

# INTERIM FINANCIAL STATEMENTS

For the six months ended  
30 June 2020



## **Unaudited Condensed Consolidated Interim Financial Statements**

*for the six months ended 30 June 2020*

Unaudited Consolidated Statement of Profit or Loss	3
Unaudited Consolidated Statement of Other Comprehensive Income	4
Unaudited Consolidated Statement of Financial Position	5
Unaudited Consolidated Statement of Changes in Group Equity	7
Unaudited Consolidated Statement of Cash Flows	8
General notes to the Condensed Consolidated Interim Financial Statements	10
Notes to the Condensed Consolidated Statement of Profit or Loss	14
Notes to the Condensed Consolidated Statement of Financial Position	17

All related documents can be found on KPN's website ([ir.kpn.com](https://ir.kpn.com)), including the KPN Management Report Q2 2020.

## Unaudited Consolidated Statement of Profit or Loss

(in € m, unless indicated otherwise)	Notes	For the three months ended 30 June		For the six months ended 30 June	
		2020	2019	2020	2019
Revenues		1,293	1,359	2,620	2,720
Other income	[3]	11	-	13	1
<b>Total revenues and other income</b>	[3/4/5]	<b>1,304</b>	<b>1,359</b>	<b>2,633</b>	<b>2,721</b>
Cost of goods & services		297	302	612	611
Personnel expenses		220	252	466	529
Information technology/Technical infrastructure (IT/TI)		83	91	164	184
Other operating expenses		77	111	159	225
Depreciation, amortization & impairments (DA&I)		394	381	782	762
<b>Total operating expenses</b>	[4/6]	<b>1,071</b>	<b>1,138</b>	<b>2,184</b>	<b>2,310</b>
<b>Operating profit</b>	[4/6]	<b>233</b>	<b>221</b>	<b>449</b>	<b>410</b>
Finance income		-1	24	-1	24
Finance costs		-57	-76	-122	-157
Other financial results		-4	-5	-11	-
<b>Finance income and expenses</b>	[7]	<b>-63</b>	<b>-56</b>	<b>-135</b>	<b>-133</b>
Share of the profit/loss (-) of associates		-	-	7	-
<b>Profit/Loss (-) before income tax from continuing operations</b>		<b>171</b>	<b>165</b>	<b>321</b>	<b>278</b>
Income taxes	[8]	-36	-37	-66	-61
<b>Profit/Loss (-) for the period from continuing operations</b>		<b>135</b>	<b>128</b>	<b>255</b>	<b>217</b>
Profit/Loss (-) for the period from discontinued operations		1	-	1	13
<b>Profit/Loss (-) for the period</b>		<b>136</b>	<b>128</b>	<b>256</b>	<b>230</b>
Profit/Loss (-) attributable to non-controlling interest		-	-	-	-
Profit/Loss (-) attributable to equity holders		136	128	256	230
<b>Earnings per ordinary share after taxes attributable to equity holders for the period (in €)</b>					
- Basic (continuing operations)		0.03	0.03	0.06	0.05
- Diluted (continuing operations)		0.03	0.03	0.06	0.05
- Basic (discontinued operations)		-	-	-	-
- Diluted (discontinued operations)		-	-	-	-
- Basic (total, including discontinued operations)		0.03	0.03	0.06	0.05
- Diluted (total, including discontinued operations)		0.03	0.03	0.06	0.05
Weighted average number of ordinary shares					
- Non-diluted				4,196,462,415	4,195,698,338
- Diluted				4,200,927,032	4,201,506,126

[..] Bracketed numbers refer to the related notes to these Condensed Consolidated Interim Financial Statements.

## Unaudited Consolidated Statement of Other Comprehensive Income

(in € m)	For the three months ended 30 June		For the six months ended 30 June	
	2020	2019	2020	2019
<b>Profit for the period</b>	<b>136</b>	<b>128</b>	<b>256</b>	<b>230</b>
<b>Other comprehensive income, net of tax</b>				
Other comprehensive income to be reclassified subsequently to profit or loss when specific conditions are met:				
> Net gain/loss (-) on cashflow hedges	-7	-32	89	-
> Currency translation differences	6	5	3	-15
<b>Net other comprehensive income/loss (-) to be reclassified to profit or loss in subsequent periods</b>	<b>-1</b>	<b>-27</b>	<b>92</b>	<b>-15</b>
Items of other comprehensive income not to be reclassified subsequently to profit or loss:				
> Retirement benefit remeasurements	-27	-1	-27	-1
> Net gain/loss (-) on equity instruments designated at fair value through other comprehensive income	-	-25	-	-84
<b>Net other comprehensive income/loss (-) not to be reclassified to profit or loss in subsequent periods</b>	<b>-27</b>	<b>-26</b>	<b>-27</b>	<b>-85</b>
<b>Other comprehensive income/loss (-) for the period, net of tax</b>	<b>-28</b>	<b>-53</b>	<b>65</b>	<b>-100</b>
<b>Total comprehensive income/loss (-) for the period, net of tax</b>	<b>108</b>	<b>75</b>	<b>321</b>	<b>130</b>
<b>Total comprehensive income for the period, net of tax, attributable to:</b>				
> Equity holders of the company	108	75	321	130
> Non-controlling interest	-	-	-	-
<b>Total comprehensive income/loss (-) attributable to equity holders arises from:</b>				
> Continuing operations	107	75	320	128
> Discontinued operations	1	-	1	2

[..] Bracketed numbers refer to the related notes to these Condensed Consolidated Interim Financial Statements.



## Unaudited Consolidated Statement of Financial Position

Assets (in € m)	Notes	30 June 2020	31 December 2019
<b>Non-current assets</b>			
Land and buildings		346	351
Plant and equipment		4,766	4,839
Other tangible non-current assets		39	40
Assets under construction		233	203
<b>Total property, plant and equipment</b>		<b>5,384</b>	<b>5,432</b>
Goodwill		1,495	1,495
Licenses		762	805
Software		464	488
Other intangibles		191	207
<b>Total intangible assets</b>		<b>2,913</b>	<b>2,995</b>
Right-of-use assets		912	847
Equity investments accounted for using the equity method		3	3
Equity investments measured at fair value through other comprehensive income	[16]	36	32
Derivative financial instruments	[16]	331	236
Deferred income tax assets		569	662
Trade and other receivables		106	111
Contract assets and contract costs		24	32
<b>Total non-current assets</b>		<b>10,278</b>	<b>10,350</b>
<b>Current assets</b>			
Inventories		49	54
Trade and other receivables		758	756
Contract assets and contract costs		47	37
Derivative financial instruments	[16]	4	22
Other current financial assets	[10]	-	275
Cash and cash equivalents	[11]	907	766
<b>Total current assets</b>		<b>1,765</b>	<b>1,909</b>
<b>Assets and disposal group classified as held for sale</b>	[3]	<b>-</b>	<b>44</b>
<b>Total assets</b>		<b>12,043</b>	<b>12,304</b>

[..] Bracketed numbers refer to the related notes to these Condensed Consolidated Interim Financial Statements.

**Group equity and liabilities**  
(in € m)

	Notes	30 June 2020	31 December 2019
<b>Equity</b>			
Share capital		168	168
Share premium		8,445	8,445
Other reserves		-194	-300
Retained earnings		-6,436	-6,302
Equity attributable to holders of perpetual capital securities		496	496
<b>Equity attributable to equity holders of the company</b>		<b>2,479</b>	<b>2,507</b>
Non-controlling interests		1	1
<b>Total equity</b>	[12]	<b>2,480</b>	<b>2,507</b>
<b>Non-current liabilities</b>			
Borrowings	[13]	5,596	5,722
Lease liabilities		848	785
Derivative financial instruments	[16]	207	136
Deferred income tax liabilities		-	-
Provisions for retirement benefit obligations	[14]	194	188
Provisions for other liabilities and charges	[15]	103	105
Contract liabilities	[2]	177	184
Other payables		14	12
<b>Total non-current liabilities</b>		<b>7,139</b>	<b>7,132</b>
<b>Current liabilities</b>			
Trade and other payables		1,142	1,256
Contract liabilities	[2]	185	228
Borrowings	[13]	928	937
Lease liabilities		129	145
Derivative financial instruments	[16]	2	4
Provision for other liabilities and charges	[15]	38	63
<b>Total current liabilities</b>		<b>2,424</b>	<b>2,634</b>
<b>Liabilities directly associated with assets and disposal group classified as held for sale</b>	[3]	<b>-</b>	<b>30</b>
<b>Total equity and liabilities</b>		<b>12,043</b>	<b>12,304</b>

[..] Bracketed numbers refer to the related notes to these Condensed Consolidated Interim Financial Statements.

## Unaudited Consolidated Statement of Changes in Group Equity

<i>(in € m, except number of shares)</i>	Notes	Subscribed ordinary shares	Share capital	Share premium	Other reserve s	Retained earnings	Equity attributable holders of perpetual capital securities	Equity attributable to equity holders of the company	Non- controlling interests	Total equity
<b>Balance at 1 January 2019</b>		<b>4,202,844,404</b>	<b>168</b>	<b>8,445</b>	<b>-398</b>	<b>-6,338</b>	<b>-</b>	<b>1,877</b>	<b>-</b>	<b>1,878</b>
Profit for the period		-	-	-	-	230	-	230	-	230
Other comprehensive income		-	-	-	-15	-85	-	-100	-	-100
<b>Total comprehensive income</b>		<b>-</b>	<b>-</b>	<b>-</b>	<b>-15</b>	<b>145</b>	<b>-</b>	<b>130</b>	<b>-</b>	<b>130</b>
Share based compensation		-	-	-	-	-2	-	-2	-	-2
Sold treasury shares		-	-	-	4	-	-	4	-	4
Dividends paid	[12]	-	-	-	-	-336	-	-336	-	-336
<b>Total transactions with owners, recognized directly in equity</b>		<b>-</b>	<b>-</b>	<b>-</b>	<b>4</b>	<b>-338</b>	<b>-</b>	<b>-334</b>	<b>-</b>	<b>-334</b>
<b>Balance at 30 June 2019</b>		<b>4,202,844,404</b>	<b>168</b>	<b>8,445</b>	<b>-409</b>	<b>-6,532</b>	<b>-</b>	<b>1,673</b>	<b>1</b>	<b>1,674</b>
<b>Balance at 1 January 2020</b>		<b>4,202,844,404</b>	<b>168</b>	<b>8,445</b>	<b>-300</b>	<b>-6,302</b>	<b>496</b>	<b>2,507</b>	<b>1</b>	<b>2,507</b>
Profit for the period		-	-	-	-	256	-	256	-	256
Other comprehensive income		-	-	-	92	-27	-	65	-	65
<b>Total comprehensive income</b>		<b>-</b>	<b>-</b>	<b>-</b>	<b>92</b>	<b>229</b>	<b>-</b>	<b>321</b>	<b>-</b>	<b>321</b>
Share based compensation		-	-	-	-	-12	-	-12	-	-12
Sold treasury shares		-	-	-	14	-	-	14	-	14
Paid coupon perpetual hybrid bond		-	-	-	-	-3	-	-3	-	-3
Dividends paid	[12]	-	-	-	-	-348	-	-348	-	-348
<b>Total transactions with owners, recognized directly in equity</b>		<b>-</b>	<b>-</b>	<b>-</b>	<b>14</b>	<b>-363</b>	<b>-</b>	<b>-349</b>	<b>-</b>	<b>-349</b>
<b>Balance at 30 June 2020</b>		<b>4,202,844,404</b>	<b>168</b>	<b>8,445</b>	<b>-194</b>	<b>-6,436</b>	<b>496</b>	<b>2,479</b>	<b>1</b>	<b>2,480</b>

[...] Bracketed numbers refer to the related notes to these Condensed Consolidated Interim Financial Statements.

## Unaudited Consolidated Statement of Cash Flows

(in € m)	Notes	30 June 2020	30 June 2019
Profit before income tax from continuing operations		321	278
<b>Adjustments for:</b>			
- Net financial expenses	[7]	135	133
- Share-based compensation		2	1
- Share of the profit/loss (-) of associates		-7	-
- Depreciation, amortization and impairments	[2/4/6]	782	762
- Other non-cash income and expenses		-13	-1
- Changes in provisions (excl. deferred taxes)	[6/14/15]	-42	3
Changes in working capital relating to:			
- Current assets		57	36
- Current liabilities		-209	-201
Dividends received	[7/12]	-	24
Income taxes paid/received		-	-7
Interest paid/received		-112	-168
<b>Net cash flow from operating activities from continuing operations</b>		<b>915</b>	<b>859</b>
<b>Net cash flow from operating activities from discontinued operations</b>		<b>2</b>	<b>1</b>
<b>Net cash flow from operating activities</b>		<b>916</b>	<b>861</b>
Disposal of equity investments measures at fair value through other comprehensive income	[11/16]	-	347
Acquisition of subsidiaries and associates (net of acquired cash)		-	-2
Disposal of subsidiaries and associates (net of cash)	[3]	29	-
Investments in software		-116	-119
Investments in other intangibles assets		-35	-
Investments in property, plant & equipment		-456	-412
Disposals of property, plant & equipment		-	2
Changes in other financial assets	[10/11]	273	44
<b>Net cash flow from investing activities from continuing operations</b>		<b>-306</b>	<b>-140</b>
<b>Net cash flow from investing activities from discontinued operations</b>		<b>-</b>	<b>35</b>
<b>Net cash flow from investing activities</b>		<b>-305</b>	<b>-105</b>
Dividends paid	[12]	-351	-336
Proceeds from borrowings	[11]	405	-
Repayments of borrowings and settlement of derivatives	[13]	-438	-562
Repayment lease liabilities		-86	-89
Other		-1	-1
<b>Net cash flow from financing activities from continuing operations</b>		<b>-471</b>	<b>-988</b>
<b>Net cash flow from financing activities from discontinued operations</b>		<b>-</b>	<b>-</b>
<b>Net cash flow from financing activities</b>		<b>-471</b>	<b>-988</b>

[..] Bracketed numbers refer to the related notes to these Condensed Consolidated Interim Financial Statements.



