**Press release**
**4 February 2015**

# Fourth Quarter and Annual Results 2014

**KPN ends transformational year 2014 with another quarter of good progress.**

- Strong customer base growth in The Netherlands in Q4 2014
  - Good uptake Consumer fixed-mobile bundles (+116k) and Business multi play seats (+44k)
  - Strong net add growth in broadband (+41k) and IPTV (+83k)
  - >2 million 4G customers in The Netherlands
  - High postpaid net adds in Consumer Mobile (+57k) and Business (+17k)
- Continued pressure on traditional fixed voice and mobile price levels in Business segment
- Simplification program ahead of plan, run-rate savings target increased to >EUR 400m by 2016
- Strong improvement customer satisfaction, all-time high NPS for KPN The Netherlands
- BASE Company reached >80% 4G coverage end-2014

## Key figures

| **Group financials* (unaudited)** *(in EUR m, unless stated otherwise)* | **Q4 2014** | **Q4 2013** | **Δ y-on-y** | **FY 2014** | **FY 2013** | **Δ y-on-y** |
|---|---|---|---|---|---|---|
| Revenues | 2,105 | 2,061 | 2.1% | 8,083 | 8,472 | -4.6% |
| **Adjusted revenues**** | **2,068** | **2,068** | **0.0%** | **8,024** | **8,442** | **-5.0%** |
| EBITDA | 691 | 581 | 19% | 3,015 | 2,883 | 4.6% |
| **Adjusted EBITDA**** | **669** | **690** | **-3.0%** | **2,573** | **3,022** | **-15%** |
| *EBITDA margin* | *32.8%* | *28.2%* | | *37.3%* | *34.0%* | |
| ***Adjusted EBITDA margin*** | ***32.4%*** | ***33.4%*** | | ***32.1%*** | ***35.8%*** | |
| Operating profit (EBIT) | 218 | 98 | > 100% | 1,195 | 1,026 | 16% |
| Profit for the period from continuing operations (net profit) | -37 | -108 | -66% | 239 | 293 | -18% |
| **Capex** | **482** | **411** | **17%** | **1,412** | **1,616** | **-13%** |
| **Free cash flow** | **-199** | **264** | **n.m.** | **-169** | **489** | **n.m.** |

* All non-IFRS terms are explained in the safe harbor section
** 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. Reconciliations to be found on page 9 to 12

## Financial performance stabilizing

- Adjusted revenues were flat y-on-y in Q4 2014. Customer base growth and a tax settlement benefit (EUR 44m) were offset by the impact of the ongoing decline of the business market size. Without the tax settlement benefit, adjusted revenues would have been down 2.1% y-on-y versus -4.9% y-on-y in Q3 2014
- Adjusted EBITDA decreased by 3.0% y-on-y in Q4 2014 as investments in customer base growth and phasing out of handset lease were only partly offset by a tax settlement benefit (EUR 44m). Without the tax settlement benefit and impact of phasing out of handset lease, adjusted EBITDA would have been down 8.3% y-on-y versus -12% y-on-y in Q3 2014
- Net profit (EUR -37m) in Q4 2014 was mainly impacted by higher financial expenses related to the bond tender (EUR 211m)
- Capex in Q4 2014 reflected phasing. Capex FY 2014 was 13% lower due to lower customer driven investments (incl. phasing out handset lease) and Simplification program
- Free cash flow in Q4 and FY 2014 was impacted by non-recurring items. Amended for these items free cash flow FY 2014 would have been EUR 405m

## Message from the CEO, Eelco Blok

*"2014 was a transformational year for KPN in which we made good strategic progress. Following the sale of E-Plus we acquired the remaining stake in the FttH joint-venture Reggefiber, further strengthening our position in The Netherlands. The investments in our customers, products and networks have resulted in growing customer bases and all-time high customer satisfaction. The Board of Management is now complete, including two new appointments. We will continue to build on solid fundamentals through strong customer focus, strengthening capacity of our networks and the Simplification program.*

*We took a number of important steps to reduce debt and other financial liabilities, which significantly increased our financial flexibility. The attractive 20.5% stake in Telefónica Deutschland provides additional flexibility and upside via potential dividends.*

*Supported by the excellent operational momentum we have seen a stabilizing financial performance through successive quarters of 2014. Also due to the benefits from the Simplification program we expect adjusted EBITDA to have stabilized by the end of the year and a growing free cash flow in 2015. On this basis, we are confident to grow our dividend per share."*

## Outlook and shareholder remuneration

### 2015

- Adjusted EBITDA stabilized by end-2015
- Capex < EUR 1.4bn
- Growing free cash flow (excl. TEFD dividend)[1]
- Additional cash flow via potential dividend from 20.5% stake in Telefónica Deutschland

Free cash flow in FY 2014 was impacted by a number of large non-recurring items primarily aimed at reducing the amount of future liabilities. Amended for these non-recurring items (totaling EUR 574m) free cash flow in FY 2014 would have been EUR 405m, which forms the base level for KPN's outlook of a growing free cash flow in 2015. KPN expects limited tax cash out in The Netherlands in the coming years due to the tax loss on the sale of E-Plus. Furthermore, in the short-term free cash flow will be supported by lower interest payments, partly offset by expected higher cash out related to FTE reductions in 2015. In the medium-term, KPN sees additional cash flow potential driven by improved financial performance, further cost savings related to the Simplification program and opportunities to further improve its balance sheet efficiency given the relatively high gross debt and net cash position.

