30 June 2019

INTERIM FINANCIAL STATEMENTS

For the six months ended
30 June 2019

Unaudited Condensed Consolidated Interim Financial Statements

for the six months ended 30 June 2019

All related documents can be found on KPN's website (ir.kpn.com), including the KPN Management Report Q2 2019.

Unaudited Consolidated Statement of Profit or Loss

(in € m, unless indicated otherwise)	Notes	For the three months ended 30 June 2019	For the three months ended 30 June 2018 *(restated)*[1]	For the six months ended 30 June 2019	For the six months ended 30 June 2018 *(restated)*[1]
Revenues		1,359	1,402	2,720	2,799
Other income		-	-	1	5
Total revenues and other income	[4/5]	**1,359**	**1,402**	**2,721**	**2,804**
Cost of goods & services		302	326	611	648
Personnel expenses		252	276	529	558
Information technology/Technical infrastructure		91	101	184	214
Other operating expenses		111	103	225	191
Depreciation, amortization & impairments (DA&I)		381	378	762	761
Total operating expenses	[4/6]	**1,138**	**1,184**	**2,310**	**2,371**
Operating profit	[4/6]	**221**	**218**	**410**	**433**
Finance income		24	55	24	55
Finance costs		-76	-88	-157	-177
Other financial results		-5	1	-	1
Finance income and expenses	[7]	**-56**	**-32**	**-133**	**-121**
Share of the profit/loss (-) of associates		-	-	-	-
Profit/Loss (-) before income tax from continuing operations		**165**	**185**	**278**	**312**
Income taxes	[8]	-37	-44	-61	-68
Profit/Loss (-) for the period from continuing operations		**128**	**142**	**217**	**245**
Profit/Loss (-) for the period from discontinued operations	[3]	-	-8	13	-17
Profit/Loss (-) for the period		**128**	**133**	**230**	**228**
Profit/Loss (-) attributable to non-controlling interest		-	-	-	-
Profit/Loss (-) attributable to equity holders		128	133	230	227
Earnings per ordinary share after taxes attributable to equity holders for the period (in €)					
- Basic (continuing operations)		0.03	0.03	0.05	0.05
- Diluted (continuing operations)		0.03	0.03	0.05	0.05
- Basic (discontinued operations)		-	-	-	-
- Diluted (discontinued operations)		-	-	-	-
- Basic (total, including discontinued operations)		0.03	0.03	0.05	0.05
- Diluted (total, including discontinued operations)		0.03	0.03	0.05	0.05
Weighted average number of ordinary shares					
- Non-diluted				4,195,698,338	4,194,429,597
- Diluted				4,201,506,126	4,200,847,360

1) 2018 financial information has been restated as a result of IFRS 16 and an amendment to IAS 12 (refer to note [2]).
[..] Bracketed numbers refer to the related notes to these Condensed Consolidated Interim Financial Statements.

Unaudited Consolidated Statement of Other Comprehensive Income

(in € m)	For the three months ended 30 June 2019	For the three months ended 30 June 2018 *(restated)*[1]	For the six months ended 30 June 2019	For the six months ended 30 June 2018 *(restated)*[1]
Profit for the period	**128**	**133**	**230**	**228**
Other comprehensive income, net of tax				
Other comprehensive income to be reclassified subsequently to profit or loss when specific conditions are met:				
> Net gain/loss (-) on cashflow hedges	-32	5	-	-38
> Currency translation differences	5	7	-15	3
Net other comprehensive income/loss (-) to be reclassified to profit or loss in subsequent periods	**-27**	**12**	**-15**	**-35**
Items of other comprehensive income not to be reclassified subsequently to profit or loss:				
> Retirement benefit remeasurements	-1	31	-1	31
> Net gain/loss (-) on equity instruments designated at fair value through other comprehensive income	-25	-61	-84	-128
Net other comprehensive income/loss (-) not to be reclassified to profit or loss in subsequent periods	**-26**	**-30**	**-85**	**-97**
Other comprehensive income/loss (-) for the period, net of tax	**-53**	**-18**	**-100**	**-132**
Total comprehensive income/loss (-) for the period, net of tax	**75**	**115**	**130**	**96**
Total comprehensive income for the period, net of tax, attributable to:				
> Equity holders of the company	75	115	130	96
> Non-controlling interest	-	-	-	-
Total comprehensive income/loss (-) attributable to equity holders arises from:				
> Continuing operations	75	120	128	113
> Discontinued operations	-	-5	2	-17

1) 2018 financial information has been restated as a result of IFRS 16 and an amendment to IAS 12 (refer to note [2]).
[..] Bracketed numbers refer to the related notes to these Condensed Consolidated Interim Financial Statements.