(in € m)	Notes	For the six months ended 30 June 2020	30 June 2019
Continued from previous page			
Total net cash flow from continuing operations		138	-268
Total net cash flow from discontinued operations		2	37
<b>Total net cash flow (changes in cash and cash equivalents)</b>		<b>140</b>	<b>-231</b>
Net cash and cash equivalents at beginning of period		767	612
Exchange rate difference		-	-
Changes in cash and cash equivalents		140	-231
<b>Net cash and cash equivalents at end of period</b>		<b>907</b>	<b>381</b>
Bank overdrafts		-	-
Cash classified as held for sale		-	-1
<b>Cash and cash equivalents at end of period</b>	[11]	<b>907</b>	<b>381</b>

[..] Bracketed numbers refer to the related notes to these Condensed Consolidated Interim Financial Statements.

## General notes to the Condensed Consolidated Interim Financial Statements

### [\[1\] Company profile](#)

---

KPN is a leading telecommunications and IT provider in the Netherlands, offering fixed and mobile telephony, fixed and mobile broadband internet and TV to retail consumers. KPN is market leader in the Netherlands in infrastructure and network related IT solutions to business customers. KPN also provides wholesale network services to third parties.

### [\[2\] Accounting policies](#)

---

#### **Basis of preparation**

These condensed consolidated interim financial statements ('interim financial statements') for the six months ending 30 June 2020 have been prepared in accordance with IAS 34 Interim Financial Reporting and should be read in conjunction with KPN's Integrated Annual Report 2019 as this document does not include all the information and disclosures required in the annual financial statements.

The applied accounting policies are in line with those as described in KPN's Integrated Annual Report 2019 except for the impact of new accounting standards as described below. These interim financial statements have not been audited by KPN's external auditor.

Certain figures may not tally exactly due to rounding. In addition, certain percentages may have been calculated using rounded figures.

In preparing the Interim Financial Statements, KPN has applied the concept of materiality to the presentation and level of disclosures. Only essential and mandatory information is disclosed which is relevant to a reader's understanding of these Interim Financial Statements.

#### **Significant accounting estimates, judgments and assumptions**

These are evaluated continuously and are based on historic experience and other factors, including expectations of future events thought to be reasonable under the circumstances. Actual results may deviate from the estimates applied. Estimates are revised when material changes to the underlying assumptions occur. For more information on KPN's significant accounting estimates, judgments and assumptions, refer to the Notes to the Consolidated Financial Statements of the Integrated Annual Report 2019.

The accounting estimates, judgments and assumptions deemed significant to KPN's Financial Statements relate to:

- determination of deferred tax assets for losses carry forward and provisions for tax contingencies;
- determination of value in use of cash-generating units for goodwill impairment testing;
- assessment of exposure to credit risk and financial market risks;
- the 'more likely than not' assessment required to determine whether or not to recognize a provision for idle cables, which are part of a public electronic communications network;
- the assessment of the lease terms deemed reasonably certain of KPN's lease contracts and the incremental borrowing rate used to measure the lease liabilities;
- the assessment whether revenue for variable considerations is probable or highly probable. This concerns revenue related to disputes and revenue related to VAT regarding unused multipurpose bundles.

In preparing these Interim Financial Statements, the impact of the COVID-19 pandemic on KPN was specifically addressed, including the effect on the abovementioned significant estimates, judgments and assumptions.

**Impact of COVID-19**

The COVID-19 pandemic is an unprecedented challenge for people, businesses and society. During the first half of 2020 KPN has generated solid results in these difficult times. The intelligent lockdown of Dutch society and working from home has resulted in an increased use of telecommunication services. KPN has successfully accommodated a significant increase in traffic on its fixed and mobile networks. Therefore the impact of the crisis was relatively limited to KPN than to companies active in several other sectors.

KPN has undertaken several initiatives to ensure the Dutch society stays connected in these challenging times, while focusing on the wellbeing of its employees and customers and on business continuity. KPN has minimized the physical contact amongst employees and customers. To support our customers the best way possible, 16 out of our 107 stores were quickly reopened 20 March in a safe way and currently all shops are open with proper precautions. In Business, sales activities completely moved to an online sales and services model. KPN's field engineers continued their activities, adjusted to ensure safety for both them and our customers. To help customers remotely, KPN has also introduced the video-engineer. Due to the (mostly) outdoor nature of the activities, network roll-out and upgrade activities could continue with a safe working environment for our employees and contractors.

KPN supported its employees through offering additional leave hours and facilities to work from home, to support keeping a healthy work-life balance.

The COVID-19 pandemic had a modest impact on KPN's financial results in the first half of 2020. The impact was most visible in the decline of roaming volumes due to the (government-imposed) travel restrictions globally, affecting our Consumer, Business and Wholesale segment. At Consumer, the temporary closure of most of our shops has led to lower handset sales. In the Business segment, KPN witnessed less usage of public WiFi hotspots and lower IT revenues. To support our customers, the out-of-bundle costs for KPN EEN SME customers were not invoiced during March and April.

The decline in these revenue streams also resulted in a decrease of the related cost of goods and services. Some additional expenses were incurred as free additional TV Channels were offered to IPTV customers and equipment was made available to support home schooling. In Business, we charged only a symbolic fee for conference call numbers and, with our partner Trend Micro, we provided free antivirus scanners. Also, a decrease of indirect expenses was noticeable due to less personnel related expenses (travel, learning & development, housing).

New reorganization requests were postponed to 1 June 2020. Also, KPN scaled down on external personnel and reduced hiring new employees to a minimum.

At 30 June 2020, the significant accounting estimates, judgements and assumptions applied in preparing these Interim Financial Statements were reviewed. Compared to those significant estimates, judgments and assumptions identified in the 2019 Integrated Annual Report, no significant changes were identified. Nonetheless, during the 30 June 2020 closing process, the following items were addressed more closely for impact of COVID-19;

- Receivables; the impact of changes in payment behavior or even bad debts of our customers was reviewed. At Business, our SME exposure is relatively limited, and sectors such as hospitality, leisure and travel represent a minority within that customer base. Also, many of our Large Corporate and Enterprise customers are active in the public sector. At Consumer, KPN Finance B.V. recognized an adjustment to the provision for expected credit losses for the amount of € 1m as a result of COVID-19.

- Inventory levels were successfully managed to reflect the changes in demand. Purchase commitments were managed and updated to match the updated demand; no onerous contracts were identified.
- Regarding fixed assets, specifically assets under construction, some projects were delayed but as at 30 June 2020 no COVID-19 related impairments were recognized.
- The COVID-19 situation did not result in an adjustment of the carrying value of the deferred tax assets for operating losses carried forward.

**Goodwill impairment review**

In accordance with IAS 36, KPN assesses goodwill for impairment at the end of each year and when a triggering event occurs. The COVID-19 pandemic caused a deterioration in general economic conditions but had a modest impact on KPN's financial results in the first half of 2020. KPN therefore assessed whether or not this event triggered the need for an interim goodwill impairment test.

For this assessment, KPN performed a scenario analysis, based on predictions of the ECB. For prudence sake, we used an extreme scenario for the decline in contribution margin which, with indirect expenses, Capex and other assumptions basically unchanged, would lead to a decline in EBITDA of 14% in 2020 for the whole KPN Group compared to KPN's strategic plan, decreasing to 3% in the next 10 years (the latter is used to determine the terminal value). The WACC did not change compared to YE 2019 as the increase in equity risk premium was offset with a decrease in the risk-free rate. Based on this assessment, KPN concluded that the headroom for all CGUs is more than sufficient and that a full goodwill impairment test per 30 June 2020 is not needed.

**Financial position**

KPN's balance sheet and liquidity position remains strong. The available liquidity consisting of cash and available committed credit facilities is sufficient to cover KPN's current obligations and debt maturities for the next 2 years. KPN's credit facilities and debt instruments do not contain any financial covenants which could restrict their availability or trigger early redemption as a result of the COVID-19 crisis. KPN's leverage ratio remains within the medium-term target of <2.5x net debt to EBITDA and KPN's credit ratings have remained unchanged at BBB / BBB / Baa3 with stable outlook from Fitch, S&P and Moody's respectively. KPN has not made use of any form of state aid in H1 2020 as the impact of the COVID-19 crisis on KPN's financial performance and financial position was modest. Consequently, KPN has not changed its intention regarding dividend payments over 2020 and has decided to pay an interim dividend for 2020 of € 4.3 cents per share in August 2020.

**Change in accounting policies**

The accounting policies in preparing these interim financial statements are consistent with those disclosed in KPN's Integrated Annual Report 2019, except for the adoption of new standards and amendments effective as of 1 January 2020. KPN applies new standards and amendments issued by the International Accounting Standards Board (IASB), when effective and endorsed by the European Union. KPN has not early adopted any new standard, interpretation or amendment. Only changes with a significant impact are discussed.

**Amendment to IFRS 3 Definition of a Business**

The amendment to IFRS 3 Business Combinations clarifies the definition of a 'business'.

Under the new guidance, to be considered a business, an integrated set of activities and assets must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create an output. Furthermore, the amendment clarifies that a business can exist without including all of the inputs and processes needed to create outputs. The assessment if a 'business' was acquired must be performed based on what was acquired in its current state and condition whereas

previously IFRS 3 took into consideration if the acquired business could be integrated with the acquirers inputs and processes.

The amendment has been endorsed (April 2020) and is effective as of 1 January 2020. The amendment applies prospectively to transactions or events that occur after the date of application (1 January 2020). The amendments may impact future periods should the Group enter into any business combinations.

### Future implications of new and amended standards and interpretations

The IASB has issued several new standards and amendments to existing standards with an effective date 1 January 2021 or later. KPN does not expect a material impact on its financial performance and/or the presentation thereof.

## [3] Changes to organizational structure / Disposal group held for sale

### Sale of KPN Consulting

On 1 April 2020, KPN completed the sale of KPN Consulting B.V. to Cegeka N.V. KPN Consulting has been classified as held for sale as of 31 December 2019. The transaction resulted in a book gain of € 11m, recognized as Other income. The book gain is income tax exempt.

<i>(in € m)</i>	Total
<b>Amount of assets and liabilities in the subsidiaries or businesses over which control is lost:</b>	
- Intangible fixed assets	14
- Other non-current assets	4
- Current assets	12
- Cash and cash equivalents	2
- Non-current liabilities	-8
- Current liabilities	-14
<b>Total net assets</b>	<b>11</b>
Transaction and migration costs	-1
Cash consideration received	24
<b>Total consideration</b>	<b>23</b>
<b>Book gain</b>	<b>11</b>

Cash received from disposal of subsidiaries (net of cash) amounts to € 24m and is classified as cash flow from investing activities in the Consolidated Statement of Cash flows.

## Notes to the Condensed Consolidated Statement of Profit or Loss

### [4] Segment information Profit or Loss

KPN's segment information has slightly changed compared to 31 December 2019. Some smaller units were transferred from the Consumer and Business Segments to Network, Operations & IT. The impact on the segment information was not material. Nonetheless, the comparative segment information has been restated for these transfers.

### For the six months period ending 30 June 2020

<i>in € m</i>	Consumer	Business	Wholesale	NOI	Other	Total
<b>Statement of Profit or Loss</b>						
External revenues	1,413	924	279	2	3	2,620
Other income	-	12	1	-	-	13
Inter-division revenues	5	5	22	-	-33	-
<b>Total [5]</b>	<b>1,418</b>	<b>941</b>	<b>302</b>	<b>3</b>	<b>-30</b>	<b>2,633</b>
Operating expenses	-472	-494	-56	-309	-70	-1,402
<b>EBITDA (contribution margin) [6]</b>	<b>946</b>	<b>447</b>	<b>245</b>	<b>-307</b>	<b>-100</b>	<b>1,231</b>
DA&I	-97	-29	-4	-621	-31	-782
<b>Operating profit [6]</b>	<b>849</b>	<b>418</b>	<b>241</b>	<b>-927</b>	<b>-131</b>	<b>449</b>
EBITDA	946	447	245	-307	-100	1,231
DA&I right-of-use asset	-6	-2	-	-33	-25	-66
Interest lease liabilities	-1	-	-	-7	-3	-11
<b>EBITDA after leases</b>	<b>939</b>	<b>444</b>	<b>245</b>	<b>-347</b>	<b>-127</b>	<b>1,154</b>

### For the six months period ending 30 June 2019 (restated)

<i>in € m</i>	Consumer	Business	Wholesale	NOI	Other	Total
<b>Statement of Profit or Loss</b>						
External revenues	1,446	1,004	268	1	1	2,720
Other income	-	-	-	1	-	1
Inter-division revenues	5	9	48	-	-62	-
<b>Total [5]</b>	<b>1,450</b>	<b>1,013</b>	<b>316</b>	<b>3</b>	<b>-61</b>	<b>2,721</b>
Operating expenses	-522	-533	-72	-363	-59	-1,549
<b>EBITDA (contribution margin) [6]</b>	<b>928</b>	<b>480</b>	<b>243</b>	<b>-360</b>	<b>-120</b>	<b>1,172</b>
DA&I	-105	-30	-10	-581	-36	-762
<b>Operating profit [6]</b>	<b>824</b>	<b>450</b>	<b>233</b>	<b>-941</b>	<b>-155</b>	<b>410</b>
EBITDA	928	480	243	-360	-120	1,172
DA&I right-of-use asset	-4	-2	-3	-33	-27	-70
Interest lease liabilities	-1	-	-2	-8	-3	-15
<b>EBITDA after leases</b>	<b>923</b>	<b>478</b>	<b>238</b>	<b>-401</b>	<b>-150</b>	<b>1,087</b>

[..] Bracketed numbers refer to the related notes to these Condensed Consolidated Interim Financial Statements.



