# Annual Results 2013

4 February 2014

# 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. 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. 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. Underlying revenues and other income and underlying EBITDA are derived from revenues and other income and EBITDA, respectively, and are adjusted for the impact of MTA and roaming (regulation), changes in the composition of the group (acquisitions and disposals), 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 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 and speak only as of the date they are made. A number of these factors are described (not exhaustively) in the Annual Report 2012.

# Contents

# Executive summary


***Improved operational performance***

- Triple play penetration at 44%, up 8%-points y-on-y
- Quad play customers doubled in Q4 ’13 to 173k
- Dutch 4G coverage at ~80%, nationwide end Q1 ’14
- Positive postpaid net adds, but market share lower in competitive Dutch mobile market
- Successful postpaid and data strategy in Germany and Belgium
- FTE reduction program completed, ~4,650 reductions realized


***Group financial results reflect competitive markets and high investment levels***

- Lower Group revenues and EBITDA in 2013 due to pressure in Consumer Mobile and Business markets, partly offset by good performance Consumer Residential
- Q4 ’13 EBITDA down 7.3% y-on-y, adjusted for incidentals and phasing out handset lease
- Capex at € 1.6bn in 2013 (+2.6%) driven by investments in networks, products and customers

# Executive summary (cont'd)


***Strategy***

- Building on strong fundamentals
- Enhanced customer focus via best-in-class networks and products
- Simplification leading to lean operating model

***Outlook***

- Financial performance stabilizing towards the end of 2014
- Free cash flow growth expected in 2015
- Recommence dividend payment in respect of 2014 (€ 0.07), subject to closing E-Plus sale
- Additional excess cash via potential dividend from 20.5% stake in Telefónica Deutschland

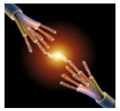
# Building on strong fundamentals

## Enhanced customer focus via best-in-class networks and products

| Completed | Going forward |
|---|---|

### Best-in-class networks

- Leading 3G and 4G networks
- Vectoring and pair bonding
- High FttH coverage of ~25%



### Capex at less elevated levels

- Expand 4G network capacity in The Netherlands, 4G roll-out Belgium
- Continued higher speeds on copper leading to lower pace FttH roll-out

### Leading products

- Leading IPTV product and 4G bundles
- Quad play introduced in Consumer market
- Bundled fixed-mobile ICT in Business

### Focus on 4G, IPTV and bundles

- Fully utilize leading 4G position
- Grow IPTV customer base to increase RGUs
- Increase multi play to reduce churn
- Higher customer satisfaction

# Building on strong fundamentals (cont'd)

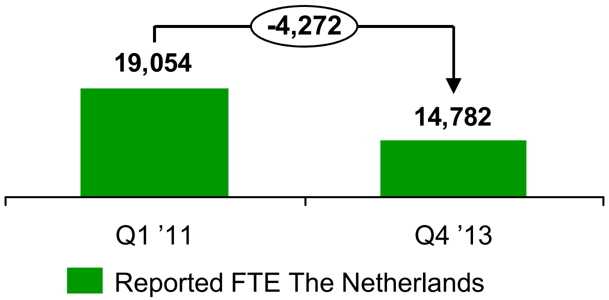
## Major steps towards a lean operating model

**Completed**

**Going forward**

### FTE reduction program

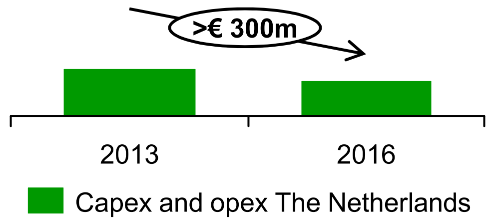
- ~4,650[1] exits related to FTE reduction program in 2011-2013 period




- Structural decline personnel costs ~10% y-on-y, adjusted for non-recurring items

### Simplification program

- Simplified products, client processes and networks & IT
- Significant run-rate Capex and opex savings by 2016




- ~1,500-2,000 FTE reductions expected in The Netherlands by 2016

1 Adjusted for M&A and accelerated investment strategy

# **Outlook** (continuing operations)

**2014**

- Financial performance stabilizing towards the end of 2014
- Capex < € 1.4bn[1]

**2015**

- Capex < € 1.5bn, including Reggefiber[1]
- Free cash flow (excl. TEFD dividend)[2] growth expected in 2015
  - Limited tax cash out in The Netherlands in coming years due to tax loss on sale of E-Plus
  - Interest payments trending down due to reduction of gross debt in coming years
- Additional excess cash via potential dividend from 20.5% stake Telefónica Deutschland

1 Assuming Reggefiber consolidation per 31 December 2014
2 Free cash flow outlook defined as cash flow from operating activities, plus proceeds from real estate, minus Capex and excluding Telefónica Deutschland dividend

# Shareholder remuneration

## Recommence dividend, subject to closing E-Plus sale

### Dividend

- Recommence sustainable dividend payments, DPS of € 0.07 in respect of 2014
- Growing DPS expected in respect of 2015
- 1/3 interim dividend in August 2014, 2/3 final dividend in April 2015

### Additional excess cash

- 20.5% stake Telefónica Deutschland
  - Cash upside via potential dividend payments
- Excess cash could be utilized for
  - Operational / financial flexibility
  - (Small) in-country M&A
  - Shareholder remuneration

# E-Plus sale

## Completion expected mid 2014

### Confident on regulatory approval

- Increased competitiveness due to creation of stronger player in size and market presence
- Review by European Commission due to relevance for European landscape

### Substantial benefits

- Combination Telefónica Deutschland and E-Plus to realize substantial synergies
- KPN expected to benefit from (dividend payments via) 20.5% stake in Telefónica Deutschland

| 20 December 2013 | 11 February 2014 | May 2014 | Mid 2014 | Mid 2014 |
|---|---|---|---|---|
| EC decision to start phase II | EGM Telefónica Deutschland to approve acquisition and financing | Expected final EC decision[1] | Rights issue Telefónica Deutschland | **Completion sale of E-Plus** |

2013 2014

1 European Commission indicated 14 May 2014, date subject to change

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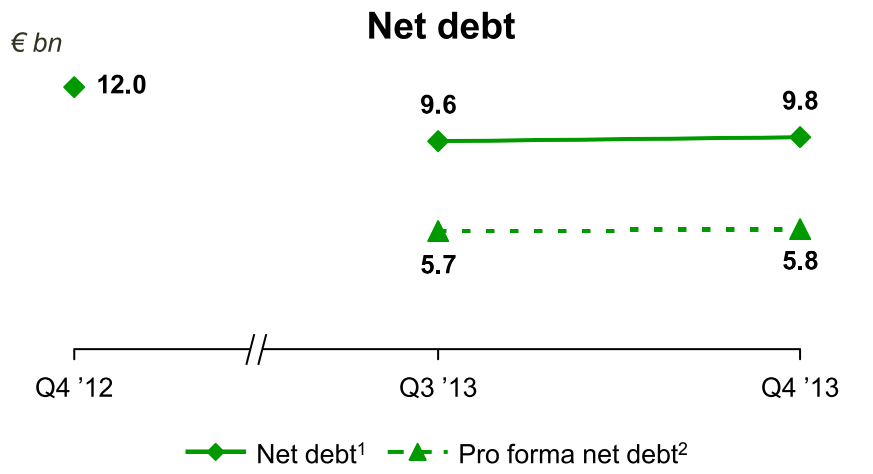
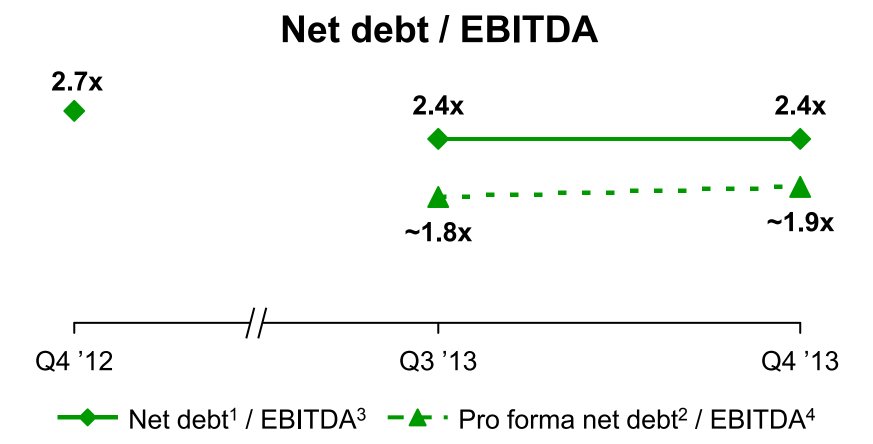
# Group financial profile




- Net debt increased slightly
- € 1.4bn bond redemptions in first half of 2014
- Average coupon senior bonds 5.0%, average maturity senior bonds 6.6 years
- Net debt / EBITDA at ~1.9x, pro forma E-Plus sale and Reggefiber consolidation
  - Reggefiber consolidation pending competition authority approval
  - Lower 12 months rolling EBITDA
- Committed to investment grade credit profile

1 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
2 Pro forma adjustment, including net cash proceeds E-Plus sale and Reggefiber consolidation impact
3 Based 12 months rolling total excluding restructuring costs, incidentals and major changes in the composition of the Group (acquisitions and disposals)
4 Pro forma adjustment: i) excluding last 12 months E-Plus EBITDA; ii) Reggefiber consolidation impact

# **Capex review** (continuing operations)

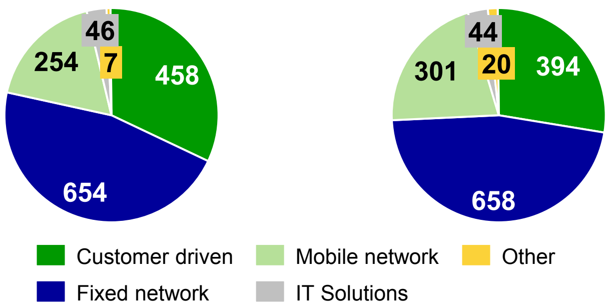
## Capex at less elevated levels going forward

### High investments in recent years

**The Netherlands**

*2012*
*(€ 1,419m)*

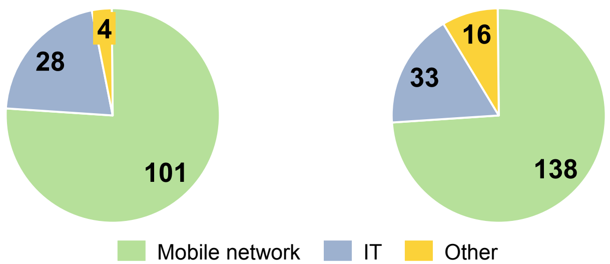
*2013*
*(€ 1,417m)*




**Belgium**

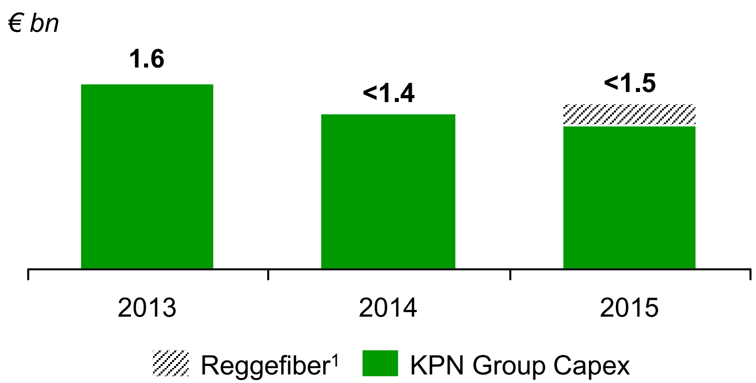
*2012*
*(€ 133m)*

*2013*
*(€ 187m)*




### Less elevated levels going forward

- High investments in recent years, of which large part completed
  - Copper network upgrades
  - Roll-out nationwide 4G network
- Maintain best quality networks, investments at less elevated levels
  - Simplification program
  - Higher copper speeds, lower pace FttH roll-out




1 Reggefiber Capex included per 1 January 2015, efficiencies resulting in lower Capex/HP

# Group results Q4 ’13 (continuing operations)

## E-Plus discontinued operation

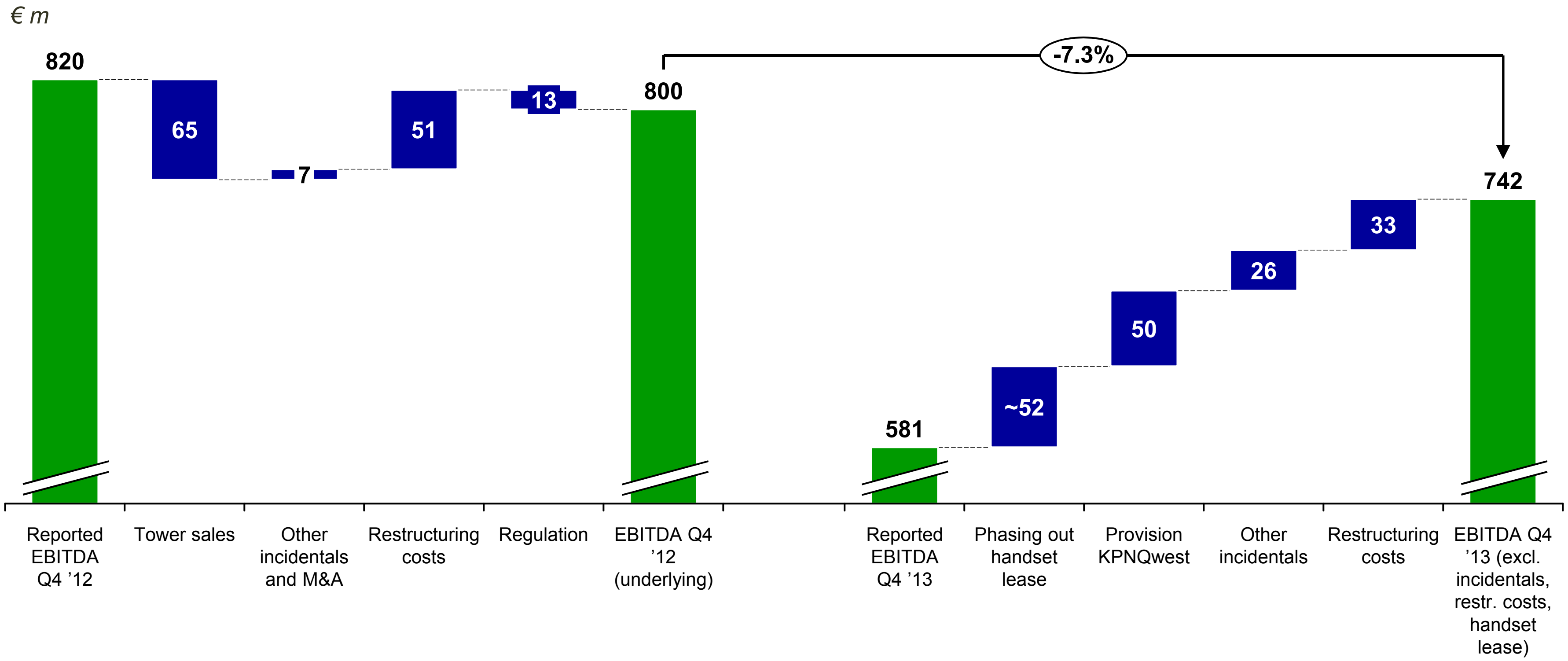
| € m (continuing operations) | Q4 ’13 | Q4 ’12 | % |
|---|---|---|---|
| **Revenues and other income** | **2,061** | **2,383** | ***-14%*** |
| **Operating expenses (excl. D&A)** | **1,480** | **1,563** | ***-5.3%*** |
| – Depreciation[1] | 328 | 297 | *10%* |
| – Amortization[1] | 155 | 472 | *-67%* |
| **Operating expenses** | **1,963** | **2,332** | ***-16%*** |
| **Operating profit** | **98** | **51** | ***92%*** |
| Financial income/expense | -243 | -275 | *-12%* |
| Share of profit of associates | - | 5 | *-100%* |
| **Profit before taxes** | **-145** | **-219** | ***34%*** |
| Taxes | 37 | -44 | *n.m.* |
| **Profit after taxes** | **-108** | **-263** | ***59%*** |
| **EBITDA[2] (reported)** | **581** | **820** | ***-29%*** |
| – Restructuring costs | 33 | 51 | *-35%* |
| **EBITDA[2] (excl. restructuring costs)** | **614** | **871** | ***-30%*** |

