

INTERIM FINANCIAL STATEMENTS

For the six months ended
30 June 2020



Unaudited Condensed Consolidated Interim Financial Statements*for the six months ended 30 June 2020*

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

Unaudited Consolidated Statement of Profit or Loss

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

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

Unaudited Consolidated Statement of Other Comprehensive Income

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

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

Unaudited Consolidated Statement of Financial Position

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

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

Group equity and liabilities
(in € m)

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

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

Unaudited Consolidated Statement of Changes in Group Equity

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

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

Unaudited Consolidated Statement of Cash Flows

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

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

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

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

General notes to the Condensed Consolidated Interim Financial Statements

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

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

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

Basis of preparation

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

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

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

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

Significant accounting estimates, judgments and assumptions

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

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

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

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

Impact of COVID-19

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

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

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

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

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

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

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

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

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

Goodwill impairment review

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

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

Financial position

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

Change in accounting policies

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

Amendment to IFRS 3 Definition of a Business

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

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

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

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

Future implications of new and amended standards and interpretations

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

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

Sale of KPN Consulting

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

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

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

Notes to the Condensed Consolidated Statement of Profit or Loss

[4] Segment information Profit or Loss

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

For the six months period ending 30 June 2020

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

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

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

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

[5] Revenues and other income

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

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

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

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

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

[6] Operating expenses, DA&I

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

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

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

[7] Finance income and expenses

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

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

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

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

[8] Income taxes

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

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

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

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

Notes to the Condensed Statement of Financial Position

[9] Segment information Statement of Financial Position

Segment information as at 30 June 2020

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

Segment information as at 31 December 2019 (restated)

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

[10] Other current financial assets

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

[11] Cash and cash equivalents

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

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

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

[12] Group equity

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

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

[13] Borrowings, bond issues and redemptions

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

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

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

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

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

[14] Provisions for retirement benefit obligations

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

[15] Provisions for other liabilities and charges

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

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

[16] Fair value disclosures

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

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

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

Fair value estimation

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

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

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

[17] Commitments and contingencies

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

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

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

Contingent liabilities

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

[18] Related-party transactions

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

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

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

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

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

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

[19] Risk management

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

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

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

[20] Regulatory developments

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

Market analysis decisions in the Netherlands

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

European developments

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

Security concerns based on geopolitical developments

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

Spectrum licenses

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

[21] Subsequent events

Spectrum licenses

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

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

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

Responsibility statement

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

Rotterdam, 27 July 2020

Joost Farwerck	Chairman of the Board of Management and Chief Executive Officer
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Chris Figuee	Member of the Board of Management and Chief Financial Officer
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Jean-Pascal Van Overbeke	Member of the Board of Management and Chief Consumer Market
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Marieke Snoep	Member of the Board of Management and Chief Business Market
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Babak Fouladi	Member of the Board of Management and Chief Technology and Digital Officer
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Hilde Garssen	Member of the Board of Management and Chief People Officer
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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.