Following the sale of E-Plus, KPN recommenced dividend payments with an interim dividend in respect of 2014 of EUR 0.02 per share, or in total EUR 85m, which was paid on 13 October 2014. KPN intends to pay a total dividend per share of EUR 0.07 in respect of 2014. The final dividend of EUR 0.05 per share is expected to be paid in April 2015[2]. KPN intends to pay a total dividend per share of EUR 0.08 in respect of 2015. The dividend per share in respect of 2016 is expected to grow further.

The 20.5% stake in Telefónica Deutschland is treated as a financial investment. KPN expects to benefit from dividend payments by Telefónica Deutschland and additional financial flexibility.

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.

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[1] Free cash flow outlook defined as cash flow from operating activities, plus proceeds from real estate, minus Capex and excluding potential Telefónica Deutschland dividend. The one-off pension payment, cash out related to reduced supplier payment terms and other large non-recurring items are excluded from the 2014 free cash flow to define the base for the 2015 outlook.

[2] Subject to AGM approval

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


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## Safe harbor

### Non-GAAP measures and management estimates

*This financial report contains a number of non-GAAP figures, such as EBITDA and Free Cash Flow ('FCF'). These non-GAAP figures should not be viewed as a substitute for KPN's GAAP figures. KPN defines* ***EBITDA*** *as operating result before depreciation and impairments of PP&E and amortization and 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 operating activities plus proceeds from real estate, minus capital expenditures (Capex), being expenditures on PP&E and software and excluding tax recapture regarding E-Plus.* ***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.* ***Underlying service revenues*** *are derived from service revenues adjusted for the impact of MTA and roaming (regulation) and incidentals. 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 www.kpn.com/ir.*

### 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 2013.*

## Strategic progress

KPN made good strategic progress in 2014. There was customer base growth in nearly all main consumer and business services in The Netherlands, driven by high investments in networks, products and customers over the past years. In the Consumer market, KPN reinforced its market positions with strong growth in broadband customers and improving mobile service revenues. The size of the business market continued to decline due to ongoing customer rationalization and optimization. To operate effectively in a challenging market, KPN announced to restructure its Business segment with the aim to significantly improve customer focus and customer satisfaction. Looking ahead to 2015 and beyond, KPN will continue to build on strong fundamentals through a strong customer focus via differentiating services, strengthened capacity of its best-in-class networks and execution of its Simplification program.

**Strong customer focus via differentiating services**
KPN is uniquely positioned in The Netherlands to benefit from the exponentially growing customer demand for data by offering differentiating services based on best-in-class networks and infrastructure. In January 2015, KPN announced the introduction of TV Everywhere, which enables consumers to watch TV and recording on all devices, also out of home, supported by KPN's cloud-based interactive TV platform. At the same time, KPN launched a new mobile line-up for consumers with larger data bundles which enable carefree usage. In the Business segment, KPN is very well positioned to generate new revenues by capturing a substantial part of the growing Dutch cloud market.

**Best-in-class networks**
KPN continued to invest in its best-in-class fixed and mobile networks. KPN was the first to reach nationwide 4G coverage end-Q1 2014 and KPN continued to outperform competition in terms of network quality. For 2015 and beyond, KPN will focus on increasing capacity of the mobile network by deploying 1800MHz and carrier aggregation. The upgrades of the copper network and continued FttH roll-out resulted in approximately 50% coverage of Dutch households with speeds of 100Mbps end-2014. KPN expects approximately 85% of Dutch households to have access to 100Mbps end-2016, driven by a combination of VDSL FttC, copper upgrades such as vectoring and continued FttH roll-out.

**Simplification program ahead of plan, targets increased**
In 2014, KPN made good progress with its Simplification program and delivered run-rate Capex and opex savings which were ahead of plan at approximately EUR 140m y-on-y. KPN realized a significant reduction in the number of propositions at the Consumer and Business segments. This enables phasing out of legacy services which in turn allows for a 45% reduction of hardware in technical buildings. Furthermore, the Simplification program resulted in approximately 700 FTE reductions in 2014 and was also a key driver of improved customer satisfaction, evidenced by an all-time high NPS for KPN The Netherlands. In 2015 and beyond, KPN will focus on simplifying processes and rationalizing networks and IT. Following the good progress in 2014, the run-rate cost savings target has been increased from more than EUR 300m to more than EUR 400m by 2016 compared to 2013. The FTE reduction target has been increased to 2,000-2,500 by 2016, driven by the announced additional measures in the Business segment resulting in a reduction of up to 580 FTEs.