- Revenues down 14% y-on-y
  - Lower revenues mainly at Business, Consumer Mobile and NetCo, partly offset by revenue growth at Consumer Residential
- Opex (excl. D&A) down 5.3% y-on-y
  - Lower personnel costs in The Netherlands
  - Partly offset by phasing out handset lease at KPN and Hi brands
- EBITDA down 7.3% y-on-y, adjusted for incidentals and M&A, phasing out handset lease, regulation and restructuring costs

1 Including impairments
2 Defined as operating profit plus depreciation, amortization & impairments

# Q4 ’13 EBITDA[1] (continuing operations)

## Impacted by phasing out handset lease and incidentals




1 Defined as operating profit plus depreciation, amortization & impairments, excluding restructuring costs

# Group results FY ’13 (continuing operations)

## E-Plus discontinued operation

| *€ m (continuing operations)* | FY ’13 | FY ’12 | % |
|---|---|---|---|
| **Revenues and other income** | **8,472** | **9,458** | ***-10%*** |
| **Operating expenses (excl. D&A)** | **5,589** | **6,112** | ***-8.6%*** |
| – Depreciation[1] | 1,258 | 1,079 | *17%* |
| – Amortization[1] | 599 | 881 | *-32%* |
| **Operating expenses** | **7,446** | **8,072** | ***-7.8%*** |
| **Operating profit** | **1,026** | **1,386** | ***-26%*** |
| Financial income/expense | -757 | -857 | *-12%* |
| Share of profit of associates | -7 | -11 | *-36%* |
| **Profit before taxes** | **262** | **518** | ***-49%*** |
| Taxes | 31 | -204 | *n.m.* |
| **Profit after taxes** | **293** | **314** | ***-6.7%*** |
| **EBITDA[2] (reported)** | **2,883** | **3,346** | ***-14%*** |
| – Restructuring costs | 122 | 134 | *-9.0%* |
| **EBITDA[2] (excl. restructuring costs)** | **3,005** | **3,480** | ***-14%*** |

- Revenues down 10% y-on-y
  - Lower revenues mainly at Business, Consumer Mobile and NetCo, partly offset by revenue growth at Consumer Residential
- Opex (excl. D&A) down 8.6% y-on-y
  - Lower personnel costs in The Netherlands
- EBITDA (excl. restructuring costs) down 14% y-on-y
  - Decline in revenues
  - Net negative impact from incidentals € 135m (3.5%)
  - € 53m regulation impact (1.6%)

1 Including impairments
2 Defined as operating profit plus depreciation, amortization & impairments

# Group cash flow Q4 ’13 (continuing operations)

## E-Plus discontinued operation

| € m (continuing operations) | Q4 ’13 | Q4 ’12 | % |
|---|---|---|---|
| **Operating profit** | **98** | **51** | ***92%*** |
| Depreciation and amortization[1] | 483 | 769 | *-37%* |
| Interest paid/received | -70 | -153 | *-54%* |
| Tax paid/received | -35 | -142 | *-75%* |
| Change in provisions[2] | -35 | -73 | *-52%* |
| Change in working capital[2] | 208 | 185 | *12%* |
| Other movements | - | -74 | *-100%* |
| **Net cash flow from operating activities** | **649** | **563** | ***15%*** |
| **Capex[3]** | **411** | **496** | ***-17%*** |
| Proceeds from real estate | 1 | 77 | *-99%* |
| Tax recapture E-Plus | 25 | 92 | *-73%* |
| **Free cash flow[4]** | **264** | **236** | ***12%*** |
| Coupon on perpetual hybrid | - | - | - |

- Free cash flow of € 264m, 12% higher y-on-y
  - € 85m lower Capex
  - € 83m lower interest paid
  - € 40m lower taxes paid
  - € 38m more cash from change in provisions

  Partly offset by
  - € 239m lower EBITDA
- Capex 17% lower y-on-y
  - Impacted by phasing out handset lease

1 Including impairments
2 Excluding changes in deferred taxes
3 Including property, plant & equipment and software
4 Defined as cash flow from operating activities, plus proceeds from real estate, minus Capex and excluding tax recapture E-Plus

# Group cash flow FY '13 (continuing operations)

## E-Plus discontinued operation

| *€ m (continuing operations)* | FY '13 | FY '12 | % |
|---|---|---|---|
| **Operating profit** | **1,026** | **1,386** | ***-26%*** |
| Depreciation and amortization[1] | 1,857 | 1,960 | *-5.3%* |
| Interest paid/received | -654 | -644 | *1.6%* |
| Tax paid/received | -253 | -469 | *-46%* |
| Change in provisions[2] | -191 | -255 | *-25%* |
| Change in working capital[2] | 162 | -101 | *n.m.* |
| Other movements | -21 | -117 | *-82%* |
| **Net cash flow from operating activities** | **1,926** | **1,760** | ***9.4%*** |
| **Capex[3]** | **1,616** | **1,575** | ***2.6%*** |
| Proceeds from real estate | 3 | 117 | *-97%* |
| Tax recapture E-Plus | 176 | 335 | *-47%* |
| **Free cash flow[4]** | **489** | **637** | ***-23%*** |
| Coupon on perpetual hybrid | 34 | - | *n.m.* |

- Free cash flow € 148m lower y-on-y
  - € 463m lower EBITDA
  - € 41m higher Capex

  Partly offset by
  - € 263m more cash from change in working capital
  - € 64m more cash from change in provisions
  - € 57m lower taxes paid
- Capex 2.6% higher y-on-y
  - Increased mobile network investments in The Netherlands
- Coverage ratio of KPN pension funds at 109% end of Q4 '13
  - No recovery payments expected in H1 '14

1 Including impairments
2 Excluding changes in deferred taxes
3 Including property, plant & equipment and software
4 Defined as cash flow from operating activities, plus proceeds from real estate, minus Capex and excluding tax recapture E-Plus

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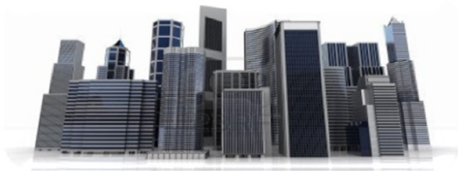
# Contents

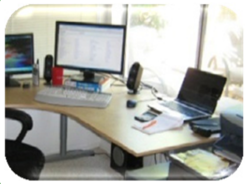
# The Netherlands

## Excellent position as the integrated access provider

- Leveraging unique assets; best-in-class fixed & mobile networks and ICT infrastructure
- Leading products in Business and Consumer markets
- Only operator in The Netherlands with converged in-house capabilities



***Business***



***Fixed network***

***Mobile network***


***Consumer***

# Building on strong fundamentals

## Best-in-class networks and converged products

### Best-in-class networks

- Best-in-class mobile network
  - Nationwide coverage end Q1 ’14
  - Fully modernized backhaul, majority Fiber-to-the-Site

- Fixed network speeds ahead of customer demand
  - Bonded vectoring to start in 2014, download speeds >200Mbps
  - FttH footprint at ~25%, symmetrical speeds >500Mbps

- Leading ICT infrastructure
  - Strongly positioned with cloud and data centers

### Strong customer focus

- Market leading products

4G KPN

- Converged products introduced



**Best products driving take-up of multi-play, hence reducing churn**

# Simplification

## Simple and low cost operating model

### 1 Simplified product portfolio

- Simple and flexible product portfolio
- Significant reduction # of propositions

### 2 Simplified client processes

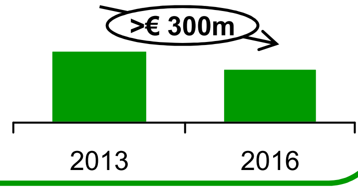
- Focus on online client processes
- Optimized distribution model

### 3 Simplified network & IT

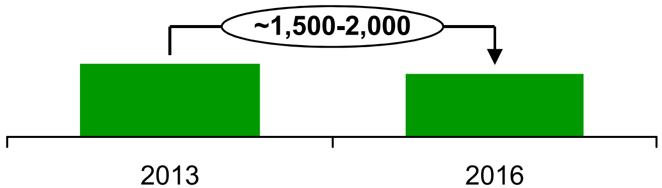
- Reduction complexity
- Moving to standardized IT systems

### Significant cost savings

- >€ 300m run-rate Capex and opex savings by 2016



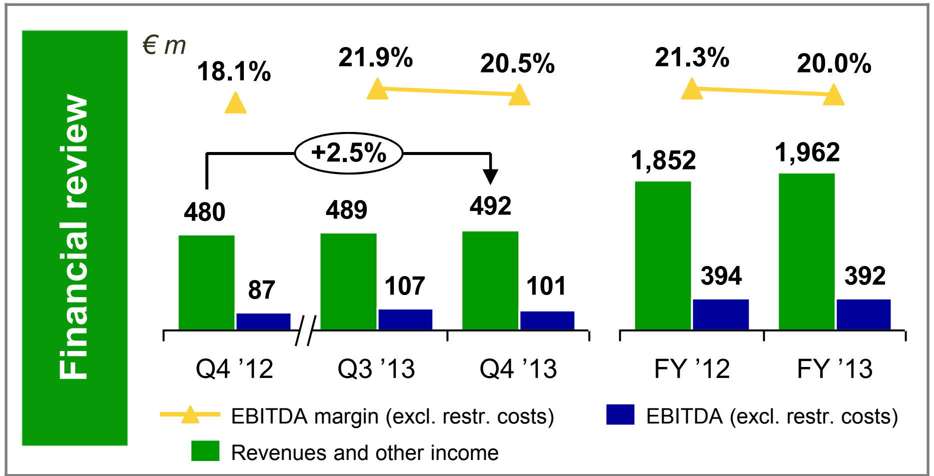

### FTE reductions

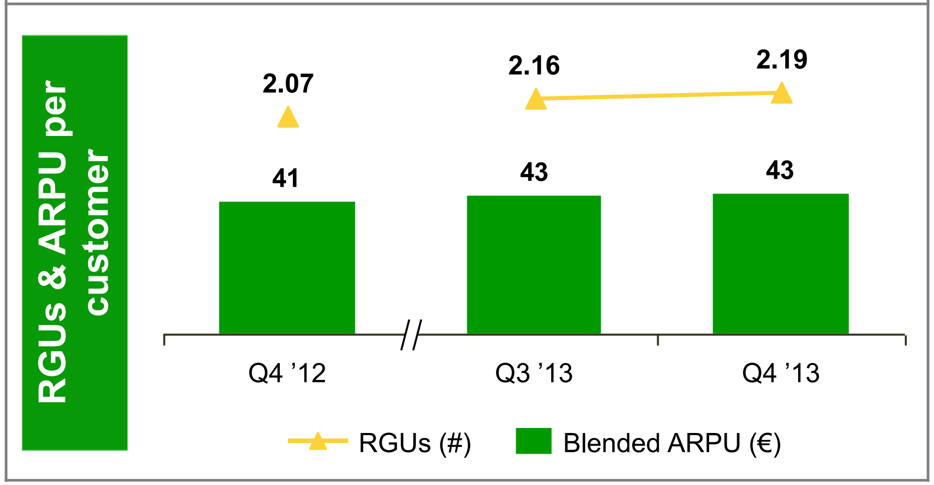



### Next wave quality improvements

- Faster time-to-market
- Increasing customer satisfaction

# Consumer Residential




Increasing products per customer

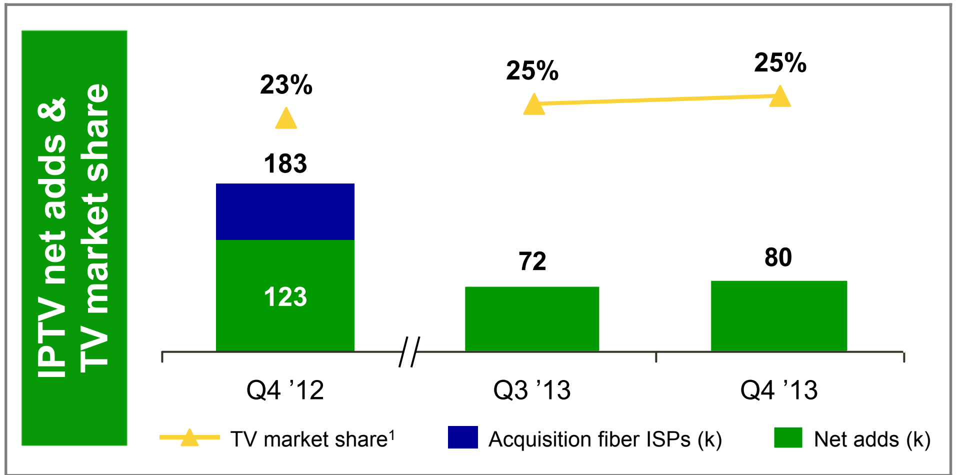
Increasing customer base

Increasing ARPU

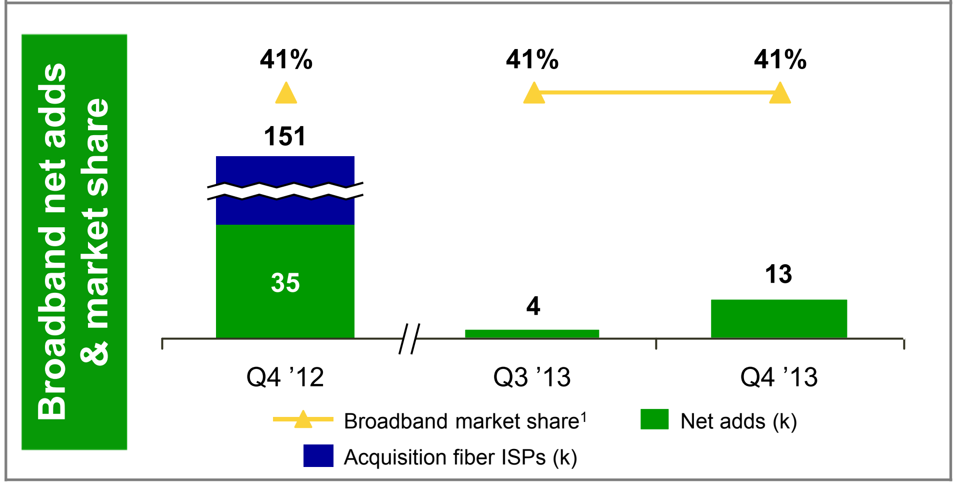
***Growing revenues, growing EBITDA***

# Consumer Residential (cont'd)

## Full focus on IPTV to grow multi play customers




- Continued strong IPTV net adds of 80k leading to TV market share of 25%
- IPTV main driver for triple play growth



