# KPN Interim Financial Statements

For the six months ended 30 June 2016

# Condensed Consolidated Interim Financial Statements

## *for the six months ended 30 June 2016*



All related documents can be found on KPN's website, including the KPN Management Report Q2 2016: ir.kpn.com

# Unaudited Consolidated Statement of Profit or Loss

| (in EUR m, unless indicated otherwise) | For the three months ended 30 June 2016 | 2015 | For the six months ended 30 June 2016 | 2015 |
|---|---|---|---|---|
| Revenues | 1,675 | 1,740 | 3,363 | 3,498 |
| Other income | 1 | 1 | 2 | 1 |
| **Total [3]** | **1,676** | **1,741** | **3,365** | **3,499** |
| | | | | |
| Cost of goods & services | 534 | 546 | 1,068 | 1,089 |
| Personnel expenses | 298 | 322 | 625 | 662 |
| IT/TI | 128 | 126 | 261 | 259 |
| Other operating expenses | 137 | 179 | 273 | 345 |
| Depreciation, amortization & impairments [4] | 374 | 399 | 792 | 800 |
| **Total operating expenses** | **1,471** | **1,572** | **3,019** | **3,155** |
| | | | | |
| **Operating profit [4]** | **205** | **169** | **346** | **344** |
| | | | | |
| Finance income | 111 | 147 | 112 | 148 |
| Finance costs | -107 | -127 | -216 | -268 |
| Other financial results | 6 | -1 | 32 | -4 |
| **Finance income and expenses [5]** | **10** | **19** | **-72** | **-124** |
| | | | | |
| Share of the profit of associates and joint ventures | -2 | - | -1 | - |
| **Profit/Loss (-) before income tax from continuing operations** | **213** | **188** | **273** | **220** |
| | | | | |
| Income taxes [6] | -51 | -28 | -63 | -37 |
| **Profit/Loss (-) for the period from continuing operations** | **162** | **160** | **210** | **183** |
| | | | | |
| Profit/Loss (-) for the period from discontinued operations [2] | - | 7 | 362 | 8 |
| | | | | |
| **Profit/Loss (-) for the period** | **162** | **167** | **572** | **191** |
| | | | | |
| Profit attributable to non-controlling interest | 1 | 5 | 7 | 9 |
| Profit/Loss (-) attributable to equity holders | 161 | 162 | 565 | 182 |
| | | | | |
| **Earnings per ordinary share after taxes attributable to equity holders for the period (in EUR)** | | | | |
| - Basic (continuing operations) | 0.04 | 0.04 | 0.05 | 0.04 |
| - Diluted (continuing operations) | 0.04 | 0.04 | 0.05 | 0.04 |
| | | | | |
| - Basic (discontinued operations) | 0.00 | 0.00 | 0.08 | 0.00 |
| - Diluted (discontinued operations) | 0.00 | 0.00 | 0.08 | 0.00 |
| | | | | |
| - Basic (total, including discontinued operations) | 0.04 | 0.04 | 0.13 | 0.04 |
| - Diluted (total, including discontinued operations) | 0.04 | 0.04 | 0.13 | 0.04 |
| | | | | |
| Weighted average number of ordinary shares | | | | |
| - Non-diluted | | | 4,259,604,083 | 4,258,376,744 |
| - Diluted | | | 4,262,577,780 | 4,262,599,979 |

# Unaudited Consolidated Statement of Other Comprehensive Income

| *(in EUR m)* | For the three months ended 30 June 2016 | 2015 | For the six months ended 30 June 2016 | 2015 |
|---|---|---|---|---|
| **Profit/Loss (-) for the period** | **162** | **167** | **572** | **191** |
| **Items of other comprehensive income that may not be reclassified subsequently to profit or loss:** | | | | |
| Remeasurement pensions and other post-employment plans: | | | | |
| Gains or losses (-) arising during the period | -40 | 47 | -70 | 72 |
| Income tax | 2 | -3 | 3 | -3 |
| **Net other comprehensive income not to be reclassified to profit or loss in subsequent periods** | **-38** | **44** | **-67** | **69** |
| **Items of other comprehensive income that will be reclassified subsequently to profit or loss when specific conditions are met:** | | | | |
| Cash flow hedges: | | | | |
| Gains or losses (-) arising during the period | 95 | 82 | -19 | 141 |
| Income tax | -24 | -20 | 5 | -35 |
| | 71 | 62 | -14 | 106 |
| Currency translation adjustments: | | | | |
| Gains or losses (-) arising during the period | 8 | -6 | 15 | -6 |
| Realized through profit or loss | - | - | - | - |
| | 8 | -6 | 15 | -6 |
| Fair value adjustment available-for-sale financial assets: | | | | |
| Unrealized gains or losses (-) arising during the period [13] | -490 | -126 | -550 | 463 |
| Income tax | 92 | 31 | 107 | -116 |
| Realized gain through the income statement (net of tax) | - | - | -2 | - |
| | -398 | -95 | -445 | 347 |
| **Net other comprehensive income to be reclassified to profit or loss in subsequent periods** | **-319** | **-39** | **-444** | **447** |
| **Other comprehensive income for the period, net of income tax** | **-357** | **5** | **-511** | **516** |
| **Total comprehensive income for the period, net of tax** | **-195** | **172** | **61** | **707** |
| Total comprehensive income attributable to: | | | | |
| - Equity holders | -195 | 167 | 55 | 698 |
| - Non-controlling interest | - | 5 | 6 | 9 |
| Total comprehensive income attributable to equity holders arises from: | | | | |
| - Continuing operations | -194 | 160 | -306 | 690 |
| - Discontinued operations | -1 | 7 | 361 | 8 |