**BASE Company to focus on data growth and spend reduction**
BASE Company continued to be successful with its Challenger strategy in Belgium, focusing on postpaid and data growth supported by high network quality, price leadership and service leadership. Data usage in the Belgian mobile market is still relatively low and presents an attractive opportunity for BASE Company as it offers attractively priced propositions over a high quality mobile network, with more than 80% 4G coverage at the end of 2014. For 2015 and beyond, BASE Company will focus on data growth and spend reduction to improve the EBITDA margin towards the medium-term target of 25-30%. Capex will be lower, following the high network investments in 2013 and 2014.

# Financial and operating review by segment

## Consumer Residential

KPN continued to invest in broadband and IPTV base growth in the fourth quarter. The commercial initiatives, including the new integrated FttH / copper proposition, implemented in the third quarter and upgrades of the copper network supported strong operational trends in Consumer Residential. KPN continuously improves its leading IPTV proposition to drive growth of bundled services. In January 2015, KPN announced the introduction of TV Everywhere enabling customers to watch TV and recording on all devices, also out of home, a clear differentiating service in the Dutch market.

| **Consumer Residential** *(in EUR m)* | **Q4 2014** | **Q4 2013** | **Δ y-on-y** | **FY 2014** | **FY 2013** | **Δ y-on-y** |
|---|---|---|---|---|---|---|
| Revenues | 480 | 492 | -2.4% | 1,916 | 1,962 | -2.3% |
| **Adjusted revenues** | **480** | **492** | **-2.4%** | **1,916** | **1,949** | **-1.7%** |
| EBITDA | 96 | 100 | -4.0% | 404 | 375 | 7.7% |
| **Adjusted EBITDA** | **97** | **101** | **-4.0%** | **412** | **379** | **8.7%** |

Adjusted revenues decreased by 2.4% y-on-y in Q4 2014, impacted by the ongoing decline of traditional voice services and promotional activities to support broadband and IPTV base growth, partly offset by the price increase implemented on 1 July 2014. Adjusted EBITDA decreased by 4.0% y-on-y due to lower revenues and higher operating expenses resulting from the large number of customer additions. This resulted in an adjusted EBITDA margin of 20.2% (Q4 2013: 20.5%).

KPN's broadband (+41k) and IPTV net adds (+83k) showed strong growth in Q4 2014. ARPU per customer grew by 2.3% y-on-y to EUR 44 in Q4 2014 (Q4 2013: EUR 43) driven by increased RGUs per customer. Supported by its leading IPTV proposition, KPN showed high triple play net adds (62k) and reached 50% penetration of the broadband customer base (Q4 2013: 44%). The good uptake of fixed-mobile bundles (including quad play) led to a fixed-mobile base of 485k at the end of Q4 2014 (Q3 2014: 369k), representing 17% of the broadband customer base. The strong growth of fixed-mobile bundles combined with network upgrades and quality improvements supported customer base growth and churn reduction.

## Consumer Mobile

KPN is very well positioned in the mobile market with its nationwide 4G network, unique fixed-mobile bundles and a leading family proposition. This led to lower churn across all brands and continued strong base growth in the fourth quarter. The introduction of TV Everywhere and a new line-up with larger data bundles enables carefree usage over the highest quality 4G network, driving greater customer loyalty and base growth.

| **Consumer Mobile** *(in EUR m)* | **Q4 2014** | **Q4 2013** | **Δ y-on-y** | **FY 2014** | **FY 2013** | **Δ y-on-y** |
|---|---|---|---|---|---|---|
| Revenues | 352 | 353 | -0.3% | 1,407 | 1,510 | -6.8% |
| **Adjusted revenues** | **352** | **353** | **-0.3%** | **1,407** | **1,503** | **-6.4%** |
| EBITDA | 39 | 33 | 18% | 191 | 410 | -53% |
| **Adjusted EBITDA** | **39** | **35** | **11%** | **192** | **410** | **-53%** |

Adjusted revenues at Consumer Mobile were nearly flat y-on-y in Q4 2014 as lower service revenues were offset by higher hardware revenues. Underlying service revenues decreased by 3.1% y-on-y, which is an improving trend compared to the third quarter (-6.9% y-on-y), driven by continued high postpaid net adds. Service revenues were down due to lower ARPU levels y-on-y. The adjusted EBITDA margin was higher at 11.1% compared to 9.9% in Q4 2013, mainly due to one-off additional retention and subscriber acquisition costs in Q4 2013. The adjusted EBITDA margin in Q4 2014 was impacted by phasing out of handset lease (~EUR 8m), lower service revenues and still relatively high retention and subscriber costs as a result of a large number of new handset subscriptions.

In Q4 2014, KPN continued to show high retail postpaid net adds (+57k), mainly driven by 4G and the uptake of fixed-mobile bundles. Consumer Mobile saw lower churn across all brands due to the strong focus on retention, fixed-mobile bundles and increased customer satisfaction. Retail postpaid ARPU (EUR 26) was lower compared to the same quarter last year (Q4 2013: EUR 28). This was mainly due to lower above bundle usage and lower price levels y-on-y, partly offset by continued high value postpaid net adds.