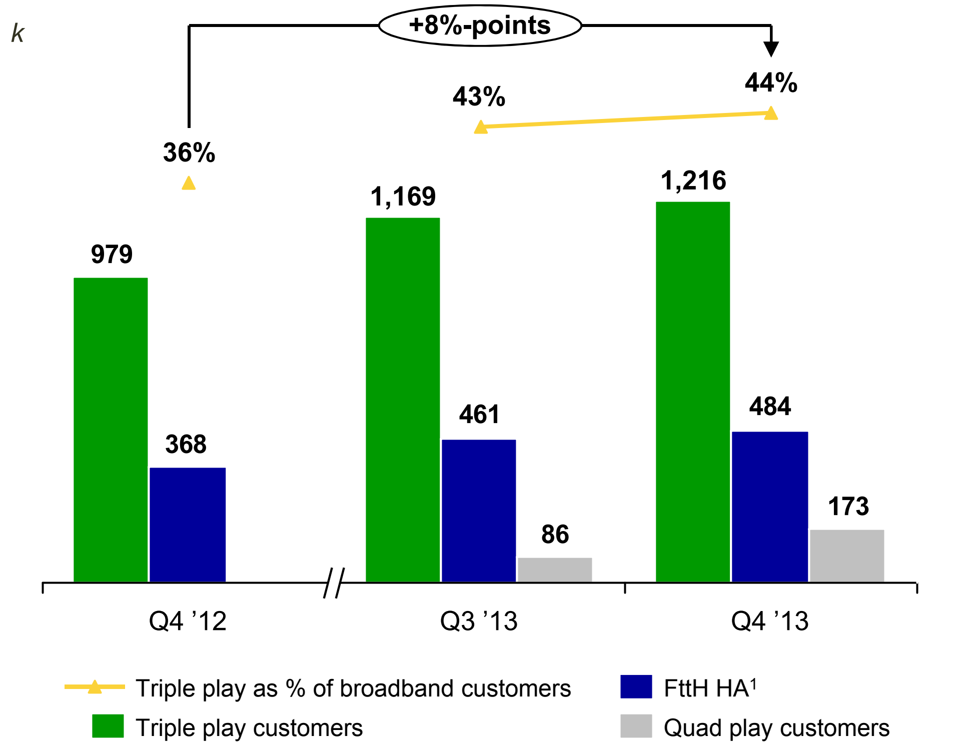

- Continued broadband base growth, stable market share
- Successful hybrid VDSL / FttH strategy
  - Reducing churn in upgraded copper areas
  - Focus on increasing FttH activations

1 Source: Telecompaper, management estimates for Q4 '13

# Consumer Residential (cont'd)

## Continued focus on growing multi play customers

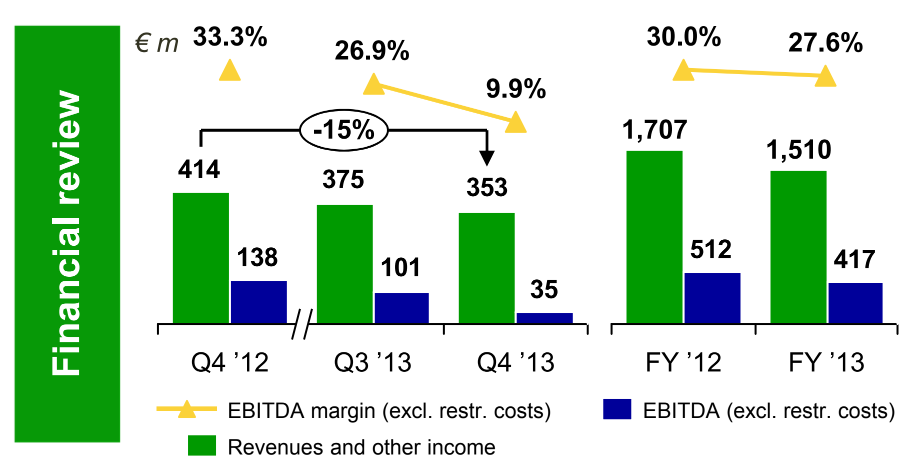
**Multi play and FttH customers**

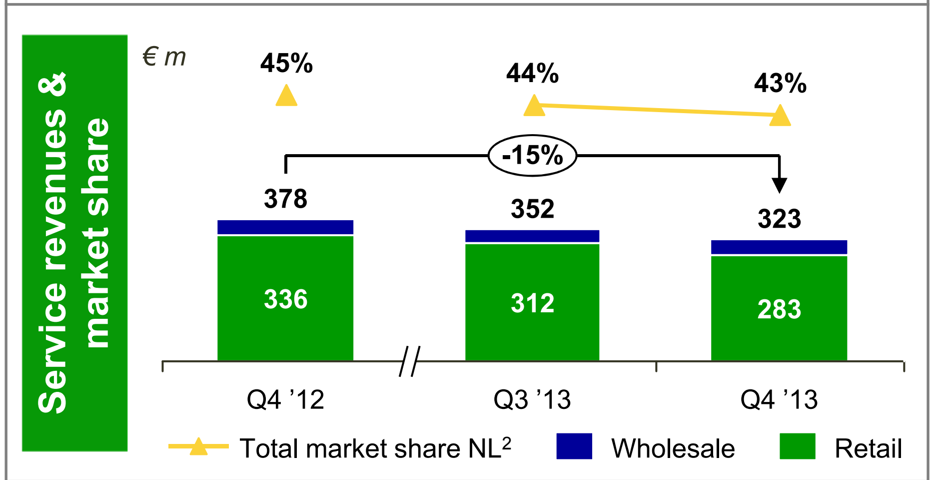



- Continued growth triple play customers, penetration up 8%-points y-on-y
- 173k quad play customers per Q4 '13
  - Total customers doubled q-on-q
  - Addressable market increased, quad play for Hi customers introduced
- KPN FttH base at 484k

1 Homes Activated

# Consumer Mobile



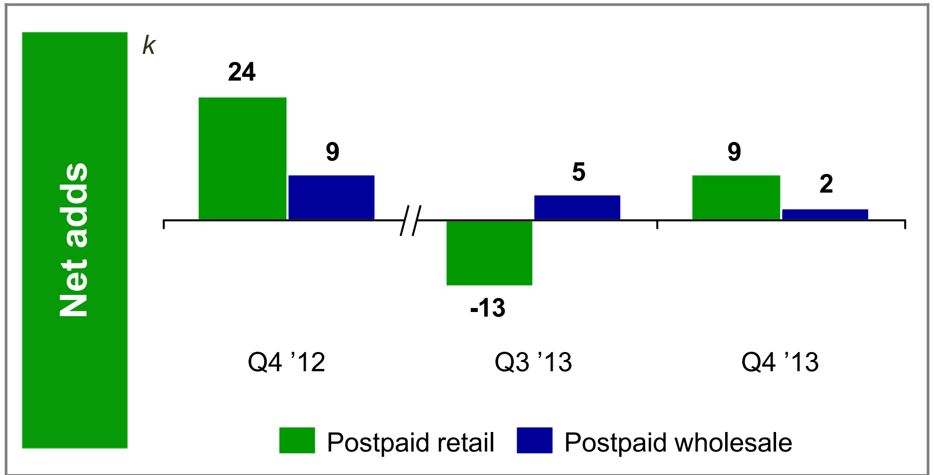



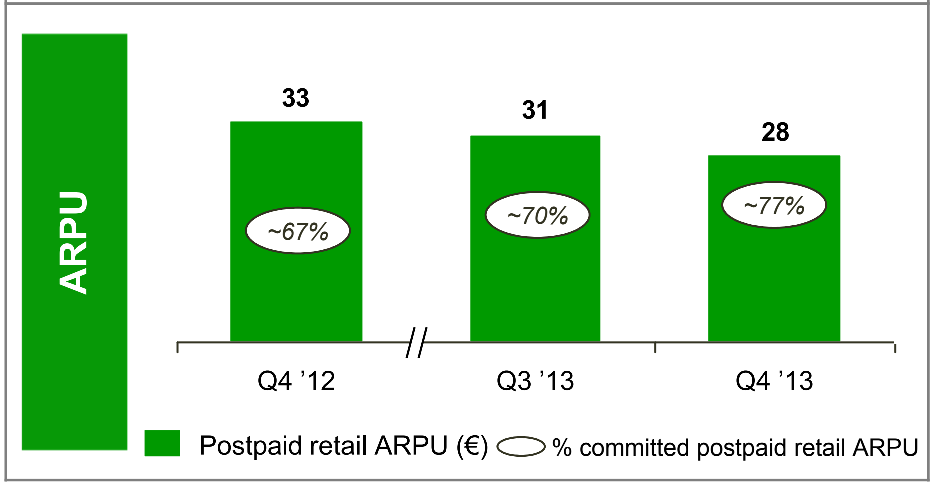

- Dutch mobile market remained competitive with new players arising, mainly in no frills segment
- Underlying service revenue decline of 13% in Q4 '13 y-on-y
- EBITDA[1] lower y-on-y in Q4 '13
  - Phasing out handset lease (~€ 52m)
  - Lower service revenues (~€ 36m)
  - Additional SAC to increase 4G subscriptions and reduce churn (~€ 16m)
- Targeting full service segment with KPN and Hi brands through focus on 4G and quad play
- Telfort and Simyo targeting volumes and growth in no frills segment

1 EBITDA excluding restructuring costs, if any
2 Total Dutch (Consumer and Business) mobile service revenue market share

# Consumer Mobile (cont'd)

## Positive net adds trend, continued pressure on ARPU

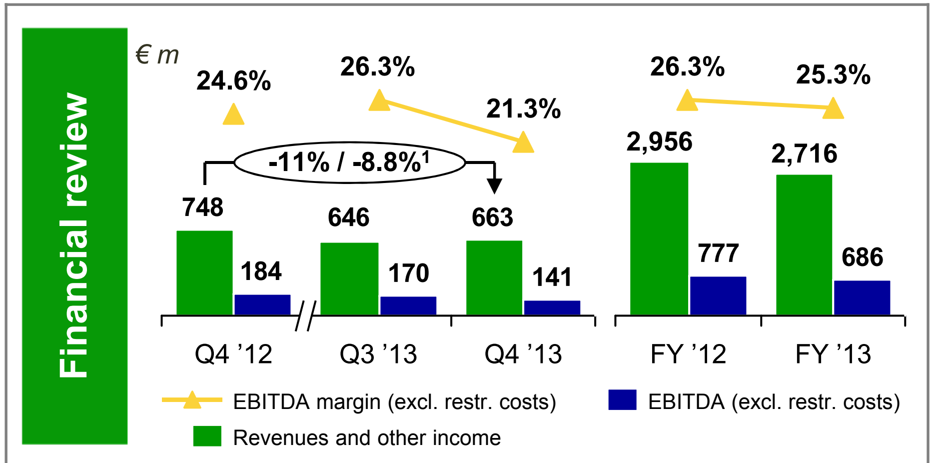


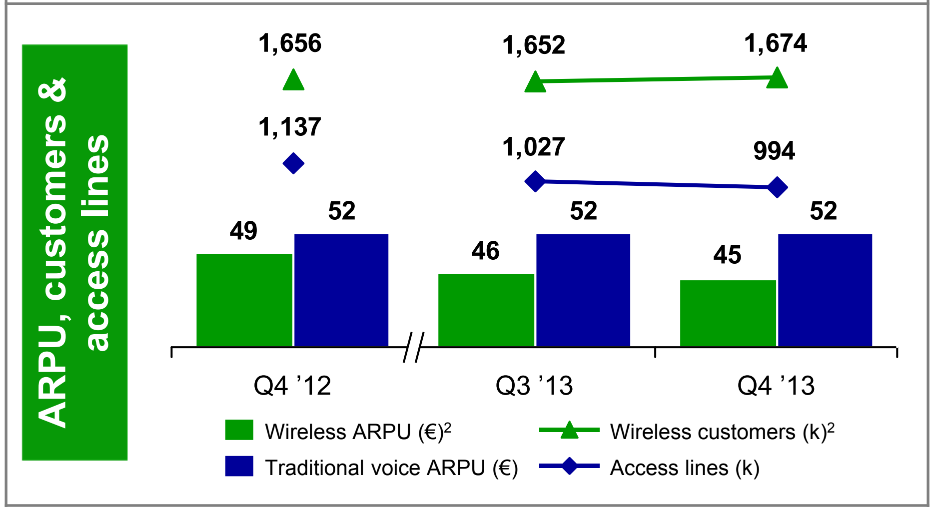




- Postpaid retail net adds at 9k
  - KPN and Hi net adds improving driven by new propositions
- 4G uptake accelerating, now 323k 4G subscribers (Q3 '13: 100k)
- Postpaid retail ARPU remains under pressure in competitive market environment
- Committed ARPU up 10%-points y-on-y
  - Supported by unlimited voice & SMS bundles

