

Second Quarter 2018 Results

Highlights

- Focus on value and convergence delivers ongoing success in Consumer
 - +19k fixed-mobile households, reaching 44% of broadband base (Q2 '17: 40%)
 - +46k fixed-mobile postpaid customers, representing 54% of postpaid base (Q2 '17: 47%)
- Retention of high value customers; competitive pressure on single-play services
 - Flat KPN brand postpaid net adds and -10k no frills, -5k¹ broadband and +10k IPTV net adds
 - ARPU per household increased by 3.9% y-on-y to EUR 43, postpaid ARPU lower at EUR 18 (-1.5% y-on-y excluding the effect of regulation)
- Business transformation is taking shape
 - Continued successful bundling of services in SME; +33k multi play seats
 - Growth in Professional Services driven by increased order intake in prior quarters
 - Migrations from Consumer broadband to new small business proposition providing margin uplift
- Second wave Simplification program delivered ~EUR 175m run-rate savings end Q2 2018
- Intention to redeem EUR 1.1bn hybrid bond from existing cash at first call date in September 2018

Key figures* (from continuing operations)

Group financials (unaudited)	Q2 2018	Q2 2017	Δ y-on-y	YTD 2018	YTD 2017	Δ y-on-y
<i>(in EUR m, unless stated otherwise)</i>						
Revenues	1,402	1,427	-1.7%	2,803	2,878	-2.6%
Adjusted revenues**	1,402	1,424	-1.5%	2,803	2,875	-2.5%
EBITDA	555	550	1.0%	1,110	1,079	2.9%
Adjusted EBITDA**	577	569	1.3%	1,146	1,126	1.8%
Adjusted EBITDA margin	41.1%	40.0%		40.9%	39.2%	
Operating profit (EBIT)	210	198	6.3%	418	375	11%
Profit for the period (net profit)	137	162	-15%	236	235	0.4%
Capex	245	235	4.1%	481	499	-3.8%
Free cash flow	278	289	-3.8%	401	318	26%

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

** Adjusted revenues and adjusted EBITDA reconciliations to be found on page 8 and 9

Financial performance

- Adjusted revenues were 1.5% lower y-on-y in Q2 2018, fully driven by the effect of regulation. Excluding this effect, adjusted revenues grew 0.5% y-on-y as a result of higher ARPU per household in Consumer and growth in Professional Services and IT Services in Business. This was partly offset by continued price pressure in mobile and lower Wholesale revenues
- Adjusted EBITDA was 1.3% higher in Q2 2018, or 2.3% excluding the effect of regulation. This was mainly driven by savings related to Simplification and digitalization of services, and intrayear phasing
- Net profit of EUR 137m in Q2 2018 declined 15% y-on-y. Higher operating profit was offset mainly by less dividend received from Telefónica Deutschland
- Free cash flow (excl. TEFD dividend) of EUR 347m in H1 2018 was EUR 99m higher compared to the same period last year. Growth was driven by less impact from change in working capital, lower interest paid and higher EBITDA, partly supported by intrayear phasing

¹ Corrected for migrations to and new customers of small business proposition (6k) launched in Q4 2017

Message from the CEO, Maximo Ibarra

“Our solid second quarter performance reflects a more focused and digital organization. Using advanced data & analytics to optimize our customer service is improving customer satisfaction while lowering associated costs. Although we’re operating in a competitive environment, our targeted household approach in Consumer is yielding tangible results, visible in the continued growth of our fixed-mobile customer base and lower churn for these customers. We have implemented more-for-more changes to our fixed Consumer propositions, reflecting our ongoing focus on value and convergence. In Business, we are on track for stabilization as our exposure to legacy services declines, our IT Services business continues to grow, and we go on winning value accretive contracts with large Dutch corporates.

All in all, we are well on track to deliver on our full-year outlook and the current Simplification program has delivered substantial run-rate savings halfway through its second wave. I am confident that further digitalization and virtualization of networks and services provide scope for further improvements. We intend to provide an update of our strategy and ambitions at the end of November during a Capital Markets Day.”