# Unaudited Consolidated Statement of Financial Position

| ASSETS<br>*(in EUR m)* | As at<br>30 June 2016 | <br>31 December 2015 |
|---|---|---|
| **NON-CURRENT ASSETS** | | |
| Goodwill [1,4] | 1,415 | 1,428 |
| Licenses | 1,108 | 1,180 |
| Software | 505 | 556 |
| Other intangibles | 284 | 286 |
| **Total intangible assets** | **3,312** | **3,450** |
| | | |
| Land and buildings | 495 | 525 |
| Plant and equipment | 5,236 | 5,230 |
| Other tangible non-current assets | 40 | 38 |
| Assets under construction | 310 | 208 |
| **Total property, plant and equipment** | **6,081** | **6,001** |
| | | |
| Investments in associates and joint ventures | 24 | 42 |
| Loans to associates and joint ventures | - | 20 |
| Available-for-sale financial assets [13] | 1,717 | 2,272 |
| Derivative financial instruments [13] | 344 | 530 |
| Deferred income tax assets | 1,124 | 1,069 |
| Trade and other receivables | 88 | 81 |
| **Total non-current assets** | **12,690** | **13,465** |
| | | |
| **CURRENT ASSETS** | | |
| Inventories | 57 | 65 |
| Trade and other receivables | 837 | 778 |
| Income tax receivables | 6 | 58 |
| Derivative financial instruments [13] | - | 102 |
| Other current financial assets [7,13] | 100 | 575 |
| Cash and cash equivalents [8] | 960 | 1,446 |
| **Total current assets** | **1,960** | **3,024** |
| | | |
| **Non-current assets and disposal groups classified as held for sale [2]** | **1** | **1,308** |
| | | |
| **TOTAL ASSETS** | **14,651** | **17,797** |

| GROUP EQUITY AND LIABILITIES (in EUR m) | As at 30 June 2016 | 31 December 2015 |
|---|---|---|
| **GROUP EQUITY** | | |
| Share capital | 171 | 171 |
| Share premium | 8,651 | 9,847 |
| Other reserves | -552 | -125 |
| Retained earnings | -5,918 | -6,000 |
| Equity attributable to holders of perpetual capital securities | 1,089 | 1,089 |
| **Equity attributable to equity holders of the company** | **3,441** | **4,982** |
| Non-controlling interest | 7 | 69 |
| **Total group equity [9]** | **3,448** | **5,051** |
| | | |
| **NON-CURRENT LIABILITIES** | | |
| Borrowings [10] | 7,727 | 8,853 |
| Derivative financial instruments [13] | 168 | 17 |
| Deferred income tax liabilities | 45 | 47 |
| Provisions for retirement benefit obligations [11] | 298 | 259 |
| Provisions for other liabilities and charges | 108 | 97 |
| Other payables and deferred income | 63 | 65 |
| **Total non-current liabilities** | **8,409** | **9,338** |
| | | |
| **CURRENT LIABILITIES** | | |
| Trade and other payables | 1,925 | 2,090 |
| Borrowings [10] | 777 | 847 |
| Derivative financial instruments [13] | 2 | 3 |
| Income tax payables [6] | 50 | 43 |
| Provision for other liabilities and charges | 40 | 59 |
| **Total current liabilities** | **2,794** | **3,042** |
| | | |
| **Liabilities directly associated with non-current assets and disposal groups classified as held for sale [2]** | **-** | **366** |
| | | |
| **TOTAL EQUITY AND LIABILITIES** | **14,651** | **17,797** |

# Unaudited Consolidated Statement of Cash Flows

| (in EUR m) | For the six months ended 30 June 2016 | 30 June 2015 |
|---|---|---|
| **Profit before income tax from continuing operations** | **273** | **220** |
| | | |
| Adjustments for: | | |
| - Net financial expenses [5] | 72 | 124 |
| - Share-based compensation | 2 | 5 |
| - Share of the profit of associated and joint ventures | 1 | - |
| - Depreciation, amortization and impairments [4] | 792 | 800 |
| - Other income | -8 | -2 |
| - Changes in provisions (excl. deferred taxes) [11] | -34 | -10 |
| Changes in working capital relating to: | | |
| - Inventories | 8 | -5 |
| - Trade receivables | 18 | 8 |
| - Prepayments and accrued income | -34 | - |
| - Other current assets | - | 10 |
| - Trade payables | -105 | 15 |
| - Accruals and deferred income | -26 | -57 |
| - Current liabilities (excl. short-term financing) | -6 | -40 |
| | | |
| Received dividends [5] | 110 | 146 |
| Taxes received / paid | 44 | -12 |
| Interest paid | -263 | -301 |
| **Net cash flow from operating activities from continuing operations** | **844** | **901** |
| *Net cash flow from operating activities from discontinued operations* | *-3* | *54* |
| **Net cash flow from operating activities** | **841** | **955** |
| | | |
| Disposal of subsidiaries, associates and joint ventures [5] | 31 | - |
| Acquisition of subsidiaries, associates and joint ventures (net of acquired cash) | -89 | -5 |
| Investments in intangibles assets (excl. software) | -27 | - |
| Investments in software [12] | -103 | -115 |
| Investments in property, plant & equipment [12] | -527 | -525 |
| Disposal of property, plant & equipment | - | 1 |
| Other financial assets [7] | 475 | 102 |
| Other | 2 | -1 |
| **Net cash flow used in investing activities from continuing operations** | **-238** | **-543** |
| *Net cash flow used in investing activities from discontinued operations* | *1,188* | *-75* |
| **Net cash flow used in investing activities** | **950** | **-618** |
| | | |
| Capital repayment [9] | -1,193 | - |
| Dividends paid [9] | -346 | -222 |
| Repayments of borrowings and settlement of derivatives [10] | -869 | -968 |
| Other | -3 | -3 |
| **Net cash flow used in financing activities from continuing operations** | **-2,411** | **-1,193** |
| *Net cash flow used in financing activities from discontinued operations* | *-* | *-* |
| **Net cash flow used in financing activities** | **-2,411** | **-1,193** |

| (in EUR m) | For the six months ended 30 June 2016 | 30 June 2015 |
|---|---|---|
| ***Continued from previous page*** | | |
| ***Total net cash flow from continuing operations*** | ***-1,805*** | ***-835*** |
| *Total net cash flow from discontinued operations [2]* | *1,185* | *-21* |
| **Total net cash flow (changes in cash and cash equivalents)** | **-620** | **-856** |
| **Net cash and cash equivalents at beginning of period** | **1,575** | **1,945** |
| Exchange rate difference | - | - |
| Changes in cash and cash equivalents | -620 | -856 |
| **Net cash and cash equivalents at end of period** | **955** | **1,089** |
| Bank overdrafts | 5 | 12 |
| Cash classified as held for sale (discontinued operations) [2] | - | -51 |
| **Cash and cash equivalents at end of period [8]** | **960** | **1,050** |

