

KPN reports solid Q3 results and is on track to reach 2020 outlook; sees fiber and mobile uptake accelerating

- Adjusted EBITDA after leases +1.3% y-on-y and FCF +7.3% y-on-y¹
- Continued strong progress on cost savings program in Q3 (€ 44m), € 256m since start of the program, on track to exceed cost savings target
- Postpaid base back to growth, strong fiber uptake fuels stabilizing broadband base
- Limited impact from COVID-19: revenue pressure mostly offset by cost control
- Robust balance sheet and liquidity position; successful senior bond issuance lowering average cost of debt
- More specific 2020 outlook; expect adj. EBITDA AL of ~€ 2,320m and FCF of ~€ 750m
- Strategy update planned on 24 November 2020

Message from the CEO, Joost Farwerck

“In Q3 we saw encouraging base developments in the Consumer segment. Our mobile postpaid base witnessed a level of growth last seen in 2017 and a strong inflow of fiber consumers supported the stabilization of our broadband base. We connected an increasing number of households to fiber and we see growing demand for this best-in-class connection.

In the Business segment, we are on track to migrate our SME and LCE customers to a future-proof proposition but face additional revenue headwinds due to COVID-19. In July we activated our 5G network - a milestone that holds the promise of new applications in industries such as health care and mobility. The Wholesale segment continues to show solid results based on our open network policy.

KPN plays a crucial role in keeping Dutch society connected and we continue to closely monitor COVID-19 developments. We have confidence in our ability to adjust our cost base in line with developing economic circumstances. We are proud of the flexibility and resilience of our employees who continue to deliver service to all our customers in these challenging times.

We have both a strong balance sheet and liquidity position, and with a solid set of results in the third quarter, we continue to execute on our strategy as planned. As such, we are able to give a more specific full-year outlook and expect adjusted EBITDA AL to land within the upper end of the range. We look forward to provide you with a strategy update at the end of November.”

Key figures

| Group financials (unaudited) (in € m, unless stated otherwise) | Q3 2019 | Q3 2020 | Δ y-on-y | Δ y-on-y excl. divestments | YTD 2019 | YTD 2020 | Δ y-on-y | Δ y-on-y excl. divestments |
|---|---------|---------|----------|-------------------------------|----------|----------|----------|-------------------------------|
| Adjusted revenues | 1,372 | 1,299 | -5.4% | -3.7% | 4,093 | 3,920 | -4.2% | -2.9% |
| Adjusted EBITDA after leases | 599 | 598 | -0.1% | +1.3% | 1,756 | 1,759 | +0.2% | +1.5% |
| As % of adjusted revenues | 43.6% | 46.1% | | | 42.9% | 44.9% | | |
| Operating profit (EBIT) | 429 | 240 | -44% | | 839 | 690 | -18% | |
| Net profit | 314 | 132 | -58% | | 530 | 386 | -27% | |
| Capex | 262 | 286 | +9.3% | | 793 | 859 | +8.3% | |
| Capex as % of adjusted revenues | 19.1% | 22.1% | | | 19.4% | 21.9% | | |
| Operational free cash flow | 337 | 312 | -7.3% | -6.0% | 963 | 900 | -6.5% | -4.9% |
| As % of adjusted revenues | 24.5% | 24.0% | | | 23.5% | 23.0% | | |
| Free cash flow (excluding TEFD dividend) | 226 | 241 | +6.6% | +7.3% | 442 | 498 | +13% | +13% |
| As % of adjusted revenues | 16.5% | 18.6% | | | 10.8% | 12.7% | | |
| Cash & short-term investments | | | | | 615 | 792 | | |

¹ Year-on-year trend corrected for impact of divestments

Improving operational performance

- **Consumer** net adds trend improved
 - Fixed: +27k fiber net adds (Q2 2020: +17k), -4k total broadband net adds (Q2 2020: -3k)²; ARPU increased 3.6% y-on-y to € 49
 - Mobile: +9k postpaid net adds (Q2 2020: -1k); postpaid ARPU stable for 7th consecutive quarter at € 17 (-3.5% y-on-y)
 - Convergence: -4k fixed-mobile households (Q2 2020: +3k), 49% of broadband base; +2k fixed-mobile postpaid customers (Q2 2020: +30k), 63% of postpaid base
 - Consumer NPS of +12 (Q3 2019: +18), decline driven by IPTV interface changes and COVID-19
- **Business** customer migrations on track
 - 86% of eligible SME and 75% of eligible LE customers have migrated from traditional fixed voice and legacy broadband services
 - NPS stable at -1 (Q3 2019: -1)
- **Wholesale** added 22k broadband lines (Q2 2020: +16k) and 23k postpaid SIMs (Q2 2020: +14k)
- **Network** continued ramping up fiber roll-out: added 73k FttH households, 326k since start in January 2019; ~720 mobile network sites were upgraded in the quarter, ~2,210 since September 2019; 5G network activated in July
- Strong and disciplined **cost control** resulted in net indirect opex savings of € 44m in the quarter, € 256m since the start of the program in 2019; well on track to exceed ~€ 350m target