Outlook 2018 (continuing operations)

- Adjusted EBITDA in line with 2017
- Capex ~EUR 1.1bn
- Free cash flow (excl. TEFD dividend) growing

Shareholder remuneration and financial profile

KPN intends to pay a regular dividend per share of EUR 12 cents in respect of 2018 and grow the regular dividend in line with its free cash flow growth profile thereafter. EUR 4.0 cents per share will be paid as an interim dividend on 2 August 2018. The ex-dividend date is 30 July 2018.

At the end of Q2 2018, KPN owned a stake of 6.3% in Telefónica Deutschland which is treated as a financial investment. KPN benefits from dividend payments by Telefónica Deutschland and the additional financial flexibility the stake provides.

Today, KPN announces its intention to redeem the EUR 1.1bn perpetual hybrid bond from existing cash at its first call date (14 September 2018) in accordance with the terms and conditions of this security. Through the planned redemption KPN will save the instrument’s EUR 67m annual coupon from 2019 onwards. KPN remains committed to hybrid capital securities as a permanent part of its capital structure. KPN considers realignment of the proportion of hybrid capital to be appropriate, given its current solid financial position and following successful execution of KPN’s strategy since issuance in 2013.

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

All related documents can be found on KPN’s website:

ir.kpn.com

For further information:

Corporate Communications

Media Relations

Tel: +31 70 4466300

E-mail: press@kpn.com

Investor Relations

Tel: +31 70 4460986

E-mail: ir@kpn.com

Formal disclosures:

Royal KPN N.V.

Head of IR: Bisera Grubestic

Inside information: No

Topic: Q2 2018 Results

26/07/2018; 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 2017. KPN's management considers these non-GAAP figures, combined with GAAP performance measures and in conjunction with each other, most appropriate to measure the performance of the Group and its segments. The non-GAAP figures are used by management for planning, reporting (internal and external) and incentive purposes. KPN's main alternative performance measures are listed below. The figures shown in this report were rounded in accordance with standard business principles. As a result, totals indicated may not be equal to the precise sum of the individual figures.

*KPN defines **EBITDA** as operating result before depreciation (including impairments) of PP&E and amortization (including impairments) of intangible assets. Note that KPN's definition of EBITDA deviates from the literal definition of earnings before interest, taxes, depreciation and amortization and should not be considered in isolation or as a substitute for analyses of the results as reported under IFRS as adopted by the European Union. In the **Net Debt / EBITDA ratio**, KPN defines **Net Debt** as the nominal value of interest bearing financial liabilities excluding derivatives and related collateral, representing the net repayment obligations in Euro, taking into account 50% of the nominal value of the hybrid capital instruments, less net cash and short-term investments, and defines EBITDA as a 12 month rolling total excluding restructuring costs, incidentals and major changes in the composition of the Group (acquisitions and disposals). **Free Cash Flow** is defined as cash flow from continuing operating activities plus proceeds from real estate, minus capital expenditures (Capex), being expenditures on PP&E and software. **Operating free cash flow** is defined as adjusted EBITDA minus Capex. **Revenues** are defined as the total of revenues and other income unless indicated otherwise. **Adjusted revenues** and **adjusted EBITDA** are derived from revenues (including other income) and EBITDA, respectively, and are adjusted for the impact of restructuring costs and incidentals. The term service revenues refers to wireless service revenues.*

All market share information in this financial report is based on management estimates based on externally available information, unless indicated otherwise. For a full overview on KPN's non-financial information, reference is made to KPN's quarterly factsheets available on ir.kpn.com

Forward-looking statements

Certain statements contained in this financial report constitute forward-looking statements. These statements may include, without limitation, statements concerning future results of operations, the impact of regulatory initiatives on KPN's operations, KPN's and its joint ventures' share of new and existing markets, general industry and macro-economic trends and KPN's performance relative thereto and statements preceded by, followed by or including the words "believes", "expects", "anticipates", "will", "may", "could", "should", "intends", "estimate", "plan", "goal", "target", "aim" or similar expressions. These forward-looking statements rely on a number of assumptions concerning future events and are subject to uncertainties and other factors, many of which are outside KPN's control that could cause actual results to differ materially from such statements. A number of these factors are described (not exhaustively) in the Integrated Annual Report 2017.