# Business

## Focus on bundled services and committed revenues

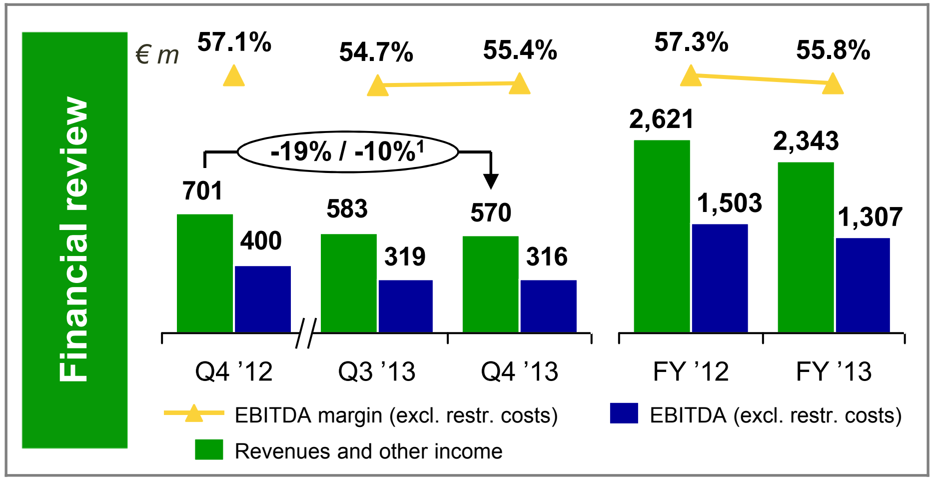



- Stable market positions maintained in difficult macro environment and competitive market
- EBITDA margin[3] lower y-on-y at 21.3% in Q4 '13
  - Price pressure and continued decline high margin traditional services
  - Net negative impact from incidentals and M&A of € 11m on EBITDA
- Focus on increasing committed revenues
- Good take-up 4G and bundled services
  - 220k 4G customers (Q3 '13: 98k)
- New services and targeted verticals to offset decline traditional services

1 Excluding impact sale IS&P of € 21m on revenues in Q4 '12
2 Excluding M2M
3 EBITDA margin excluding restructuring costs, if any

# NetCo

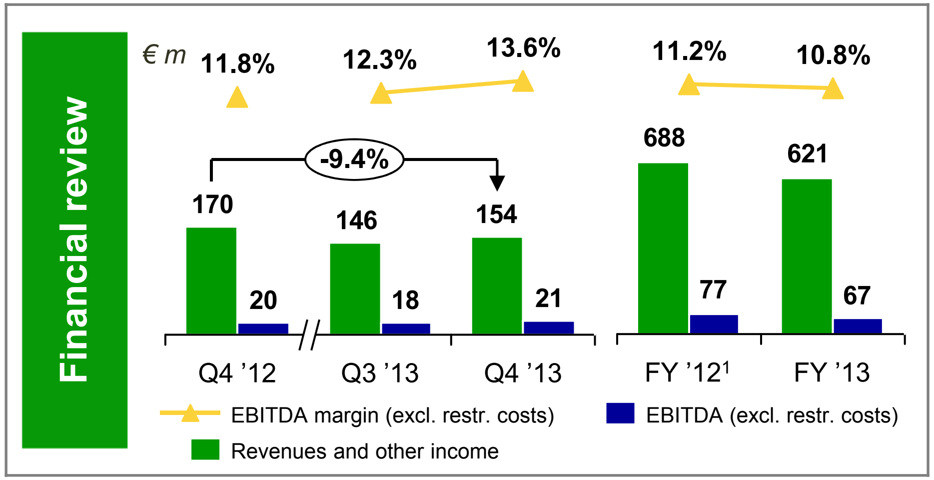



- Revenues down 10% y-on-y[1] in Q4 '13
  - Excluding € 65m tower sales in Q4 '12
  - Lower wholesale traffic revenues
- EBITDA margin[2] at 55.4% in Q4 '13
  - Net negative impact from incidentals of € 72m on EBITDA
  - Decline high margin traditional services
  - Higher FttH access costs

  Partly offset by
  - Lower personnel costs

1 Excluding € 65m incidentals (tower sales) on revenues in Q4 '12
2 EBITDA margin excluding restructuring costs, if any

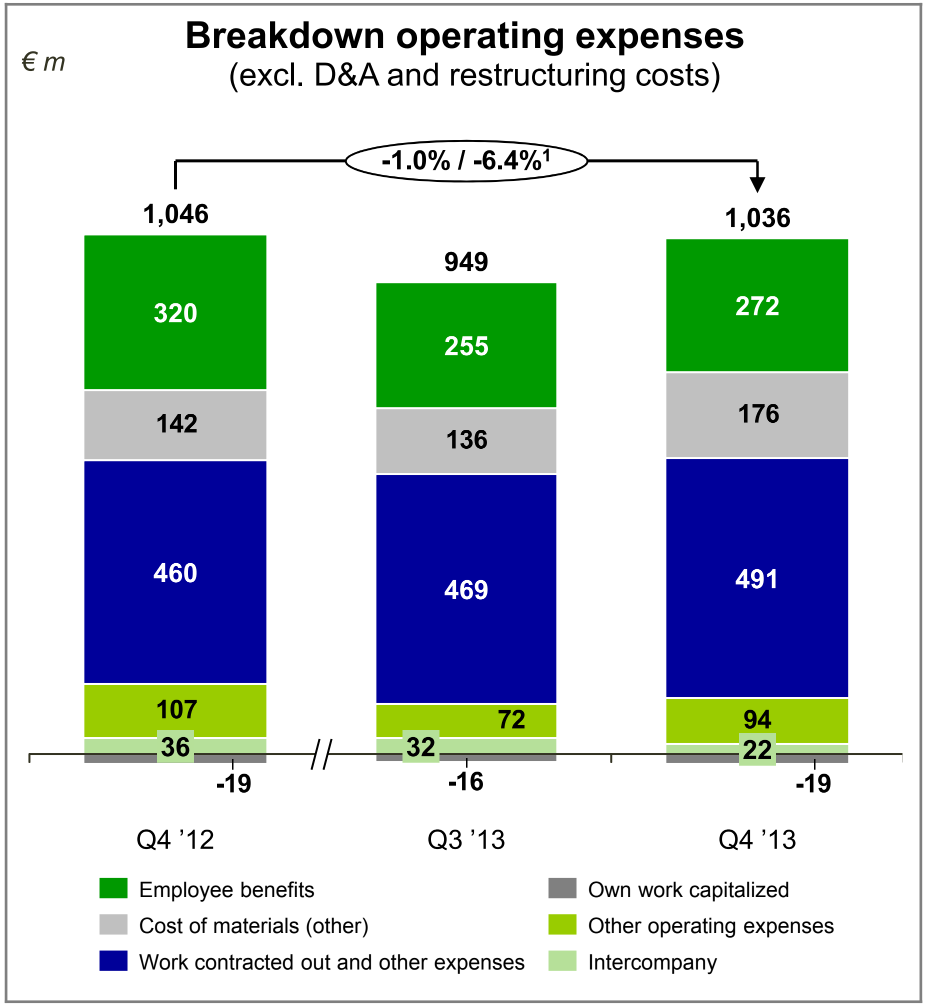
# IT Solutions




- Revenues down 9.4% y-on-y in Q4 ’13
  - Continued price pressure driven by overcapacity in the market and postponement large IT investments
  - Stable market position
- EBITDA margin[2] at 13.6% in Q4 ’13
  - Lower personnel costs partly offset by reduced margin due to lower revenues

1 Excluding Getronics International, sold per 1 May 2012
2 EBITDA margin excluding restructuring costs, if any

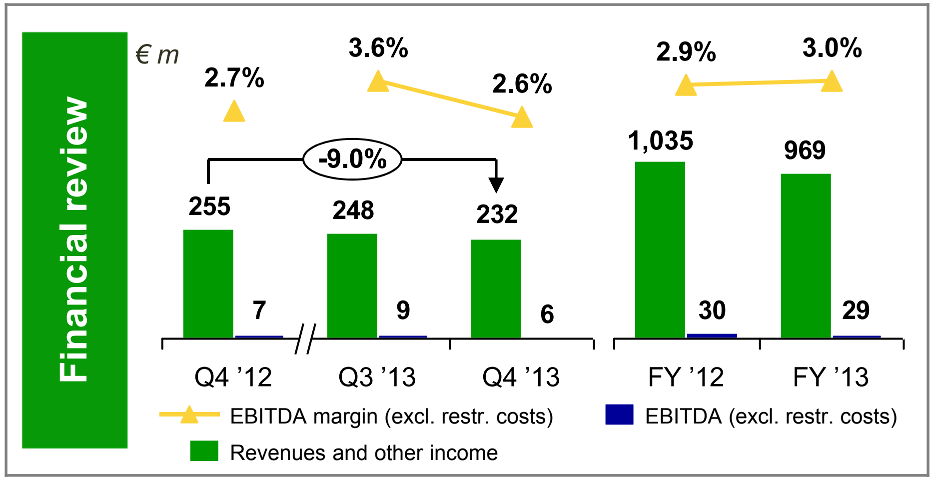
# The Netherlands – operating expenses




1 Excluding impact phasing out handset lease

- Operating expenses (excl. D&A, restr. costs and phasing out handset lease) down 6.4% y-on-y
  - Operating expenses declined 1.0% y-on-y incl. phasing out handset lease
- Employee benefit costs down 15% y-on-y
- Cost of materials (excl. phasing out handset lease) down 16% y-on-y
- Work contracted out increased 6.7% y-on-y
  - Higher TV content and FttH access costs
  - Higher outsourcing costs
  - Partly offset by lower traffic costs
- Simplification program to further reduce opex
  - Lower work contracted out due to lower IT spend and outsourcing costs
  - Lower employee benefit costs as a result of further FTE reductions

# iBasis




- Revenues down 9.0% y-on-y in Q4 ’13
  - Competitive market
  - Including 1.9% negative currency effect
- EBITDA margin[1] at 2.6% in Q4 ’13
  - Margin pressure offset by focus on costs

1 EBITDA margin excluding restructuring costs, if any

# Contents

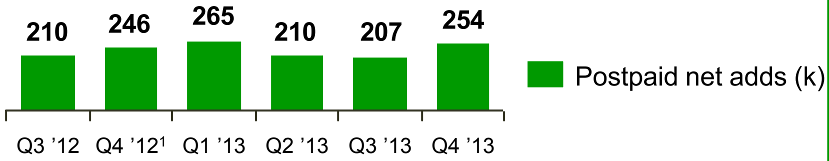
# Strategic progress Germany

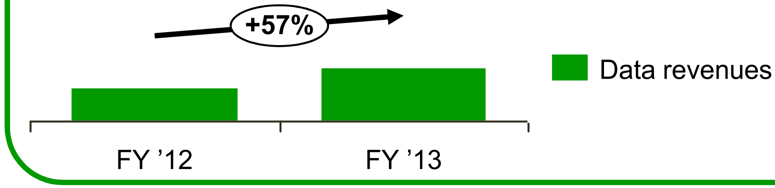
## Strong progress on all strategic pillars

### Strong improvement network quality

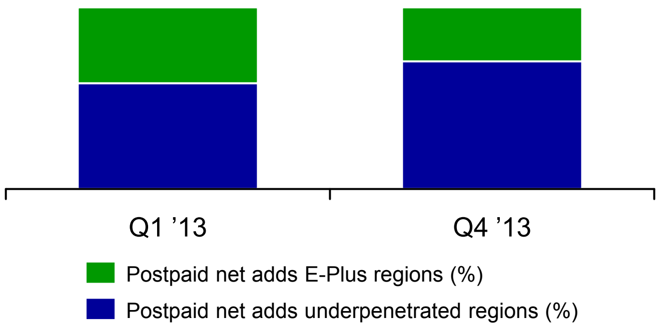
- Best overall improvement among all operators
- E-Plus more than doubled data speeds
- #2 in voice quality

### Continued growth postpaid & data




### High growth underpenetrated regions



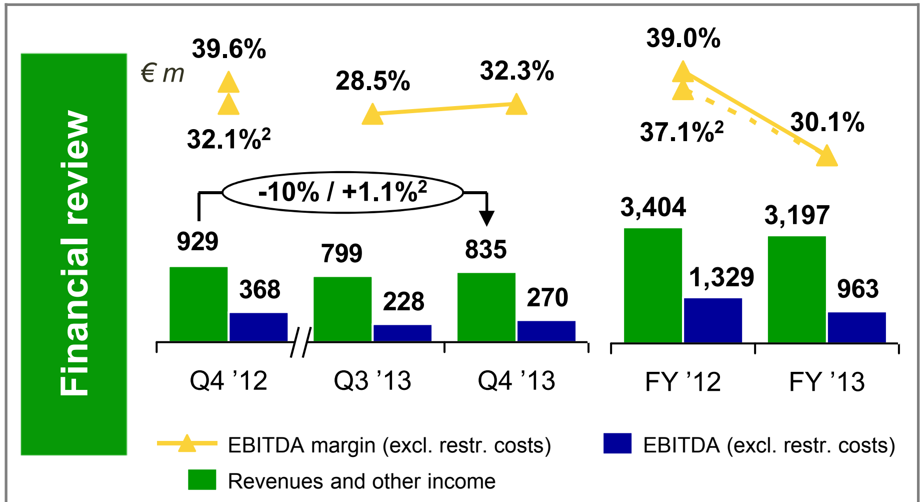

### Growing online distribution

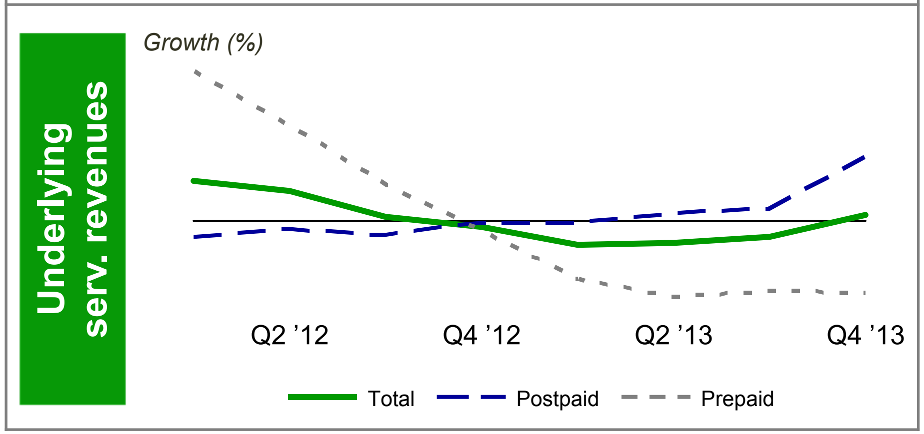
- Contributing to efficient cost structure