Robust financial performance

- Q3 2020 **adjusted revenues** declined 3.7% y-on-y corrected for impact of divestments (-5.4% y-on-y without correction); Growth in Wholesale was offset by lower revenues from Consumer and Business. YTD 2020 adjusted revenues declined 2.9% y-on-y corrected for impact of divestments (-4.2% y-on-y without correction)
- Q3 2020 **adjusted EBITDA after leases** increased 1.3% y-on-y corrected for impact of divestments (-0.1% y-on-y without correction). The effect of lower revenues was offset by strong and disciplined cost control. Adj. EBITDA AL margin increased further to 46.1% (43.6% Q3 2019). The estimated net effect of COVID-19 on Q3 2020 adj. EBITDA AL was ~€ 3-5m negative. YTD 2020 adjusted EBITDA AL increased 1.5% y-on-y corrected for impact of divestments (+0.2% y-on-y without correction)
- Q3 2020 **net profit** of € 132m, € 182m lower y-on-y, as Q3 2019 was supported by a € 171m book gain from the sale of NLDC and € 20m release of a revenue related provision in Wholesale. Excluding these incidentals, net profit would have increased ~€ 4m net of tax. Excluding incidentals, YTD 2020 net profit of € 375m was ~€ 31m higher y-on-y net of tax
- **Capex** of € 286m in Q3 2020. YTD 2020 Capex increased € 66m y-on-y to € 859m driven by different intra-year phasing due to accelerated FttH roll-out and mobile network modernization
- Q3 2020 **operational free cash flow** of € 312m declined 6.0% y-on-y corrected for impact of divestments (-7.3% y-on-y without correction), and YTD 2020 operational free cash flow declined 4.9% y-on-y corrected for impact of divestments (-6.5% y-on-y without correction), due to Capex phasing
- Q3 2020 **free cash flow** increased to € 241m (+7.3% y-on-y corrected for impact of divestments, +6.6% y-on-y without correction). YTD 2020 FCF increased 13% y-on-y corrected for impact of divestments to € 498m (+13% y-on-y without correction)
- Strong **liquidity** of € 2.0bn at the end of Q3 2020, consisted of € 792m cash and cash equivalents and € 1.25bn undrawn revolving credit facility

More specific 2020 outlook

In the first nine months of 2020, KPN has remained fully on track with the execution of its strategy whilst maintaining a robust liquidity position. KPN continues to commit to its FY 2020 outlook as provided in January 2020 and specifies its expectations:

KPN now expects adjusted EBITDA AL of approximately € 2,320m, Capex to be maintained at € 1.1bn, and Free Cash Flow of approximately € 750m. 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 was paid on 4 August 2020.

| | Adjusted EBITDA AL | Capex | Free Cash Flow | Regular DPS |
|---------------------|--------------------|---------|----------------|------------------|
| Achievements | € 1,759m | € 859m | € 498m | € 4.3 cents |
| YTD 2020 | (2019: € 1,733m) | | (2019: € 442m) | interim dividend |
| Outlook 2020 | ~€ 2,320m* | € 1.1bn | ~€ 750m** | € 13.0 cents |
| | (2019: € 2,287m) | | (2019: € 718m) | |

* Previous outlook: "Stable to slightly growing compared to 2019"

** Previous outlook: "At least mid-single digit percentage growth compared to 2019"

KPN's 2020 outlook is based on a comparable basis corrected for divestments. The historical comparable basis figures are established using management estimates and are not audited. KPN's 2020 Capex and FCF outlook includes the acquisition Capex related to discretionary FttH M&A opportunities classifying as Capex.

² Corrected for migrations to, and new customers of, small business proposition (5k in Q3 2020, 7k in Q2 2020, 6k in Q1 2020)

Financial review KPN Group Q3 and YTD 2020

Market environment

Competitive activity continued in the fixed broadband market, with three operators focusing on converged customers and competition from local fiber operators in rural areas. In the mobile market competition has shifted from entry-level propositions towards the premium segment with all operators now offering unlimited data.