Financial and operating review KPN Group

<i>(in EUR m)</i>	Q2 2018	Q2 2017	Δ y-on-y	YTD 2018	YTD 2017	Δ y-on-y
Adjusted revenues						
Consumer	739	758	-2.5%	1,484	1,523	-2.5%
Business	538	536	0.3%	1,072	1,084	-1.1%
Wholesale	154	169	-8.7%	305	346	-12%
Network, Operations & IT	6	6	12%	15	10	53%
Other (incl. eliminations)	-35	-45	-21%	-73	-88	-16%
KPN Group (continuing operations)	1,402	1,424	-1.6%	2,803	2,875	-2.5%

Consumer

KPN's focus on value and convergence, supported by personalized offerings, is driving ongoing success in Consumer. In particular, the successful up- and cross-sell of services through KPN's targeted household approach is reflected in increased fixed-mobile penetration. Churn approximately halves when KPN customers combine fixed and mobile services, while adding additional SIMs delivers an even further reduction in churn. In the second quarter, KPN introduced new propositions for its Telfort brand with a clear focus on convergence. In addition, effective 1 July 2018, more-for-more changes were announced for the KPN brand residential portfolio, including higher access speeds for its customers. Customer satisfaction increased to an NPS of +14 in Q2 2018 (Q2 2017: +13).

Adjusted revenues in Consumer declined 2.5% y-on-y in Q2 2018, mainly driven by the effect of regulation. An increasing ARPU per household led to 1.7% higher residential revenues in Q2 2018. Mobile service revenues declined by 9.2% y-on-y in Q2 2018 mainly due to regulation. Excluding the effect of regulation, mobile service revenues declined 3.5% y-on-y, resulting from price pressure in the mobile-only postpaid and prepaid segment.

KPN's position as leading converged operator in the Dutch market was further strengthened in Q2 2018. Fixed-mobile households grew by 19k to 1,299k, representing 44% of broadband customers. The number of fixed-mobile postpaid customers grew by 46k in Q2 2018, reaching 54% of the postpaid customer base across all brands. At the end of the second quarter of 2018, more than two-thirds of the high value KPN brand postpaid base was part of a fixed-mobile bundle.

In Q2 2018, ARPU per household increased 3.9% y-on-y to EUR 43 in Q2 2018. KPN's broadband net adds were -5k, adjusted for migrations from Consumer to the new proposition for small businesses (-2k) and new customers for this proposition (-4k). Furthermore, KPN is nearing the end of its brand rationalization efforts for the Edutel brand, which resulted in higher churn (4k) for this particular customer base. KPN added 10k IPTV customers to its base.

In a competitive mobile market, KPN continues to focus on retention of its high value postpaid customers. Consequently, the KPN brand's postpaid customer base was flat in Q2 2018, while the customer base of no frills brands Telfort and Simyo continued to be impacted and declined by 10k in Q2 2018. Postpaid ARPU declined 7.3% y-on-y to EUR 18, or 1.5% y-on-y excluding the effect of regulation.

Business

In the Business segment, KPN continues to enable the ongoing shift towards standardized and integrated solutions, away from tailor made single-play services. KPN capitalizes on these developments through its integrated KPN ÉÉN product for SME, which showed continued growth (+33k multi play seats²). KPN strengthened the delivery of its KPN ÉÉN service by simplifying the underlying IT infrastructure to a single platform. This enables faster delivery of services and improved digital customer interaction, resulting in higher customer satisfaction.

