KPN Interim Financial Statements

For the six months ended 30 June 2015

Condensed Consolidated Interim Financial Statements

for the six months ended 30 June 2015

All related documents can be found on KPN's website, including the KPN Management Report Q2 2015: ir.kpn.com

Unaudited Consolidated Statement of Profit or Loss

	For the three months ended 30 June		For the six months ended 30 June	
(in EUR m, unless indicated otherwise)	**2015**	**2014**	**2015**	**2014**
Revenues	1,740	1,828	3,498	3,658
Other income	1	7	1	7
Total [2]	**1,741**	**1,835**	**3,499**	**3,665**
Own work capitalized	-21	-21	-44	-39
Cost of materials	162	164	325	329
Work contracted out and other expenses	660	703	1,315	1,429
Employee benefits [3, 10]	285	-151	590	153
Depreciation, amortization and impairments [3]	399	422	800	831
Other operating expenses	87	110	169	178
Total operating expenses	**1,572**	**1,227**	**3,155**	**2,881**
Operating profit [3]	**169**	**608**	**344**	**784**
Finance income	147	12	148	23
Finance costs	-127	-166	-268	-334
Other financial results	-1	-8	-4	-9
Finance income and expenses [4]	**19**	**-162**	**-124**	**-320**
Share of the profit of associates and joint ventures	-	-1	-	-1
Profit/Loss (-) before income tax from continuing operations	**188**	**445**	**220**	**463**
Income taxes [5]	-28	-93	-37	-111
Profit/Loss (-) for the period from continuing operations	**160**	**352**	**183**	**352**
Profit/Loss (-) for the period from discontinued operations [1]	**7**	**-532**	**8**	**-516**
Profit/Loss (-) for the period	**167**	**-180**	**191**	**-164**
Profit attributable to non-controlling interest	5	3	9	6
Profit/Loss (-) attributable to equity holders	162	-183	182	-170
Earnings per ordinary share after taxes attributable to equity holders for the period (in EUR)				
- Basic (continuing operations)	0.04	0.08	0.04	0.08
- Fully-diluted (continuing operations)	0.04	0.08	0.04	0.08
- Basic (discontinued operations)	0.00	-0.12	0.00	-0.12
- Fully-diluted (discontinued operations)	0.00	-0.12	0.00	-0.12
- Basic (total, including discontinued operations)	0.04	-0.04	0.04	-0.04
- Fully-diluted (total, including discontinued operations)	0.04	-0.04	0.04	-0.04
Weighted average number of ordinary shares				
- Non-diluted			4,258,376,744	4,258,098,273
- Fully-diluted			4,262,599,979	4,261,445,376

Unaudited Consolidated Statement of Other Comprehensive Income

	For the three months ended 30 June		For the six months ended 30 June	
(in EUR m)	**2015**	**2014**	**2015**	**2014**
Profit/Loss (-) for the period	**167**	**-180**	**191**	**-164**
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	47	-17	72	-25
Income tax	-3	-	-3	-3
Net other comprehensive income not to be reclassified to profit or loss in subsequent periods	**44**	**-17**	**69**	**-28**
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	82	-96	141	-121
Income tax	-20	24	-35	30
	62	-72	106	-91
Currency translation adjustments:				
Gains or losses (-) arising during the period	-6	-4	-6	-5
Income tax	-	-	-	-
Realized loss through the income statement	-	-	-	-
	-6	-4	-6	-5
Fair value adjustment available for sale financial assets:				
Unrealized gains or losses (-) arising during the period	-126	-1	463	4
Income tax	31	-	-116	-
Realized gains through the income statement	-	-	-	-
	-95	-1	347	4
Net other comprehensive income to be reclassified to profit or loss in subsequent periods	**-39**	**-77**	**447**	**-92**
Other comprehensive income for the period, net of income tax	**5**	**-94**	**516**	**-120**
Total comprehensive income for the year, net of tax	**172**	**-274**	**707**	**-284**
Total comprehensive income attributable to:				
- Equity holders	167	-277	698	-290
- Non-controlling interest	5	3	9	6
Total comprehensive income attributable to equity holders arises from:				
- Continuing operations	160	255	690	226
- Discontinued operations	7	-532	8	-516