1 Excluding postpaid clean-up of 576k inactive SIM cards

# Germany (discontinued operation[1])

## Inflection underlying service revenues

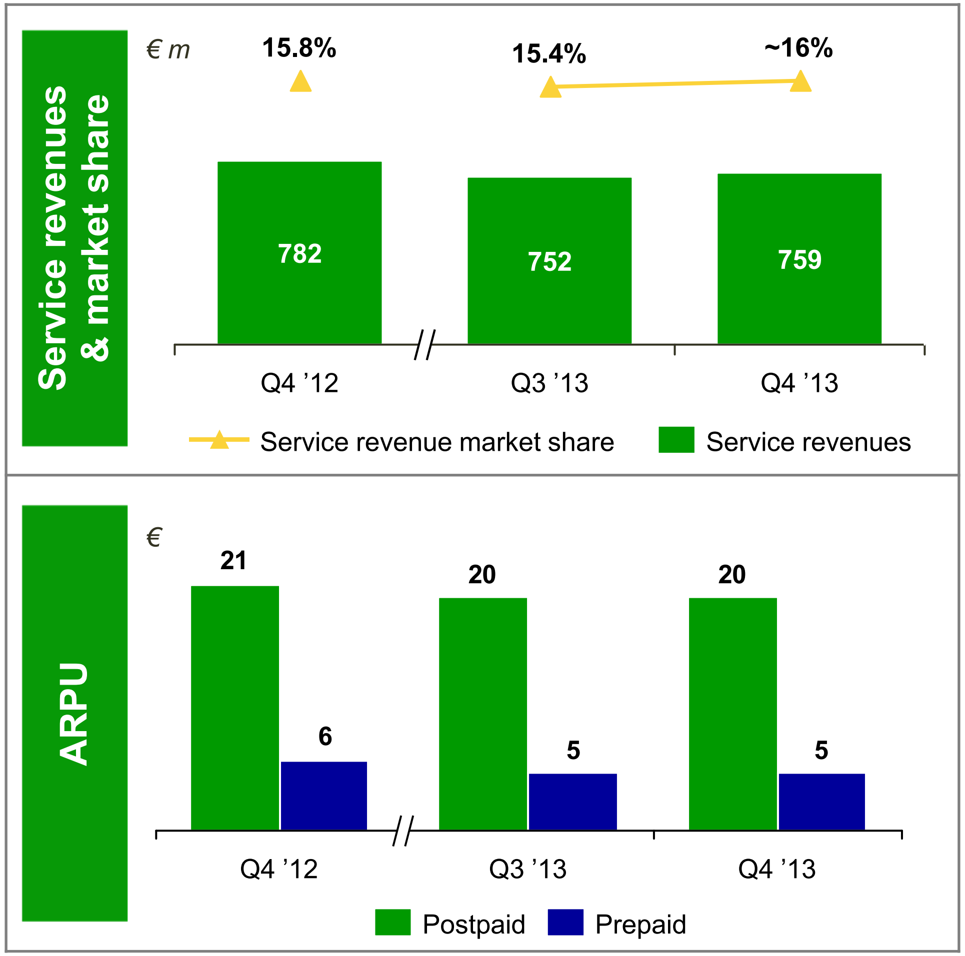



- Underlying service revenue growth of 0.5% y-on-y in Q4 '13
  - Regulation impact on revenues of € 27m (2.9%) in Q4 '13
- EBITDA margin[3] at 32.3% in Q4 '13
- Improving underlying service revenue trend on postpaid and stabilization of prepaid

1 Some small operations in Germany will not be sold and remain reported in continuing operations
2 Excluding € 103m incidentals (tower sales) in Q4 '12
3 EBITDA margin excluding restructuring costs, if any

# Germany (discontinued operation) (cont'd)




- Market share slightly increased to ~16% in competitive mobile market environment
- Postpaid ARPU still influenced by market dynamics

# Strategic progress Belgium

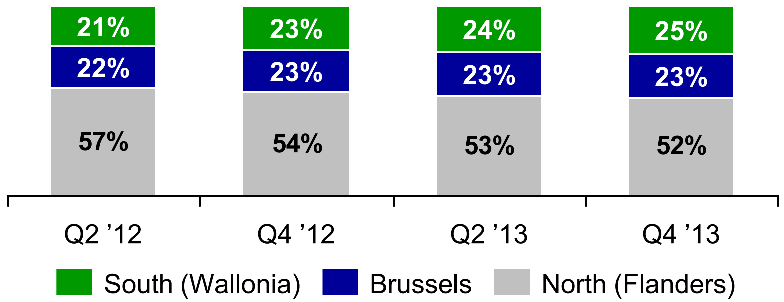
## Strong progress on all strategic pillars

### New portfolio[1] successful

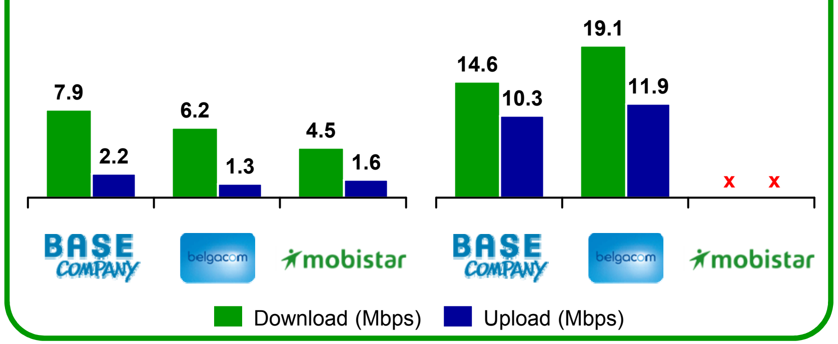
- New portfolio focused on postpaid and data
  - Successful uptake on postpaid net adds
  - Prepaid to postpaid migration
  - Churn improved in second half of 2013

### Underpenetrated regions targeted

*Development distribution postpaid customer base*

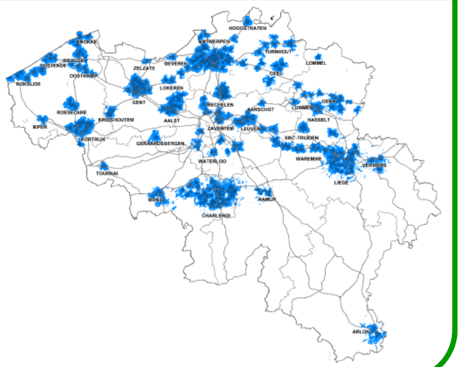



### High network quality confirmed[2]



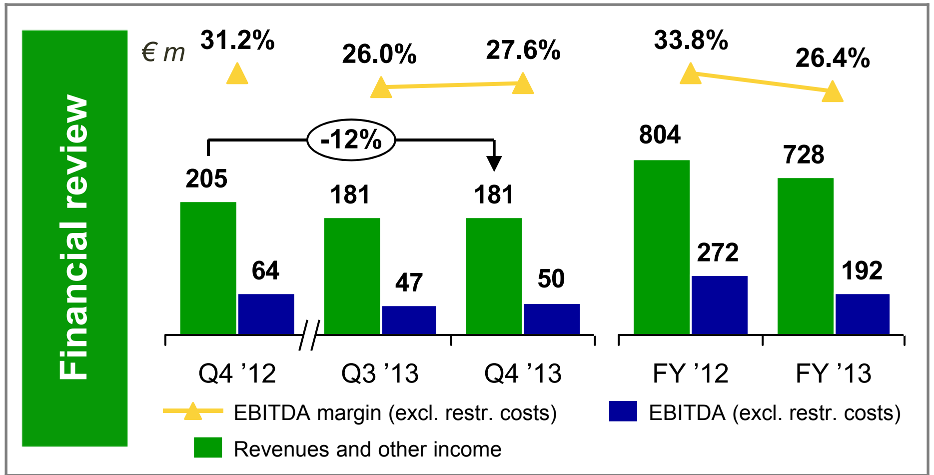

### 4G roll-out on track

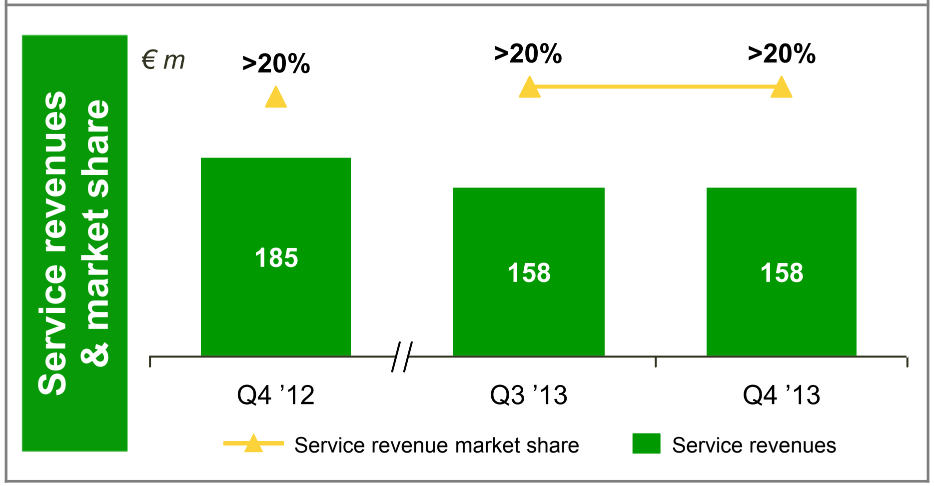
- 4G coverage in 203 cities, towns and villages



1 New portfolio launched in April 2013
2 Mobile Internet quality, source Commsquare Q4 2013

# Belgium



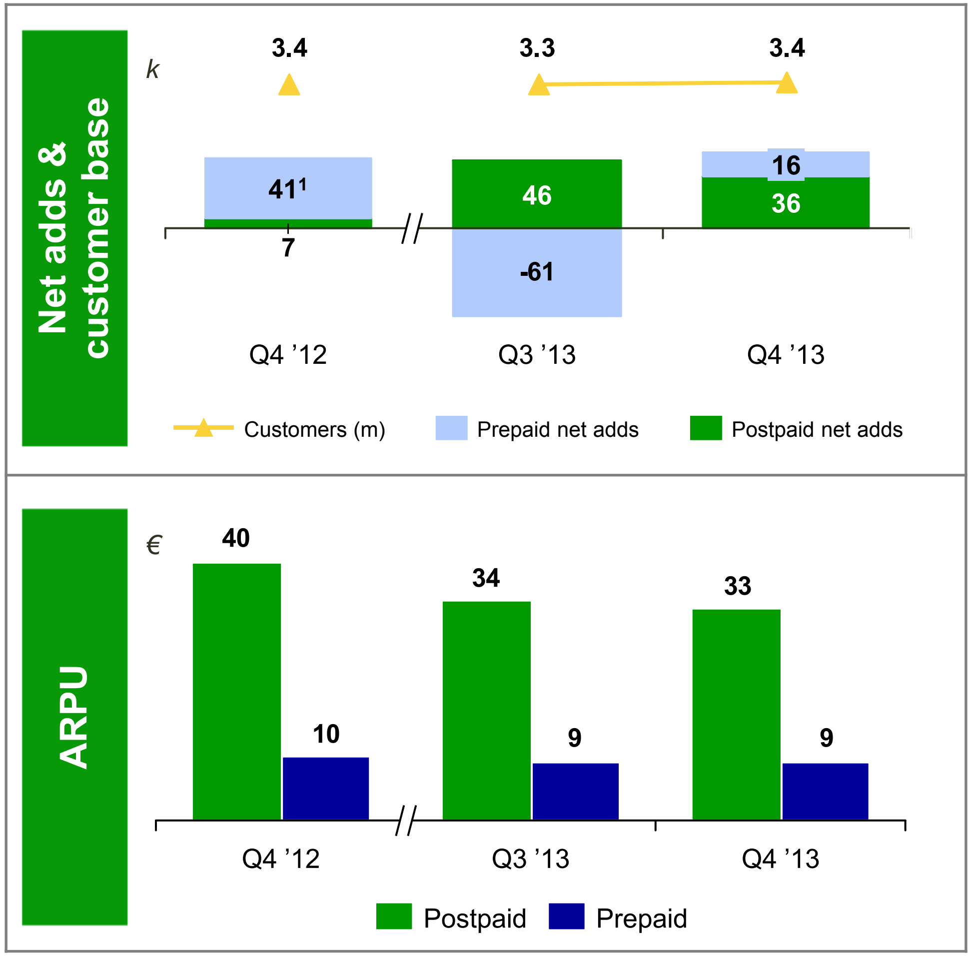

- Underlying service revenue decline 9.7% y-on-y in Q4 ’13 in competitive market
  - Postpaid service revenues improving, prepaid under pressure
  - Continued tariff optimization by customers
- EBITDA[1] € 14m lower y-on-y in Q4 ’13
  - Lower revenues
  - Regulation impact (€ 7m)

  Partly offset by
  - € 6m net positive impact from incidentals
- Service revenues stable q-on-q
- Continued strong data revenue growth of ~70% y-on-y in Q4 ’13
  - Strong growth postpaid data users 59% y-on-y
  - Smartphone penetration increased to 53%

1 EBITDA excluding restructuring costs, if any

# Belgium (cont'd)

## Continued strong postpaid net adds performance




- Strong postpaid net adds performance
- Prepaid net adds under pressure
  - Competitive market
  - Migration to postpaid
- Postpaid churn stabilized, back at level mid 2012
- Postpaid ARPU remains under pressure

1 Excluding prepaid clean-up of 334k inactive SIM cards

# Contents

# Concluding remarks

- Building on strong fundamentals
- Simplification leading to lean operating model
- Financial performance stabilizing towards the end of 2014
- Free cash flow growth expected in 2015
- Recommence dividend payment in respect of 2014 (€ 0.07), subject to closing E-Plus sale
- Additional excess cash via potential dividend from 20.5% stake in Telefónica Deutschland

# Q&A

# Q4 2013 - Information Pack

*For further information please contact*

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www.kpn.com/ir

# Contents

# KPN ADR program

## KPN has a sponsored Level 1 ADR program

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

# Contents

# **Analysis of results** (incl. discontinued operations)

## Impact incidentals, restructuring and regulation

| *€ m* | | | Q4 '13 | Q4 '12 | FY '13 | FY '12 |
|---|---|---|---|---|---|---|
| Revenue effect | | | | | | |
| MTA reduction | Regulation | Group | -37 | -21 | -164 | -102 |
| Roaming tariff reduction | Regulation | Group | -12 | -9 | -72 | -32 |
| EBITDA effect | | | | | | |
| MTA reduction | Regulation | Group | -18 | -11 | -81 | -40 |
| Roaming tariff reduction | Regulation | Group | -10 | -6 | -51 | -24 |
| Restructuring costs | Restructuring | Group | -39 | -90 | -122 | -173 |
| Release of provisions | Incidental | Group | 18 | - | 77 | 19 |
| Release of accrued expenses | Incidental | NetCo | - | - | - | 5 |
| Booking of provision | Incidental | Group | -87 | -31 | -87 | -36 |
| Book loss on sale of business | Incidental | Mobile International | - | -11 | - | -11 |
| Revenue & EBITDA effect | | | | | | |
| Book gain on sale of real estate | Incidental | Group | - | 168 | - | 199 |
| Book gain on sale of business | Incidental | Group | - | 36 | 23 | 60 |
| Booking of provision | Incidental | NetCo | -7 | - | -13 | - |
| Release of deferred revenues | Incidental | Group | - | - | 49 | 7 |
| Corrected revenue recognition | Incidental | Group | - | -6 | - | -6 |