The proposition for small businesses is gaining traction (+8k customers in Q2 2018) as KPN witnesses solid inflow of new customers as well as migrations from the Consumer segment to this new proposition. KPN benefits from the migrations from Consumer as it provides an average monthly margin uplift of EUR 5-10 per customer.

For the second consecutive year KPN is recognized as leading business service provider in The Netherlands by the Dutch IT Partner Preference Survey of Dutch CIOs. Business NPS was -5 in Q2 2018 (Q2 2017: -6). KPN remains dedicated to further improve customer satisfaction.

Adjusted revenues in Business grew 0.3% y-on-y in Q2 2018. Growth in Professional Services and IT Services was partly offset by lower revenues from traditional single-play services.

Fixed voice revenues declined 15% y-on-y due to a reduction of traditional voice lines. KPN continues to reduce its exposure to traditional single-play services through active migrations to its integrated product KPN ÉÉN.

In Q2 2018, mobile service revenues declined 6.2% y-on-y, mainly due to the effect of regulation and lower ARPU as a result of ongoing mobile price pressure, especially in the Corporate and Large Enterprise segment. The mobile base grew by 7k during the second quarter.

Revenues from KPN's Internet of Things (IoT) proposition increased 8.3% y-on-y in Q2 2018. Over the past year, KPN's M2M base grew by 1.2m SIMs to 4.3m.

Revenues from IT Services grew 28% y-on-y in Q2 2018, supported by security and cloud services, and some non-recurring hardware revenues.

Revenues from Professional Services & Consultancy grew 9.1% y-on-y in Q2 2018. Several landmark corporate deals signed in the last quarters are starting to contribute to revenues.

Wholesale

Adjusted revenues in Wholesale declined by EUR 15m or 8.7% y-on-y in Q2 2018. Lower regulated tariffs (MTA/FTA) and less (low margin) international voice traffic impacted fixed Wholesale revenues.

Network, Operations & IT

KPN continuously upgrades the capacity and quality of its best-in-class integrated network and ICT infrastructure. In Q2 2018, KPN continued to implement its hybrid access strategy to larger cities and business parks, ensuring an optimized connection to deliver an excellent customer experience.

In the second quarter of 2018, KPN finalized the build of its multi-brand business support system (BSS) for both Consumer and Business mobile customers by integrating the Telfort Business mobile IT system. This enables full decommissioning of legacy IT systems and allows easier customer migration between brands, improving time-to-market.

² Multi play seats consist of the total number of fixed voice lines plus the total number of mobile SIMs in multi play

Operating expenses

(in EUR m)	Q2 2018	Q2 2017	Δ y-on-y	YTD 2018	YTD 2017	Δ y-on-y
Opex (excl. D&A)*						
Cost of goods & services	317	336	-5.8%	635	682	-6.8%
Personnel expenses	286	283	0.9%	577	573	0.8%
IT/TI	110	120	-8.5%	225	252	-11%
Other operating expenses	113	115	-2.2%	220	243	-9.6%
Adjusted EBITDA (continuing operations)	577	569	1.3%	1,146	1,126	1.8%

* Adjusted for restructuring costs and incidentals

Adjusted EBITDA was 1.3% y-on-y higher in Q2 2018, or +2.3% y-on-y excluding the effect of regulation. This was mainly driven by improved operational efficiency through digitalization of services and ongoing Simplification savings, and intrayear phasing. The adjusted EBITDA margin improved to 41.1% (Q2 2017: 40.0%).

In Q2 2018, costs of goods & services were supported by lower traffic costs, due to the reduction of regulatory tariffs (MTA/FTA).

Simplification and digitalization initiatives are delivering sustained improvements in quality and customer satisfaction, and structural savings. For example, KPN continues to focus on solutions related to interruptions at customers. Currently more than 70% of KPN's customers find solutions to their questions online, compared to less than 30% two years ago. In addition, KPN optimizes routing of service calls to its most suitable service center agents through advanced data & analytics. By optimizing the customer journey related to interruptions, KPN expects to save approximately EUR 10m per annum while offering an improved customer experience due to a reduced call handling time.