Consumer 4G subscriptions increased to 1,332k in Q4 2014, up from 1,100k at the end of Q3 2014, representing a 40% penetration of the retail postpaid customer base. 21% of retail postpaid customers were in fixed-mobile bundles at the end of the fourth quarter (Q4 2013: 8%). Both 4G and fixed-mobile bundles are driving a significant reduction in churn. The churn for KPN's mobile brands is approximately 50% lower for subscribers that are part of a quad play subscription compared to a mobile only subscriber.

## Business

The challenging market environment continued to impact the financial performance of the Business segment. The total size of the business market continued to decline as a result of customer rationalization and optimization. Traditional high margin services continued to decline, while demand for new services such as cloud and M2M is growing. KPN is therefore actively transforming the Business organization to address these changing market dynamics, and has taken further steps to delayer and simplify the organization, including the additional reduction of up to 580 FTEs announced in December 2014.

| **Business**<br>*(in EUR m)* | **Q4 2014** | **Q4 2013** | **Δ y-on-y** | **FY 2014** | **FY 2013** | **Δ y-on-y** |
|---|---|---|---|---|---|---|
| Revenues | 752 | 782 | -3.8% | 2,920 | 3,201 | -8.8% |
| **Adjusted revenues** | **747** | **782** | **-4.5%** | **2,910** | **3,178** | **-8.4%** |
| EBITDA | 146 | 139 | 5.0% | 590 | 706 | -16% |
| **Adjusted EBITDA** | **149** | **172** | **-13%** | **606** | **740** | **-18%** |

Adjusted revenues at Business declined by 4.5% y-on-y in Q4 2014 driven by lower revenues from traditional services. This was also the main reason for the 13% decrease in adjusted EBITDA, partly offset by lower personnel expenses. Consequently, the adjusted EBITDA margin declined to 19.9% (Q4 2013: 22.0%). In 2014, the Business segment realized a reduction of approximately 570 FTEs driven by the Simplification program.

In Q4 2014, wireless single play ARPU remained under pressure and was lower y-on-y at EUR 41 (Q4 2013: EUR 45). Also, traditional voice services remained under pressure due to rationalization and the ongoing migration towards VoIP and access lines fell to 864k (Q4 2013: 994k). Traditional voice ARPU was somewhat lower y-on-y at EUR 51 (Q4 2013: EUR 52). However, the main strategic initiatives are showing positive results. The investments in wireless customer base growth led to net adds of 17k and lower churn in Q4 2014. The 4G Business customer base increased to 733k in Q4 2014 (Q3 2014: 612k); 42% of the wireless Business customer base was on 4G at the end of Q4 2014. Multi play seats increased by 44k in Q4 2014 to 301k, equivalent to 14% of the wireless customer base.

## NetCo

NetCo continued to invest in high quality networks and IT infrastructure. KPN continued to upgrade street cabinets to fiber and accelerated the deployment of vectoring to further increase the available speeds on copper. The FttH roll-out continued and reached 2 million homes passed in the fourth quarter. At the end of the year, KPN reached approximately 50% coverage of Dutch households with access to speeds of 100Mbps; by the end of 2016 this will increase to approximately 85%, driven by the roll-out of VDSL FttC, copper upgrades such as vectoring and pair bonding and the continued FttH roll-out. In mobile, KPN will focus on increasing the capacity of its 4G network by deploying 1800MHz and carrier aggregation.

In the fourth quarter, KPN obtained full ownership of Reggefiber. Reggefiber's way of building and operating a passive infrastructure, its regional approach and the FttH knowledge center will be valuable to KPN's operations. Reggefiber has been fully consolidated per 1 November 2014. For more information on the acquisition of Reggefiber, refer to note 2 of the Q4 2014 Interim Financial Statements.

| **NetCo** *(in EUR m)* | **Q4 2014** | **Q4 2013** | **Δ y-on-y** | **FY 2014** | **FY 2013** | **Δ y-on-y** |
|---|---|---|---|---|---|---|
| Revenues | 566 | 570 | -0.7% | 2,262 | 2,343 | -3.5% |
| **Adjusted revenues** | **566** | **577** | **-1.9%** | **2,245** | **2,356** | **-4.7%** |
| EBITDA | 321 | 313 | 2.6% | 1,241 | 1,297 | -4.3% |
| **Adjusted EBITDA** | **322** | **323** | **-0.3%** | **1,228** | **1,298** | **-5.4%** |

Adjusted revenues at NetCo declined by 1.9% y-on-y in Q4 2014, mainly driven by the ongoing decline of traditional services and lower revenues across segments. The adjusted EBITDA margin of 56.9% was somewhat higher compared to Q4 2013 (56.0%), driven by the consolidation of Reggefiber and savings resulting from the Simplification program, partly offset by the decline of high margin traditional services.