Unaudited Consolidated Statement of Financial Position

ASSETS (in EUR m)	As at 30 June 2015	31 December 2014
NON-CURRENT ASSETS		
Goodwill	1,351	1,454
Licenses	1,251	1,564
Software	554	675
Other intangibles	275	299
Total intangible assets	**3,431**	**3,992**
Land and buildings	538	569
Plant and equipment	5,202	5,704
Other tangible non-current assets	30	58
Assets under construction	294	275
Total property, plant and equipment	**6,064**	**6,606**
Investments in associates and joint ventures	41	42
Loans to associates and joint ventures	19	19
Available-for-sale financial assets [12]	3,176	2,713
Derivative financial instruments [12]	580	328
Deferred income tax assets	1,073	1,323
Trade and other receivables	25	140
Total non-current assets	**14,409**	**15,163**
CURRENT ASSETS		
Inventories	59	61
Trade and other receivables	914	999
Income tax receivables	56	49
Derivative financial instruments [12]	33	-
Other current financial assets [6]	200	300
Cash and cash equivalents [7]	1,050	1,976
Total current assets	**2,312**	**3,385**
Non-current assets and disposal groups classified as held for sale [1]	**1,214**	**8**
TOTAL ASSETS	**17,935**	**18,556**

GROUP EQUITY AND LIABILITIES (in EUR m)	As at 30 June 2015	31 December 2014
GROUP EQUITY		
Share capital	171	171
Share premium	9,847	9,847
Other reserves	65	-388
Perpetual capital securities	1,089	1,089
Retained earnings	-6,113	-6,146
Equity attributable to equity holders	**5,059**	**4,573**
Non-controlling interest	58	57
Total group equity [8]	**5,117**	**4,630**
NON-CURRENT LIABILITIES		
Borrowings [9]	8,811	9,397
Derivative financial instruments [12]	25	191
Deferred income tax liabilities	49	52
Provisions for retirement benefit obligations [10]	246	316
Provisions for other liabilities and charges	99	136
Other payables and deferred income	47	64
Total non-current liabilities	**9,277**	**10,156**
CURRENT LIABILITIES		
Trade and other payables	2,194	2,559
Borrowings [9]	861	1,044
Derivative financial instruments [12]	6	7
Income tax payables [5]	49	79
Provision for other liabilities and charges	72	68
Total current liabilities	**3,182**	**3,757**
Liabilities directly associated with non-current assets and disposal groups classified as held for sale [1]	**359**	**13**
TOTAL EQUITY AND LIABILITIES	**17,935**	**18,556**

Unaudited Consolidated Statement of Cash Flows

	For the six months ended	
(in EUR m)	30 June 2015	30 June 2014
Profit before income tax from continuing operations	**220**	**463**
Adjustments for:		
- Net finance costs [4]	124	320
- Share-based compensation	5	2
- Share of the profit of associated and joint ventures	-	1
- Depreciation, amortization and impairments [3]	800	831
- Other income	-2	-6
- Changes in provisions (excl. deferred taxes) [10]	-10	-607
Changes in working capital relating to:		
- Inventories	-5	-10
- Trade receivables	8	110
- Prepayments and accrued income	-	-134
- Other current assets	10	11
- Trade payables	15	-140
- Accruals and deferred income	-57	-27
- Current liabilities (excl. short-term financing)	-40	21
Received dividends [4]	146	1
Taxes received / paid	-12	-13
Interest paid	-301	-455
Net cash flow from operating activities from continuing operations	**901**	**368**
Net cash flow from operating activities from discontinued operations	*54*	*126*
Net cash flow from operating activities	**955**	**494**
Acquisition of subsidiaries, associates and joint ventures (net of acquired cash)	-	-1
Disposal of subsidiaries, associates and joint ventures	-5	-7
Disposal of intangible assets	-	2
Investments in software	-115	-109
Investments in property, plant & equipment [11]	-525	-465
Disposal in property, plant & equipment [11]	1	2
Other financial assets [6]	102	-
Other	-1	-116
Net cash flow used in investing activities from continuing operations	**-543**	**-694**
Net cash flow used in investing activities from discontinued operations	*-75*	*-250*
Net cash flow used in investing activities	**-618**	**-944**
Redemption/Issuance Preference Shares B	-	-255
Dividends paid [8]	-222	-9
Repayments of borrowings and settlement of derivatives [9]	-968	-1,407
Other	-3	-13
Net cash flow used in financing activities from continuing operations	**-1,193**	**-1,684**
Net cash flow used in financing activities from discontinued operations	*-*	*-158*
Net cash flow used in financing activities	**-1,193**	**-1,842**

(in EUR m)	For the six months ended 30 June 2015	30 June 2014
Continued from previous page		
Total net cash flow from continuing operations	***-835***	***-2,010***
Total net cash flow from discontinued operations	*-21*	*-282*
Total net cash flow (changes in cash and cash equivalents)	**-856**	**-2,292**
Net cash and cash equivalents at beginning of period	**1,945**	**3,620**
Exchange rate difference	-	-
Changes in cash and cash equivalents	-856	-2,292
Net cash and cash equivalents at end of period	**1,089**	**1,328**
Bank overdrafts	12	203
Cash classified as held for sale (discontinued operations) [1]	-51	-
Cash and cash equivalents at end of period [7]	**1,050**	**1,531**