#### [5] Revenues and other income

Total revenues and other income from continuing operations in H1 2020 were € 88m lower compared to H1 2019. The sale of International Network Services (1 December 2019), Argeweb (1 December 2019) and KPN Consulting (1 April 2020) accounted for a decrease of € 37m at Business. The sale of NLDC (1 October 2019) resulted in a decrease of € 23m at Wholesale.

The COVID-19 pandemic also affected revenues. The estimated net effect on revenues was modest amidst a challenging environment. The impact was mainly visible in lower handset sales, lower roaming revenues and lower IT Services revenues. On the other hand, KPN has seen a decrease in customer churn, increased national mobile and fixed traffic, and increased demand for Security and Workspace Services.

External revenues were not impacted by incidentals in H1 2020 nor H1 2019.

Other income in H1 2020 (€ 13m) consists of the result from the sale of KPN Consulting (€ 11m), which is treated as an incidental, and adjustments to the results from the divestments of 2019 (NLDC, Argeweb and International Network Services).

For further information on disaggregation of revenues, refer to the factsheet accompanying the Q2 2020 quarterly press release (available on KPN's website; [ir.kpn.com](https://ir.kpn.com)).

#### [6] Operating expenses, DA&I

Operating expenses (excluding DA&I) decreased by € 147m. Cost of goods and services remained stable. Effects of divestments of NLDC (1 October 2019) and KPN Consulting (1 April 2020) caused a shift from indirect opex after leases to direct opex. Also, the COVID-19 pandemic resulted in lower COGS following lower hardware sales and lower international roaming expenses. COGS at Wholesale also include a positive effect from two updated customer contracts of € 2m and € 3m each.

Personnel expenses decreased with € 63m, driven by the ongoing digital transformation of KPN that leads to a reduction in own and temporary personnel and the divestments of subsidiaries. IT/TI expenses decreased with € 20m, largely driven by simplification of networks, IT rationalization, and contract renegotiations with suppliers. Other operating expenses decreased € 66m mainly due to lower restructuring expenses (H1 2020: € 18m, H1 2019: € 70m) and lower costs related to housing & facilities (other than rent expenses). In H1 2020, an amount of € -6m was recognized as impairment from contracts with customers (H1 2019: € -9m).

DA&I expenses increased by € 20m compared to H1 2019 due to accelerated depreciation of equipment related to the network modernization. During H1 2020, impairment expenses amounts to € 20m, of which € 11m related to decommissioned software platforms. H1 2019 included impairment expenses of € 9m, mainly related to decommissioned legacy systems (hardware and software).

## [7] Finance income and expenses

Total finance income and expenses amounted to € -135m in H1 2020, € 2m higher net costs compared to H1 2019 (€ -133m).

Finance income in H1 2020 decreased by € 25m to € -1m compared to H1 2019 (€ 24m) mainly as a result of less dividend received from KPN's shareholding in Telefónica Deutschland, which was sold during Q2 2019. During H1 2019 KPN received € 24m in dividends from this shareholding.

Finance costs in H1 2020 decreased by € 35m to € -122m compared to H1 2019 (€ -157m), mainly due to bond redemptions and refinancing transactions executed in 2019. Interest expenses on lease liabilities amounted to € -11m in H1 2020 (H1 2019: € -15m).

Other financial results amounted to € -11m in H1 2020 (H1 2019: € nil). Other financial results mainly include fair value movements and amortization of discontinued hedge relationships during refinancing activities and exchange rate difference.

## [8] Income taxes

KPN calculates the income tax expense for the period using the tax rate applicable to the expected total annual earnings. The income tax charge for H1 2020 was € 66m compared to € 61m in H1 2019.

KPN benefits from innovation box tax facilities which are facilities under Dutch corporate income tax law, whereby profits attributable to innovation are taxed at an effective tax rate of 7%. KPN expects that the effective tax rate will be approximately 22% in 2020.

The effective tax rate for H1 2020 was 21.1% against 22.0% in H1 2019. The effective tax rate was mainly influenced by one-off effects. Without one-off effects, the effective tax rate would have been approximately 22% in H1 2020 (approximately 23% in H1 2019).

(in € m)	For the six months ended	
	30 June 2020	30 June 2019
Current income tax expense	-	8
Deferred income tax expense related to originating and reversal of temporary differences	66	53
<b>Income tax expense recognized in statement of profit or loss</b>	<b>66</b>	<b>61</b>

## Notes to the Condensed Statement of Financial Position

### [9] Segment information Statement of Financial Position

#### Segment information as at 30 June 2020

in € m	Consumer	Business	Wholesale	NOI	Other	Total
Total assets	2,786	1,949	397	7,112	-201	12,043
Total liabilities	2,009	1,553	156	8,079	-2,234	9,563

#### Segment information as at 31 December 2019 (restated)

in € m	Consumer	Business	Wholesale	NOI	Other	Total
Total assets	2,851	1,891	545	6,983	-324	11,946
Total liabilities	2,124	1,476	308	7,899	-1,534	10,273

### [10] Other current financial assets

To manage group liquidity, from time to time KPN invests in short-duration fixed income funds and unrated money market funds, which are measured at fair value through profit or loss. These funds have low volatility with an investment objective of preservation of principal and are classified as short-term investments in KPN's Net Debt definition. At 30 June 2020, KPN had no investments in funds classified as other current financial assets (at 31 December 2019: € 275m).

### [11] Cash and cash equivalents

At 30 June 2020, cash and cash equivalents amounted to € 907m, compared to € 766m at 31 December 2019. The increase in KPN's cash and cash equivalents was mainly caused by free cash flow generated in H1 2020 (€ 257m) and redemption of short-term investments (€ 275m), partly offset by dividend payments (€ 348m) and financing activities (€ 405m proceeds from debt issuance offset by € 460m bond redemptions).

Cash and cash equivalents consist of highly liquid instruments, including deposits, interest-bearing bank accounts and money market funds. KPN's cash balances are outstanding at a range of strong counterparties.

At 31 December 2019, part of KPN's cash balances were invested in instruments that cannot be classified as cash and cash equivalents. These are classified as other current financial assets, refer to note 10 for further information. During H1 2020 € 275m of short-term investments were redeemed and converted to cash and cash equivalents.

### [12] Group equity

In the first six months of 2020, the number of ordinary shares outstanding remained unchanged at 4,202,844,404.

On 22 April 2020, KPN paid a final dividend in respect of 2019 of € 8.3 cents per share, in total € 348m. The total regular dividend in respect of 2019 was € 12.5 cents, in total € 524m.

### [13] Borrowings, bond issues and redemptions

On 14 March 2020, KPN redeemed the 6.875% GBP 400m hybrid bond on its first call date. The bond had been swapped to a principal amount of € 460m.

On 2 April 2020, KPN has fully drawn its € 300m credit facility from the European Investment Bank. The loan has a floating interest rate referenced to 3-month Euribor and a single repayment on 2 August 2027. The interest for the first interest period was fixed at 0.166%.

During H1 2020, KPN set up a Euro Commercial Paper Program under which KPN can issue short-term debt instruments for up to € 1 billion. At 30 June 2020 the outstanding balance of commercial paper amounted to € 105m (31 December 2019: nil) issued at an average interest rate of -0.09%.

At 30 June 2020, the average maturity of the senior bond portfolio was 5.5 years (31 December 2019: 5.9 years).

The weighted average cost of senior debt was 2.95% at 30 June 2020 (31 December 2019: 3.17%). Including the outstanding hybrid bonds, the weighted average cost of debt was 3.12% at 30 June 2020 (31 December 2019: 3.55%).

### [14] Provisions for retirement benefit obligations

The remaining pension provision at 30 June 2020 of € 194m (31 December 2019: € 188m) includes the (closed) pension plans of Getronics UK and Getronics US, as well as certain early retirement schemes in the Netherlands, which are accounted for as defined benefit plans. The pension plans incurred a net actuarial loss of € 27m in the first six months of 2020. This is due to lower discount rates which increased the plans' defined benefit obligations by € 38m and a lower than expected return of € 3m on Getronics US plan's assets. These losses were offset by a gain of € 14m on the Getronics UK plan's assets because these assets performed better than expected mainly due to the liability matching funds which increased in value.

### [15] Provisions for other liabilities and charges

The following table presents the movements in the provisions for other liabilities and charges:

(in € m)	Personnel	Contractual	Total restructuring	Asset retirement obligation	Other provisions	Total provisions
<b>Balance at 1 January 2019</b>	<b>58</b>	<b>2</b>	<b>61</b>	<b>51</b>	<b>76</b>	<b>188</b>
<b>Of which: current portion</b>	<b>58</b>	<b>2</b>	<b>60</b>	<b>4</b>	<b>13</b>	<b>78</b>
Additions / Releases (-)	66	4	70	-1	-	70
Usage	-61	-3	-65	-1	-4	-69
Other movements including change in consolidation	-	-	-	-5	-	-5
<b>Balance at 30 June 2019</b>	<b>63</b>	<b>3</b>	<b>66</b>	<b>45</b>	<b>74</b>	<b>185</b>
<b>Of which: current portion</b>	<b>63</b>	<b>1</b>	<b>64</b>	<b>5</b>	<b>11</b>	<b>80</b>
<b>Balance at 1 January 2020</b>	<b>40</b>	<b>2</b>	<b>42</b>	<b>44</b>	<b>82</b>	<b>168</b>
<b>Of which: current portion</b>	<b>40</b>	<b>1</b>	<b>40</b>	<b>3</b>	<b>20</b>	<b>63</b>
Additions	18	-	18	-1	1	18
Releases	-	-	-	-	-	-
Usage	-39	-	-39	-	-6	-45
Other movements including change in consolidation	-	-	-	-	1	1
<b>Balance at 30 June 2020</b>	<b>19</b>	<b>2</b>	<b>21</b>	<b>43</b>	<b>77</b>	<b>141</b>
<b>Of which: current portion</b>	<b>18</b>	<b>-</b>	<b>18</b>	<b>3</b>	<b>17</b>	<b>38</b>

**[16] Fair value disclosures**

The following table presents the Group's assets and liabilities that are measured at fair value at 30 June 2020 and 31 December 2019:

(in € m)		30 June 2020		31 December 2019	
		Carrying amount	Fair value	Carrying amount	Fair value
<b>Financial assets at FVPL</b>					
Other current financial assets	[10]	-	-	275	275
Derivatives		336	336	258	258
Cash and cash equivalents, including classified as held for sale	[11]	907	907	767	767
<b>Financial assets at amortized cost</b>					
Trade and other receivables, contract assets and prepayments		679	679	750	750
<b>Financial assets at FVOCI</b>					
Equity investments		36	36	32	32
<b>Total financial assets</b>		<b>1,958</b>	<b>1,958</b>	<b>2,082</b>	<b>2,082</b>
<b>Financial liabilities FVPL</b>					
Derivatives		209	209	140	140
<b>Financial liabilities at amortized cost</b>					
Borrowings		6,524	7,053	6,659	7,261
Lease liability		977	977	930	930
Trade and other payables		955	955	1,074	1,074
<b>Total financial liabilities</b>		<b>8,665</b>	<b>9,194</b>	<b>8,803</b>	<b>9,405</b>

Assets and liabilities measured at fair value (in € m)	As at 30 June 2020				As at 31 December 2019			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Financial assets at FVPL								
Derivatives (cross currency interest rate swap)	-	144	-	144	-	70	-	70
Derivatives (interest rate swap) and other	-	191	-	191	-	188	-	188
Financial assets at FVOCI								
Equity investments								
- Unlisted securities	-	-	36	36	-	-	32	32
Total assets	-	335	36	371	-	258	32	290
Financial liabilities at FVPL								
Derivatives (cross currency interest rate swap)	-	168	-	168	-	98	-	98
Derivatives (interest rate swap)	-	40	-	40	-	42	-	42
Total liabilities	-	208	-	208	-	140	-	140

**Fair value estimation**

- Level 1 Fair value of instruments traded in active markets and based on quoted market prices.
- Level 2 Instrument is not traded in an active market and fair value is determined by using valuation techniques based on maximum use of observable market data for all significant inputs.
- Level 3 One or more of the significant inputs is not based on observable market data, the fair value is estimated using models and other valuation methods. The valuation of available-for-sale unlisted securities is based on a discounted cash flow model.

KPN reports its derivatives positions on the balance sheet on a gross basis. Part of the derivatives portfolio is subject to master netting agreements that allow netting under certain circumstances. If

netting would be applied at 30 June 2020, the total derivatives asset position would be € 150m (31 December 2019: € 123m) and the total derivatives liability position would be € 23m (31 December 2019: € 5m).

#### [17] Commitments and contingencies

(in € m)	Amounts due by period				
	Less than 1 year	1–5 years	More than 5 years	Total 30 June 2020	Total 31 December 2019
Capital and purchase commitments	701	180	31	912	1,029
Guarantees and other	-	6	130	137	140
<b>Total commitments</b>	<b>701</b>	<b>186</b>	<b>161</b>	<b>1,048</b>	<b>1,170</b>

The capital and purchase commitments mainly relate to minimum contractual obligations with regard to network operations, mobile handsets and telco services, and lease contracts that have not yet commenced.

Guarantees consist of financial obligations of group companies under certain contracts guaranteed by KPN. A total amount of € 137m relates to parent guarantees (31 December 2019: € 140m).

#### Contingent liabilities

No significant changes have occurred in KPN's contingent liabilities during H1 2020. Further information is available in Note 22 of the Integrated Annual Report 2019.

#### [18] Related-party transactions

For a description of the related parties of KPN and transactions with related parties, including major shareholders, refer to Note 23 of the Integrated Annual Report 2019. In the first six months of 2020 there have been no changes in the type of related party transactions as described in the Integrated Annual Report 2019, which could have a material effect on the financial position or performance of KPN.

Pursuant to the Dutch Financial Supervision Act ('Wet op het financieel toezicht' or 'Wft'), legal entities as well as natural persons must immediately notify the Dutch Authority of Financial Markets (AFM) when a shareholding equals or exceeds 3% of the issued capital.