## iBasis

| **iBasis** *(in EUR m)* | **Q4 2014** | **Q4 2013** | **Δ y-on-y** | **FY 2014** | **FY 2013** | **Δ y-on-y** |
|---|---|---|---|---|---|---|
| Revenues | 248 | 232 | 6.9% | 948 | 969 | -2.2% |
| **Adjusted revenues** | **248** | **232** | **6.9%** | **948** | **969** | **-2.2%** |
| EBITDA | 6 | 6 | 0.0% | 23 | 29 | -21% |
| **Adjusted EBITDA** | **6** | **6** | **0.0%** | **23** | **29** | **-21%** |

Adjusted revenues at iBasis increased 6.9% y-on-y in Q4 2014, including a favorable currency effect of 3.7%. The effect of lower traffic was offset by higher average revenue per minute. The adjusted EBITDA margin of 2.4% remained relatively stable in Q4 2014. iBasis continued to expand the global reach of its LTE roaming service via peering partners and direct interconnections with mobile operators.

## Belgium

In the fourth quarter, price levels in the Belgian mobile market remained relatively stable. Nevertheless, the market remained competitive, with an increased focus on handset promotions. BASE Company continued its Challenger strategy, focusing on postpaid and data growth supported by high network quality, price leadership and service leadership. BASE Company's mobile network investments led to more than 80% 4G coverage of the Belgian population at the end of 2014.

| **Belgium** *(in EUR m)* | **Q4 2014** | **Q4 2013** | **Δ y-on-y** | **FY 2014** | **FY 2013** | **Δ y-on-y** |
|---|---|---|---|---|---|---|
| Revenues | 180 | 181 | -0.6% | 711 | 728 | -2.3% |
| **Adjusted revenues** | **178** | **181** | **-1.7%** | **709** | **728** | **-2.6%** |
| EBITDA | 34 | 50 | -32% | 149 | 192 | -22% |
| **Adjusted EBITDA** | **38** | **44** | **-14%** | **156** | **186** | **-16%** |

Adjusted revenues in Belgium decreased by 1.7% y-on-y in Q4 2014. Underlying mobile service revenues decreased by 1.3%, in line with Q3 2014 (-1.3%) due to the competitive mobile market. Adjusted EBITDA declined by 14% y-on-y due to lower adjusted revenues, higher traffic costs as a result of flat fee propositions and a provision for site taxes in the Walloon region of EUR 3m, resulting in an adjusted EBITDA margin of 21.3% (Q4 2013: 24.3%).

In Q4 2014, BASE Company showed postpaid net adds of 3k, as the attractive BASE postpaid portfolio was impacted by the strong focus on handset promotions by the competition. Postpaid ARPU (EUR 30) was lower compared to the same quarter last year (Q4 2013: EUR 33), as continued tariff optimization by customers was only partly offset by strong data revenue growth. Prepaid net adds were -31k in Q4 2014.

On 17 December 2014, BASE Company announced that its fixed offering SNOW will be discontinued at the end of Q2 2015, as it is no longer considered to be economically viable to continue the offering.

# Analysis of adjusted results Q4 2014

The following table shows the key items between reported and adjusted revenues. E-Plus continued to be included in KPN's segment reporting until completion of the sale at 1 October 2014[3].

| **Revenues** *(in EUR m)* | Q4 2014 reported | Incidentals | Q4 2014 adjusted | Q4 2013 reported | Incidentals | Q4 2013 adjusted | Δ y-on-y reported | Δ y-on-y adjusted |
|---|---|---|---|---|---|---|---|---|
| Germany (incl. discontinued operations) | 3 | - | 3 | 835 | - | 835 | -100% | -100% |
| Belgium | 180 | 2 | 178 | 181 | - | 181 | -0.6% | -1.7% |
| Other | 8 | - | 8 | 10 | - | 10 | -20% | -20% |
| **Mobile International** | **191** | **2** | **189** | **1,026** | **-** | **1,026** | **-81%** | **-82%** |
| | | | | | | | | |
| Consumer Mobile | 352 | - | 352 | 353 | - | 353 | -0.3% | -0.3% |
| Consumer Residential | 480 | - | 480 | 492 | - | 492 | -2.4% | -2.4% |
| Business | 752 | 5 | 747 | 782 | - | 782 | -3.8% | -4.5% |
| NetCo | 566 | - | 566 | 570 | -7 | 577 | -0.7% | -1.9% |
| Other | -461 | 30 | -491 | -550 | - | -550 | -16% | -11% |
| **The Netherlands** | **1,689** | **35** | **1,654** | **1,647** | **-7** | **1,654** | **2.6%** | **0.0%** |
| | | | | | | | | |
| iBasis | 248 | - | 248 | 232 | - | 232 | 6.9% | 6.9% |
| | | | | | | | | |
| Other activities | 24 | - | 24 | 17 | - | 17 | 41% | 41% |
| Intercompany revenues | -47 | - | -47 | -53 | - | -53 | -11% | -11% |
| | | | | | | | | |
| **KPN Group** | **2,105** | **37** | **2,068** | **2,869** | **-7** | **2,876** | **-27%** | **-28%** |
| *Of which discontinued operations* | *-* | *-* | *-* | *808* | *-* | *808* | *-100%* | *-100%* |
| **KPN Group continuing operations** | **2,105** | **37** | **2,068** | **2,061** | **-7** | **2,068** | **2.1%** | **0.0%** |

The following table specifies the revenue incidentals in more detail.