Key financial metrics

| Group financials (unaudited) (in € m, unless stated otherwise) | Q3 2019 | Q3 2020 | Δ y-on-y | Δ y-on-y excl. divestments* | YTD 2019 | YTD 2020 | Δ y-on-y | Δ y-on-y excl. divestments* |
|---|--------------|--------------|--------------|--------------------------------|--------------|--------------|--------------|--------------------------------|
| Service revenues | 1,280 | 1,210 | -5.4% | -3.7% | 3,819 | 3,650 | -4.4% | -3.0% |
| Non-service revenues & other | 92 | 88 | -4.3% | | 274 | 270 | -1.2% | |
| Adjusted revenues | 1,372 | 1,299 | -5.4% | -3.7% | 4,093 | 3,920 | -4.2% | -2.9% |
| Cost of goods & services | 328 | 317 | -3.3% | -4.4% | 939 | 929 | -1.1% | -2.8% |
| Personnel expenses | 244 | 197 | -19% | -15% | 773 | 663 | -14% | -11% |
| IT/IT | 85 | 75 | -12% | -9.1% | 269 | 239 | -11% | -8.3% |
| Other operating expenses | 75 | 74 | -2.1% | +1.7% | 230 | 215 | -6.3% | -2.7% |
| Total adjusted opex | 732 | 663 | -9.5% | -7.9% | 2,211 | 2,046 | -7.4% | -6.3% |
| Depreciation right-of-use asset | 34 | 32 | -5.6% | -2.4% | 104 | 99 | -5.5% | -0.7% |
| Interest lease liabilities | 7 | 6 | -24% | +12% | 22 | 17 | -24% | -12% |
| Total adjusted indirect opex after leases | 446 | 384 | -14% | -10% | 1,398 | 1,232 | -12% | -8.5% |
| Adjusted EBITDA after leases | 599 | 598 | -0.1% | +1.3% | 1,756 | 1,759 | +0.2% | +1.5% |
| <i>As % of adjusted revenues</i> | 43.6% | 46.1% | | | 42.9% | 44.9% | | |
| Operating profit (EBIT) | 429 | 240 | -44% | | 839 | 690 | -18% | |
| Net profit | 314 | 132 | -58% | | 530 | 386 | -27% | |

* Q3 and YTD 2019 corrected for impact of divestments to be found on page 10

Q3 2020

Adjusted revenues declined 3.7% y-on-y corrected for impact of divestments (-5.4% y-on-y without correction). Growth in Wholesale was offset by lower revenues from Consumer and Business. In the third quarter, service revenues declined 3.7% y-on-y corrected for impact of divestments (-5.4% y-on-y without correction). Non-service revenues decreased 4.3% y-on-y, driven by lower hardware-related revenues. Due to COVID-19, KPN saw lower roaming revenues and the Business segment saw additional revenue challenges due to delayed IT projects in the third quarter.

Cost of goods and services were 4.4% lower y-on-y corrected for impact of divestments (3.3% lower y-on-y without correction), driven by lower COGS and lower traffic costs. Personnel expenses declined 15% y-on-y corrected for impact of divestments (-19% y-on-y without correction), mainly driven by the ongoing digital transformation of KPN and lower costs due to COVID-19. IT/IT expenses declined 9.1% y-on-y corrected for impact of divestments (-12% y-on-y without correction), largely driven by the simplification of networks, IT rationalization, and contract renegotiations with suppliers. Accelerating simplification and digitalization resulted in structural savings. In Q3 2020, total net indirect opex savings were € 44m.

Adjusted EBITDA after leases increased 1.3% y-on-y corrected for impact of divestments (-0.1% 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 46.1% from 43.6% in Q3 2019.

Operating profit (EBIT) of € 240m decreased € 189m y-on-y, mainly driven by incidentals in Q3 2019: a € 171m book gain on the sale of KPN's data center subsidiary NLDC and an incidental € 20m release of a revenue related provision in Wholesale. Excluding these incidentals, operating profit would have been € 2m higher y-on-y. Higher depreciation due to accelerated depreciation of KPN's copper and legacy mobile network infrastructure was offset by lower P&L restructuring costs.

Net profit of € 132m was € 182m lower y-on-y. Excluding the incidentals that impacted operating profit in Q3 2019, net profit would have increased with ~€ 4m net of tax, mainly driven by lower finance cost due to debt redemptions.

YTD 2020

Adjusted revenues decreased 2.9% y-on-y corrected for impact of divestments (-4.2% y-on-y without correction). Ongoing competition, customer migrations, and lower roaming revenues and lower IT project revenues due to COVID-19 further impacted performance. In the first nine months, service revenues declined 3.0% y-on-y corrected for impact of divestments (-4.4% y-on-y without correction) and non-service revenues decreased 1.2% y-on-y.

Corrected for impact of divestments, cost of goods and services were 2.8% lower y-on-y (-1.1% y-on-y without correction). Personnel expenses declined 11% y-on-y (-14% y-on-y without correction), and IT/IT expenses declined 8.3% y-on-y (-11% without correction). Total net indirect opex savings YTD 2020 were € 115m and € 256m since the start of the program in 2019. KPN expects to exceed its approximately € 350m savings target in net indirect opex³ 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 1.5% y-on-y corrected for impact of divestments (+0.2% y-on-y without correction). YTD adjusted EBITDA AL margin increased from 42.9% to 44.9% y-on-y.

Operating profit (EBIT) of € 690m was € 150m lower y-on-y, impacted by the € 171m book gain on the sale of NLDC and an incidental € 20m release of a revenue related provision in 2019, and by the € 11m book gain of KPN Consulting in Q2 2020. Excluding the incidentals, EBIT would have been € 29m higher y-on-y mainly driven by € 65m lower restructuring cost partly offset by € 35m higher depreciation.