# Restructuring costs

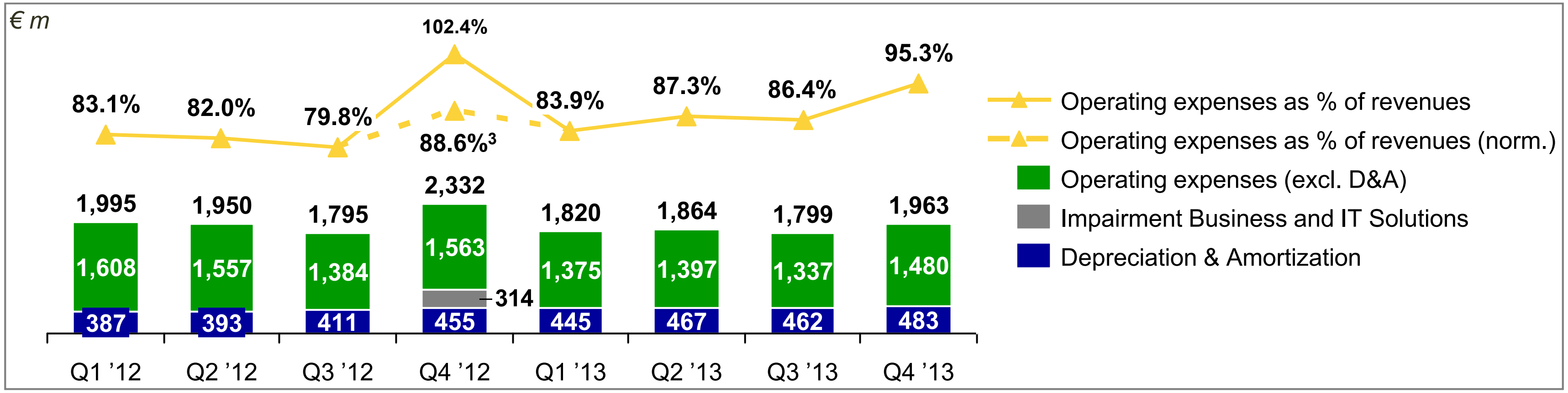
| € m | Q4 '13 | Q4 '12 | FY '13 | FY '12 |
|---|---|---|---|---|
| Germany (incl. discontinued operations) | -6 | -39 | - | -39 |
| Belgium | - | - | - | - |
| Other | - | -2 | - | -2 |
| **Mobile International** (incl. discontinued operations) | **-6** | **-41** | **-** | **-41** |
| Consumer Mobile | -2 | - | -7 | -2 |
| Consumer Residential | -1 | -4 | -17 | -27 |
| Business | -3 | -18 | -10 | -30 |
| NetCo | -3 | -22 | -10 | -42 |
| Other | - | - | -32 | -3 |
| **Dutch Telco** | **-9** | **-44** | **-76** | **-104** |
| IT Solutions | -20 | -2 | -37 | -10 |
| **The Netherlands** | **-29** | **-46** | **-113** | **-114** |
| Other | -4 | -3 | -9 | -18 |
| **KPN Group** (incl. discontinued operations) | **-39** | **-90** | **-122** | **-173** |
| *Of which discontinued operations* | *-6* | *-39* | *-* | *-39* |
| **KPN Group continuing operations** | **-33** | **-51** | **-122** | **-134** |

# Impact regulation

| *€ m* | Q4 '13 | | FY '13 | |
|---|---|---|---|---|
| | Revenues | EBITDA | Revenues | EBITDA |
| Germany (incl. discontinued operations) | -27 | -15 | -142 | -79 |
| Belgium | -10 | -7 | -45 | -29 |
| **Mobile International** (incl. discontinued operations) | **-37** | **-22** | **-187** | **-108** |
| Consumer Mobile | -6 | -3 | -23 | -10 |
| *Of which: Mobile Wholesale* | *-1* | -2 | -3 | -2 |
| Business | -4 | -3 | -20 | -14 |
| NetCo | -2 | - | -6 | - |
| **The Netherlands** | **-12** | **-6** | **-49** | **-24** |
| **KPN Group** (incl. discontinued operations) | **-49** | **-28** | **-236** | **-132** |
| *Of which discontinued operations* | *-27* | *-15* | *-142* | *-79* |
| **KPN Group continuing operations** | **-22** | **-13** | **-94** | **-53** |

# Operating expenses

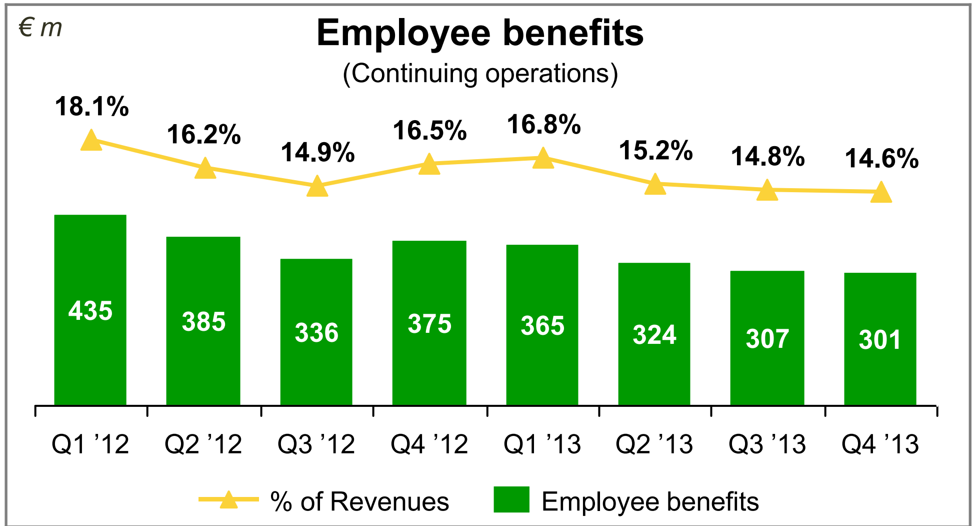
| *€ m* | Q4 '13 | Q4 '12 | % |
|---|---|---|---|
| Employee benefits | 301 | 375 | *-20%* |
| Cost of materials | 186 | 151 | *23%* |
| Work contracted out and other expenses | 797 | 823 | *-3.2%* |
| Own work capitalized | -20 | -20 | *flat* |
| Other operating expenses[1] | 216 | 234 | *-7.7%* |
| Depreciation[2] | 328 | 297 | *10%* |
| Amortization[2] | 155 | 472 | *-67%* |
| **Total operating expenses from continuing operations** | **1,963** | **2,332** | ***-16%*** |

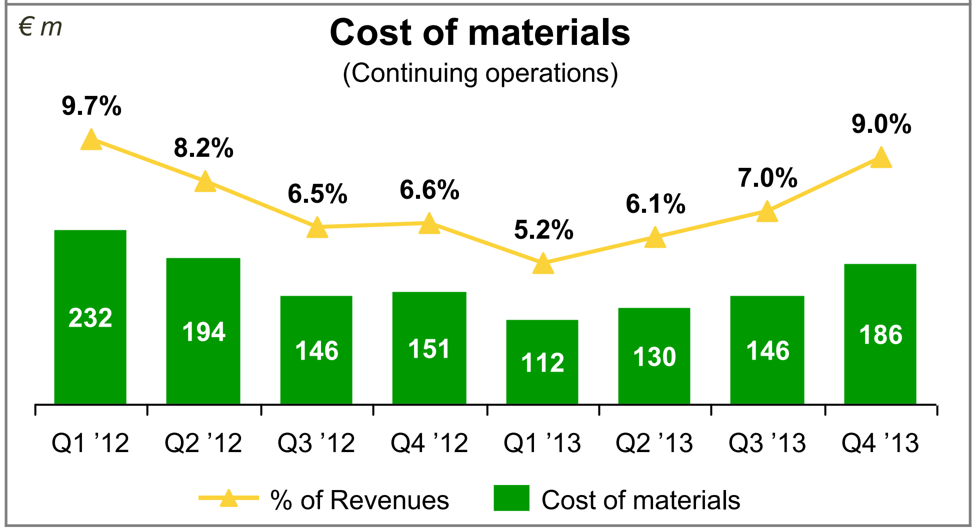



1 Including restructuring costs
2 Including impairments (if any)
3 Excluding impairments, Q4 2012 impairment of € 314m at Business and IT Solutions

# Operating expenses - analysis

## Employee benefits & Cost of materials




**Y-on-Y decrease**

- Lower cost as a result of FTE reduction program
- Lower pension expenses due to impact of changes in Dutch law as per 1 January 2014
- Release of provision for several incentive schemes in Q4 2013

**Q-on-Q decrease**

- Lower pension expenses due to impact of changes in Dutch law as per 1 January 2014
- Partly offset by release of provision for holiday allowance in Q3 2013

**Y-on-Y increase**

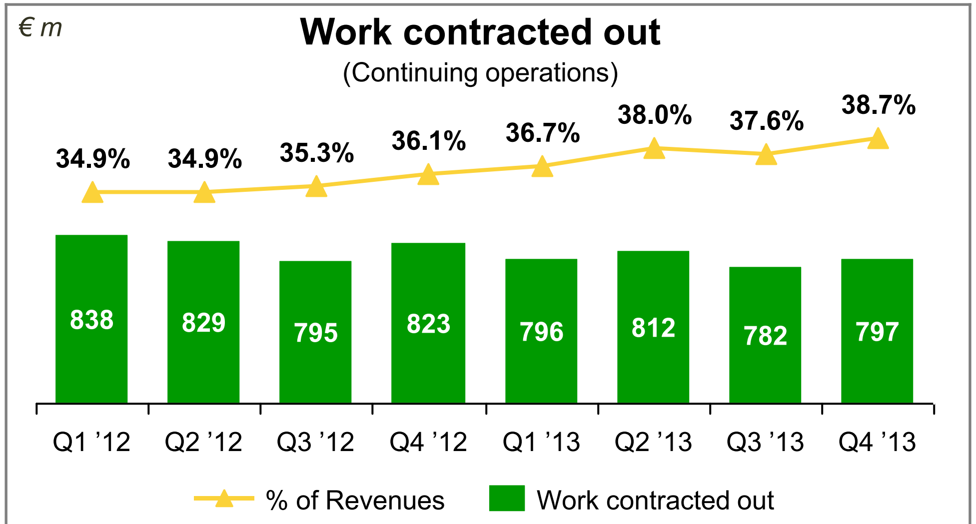
- Higher costs due to phasing out of handset lease at KPN and Hi brands in Consumer Mobile
- Partly offset by lower hardware sales and other smaller items at Business

**Q-on-Q increase**

- Higher costs due to phasing out of handset lease at KPN and Hi brands in Consumer Mobile

# Operating expenses - analysis

## Work contracted out & Other

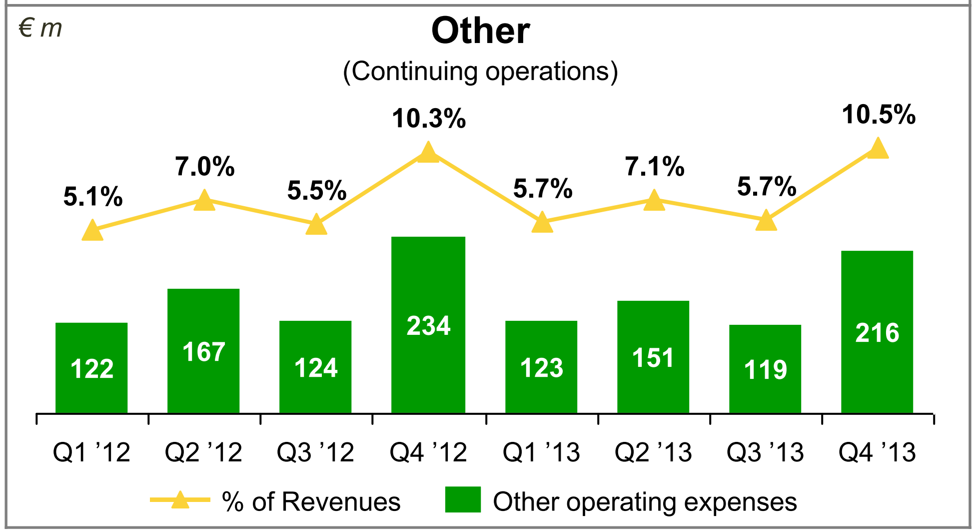



**Y-on-Y decrease**

- Lower traffic costs Consumer Mobile and iBasis
- Lower costs due to sale of KPN Spain and Ortel Switzerland
- Partly offset by higher content costs Consumer Residential

**Q-on-Q increase**

- Higher costs promotional activities at Business




**Y-on-Y decrease**

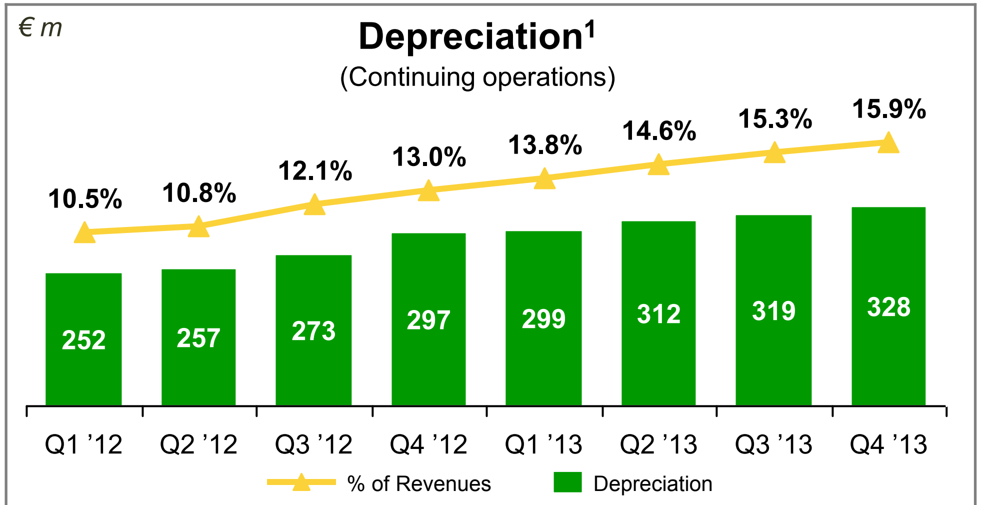
- Lower restructuring costs
- Partly offset by dotation to provisions mainly at Other activities