Simplification also resulted in lower IT/TI costs, which declined 8.5% y-on-y in Q2 2018. The second wave of KPN's Simplification program has realized run-rate savings of approximately EUR 175m by end Q2 2018, compared to the end of Q4 2016. KPN is well on track to realize its ambition of at least EUR 350m run-rate savings by the end of 2019.

iBasis (discontinued operations)

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

Profit, Capex, FCF and financial position KPN Group (continuing operations)

In Q2 2018, Group operating profit (EBIT) increased 6.3% y-on-y to EUR 210m due to higher EBITDA and lower depreciation charges. Net profit of EUR 137m was 15% y-on-y lower in Q2 2018, mainly due to a lower net finance result. Other financial result was lower due to the sale of KPN's stake in TecnoCom in H1 2017 (EUR 30m gain) and finance income was lower as a result of less dividend received from the stake in Telefónica Deutschland. This was partly offset by lower finance expenses due to a lower gross debt level.

Capex increased 4.1% y-on-y to EUR 245m in Q2 2018. Capex for H1 2018 decreased 3.8% y-on-y to EUR 481m.

Free cash flow (excl. TEFD dividend) of EUR 224m in Q2 2018 was EUR 5m higher compared to the same period last year, while for H1 2018 it was EUR 99m higher y-on-y at EUR 347m. The increase for the first six months of 2018 was mainly driven by EUR 56m less impact from change in working capital, EUR 34m less interest paid due to the lower gross debt level and EUR 31m higher EBITDA, partly supported by intrayear phasing. Growth was partly offset by a EUR 19m higher impact from change in provisions.

Net debt amounted to EUR 5.8bn at the end of Q2 2018, in line with end Q1 2018. Movements in net debt were mainly driven by free cash flow generation in Q2 2018 and the sale of Telefónica Deutschland shares during the quarter, partly offset by the final dividend payment over 2017 in April 2018. At the end of Q2 2018, net debt to EBITDA was 2.5x (Q1 2018: 2.5x). This includes the equity credit on the hybrid bonds, representing 0.4x net debt to EBITDA. The average coupon on KPN's senior bonds of 3.8% was lower compared to the same period last year (Q2 2017: 4.1%), mainly due to an adjustment of the interest duration of KPN's bond portfolio.

At the end of Q2 2018, Group equity amounted to EUR 3,211m, EUR 249m lower compared to the end of Q1 2018. The decrease was mainly driven by the final dividend payment over 2017 in April and a revaluation of the stake in Telefónica Deutschland, partly offset by net income generated in Q2 2018.

Analysis of adjusted results Q2 2018

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

Revenues (in EUR m)	Q2 2018 reported	Incidentals	Q2 2018 adjusted	Q2 2017 reported	Incidentals	Q2 2017 adjusted	Δ y-on-y reported	Δ y-on-y adjusted
Consumer	739	-	739	758	-	758	-2.5%	-2.5%
Business	538	-	538	536	-	536	0.3%	0.3%
Wholesale	154	-	154	172	3	169	-10%	-8.7%
Network, Operations & IT	6	-	6	6	-	6	12%	12%
Other (incl. eliminations)	-35	-	-35	-45	-	-45	-21%	-21%
The Netherlands	1,402	-	1,402	1,426	3	1,424	-1.7%	-1.6%
iBasis (discontinued operations)	136	-	136	192	-	192	-29%	-29%
Other activities	-	-	-	-	-	-	>100%	>100%
Intercompany revenues	-16	-	-16	-23	-	-23	-32%	-32%
KPN Group	1,522	-	1,522	1,595	3	1,592	-4.6%	-4.4%
of which discontinued operations	-120	-	-120	-168	-	-168	-29%	-29%
KPN Group continuing operations	1,402	-	1,402	1,427	3	1,424	-1.7%	-1.5%

The following table specifies the revenue incidental in more detail:

Revenue incidentals (in EUR m)	Segment	Q2 2018	Q2 2017
Release of revenue related provision	Wholesale	-	3
KPN Group		-	3

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

EBITDA (in EUR m)	Q2 2018 reported	Incidentals	Restruc- turing	Q2 2018 adjusted	Q2 2017 reported	Incidentals	Restruc- turing	Q2 2017 adjusted	Δ y-on-y reported	Δ y-on-y adjusted
The Netherlands	555	-	-20	575	552	3	-21	570	0.6%	0.9%
iBasis (disc. operations)	8	-	-	8	5	-	-	5	66%	66%
Other activities	-	-	-2	2	-2	-	-1	-1	-98%	n.m.
KPN Group	563	-	-22	584	554	3	-22	574	1.6%	1.9%
of which disc. operations	-8	-	-	-8	-5	-	-	-5	70%	70%
KPN Group cont. ops.	555	-	-22	577	550	3	-22	569	1.0%	1.3%

There were no opex incidentals in Q2 2018 and Q2 2017.

The following table shows the key items between reported and adjusted revenues for YTD 2018:

Revenues (in EUR m)	YTD 2018 reported	Incidentals	YTD 2018 adjusted	YTD 2017 reported	Incidentals	YTD 2017 adjusted	Δ y-on-y reported	Δ y-on-y adjusted
Consumer	1,484	-	1,484	1,523	-	1,523	-2.5%	-2.5%
Business	1,072	-	1,072	1,084	-	1,084	-1.1%	-1.1%
Wholesale	305	-	305	349	3	346	-12%	-12%
Network, Operations & IT	15	-	15	10	-	10	53%	53%
Other (incl. eliminations)	-74	-	-74	-88	-	-88	-16%	-16%
The Netherlands	2,803	-	2,803	2,878	3	2,875	-2.6%	-2.5%
iBasis	264	-	264	385	-	385	-31%	-31%
Other activities	-	-	-	-	-	-	>100%	>100%
Intercompany revenues	-31	-	-31	-49	-	-49	-37%	-37%
KPN Group	3,037	-	3,037	3,214	3	3,211	-5.5%	-5.4%
<i>of which discontinued operations</i>	<i>-233</i>	-	<i>-233</i>	<i>-336</i>	-	<i>-336</i>	<i>-31%</i>	<i>-31%</i>
KPN Group continuing operations	2,803	-	2,803	2,878	3	2,875	-2.6%	-2.5%

The following table specifies the revenue incidental in more detail for YTD 2018:

Revenue incidentals (in EUR m)	Segment	YTD 2018	YTD 2017
Release of revenue related provision	Wholesale	-	3
KPN Group		-	3

The following table shows the key items between reported and adjusted EBITDA for YTD 2018:

EBITDA (in EUR m)	YTD 2018 reported	Incidentals	Restruc- turing	YTD 2018 adjusted	YTD 2017 reported	Incidentals	Restruc- turing	YTD 2017 adjusted	Δ y-on-y reported	Δ y-on-y adjusted
The Netherlands	1,111	-	-33	1,144	1,084	-8	-34	1,127	2.5%	1.5%
iBasis	13	-	-	13	9	-	-	9	42%	42%
Other activities	-1	-	-3	2	-6	-	-5	-1	-89%	n.m.
KPN Group	1,123	-	-36	1,160	1,088	-8	-39	1,135	3.3%	2.1%
<i>of which disc. operations</i>	<i>-13</i>	-	-	<i>-13</i>	<i>-9</i>	-	-	<i>-9</i>	<i>44%</i>	<i>44%</i>
KPN Group cont. ops.	1,110	-	-36	1,146	1,079	-8	-39	1,126	2.9%	1.8%

The following table specifies the opex incidentals in more detail for YTD 2018:

Opex incidentals (in EUR m)	Opex category	YTD 2018	YTD 2017
Change in provisions	Other operating expenses	-	-11
KPN Group		-	-11