Net profit of € 386m was € 144m lower compared to the first nine months of 2019. Excluding the incidentals that impacted operating profit, net profit would have increased by ~€ 31m net of tax, driven by lower finance cost 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.

Financial position

| Group financials (unaudited) (in € m, unless stated otherwise) | Q3 2019 | Q3 2020 | Δ y-on-y | Δ y-on-y excl. divestments* | YTD 2019 | YTD 2020 | Δ y-on-y | Δ y-on-y excl. divestments* |
|---|---------------|----------------|----------|--------------------------------|----------|----------|----------|--------------------------------|
| Operational free cash flow | 337 | 312 | -7.3% | -6.0% | 963 | 900 | -6.5% | -4.9% |
| As % of adjusted revenues | 24.5% | 24.0% | | | 23.5% | 23.0% | | |
| Free cash flow (excluding TEFD dividend) | 226 | 241 | +6.6% | +7.3% | 442 | 498 | +13% | +13% |
| As % of adjusted revenues | 16.5% | 18.6% | | | 10.8% | 12.7% | | |
| Net debt | | | | | 5,306 | 5,584 | | |
| Gross debt | | | | | 5,920 | 6,376 | | |
| Cash & short-term investments | | | | | 615 | 792 | | |
| Leverage ratio** | | | | | 2.3x | 2.4x | | |
| Interest cover ratio*** | | | | | 7.4x | 9.2x | | |
| Credit ratings | Rating | Outlook | | | | | | |
| Standard & Poor's | BBB | Stable | | | | | | |
| Fitch Ratings | BBB | Stable | | | | | | |
| Moody's | Baa3 | Stable | | | | | | |

* Q3 and YTD 2019 corrected for impact of divestments to be found on page 10

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

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

YTD 2020

Operational free cash flow for the first nine months of the year stood at € 900m, 4.9% lower y-on-y corrected for the impact of divestments fully driven by higher Capex. Free cash flow of € 498m was € 55m higher compared to the first nine months of 2019. This was the result of broadly stable adjusted EBITDA AL, lower cash restructuring, less cash interest paid due to debt redemptions and refinancing, lower investments in working capital and lower cash taxes paid. These factors were partly offset by increased Capex and additions to provisions. FCF margin improved 190 basis points to 12.7%.

At the end of Q3 2020, net debt amounted to € 5,584m, € 336m higher compared to end Q2 2020. The sequential increase in net debt was mainly driven by the spectrum auction payment and interim dividend distribution, partly offset by free cash flow generation during the quarter.

³ Indirect opex after leases, adjusted for the impact of restructuring costs and incidentals and corrected for divestments

KPN had a strong balance sheet and liquidity position at the end of Q3 2020. KPN had € 6.9bn nominal debt outstanding including € 210m short term commercial paper and € 613m long-term debt that will mature in 2021. KPN's committed liquidity consisted of € 792m cash and cash equivalents and a € 1.25bn undrawn revolving credit facility which covers debt maturities for the next three years. On 14 September 2020, KPN issued a € 600m Eurobond with a 12-year tenor at a coupon of 0.875%. On 21 September 2020, KPN redeemed a € 461m Eurobond with a 3.75% coupon (swapped to a fixed rate of 1.04%). As at 30 September 2020, the net debt to EBITDA ratio was 2.4x (Q3 2019: 2.3x). KPN's interest cover ratio was 9.2x at the end of the third quarter (Q3 2019: 7.4x). At 30 September 2020, the weighted average cost of senior debt was 2.81%, 65 basis points lower y-on-y.

At the end of Q3 2020, Group equity amounted to € 2,418m, € 61m lower compared to the end of Q2 2020. This was mainly driven by the interim dividend payment over 2020, partly offset by net profit generated during the quarter.

The estimated net effect of COVID-19 on group's Q3 financial results

KPN continues to manage its business through the COVID-19 crisis by adjusting its cost base in line with developing economic circumstances and closely monitoring a number of business drivers including payment behavior, net working capital and credit quality. Lower revenues driven by roaming and delayed IT projects were partly offset by higher fixed and national mobile traffic. The estimated net impact on group's adjusted indirect opex amounted to approximately € 5-8m positive, driven by lower cost related to travel, learning & development and facilities. The net effect on KPN Group adjusted EBITDA AL was ~€ 3-5m negative.

Reassuringly, the Dutch government announced to continue most of its support packages for businesses until the first half of 2021 and KPN saw limited impact from requests for extended payment terms in Q3 2020. KPN has not and does not intend to use any form of state aid this year.