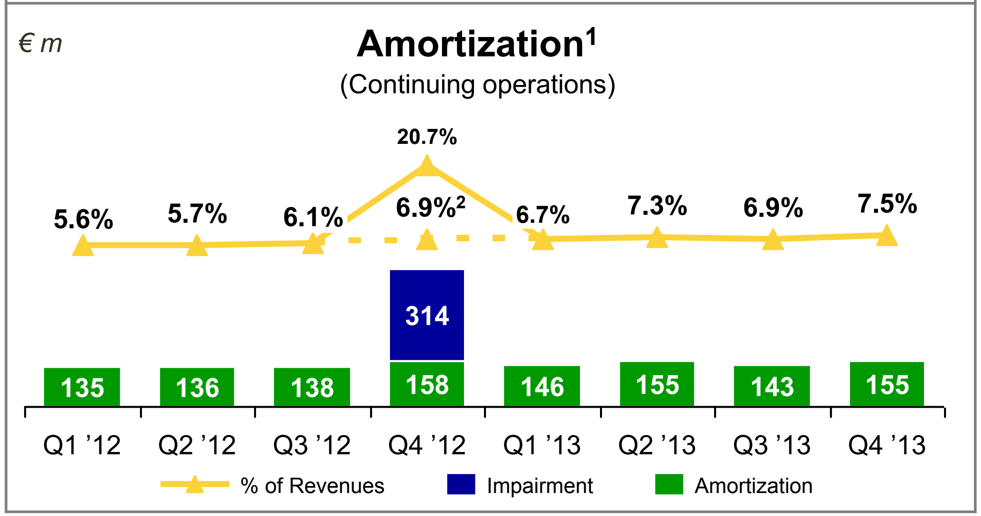
**Q-on-Q increase**

- Dotation to provisions mainly at Other activities
- Higher restructuring costs

# Operating expenses - analysis

## Depreciation & Amortization




**Y-on-Y increase**

- Increased customer driven investments, including handset lease model at Consumer Mobile
- Additional depreciation assets under construction at NetCo

**Q-on-Q increase**

- Additional depreciation assets under construction at NetCo

**Y-on-Y decrease (excl. impairment)**

- Lower amortization of software and other intangibles at The Netherlands
- Partly offset by higher amortization of spectrum licenses at The Netherlands

**Q-on-Q increase**

- Higher amortization due to network investments (software) at NetCo

1 Including impairments, if any
2 Excluding impairments, Q4 2012 impairment of € 314m at Business and IT Solutions

# Dutch wireless disclosure

| | Q4 '13 | Q4 '12 | % |
|---|---|---|---|
| **Service revenues** (€ m) | **556** | **633** | ***-12%*** |
| − Consumer retail | 283 | 336 | *-16%* |
| − Business | 228 | 246 | *-7.3%* |
| − Other[1] | 45 | 51 | *-12%* |
| **SAC/SRC per subscriber** (€) | | | |
| − Consumer retail[2] | 197 | 165 | *19%* |
| − Business | 214 | 311 | *-31%* |

1 Includes amongst others Consumer Mobile wholesale and visitor roaming revenues at NetCo
2 Including handset subsidies, commissions, SIM costs and capitalization of handsets corrected for residual value

# Tax

| Fiscal units *(€ m)* | P&L Q4 ’13 | P&L Q4 ’12 | Cash flow Q4 ’13 | Cash flow Q4 ’12 |
|---|---|---|---|---|
| The Netherlands | 7 | -56 | -34[1] | -142[1] |
| IT Solutions | 5 | 4 | - | - |
| Germany | -52 | 22 | 3 | -12 |
| Belgium | 1 | 8 | - | - |
| Other | 24 | - | -1 | - |
| **Total reported tax** (incl. discontinued operations) | **-15** | **-22** | **-32** | **-154** |
| *Of which discontinued operations* | *52* | *-22* | *-3* | *12* |
| **Reported tax continuing operations** | **37** | **-44** | **-35** | **-142** |
| *Effective tax rate continuing operations* | *25.5%* | *-20.2%* | | |

- In Q4 ’13, the effective tax rate for continuing operations amounted to 22.8%, excluding one-off effects
- For the 2014-2015 period, the effective tax rate, excluding one-off effects[2], is expected to be ~20%
- At iBasis, a Deferred Tax Asset of € 23m was recognized for tax losses carry forward which can be utilized against positive taxable income in the coming years

1 Including tax recapture E-Plus
2 Excluding effects of, amongst others, impairments, revaluations or Reggefiber options

# Contents

# Debt summary

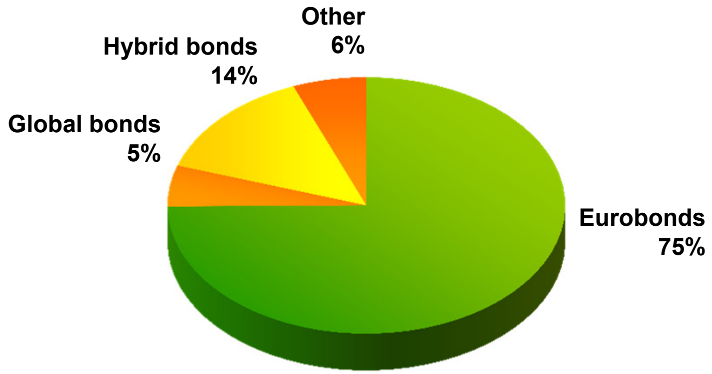
| € bn | Q4 '13 | Q3 '13 | % |
|---|---|---|---|
| **Nominal debt** | **14.42** | **14.38** | ***0.3%*** |
| Eurobonds | 10.83 | 10.83 | - |
| Global bonds | 0.76 | 0.76 | - |
| Hybrid bonds | 2.03 | 2.03 | - |
| Credit facility | - | - | - |
| Preference shares (issued to Foundation Preference Shares B KPN)[1] | 0.26 | 0.26 | - |
| Financial leases and other loans | 0.54 | 0.50 | *8.0%* |
| **Adjustments to nominal debt** | | | |
| Equity credit hybrid bonds | -1.01 | -1.01 | - |
| Cash collateral on derivatives | -0.01 | -0.01 | - |
| **Gross debt[2]** | **13.40** | **13.36** | ***0.3%*** |
| *Of which short-term* | *1.93* | *1.89* | *2.1%* |
| **Net cash & cash equivalents** | **3.62** | **3.74** | ***-3.2%*** |
| Cash & cash equivalents | 3.95 | 4.13 | *-4.4%* |
| Bank overdraft | -0.33 | -0.39 | *-15%* |
| **Net debt[3]** | **9.78** | **9.62** | ***1.7%*** |

1 Preference shares B KPN are treated as debt
2 Gross Debt defined as the nominal value of interest bearing financial liabilities, excluding derivatives and related collateral, representing the net repayment obligations in Euro, taking into account 50% of the nominal value of the hybrid capital instruments (restated for new definition per Q4 2013)
3 Net Debt defined as gross debt less net cash and short-term investments (restated for new definition per Q4 2013)

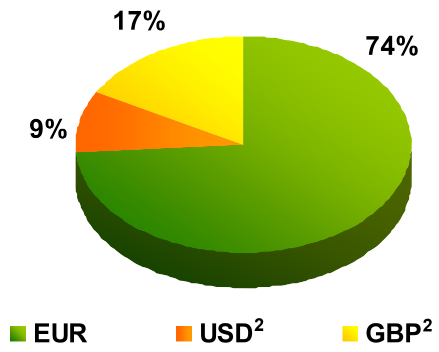
# Debt portfolio

## Breakdown of € 14.4bn nominal debt[1] including hybrid bonds

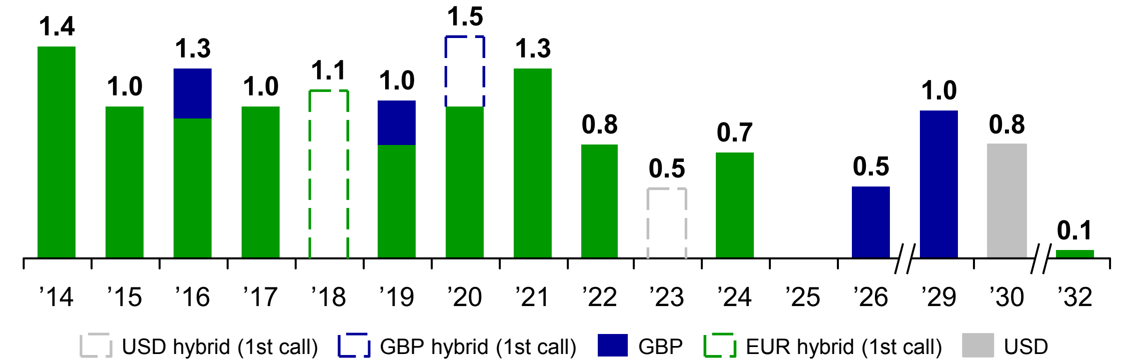
### Breakdown nominal debt[1] (total € 14.4bn)



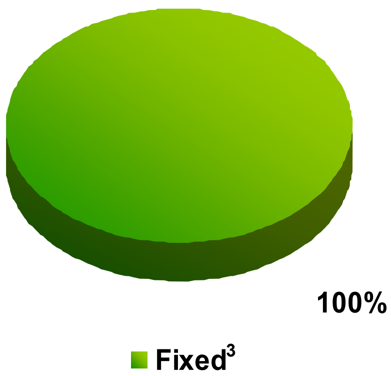

### Breakdown by currency




### Bond redemption profile




### Fixed vs. floating interest




1 Based on the nominal value of interest bearing liabilities after swap to EUR, including EUR 1.1bn hybrid bond, GBP 400m hybrid bond and USD 600m hybrid bond
2 Foreign currency amounts hedged into EUR
3 Excludes bank overdrafts

# Treatment of hybrid bonds

**KPN & Credit rating agencies**

- Each tranche of the hybrid bonds is recognized as 50% equity and 50% debt by the rating agencies
- Definition of KPN net debt includes: *'[…], taking into account 50% of the nominal value of any hybrid capital instrument'*
  - Hybrid bonds part of KPN's bond portfolio
  - Independent of IFRS classification
  - In line with treatment of credit rating agencies

**IFRS**

- EUR tranche is a perpetual, accounted for as equity
  - Coupon payments treated as equity distribution, hence not expensed through P&L, not included in FCF, but in financing cash flow[1]
- GBP and USD tranche have 60 years specified maturity, accounted for as financial liability
  - Coupon payments treated as regular bond coupon, hence expensed through P&L, included in FCF

| Tranche | Nominal (swapped to EUR) | KPN net debt | Maturity | Rates (swapped)[1] | IFRS principal | IFRS coupon |
|---|---|---|---|---|---|---|
| **EUR 1.1bn 6.125%** | € 1,100m | € 550m | Perpetual (non-call 5.5) | 6.125% | Equity | Financing cash flow[2] (not incl. in FCF) |
| **GBP 0.4bn 6.875%** | € 460m | € 230m | 60 years (non-call 7) | 6.777% | Liability | Interest paid (incl. in FCF) |
| **USD 0.6bn 7.000%** | € 465m | € 233m | 60 years (non-call 10) | 6.344% | Liability | Interest paid (incl. in FCF) |
| **Total** | € 2,025m | € 1,013m | | | | |

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

2 Cash flow item *'Coupon on perpetual hybrid bond'*

# Contents

# Regulation

## MTA rates across the Group

**NL**

- ACM decision MTA rates based on 'pure BULRIC' of € 1.019 cent per minute as of 1 September 2013 under appeal
- Dutch court suspended ACM decision and mandated interim rates based on 'plus BULRIC' of € 1.861 cent per minute instead

| € ct / min | Until 7 July '10 | 7 July '10 | Sep '10 | Jan '11 | Sep '11 | Sep '12 | Sep '13 |
|---|---|---|---|---|---|---|---|
| MTA rate | 7.00 | 5.60 | 5.60 | 4.20 | 2.70 | 2.40 | 1.861 |

**GER**

- Legal proceedings against former MTA decisions ongoing
- EC expressed serious doubts for not applying 'pure BULRIC'
- On 19 July 2013 BNetzA ruled that earlier announced MTA tariffs retroactively apply as of 1 December 2012

| € ct / min | Until 1 Dec '10 | 1 Dec '10 | 1 Dec '12 | 1 Dec '13 - 30 Nov '14 |
|---|---|---|---|---|
| MTA rate | 7.14 | 3.36 | 1.85 | 1.79 |

**BE**

- BIPT new tariffs setting (2014-2016) in progress

| € ct / min | Until Aug '10 | Aug '10 | Jan '11 | Jan '12 | Jan '13 |
|---|---|---|---|---|---|
| MTA rate | 11.43 | 5.68 | 4.76 | 2.92[3] | 1.08[3] |

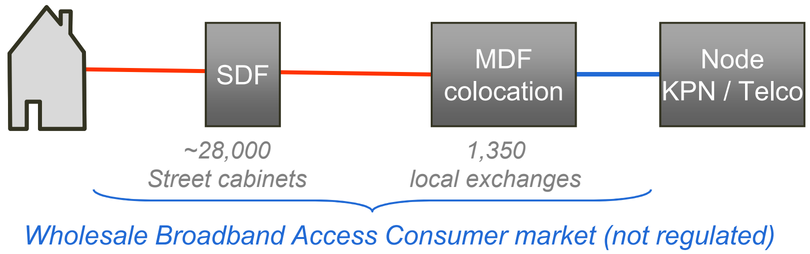
**Impact on Group[1] revenues & EBITDA**

| *€ m* | 2012 | 2013 | 2014E[2] |
|---|---|---|---|
| **Revenues** | 102 | 164 | ~30 |
| **EBITDA** | 40 | 81 | ~10 |

1 Including discontinued operations
2 MTA impact on revenues and EBITDA for the Netherlands based on MTA rate of € 1.861 cents per minute pursuant to Dutch court ruling
3 After indexation the MTA rates applicable as of January 2012 and January 2013 are calculated at € ct / min 3.11 and € ct / min 1.18 respectively

