

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)¹; 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 environment²

- 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 ² excl. divestments	H1 2019	H1 2020	Δ y-on-y	Δ y-on-y ² 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%		

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

² 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).

Estimated financial net effect COVID-19 Group level	H1 2020 net effect
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.

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
Achievements H1 2020	+1.6% growth y-on-y	€ 563m	€ 266m	€ 4.3 cents interim dividend
Outlook 2020	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%	
Adjusted revenues	1,359	1,292	-4.9%	-3.0%	2,721	2,622	-3.6%	-2.4%
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%
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%	
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		
Credit ratings					Rating	Outlook		
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

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

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

# FTE own personnel by segment at the end of the period (unaudited)	H1 2019	H1 2020	Δ y-on-y	Δ y-on-y
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%
KPN Group	11,955	10,224	-1,731	-14%

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.

	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

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%	
Adjusted revenues	722	706	-2.2%	1,450	1,418	-2.2%	
Adjusted EBITDA after leases				937	940	+0.3%	
<i>As % of adjusted segment revenues</i>				64.6%	66.3%		
Total Consumer NPS	+13	+15	+2				
Total Consumer Convergence NPS	+23	+26	+3				
Convergence KPIs							
Fixed-Mobile households (k)				1,399	1,387	-12	+3
<i>Fixed-Mobile penetration as % of broadband base</i>				48%	49%		
Fixed-mobile postpaid # SIMs (k)				2,230	2,263	+33	+30
<i>Fixed-mobile penetration as % of postpaid base (all brands)</i>				62%	63%		
Fixed KPIs							
Total Fixed households (k)				3,332	3,153	-178	-35
Total broadband base (k)				2,896	2,812	-83	-10 ³
Fixed ARPU (€)				46	48	+5.0%	
Mobile KPIs							
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)⁴, 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 Digtente 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.

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

⁴ 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%	
Adjusted revenues	507	451	-11%	-5.7%	1,013	929	-8.3%	-4.8%
Adjusted EBITDA after leases					497	440	-11%	-8.5%
<i>As % of adjusted segment revenues</i>					49.1%	47.4%		
Total Business NPS	+1	+2	+1					
Migrations								
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 advise 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%	
Adjusted revenues	159	149	-6.3%	+1.2%	316	302	-4.3%	+3.2%
Adjusted EBITDA after leases					238	245	+2.8%	+5.9%
<i>As % of adjusted segment revenues</i>					75.6%	81.2%		
# Customers (k)								
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 13k⁵ 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.

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

Network, Operations & IT

Segment financials (unaudited) <i>(in € m, unless stated otherwise)</i>	H1 2019	H1 2020	Δ y-on-y
Adjusted operating expenses after leases	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
FttH households total (k)	2,418	2,656	+239
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%
Total revenues	1,359	1,304	-4.1%	2,721	2,633	-3.2%
Revenues incidentals						
Consumer	-	-		-	-	
Business	-	11		-	11	
Wholesale	-	-		-	-	
Network, Operations & IT	-	-		-	-	
Other (incl. eliminations)	-	-		-	-	
Total revenues incidentals	-	11		-	11	
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%
Total adjusted revenues	1,359	1,292	-4.9%	2,721	2,622	-3.6%

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
Total revenue incidentals		-	11	-	11

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
EBITDA	602	627	+4.2%	1,172	1,231	+5.1%
Incidentals	-	-11		-	-11	
Restructuring	34	8	-77%	70	18	-75%
Lease-related expenses						
Depreciation right-of-use asset	-35	-33	-5.9%	-70	-66	-5.5%
Interest lease liabilities	-7	-5	-24%	-15	-11	-24%
Adjusted EBITDA after leases	594	585	-1.5%	1,157	1,160	+0.3%

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
Total EBITDA incidentals		-	11	-	11

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%
Total adjusted EBITDA after leases	1,157	1,160	+0.3%

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%
Adjusted revenues	1,359	-26	1,333	1,292	-3.0%
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	
Adjusted indirect opex after leases	463	-20	443	410	-7.5%
Adjusted EBITDA after leases	594	-9	585	585	+0.1%
Operational free cash flow	324	-8	317	291	-8.2%
Free cash flow (excl. TEFD dividend)	147	4	151	177	+17%

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%
Adjusted revenues	2,721	-33	2,687	2,622	-2.4%
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	
Adjusted indirect opex after leases	952	-32	920	849	-7.8%
Adjusted EBITDA after leases	1,157	-15	1,142	1,160	+1.6%
Operational free cash flow	626	-12	614	588	-4.3%
Free cash flow (excl. TEFD dividend)	216	-	216	257	+19%

All related documents can be found on KPN's website: ir.kpn.com

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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.

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.