# Unaudited Consolidated Statement of Changes in Group Equity

| *(in EUR m, except number of shares)* | Number of subscribed shares | Share capital | Share premium | Other reserves | Retained earnings | Perpetual capital securities | Equity attributable to owners of the parent | Non-controlling interests | Total Group equity |
|---|---|---|---|---|---|---|---|---|---|
| **Balance at 1 January 2015** | **4,270,254,664** | **171** | **9,847** | **-388** | **-6,146** | **1,089** | **4,573** | **57** | **4,630** |
| Profit for the period | - | - | - | - | 182 | - | 182 | 9 | 191 |
| Other comprehensive income for the period | - | - | - | 447 | 69 | - | 516 | - | 516 |
| *Total comprehensive income for the period* | - | - | - | *447* | *251* | - | *698* | *9* | *707* |
| Share based compensation | - | - | - | - | -5 | - | -5 | - | -5 |
| Sold treasury shares | - | - | - | 6 | - | - | 6 | - | 6 |
| Dividends paid [9] | - | - | - | - | -213 | - | -213 | -9 | -222 |
| Other | - | - | - | - | - | - | - | 1 | 1 |
| *Total transactions with owners, recognized directly in equity* | - | - | - | *6* | *-218* | - | *-212* | *-8* | *-220* |
| **Balance at 30 June 2015** | **4,270,254,664** | **171** | **9,847** | **65** | **-6,113** | **1,089** | **5,059** | **58** | **5,117** |
| **Balance at 1 January 2016** | **4,270,254,664** | **171** | **9,847** | **-125** | **-6,000** | **1,089** | **4,982** | **69** | **5,051** |
| Profit for the period | - | | - | - | 566 | - | 566 | 6 | 572 |
| Other comprehensive income for the period | - | | - | -444 | -67 | - | -511 | - | -511 |
| *Total comprehensive income for the period* | - | | - | *-444* | *499* | - | *55* | *6* | *61* |
| Capital repayment [9] | - | | -1,196 | 3 | - | - | -1,193 | - | -1,193 |
| Share based compensation | - | | - | - | -13 | - | -13 | - | -13 |
| Sold treasury shares | - | | - | 14 | - | - | 14 | - | 14 |
| Dividends paid [9] | - | | - | - | -319 | - | -319 | -26 | -345 |
| Acquisitions [1] | - | | - | - | -85 | - | -85 | -49 | -134 |
| Other | - | | - | - | - | - | - | 7 | 7 |
| *Total transactions with owners, recognized directly in equity* | - | | *-1,196* | *17* | *-417* | - | *-1,596* | *-68* | *-1,664* |
| **Balance at 30 June 2016** | **4,270,254,664** | **171** | **8,651** | **-552** | **-5,918** | **1,089** | **3,441** | **7** | **3,448** |

# Notes to the Condensed Consolidated Interim Financial Statements

**Company profile**

KPN is the leading telecommunications and ICT provider in The Netherlands, offering fixed and mobile telephony, fixed and mobile broadband internet and TV to retail consumers. KPN is also market leader in The Netherlands in ICT services, infrastructure and network related ICT solutions to business customers, including other telecommunications operators. KPN also provides wholesale network services to third parties and operates an IP-based infrastructure for international wholesale customers through iBasis.

**Accounting policies**

*Basis of presentation*

The applied accounting policies are in line with those as described in KPN's Integrated Annual Report 2015 except for the impact of new accounting standards as described below. These Condensed Consolidated Interim Financial Statements have not been audited or reviewed by KPN's external auditor. These Condensed Consolidated Interim Financial Statements have been prepared in accordance with IAS 34 *Interim Financial Reporting*.

*Significant accounting estimates and judgments*

The preparation of these Interim Financial Statements requires management to make estimates, judgments and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses as well as the information disclosed and the contingent liabilities. Actual results may therefore deviate from the estimates applied. Estimates and judgments are evaluated continuously and are based on historic experience and other factors, including expectations of future events thought to be reasonable under the circumstances. Estimates are revised when material changes to the underlying assumptions occur. For more information on KPN's significant accounting estimates, judgments and assumptions, reference is made to the Notes to the Consolidated Financial Statements of the Integrated Annual Report 2015.

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

- the determination of deferred tax assets for carry forward losses and provisions for tax contingencies;
- the determination of fair value less costs of disposal and value in use of cash-generating units for goodwill impairment testing;
- the depreciation rates of the copper and fiber network included in property, plant and equipment;
- the assumptions used to determine the provision for retirement benefit obligations and periodic pension costs, such as expected discount rates, mortality rates and benefit increases;
- 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; and
- the determination of fair values of net assets acquired in business combinations.

Also, reference is made to Note 28 'Capital and Financial Risk Management' of the Integrated Annual Report 2015, which discloses KPN's exposure to credit risk and financial market risks.

*Change in accounting policies*

KPN has not changed its accounting policies as described in the Integrated Annual Report 2015 other than by incorporating endorsed changes in and amendments to IFRS effective as of 1 January 2016. KPN has not early adopted any standard, interpretation or amendment that has been issued but is not yet effective and endorsed.

The nature and effect of new standards, interpretations and amendments are described below, only when an impact on KPN's financial reporting is expected.

The following amendments to IFRS have been implemented as of 1 January 2016:

- The amendments to IFRS 11 '*Joint Arrangements: Accounting for Acquisition of Interests*' require a joint operator to apply the relevant principles of IFRS 3 '*Business Combinations'* when accounting for an acquisition of an interest in a joint operation when the activities of the joint operation constitute a business. Also, the amendments clarify that a previously held interest in a joint operation is not remeasured upon acquisition of an additional interest in the same joint operation if joint control is retained. The amendments must be applied prospectively. The impact for KPN was limited.
- The amendments to IAS 1 '*Presentation of Financial Statements*', part of the Disclosure Initiative, clarify or significantly change several existing IAS 1 requirements. The amendments clarify:
    - the materiality requirements in IAS 1;
    - that specific line items in the Statement of Profit or Loss, Other Comprehensive Income and Statement of Financial Position may be disaggregated;
    - the flexibility of the order in which Notes to Financial Statements are presented; and
    - that the share of Other Comprehensive Income of associates and joint ventures accounted for using the equity method must be presented in aggregate as a single line item, and classified between items that will or will not be subsequently reclassified to profit or loss.

  The amendments have limited impact on the presentation of KPN's interim financial results and the disclosures in KPN's Consolidated Interim Financial Statements.

