

KPN accelerates strategy to deliver organic sustainable growth

Date
28 November 2018

Number
017pe

Today, KPN's Board of Management will host a Capital Markets Day for investors and analysts. KPN will present its strategy for the 2019 - 2021 period, which will deliver its medium-term ambitions. KPN's strategic priorities are focused on driving organic sustainable growth:

1. Building the best converged smart infrastructure;
2. Focusing on profitable growth segments; and
3. Accelerating simplification and digitalization.

This strategy aims to deliver the Company's medium-term ambitions, which are:

- Growing Adjusted EBITDA organically: driven by a new multi-year sustainable net opex reduction program of around EUR 350m and supported by growth in profitable segments and revenue stabilization;
- Setting annual Capex at EUR 1.1bn: a substantial shift in the mix enabling higher access investments; and
- Sustainable Free Cash Flow growth driven by EBITDA: contributing to a progressive regular dividend per share and deleveraging.

Maximo Ibarra, CEO of KPN: *"In recent years KPN has made good progress driving improved service quality, better customer satisfaction and material structural spend savings, building a stronger company. Yet our evolving landscape requires us to become more flexible, improve our time to market and bring innovation to our customers faster than ever. We are therefore accelerating the execution of our strategy, positioning KPN as a future-proof and lean telco with premium Consumer and Business customer relations. We are at the very heart of our customers' connected life and we want to be their trusted companion offering best-in-class quality in terms of access, service and customer experience."*

We are determined to deliver organic sustainable growth in Adjusted EBITDA and Free Cash Flow, contributing to a progressive dividend per share and deleveraging, while continuing to invest in our infrastructure to become the undisputed quality leader in The Netherlands. I am confident that our strategy will maximize value for all our stakeholders, while maintaining a solid financial profile."

KPN's Strategic Priorities 2019 - 2021

KPN's three strategic priorities will enable the Company to deliver organic sustainable growth:

1. Building the best converged smart infrastructure

KPN will continue building and investing in future-proof infrastructure, offering high-quality products and services with a best-in-class customer experience. Specifically, in the coming years

For further information:

Corporate Communications

Media Relations

Tel: +31 70 4466300

Fax: +31 70 4466310

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 Grubescic

Inside information: Yes

Topic: KPN accelerates strategy to deliver organic sustainable growth

28/11/2018; 07:30h

KPN will selectively expand its FttH footprint by 1 million new households by the end of 2021, and will modernize its mobile network through a 5G-ready equipment upgrade.

2. Focusing on profitable growth segments

On the commercial side, KPN will leverage its strong market positions to further drive its convergence strategy with a clear focus on value over volume. KPN continues to focus on securing and growing profitable service revenues.

In Consumer, broadband households and the 'value per converged household' are expected to grow driven by investments in access delivering best-in-class digital customer experience. KPN aims to grow converged households by 300k and the converged postpaid base to 70% by the end of 2021.

In Business, KPN will focus on further digitalization of its operating model while executing on profitability and value. KPN aims to offer a simplified and standardized product portfolio, grow in converged connectivity services and selectively grow in IT. This will drive stabilization of end-to-end Adjusted EBITDA¹ by mid 2020.

3. Accelerating simplification and digitalization

The competitive market dynamics require a flexible organization capable of bringing innovative products and services to the market quickly. As a result, KPN will accelerate simplification and the transformation to a digital operating model, making the company lean, faster, and more agile.

Since the start of KPN's Simplification program in 2014, approximately EUR 650m run-rate savings have been realized as at the end of Q3 2018. The final year of the second wave Simplification program will roll-over into a new multi-year sustainable opex reduction program starting in 2019.

Today, KPN announces further strategic actions that will result in a state-of-the-art lean operating model, which will deliver sustainable improvements in KPN's indirect opex base. These savings will primarily be realized through further simplification, automation and end-to-end digitalization of IT platforms and systems. This will result in around EUR 350m net indirect opex savings over the period 2019 - 2021.² The accelerated digitalization and automation, which are inherent in the telecom industry, will also lead to organizational simplification. This is expected to result in an accelerated reduction in the total labor-related spend of KPN.

Together, these trends will result in sustainable Free Cash Flow (excl. TEFD dividend) growth, driving a progressive regular dividend per share and deleveraging. KPN remains committed to a solid investment grade credit profile and aims for a net debt to EBITDA ratio of < 2.5x in the medium term.

With respect to 2018, KPN reiterates the FY 2018 outlook presented at its Q3 2018 results.

The presentations start at 13:00 CET and will be webcast live. A link to the webcast and all relevant information will be published on KPN's website: <https://ir.kpn.com>.

¹ End-to-end Adjusted EBITDA refers to the new segment reporting after the change in the organizational structure per 1 January 2019

² Indirect opex adjusted for the impact of restructuring costs and incidentals

Safe harbor

Alternative performance measures and management estimates

This press release 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 press release 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 2017 and do not take into account the impact of future IFRS standards or interpretations. 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 press release 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 press release 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.

Specific addition for this press release

Forward-looking financial information do not take into account the impact of new IFRS standards or interpretations effective for future reporting periods (such as IFRS 16 Leasing). All forward-looking statements and ambitions stated in this press release that refer to a growth or decline, refer to such growth or decline relative to the situation per 31 December 2018, unless stated otherwise.