On 14 July 2020, América Móvil, S.A.B. de C.V. ('AMX') published that it held 17.1% of the shares related to KPN's ordinary share capital as at 30 June 2020.

Other shareholdings equaling or exceeding 3% of the issued capital:

- On 29 June 2020, Capital Income Builder notified the AFM that it held 3.08% of the shares related to KPN's ordinary share capital.
- On 24 June 2020, BlackRock, Inc. notified the AFM that it held 3.76% of the shares and 4.71% of the voting rights related to KPN's ordinary share capital.
- On 28 April 2020, The Income Fund of America notified the AFM that it held 5.02% of the shares related to KPN's ordinary share capital.
- On 7 April 2020, Capital Research and Management Company notified the AFM that it held 10.08% of the voting rights related to KPN's ordinary share capital.
- On 26 February 2020, Amundi Asset Management notified the AFM that it held 3.00% of the shares and voting rights related to KPN's ordinary share capital.



Based on publicly available information, no other shareholder owned 3% or more of KPN's issued share capital as at 30 June 2020.

#### **[19] Risk management**

---

KPN's risk categories and risk factors that could have material impact on its financial position and results are described in KPN's Integrated Annual Report 2019 (pages 66-71, Note 12.4 and Appendix 4). Those risk categories and factors are deemed incorporated and repeated in this report by this reference and KPN believes that these risks similarly apply for H2 2020, whereby it is noted that due to the COVID-19 pandemic certain risks have become more likely, or are already materializing (e.g. risk of adverse macro-economic conditions). The impact of the COVID-19 pandemic on KPN is discussed in note 2 of these interim financial statements.

KPN will publish its Integrated Annual Report 2020 in February 2021, with a detailed update of KPN's principal risks.

With respect to regulatory risk, refer to note 20, with respect to related parties, refer to note 18.

#### **[20] Regulatory developments**

---

KPN is subject to sector-specific regulation and enforcement thereof by regulatory authorities, such as the Netherlands Authority for Consumers and Markets (ACM). KPN's Risk Management and Control System is designed to minimize the risk of non-compliance with regulation.

#### **Market analysis decisions in the Netherlands**

A decision related to the market for unbundled access to fixed networks came into effect on 1 October 2018. KPN and VodafoneZiggo were designated by ACM as having joint significant market power in this market. On 17 March 2020 the Trade and Industries Appeal Court ('College van Beroep voor het bedrijfsleven') annulled this decision with retroactive effect. Thereby, KPN is currently no longer regulated on this market.

#### **European developments**

Regulation of the electronic communications markets is largely based on European legislation. The EU's roaming and open internet access regulations are directly applicable in all member states. The application of the regulation of operators with significant market power is enforced nationally, but under coordination of the European Commission. This still affects KPN in some fixed markets and on fixed and mobile call termination services. KPN has an open wholesale policy which, KPN believes, should be an acceptable alternative to various regulatory alternatives that ACM can undertake. Licensing regimes for frequencies are based on national law. Increasingly, also other regulation (such as privacy law and content-related law) has an impact on KPN. The national implementation of the 2018 European Electronic Communications Code, which amends the regulation for the electronic communications sector, should be finalized by 21 December 2020. The scope of this amended regulation is extended to all interpersonal communications services (including over-the-top), thereby creating an increased level playing field for comparable services. A draft new e-Privacy Regulation (in addition to the General Data Protection Regulation, replacing the existing e-Privacy Directive) is still being discussed by the EU institutions. Various legislative instruments that may have impact on KPN (though sometimes to a lesser extent) are also still being discussed (such as a draft e-Evidence Regulation).

### Security concerns based on geopolitical developments

Both at the European and national level increased attention has been given to security concerns in relation to control over telecom operators via investment and to potential security risks in networks. A Foreign Direct Investment Screening Regulation will come to effect on 11 October 2020, aimed at information exchange between EU member states on potential risks for national security and public order in relation to investments. At national level, a draft sector specific regulation, creating new powers for the government to prevent undesirable control (related to security risks for public order or national security) over telecom operators which have a significant role in the market, has been approved by Parliament and will enter into force shortly. Furthermore, discussions have started at EU level on security requirements for mobile (5G) networks. In the Netherlands, legislation has come into effect which allows the minister to impose specific security requirements for network equipment and to mandate operators not to use equipment from certain vendors in specifically designated critical parts of their networks.

### Spectrum licenses

Recently the 700, 1400 and 2100MHz bands were auctioned in the Netherlands (refer to note 21). Although the 3.5GHz band at European level is seen as the primary band for 5G, severe restrictions on the use of this spectrum still apply in the Netherlands to prevent interference by the use of this band with an earth satellite station of the Dutch Ministry of Defense. It was announced in December 2018 that this spectrum will be released for 5G, after an alternative has been found for the satellite earth station. This spectrum is currently expected to be available by September 2022. An auction is expected to be scheduled in 2022.

### [21] Subsequent events

#### Spectrum licenses

KPN has obtained an attractive combination of frequency licenses in the Dutch 5G auction for € 416m. These licenses, with in total 75MHz of spectrum for a period of 20 years, will enable KPN to further increase mobile data speeds and offer 5G services across the Netherlands.

KPN acquired 20MHz in the 700MHz band to offer high-quality 5G services with excellent coverage across the Netherlands. KPN also acquired 15MHz in the 1400MHz band and 40MHz in the 2100MHz band to immediately increase mobile data speeds for current 4G customers and for future 5G services. The total price of € 416m consists of the prices per band as shown below and an additional € 0.1m in order to obtain the best available combination of frequencies in these spectrum bands in the allocation bidding round.

	700MHz	1400MHz	2100MHz	Total
Available spectrum in the auction / number of licenses	60MHz / 6 blocks	40MHz / 8 blocks	120MHz / 12 blocks	220MHz
Spectrum acquired by KPN / Number of licenses	20MHz / 2 x 10MHz	15MHz / 3 x 5MHz	40MHz / 4 x 10MHz	75MHz
Consideration for KPN	€ 158m	€ 95m	€ 163m	€ 416m

## Responsibility statement

The Board of Management of the company hereby declares that, to the best of their knowledge, the Condensed Consolidated Interim Financial Statements for the six months ended 30 June 2020, give a true and fair view of the assets, liabilities, financial position and income of KPN and the undertakings included in the consolidation taken as a whole, and the interim Management Report (Q2 2020 press release) gives a fair review of the information required pursuant to section 5:25d, subsection 8 and, as far as applicable, subsection 9 of the Dutch Financial Markets Supervision Act (Wet op het financieel toezicht).

Rotterdam, 27 July 2020

Joost Farwerck	Chairman of the Board of Management and Chief Executive Officer
----------------	--

Chris Figuee	Member of the Board of Management and Chief Financial Officer
--------------	--

Jean-Pascal Van Overbeke	Member of the Board of Management and Chief Consumer Market
--------------------------	--

Marieke Snoep	Member of the Board of Management and Chief Business Market
---------------	--

Babak Fouladi	Member of the Board of Management and Chief Technology and Digital Officer
---------------	---

Hilde Garssen	Member of the Board of Management and Chief People Officer
---------------	---

## Safe harbor

### Alternative performance measures and management estimates

*This financial report contains a number of alternative performance measures (non-GAAP figures) to provide readers with additional financial information that is regularly reviewed by management, such as EBITDA and Free Cash Flow ('FCF'). These non-GAAP figures should not be viewed as a substitute for KPN's GAAP figures and are not uniformly defined by all companies including KPN's peers. Numerical reconciliations are included in KPN's quarterly factsheets and in the Integrated Annual Report 2019. KPN's management considers these non-GAAP figures, combined with GAAP performance measures and in conjunction with each other, most appropriate to measure the performance of the Group and its segments. The non-GAAP figures are used by management for planning, reporting (internal and external) and incentive purposes. KPN's main alternative performance measures are listed below. The figures shown in this financial report are based on continuing operations and were rounded in accordance with standard business principles. As a result, totals indicated may not be equal to the precise sum of the individual figures.*

*Financial information is based on KPN's interpretation of IFRS as adopted by the European Union as disclosed in the Integrated Annual Report 2019 and do not take into account the impact of future IFRS standards or interpretations. Note that certain definitions used by KPN in this report deviate from the literal definition thereof and should not be considered in isolation or as a substitute for analyses of the results as reported under IFRS as adopted by the European Union. KPN defines revenues as the total of revenues and other income. Adjusted revenues are derived from revenues (including other income) and are adjusted for the impact of incidentals. KPN defines EBITDA as operating result before depreciation (including impairments) of PP&E and amortization (including impairments) of intangible assets. Adjusted EBITDA after leases ('adjusted EBITDA AL') are derived from EBITDA and are adjusted for the impact of restructuring costs and incidentals ('adjusted') and for lease costs, including depreciation of right-of-use assets and interest on lease liabilities ('after leases' or 'AL'). KPN defines Gross Debt as the nominal value of interest-bearing financial liabilities representing the net repayment obligations in Euro, excluding derivatives, related collateral, and leases, taking into account 50% of the nominal value of the hybrid capital instruments. In its Leverage Ratio, KPN defines Net Debt as Gross Debt less net cash and short-term investments, divided by 12 month rolling adjusted EBITDA AL excluding major changes in the composition of the Group (acquisitions and disposals). The Lease adjusted leverage ratio is calculated as Net Debt including lease liabilities divided by 12 month rolling adjusted EBITDA AL excluding major changes in the composition of the Group (acquisitions and disposals). Operational free cash flow is defined as adjusted EBITDA AL minus capital expenditures (Capex) being expenditures on PP&E and software. Free Cash Flow ('FCF') is defined as cash flow from continuing operating activities plus proceeds from real estate, minus Capex. Return on capital employed (ROCE) is calculated by the net operating profit less adjustments for taxes divided by capital employed, on a 4 quarter rolling basis. Net operating profit is the adjusted EBITA (excluding incidentals and amortization of other intangibles, and excluding restructuring costs). KPN defines capital employed as the carrying amount of operating assets and liabilities, which excludes goodwill and other intangibles.*

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

### Forward-looking statements

*Certain statements contained in this financial report constitute forward-looking statements. These statements may include, without limitation, statements concerning future results of operations, the impact of regulatory initiatives on KPN's operations, KPN's and its joint ventures' share of new and existing markets, general industry and macro-economic trends and KPN's performance relative thereto and statements preceded by, followed by or including the words "believes", "expects", "anticipates", "will", "may", "could", "should", "intends", "estimate", "plan", "goal", "target", "aim" or similar expressions. These forward-looking statements rely on a number of assumptions concerning future events and are subject to uncertainties and other factors, many of which are outside KPN's control that could cause actual results to differ materially from such statements. A number of these factors are described (not exhaustively) in the Integrated Annual Report 2019. All forward-looking statements and ambitions stated in this financial report that refer to a growth or decline, refer to such growth or decline relative to the situation per 31 December 2019, unless stated otherwise.*

### Additional information regarding estimated impact of divestments on Q2 and H1 2019 financial figures

*KPN's Q2 2020 Press Release and Q2 2020 Analyst Presentation include additional information regarding the estimated impact of divestments on the Q2 and H1 2019 comparative financial figures for revenues, adjusted EBITDA AL, operational free cash flow and FCF, as KPN's Board of Management deems it important to provide readers with additional information on the financial impact of the following divestments: NLDC, International Network Services, Argeweb, and KPN Consulting.*

*The impact of divestments as mentioned represents the estimated financial impact (transfer of revenues, addition of COGS and transfer of indirect costs) of the combined completed divestments as if the actual transfer of shares (closing) had taken place 12 months earlier. This information has been included for comparison reasons only and is not considered to be an alternative performance measure. Please note that the financial impact of divestments is based on management estimates, which have not and will not be audited.*

## KPN delivered stable results and higher free cash flow in Q2 2020

- KPN's mobile and fixed base showed increasingly positive dynamics with first signs of bottoming-out
- COVID-19 led to a slightly negative impact on KPN's group financial result, mostly in B2B, and offset by ongoing cost measures
- Stable adjusted EBITDA after leases y-on-y excl. impact of divestments
- FCF increased 17% y-on-y excl. impact of divestments despite acceleration of fiber roll-out leading to higher Capex y-on-y
- Balance sheet and liquidity position remained strong with 2.3x leverage ratio and € 907m cash & cash equivalents
- KPN lives up to its 2020 dividend commitment; will pay an interim dividend of € 4.3 cents per share in August 2020
- Committed to strategy and to the 2020 outlook as provided in January 2020

### Substantially improved base dynamics and continued rationalization

- **Consumer** net adds trend improved sequentially; market is highly competitive
  - Convergence: +3k fixed-mobile households (Q1 2020: -18k), 49% of broadband base; +30k fixed-mobile postpaid customers (Q1 2020: -21k), 63% of postpaid base
  - Fixed: +17k fiber net adds (Q1 2020: +13k), -3k broadband net adds (Q1 2020: -19k)<sup>1</sup>; ARPU increased 5.0% y-on-y to € 48
  - Mobile: -1k postpaid net adds across all brands (Q1 2020: -13k); postpaid ARPU at € 17 for the sixth consecutive quarter (-3.8% y-on-y)
  - Consumer NPS of +15 (Q2 2019: +13)
- **Business** delivered good progress with customer migrations: 84% of SME and 72% of LE customers migrated from traditional fixed voice or legacy broadband services; shut down ISDN 1/2 per end of June 2020; NPS improved to +2 (Q2 2019: +1)
- **Wholesale** added 16k broadband lines (Q1 2020: +21k) and 14k postpaid SIMs (Q1 2020: +12k)
- **Network** continued ramping up fiber roll-out: added 76k (70k organic and 6.5k acquisitions) additional FttH households (Q1 2020: 58k), 254k since start in January 2019; ~560 mobile network sites were upgraded in the quarter, ~1,490 since September 2019
- Continued good progress on **simplification and digitalization** and strong and disciplined cost control resulted in net indirect opex savings of € 33m in the quarter, € 213m since the start of the program in 2019; well on track to meet ~€ 350m target