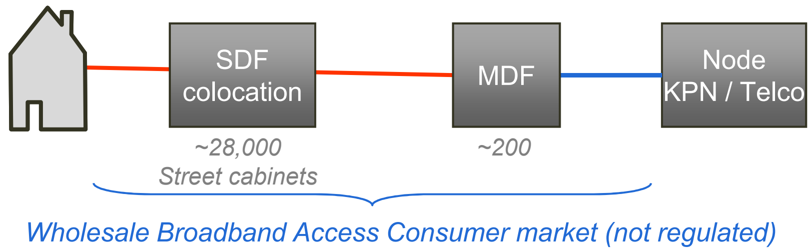
# Unbundling tariffs

### Unbundling in copper network



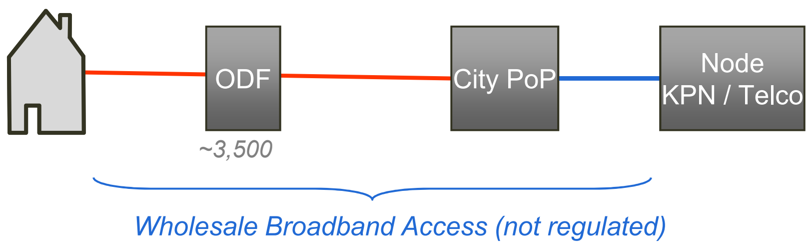

| Category | Monthly tariff |
|---|---|
| Line sharing (LLU) | € 0.12 / line |
| Fully unbundled (LLU) | € 6.86 / line |
| MDF colocation | € 913.52 footprint / year |
| Wholesale Broadband Access[1] | € 5.32 / line shared<br>€ 13.00 / line non-shared |

### Unbundling in network FttC




| Category | Monthly tariff |
|---|---|
| Line sharing (SLU) | € 6.86 / line |
| Fully unbundled (SLU) | € 6.86 / line |
| SDF colocation | € 5.50 / per unit<br>One-off € 503.64 / per unit |
| Wholesale Broadband Access[1] | € 5.32 / line shared<br>€ 13.00 / line non-shared |

### Unbundling in network FttH




| Category | Monthly tariff |
|---|---|
| Fully unbundled (ODF FttH) | € 15.52 – € 17.67 / line |
| ODF FttH colocation | ≤ € 535 / month / per Area Pop<br>One-off ≤ € 3,212 / per Area Pop |
| ODF FttH Backhaul | ≤ € 642 / month |
| Wholesale Broadband Access FttH[2] | € 25.00 - € 45.00 non-shared |

Regulated Not regulated

1 List prices excluding PVC/VLAN tariffs
2 List prices including PVC/VLAN tariffs

# Spectrum in The Netherlands

Current status

| | | |
|---|---|---|
| 800MHz Paired | Tele2 2*10; VOD 2*10; KPN 2*10 | 2*30 |
| 900MHz Paired | VOD 2*10; KPN 2*10; T-Mob 2*15 | 2*35 |
| 1.8GHz Paired | KPN 2*20; VOD 2*20; T-Mob 2*30 | 2*70 |
| 1.9GHz Unpaired | T-Mob 10; KPN 5; VOD 5.4; T-Mob 14.6 | 1*35 |
| 2.1GHz Paired | VOD 2*14.6; KPN 2*14.8; T-Mob 2*10; KPN 2*5; VOD 2*5; T-Mob 2*10 | 2*59.4 |
| 2.6GHz Unpaired | T-Mob 25; KPN 30; Tele2 5 | 1*60 |
| 2.6GHz Paired | VOD 2*10; Ziggo4 2*20; T-Mob 2*5; KPN 2*10; Tele2 2*20 | 2*65 |
| Total | KPN 174.6MHz; VOD 144.6MHz; T-Mob 189.6MHz; Tele2 65MHz; Ziggo4 40MHz | 614MHz |

# Spectrum in Germany

## Current status

| | | |
|---|---|---|
| 800MHz Paired | O2: 2*5, 2*5; VOD: 2*5, 2*5; DT: 2*5, 2*5 | 2*30 |
| 900MHz Paired | E+: 2*5; O2: 2*5; DT: 2*12.4; VOD: 2*12.4 | 2*34.8 |
| 1.8GHz Paired | DT: 2*5, 2*5, 2*5, 2*5; E+: 2*5; O2: 2*17.4; VOD: 2*5; E+: 2*5, 2*17.4 | 2*69.8 |
| 2.1GHz Paired | VOD: 2*4.95, 2*9.9; E+: 2*4.95, 2*4.95, 2*9.9; O2: 2*4.95, 2*9.9; DT: 2*9.9 | 2*64.35 |
| 2.1GHz Unpaired | O2: 5, 14.2; E+: 5; DT: 5; VOD: 5 | 1*34.2 |
| 2.6GHz Paired | VOD: 2*5, 2*5, 2*5, 2*5; DT: 2*5, 2*5, 2*5, 2*5; E+: 2*5, 2*5; O2: 2*5, 2*5, 2*5, 2*5 | 2*70 |
| 2.6GHz Unpaired | E+: 5, 5; VOD: 5, 5, 5, 5, 5; DT: 5; O2: 5, 5 | 1*50 |
| Total[1] | VOD: 154.5MHz; DT: 154.6MHz; E+: 139.4MHz; O2: 163.7MHz | 612MHz |

## Upcoming auction

In June 2013, the German telecoms regulator ("BNetzA") published a draft decision concerning 900MHz / 1800MHz licenses that expire in 2016, including the following:

- BNetzA intends to prolong 2x5MHz in 900MHz frequencies for all incumbent MNOs until ~2031
- BNetzA intends to auction the remaining 900MHz and 1800MHz expiring in 2016, and possibly also 700MHz and unpaired 1400MHz
- BNetzA assumes that 2x30MHz or 2x40MHz spectrum in 700MHz and 1x40MHz spectrum in 1400MHz can be made available
- All frequencies shall be allocated for ~15 years

1 E-Plus also has a block of 2*42MHz available in the 3.5GHz spectrum band

# Spectrum in Belgium

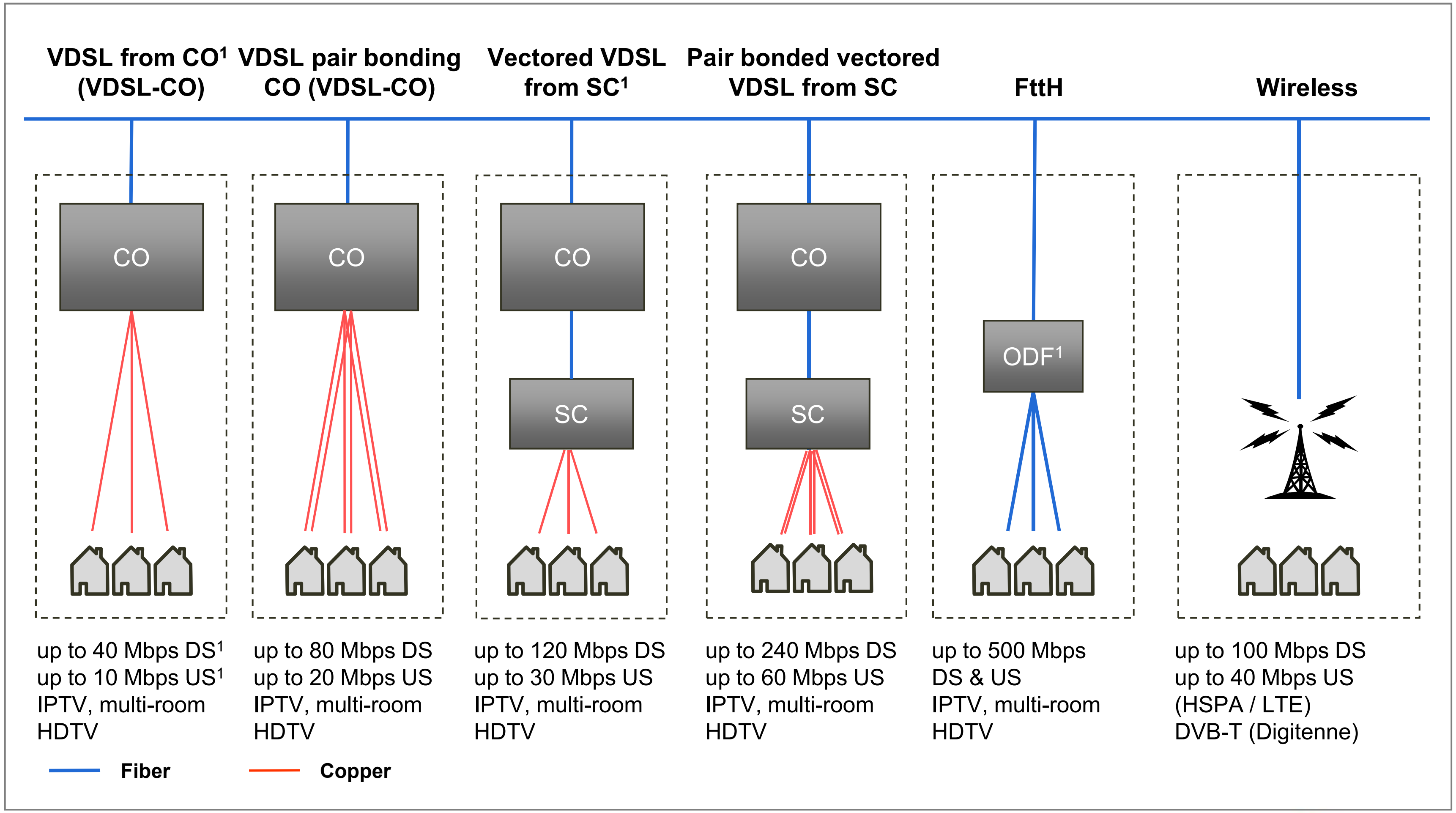
Current status

| Band | | | | | | Total |
|---|---|---|---|---|---|---|
| 800MHz Paired | BASE 2*10 | Belgacom 2*10 | Mobistar 2*10 | | | 2*30 |
| 900MHz Paired | BASE 2*10 | Belgacom 2*12 | Mobistar 2*12 | | | 2*34 |
| 1.8GHz Paired | BASE 2*22 | Belgacom 2*20.8 | Mobistar 2*20.8 | | | 2*63.6 |
| 2.1GHz Paired | Belgacom 2*15 | BASE 2*14.8 | Telenet 2*14.8 | Mobistar 2*14.8 | | 2*59.4 |
| 2.1GHz Unpaired | B 5 | M 5 | B 5 | | | 1*15 |
| 2.6GHz Paired | Belgacom 2*20 | BASE 2*15 | Mobistar 2*20 | | | 2*55 |
| 2.6GHz Unpaired | BUCD 45 | | | | | 1*45 |
| Total | Belgacom 160.6MHz | BASE 148.6MHz | Telenet 29.6MHz | Mobistar 160.2MHz | BUCD 45MHz | 544MHz |

# Contents

# Infrastructure

## Deploying mix of technologies going forward




1 Abbreviations: CO: Central Office; SC: Street Cabinet; ODF: Optical distribution frame; DS: Download Speed; US: Upload Speed

# Roadmap to Reggefiber consolidation

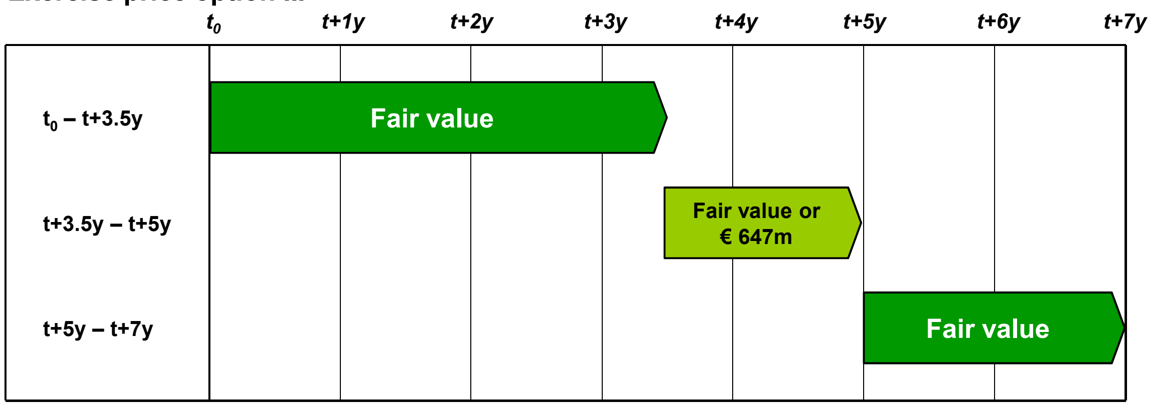
### Option structure

| | Option I[1] | Option II[3] | Option III |
|---|---|---|---|
| **Ownership stake** | • Additional 10%<br>• 51% ownership | • Additional 9%<br>• 60% ownership | • Remaining 40%<br>• 100% ownership |
| **Option type** | Call and Put option | Call and Put option | Put option |
| **Exercise price** | € 99m | € 116m - € 161m | 'Fair value' or € 647m |
| **Option trigger** | • 1m Homes Connected or<br>• 1 January 2013 | • 1.5m Homes Connected or<br>• 1 January 2014 | • Put vests at settlement of option II<br>• Expires 7 years later |
| **Consolidation** | No[2] | Yes | Yes |

### Reggefiber financials FY 2012

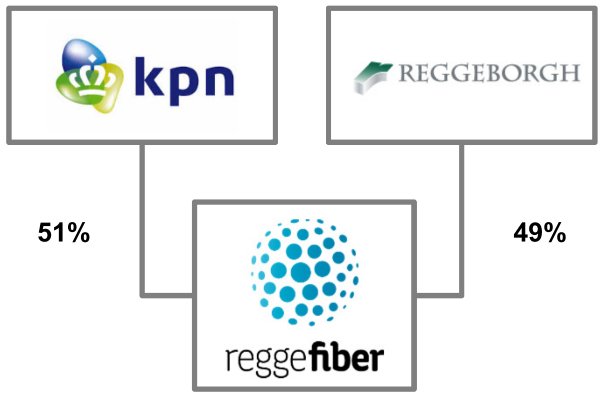
| Reggefiber FY 2012 *(€ m)* | |
|---|---|
| **Revenue** | 73 |
| **Opex** | 19 |
| **Capex** | 381 |
| **Shareholder loans** | 410 |
| **Net bank debt** | 376 |
| *Indicative, simplified financials based on Dutch GAAP; Balance Sheet items per 31 December 2012* | |

### Exercise price option III




$t_0$ = settlement option II

### Organizational chart




1 KPN acquired an additional 10% of the shares in Reggefiber, increasing its share to 51%, for an amount of € 99m on November 8, 2012
2 KPN does not obtain management control at 51% ownership, therefore no consolidation triggered
3 Option II exercised on 2 January 2014; Dutch Competition Authority (ACM) approval is required to increase KPN ownership from 51% to 60% after which Reggefiber will be consolidated