



KPN Integrated Annual Report 2020

Accelerating digitalization of the Netherlands

● CEO letter to stakeholders

Gaining digital momentum

New reality

By any measure, 2020 was an extraordinary year. The short-term impact of the COVID-19 pandemic on Dutch society has been enormous. This new reality has underlined the vital importance of being connected and having a resilient digital infrastructure. As a side effect of the pandemic, the Netherlands is gaining digital momentum. We want to enable our customers and society in every way we can, as telecommunication companies play a crucial role in this process. Tackling the long-term effects of the pandemic requires an inclusive approach, one that supports economic recovery while simultaneously addressing the global challenges on sustainability and social inclusion.

I truly feel that in 2020 we experienced the power of our company as never before. First and foremost, I am incredibly proud of the high level of engagement of our employees. Their flexibility and resilience ensured we continued to deliver services to all our customers throughout the challenging times. When everyone was obliged to work from home, they vigilantly monitored and maintained network performance 24/7. They helped hospitals increase call center and workplace capacity overnight. They provided extra facilities to help businesses upgrade their security protocols and enabled the healthcare sector to connect patients with their family, caregivers and doctors. KPN Mooiste Contact Fonds connected 847 children with their classroom during periods of prolonged illness. Together with our partners we developed an IoT-application to monitor the CO₂e levels in schools and offices. All this illustrates how we give meaning to our ambition to go all out to connect everyone in the Netherlands to a sustainable future.

Digitalization is a catalyst

Digitalization is a catalyst for the country's economic recovery and offers significant opportunities to address the social and environmental challenges we face. We have achieved some important milestones in this respect and set an ambitious agenda for the years to come. Several external bodies recognized our ESG-efforts and position as a global leader in sustainability. For example, we maintained a top five position in the Dow Jones Sustainability Index for the fifth year running. By 2025, we want to be one of the first big companies in the Netherlands to be almost completely circular - an ambition that recalls our achievement in 2011 when we became one of the country's first big companies to use 100% green energy. We have maintained this achievement ever since and continue to reduce our energy consumption, even though data consumption has multiplied several times in the past 10 years.

Encouraging base developments

We saw encouraging base developments in the Consumer segment. Our mobile postpaid base started to grow in the second half of the year and a strong inflow of fiber consumers supported an encouraging trend towards stabilization of our broadband base in the second half of the year. We connected an increasing number of households to fiber as demand grew for this best-in-class connection. Although we are well on track in the Business segment to migrate our SME and LCE customers to a future-proof proposition, we are facing some headwinds because of COVID-19. The Wholesale segment continues to show solid growth, despite reduced roaming revenues. Even though our fixed access is no longer regulated in the Netherlands, we stand by our open network policy based on reasonable and non-discriminatory terms. We closed 2020 with both a strong balance sheet and liquidity position, and a solid set of results.



The appreciation of our customers and stakeholders for the quality and reliability of our networks and services, our high security standards and the sustainable way we run our business, was reflected in a record high reputation score in 2020. Increased internet and iTV usage during the pandemic led to increased pressure on our service center and mechanics. We have put full focus on this and taken additional measures to restore the service levels customers may expect from a quality leader and to improve our NPS.

Strategy update

We presented our Strategy Update 2021-2023 'Accelerate to grow' in November 2020, setting a clear path to growth alongside the accelerated digitalization of the Netherlands. Three key pillars underpin this strategy: leveraging and expanding our superior networks, growing and strengthening our customer footprint, and simplifying and streamlining our operating model. Fiber is one of the key drivers for our return to growth, so we have increased our fiber roll-out to a run rate of about 500,000 homes passed annually for the next five years. We have contracted sufficient building capacity to ensure these unprecedented fiber roll-out levels in the Netherlands. In addition, we are improving our digital customer experience and innovating our way of working.

In coming years, we foresee growing demand for flexibility, autonomy and personalized digital experiences. This will be supported by trends such as the need for more and secured connectivity, differentiated offerings and blurring work/life boundaries. Anticipating these opportunities, we have increased our efforts to improve and digitalize the user experience of our products and services. We are keen to offer the best solutions for everyone; individuals or businesses, at home or on the move.

We seek to deliver premium converged services that are simple, flexible and reliable.

Fiber and 5G are important as the key building blocks of our future network. They offer the best, fastest and most reliable digital experience. This enables new services and applications for companies, industries and society. A highly promising development is that our 5G network has already been recognized by several independent benchmarks as the fastest (Ookla) and most innovative (Umlaut).

A new way of working

Our ambitions require change. Starting with myself and the KPN leadership team, we will steer the company based on our core values of trust, courage and growth. We will step up engagement within the organization and with stakeholders to ensure we stay relevant and adapt quickly to changing demands and circumstances. We will shift our company's way of working to a more hybrid model that will reduce our office footprint, combining remote working with collaboration, brainstorming and socializing in an inspiring office environment. I believe that continued and consistent digitalization and simplification will create a more effective and flexible organization. Our purpose-led performance and digitally savvy workforce are key to our ongoing efforts to enhance our valuable asset and the service we offer customers day in, day out.

A path to grow

In 2021, we will take another step forward on our path to growth. The COVID-19 pandemic will undoubtedly continue to have an effect, but we will maintain our spirit of creativity and flexibility. If anything, 2020 has shown how resilient we can be.

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We will continue our progressive dividend policy, covered by free cash flow, and grow mass-market (Consumer, SME and Wholesale) service revenues and adjusted EBITDA AL. In recent years, KPN has worked on a healthy financial position and profitability. This provides sufficient financial latitude to offer shareholders a progressive dividend that will grow annually by 3-5% in the coming years. KPN is able to finance its planned capital expenditure and a growing dividend as presented during our Strategy Update from its own free cash flow, while maintaining its solid financial position.

I would like to thank all our partners and suppliers. Our progress in the Netherlands is due to the hard work they do every day. I also want to thank all our shareholders for their continued support, and our customers, be they long-standing or new. Their choice of KPN motivates us to work tirelessly to maintain their trust and provide them with the outstanding and reliable services as the network of the Netherlands.

Joost Farwerck,
CEO and Chairman of the KPN Board of Management