| **Revenue incidentals** *(in EUR m)* | **Segment** | **Q4 2014** | **Q4 2013** |
|---|---|---|---|
| Booking of provision | NetCo | - | -7 |
| Phase out SNOW | Belgium | 2 | - |
| Adjustment deferred revenue | Business | 5 | - |
| Tax settlement related to 2013 | Other (The Netherlands) | 30 | - |
| **KPN Group** | | **37** | **-7** |
| *Of which discontinued operations* | | - | - |
| **KPN Group continuing operations** | | **37** | **-7** |

[3] For further information on this transaction and the impact on KPN's financial information refer to KPN's Integrated Annual Report 2013

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

| **EBITDA** *(in EUR m)* | **Q4 2014 reported** | **Incidentals** | **Restruc-turing** | **Q4 2014 adjusted** | **Q4 2013 reported** | **Incidentals** | **Restruc-turing** | **Q4 2013 adjusted** | **Δ y-on-y reported** | **Δ y-on-y adjusted** |
|---|---|---|---|---|---|---|---|---|---|---|
| Germany (incl. discontinued operations) | -3 | - | - | -3 | 264 | - | -6 | 270 | n.m. | n.m. |
| Belgium | 34 | -3 | -1 | 38 | 50 | 6 | - | 44 | -32% | -14% |
| Other | -3 | - | -3 | - | 10 | 12 | - | -2 | n.m. | -100% |
| **Mobile International** | **28** | **-3** | **-4** | **35** | **324** | **18** | **-6** | **312** | **-91%** | **-89%** |
| | | | | | | | | | | |
| Consumer Mobile | 39 | - | - | 39 | 33 | - | -2 | 35 | 18% | 11% |
| Consumer Residential | 96 | - | -1 | 97 | 100 | - | -1 | 101 | -4.0% | -4.0% |
| Business | 146 | 5 | -8 | 149 | 139 | -10 | -23 | 172 | 5.0% | -13% |
| NetCo | 321 | - | -1 | 322 | 313 | -7 | -3 | 323 | 2.6% | -0.3% |
| Other | 54 | 30 | -13 | 37 | -4 | - | - | -4 | n.m. | n.m. |
| **The Netherlands** | **656** | **35** | **-23** | **644** | **581** | **-17** | **-29** | **627** | **13%** | **2.7%** |
| | | | | | | | | | | |
| iBasis | 6 | - | - | 6 | 6 | - | - | 6 | 0.0% | 0.0% |
| | | | | | | | | | | |
| Other activities | 1 | 21 | -4 | -16 | -68 | -77 | -4 | 13 | n.m. | n.m. |
| | | | | | | | | | | |
| **KPN Group** | **691** | **53** | **-31** | **669** | **843** | **-76** | **-39** | **958** | **-18%** | **-30%** |
| *Of which discontinued operations* | - | - | - | - | *262* | - | *-6* | *268* | *-100%* | *-100%* |
| **KPN Group continuing operations** | **691** | **53** | **-31** | **669** | **581** | **-76** | **-33** | **690** | **19%** | **-3.0%** |

The following table specifies the EBITDA incidentals in more detail.

| **EBITDA incidentals** *(in EUR m)* | **Segment** | **Q4 2014** | **Q4 2013** |
|---|---|---|---|
| Release of asset retirement obligation | Belgium | - | 6 |
| Release of provision | Other (Mobile International) | - | 12 |
| Booking of provision | Business | - | -10 |
| Booking of provision | NetCo | - | -7 |
| Booking of provision | Other activities | - | -77 |
| Phase out SNOW | Belgium | -3 | - |
| Adjustment deferred revenue | Business | 5 | - |
| Tax settlement related to 2013 | Other (The Netherlands) | 30 | - |
| Release of pension provision | Other activities | 26 | - |
| Book loss related to asset held for sale classification SNT Deutschland | Other activities | -5 | - |
| **KPN Group** | | **53** | **-76** |
| *Of which discontinued operations* | | - | - |
| **KPN Group continuing operations** | | **53** | **-76** |

# Analysis of adjusted results FY 2014

The following table shows the key items between reported and adjusted revenues. E-Plus continued to be included in KPN's segment reporting until the third quarter of 2014[4].