### Robust financial performance amidst a challenging COVID-19 environment<sup>2</sup>

- Q2 2020 **adjusted revenues** declined 3.0% y-on-y corrected for impact of divestments (-4.9% y-on-y without correction): Growth in Professional Services in Business and in Wholesale was offset by lower revenues from mobile (roaming) and fixed voice services. Consumer revenues were broadly stable sequentially despite COVID-19 related headwinds, Business revenues saw additional revenue challenges. H1 2020 adjusted revenues declined 2.4% y-on-y corrected for impact of divestments (-3.6% y-on-y without correction)
- Q2 2020 **adjusted EBITDA after leases** was effectively flat with +0.1% y-on-y corrected for impact of divestments (-1.5% y-on-y without correction). The effect of lower revenues was offset by strong and disciplined cost control. Margin increased to 45.3%. The estimated net effect of COVID-19 on Q2 2020 adj. EBITDA AL was ~€ 3-5m negative. H1 2020 adjusted EBITDA AL increased 1.6% y-on-y corrected for impact of divestments (+0.3% y-on-y without correction)
- Q2 2020 **net profit** of € 135m, € 7m higher y-on-y was mainly driven by lower restructuring costs, € 11m book gain on the sale of KPN Consulting and lower finance costs due to debt redemptions. This was partly offset by lower finance income due to the sale of the TEFD stake in June 2019. H1 2020 net profit of € 255 was € 38m higher y-on-y
- **Capex** of € 295m in Q2 2020 (of which ~3% attributed to fiber acquisitions). Capex increased € 42m y-on-y to € 572m in H1 2020 due to changed intra-year phasing from increased access investments: accelerated FttH roll-out and mobile network modernization
- Q2 2020 **operational free cash flow** of € 291m declined 8.2% y-on-y corrected for impact of divestments (-10% y-on-y without correction), and H1 2020 operational free cash flow declined -4.3% y-on-y corrected for impact of divestments, due to higher Capex
- Q2 2020 **free cash flow** increased to € 177m (+17% y-on-y corrected for impact of divestments, +20% y-on-y without correction) despite higher Capex due to access investments. Investments in working capital were lower compared to Q2 2019. H1 2020 FCF increased 19% y-on-y corrected for impact of divestments to € 257m (+19% y-on-y without correction)
- **Strong liquidity** of € 2.2bn at the end of Q2 2020, consisted of € 907m cash and cash equivalents and € 1.25bn undrawn revolving credit facility. In addition, KPN initiated a € 1bn Euro Commercial Paper program

### Key figures

Group financials (unaudited) (in € m, unless stated otherwise)	Q2 2019	Q2 2020	Δ y-on-y	Δ y-on-y <sup>2</sup> excl. divestments	H1 2019	H1 2020	Δ y-on-y	Δ y-on-y <sup>2</sup> excl. divestments
Adjusted revenues	1,359	1,292	-4.9%	-3.0%	2,721	2,622	-3.6%	-2.4%
Adjusted EBITDA after leases	594	585	-1.5%	+0.1%	1,157	1,160	+0.3%	+1.6%
As % of adjusted revenues	43.7%	45.3%			42.5%	44.3%		
Operating profit (EBIT)	221	233	+5.4%		410	449	+9.5%	
Net profit	128	135	+5.4%		217	255	+18%	
Capex	269	295	+9.3%		531	572	+7.8%	
Capex as % of adjusted revenues	19.8%	22.8%			19.5%	21.8%		
Operational free cash flow	324	291	-10%	-8.2%	626	588	-6.1%	-4.3%
As % of adjusted revenues	23.9%	22.5%			23.0%	22.4%		
Free cash flow (excluding TEFD dividend)	147	177	+20%	+17%	216	257	+19%	+19%
As % of adjusted revenues	10.8%	13.7%			7.9%	9.8%		
Cash & short-term investments					381	907	>100%	
ROCE					9.0%	9.8%		

<sup>1</sup> Corrected for migrations to, and new customers of, small business proposition (7k in Q2 2020, 6k in Q1 2020)

<sup>2</sup> Y-on-y trends in the last column are corrected for the estimated impact of closed divestments: NLDC, International Network Services, Argeweb, and KPN Consulting; further information to be found on page 14

## Message from the CEO, Joost Farwerck

*"We continued to execute our strategy and delivered robust performance in the second quarter with flat adjusted EBITDA after leases corrected for divestments and significant y-on-y growth in free cash flow despite the challenges related to COVID-19.*

*Our improved commercial strategy on fiber, our SuperWiFi proposition, strong Unlimited proposition, and focused marketing campaigns led to sequential improvements in Consumer broadband and mobile net adds, despite continued competition. In addition, we see that existing customers value the quality and stability of our network especially in the current COVID-19 crisis.*

*In the Business segment, we continued to make solid progress with customer migrations towards our simplified and future-proof portfolio. We have largely simplified our product portfolio, though we recognize that several challenges remain in the Business segment as the economic activity in the Netherlands has decreased. Our customer base developed favorably in fixed and mobile however mobile ARPU was under pressure from roaming. New initiatives in networking, IoT, and security slowed down due to COVID-19. These challenges were offset to the extent possible by lowering costs. As we continue our open wholesale model this led to solid Wholesale performance which contributed to a stable total broadband market share of 52% and underpins the robustness of our mixed portfolio.*

*However, the second quarter was also the first in which we saw the full effect of COVID-19 on the Dutch economy. While impacting performance in some areas, this dynamic also underlined the importance of KPN's continuous efforts to improve and enhance the quality of the Netherlands' digital infrastructure through large scale investments. We believe that digitalization can be a catalyst for the country's economic recovery that simultaneously helps to address the ecological and social challenges of the post-COVID world. We are proud of our employees who delivered and were committed to customer service in these challenging times. Over the first half year KPN, with its networks and services, has proven to be resilient.*

*We are accelerating the roll out of fiber, which continues to drive value for KPN. We added 76k homes passed in the quarter and, we have a number of commercial proof points validating our roll-out strategy. For example, compared to copper we see that fiber ARPU is 9% higher, Valued Added Services revenues per user are 40-50% higher for fiber customers and the fiber service revenues grew by 6% in the second quarter of the year. We are also proud that our fiber network is recognized as the best fixed network in the Netherlands according to the Dutch Consumers' Association, and we are securing long-term construction capacity to safeguard our roll out plans.*

*Looking forward, the development of COVID-19 and its impact on the current economic downturn remain uncertain. However, our first half year performance and our strong balance sheet gives us a resilient foundation on which to build. We are committed to our strategy and to our 2020 outlook as provided in January 2020. We have decided to pay an interim dividend for 2020 in Q3 2020, and KPN remains well funded with ample liquidity to cover debt maturities for the coming years."*

## The estimated net effect of COVID-19 on group's financial results was slightly negative

The estimated net effect of COVID-19 on group's financial results was slightly negative. The estimated net effect on group's adjusted gross profit in H1 2020 was around € 5-7m negative, mainly visible in lower revenues from roaming and delayed IT projects, partly offset by higher fixed and national mobile traffic. The estimated net impact on group's adjusted indirect opex amounted to approximately € 6-11m positive, driven by fewer FTE due to the closure of shops and lower cost related to travel, learning & development and facilities. This was partly offset by a provision of € 1m for expected credit losses. KPN saw limited impact from requests for extended payment terms in H1 2020. KPN has not made use of any form of state aid in H1 2020.

The estimated net effect on group's free cash flow was approximately € 6-12m positive in H1 2020, driven by temporarily lower production (Capex), lower handset sales (trade receivables), partly offset by the suspension of payment terms (trade receivables).

<b>Estimated financial net effect COVID-19 Group level</b>	<b>H1 2020 net effect</b>
Adjusted gross profit	~ € 5-7m negative
Adjusted indirect costs	~ € 6-11m positive
Adjusted EBITDA after leases	broadly flat
Free cash flow	~ € 6-12m positive

The effect of COVID-19 cannot be estimated exactly. However, KPN observes substantial trend changes in some activities compared to previous quarters. The financial impact of these trend changes is used as a proxy for estimating the COVID-impact.



27 July 2020

## Committed to 2020 outlook and interim dividend of € 4.3 cents per share announced

The ultimate impact of COVID-19 on KPN and wider Dutch economy remains uncertain. The Dutch economy is showing a decline and it is expected by the CPB (the Dutch Bureau for Economic Policy Analysis) to move towards a recession. As a result, the longer-term impact on the Dutch economy and KPN's customers remains difficult to predict. Despite this uncertain backdrop, KPN generated solid results in H1 2020, which shows its business is resilient and that it is on track with the execution of its strategy. Demand for KPN's essential connectivity services remains solid, and KPN has a robust liquidity position. While we expect to see a significantly higher negative y-on-y effect of roaming in Q3 2020, due to the summer holiday season with limited travelling outside the EU, we remain able to adjust our cost base in line with developing economic circumstances.

Meanwhile, we remain committed to our strategy and to our 2020 outlook as provided in January 2020.

2020 outlook for adjusted EBITDA AL, Capex and DPS is reiterated. A combination of COVID-related downward pressure on revenues, offset by strong cost control enables us to reiterate our 2020 outlook for adjusted EBITDA after leases. Due to COVID-19 impact we expect B2B end-to-end adjusted EBITDA AL to stabilize during 2021 based on current estimates. KPN intends to pay a regular dividend per share of € 13.0 cents in respect of 2020. An interim dividend of € 4.3 cents per share will be paid on 4 August 2020. The ex-dividend date is 29 July 2020.

KPN is committed to grow its FCF excluding acquisition Capex in 2020 with 'at least mid-single digit percentage growth compared to 2019'. However, management identified some downside risk due to a potentially worsening trend in customers' payment behavior. The latter is not impacting KPN yet, but KPN is cognizant of the potential depth of the recession in the Netherlands, especially if, and when the Dutch government reduces its COVID-19 support packages.

2020 outlook is based on comparable basis corrected for divestments. The historical comparable basis figures are based on management estimates and are not audited. 2020 Capex and FCF outlook are both excluding acquisition Capex related to discretionary FttH M&A opportunities, which classify as Capex.

	Adjusted EBITDA AL	Capex (excl. acquisition Capex)	Free Cash Flow (excl. acquisition Capex)	Regular DPS
<b>Achievements H1 2020</b>	+1.6% growth y-on-y	€ 563m	€ 266m	€ 4.3 cents interim dividend
<b>Outlook 2020</b>	Stable to slightly growing compared to 2019*	€ 1.1bn	At least mid-single digit percentage growth compared to 2019**	€ 13.0 cents

\* FY 2019 adjusted EBITDA AL of € 2,287m, corrected for divestments. This is € 30m lower compared to € 2,317m as reported for FY 2019

\*\* FY 2019 FCF (excl. TEFD dividend) of € 718m, corrected for divestments. This is € 8m lower compared to € 726m as reported for FY 2019

Looking ahead, KPN continues to manage its business through the COVID-19 crisis, closely monitoring a number of business drivers including payment behavior, net working capital and credit quality. KPN also continuously assesses its revenue risk profile. Consumer, Wholesale and B2B Soho segments account for a large part of the revenue base, and impact here is mostly visible through lower roaming revenues and lower handset sales, partly offset by higher traffic and out of bundle data usage. KPN expects to see a higher negative y-on-y effect of roaming in Q3 2020, due to the summer holiday season. In the Business segment, the main impact is currently visible in lower revenues from roaming, network services (WiFi hotspots), and IT projects. These effects were partly offset by increased demand for Security and Workspace Services in the (semi) public sector and cost savings on FTEs and lower cost related to travel, learning & development and facilities.

KPN continues to monitor the impact of changes in payment behavior and bad debts in parts of our Business client base. Importantly, our SME exposure is relatively limited, and sectors such as hospitality, leisure and travel represent a minority within that SME base. Also, many of our LE customers are active in the public sector. Reassuringly, KPN saw a limited impact from requests for extended payment terms in Q2 2020.

With the Netherlands in an economic decline, and uncertainty remaining about the duration of the Government's package of support measures, the ultimate impact on the Dutch economy and the position of KPN's customers remains difficult to predict. As a result, visibility into 2021 is limited, and it would be premature to confirm whether our 2019-2021 ambitions need to be updated. KPN is well positioned to absorb the short-term effects from this pandemic. Meanwhile, KPN remains committed to its strategy.

# Financial review KPN Group Q2 and H1 2020

## Market environment

Elevated competitive activity continued in the fixed broadband market, with three players focusing on converged customers and competition from local fiber operators in rural areas. The mobile market has also remained competitive. Signs of stabilization are visible among the entry-level propositions, while the premium segment remains highly competitive.