Financial and operating review per segment Q3

Consumer

| Segment financials (unaudited) <i>(in € m, unless stated otherwise)</i> | Q3 2019 | Q3 2020 | Δ y-on-y | YTD 2019 | YTD 2020 | Δ y-on-y | Δ q-on-q |
|--|------------|------------|--------------|--------------|--------------|--------------|-----------------|
| Fixed revenues | 483 | 480 | -0.6% | 1,435 | 1,434 | -0.1% | |
| Mobile revenues | 248 | 233 | -6.0% | 745 | 696 | -6.6% | |
| Adjusted revenues | 731 | 713 | -2.5% | 2,182 | 2,131 | -2.3% | |
| Total Consumer NPS | +18 | +12 | -6 | | | | |
| Total Consumer Fixed-Mobile NPS ⁴ | +29 | +24 | -5 | | | | |
| Convergence KPIs | | | | | | | |
| Fixed-Mobile households (k) | | | | 1,404 | 1,383 | -20 | -4 |
| Fixed-Mobile penetration as % of broadband base | | | | 49% | 49% | | |
| Fixed-mobile postpaid # SIMs (k) | | | | 2,246 | 2,265 | +20 | +2 |
| Fixed-mobile penetration as % of postpaid base (all brands) | | | | 62% | 63% | | |
| Fixed KPIs | | | | | | | |
| Total Fixed households (k) | | | | 3,281 | 3,119 | -162 | -34 |
| Total broadband base (k) | | | | 2,871 | 2,804 | -68 | -4 ⁵ |
| Fixed ARPU (€) | | | | 48 | 49 | +3.6% | |
| Mobile KPIs | | | | | | | |
| Mobile postpaid base (k) | | | | 3,602 | 3,583 | -20 | +9 |
| Postpaid ARPU (€) | | | | 17 | 17 | -3.5% | |

Q3 2020

Adjusted revenues declined 2.5% y-on-y, mainly attributable to lower mobile revenues. Fixed revenues decreased 0.6% y-on-y. Growing service revenues from KPN's fiber portfolio (+7.6% y-on-y) were offset by a declining service revenues from the copper portfolio (-5.2% y-on-y) and a continued decline of legacy services (Traditional Voice and Digitenne). Mobile service revenues declined 4.4% y-on-y, mainly driven by lower postpaid ARPU.

KPN's converged household base decreased 4k to 1,383k in Q3 2020, representing 49% of broadband customers. The converged postpaid customer base increased 2k in Q3 2020 compared to end of Q2 2020 reaching 2,265k, which represents 63% of postpaid customers.

KPN added 27k fiber customers in the quarter (Q2 2020: +17k) supported by the improved commercial strategy accompanying the fiber roll-out and successful SuperWiFi campaign. The growing fiber base is fueling a stabilizing broadband base with net adds of -4k⁵ q-on-q in Q3 2020, in line with Q2 2020 (-3k)⁵ but improving compared to 2019. Fixed ARPU increased 3.6% y-on-y to € 49 in Q3 2020, mainly driven by price adjustments effective from 1 July 2020, a higher inflow ARPU following the integration of Telfort, and a declining customer base for PSTN and Digitenne services.

KPN's postpaid base witnessed the highest customer growth since Q3 2017 with +9k net adds in Q3 2020. Postpaid ARPU remained at € 17 for the seventh consecutive quarter and declined 3.5% y-on-y. The effect of lower roaming revenues as a result of COVID-19 related travel restrictions was partly offset by increased national out-of-bundle usage. KPN sees the underlying trend developing favorably with improving inflow ARPU following a higher demand for Unlimited bundles, the Telfort migration and the effect of repricing wearing out.

In Q3 2020, Consumer NPS was +12 (Q3 2019: +18). The decline in NPS was mainly impacted by the changed interface of the IPTV product and COVID-19 as more customers seek help at the customer service centers now people are working from home more often. KPN remains highly valued for its best-in-class network, converged services, and its fiber services.

YTD 2020

Adjusted revenues declined 2.3% y-on-y, driven by lower mobile revenues. Fixed revenues were broadly flat (-0.1% y-on-y), since price adjustments effective 1 July 2020 were offset by a declining customer base. Mobile service revenues declined 5.5% y-on-y, mainly due to lower ARPU.

⁴ Only refers to customers that have a fixed and mobile service at KPN or a fixed and mobile service at Telfort

⁵ Corrected for migrations to, and new customers of, small business proposition (5k in Q3 2020, 7k in Q2 2020, 6k in Q1 2020)

| Segment financials (unaudited) (in € m, unless stated otherwise) | Q3 2019 | Q3 2020 | Δ y-on-y | Δ y-on-y excl. divestments* | YTD 2019 | YTD 2020 | Δ y-on-y | Δ y-on-y excl. divestments* |
|---|------------|------------|-------------|--------------------------------|--------------|--------------|--------------|--------------------------------|
| Communication Services | 312 | 271 | -13% | -11% | 960 | 837 | -13% | -11% |
| IT Services (a.o. security, cloud, workspace) | 66 | 61 | -8.0% | -5.8% | 200 | 195 | -2.4% | -0.2% |
| Professional Services | 104 | 106 | +1.2% | | 294 | 316 | +7.5% | |
| KPN Consulting | 18 | - | -100% | n.m. | 59 | 17 | -71% | n.m. |
| Other | 1 | 1 | -31% | | 2 | 3 | +42% | |
| Adjusted revenues | 502 | 439 | -13% | -7.9% | 1,515 | 1,368 | -9.7% | -5.8% |
| Total Business NPS | -1 | -1 | - | | | | | |
| Migrations⁶ | | | | | | | | |
| SME customers | | | | | 68% | 86% | | |
| LE customers | | | | | 45% | 75% | | |