The following new standards, interpretations and amendments to existing standards, which will become effective on or after 1 January 2017 or later, are expected to have an impact on KPN's financial reporting. These standards have not been applied in preparing these 2016 Condensed Consolidated Interim Financial Statements:

- IFRS 9 '*Financial Instruments*' introduces new requirements for classification and measurement, impairment and hedge accounting of financial instruments. IFRS 9 is effective as of 1 January 2018 and must be applied retrospectively. However, the hedge accounting requirements are generally applied prospectively. Apart from some aspects of hedge accounting, restatement of comparative information is not mandatory and is only permitted if information is available without the use of hindsight. The standard has not yet been endorsed by the European Commission. IFRS 9 is expected to have an impact on the classification and measurement of KPN's financial assets and liabilities. KPN is currently reviewing the extent of the impact of this new standard. KPN does not intend to early adopt this standard.
- IFRS 15 '*Revenue from Contracts with Customers*' introduces new guidance on the recognition and measurement requirements of revenues. The standard applies to revenue from contracts with customers and also provides a model for the sale of some non-financial assets that are not an output of a company's ordinary business activities. IFRS 15 provides more detailed requirements than the current standards. IFRS 15 is effective as of 1 January 2018. KPN is currently reviewing the extent of the impact of and preparing for the implementation of this new standard, and the amendments as issued in April 2016 in anticipation of endorsement by the European Commission. KPN expects an impact on the timing of revenue recognition due to the removal of the cash restriction rule currently applied in revenue arrangements with multiple deliverables and on the accounting treatment of dealer commissions. Due to potential differences between timing of revenue recognition required by the new standard and receipt of corresponding cash flows, KPN's Consolidated Statement of Financial Position may also be impacted (recognition of contract assets and contract liabilities). Upon implementation of IFRS 15 the disclosures in KPN's Consolidated Financial Statements will be expanded to include required information such as movement

schedules for recognized contract assets and contract liabilities, information about performance obligations and information on key judgments and estimates applied in recognition and measurement of revenues. KPN does not intend to early adopt this standard.

- IFRS 16 *'Leases'* will replace IAS 17 and introduces on balance sheet accounting for (almost) all leases. Assets in use under an operating lease contract, reported as off balance sheet obligation under IAS 17, will be recognized on the Statement of Financial Position. Paid lease fees will no longer be part of operating expenses but will become part of depreciation and interest expenses. The standard will have an impact on KPN's Consolidated Statement of Financial Position due to the recognition of the right of use of the leased assets and corresponding lease liabilities. Also, an impact is expected on KPN's Consolidated Statement of Profit or Loss. EBITDA and Operating profit are expected to increase, but the impact on Profit before tax is not expected to be material. Furthermore, an impact is expected on KPN's Consolidated Statement of Cash Flows as payments for the principal portion of lease liabilities will be presented within financing activities. The standard has an effective date of 1 January 2019 but may be applied earlier if in conjunction with IFRS 15. The standard has not yet been endorsed by the European Commission. KPN is currently reviewing the extent of the impact of this new standard and if it will early adopt this standard.
- The amendments to IFRS 2 '*Share-based Payment*' as issued in June 2016 provide requirements on the accounting for a) the effects of vesting and non-vesting conditions on the measurement of cash-settled share-based payments, b) share-based payment transactions with a net settlement feature for withholding tax obligations, and c) a modification to the terms and conditions of a share-based payment that changes the classification of the transaction from cash-settled to equity-settled. These amendments are effective as of 1 January 2018. KPN is currently reviewing the impact.
- The amendments to IAS 7 '*Statement of Cash Flows*', part of the Disclosure Initiative, require additional information on the changes in liabilities arising from financing activities, including disclosures of cash flow and non-cash flow movements. These amendments are effective as of 1 January 2017 and are limited to the disclosures in KPN's Consolidated Financial Statements.

**[1] Changes to organizational structure**

As of 1 January 2016, KPN adjusted its reporting format following the implementation of the new organizational structure with Frank van der Post (CCO) and Joost Farwerck (COO) managing Commercial and Operations respectively. The new structure with a functional focus has been implemented to enable a more direct control of KPN's operational activities and provide increased cost visibility.

The main changes in the reporting format are:

- Reporting Segments
    - Commercial: Consumer and Business
    - Operations: Wholesale and Network, Operations & IT (former NetCo)
- Financial reporting
    - Elimination of internal revenues; Network, Operations & IT set up as a cost center
    - Consumer Residential and Consumer Mobile merged into Consumer segment
    - Consumer & Business operations (incl. field engineers) moved from Consumer and Business segments to Network, Operations & IT
    - Wholesale (Mobile and Fixed) separated from Consumer Mobile and NetCo
    - Corporate Center transferred from Other activities to Other The Netherlands
    - New functional split in operating expenses

Comparative segment information was restated.

As of 15 April 2015, the segment Belgium, consisting of BASE Company and participations, has been classified as 'disposal group held for sale' ('discontinued operations') following the formal decision to sell KPN's interest in BASE Company. On 11 February 2016, KPN sold and transferred 100% of its interest in BASE Company to Telenet for a consideration of EUR 1,325m. The book gain from the disposal of BASE Company, recognized in discontinued operations, was EUR 363m. For further details refer to note [2].

On 1 April 2016, KPN purchased the remaining 87.5% shares of RoutIT, which was already consolidated in full as KPN held the option to purchase the remaining shares. The transaction was recorded through KPN's equity and did not have an effect on the net profit.

On 30 June 2016, KPN obtained control over Dekatel Nederland B.V. ('Dekatel') as KPN's subsidiary Yes Telecom Netherlands B.V. acquired all issued shares of Dekatel, a provider of telecommunication services to the Dutch business market. Dekatel is consolidated as of 30 June 2016. The preliminary purchase price allocation ('PPA') resulted in an addition to goodwill of EUR 22m.

On 30 June 2016, the PPA of Internedservices Group ('IG') was finalized. Following some smaller in-country acquisitions by IG, the PPA was adjusted, resulting in an increase of the goodwill of EUR 10m.

**[2] Disposal group held for sale**

The sale of BASE Company has been completed on 11 February 2016. BASE Company has been eliminated from the segment disclosures but the 'profit for the period from discontinued operations' in the Consolidated Statement of Profit or Loss and 'cash flows from discontinued operations' include results related to BASE Company until 11 February 2016.