## Key financial metrics

Group financials (unaudited) (in € m, unless stated otherwise)	Q2 2019	Q2 2020	Δ y-on-y	Δ y-on-y excl. divestments*	H1 2019	H1 2020	Δ y-on-y	Δ y-on-y excl. divestments*
Service revenues	1,274	1,206	-5.4%	-3.4%	2,539	2,440	-3.9%	-2.6%
Non-service revenues & other	85	87	+2.3%		181	182	+0.3%	
<b>Adjusted revenues</b>	<b>1,359</b>	<b>1,292</b>	<b>-4.9%</b>	<b>-3.0%</b>	<b>2,721</b>	<b>2,622</b>	<b>-3.6%</b>	<b>-2.4%</b>
Cost of goods & services	302	297	-1.7%	-2.6%	611	612	+0.1%	-1.9%
Personnel expenses	252	220	-13%	-8.5%	529	466	-12%	-9.4%
IT/TI	91	83	-9.4%	-6.5%	184	164	-11%	-7.9%
Other operating expenses	77	68	-11%	-7.8%	154	141	-8.4%	-4.9%
Total adjusted opex	723	669	-7.5%	-5.6%	1,479	1,384	-6.4%	-5.6%
Depreciation right-of-use asset	35	33	-5.9%	-0.8%	70	66	-5.5%	+0.1%
Interest lease liabilities	7	5	-24%	-12%	15	11	-24%	-12%
Total adjusted indirect opex after leases	463	410	-11%	-7.5%	952	849	-11%	-7.8%
<b>Adjusted EBITDA after leases</b>	<b>594</b>	<b>585</b>	<b>-1.5%</b>	<b>+0.1%</b>	<b>1,157</b>	<b>1,160</b>	<b>+0.3%</b>	<b>+1.6%</b>
As % of adjusted revenues	43.7%	45.3%			42.5%	44.3%		
Operating profit (EBIT)	221	233	+5.4%		410	449	+9.5%	
Net profit	128	135	+5.4%		217	255	+18%	
ROCE**					9.0%	9.8%		
FTE own personnel (#)					11,955	10,224	-14%	

\* Q2 and H1 2019 corrected for impact of divestments to be found on page 14

\*\* ROCE is calculated on a 4-quarter average rolling basis. The ROCE in KPN IAR 2019 was based on the Capital Employed as at 1 Jan 2019, thus using a different calculation method. The difference between these two methods amounts to 0.1%pt positive (ROCE FY 2019: 9.3%, instead of reported 9.2%. ROCE FY 2018: 9.2% instead of reported 9.0%).

## Q2 2020

Adjusted revenues declined 3.0% y-on-y corrected for impact of divestments (-4.9% y-on-y without correction). Growth in Professional Services in Business and in Wholesale was offset by lower revenues from mobile (roaming) and fixed voice services. In the quarter, service revenues declined 3.4% y-on-y corrected for impact of divestments (-5.4% y-on-y without correction). Non-service revenues increased 2.3% y-on-y. Due to COVID-19, KPN saw lower churn, while sales for fixed and mobile services remained on track during the quarter. The closure of shops led to reduced handset sales until full reopening as of 15 June 2020. Consumer revenues y-on-y trend was broadly in line with Q1 2020 despite COVID-19 related headwinds, and the Business segment saw additional revenue challenges as the economic activity in the Netherlands has decreased.

Cost of goods and services were 2.6% lower y-on-y corrected for impact of divestments (1.7% lower y-on-y without correction), driven by lower traffic costs. Gross margin decreased by 70 basis points to 77.0%. Personnel expenses declined 8.5% y-on-y corrected for impact of divestments (-13% y-on-y without correction), driven by the ongoing digital transformation of KPN that leads to a reduction in own and temporary personnel. IT/TI expenses declined 6.5% y-on-y corrected for impact of divestments (-9.4% y-on-y without correction), largely driven by simplification of networks, IT rationalization, and contract renegotiations with suppliers. Accelerating simplification and digitalization drives substantial improvements in quality and customer experience and results in structural savings. In Q2 2020, total net indirect opex savings were € 33m.

Adjusted EBITDA after leases was flat at +0.1% y-on-y corrected for impact of divestments (1.5% lower y-on-y without correction). The effect of lower revenues was fully offset by strong and disciplined cost control. Adjusted EBITDA AL margin increased to 45.3% from 43.7% in Q2 2019. The estimated net effect of COVID-19 on adjusted EBITDA AL was ~€ 3-5m negative.

Operating profit (EBIT) increased € 12m y-on-y, driven by the book gain of KPN Consulting of € 11m and lower restructuring costs, partly offset by higher depreciation due to accelerated depreciation of KPN's copper and mobile network infrastructure. P&L restructuring costs were € 8m in the quarter compared to € 34m in the second quarter last year.

Net profit of € 135m was € 7m higher y-on-y. Higher operating profit was further supported by lower finance costs due to debt redemptions and slightly lower income taxes because the sale of KPN Consulting was tax exempt. This was offset by lower finance income, due to the sale of KPN's stake in Telefónica Deutschland in June 2019.

## H1 2020

Adjusted revenues decreased 2.4% y-on-y corrected for impact of divestments (-3.6% y-on-y without correction). Ongoing competition and own strategic actions further impacted revenue performance. In the first half year, service revenues declined 2.6% y-on-y corrected for impact of divestments (-3.9% y-on-y without correction) and non-service revenues increased 0.3% y-on-y. The estimated net effect of COVID-19 on gross profit was ~€ 5-7m negative.

Corrected for impact of divestments, cost of goods and services were 1.9% lower y-on-y (+0.1% y-on-y without correction). Personnel expenses declined 9.4% y-on-y (-12% y-on-y without correction), and IT/TI expenses declined 7.9% y-on-y (-11% without correction). Total net indirect opex savings for H1 2020 were € 71m. KPN expects to realize approximately € 350m savings in net indirect opex after leases adjusted for the impact of restructuring costs and incidentals over the period 2019 – 2021.

The effect of lower revenues was fully offset by lower direct and indirect opex, resulting in adjusted EBITDA AL growth of 1.6% y-on-y corrected for impact of divestments (+0.3% y-on-y without correction). Adjusted EBITDA AL margin increased from 42.5% to 44.3% y-on-y. The estimated net effect of COVID-19 on adjusted EBITDA AL was broadly flat.

Operating profit (EBIT) of € 449m was € 39m higher y-on-y, mainly due to lower restructuring costs and the € 11m book gain of KPN Consulting, partly offset by higher depreciation.

Net profit of € 255m was 18% (€ 38m) higher compared to the first half of 2019. Higher operating profit was further supported by lower finance costs due to debt redemptions and higher share of the profit of associates and joint ventures. This was partly offset by lower finance income due to the sale of KPN's stake in Telefónica Deutschland in June 2019 and negative other financial result due to hedge reserve movements.

ROCE was 9.8% in H1 2020, an increase of 80 basis points compared to H1 2019 (9.0%). This improvement was driven by increased operational efficiency driven by disciplined cost control which offset lower revenues. Capital efficiency increased due to lower capital employed, which is driven by higher depreciation and amortization charges (than Capex) mainly driven by accelerated depreciation of KPN's copper and mobile network.

## Financial position

Group financials (unaudited) (in € m, unless stated otherwise)	Q2 2019	Q2 2020	Δ y-on-y	Δ y-on-y excl. divestments*	H1 2019	H1 2020	Δ y-on-y	Δ y-on-y excl. divestments*
Operational free cash flow	324	291	-10%	-8.2%	626	588	-6.1%	-4.3%
As % of adjusted revenues	23.9%	22.5%			23.0%	22.4%		
Free cash flow (excluding TEFD dividend)	147	177	+20%	+17%	216	257	+19%	+19%
As % of adjusted revenues	10.8%	13.7%			7.9%	9.8%		
Net debt					5,554	5,248		
Gross debt					5,934	6,154		
Cash & short-term investments					381	907		
Leverage ratio**					2.4x	2.3x		
Interest cover ratio***					6.3x	9.3x		
<b>Credit ratings</b>					<b>Rating</b>	<b>Outlook</b>		
Standard & Poor's					BBB	Stable		
Fitch Ratings					BBB	Stable		
Moody's					Baa3	Stable		

\* Q2 and H1 2019 corrected for impact of divestments to be found on page 14

\*\* Net debt (excl. leases) / LTM Adj. EBITDA AL

\*\*\* LTM adjusted EBITDA AL / LTM Net interest paid (excl. lease interest, incl. perpetual hybrid coupon)

## Q2 2020

In the quarter, KPN generated operational free cash flow (adjusted EBITDA AL minus Capex) of € 291m, 8.2% lower y-on-y corrected for impact of divestments (-10% y-on-y without correction). This was fully driven by higher investments, due to changed intra-year phasing of access investments, as a result of the accelerated fiber roll-out and mobile network modernization. Free cash flow (excl. TEFD dividend) was € 26m (17%) higher y-on-y at € 177m when corrected for impact of divestments (+20% without correction). This strong increase was achieved despite higher Capex. Investments in working capital were lower compared to Q2 2019. Restructuring cash out was € 17m in the quarter, which is € 19m lower compared to the second quarter last year, mainly due to strong headcount reduction in 2019.

## H1 2020

Operational free cash flow for the first six months of the year stood at € 588m, 4.3% lower y-on-y corrected for the impact of divestments fully driven by higher Capex. Free cash flow of € 257m was € 41m higher compared to the first half year of 2019. This was a result of a higher adjusted EBITDA AL, lower cash restructuring, less cash interest paid due to debt redemptions, lower investments in working capital and lower cash taxes paid were partly offset by increased Capex and additions to provisions.

**27 July 2020**

At the end of Q2 2020, net debt amounted to € 5,248m, € 185m higher compared to end Q1 2020. The sequential increase in net debt was mainly driven by the € 348m final dividend payment over 2019 in April, partly offset by free cash flow generation during the quarter.

KPN had a strong balance sheet and liquidity position at the end of H1 2020. KPN had € 6,687m nominal debt outstanding, of which € 461m is maturing in September 2020 and € 613m in 2021. On 2 April 2020, KPN has fully drawn its € 300m credit facility from the European Investment Bank. The loan has a floating interest rate referenced to 3-month Euribor and a single repayment on 2 August 2027. KPN's committed liquidity consisted of € 907m cash and cash equivalents and € 1.25bn undrawn revolving credit facility. In addition, KPN initiated a € 1bn Euro Commercial Paper program, with € 105m outstanding per end Q2 2020. KPN's total liquidity of € 2.2bn covers debt maturities until the end of 2022. As at 30 June 2020, the net debt to EBITDA ratio was 2.3x (Q2 2019: 2.4x). KPN's interest cover ratio was 9.3x at the end of the second quarter (Q2 2019: 6.3x). At 30 June 2020, the weighted average cost of senior debt was 2.95%, ~55bps lower y-on-y.

At the end of Q2 2020, Group equity amounted to € 2,480m, € 240m lower compared to the end of Q1 2020. This was mainly driven by the final dividend payment over 2019, partly offset by net profit generated during the quarter.

## Capex

<b>Group financials (unaudited)</b> <i>(in € m, unless stated otherwise)</i>	<b>Q2 2019</b>	<b>Q2 2020</b>	<b>Δ y-on-y</b>	<b>H1 2019</b>	<b>H1 2020</b>	<b>Δ y-on-y</b>
Access				191	293	+53%
IT/TI				210	204	-2.7%
Commercial				126	73	-42%
Other				4	3	-27%
<b>Capex</b>	<b>269</b>	<b>295</b>	<b>9.3%</b>	<b>531</b>	<b>572</b>	<b>+7.8%</b>
<i>Capex as % of adjusted revenues</i>	<i>19.8%</i>	<i>22.8%</i>		<i>19.5%</i>	<i>21.8%</i>	

Capex was € 295m in Q2 2020 (of which ~3% attributed to fiber acquisitions). Capex increased € 42m y-on-y to € 572m in H1 2020, mainly driven by different intra-year phasing of increased access investments. H1 2020 access Capex increased by 53% y-on-y due to the accelerated roll-out of KPN's fiber-to-the-home network and the mobile network modernization. On the other hand, compared to the first half of 2019, KPN invested € 54m less in Commercial activities as a result of lower inventory levels due to improved inventory management, COVID-19 (fewer mechanics), and a reclassification from Commercial to IT/TI. IT/TI investments decreased € 6m following significant simplification of the IT and network architecture in prior years.

## Personnel

<b># FTE own personnel by segment at the end of the period</b> <i>(unaudited)</i>	<b>H1 2019</b>	<b>H1 2020</b>	<b>Δ y-on-y</b>	<b>Δ y-on-y</b>
Consumer	2,777	2,503	-274	-9.8%
Business	4,001	2,973	-1,028	-26%
Wholesale	239	203	-36	-15%
Network, Operations & IT	3,857	3,534	-323	-8.4%
Other	1,082	1,012	-70	-6.5%
<b>KPN Group</b>	<b>11,955</b>	<b>10,224</b>	<b>-1,731</b>	<b>-14%</b>

At the end of H1 2020, KPN employed 10,224 own personnel (in FTEs). This is 1,731 FTE lower compared with the end of H1 2019, of which 838 related to divestments. The remainder is partly related to KPN's simplification and digitalization program and partly to natural attrition, which, particularly in 2019, was supported by the favorable market conditions in the Dutch labor market. In the light of COVID-19 KPN decided to postpone new reorganization requests until 1 June 2020. KPN reduced the hiring of new employees to a minimum to compensate this effect.

## Spectrum auction

KPN has obtained an attractive combination of frequency licenses in the Dutch 5G auction for € 416m. These licenses, with in total 75MHz of spectrum for a period of 20 years, will enable KPN to further increase mobile data speeds and offer 5G services across the Netherlands.

KPN acquired 20MHz in the 700MHz band to offer high-quality 5G services with excellent coverage across the Netherlands. KPN also acquired 15MHz in the 1400MHz band and 40MHz in the 2100MHz band to immediately increase mobile data speeds for current 4G customers and for future 5G services. The total price of € 416m consists of the prices per band as shown below and an additional € 0.1m in order to obtain the best available combination of frequencies in these spectrum bands in the allocation bidding round.