Unaudited Consolidated Statement of Changes in Group Equity

(in EUR m, except number of shares)	Number of subscribed shares	Share capital	Share premium	Perpetual capital securities	Other reserves	Retained earnings	Equity attributable to owners of the parent	Non-controlling interests	Total Group equity
Balance at 1 January 2014	**4,270,254,664**	**1,025**	**8,993**	**1,089**	**-517**	**-5,340**	**5,250**	**53**	**5,303**
Profit for the period	-	-	-	-	-	-170	-170	6	-164
Other comprehensive income for the period	-	-	-	-	-96	-24	-120	-	-120
Total comprehensive income for the period	-	-	-	-	*-96*	*-194*	*-290*	*6*	*-284*
Share based compensation	-	-	-	-	-	2	2	-	2
Reduction nominal value	-	-854	854	-	-	-	-	-	-
Dividends paid	-	-	-	-	-	-	-	-9	-9
Total transactions with owners, recognized directly in equity	-	*-854*	*854*	-	-	*2*	*2*	*-9*	*-7*
Balance at 30 June 2014	**4,270,254,664**	**171**	**9,847**	**1,089**	**-613**	**-5,532**	**4,962**	**50**	**5,012**
Balance at 1 January 2015	**4,270,254,664**	**171**	**9,847**	**1,089**	**-388**	**-6,146**	**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 [8]	-	-	-	-	-	-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**	**1,089**	**65**	**-6,113**	**5,059**	**58**	**5,117**

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. In Belgium (discontinued operations), KPN pursues a challenger strategy and offers mobile telephony products and services through BASE Company. 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 2014 except for the impact of new accounting standards (described below). These Condensed Consolidated Interim Financial Statements have not been audited or reviewed by KPN's external auditor. These Interim Condensed Consolidated Financial Statements have been prepared in accordance with IAS 34 *Interim Financial Reporting*.

Significant accounting estimates and judgments

The preparation of financial statements in conformity with IFRS requires management to make estimates, judgments and assumptions that affect the reported amounts of assets and liabilities, the reported amounts of revenues and expenses during the period as well as the information disclosed and the contingent liabilities. For KPN's significant accounting estimates, judgments and assumptions, reference is made to the Notes to the Consolidated Financial Statements contained in the Integrated Annual Report 2014, including:

- the determination of deferred tax assets for carry forward losses and the provision for tax contingencies;
- the determination of fair value less costs to sell and value in use of cash-generating units for goodwill impairment testing;
- the determination of fair values of net assets acquired in business combinations;
- the depreciation rates for the copper and fiber network included within 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;
- the determination of the expected deal proceeds for the sale of E-Plus, including the Net Debt/Working Capital settlement; and
- the assumptions used to determine the fair value less costs sell of assets and liabilities held for sale, including disposal groups (see note [1]).

Also reference is made to Note 30 'Capital and Financial Risk Management' of the Integrated Annual Report 2014 which discusses 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 2014 other than by incorporating endorsed changes in and amendments to IFRS. A full description of new and amended IFRS standards will be incorporated in the Integrated Annual Report 2015 which will be published in February 2016.

The following standards have been implemented as of 1 January 2015 due to their effective dates and the timing of their endorsement by the European Union:

- IFRIC 21 '*Levies*' provides guidance in addition to IAS 37 '*Provisions, Contingent Liabilities and Contingent Assets*' on how to account for levies posed by governments other than income taxes, specifically on when to account for the liability. This new guidance impacts the phasing of specific levies throughout a financial year as the full year expense must be recorded at their levy date. In The Netherlands and at iBasis, the impact of IFRIC 21 was not material. In Belgium (discontinued operations), specific site taxes have a levy date of 1 January and therefore IFRIC 21 resulted in recognition of the 2015 full year charge in the first quarter of 2015 (2015 full year expense: EUR 16m). Up to 2014, these types of levies were recognized evenly throughout the year. For KPN, IFRIC 21 does not have an impact on the full year financial results. The comparative financial information has not been restated.
- IAS 19 '*Employee Benefits*' has been amended regarding treatment of employee contributions in defined benefit plans. The amendment aims to simplify the calculation of employee contributions and did not affect KPN.
- The Annual Improvements 2010-2012 and the Annual Improvements 2011-2013 cover amendments to several standards, none of which have a material impact on KPN.