* Q3 and YTD 2019 corrected for impact of divestments to be found on page 10

Q3 2020

Adjusted revenues decreased 7.9% y-on-y corrected for impact of divestments (-13% y-on-y without correction), caused by lower revenues from Communication Services and IT Services, but partially offset by higher revenues from Professional Services.

Adjusted revenues from Communication Services decreased 11% y-on-y corrected for impact of divestments (-13% without correction). This was impacted by COVID-19 related measures resulting in lower roaming revenues, and by planned strategic actions, such as the migrations from traditional technology to a future-proof portfolio. These effects were partly offset by favorable base developments in mobile and fixed. At the end of July, KPN introduced 5G and, as only operator in the Netherlands, immediately introduced three distinctive 5G services for business customers: 'Priority for specific applications', 'Guaranteed bandwidth' and 'Customized mobile coverage'.

Adjusted revenues from IT Services decreased 5.8% y-on-y corrected for impact of divestments (-8.0% without correction). This was mainly driven by LE/Corporate customers where KPN witnessed portfolio rationalization and a transition from traditional housing and hosting to public and private cloud. In addition, the Integration segment observed that IT projects were delayed or put on hold.

Adjusted revenues from Professional Services increased 1.2% y-on-y (no impact from divestments), mainly driven by more project related work partially offset by delayed IT projects due to COVID-19.

At the end of Q3 2020, 86% of SME customers (Q2 2020: 84%) and 75% of LE customers (Q2 2020: 72%) that were eligible have migrated from traditional fixed voice or legacy broadband services to KPN EEN and Smart Combinations, integrated portfolios offering up and cross-sell opportunities. KPN introduced Unlimited mobile, 4G backup and Business TV as additional services for KPN EEN and several cloud communications and secure networking services for its Smart Combinations portfolio.

In the quarter, KPN and Microsoft announced a multi-year strategic partnership to combine Microsoft's Azure cloud platform with KPN's services and network. Another key element of the partnership is joint innovation, which will result in a joint market approach with solutions for promising industries, such as agriculture, production and health. Business NPS was stable at -1 (Q3 2019: -1) mainly driven by the negative impact of migrations and the higher perceived importance of telecom services during COVID-19, and therefore a more critical stance taken by customers in the case of disruptions.

YTD 2020

Adjusted revenues for the Business segment decreased 5.8% y-on-y corrected for impact of divestments (-9.7% y-on-y without correction), mainly driven by lower revenues from Communication Services.

⁶ Eligible customers migrated from traditional fixed voice or legacy broadband services

Wholesale

| Segment financials (unaudited) (in € m, unless stated otherwise) | Q3 2019 | Q3 2020 | Δ y-on-y | Δ y-on-y excl. divestments* | YTD 2019 | YTD 2020 | Δ y-on-y | Δ y-on-y excl. divestments* |
|---|------------|------------|--------------|--------------------------------|------------|------------|--------------|--------------------------------|
| Fixed revenues | 130 | 125 | -3.7% | +5.6% | 379 | 358 | -5.5% | +4.0% |
| Mobile service revenues | 35 | 36 | +1.9% | | 103 | 105 | +1.6% | |
| Adjusted revenues | 165 | 161 | -2.5% | +4.7% | 481 | 463 | -3.7% | +3.7% |
| # Customers (k) | | | | | | | | |
| Fixed | | | | | 1,039 | 1,092 | +53 | |
| Mobile postpaid** | | | | | 361 | 419 | +58 | |

* Q3 and YTD 2020 corrected for impact of divestments to be found on page 10

** Full MVNO customers are not included

Q3 2020

Adjusted revenues increased 4.7% y-on-y corrected for impact of divestments (-2.5% y-on-y without this correction). Mobile service revenues increased 1.9% y-on-y, driven by an increased number of postpaid customers and increasing data usage. Fixed revenues increased 5.6% corrected for impact of divestments (decreased 3.7% y-on-y without this correction) driven by the sale of nautical frequency licenses (~€ 3m) and the growth of KPN's WBA/VULA portfolio. Wholesale added +22k broadband lines in Q3 2020. The sum of total broadband net adds between Consumer and Wholesale increased 18k⁷ in Q3 2020. During the quarter, KPN renewed a long-term MVNO contract.