The sale of E-Plus has been completed on 1 October 2014. E-Plus has been eliminated from the segment disclosures. However, some small results continue to arise from the unwinding of the remaining E-Plus positions.

The following table summarizes the results included in the line 'profit for the period from discontinued operations' included in the Consolidated Statement of Profit or Loss:

| **Profit or loss from discontinued operations** | **For the three months ended 30 June** | | **For the six months ended 30 June** | |
|---|---|---|---|---|
| *(in EUR m)* | **2016** | **2015** | **2016** | **2015** |
| **BASE Company (summarized results)** | | | | |
| Revenues and other income | - | 161 | 53 | 322 |
| Operating expenses | - | -127 | -54 | -298 |
| Income taxes | - | -11 | -1 | -9 |
| **Result for the period from discontinued operations before impairment and tax effects resulting from the transaction** | **-** | **23** | **-2** | **15** |
| Gain on disposal | - | - | 365 | - |
| ***Profit (loss) for the period from discontinued operations related to BASE Company*** | **-** | ***23*** | ***363*** | ***15*** |
| **E-Plus (summarized results)** | | | | |
| Tax adjustments | - | -16 | -1 | -7 |
| ***Profit (loss) for the period from discontinued operations related to E-Plus*** | **-** | ***-16*** | **-** | ***-7*** |
| **Profit (loss) for the period from discontinued operations** | **-** | **7** | **362** | **8** |

A contingent part of the sale agreement regarding BASE Company may result in a limited adjustment of the purchase price in the future.

### [3] Revenues and other income

For a description of the activities of the segments, reference is made to the Integrated Annual Report 2015. Changes to the organizational structure are described in note [1] of these Interim Financial Statements. For operating profit, reference is made to note [4] and for other segment information reference is made to note [12] of these Interim Financial Statements.

| | For the six months ended 30 June 2016 | | | | For the six months ended 30 June 2015 *(restated)* | | | |
|---|---|---|---|---|---|---|---|---|
| **Revenues and other income** *(in EUR m)* | **External revenues** | **Other income** | **Inter segment revenues** | **Total revenues** | **External revenues** | **Other income** | **Inter segment revenues** | **Total revenues** |
| Consumer | 1,528 | - | 10 | 1,538 | 1,514 | - | 10 | 1,524 |
| Business | 1,133 | - | 29 | 1,162 | 1,216 | - | 24 | 1,240 |
| Wholesale | 296 | 1 | 67 | 364 | 304 | - | 64 | 368 |
| Network, Operations & IT | 8 | 1 | - | 9 | 6 | - | 1 | 7 |
| Other (incl. eliminations) | 8 | - | -92 | -84 | 10 | - | -84 | -74 |
| **The Netherlands** | **2,973** | **2** | **14** | **2,989** | **3,050** | **-** | **15** | **3,065** |
| **iBasis** | **389** | **-** | **44** | **433** | **406** | **-** | **55** | **461** |
| Other activities | 1 | - | - | 1 | 42 | 1 | -14 | 29 |
| Eliminations | - | - | -58 | -58 | - | - | -56 | -56 |
| **KPN Group** | **3,363** | **2** | **-** | **3,365** | **3,498** | **1** | **-** | **3,499** |

Total external revenues in H1 2016 were EUR 135m lower compared to H1 2015. The increase in revenues at Consumer was offset by lower revenues at Business, iBasis and Other activities. The decrease in revenues at Other activities was mainly related to the sale of SNT Deutschland at the end of Q1 2015 (EUR 22m).

External revenues in H1 2015 were negatively impacted by changes in revenue related provisions at Business (EUR 10m). For more detailed information on revenues and the incidentals, reference is made to the Analysis of adjusted results included in the separately published KPN Management Report Q2 2016.

## [4] Operating profit, DA&I and EBITDA

| Operating profit, DA&I and EBITDA *(in EUR m)* | For the six months ended 30 June 2016 EBITDA | Depreciation, Amortization & Impairments (DA&I) | Operating profit | For the six months ended 30 June 2015 *(restated)* EBITDA | Depreciation, Amortization & Impairments (DA&I) | Operating profit |
|---|---|---|---|---|---|---|
| Consumer | 895 | 109 | 786 | 889 | 155 | 734 |
| Business | 703 | 37 | 666 | 720 | 51 | 669 |
| Wholesale | 253 | 4 | 249 | 250 | 4 | 246 |
| Network, Operations & IT | -594 | 582 | -1,176 | -593 | 576 | -1,169 |
| Other (incl. eliminations) | -125 | 9 | -134 | -129 | 6 | -135 |
| **The Netherlands** | **1,132** | **741** | **391** | **1,137** | **792** | **345** |
| **iBasis** | **12** | **51** | **-39** | **11** | **6** | **5** |
| Other activities | -6 | - | -6 | -4 | 2 | -6 |
| **KPN Group** | **1,138** | **792** | **346** | **1,144** | **800** | **344** |

EBITDA decreased by EUR 6m in H1 2016 compared to H1 2015. The impact of restructuring costs on EBITDA in H1 2016 was EUR 28m (H1 2015: EUR 54m). Adjusted for these expenses and the net effect of incidentals (EUR 6m positive in H1 2016 against EUR 1m positive in H1 2015), EBITDA decreased by EUR 37m. The increased EBITDA at Consumer and cost savings in The Netherlands were offset by lower EBITDA at Business following the decline in revenues.

The positive impact of incidentals on EBITDA in H1 2016 consisted of a change in provisions at Business (EUR 6m).

The net positive impact of incidentals on EBITDA in H1 2015 (EUR 1m) consisted of:
- release of the asset retirement obligation at Network, Operations & IT (EUR 6m);
- changes in provisions at Other activities (EUR 5m);

partly offset by
- changes to a revenue related provision at Business (EUR 10m).

Operating profit (EBIT) increased by EUR 2m in H1 2016, resulting from lower EBITDA (EUR 6m) offset by decreased depreciation and amortization (EUR 8m). The decrease in DA&I at Consumer Mobile (following a decrease of leased handsets) was offset by iBasis (as a result of a goodwill impairment of EUR 45m). The DA&I expenses included impairment expenses of EUR 56m (H1 2015: EUR 22m).

***Impairment testing of goodwill***

KPN performs its annual impairment test as per 31 December and when circumstances indicate the carrying value of an asset may be impaired. KPN considers the relationship between its market capitalization and its book value, among other factors, when reviewing for indicators of impairment. As at 30 June 2016, the market capitalization of KPN Group was significantly positive and far above the book value of its equity, indicating no potential impairment of goodwill or assets. However, following changing market dynamics affecting iBasis in Q1 2016, an impairment test was performed.