The following new standards, interpretations and amendments to existing standards which will become effective on or after 1 January 2016, are expected to have an impact on KPN's financial performance. These standards have not been applied in preparing these 2015 Condensed Consolidated Interim Financial Statements:

- IFRS 9 '*Financial Instruments*' as issued in July 2014 is the final version of this new standard which will replace IAS 39 '*Financial Instruments: Recognition and Measurement*' and all previous versions of IFRS 9. The standard 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 although comparative information is not mandatory. As the standard has not yet been endorsed by the European Commission, it is uncertain when it needs to be applied by KPN. IFRS 9 is expected to have an impact on the classification and measurement of KPN's financial assets and liabilities. The extent of the impact of this new standard on KPN is being reviewed.
- IFRS 15 '*Revenue from Contracts with Customers*' was issued in May 2014 with an implementation date of 1 January 2017. In April 2015, the IASB announced its intention to defer the effective date to 1 January 2018 and issued an Exposure Draft hereon in May 2015. Endorsement is expected in 2016. IFRS 15 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 (such as the sale of property, plant and equipment or intangibles). IFRS 15 provides more detailed requirements than the current standards. KPN is currently reviewing the extent of the impact of this new standard in anticipation of endorsement. 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 mismatches 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 IFRS 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.

Changes to organizational structure
As of 1 January 2015, Mobile International's Other segment has been merged with Other Activities and the segment Belgium is presented separately. Comparative segment information has been 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. For further details on the restatements refer to note [1].

Reggefiber has been consolidated (in full) in the financial statements of KPN as per 1 November 2014. For information on the acquisition of Reggefiber and details on the purchase price allocation, refer to note [31] of the 2014 Consolidated Financial Statements of KPN. During H1 2015, no changes were recorded to the purchase price allocation which remains provisional until 1 November 2015 and may be subject to alterations based on additional information about facts and circumstances that existed at 1 November 2014.

[1] Disposal group held for sale
On 20 April 2015, KPN announced that it reached an agreement to sell BASE Company to Telenet. The sale of BASE Company is subject to merger clearance.

KPN will receive a cash consideration of EUR 1,325m. In addition, KPN retains a majority interest in any net proceeds of the claim against Belgacom, which BASE Company will continue to pursue. In addition to the merger clearance, the transaction is subject to other customary terms and conditions including a break-up fee of EUR 100m payable by Telenet in case the merger control authorities do not approve the transaction.

BASE Company is classified as 'disposal group held for sale' as of 15 April 2015. The classification as 'disposal group held for sale' did not result in an impairment as the fair value less costs to sell of the disposal group is higher than the carrying value.

All assets and liabilities of BASE Company have been presented separately on KPN's Consolidated Statement of Financial Position as of 15 April 2015 as 'non-current assets of disposal groups classified as held for sale' and 'liabilities directly associated with non-current assets and disposal group held for sale'. These assets and liabilities will continue to be accounted for in accordance with the relevant IFRS standards except that the non-current assets are no longer amortized or depreciated as of 15 April 2015 following guidance of IFRS 5.

Given the significance of BASE Company to KPN Group, IFRS also classifies BASE Company as a 'discontinued operation'. As of Q2 2015 BASE Company is presented as discontinued operations in the Consolidated Statement of Profit or Loss and in the Consolidated Statement of Cash Flows. Comparative financial information has been restated in accordance with relevant IFRS standards. Results from BASE Company are reported as 'profit for the period from discontinued operations' and cash flows as 'cash flows from discontinued operations'. Since the internal reporting of BASE Company as operating segment to KPN's Chief Operating Decision Maker remains unchanged, BASE Company is still included in KPN's segment reporting.

The following table presents the assets and liabilities of BASE Company, classified as held for sale:

(in EUR m)	As at 30 June 2015	As at 15 April 2015
Intangible assets	408	406
Property, plant and equipment	515	498
Other non-current assets	85	86
Current assets	206	408
Non-current liabilities	-55	-44
Current liabilities	-304	-332
Fair value adjustment of disposal group	-	-
Net assets and liabilities	**855**	**1,022**

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

	For the three months ended 30 June		For the six months ended 30 June	
(in EUR m)	2015	2014	2015	2014
Revenues and other income	161	169	322	335
Operating expenses	-127	-172	-298	-335
Finance income and expenses	-	-1	-	-1
Share of the loss of associated and joint ventures	-	-	-	-
Income taxes	-11	1	-9	1
Result for the period from discontinued operations before impairment and tax effects resulting from the transaction	**23**	**-3**	**15**	**-**
Impairment disposal group	-	-	-	-
Profit (loss) for the period from discontinued operations related to BASE Company	**23**	**-3**	**15**	**-**

