cost control.

Net profit of € 314m was € 220m higher y-on-y in Q3 2019. Excluding the incidentals that impacted operating profit, net profit would have increased with € 30m, or 32% y-on-y. Higher operating profit and lower finance costs were partly offset by increased taxes.

Capex increased by 2.2% to € 262m in Q3 2019. Capex YTD 2019 increased by 7.6% to € 793m, mainly driven by higher access investments.

Free cash flow (excl. TEFD dividend) of € 226m in Q3 2019 was € 5m, or 2.2% lower y-on-y. Free cash flow (excl. TEFD dividend) of € 442m YTD 2019 was € 132m, or 23% lower compared to the same period last year. This y-on-y decline was mainly driven by € 59m negative impact from change in working capital, € 56m higher Capex, and € 68m negative impact from change in provisions including the incidental € 20m release of revenue related provisions. This was partly offset by € 17m lower cash taxes paid. The change in working capital is partly driven by higher Capex in Q4 2018 leading to additional payments in H1 2019, by installments paid to fiber contractors, and by lower opex due to cost savings. The negative change in provisions is mainly due to large dotation to restructuring provision in Q3 2018.

As of 30 September 2019, net debt amounted to € 5,306m, € 248m lower compared to the end of Q2 2019. The movement in net debt was mainly driven by free cash flow generation during the quarter and the book profit on the sale of NLDC, partly offset by the interim dividend payment in August 2019. At the end of Q3 2019, KPN's leverage ratio was 2.3x (Q2 2019: 2.4x). This includes the equity credit on the hybrid bonds representing 0.2x net debt to EBITDA. In Q3 2019, the average coupon on senior bonds was 3.5%, 30bps lower y-on-y.

At the end of Q3 2019, Group equity amounted to € 1,841m, an increase of € 167m compared to 30 June 2019. This was mainly driven by net profit generated during the quarter, partly offset by the interim dividend payment in August 2019.

Analysis of adjusted results Q3 and YTD 2019

The following table shows the reconciliation between reported revenues and adjusted revenues:

Revenues *(in € m)*	**Q3 2018**	**Q3 2019**	**Δ y-on-y**	**YTD 2018**	**YTD 2019**	**Δ y-on-y**
Consumer	748	731	-2.2%	2,230	2,182	-2.1%
Business	520	502	-3.6%	1,589	1,514	-4.7%
Wholesale	157	356	>100%	465	672	45%
Network, Operations & IT	1	1	-22%	9	4	-56%
Other (incl. eliminations)	-29	-27	-5.5%	-90	-89	-1.6%
Total revenues	**1,398**	**1,563**	**12%**	**4,202**	**4,283**	**1.9%**
Revenues incidentals						
Consumer	-	-	n.m.	-	-	n.m.
Business	-	-	n.m.	-	-	n.m.
Wholesale	-	190	n.m.	-	190	n.m.
Network, Operations & IT	-	-	n.m.	-	-	n.m.
Other (incl. eliminations)	-	-	n.m.	-	-	n.m.
Total revenues incidentals	**-**	**190**	**n.m.**	**-**	**190**	**n.m.**
Consumer	748	731	-2.2%	2,230	2,182	-2.1%
Business	520	502	-3.6%	1,589	1,514	-4.7%
Wholesale	157	166	5.2%	465	482	3.6%
Network, Operations & IT	1	1	-22%	9	4	-56%
Other (incl. eliminations)	-29	-27	-5.5%	-90	-89	-1.6%
Total adjusted revenues	**1,398**	**1,372**	**-1.8%**	**4,202**	**4,093**	**-2.6%**

The following table specifies the revenue incidental in more detail:

Revenue incidentals *(in € m)*	**Segment**	**Q3 2018**	**Q3 2019**	**YTD 2018**	**YTD 2019**
Book gain on sale of NLDC	Wholesale	-	171	-	171
Change in revenue related provision	Wholesale		20		20
Total revenue incidentals		**-**	**190**	**-**	**190**

The following table shows the reconciliation between reported EBITDA and adjusted EBITDA after leases:

(in € m)	**Q3 2018**	**Q3 2019**	**Δ y-on-y**	**YTD 2018**	**YTD 2019**	**Δ y-on-y**
EBITDA	**588**	**808**	**37%**	**1,782**	**1,980**	**11%**
Incidentals	-	-190	n.m.	-	-190	n.m.
Restructuring	39	23	-42%	74	93	25%
Lease-related expenses						
Depreciation right-of-use asset	-37	-34	-7.6%	-111	-104	-5.8%
Interest lease liabilities	-8	-7	-11%	-25	-22	-12%
Adjusted EBITDA after leases	**582**	**599**	**2.9%**	**1,720**	**1,756**	**2.1%**

The following table specifies the EBITDA incidental in more detail:

EBITDA incidentals *(in € m)*	**Category**	**Q3 2018**	**Q3 2019**	**YTD 2018**	**YTD 2019**
Book gain on sale of NLDC	Revenues	-	171	-	171
Change in revenue related provisions	Revenues		20		20
Total EBITDA incidentals		**-**	**190**	**-**	**190**