KPN based the recoverable amount on the value-in-use of the cash-generating unit iBasis, which was determined by using the discounted cash flow method. The assumptions used to determine the projected cash flows were updated to reflect the changing market dynamics. All assumptions remain within the ranges as disclosed in Note 11 of KPN's Integrated Annual Report 2015. Nonetheless, the shift of the key assumptions within these ranges resulted in a decrease of the discounted cash flows expected to be generated by iBasis. Therefore, KPN recognized an impairment of EUR 45m against goodwill carried for iBasis.

Key assumptions used in the cash flow projections are estimated EBITDA, estimated capital expenditures, the estimated change in working capital and the pre-tax weighted average cost of capital (WACC) used for discounting the cash flow projections. The cash flow projections for the first five years are management's best estimate based on the most recent business plans, historical growth rates and EBITDA margins. KPN believes the period used in the projections to be a suitable timescale for reviewing and considering the annual performance before applying a fixed terminal value multiple to the final year cash flows of the detailed projection. For more information on KPN's accounting policies on goodwill and impairment testing, refer to Note 11 of KPN's Integrated Annual Report 2015.

**[5] Finance income and expenses**

Total finance income and expenses amounted to EUR -72m in H1 2016, a decrease of EUR 52m compared to H1 2015.

Finance income in H1 2016 included a EUR 110m dividend received from the stake in Telefónica Deutschland (H1 2015: EUR 146m).

Finance costs in H1 2016 decreased by EUR 52m y-on-y to EUR 216m, mainly as a result of a lower gross debt position following regular bond redemptions in Q2 2015 and Q1 2016.

Other financial results in H1 2016 improved by EUR 36m y-on-y, mainly as a result of a EUR 29m book gain on the sale of KPN's stake in Jasper Technologies.

**[6] Income taxes**

KPN calculates the income tax expense for the period using the tax rate that would be applicable to the expected total annual earnings. The income tax charge for H1 2016 was EUR 63m compared to EUR 37m in H1 2015.

KPN benefits from an agreement with the Dutch tax authorities with regard to the application of innovation box tax facilities. Innovation tax facilities are facilities under Dutch corporate income tax law, whereby profits attributable to innovation are taxed at an effective rate of 5%. KPN expects that the effective tax rate will be around 22%[1] in 2016-2017 period.

The effective tax rate for H1 2016 is 23.0%. The effective tax rate in H1 2015 was 16.8%, mainly due to reversals related to previous years in H1 2015

The effective tax rate is influenced by one-off effects and a change of the mix of profits and losses in the various countries. Without one-off effects, the effective tax rate would have been approximately 22% in H1 2016.

[1] Excluding effects of, amongst others, impairments and revaluations

### [7] Other current financial assets

At 30 June 2016, other current financial assets consisted of repurchase agreements with initial maturities between 3 and 6 months, which were classified as held-to-maturity investments. At 31 December 2015, other current financial assets also included investments in short-duration fixed income funds held at fair value through profit and loss. These funds had a low volatility, with an investment objective of preservation of principal. Both categories are classified as short-term investments in KPN's Net Debt definition.

Other current financial assets decreased by EUR 475m in 2016, with the breakdown shown in the table below. The decrease was related to the EUR 1.2bn capital repayment on 30 June 2016.

| **Other current financial assets** *(in EUR m)* | **30 June 2016** | **31 December 2015** |
|---|---|---|
| Held-to-maturity investments with initial maturities longer than 3 months | 100 | 350 |
| Short-duration fixed income funds held at fair value through profit and loss | - | 225 |
| **Total** | **100** | **575** |

### [8] Cash and cash equivalents

At 30 June 2016, cash and cash equivalents amounted to EUR 960m, compared to EUR 1,446m at 31 December 2015. The decrease in KPN's cash and cash equivalents is mainly caused by EUR 1.5bn shareholder distributions (including the EUR 1.2bn capital repayment) and EUR 0.8bn bond redemptions during H1 2016, partially offset by the EUR 1.3bn proceeds from the sale of BASE Company and the EUR 110m dividend received in relation to KPN's stake in Telefónica Deutschland.

Cash and cash equivalents consist of highly liquid instruments, including deposits, interest-bearing bank accounts and money market funds. KPN's cash balances have been invested with a wide range of strong counterparties.

Part of KPN's cash balances have been invested in instruments that cannot be classified as cash and cash equivalents. These are classified as Other current financial assets, refer to note [7] for further information.

### [9] Group equity

In the first six months of 2016, the number of ordinary shares outstanding remained unchanged at 4,270,254,664.

On 20 April 2016, KPN paid a final dividend in respect of 2015 of EUR 5.0 cents per share, in total EUR 213m. The total dividend in respect of 2015 was EUR 8.0 cents, in total EUR 340m.

In May 2016, KPN received a dividend of EUR 110m from its stake in Telefónica Deutschland, related to 2015. KPN distributed this dividend to KPN shareholders as an additional interim cash dividend of EUR 2.5 cents, in total EUR 106m. This dividend was paid on 27 May 2016.

On 13 April 2016, the Annual General Meeting of Shareholders of KPN approved a capital repayment to shareholders of EUR 28.0 cents per share. This capital repayment was related to the cash proceeds from the sale of BASE Company in February 2016 and the sale of 150 million shares in Telefónica Deutschland in November 2015.

The capital repayment was executed in two steps. In the first step the nominal value of the ordinary shares was increased from EUR 0.04 to EUR 0.32 per share. The increase in share capital, in total EUR 1.2bn, was recorded as a deduction of the share premium reserve. In the second step the nominal value of the ordinary shares was decreased from EUR 0.32 to EUR 0.04 per share. The reduction of the share capital, amounting to EUR 1.2bn, was paid in cash to the holders of ordinary shares on 30 June 2016.

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

On 18 March 2016, KPN redeemed the 5.75% coupon Eurobond 2006-2016 with an outstanding amount of GBP 135m, in line with the regular redemption schedule.

On 15 January 2016, KPN redeemed the 6.5% coupon Eurobond 2008-2016 with an outstanding amount of EUR 645m, in line with the regular redemption schedule.