The 'profit for the period from discontinued operations' in the Consolidated Statement of Profit or Loss also includes results related to E-Plus (effectively sold 1 October 2014):

	For the three months ended 30 June		For the six months ended 30 June	
(in EUR m)	2015	2014	2015	2014
Revenues and other income	-	789	-	1,547
Operating expenses	-	-524	-	-1,060
Finance income and expenses	-	-8	-	-15
Share of the loss of associated and joint ventures	-	-1	-	-3
Income taxes	-	-375	-	-444
Result for the period from discontinued operations before impairment and tax effects resulting from the transaction	**-**	**-119**	**-**	**25**
Impairment disposal group	-	-620	-	-751
Tax adjustments	-16	210	-7	210
Profit (loss) for the period from discontinued operations related to E-Plus	**-16**	**-529**	**-7**	**-516**

[2] Revenues and other income

For a description of the activities of the segments, reference is made to the Integrated Annual Report 2014. Changes to the organizational structure are described on page 12 of these Condensed Consolidated Interim Financial Statements. For operating profit reference is made to note [3] and for other segment information reference is made to note [11] in these Condensed Consolidated Interim Financial Statements.

	For the six months ended 30 June 2015				For the six months ended 30 June 2014			
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 Mobile	686	-	32	718	670	2	29	701
Consumer Residential	900	-	61	961	899	-	60	959
Business	1,220	-	112	1,332	1,352	5	105	1,462
NetCo	240	-	851	1,091	255	-	884	1,139
Other (incl. eliminations)	3	-	-1,033	-1,030	2	-	-1,062	-1,060
The Netherlands	**3,049**	**-**	**23**	**3,072**	**3,178**	**7**	**16**	**3,201**
iBasis	**406**	**-**	**55**	**461**	**365**	**-**	**92**	**457**
Belgium (discontinued operations)	**336**	**-**	**2**	**338**	**350**	**-**	**5**	**355**
Other activities	29	1	-	30	101	-1	-2	98
Eliminations	-	-	-80	-80	-	-	-111	-111
KPN Group	**3,820**	**1**	**-**	**3,821**	**3,994**	**6**	**-**	**4,000**
Of which discontinued operations	322	-	-	322	336	-1	-	335
KPN Continuing operations	**3,498**	**1**	**-**	**3,499**	**3,658**	**7**	**-**	**3,665**

Total revenues (continuing operations) in H1 2015 were EUR 166m lower compared to 2014, mainly due to lower revenues at Business and Other activities. The decrease in revenues at Other activities mainly relates to the sale of SNT Deutschland at the end of Q1 2015 (EUR 18m) and the winding down of Ortel France as of end 2014 (EUR 21m).

The negative impact on total revenues (continuing operations) from regulation was EUR 19m. Other income (continuing operations) in H1 2014 consisted mainly of the book gain on the sale of fixed assets (hardware) at Business of EUR 5m.

The negative impact of incidentals on external revenues (continuing operations) in H1 2015 was due to a revenue related provision at Business (EUR 10m). The positive impact of incidentals on external revenues (continuing operations) in H1 2014 related to the release of revenue related provisions at NetCo (EUR 17m) and an adjustment of deferred revenues at Business (EUR 5m).

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 2015.

[3] Operating profit, DA&I and EBITDA

Operating profit, DA&I and EBITDA *(in EUR m)*	For the six months ended 30 June 2015			For the six months ended 30 June 2014		
	Operating profit	Depreciation, Amortization & Impairments (DA&I)	EBITDA	Operating profit	Depreciation, Amortization & Impairments (DA&I)	EBITDA
Consumer Mobile	87	53	140	15	90	105
Consumer Residential	59	145	204	49	151	200
Business	120	88	208	187	104	291
NetCo	135	491	626	152	466	618
Other (incl. eliminations)	-25	14	-11	-39	12	-27
The Netherlands	**376**	**791**	**1,167**	**364**	**823**	**1,187**
iBasis	**5**	**6**	**11**	**6**	**4**	**10**
Belgium (discontinued operations)	**-8**	**80**	**72**	**2**	**75**	**77**
Other activities	-36	2	-34	412	5	417
KPN Group	**337**	**879**	**1,216**	**784**	**907**	**1,691**
Of which discontinued operations	-7	79	72	-	*76*	*76*
KPN Continuing operations	**344**	**800**	**1,144**	**784**	**831**	**1,615**

EBITDA (continuing operations) decreased by EUR 471m in H1 2015 compared to H1 2014 mainly due to the impact of incidentals on H1 2014. Lower revenues at Business were offset by cost savings in The Netherlands and lower subscriber acquisition costs at Consumer Mobile. The impact of regulation on EBITDA (continuing operations) was EUR 12m. The impact of restructuring costs on EBITDA (continuing operations) was EUR 54m (H1 2014: EUR 33m).