	<b>700MHz</b>	<b>1400MHz</b>	<b>2100MHz</b>	<b>Total</b>
Available spectrum in the auction / number of licenses	60MHz/6 blocks	40MHz/8 blocks	120MHz/12 blocks	220MHz
Spectrum acquired by KPN / number of licenses	20Mhz / 2 x 10MHz	15MHz / 3 x 5MHz	40MHz / 4 x 10MHz	75MHz
Consideration for KPN	€ 158m	€ 95m	€ 163m	€ 416m

# Financial and operating review per segment Q2 and H1 2020

## Consumer

Segment financials (unaudited) (in € m, unless stated otherwise)	Q2 2019	Q2 2020	Δ y-on-y	H1 2019	H1 2020	Δ y-on-y	Δ q-on-q
Fixed revenues	475	477	+0.3%	952	954	+0.2%	
Mobile revenues	246	229	-7.0%	498	463	-6.9%	
<b>Adjusted revenues</b>	<b>722</b>	<b>706</b>	<b>-2.2%</b>	<b>1,450</b>	<b>1,418</b>	<b>-2.2%</b>	
Adjusted EBITDA after leases				937	940	+0.3%	
As % of adjusted segment revenues				64.6%	66.3%		
Total Consumer NPS	+13	+15	+2				
Total Consumer Convergence NPS	+23	+26	+3				
<b>Convergence KPIs</b>							
Fixed-Mobile households (k)				1,399	1,387	-12	+3
Fixed-Mobile penetration as % of broadband base				48%	49%		
Fixed-mobile postpaid # SIMs (k)				2,230	2,263	+33	+30
Fixed-mobile penetration as % of postpaid base (all brands)				62%	63%		
<b>Fixed KPIs</b>							
Total Fixed households (k)				3,332	3,153	-178	-35
Total broadband base (k)				2,896	2,812	-83	-10 <sup>3</sup>
Fixed ARPU (€)				46	48	+5.0%	
<b>Mobile KPIs</b>							
Mobile postpaid base (k)				3,605	3,574	-32	-1
Postpaid ARPU (€)				17	17	-3.8%	

Key strategic priorities for the Consumer segment are: 1) invest in the best household access and customer experience, supported by an accelerated roll-out of fiber-to-the home, 2) grow the converged customer base with increased product penetration, and 3) focus on delivering value.

## Q2 2020

Adjusted revenues declined 2.2% y-on-y, fully driven by lower mobile revenues. Fixed revenues were slightly up (+0.3% y-on-y) compared to Q2 2019, as the declining customer base was offset by higher ARPU and SuperWiFi sales. Mobile service revenues declined 6.5% y-on-y, mainly driven by lower postpaid ARPU due to lower roaming revenues, and continued pressure on KPN's prepaid segment.

KPN's converged household base increased 3k q-on-q from Q1 2020 to 1,387k in Q2 2020, representing 49% of broadband customers. The converged postpaid customer base increased 30k in Q2 2020 compared to end of Q1 2020 to 2,263k, representing 63% of postpaid customers.

Total broadband net adds declined 3k q-on-q in Q2 2020 (Q1 2020 -19k)<sup>4</sup>, which improved substantially compared to the last quarters. KPN added 17k fiber customers in the quarter (Q1 2020: +13k). The IPTV customer base declined by 1k q-on-q in Q2 2020. This sequential improvement was the result of an improved commercial strategy on fiber, focused marketing campaigns and a successful SuperWiFi proposition. Also, we see that customers value the quality and stability of our network, especially in the current COVID-crisis, resulting in lower churn. KPN also introduced a new sustainable modem supporting WiFi 6 to enhance customer experience. Fixed ARPU increased 5.0% y-on-y to € 48 in Q2 2020, mainly driven by price adjustments effective 1 June 2019, higher inflow ARPU following the integration of Telfort and a declining customer base for PSTN and Digitenne services. KPN announced a price increase for its Fixed propositions of 2.6% effective 1 July 2020, in line with inflation over 2019.

Postpaid net adds were -1k in Q2 2020, which improved sequentially driven by strong take-up of the Unlimited mobile data proposition and solid performance of the new Simyo lineup. Postpaid ARPU remained at € 17 sequentially for the sixth consecutive quarter (-3.8% y-on-y). Inflow ARPU grew following the integration of Telfort and higher demand for the Unlimited mobile data bundle. Lower roaming revenues due to COVID-19 had a negative effect on postpaid ARPU in Q2 2020 but was partly off-set by higher national usage. The y-on-y effect of roaming is expected to be significantly higher in Q3 2020, due to the summer holiday season.

<sup>3</sup> Excluding correction for 7k in Q2 2020 in relation to migrations to, and new customers of, small business proposition

<sup>4</sup> Corrected for migrations to, and new customers of, small business proposition (7k in Q2 2020, 6k in Q1 2020)



27 July 2020

In Q2 2020, Consumer NPS was +15 (Q2 2019: +13). KPN is highly valued for its best-in-class network, converged services, and its fiber strategy. The fiber propositions of XS4ALL and KPN were rated highest by Dutch customers as shown by recent research from the Dutch Consumers' Association.

Impact of COVID-19 in the second quarter was mainly visible by lower handset sales and lower roaming revenues. This was partly offset by increased fixed and national mobile traffic and cost savings due to less personnel in shops and fewer field engineers. All KPN shops have reopened as of 15 June 2020 with safety precautions. House calls by field engineers were limited as much as possible and most requests were handled digitally by the newly introduced remote engineer. Retail employees supported customer service call centers to increase capacity. Free TV channels for Consumer customers were offered since the last week of March until 1 June 2020. All these measures reflect KPN's operational flexibility and its commitment to prioritizing customer value.

## H1 2020

Adjusted revenues declined 2.2% y-on-y, fully driven by lower mobile revenues. Fixed revenues increased 0.2% y-on-y, mainly driven by successful SuperWiFi sales. Mobile service revenues declined 6.0% y-on-y, mainly driven by lower ARPU.

Adjusted EBITDA after leases was in line with last year (+0.3%) as the effect of lower revenues was fully offset by lower COGS as a result of lower handset sales and solid cost control driven by lower IT/TI expenses and lower marketing and personnel expenses.

## Business

Segment financials (unaudited) (in € m, unless stated otherwise)	Q2 2019	Q2 2020	Δ y-on-y	Δ y-on-y excl. divestments*	H1 2019	H1 2020	Δ y-on-y	Δ y-on-y excl. divestments*
Communication Services	322	278	-14%	-12%	648	566	-13%	-11%
IT Services (a.o. security, cloud, workspace)	67	67	0.0%	+2.3%	134	134	+0.3%	+2.6%
Professional Services	96	105	+9.0%		189	210	+11%	
KPN Consulting	21	-	-100%	n.m.	41	17	-58%	-16%
Other	1	-	-33%		1	2	-25%	
<b>Adjusted revenues</b>	<b>507</b>	<b>451</b>	<b>-11%</b>	<b>-5.7%</b>	<b>1,013</b>	<b>929</b>	<b>-8.3%</b>	<b>-4.8%</b>
Adjusted EBITDA after leases					497	440	-11%	-8.5%
As % of adjusted segment revenues					49.1%	47.4%		
<b>Total Business NPS</b>	<b>+1</b>	<b>+2</b>	<b>+1</b>					
<b>Migrations</b>								
SME customers					59%	84%		
LE customers					33%	72%		

\* Q2 and H1 2019 corrected for impact of divestments to be found on page 14

Key strategic focus for the Business segment is value-over-volume, a strategy designed to leverage KPN's leading market positions, high-quality brand perception, and solid reputation to develop more profitable revenues in the years to come. Part of this strategy is an emphasis on a future-proof, simplified product portfolio. As of end Q2 2020, KPN has reduced its Business product portfolio by 37% since the beginning of 2019, well on track to reach its target of 50% portfolio rationalization by end 2021. The focus is on providing standardized, modular and converged propositions that combine network, ICT and security services.

## Q2 2020

Adjusted revenues decreased 5.7% y-on-y corrected for impact of divestments (-11% y-on-y without correction), fully driven by lower revenues from Communication Services, partially offset by higher revenues from Professional Services and IT Services.

Adjusted revenues from Communication Services decreased 12% y-on-y corrected for impact of divestments (-14% without correction). This was impacted by lower roaming revenues, lower revenues from public WiFi hotspots, and delayed IT projects due to COVID-19, and planned strategic actions, such as the migrations from traditional technology to the future-proof portfolio.

Adjusted revenues from IT Services increased 2.3% y-on-y corrected for impact of divestments (flat without correction), mainly driven by Security and Workspace Services. Adjusted revenues from Professional Services increased 9.0% y-on-y (no impact from divestments), mainly driven by more project related work.

ISDN 2 has been fully decommissioned end of June 2020. A large part of KPN's Business customers have now switched to a future-proof alternative such as KPN EEN, KPN Kleinzakelijk (small business proposition), or KPN Smart Combinations. 84% of SME customers (Q1 2020: 82%) and 72% of LE customers (Q1 2020: 62%) eligible for migration have migrated from traditional fixed voice or legacy broadband services. These migrations improve customer loyalty as the new propositions improve customer experience. Business NPS was +2 (Q2 2019: +1) driven by improved scores at SME and LCE customers. KPN is mainly valued for network quality and reliability.

27 July 2020

Impact of COVID-19 in the second quarter was mainly visible in lower revenues from roaming due to less travel, network services (WiFi hotspots), and IT projects. Migrations that require physical access to offices were postponed. These effects were partly offset by increased demand for Security and Workspace Services in the (semi) public sector and additional realized cost savings on FTEs. KPN also provided free support to help manage this crisis for the Netherlands. This included free conference calling until 1 May, content and support on working from home, free security and digitization advice towards healthcare. For our KPN EEN SME and Corporate customers, KPN dropped out-of-bundle costs until end of April 2020. KPN saw a limited impact from requests for extended payment terms in Q2 2020. This situation could change as soon as the Dutch government decides to phase out its COVID-19 support packages in the second half of 2020.

## H1 2020

Adjusted revenues for the Business segment decreased 4.8% y-on-y corrected for impact of divestments (-8.3% y-on-y without correction) driven by lower revenues from Communication Services.

Lower Business revenues were only partly offset by cost savings, mainly driven by 11% lower personnel expenses. Adjusted EBITDA after leases declined 8.5% y-on-y corrected for impact of divestments (-11% y-on-y without correction). Due to COVID-19 impact, KPN expects B2B end-to-end adjusted EBITDA after leases to stabilize during 2021 based on current estimates.

## Wholesale

Segment financials (unaudited) (in € m, unless stated otherwise)	Q2 2019	Q2 2020	Δ y-on-y	Δ y-on-y excl. divestments*	H1 2019	H1 2020	Δ y-on-y	Δ y-on-y excl. divestments*
Fixed revenues	125	115	-8.0%	+1.5%	249	233	-6.4%	+3.1%
Mobile service revenues	34	34	-0.5%		68	69	+1.3%	
<b>Adjusted revenues</b>	<b>159</b>	<b>149</b>	<b>-6.3%</b>	<b>+1.2%</b>	<b>316</b>	<b>302</b>	<b>-4.3%</b>	<b>+3.2%</b>
Adjusted EBITDA after leases					238	245	+2.8%	+5.9%
As % of adjusted segment revenues					75.6%	81.2%		
<b># Customers (k)</b>								
Fixed					1,019	1,073	+54	
Mobile Postpaid					347	396	+49	
Mobile Prepaid					425	362	-62	
Mobile total					772	758	-13	

\* Q2 and H1 2019 corrected for impact of divestments to be found on page 14

Following the CBB court ruling on wholesale fixed access regulation, KPN has reconfirmed its open wholesale policy based on its voluntary offer for ODF, WBA and VULA and the long-term contracts it has in place with several parties. KPN believes the open wholesale policy is in line with the symmetrical access policy outlined in the European Electronic Communications Code.

## Q2 2020

Adjusted revenues increased 1.2% y-on-y corrected for impact of divestments (decreased 6.3% y-on-y without this correction, mainly driven by € 12m negative impact from the sale of NLDC). Mobile service revenues were broadly flat, despite lower roaming revenues due to COVID-19. Fixed revenues increased 1.5% corrected for impact of divestments (decreased 8.0% y-on-y without this correction) driven by growth in KPN's future-proof portfolio. Wholesale added +16k broadband lines in Q2 2020. The sum of total broadband net adds between Consumer and Wholesale increased 13k<sup>5</sup> in Q2 2020, which improved sequentially. During the quarter, KPN reconfirmed its partnership with Youfone by signing a new 5-year MVNO contract.

Impact of COVID-19 was mainly visible in lower revenues from roaming and WeChat Go in mobile and a slowdown of growth in broadband lines.

## H1 2020

Adjusted revenues increased 3.2% y-on-y corrected for impact of divestments driven by increased fixed and mobile revenues (decreased 4.3% y-on-y, without this correction mainly driven by € 23m negative impact from the sale of NLDC).

Adjusted EBITDA after leases increased 5.9% y-on-y corrected for the impact of divestments (+2.8% without this correction). Higher revenues were further supported by strong cost control, driven by lower costs for housing & facilities and lower personnel expenses. Adjusted EBITDA AL margin increased to 81.2%, compared to 75.6% in H1 2019.

<sup>5</sup> Corrected for migrations to, and new customers of, small business proposition (7k in Q2 2020)

## Network, Operations & IT

Segment financials (unaudited) (in € m, unless stated otherwise)	H1 2019	H1 2020	Δ y-on-y
<b>Adjusted operating expenses after leases</b>	379	344	-9.3%
<i>As % of adjusted Group revenues</i>	13.9%	13.1%	
FttH households own roll-out (k)	2,384	2,599	+216
FttH households 3rd party access (k)	34	57	+23
<b>FttH households total (k)</b>	<b>2,418</b>	<b>2,656</b>	<b>+239</b>
Mobile sites modernized (#)	n.a.	1,490	n.a.
Legacy lines to be migrated (k)	~400	~80	~320

Key strategic priority for the Network, Operations & IT segment is building the best converged smart infrastructure through accelerating the roll-out of fiber, fully modernizing the mobile network, and moving to all-IP. In addition, KPN will enable innovative technologies and accelerate the simplification of its operating model in the coming years.

### Q2 2020

In the quarter, KPN showed a strong ramp-up in its fiber roll out by adding organically 70k households to its base (>20% increase vs. Q1 2020). KPN is currently starting its fiber roll-out in the 3 largest cities of the Netherlands: Amsterdam, Rotterdam and The Hague. In July, KPN successfully tested symmetrical up and download speeds exceeding 8Gbps in a residential area. During the quarter, KPN acquired ~6,500 homes passed. This was a good opportunity to enlarge our fiber footprint at value creating terms. The fiber roll-out was not materially impacted by COVID-19 measures as no total lockdown was imposed in the Netherlands. KPN is working with its main contractors to protect the 3,000 jobs involved in our fiber roll-out and maintain the expertise around network build-out in the Netherlands. Due to changing dynamics in the Dutch construction market, KPN is contracting long-term construction capacity to safeguard our roll out plans.