On 22 June 2015, KPN redeemed the 4.0% coupon Eurobond 2005-2015 with an outstanding amount of EUR 1.0bn, in line with the regular redemption schedule.

In May 2015, KPN changed the interest profile for part of its bond portfolio. For the bonds in scope, KPN swapped the floating rate exposure to a fixed rate for the remaining maturity.

At 30 June 2016, the average maturity of the senior bond portfolio was 7.2 years (31 December 2015: 6.9 years). The average interest rate (after swaps) on the overall bond portfolio, including hybrid bonds, was 5.3% at 30 June 2016 (31 December 2015: 5.4%). Excluding the hybrid bonds, the average interest rate (after swaps) on the senior bond portfolio was 5.0% at 30 June 2016 (31 December 2015: 5.1%).

### [11] Provisions for retirement benefit obligations

The pension provision remaining at 30 June 2016 of EUR 298m (31 December 2015: EUR 259m) 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.

### [12] Other segment information

| | As at 30 June 2016 | | As at 31 December 2015 *(restated)* | |
|---|---|---|---|---|
| **Assets and liabilities** *(in EUR m)* | **Total assets** | **Total liabilities** | **Total assets** | **Total liabilities** |
| Consumer | 2,679 | 2,279 | 3,164 | 3,214 |
| Business | 1,879 | 1,204 | 2,499 | 2,427 |
| Wholesale | 637 | 384 | 868 | 868 |
| Network, Operations & IT | 7,957 | 8,855 | 11,594 | 11,006 |
| Other (incl. eliminations) | 18,946 | -10,228 | 14,998 | -14,714 |
| **The Netherlands** | **32,098** | **2,494** | **33,123** | **2,801** |
| **iBasis** | **344** | **215** | **390** | **218** |
| Other activities (incl. eliminations) | -17,791 | 8,494 | -15,716 | 9,727 |
| **KPN Group** | **14,651** | **11,203** | **17,797** | **12,746** |

The change in the total assets and total liabilities of the segments in The Netherlands is mainly the result of internal transfer of the result of 2015 and changes in intercompany balances. The decrease of the total assets and total liabilities at KPN Group level is due to the capital repayment of EUR 1.2bn to KPN's shareholders and dividends paid. Refer to note [9] and the Consolidated Statement of Changes in Group Equity.

| **Capex** *(in EUR m)* | **For the six months ended 30 June** **2016** | **2015** *(restated)* |
|---|---|---|
| Customer driven | 115 | 135 |
| Fixed access | 292 | 274 |
| Mobile access | 48 | 63 |
| Simplification | 132 | 136 |
| Other | 40 | 28 |
| **The Netherlands** | **627** | **636** |
| **iBasis** | **3** | **2** |
| Other activities | - | 2 |
| **KPN Group** | **630** | **640** |

Capex in H1 2016 decreased due to lower customer related investments and structurally lower network investments following a period of elevated investment levels, partly offset by a different timing of network investments compared to last year.

### [13] Fair value disclosures

The following table presents the Group's assets and liabilities that are measured at fair value at 30 June 2016 and 31 December 2015:

| **Assets and liabilities measured at fair value** *(in EUR m)* | **As at 30 June 2016** Level 1 | Level 2 | Level 3 | Total | **As at 31 December 2015** Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|---|---|---|---|
| **Assets** | | | | | | | | |
| **Financial assets at fair value through profit or loss:** | | | | | | | | |
| Derivatives (cross currency interest rate swap) | - | 95 | - | 95 | - | 349 | - | 349 |
| Derivatives (interest rate swap) | - | 249 | - | 249 | - | 207 | - | 207 |
| Other derivatives | - | - | - | - | - | 1 | 75 | 76 |
| Short-duration fixed income funds | - | - | - | - | 225 | - | - | 225 |
| **Available-for-sale financial assets:** | | | | | | | | |
| Listed securities | 1,712 | - | - | 1,712 | 2,259 | - | - | 2,259 |
| Unlisted securities | - | - | 5 | 5 | - | - | 13 | 13 |
| **Total assets** | **1,712** | **344** | **5** | **2,061** | **2,484** | **557** | **88** | **3,129** |
| **Liabilities** | | | | | | | | |
| **Financial liabilities at fair value through profit or loss:** | | | | | | | | |
| Derivatives (cross currency interest rate swap) | - | 92 | - | 92 | - | - | - | - |
| Derivatives (interest rate swap) | - | 77 | - | 77 | - | 20 | - | 20 |
| Other derivatives | - | 1 | - | 1 | - | - | - | - |
| **Total liabilities** | **-** | **170** | **-** | **170** | **-** | **20** | **-** | **20** |

Level 1: The fair value of financial instruments traded in active markets is based on quoted market prices.

Level 2: An instrument is included in Level 2 if the financial instrument is not traded in an active market and if the fair value is determined by using valuation techniques based on maximum use of observable market data for all significant inputs. For the derivatives used for hedging purposes, KPN uses the estimated fair value of financial instruments determined by using available market information and appropriate valuation methods, including relevant credit risks. The estimated fair value approximates the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. KPN has its derivative instruments outstanding with financial institutions that had a credit rating of A3/BBB+ or higher at 30 June 2016.

Level 3: If one or more of the significant inputs is not based on observable market data, the instrument is included in Level 3 and its fair value is estimated using models and other valuation methods. To the extent possible, the assumptions and inputs used take into account market pricing information and expectations. However, such information is by its nature subject to uncertainty. Changes arising as new information becomes available, could impact income or other comprehensive income.

The valuation of available-for-sale unlisted securities is based upon a discounted cash flow model.

The decrease of the value of the available-for-sale financial assets is due to the decrease of the stock price of Telefónica Deutschland shares. The fair value of KPN's 15.5% stake in Telefónica Deutschland was EUR 1,698m at 30 June 2016 (31 December 2015: EUR 2,249m). The change in value has been recorded through Other Comprehensive Income.

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 2016, the total derivatives asset position would be EUR 191m (31 December 2015: EUR 612m) and the total derivatives liability position would be EUR 17m (31 December 2015: nil).

### [14] Off-balance sheet commitments

At the end of Q2 2016 off-balance sheet commitments decreased to EUR 1.8bn. The off-balance sheet commitments at 31 December 2015 were EUR 2.1bn. The decrease was mainly related to the decrease of purchase commitments by approximately EUR 180m related to customer hardware and Capex decreased by EUR 108m.