The net positive impact of incidentals (continuing operations) on EBITDA in H1 2015 (EUR 1m) included:
- release of the asset retirement obligation at NetCo (EUR 6m);
- release of a provision at Other activities (EUR 5m);

partly offset by
- recognition of a revenue provision related to 2014 at Business (EUR 10m).

The positive impact of incidentals (continuing operations) in H1 2014 (EUR 473m) consisted of:
- release of pension provisions as a result of the approval of the new CDC pension plans for KPN PF (EUR 451m);
- release of a revenue related provision at NetCo (EUR 17m); and
- book gain on the sale of fixed assets (hardware) at Business (EUR 5m).

Operating profit (EBIT) (continuing operations) decreased by EUR 440m in H1 2015, resulting from the EBITDA decrease (EUR 471m) offset by decreased depreciation and amortization (EUR 31m). The decrease of DA&I as a result of the phasing out of the handset lease model at Consumer Mobile was partly offset by increased DA&I expenses at NetCo (following the continuing network upgrades and an impairment of obsolete assets). The DA&I expenses included impairment expenses of EUR 22m (H1 2014: EUR 19m).

[4] Finance income and expenses

Total finance income and expenses for H1 2015 was 124m (net expense) versus EUR 320m (net expense) in H1 2014. The decrease of EUR 196m is the result of higher finance income and lower finance costs.

Finance income in H1 2015 included a EUR 146m dividend received from the 20.5% stake in Telefónica Deutschland (H1 2014: nil).

Finance costs decreased by EUR 66m in H1 2015 y-on-y, mainly as a result of a lower gross debt position following regular bond redemptions and the bond tender executed in Q4 2014.

[5] 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 major components of income tax expense in the Interim Consolidated Statement of Profit or Loss are:

	For the six months ended 30 June	
(in EUR m)	**2015**	**2014**
Current tax	-49	-43
Changes in deferred taxes	12	-68
Income tax benefit/(charge) from continuing operations	**-37**	**-111**

KPN benefits from an agreement with the Dutch tax authorities with regard to the application of innovation 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%. Due to the application of the innovation tax facilities, KPN's effective tax rate in The Netherlands is reduced from the statutory tax rate of 25% to approximately 20%. The effective tax rate (continuing operations) for H1 2015 is 16.8% (H1 2014: 23.9%), mainly due to settlements with the Dutch tax authorities related to previous years.

The effective tax rate is significantly 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 21% in H1 2015. The effective tax rate (continuing operations) is expected to be approximately 20%[1] in the 2015-2016 period.

[6] Other current financial assets

At 30 June 2015, Other current financial assets consist of held-to-maturity investments including bank deposits with initial maturities longer than 3 months, amounting to EUR 200m (EUR 300m at 31 December 2014). These are classified as short-term investments in KPN's Net Debt definition.

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

[7] Cash and cash equivalents

At 30 June 2015, cash and cash equivalents amounted to EUR 1,050m, compared to EUR 1,976m at 31 December 2014. Cash and cash equivalents consist of highly liquid instruments, mainly deposits, interest-bearing bank accounts and money market funds. Part of KPN's cash balances have been invested in deposits with maturities longer than 3 months, which are classified as Other current financial assets (held-to-maturity investments) rather than cash and cash equivalents. KPN's cash balances have been invested with a wide range of strong counterparties.

The decrease in KPN's cash and cash equivalents is mainly caused by the final dividend payment in respect of 2014 in April 2015 (EUR 213m) and a bond redemption in June 2015 (EUR 1.0bn), partly offset by the EUR 146m dividend received on the 20.5% shareholding in Telefónica Deutschland, a decrease in Other current financial assets (EUR 100m) and collateral received on swaps.

[8] Group equity

During H1 2015, the number of ordinary shares outstanding remained unchanged at 4,270,254,664.

On 22 April 2015, KPN paid a final dividend in respect of 2014 of EUR 0.05 per share, in total EUR 213m. The total dividend in respect of 2014 was EUR 0.07 per share.

[9] Borrowings, bond issues and redemptions

On 22 June 2015, KPN redeemed the 4.000% 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 2015, the average maturity of the senior bond portfolio was 7.4 years (31 December 2014: 7.0 years). The average interest rate on the overall bond portfolio, including hybrid bonds, was 5.4% at 30 June 2015 (31 December 2014: 5.3%). Excluding the hybrid bonds, the average interest rate on the senior bond portfolio was 5.1% at 30 June 2015 (31 December 2014: 5.0%).