| **Revenues** *(in EUR m)* | FY 2014 reported | Incidentals | FY 2014 adjusted | FY 2013 reported | Incidentals | FY 2013 adjusted | Δ y-on-y reported | Δ y-on-y adjusted |
|---|---|---|---|---|---|---|---|---|
| Germany (incl. discontinued operations) | 2,428 | - | 2,428 | 3,197 | 29 | 3,168 | -24% | -23% |
| Belgium | 711 | 2 | 709 | 728 | - | 728 | -2.3% | -2.6% |
| Other | 33 | - | 33 | 41 | - | 41 | -20% | -20% |
| **Mobile International** | **3,172** | **2** | **3,170** | **3,966** | **29** | **3,937** | **-20%** | **-19%** |
| | | | | | | | | |
| Consumer Mobile | 1,407 | - | 1,407 | 1,510 | 7 | 1,503 | -6.8% | -6.4% |
| Consumer Residential | 1,916 | - | 1,916 | 1,962 | 13 | 1,949 | -2.3% | -1.7% |
| Business | 2,920 | 10 | 2,910 | 3,201 | 23 | 3,178 | -8.8% | -8.4% |
| NetCo | 2,262 | 17 | 2,245 | 2,343 | -13 | 2,356 | -3.5% | -4.7% |
| Other | -2,050 | 30 | -2,080 | -2,214 | - | -2,214 | -7.4% | -6.1% |
| **The Netherlands** | **6,455** | **57** | **6,398** | **6,802** | **30** | **6,772** | **-5.1%** | **-5.5%** |
| | | | | | | | | |
| iBasis | 948 | - | 948 | 969 | - | 969 | -2.2% | -2.2% |
| | | | | | | | | |
| Other activities | 81 | - | 81 | 78 | - | 78 | 3.8% | 3.8% |
| Intercompany revenues | -221 | - | -221 | -247 | - | -247 | -11% | -11% |
| | | | | | | | | |
| **KPN Group** | **10,435** | **59** | **10,376** | **11,568** | **59** | **11,509** | **-9.8%** | **-9.8%** |
| *Of which discontinued operations* | *2,352* | - | *2,352* | *3,096* | *29* | *3,067* | *-24%* | *-23%* |
| **KPN Group continuing operations** | **8,083** | **59** | **8,024** | **8,472** | **30** | **8,442** | **-4.6%** | **-5.0%** |

The following table specifies the revenue incidentals in more detail.

| **Revenue incidentals** *(in EUR m)* | **Segment** | **FY 2014** | **FY 2013** |
|---|---|---|---|
| Phase out SNOW | Belgium | 2 | - |
| Sale of fixed assets (hardware) | Business | 5 | - |
| Tax settlement related to 2013 | Other (the Netherlands) | 30 | - |
| Change in provision | NetCo | 17 | -13 |
| Impact disposal of subsidiaries | Business | - | 23 |
| Adjustment deferred revenues | Germany, Consumer Residential, Mobile, Business | 5 | 49 |
| **KPN Group** | | **59** | **59** |
| *Of which discontinued operations* | | - | *29* |
| **KPN Group continuing operations** | | **59** | **30** |

[4] For further information on this transaction and the impact on KPN's financial information refer to KPN's Integrated Annual Report 2013

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

| EBITDA *(in EUR m)* | FY 2014 reported | Incidentals | Restruc-turing | FY 2014 adjusted | FY 2013 reported | Incidentals | Restruc-turing | FY 2013 adjusted | Δ y-on-y reported | Δ y-on-y adjusted |
|---|---|---|---|---|---|---|---|---|---|---|
| Germany (incl. discontinued operations) | 729 | 8 | -12 | 733 | 963 | 66 | - | 897 | -24% | -18% |
| Belgium | 149 | -3 | -4 | 156 | 192 | 6 | - | 186 | -22% | -16% |
| Other | -8 | - | -3 | -5 | 4 | 12 | - | -8 | n.m. | -38% |
| **Mobile International** | **870** | **5** | **-19** | **884** | **1,159** | **84** | **-** | **1,075** | **-25%** | **-18%** |
| Consumer Mobile | 191 | - | -1 | 192 | 410 | 7 | -7 | 410 | -53% | -53% |
| Consumer Residential | 404 | - | -8 | 412 | 375 | 13 | -17 | 379 | 7.7% | 8.7% |
| Business | 590 | 10 | -26 | 606 | 706 | 13 | -47 | 740 | -16% | -18% |
| NetCo | 1,241 | 17 | -4 | 1,228 | 1,297 | 9 | -10 | 1,298 | -4.3% | -5.4% |
| Other | 24 | 30 | -15 | 9 | -33 | - | -32 | -1 | n.m. | n.m. |
| **The Netherlands** | **2,450** | **57** | **-54** | **2,447** | **2,755** | **42** | **-113** | **2,826** | **-11%** | **-13%** |
| iBasis | 23 | - | - | 23 | 29 | - | - | 29 | -21% | -21% |
| Other activities | 403 | 472 | -23 | -46 | -101 | -77 | -9 | -15 | n.m. | >100% |
| **KPN Group** | **3,746** | **534** | **-96** | **3,308** | **3,842** | **49** | **-122** | **3,915** | **-2.5%** | **-16%** |
| *Of which discontinued operations* | *731* | *8* | *-12* | *735* | *959* | *66* | *-* | *893* | *-24%* | *-18%* |
| **KPN Group continuing operations** | **3,015** | **526** | **-84** | **2,573** | **2,883** | **-17** | **-122** | **3,022** | **4.6%** | **-15%** |

The following table specifies the EBITDA incidentals in more detail.