While the speed of the mobile network modernization was somewhat impacted by COVID-19, KPN upgraded approximately 560 sites with the latest mobile RAN equipment in the quarter, totaling ~1,490 modernized sites to date. This led to improved download speeds and an improvement of the energy efficiency of KPN's mobile network. The upgrade of fiber-to-the-site to 10Gbps is on track with 88% of sites now connected to fiber.

KPN made solid progress in the digital transformation program by shutting down 3 data centers and terminating ~50 applications, resulting in structural cost savings. As of end of the quarter, approximately 80k legacy lines are left to be migrated to IP-based infrastructure. Also, we are currently migrating customers to our new OSS, reducing the lead time of new broadband customers and strongly improving the customer journey.

### H1 2020

Adjusted operating expenses after leases declined 9.3% y-on-y, mainly driven by lower personnel expenses (-16% y-on-y) and IT/TI expenses (-6.4% y-on-y). This was mainly the result of network simplification, IT rationalization, and contract renegotiations with suppliers.

## Analysis of adjusted results Q2 and H1 2020

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

Revenues (in € m)	Q2 2019	Q2 2020	Δ y-on-y	H1 2019	H1 2020	Δ y-on-y
Consumer	722	706	-2.2%	1,450	1,418	-2.2%
Business	507	462	-8.8%	1,013	941	-7.1%
Wholesale	159	149	-6.3%	316	302	-4.3%
Network, Operations & IT	1	1	-5.3%	3	3	-7.3%
Other (incl. eliminations)	-30	-15	-50%	-61	-30	-51%
<b>Total revenues</b>	<b>1,359</b>	<b>1,304</b>	<b>-4.1%</b>	<b>2,721</b>	<b>2,633</b>	<b>-3.2%</b>
<b>Revenues incidentals</b>						
Consumer	-	-		-	-	
Business	-	11		-	11	
Wholesale	-	-		-	-	
Network, Operations & IT	-	-		-	-	
Other (incl. eliminations)	-	-		-	-	
<b>Total revenues incidentals</b>	<b>-</b>	<b>11</b>		<b>-</b>	<b>11</b>	
Consumer	722	706	-2.2%	1,450	1,418	-2.2%
Business	507	451	-11%	1,013	929	-8.3%
Wholesale	159	149	-6.3%	316	302	-4.3%
Network, Operations & IT	1	1	-5.3%	3	3	-7.3%
Other (incl. eliminations)	-30	-15	-50%	-61	-30	-51%
<b>Total adjusted revenues</b>	<b>1,359</b>	<b>1,292</b>	<b>-4.9%</b>	<b>2,721</b>	<b>2,622</b>	<b>-3.6%</b>

The following table specifies the revenue incidental in more detail:

Revenue incidentals (in € m)	Segment	Q2 2019	Q2 2020	H1 2019	H1 2020
Book gain on sale of KPN Consulting	Business	-	11	-	11
<b>Total revenue incidentals</b>		<b>-</b>	<b>11</b>	<b>-</b>	<b>11</b>

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

(in € m)	Q2 2019	Q2 2020	Δ y-on-y	H1 2019	H1 2020	Δ y-on-y
<b>EBITDA</b>	<b>602</b>	<b>627</b>	<b>+4.2%</b>	<b>1,172</b>	<b>1,231</b>	<b>+5.1%</b>
Incidentals	-	-11		-	-11	
Restructuring	34	8	-77%	70	18	-75%
<b>Lease-related expenses</b>						
Depreciation right-of-use asset	-35	-33	-5.9%	-70	-66	-5.5%
Interest lease liabilities	-7	-5	-24%	-15	-11	-24%
<b>Adjusted EBITDA after leases</b>	<b>594</b>	<b>585</b>	<b>-1.5%</b>	<b>1,157</b>	<b>1,160</b>	<b>+0.3%</b>

The following table specifies the EBITDA incidental in more detail:

EBITDA incidentals (in € m)	Category	Q2 2019	Q2 2020	H1 2019	H1 2020
Book gain on sale of KPN Consulting	Revenues	-	11	-	11
<b>Total EBITDA incidentals</b>		<b>-</b>	<b>11</b>	<b>-</b>	<b>11</b>

27 July 2020

The following table shows the reconciliation between segment adjusted EBITDA after leases and Group Adjusted EBITDA after leases:

Adjusted EBITDA after leases per segment (in € m)	H1 2019	H1 2020	Δ y-on-y
Consumer	937	940	+0.3%
Business	497	440	-11%
Wholesale	238	245	+2.8%
Network, Operations & IT	-376	-341	-9.3%
Other (incl. eliminations)	-140	-124	-11%
<b>Total adjusted EBITDA after leases</b>	<b>1,157</b>	<b>1,160</b>	<b>+0.3%</b>

## Q2 and H1 2019 corrected for impact of divestments

The following table shows the estimated adjustments of Q2 2019 results for the combined impact of completed divestments of NLDC (3 months), International Network Services (3 months), Argeweb (3 months), and KPN Consulting (3 months) as if the actual transfer of shares (closing) had taken place 12 months earlier:

Group financials (unaudited) (in € m, unless stated otherwise)	Q2 2019	Impact Divestments	Q2 2019 excl. divestments	Q2 2020	Δ y-on-y excl. divestments
Consumer	722	-	722	706	
Business	507	-29	478	451	-5.7%
Wholesale	159	-12	147	149	+1.2%
Network, Operations & IT	1	-	1	1	
Other (incl. eliminations)	-30	14	-16	-15	-6.5%
<b>Adjusted revenues</b>	<b>1,359</b>	<b>-26</b>	<b>1,333</b>	<b>1,292</b>	<b>-3.0%</b>
Service revenues	1,274	-26	1,248	1,206	-3.4%
Non-service revenues & other	85	-	85	87	
Cost of goods & services (direct opex)	302	3	305	297	-2.6%
Personnel expenses	252	-12	241	220	-8.5%
IT/TI	91	-3	88	83	-6.5%
Other operating expenses	77	-3	74	69	-7.8%
Lease-related expenses	42	-3	39	38	-2.5%
Incidentals	-	-	-	-	
Restructuring	34	-	34	8	
<b>Adjusted indirect opex after leases</b>	<b>463</b>	<b>-20</b>	<b>443</b>	<b>410</b>	<b>-7.5%</b>
<b>Adjusted EBITDA after leases</b>	<b>594</b>	<b>-9</b>	<b>585</b>	<b>585</b>	<b>+0.1%</b>
<b>Operational free cash flow</b>	<b>324</b>	<b>-8</b>	<b>317</b>	<b>291</b>	<b>-8.2%</b>
<b>Free cash flow (excl. TEFD dividend)</b>	<b>147</b>	<b>4</b>	<b>151</b>	<b>177</b>	<b>+17%</b>

The following table shows the estimated adjustments of H1 2019 results for the combined impact of completed divestments of NLDC (6 months), International Network Services (6 months), Argeweb (6 months), and KPN Consulting (3 months) as if the actual transfer of shares (closing) had taken place 12 months earlier:

Group financials (unaudited) (in € m, unless stated otherwise)	H1 2019	Impact Divestments	H1 2019 excl. divestments	H1 2020	Δ y-on-y excl. divestments
Consumer	1,450	-	1,450	1,418	
Business	1,013	-37	976	929	-4.8%
Wholesale	316	-23	293	302	+3.2%
Network, Operations & IT	3	-	3	3	
Other (incl. eliminations)	-61	26	-35	-30	-14%
<b>Adjusted revenues</b>	<b>2,721</b>	<b>-33</b>	<b>2,687</b>	<b>2,622</b>	<b>-2.4%</b>
Service revenues	2,539	-33	2,506	2,440	-2.6%
Non-service revenues & other	181	-	181	182	
Cost of goods & services (direct opex)	611	13	624	612	-1.9%
Personnel expenses	529	-14	515	466	-9.4%
IT/TI	184	-6	178	164	-7.9%
Other operating expenses	154	-6	149	141	-4.9%
Lease-related expenses	85	-6	79	77	-1.9%
Incidentals	-	-	-	-	
Restructuring	70	-	70	18	
<b>Adjusted indirect opex after leases</b>	<b>952</b>	<b>-32</b>	<b>920</b>	<b>849</b>	<b>-7.8%</b>
<b>Adjusted EBITDA after leases</b>	<b>1,157</b>	<b>-15</b>	<b>1,142</b>	<b>1,160</b>	<b>+1.6%</b>
<b>Operational free cash flow</b>	<b>626</b>	<b>-12</b>	<b>614</b>	<b>588</b>	<b>-4.3%</b>
<b>Free cash flow (excl. TEFD dividend)</b>	<b>216</b>	<b>-</b>	<b>216</b>	<b>257</b>	<b>+19%</b>

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

**For further information:****Media Relations**

Tel: +31 70 446 6300

E-mail: [press@kpn.com](mailto:press@kpn.com)

**Investor Relations**

Tel: +31 70 446 0986

[ir.kpn.com](https://ir.kpn.com)

**Formal disclosures:****Royal KPN N.V.**

Head of IR: Biseria Grubescic

Inside information: No

Topic: Q2 and H1 2020 Results

27/07/2020; 7:30h

**Safe harbor****Alternative performance measures and management estimates**

*This financial report contains a number of alternative performance measures (non-GAAP figures) to provide readers with additional financial information that is regularly reviewed by management, such as EBITDA and Free Cash Flow ('FCF'). These non-GAAP figures should not be viewed as a substitute for KPN's GAAP figures and are not uniformly defined by all companies including KPN's peers. Numerical reconciliations are included in KPN's quarterly factsheets and in the Integrated Annual Report 2019. KPN's management considers these non-GAAP figures, combined with GAAP performance measures and in conjunction with each other, most appropriate to measure the performance of the Group and its segments. The non-GAAP figures are used by management for planning, reporting (internal and external) and incentive purposes. KPN's main alternative performance measures are listed below. The figures shown in this financial report are based on continuing operations and were rounded in accordance with standard business principles. As a result, totals indicated may not be equal to the precise sum of the individual figures.*

*Financial information is based on KPN's interpretation of IFRS as adopted by the European Union as disclosed in the Integrated Annual Report 2019 and do not take into account the impact of future IFRS standards or interpretations. Note that certain definitions used by KPN in this report deviate from the literal definition thereof and should not be considered in isolation or as a substitute for analyses of the results as reported under IFRS as adopted by the European Union. KPN defines revenues as the total of revenues and other income. Adjusted revenues are derived from revenues (including other income) and are adjusted for the impact of incidentals. KPN defines EBITDA as operating result before depreciation (including impairments) of PP&E and amortization (including impairments) of intangible assets. Adjusted EBITDA after leases ('adjusted EBITDA AL') are derived from EBITDA and are adjusted for the impact of restructuring costs and incidentals ('adjusted') and for lease costs, including depreciation of right-of-use assets and interest on lease liabilities ('after leases' or 'AL'). KPN defines Gross Debt as the nominal value of interest-bearing financial liabilities representing the net repayment obligations in Euro, excluding derivatives, related collateral, and leases, taking into account 50% of the nominal value of the hybrid capital instruments. In its Leverage Ratio, KPN defines Net Debt as Gross Debt less net cash and short-term investments, divided by 12 month rolling adjusted EBITDA AL excluding major changes in the composition of the Group (acquisitions and disposals). The Lease adjusted leverage ratio is calculated as Net Debt including lease liabilities divided by 12 month rolling adjusted EBITDA AL excluding major changes in the composition of the Group (acquisitions and disposals). Operational free cash flow is defined as adjusted EBITDA AL minus capital expenditures (Capex) being expenditures on PP&E and software. Free Cash Flow ('FCF') is defined as cash flow from continuing operating activities plus proceeds from real estate, minus Capex. Return on capital employed (ROCE) is calculated by the net operating profit less adjustments for taxes divided by capital employed, on a 4-quarter rolling basis. Net operating profit is the adjusted EBITA (excluding incidentals and amortization of other intangibles, and excluding restructuring costs). KPN defines capital employed as the carrying amount of operating assets and liabilities, which excludes goodwill and other intangibles.*

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

**Forward-looking statements**

*Certain statements contained in this financial report constitute forward-looking statements. These statements may include, without limitation, statements concerning future results of operations, the impact of regulatory initiatives on KPN's operations, KPN's and its joint ventures' share of new and existing markets, general industry and macro-economic trends and KPN's performance relative thereto and statements preceded by, followed by or including the words "believes", "expects", "anticipates", "will", "may", "could", "should", "intends", "estimate", "plan", "goal", "target", "aim" or similar expressions. These forward-looking statements rely on a number of assumptions concerning future events and are subject to uncertainties and other factors, many of which are outside KPN's control that could cause actual results to differ materially from such statements. A number of these factors are described (not exhaustively) in the Integrated Annual Report 2019. All forward-looking statements and ambitions stated in this financial report that refer to a growth or decline, refer to such growth or decline relative to the situation per 31 December 2019, unless stated otherwise.*

**Additional information regarding estimated impact of divestments on Q2 and H1 2019 financial figures**

*KPN's Q2 2020 Press Release and Q2 2020 Analyst Presentation include additional information regarding the estimated impact of divestments on the Q2 and H1 2019 comparative financial figures for revenues, adjusted EBITDA AL, operational free cash flow and FCF, as KPN's Board of Management deems it important to provide readers with additional information on the financial impact of the following divestments: NLDC, International Network Services, Argeweb, and KPN Consulting.*

*The impact of divestments as mentioned represents the estimated financial impact (transfer of revenues, addition of COGS and transfer of indirect costs) of the combined completed divestments as if the actual transfer of shares (closing) had taken place 12 months earlier. This information has been included for comparison reasons only and is not considered to be an alternative performance measure. Please note that the financial impact of divestments is based on management estimates, which have not and will not be audited.*