[10] Provisions for retirement benefit obligations

In 2014, the implementation of a Collective Defined Contribution pension plan ('CDC pension plan') was approved for both the main plan ('KPN PF') and the Senior Management plan ('KPN OPF'). The new plans became effective as of 1 January 2015 and entail the following:

- KPN's only obligation is to pay an annual fixed percentage of the pensionable base to the KPN PF and KPN OPF;
- the annual fixed percentage is fixed for a period of 5 years, commencing 1 January 2015;
- KPN is released from its obligation to make recovery payments; and
- KPN made a one-off lump-sum cash payment of EUR 200m to the KPN PF and EUR 30m to the KPN OPF at the end of 2014.

The approval of the new CDC pension plans was recorded as an amendment of the existing pension plans and reduced the pension provision with EUR 467m (EUR 451m KPN PF in H1 2014 and EUR 16m KPN OPF in H2 2014). This release was recorded in KPN's Consolidated Statement of Profit or Loss as a reduction of the pension expenses. At 31 December 2014, after the lump-sum cash payments of

EUR 230m, the remaining pension provisions relating to the KPN PF and KPN OPF were fully released (plan settlement). Under the new CDC pension plans, KPN has no other obligation than to pay the annual fixed premium and therefore these plans are accounted for as defined contribution plans as of 1 January 2015.

The pension provision remaining at 30 June 2015 of EUR 246m 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.

[11] Other segment information

Assets and liabilities *(in EUR m)*	**As at 30 June 2015** Total assets	Total liabilities	**As at 31 December 2014** Total assets	Total liabilities
Consumer Mobile	838	814	1,261	1,387
Consumer Residential	1,731	1,288	1,941	1,841
Business	2,138	1,688	3,478	3,127
NetCo	9,480	9,067	11,505	11,494
Other (incl. eliminations)	-817	-635	-460	-447
The Netherlands	**13,370**	**12,222**	**17,725**	**17,402**
iBasis	**405**	**239**	**386**	**232**
Belgium (discontinued operations)	**1,185**	**356**	**1,406**	**370**
Other activities	2,944	-10	-961	-4,078
KPN Group	**17,904**	**12,807**	**18,556**	**13,926**
Of which discontinued operations	-31	-11	-	-
KPN Continuing operations	**17,935**	**12,818**	**18,556**	**13,926**

The decrease in the total assets and total liabilities of the segments in The Netherlands is mainly the result of internal transfer of the result of 2014 and settlement of intercompany balances. Other adjustments include the effects of discontinued operations on the balance sheet including reversal of BASE Company depreciation and amortization (EUR 20m, net of tax) and elimination effects. Refer also to note [1].

Capex *(in EUR m)*	For the six months ended 30 June 2015	2014
Consumer Mobile	2	16
Consumer Residential	106	79
Business	33	35
NetCo	404	299
Other (incl. eliminations)	91	139
The Netherlands	**636**	**568**
iBasis	**2**	**3**
Belgium (discontinued operations)	**48**	**73**
Other activities	2	3
KPN Group	**688**	**647**
Of which discontinued operations	48	*73*
KPN Continuing operations	**640**	**574**

Capex in H1 2015 increased mainly due to higher customer driven investments at Consumer Residential and continued upgrades of the networks by NetCo partly offset by savings from the Simplification program. In Belgium, Capex is at less elevated levels following high mobile network investments in 2013 and 2014.

[12] Fair value disclosures

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

Assets and liabilities measured at fair value *(in EUR m)*	As at 30 June 2015 Level 1	Level 2	Level 3	Total balance
Assets				
Financial assets at fair value through profit and loss:				
Derivatives (cross currency interest rate swap)	-	390	-	390
Derivatives (interest rate swap)	-	207	-	207
Other derivatives	-	1	15	16
Available for sale financial assets:				
Listed securities	3,163	-	-	3,163
Unlisted securities	-	-	13	13
Total assets	**3,163**	**598**	**28**	**3,789**
Liabilities				
Financial liabilities at fair value through profit and loss:				
Derivatives (cross currency interest rate swap)	-	21	-	21
Derivatives (interest rate swap)	-	6	-	6
Other derivatives	-	4	-	4
Total liabilities	**-**	**31**	**-**	**31**

The following table presents the Group's assets and liabilities that are measured at fair value at 31 December 2014.