| **EBITDA incidentals** *(in EUR m)* | **Segment** | **FY 2014** | **FY 2013** |
|---|---|---|---|
| Tax settlement related to 2013 | Other (The Netherlands) | 30 | - |
| Phase out SNOW | Belgium | -3 | - |
| Volume discount hardware | Germany | 8 | - |
| Change in provisions | NetCo, Business, Other | 17 | -78 |
| Sale of fixed assets (hardware) | Business | 5 | - |
| Release of pension provision | Other activities | 477 | - |
| Adjustment deferred revenues | Germany, Consumer Residential, Mobile, Business | 5 | 49 |
| Impact disposal of subsidiaries | Business | - | 23 |
| Release of asset retirement obligation | NetCo, Belgium, Germany | - | 48 |
| Release accruals | NetCo | - | 7 |
| Book loss related to asset held for sale classification SNT Deutschland | Other activities | -5 | - |
| **KPN Group** | | **534** | **49** |
| *Of which discontinued operations* | | *8* | *66* |
| **KPN Group continuing operations** | | **526** | **-17** |

# Group review and other developments

## Group financial review (continuing operations)

Adjusted Group revenues were flat y-on-y in Q4 2014. Without the benefit of a tax settlement (EUR 44m) in Q4 2014 adjusted Group revenues would have been down 2.1% y-on-y (Q3 2014: -4.9% y-on-y). KPN continued to grow its customer base for nearly all main consumer and business services, however this was offset by the impact of the ongoing decline of the business market size. Full year 2014 adjusted Group revenues were 5.0% lower y-on-y. A settlement with the Dutch tax authorities for excess taxes paid by KPN in the period 2013-2014, led to a reimbursement of EUR 74m in Q4 2014, of which EUR 30m related to 2013 (classified as an incidental) and EUR 44m related to 2014.

Adjusted Group EBITDA decreased by 3.0% y-on-y in Q4 2014 as investments in customer base growth and the phasing out of handset lease at all brands in The Netherlands were only partly offset by a tax settlement benefit (EUR 44m). Without the tax settlement benefit and impact of phasing out of handset lease, adjusted EBITDA would have been down 8.3% y-on-y in Q4 2014 (Q3 2014: -12%). The adjusted EBITDA margin for Q4 2014 decreased to 32.4% (Q4 2013: 33.4%). Adjusted Group EBITDA for full year 2014 decreased by 15% y-on-y; excluding the impact of phasing out of the handset lease of EUR 120m this declined by 11% y-on-y. The adjusted EBITDA margin for full year 2014 decreased to 32.1% (FY 2013: 35.8%).

Group operating profit (EBIT) increased by EUR 120m y-on-y in Q4 2014 due to EUR 110m higher reported EBITDA, which was fully driven by the net positive impact from incidentals. Net profit in Q4 2014 amounted to EUR -37m, also impacted by higher financial expenses as a result of the bond tender premiums. EBIT for the full year 2014 increased by EUR 169m (16%) supported by the release of EUR 477m pension provisions and the tax settlement benefit related to 2013 and 2014 of EUR 74m. Full year 2014 net profit was EUR 239m, 18% lower y-on-y as the higher financial expenses were only partly offset by the higher EBIT.

Capex decreased to EUR 1,412m for full year 2014 compared to EUR 1,616m full year 2013, mainly due to lower customer driven investments (incl. phasing out of handset lease) and savings driven by the Simplification program (approximately EUR 70m).

KPN made good progress with its Simplification program in 2014, realizing run-rate Capex and opex savings ahead of plan at approximately EUR 140m y-on-y and approximately 700 FTE reductions. Therefore, the annual run-rate Capex and opex savings target has been increased from more than EUR 300m to more than EUR 400m by 2016 versus 2013.

Free cash flow for full year 2014 was EUR 658m lower compared to full year 2013, mainly due to non-recurring items such as the impact of pension agreements and reduced supplier payment terms. The lower free cash flow was mainly driven by less cash from working capital (EUR 386m) including EUR 242m related to reduced supplier payment terms, EUR 345m lower EBITDA amended for the EUR 477m pension provision releases, EUR 235m payment related to pension agreements and EUR 51m higher interest payments (including accrued interest of EUR 47m related to the bond tender). These items were only partly offset by EUR 204m lower Capex and EUR 115m lower taxes paid in 2014. Amended for the non-recurring items, full year 2014 free cash flow would have been EUR 405m. The restructuring cash out for full year 2014 related to FTE reductions was roughly in line with the restructuring provisions taken for the full year 2014 (EUR 84m).

## Net debt to EBITDA

Net debt at the end of 2014 was EUR 2.5bn lower compared to the end of 2013. The positive impact of the sale of E-Plus (EUR 4.9bn) was partly offset by the acquisition and consolidation of Reggefiber (EUR 1.4bn), the reduced supplier payments terms (EUR 242m), the pension fund agreements (EUR 235m) and bond tender premiums and fees (EUR 236m). All of these items increased KPN’s financial flexibility. The lower net debt was partly offset by a lower 12 months rolling EBITDA, resulting in a net debt to EBITDA ratio of 2.8x by the end of Q4 2014 (Q3 2014: 2.9x). Furthermore, KPN has additional financial flexibility via the 20.5% stake in Telefónica Deutschland.

KPN has credit ratings of Baa3 with a stable outlook by Moody’s, BBB- with a stable outlook by Standard & Poor's and BBB- with a stable outlook by Fitch Ratings.

## Other developments

For further details refer to KPN’s Condensed Consolidated Interim Financial Statements for the full year 2014.