YTD 2020

Adjusted revenues increased 3.7% y-on-y corrected for impact of divestments driven by increased fixed and mobile revenues (decreased 3.7% y-on-y, without this correction mainly driven by € 34m negative impact from the sale of NLDC).

Network, Operations & IT

| Segment financials (unaudited) (in € m, unless stated otherwise) | YTD 2019 | YTD 2020 | Δ y-on-y |
|---|--------------|--------------|-------------|
| FttH households own roll-out (k) | 2,416 | 2,672 | +256 |
| FttH households 3rd party access (k) | 37 | 64 | +27 |
| FttH households total (k) | 2,453 | 2,736 | +283 |
| Mobile sites modernized (#) | ~20 | ~2,210 | ~2,190 |
| Legacy lines to be migrated (k) | ~265 | ~50 | ~215 |

Q3 2020

In Q3 2020, KPN added 73k households to its fiber footprint, a sequential step up despite the summer holiday period. Of the 25 largest cities in the Netherlands, KPN is nearing completion of the roll-out in six cities and executing in another 17 cities.

KPN upgraded approximately 720 sites with the latest mobile RAN equipment in the quarter, totaling approximately 2,210 modernized sites to date. On 28 July 2020, KPN activated its 5G network in the Netherlands and all customers with a suitable device can use 5G services. On the modernized network, download speeds increase significantly, reaching approximately 170Mbps on 5G, while also improving the energy efficiency of the network.

As of the end of the quarter, approximately 50k legacy lines are left to be migrated to IP-based infrastructure. Also, in the beginning of October 2020, KPN finished the migration of Telfort Mobile and KPN customers to the new Operational Support System, reducing the lead time of new broadband customers and strongly improving the customer journey.

To support the energy transition in the Netherlands, KPN is currently piloting an initiative to store renewable energy surpluses using the back-up batteries in local exchanges.

⁷ Corrected for migrations to, and new customers of, small business proposition (5k in Q3 2020)

Analysis of adjusted results Q3 and YTD 2020

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

| Revenues (in € m) | Q3 2019 | Q3 2020 | Δ y-on-y | YTD 2019 | YTD 2020 | Δ y-on-y |
|-----------------------------------|--------------|--------------|--------------|--------------|--------------|--------------|
| Consumer | 731 | 713 | -2.5% | 2,182 | 2,131 | -2.3% |
| Business | 502 | 439 | -13% | 1,515 | 1,379 | -8.9% |
| Wholesale | 356 | 161 | -55% | 671 | 463 | -31% |
| Network, Operations & IT | 1 | 2 | +50% | 4 | 4 | +8.8% |
| Other (incl. eliminations) | -27 | -16 | -42% | -88 | -46 | -48% |
| Total revenues | 1,563 | 1,299 | -17% | 4,283 | 3,932 | -8.2% |
| Revenues incidentals | | | | | | |
| Consumer | - | - | | - | - | |
| Business | - | - | | - | 11 | |
| Wholesale | 190 | - | | 190 | - | |
| Network, Operations & IT | - | - | | - | - | |
| Other (incl. eliminations) | - | - | | - | - | |
| Total revenues incidentals | 190 | 1,299 | | 190 | 11 | |
| Consumer | 731 | 713 | -2.5% | 2,182 | 2,131 | -2.3% |
| Business | 502 | 439 | -13% | 1,515 | 1,368 | -9.7% |
| Wholesale | 165 | 161 | -2.5% | 481 | 463 | -3.7% |
| Network, Operations & IT | 1 | 2 | +50% | 4 | 4 | +8.8% |
| Other (incl. eliminations) | -27 | -16 | -42% | -88 | -46 | -48% |
| Total adjusted revenues | 1,372 | 1,299 | -5.4% | 4,093 | 3,920 | -4.2% |

The following table specifies the revenue incidentals in more detail:

| Revenue incidentals (in € m) | Segment | Q3 2019 | Q3 2020 | YTD 2019 | YTD 2020 |
|-------------------------------------|-----------|------------|----------|------------|-----------|
| Book gain on sale of NLDC | Wholesale | 171 | - | 171 | - |
| Change in revenue related provision | Wholesale | 20 | - | 20 | - |
| Book gain on sale of KPN Consulting | Business | - | - | - | 11 |
| Total revenue incidentals | | 190 | - | 190 | 11 |

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

| (in € m) | Q3 2019 | Q3 2020 | Δ y-on-y | YTD 2019 | YTD 2020 | Δ y-on-y |
|-------------------------------------|------------|------------|--------------|--------------|--------------|--------------|
| EBITDA | 808 | 626 | -22% | 1,980 | 1,858 | -6.2% |
| Incidentals | -190 | - | -100% | -190 | -11 | -94% |
| Restructuring | 23 | 10 | -58% | 93 | 27 | -70% |
| Lease-related expenses | | | | | | |
| Depreciation right-of-use asset | -34 | -32 | -5.6% | -104 | -99 | -5.5% |
| Interest lease liabilities | -7 | -6 | -24% | -22 | -17 | -24% |
| Adjusted EBITDA after leases | 599 | 598 | -0.1% | 1,756 | 1,759 | +0.2% |