Assets and liabilities measured at fair value *(in EUR m)*	**As at 31 December 2014** Level 1	Level 2	Level 3	Total balance
Assets				
Financial assets at fair value through profit and loss:				
Derivatives (cross currency interest rate swap)	-	74	-	74
Derivatives (interest rate swap)	-	238	-	238
Other derivatives	-	1	15	16
Available for sale financial assets:				
Listed securities	2,703	-	-	2,703
Unlisted securities	-	-	10	10
Total assets	**2,703**	**313**	**25**	**3,041**
Liabilities				
Financial liabilities at fair value through profit and loss:				
Derivatives (cross currency interest rate swap)	-	182	-	182
Derivatives (interest rate swap)	-	13	-	13
Other derivatives	-	3	-	3
Total liabilities	**-**	**198**	**-**	**198**

The fair value of financial instruments traded in active markets is based on quoted market prices. If applicable, these instruments are included in Level 1.

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 Baa1/BBB+ or higher at 30 June 2015.

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 increase in value during H1 2015 of the available for sale financial assets (mainly stake of 20.5% in Telefónica Deutschland) was EUR 461m (for the period 1 January 2015 to 30 June 2015) and was recognized in Other Comprehensive Income. The fair value of KPN's stake in Telefónica Deutschland was EUR 3,153m at 30 June 2015 (31 December 2014: EUR 2,692m).

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 2015, the total derivatives asset position would be EUR 586m (31 December 2014: EUR 161m) and the total derivatives liability position would be EUR 4m (31 December 2014: EUR 30m).

[13] Off-balance sheet commitments

At the end of Q2 2015 off-balance sheet commitments decreased to EUR 2.4bn (of which discontinued operations: EUR 0.2bn). The off-balance sheet commitments at 31 December 2014 were EUR 2.9bn. The decrease mainly relates to the decrease of purchase commitments related to handsets (EUR 0.2bn).

[14] 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 [33] of the Integrated Annual Report 2014. In the first six months of 2015 there have been no changes in the type of related party transactions as described in the Integrated Annual Report 2014 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 16 July 2015, 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 30 June 2015. On 21 March 2014, Discovery Capital Management, LLC notified that it held 3.77% of the voting rights related to KPN's ordinary share capital. 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. To KPN's knowledge, no other shareholder owned 3% or more of KPN's issued share capital as at 30 June 2015.

[15] 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 2014 Integrated Annual Report (page 72-75). 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 2015.

KPN will publish its Integrated Annual Report 2015 in February 2016, with a detailed update of KPN's principal risks.

Regarding regulatory risk, refer to note [16], related party transactions are discussed in note [14] and for more information on discontinued operations, reference is made to note [1].

[16] Regulatory developments

The Netherlands: review of regulation fixed markets by ACM

ACM is conducting its fourth round of market analysis. On 31 October 2014, ACM published the first draft decision concerning 'the market for unbundled access'. ACM concluded that, after the Ziggo/UPC merger, a risk of joint dominance in the fixed broadband/triple play retail-markets exists. To remedy the risk, ACM concluded that KPN is to offer (virtual) unbundled access to its copper and fiber network at wholesale level. On 30 April 2015, the European Commission raised serious doubts to the draft decision, which was thereby postponed for two months. On 12 June 2015, ACM announced to withdraw the draft decision and prepare an amended draft. A new draft decision was published on 17 July 2015 which will again have to be consulted nationally until 11 September 2015 and notified to the European Commission. The new draft adds more reasoning but includes the same obligation that ACM proposes to impose upon KPN. Draft decisions for other fixed markets (fixed telephony and business services market) will only be published thereafter.

EU Regulation on open internet and roaming

On 30 June 2015, the European Council, European Parliament and European Commission reached a compromise on the principles for an EU Regulation on open internet (net neutrality) and amendment of the Roaming Regulation. Thereby it is proposed that roaming surcharges will be prohibited as of 15 June 2017, with an interim regime as of 1 April 2016, with a reduced surcharge. The regulated wholesale roaming rates that operators may charge will be reviewed prior to the prohibition of roaming surcharges. On net neutrality new EU rules will replace national regulation as of 30 April 2016. Details on the wording of the regulation are still being finalized and thereafter formal approval of the texts by council and parliament is required. Publication of the new Regulation is expected not before autumn 2015.

[17] Subsequent events

Acquisition managed hosting and cloud services provider IS Group

On 6 July 2015, KPN announced the acquisition of 100% of the share capital of IS Group from its current shareholder, IS Holding. IS Group is one of the largest managed hosting and cloud services providers in The Netherlands. IS Group's revenues amounted to approximately EUR 25m in 2014 and it employs around 130 FTE.

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 2015, 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 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).

The Hague, 29 July 2015

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
J.F.E. Farwerck	Member of the Board of Management and Chief Operating Officer
F. van der Post	Member of the Board of Management and Chief Commercial 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.

*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 2014.