### [15] Related party transactions

For a description of the related parties of KPN and transactions with related parties, including major shareholders, reference is made to Note 31 of the Integrated Annual Report 2015. In the first six months of 2016 there have been no changes in the type of related party transactions as described in the Integrated Annual Report 2015 that 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 27 April 2016, América Móvil, S.A.B. de C.V. ('AMX') published that it held 21.1% of the shares and voting rights related to KPN's ordinary share capital as at 31 March 2016.

On 1 October 2014, Franklin Mutual Series Fund, Inc. notified that it held 3.63% of the shares and voting rights related to KPN's ordinary share capital. On 30 April 2015, BlackRock, Inc. notified that it held 5.01% of the shares and 5.87% of the 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 2016.

## [16] 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 2015 (page 62-65 and appendix 9). 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 H1 2016.

KPN will publish its Integrated Annual Report 2016 in February 2017, with a detailed update of KPN's principal risks.

Regarding regulatory risk, refer to note [17], related party transactions are discussed in note [15] and for more information on discontinued operations, reference is made to note [2].

## [17] Regulatory developments

### *The Netherlands: review of regulation fixed markets by ACM*

ACM is conducting its fourth round of market analysis. On 17 December 2015, ACM published a decision concerning 'the market for unbundled access'. ACM concluded that KPN still has significant market power on the wholesale local access markets. As a remedy, ACM imposed obligations upon KPN to offer (virtual) unbundled access to its copper and fiber network at wholesale level. Initially, the European Commission (EC) raised serious doubts to an earlier draft of the decision, which was thereby postponed, but after some amendments in the reasoning behind the decision were included by ACM, the EC did no longer block the decision. In July 2015, KPN already concluded voluntary wholesale agreements on virtual unbundled access to its copper network with Tele2, M7 and Vodafone.
On 29 June 2016, ACM notified a draft decision to the Europeans Commission on the market for Fiber-to-the-Office access, in which it concluded that this market no longer needs additional regulation. The European Commission has a one month period to react.

Furthermore, on 18 July 2016 ACM published a draft decision on the (wholesale) voice telephony market. ACM concludes that the market is increasingly competitive and proposes to withdraw regulation for KPN on consumer and large business voice market. According to ACM, KPN still has significant market power on the market for two voice lines (such as ISDN 2) and ACM still proposes to impose remedies on KPN. A national consultation on this draft is running until 12 September 2016. Lastly, ACM is expected to publish a draft decision on the wholesale high quality broadband access and leased lines market by late July.

### *EU Regulation on open internet and roaming*

EU Regulation on open internet access and (amended) Roaming Regulation is effective as of 30 April 2016. Roaming surcharges on top of national tariffs are limited within the EU (EEA) as of 30 April 2016 to currently applicable wholesale rates. This has led to a decrease of retail rates. As of 15 June 2017, roaming surcharges within the EU (EEA) will only be allowed after a certain 'fair use' is exceeded. The European Commission will publish (by 15 December 2016) which fair use criteria will be allowed. Furthermore, prior to 15 June 2017, the regulated wholesale roaming rates that operators may charge between themselves, need to be amended. The European Commission published a proposal for amendment with a decrease of wholesale rates to EUR 4 cents/min voice, EUR 2 cents/sms and EUR 8.5 cents/Mb data. This proposal needs formal adoption by the European Council and the European parliament.

The EU open internet access ('net neutrality') rules are aimed at replacing national regulation by fully harmonized EU rules. BEREC (the combined European NRA's) is preparing Guidelines on the application of the new rules for which a draft was consulted between 6 June and 18 July 2016. In The Netherlands the amendment of the Dutch net neutrality rules is still being discussed in parliament ('Eerste Kamer'). After amendment of the initial draft, the government proposed to maintain the strict Dutch rules to ban any tariff differentiation of internet access services.

### *Handset sales considered as consumer credit by Dutch Supreme Court*

On 12 February 2016, the Dutch Supreme Court ruled on the consequences of its earlier decision to consider handset sales as consumer credit. For further details reference is made to KPN's Integrated Annual Report 2015. The number of qualifying claims submitted to KPN to date, that fulfilled the criteria, is limited. At this point in time, no reliable estimate can be made about the number of legally valid claims that will be submitted in the coming period and what the financial impact for KPN will be. Therefore, no provision was recognized at 30 June 2016.

## [18] Subsequent events

On 1 July 2016, KPN obtained the new license for digital ether television (Digitenne) until 1 February 2030. Therefore, the continuity for hundreds of thousands of customers is guaranteed. The current license expires on 31 January 2017.

# 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 2016, give a true and fair view of the assets, liabilities, financial position and income of the company and the undertakings included in the consolidation taken as a whole, and the interim management report give 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).

The Hague, 27 July 2016

| | |
|---|---|
| E. Blok | Chairman of the Board of Management and Chief Executive Officer |
| J.C. de Jager | Member of the Board of Management and Chief Financial Officer |
| F.H.M. van der Post | Member of the Board of Management and Chief Commercial Officer |
| J.F.E. Farwerck | Member of the Board of Management and Chief Operating Officer |

## Safe harbor

### Non-GAAP measures and management estimates

*This financial report contains a number of non-GAAP figures, 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 numerical reconciliations are included in KPN's quarterly factsheets.*

*KPN defines **EBITDA** as operating result before depreciation (including impairments) of PP&E and amortization (including impairments) of intangible assets. Note that KPN's definition of EBITDA deviates from the literal definition of earnings before interest, taxes, depreciation and amortization 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. In the **Net Debt / EBITDA ratio**, KPN defines **Net Debt** as the nominal value of interest bearing financial liabilities excluding derivatives and related collateral, representing the net repayment obligations in Euro, taking into account 50% of the nominal value of the hybrid capital instruments, less net cash and short-term investments, and defines EBITDA as a 12 month rolling total excluding restructuring costs, incidentals and major changes in the composition of the Group (acquisitions and disposals). **Free Cash Flow** is defined as cash flow from continuing operating activities plus proceeds from real estate, minus capital expenditures (Capex), being expenditures on PP&E and software.*

***Revenues** are defined as the total of revenues and other income unless indicated otherwise. **Adjusted revenues** and **adjusted EBITDA** are derived from revenues (including other income) and EBITDA, respectively, and are adjusted for the impact of restructuring costs and incidentals.*

*The term **service revenues** refers to wireless service revenues.*

*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 2015.*