The following table specifies the EBITDA incidentals in more detail:

| EBITDA incidentals (in € m) | Category | Q3 2019 | Q3 2020 | YTD 2019 | YTD 2020 |
|-------------------------------------|----------|------------|----------|------------|-----------|
| Book gain on sale of NLDC | Revenues | 171 | - | 171 | - |
| Change in revenue related provision | Revenues | 20 | - | 20 | - |
| Book gain on sale of KPN Consulting | Revenues | - | - | - | 11 |
| Total EBITDA incidentals | | 190 | - | 190 | 11 |

Q3 and YTD 2019 corrected for impact of divestments

The following table shows the estimated adjustments of Q3 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) | Q3 2019 | Impact Divestments | Q3 2019 excl. divestments | Q3 2020 | Δ y-on-y excl. divestments |
|---|--------------|-----------------------|------------------------------|--------------|-------------------------------|
| Consumer | 731 | - | 731 | 713 | |
| Business | 502 | -25 | 476 | 439 | -7.9% |
| Wholesale | 165 | -11 | 154 | 161 | +4.7% |
| Network, Operations & IT | 1 | - | 1 | 2 | |
| Other (incl. eliminations) | -27 | 14 | -14 | -16 | +18% |
| Adjusted revenues | 1,372 | -23 | 1,349 | 1,299 | -3.7% |
| Service revenues | 1,280 | -23 | 1,257 | 1,210 | -3.7% |
| Non-service revenues & other | 92 | - | 92 | 88 | |
| Cost of goods & services (direct opex) | 328 | 4 | 331 | 317 | -4.4% |
| Personnel expenses | 244 | -11 | 233 | 197 | -15% |
| IT/TI | 85 | -3 | 82 | 75 | -9.1% |
| Other operating expenses | 75 | -3 | 72 | 74 | +1.7% |
| Lease-related expenses | 41 | -2 | 39 | 38 | -4.0% |
| Adjusted indirect opex after leases | 446 | -19 | 427 | 384 | -10% |
| Adjusted EBITDA after leases | 599 | -8 | 591 | 598 | +1.3% |
| Operational free cash flow | 337 | -5 | 332 | 312 | -6.0% |
| Free cash flow (excl. TEFD dividend) | 226 | -2 | 225 | 241 | +7.3% |

The following table shows the estimated adjustments of YTD 2019 results for the combined impact of completed divestments of NLDC (9 months), International Network Services (9 months), Argeweb (9 months), and KPN Consulting (6 months) as if the actual transfer of shares (closing) had taken place 12 months earlier:

| Group financials (unaudited) (in € m, unless stated otherwise) | YTD 2019 | Impact Divestments | YTD 2019 excl. divestments | YTD 2020 | Δ y-on-y excl. divestments |
|---|--------------|-----------------------|-------------------------------|--------------|-------------------------------|
| Consumer | 2,182 | - | 2,182 | 2,131 | |
| Business | 1,515 | -62 | 1,452 | 1,368 | -5.8% |
| Wholesale | 481 | -34 | 446 | 463 | +3.7% |
| Network, Operations & IT | 4 | - | 4 | 4 | |
| Other (incl. eliminations) | -88 | 40 | 49 | -46 | -5.0% |
| Adjusted revenues | 4,093 | -57 | 4,036 | 3,920 | -2.9% |
| Service revenues | 3,819 | -57 | 3,763 | 3,650 | -3.0% |
| Non-service revenues & other | 274 | - | 274 | 270 | |
| Cost of goods & services (direct opex) | 939 | 17 | 956 | 929 | -2.8% |
| Personnel expenses | 773 | -25 | 748 | 663 | -11% |
| IT/TI | 269 | -9 | 261 | 239 | -8.3% |
| Other operating expenses | 230 | -9 | 221 | 215 | -2.7% |
| Lease-related expenses | 126 | -8 | 118 | 115 | -2.6% |
| Adjusted indirect opex after leases | 1,398 | -50 | 1,348 | 1,232 | -8.5% |
| Adjusted EBITDA after leases | 1,756 | -23 | 1,733 | 1,759 | +1.5% |
| Operational free cash flow | 963 | -17 | 946 | 900 | -4.9% |
| Free cash flow (excl. TEFD dividend) | 442 | -2 | 441 | 498 | +13% |

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 including restructuring costs). KPN defines capital employed as the carrying amount of operating assets and liabilities, which excludes goodwill and the 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 Q3 and YTD 2019 financial figures

KPN's Q3 2020 Press Release and Q3 2020 Analyst Presentation include additional information regarding the estimated impact of divestments on the Q3 and YTD 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.