Unaudited Consolidated Statement of Financial Position

Assets

(in € m)	Notes	30 June 2019	31 December 2018 *(restated)*[1]	1 January 2018 *(restated)*[1]
Non-current assets				
Land and buildings		349	391	410
Plant and equipment		4,803	4,921	5,042
Other tangible non-current assets		40	37	35
Assets under construction		281	246	268
Total property, plant and equipment		**5,474**	**5,595**	**5,755**
Goodwill		1,502	1,510	1,530
Licenses		848	890	976
Software		501	523	540
Right-of-use assets	[2]	757	878	971
Other intangibles		228	245	296
Total intangible assets		**3,835**	**4,047**	**4,313**
Equity investments accounted for using the equity method		19	17	21
Equity investments measured at fair value through other comprehensive income	[15]	30	26	20
Derivative financial instruments	[15]	263	185	168
Deferred income tax assets		677	720	927
Trade and other receivables		174	197	138
Contract assets and contract costs	[2]	33	33	35
Total other non-current assets		**1,195**	**1,178**	**1,309**
Total non-current assets		**10,504**	**10,820**	**11,377**
Current assets				
Inventories		62	58	54
Trade and other receivables		786	780	717
Contract assets and contract costs	[2]	61	106	287
Income tax receivable		1	-	1
Equity investments measured at fair value through other comprehensive income	[15]	-	449	1,071
Other current financial assets	[10]	2	50	329
Cash and cash equivalents	[11]	381	594	856
Total current assets		**1,294**	**2,036**	**3,314**
Assets and disposal group classified as held for sale	[3]	**149**	**148**	**1**
Total assets		**11,946**	**13,005**	**14,692**

1) 2018 financial information has been restated as a result of IFRS 16 and an amendment to IAS 12 (refer to note [2]).
[..] Bracketed numbers refer to the related notes to these Condensed Consolidated Interim Financial Statements.

Group equity and liabilities

(in € m)	Notes	30 June 2019	31 December 2018 *(restated)*[1]	1 January 2018 *(restated)*[1]
Equity				
Share capital		168	168	168
Share premium		8,445	8,445	8,445
Other reserves		-409	-398	-402
Retained earnings		-6,532	-6,338	-5,885
Equity attributable to holders of perpetual capital securities		-	-	1,089
Equity attributable to equity holders of the company		**1,673**	**1,877**	**3,415**
Non-controlling interests		1	-	-
Total equity	[12]	**1,674**	**1,878**	**3,415**
Non-current liabilities				
Borrowings	[13]	6,991	6,939	7,523
Lease Liabilities	[2]	702	827	930
Derivative financial instruments	[15]	320	302	328
Deferred income tax liabilities		-	-	1
Provisions for retirement benefit obligations	[14]	200	206	218
Provisions for other liabilities and charges		105	110	93
Contract liabilities	[2]	208	206	155
Other payables		12	5	9
Total non-current liabilities		**8,538**	**8,596**	**9,257**
Current liabilities				
Trade and other payables		1,177	1,357	1,517
Contract liabilities	[2]	227	253	270
Borrowings	[13]	1	580	8
Lease Liabilities	[2]	121	149	142
Derivative financial instruments	[15]	19	16	-
Income tax payables	[8]	-	2	16
Provision for other liabilities and charges		80	78	66
Total current liabilities		**1,625**	**2,434**	**2,020**
Liabilities directly associated with assets and disposal group classified as held for sale	[3]	**110**	**98**	**-**
Total equity and liabilities		**11,946**	**13,005**	**14,692**

1) 2018 financial information has been restated as a result of IFRS 16 and an amendment to IAS 12 (refer to note [2]).
[..] Bracketed numbers refer to the related notes to these Condensed Consolidated Interim Financial Statements.

Unaudited Consolidated Statement of Cash Flows

(in € m)	Notes	For the six months ended 30 June 2019	30 June 2018 *(restated)*[1]
Profit before income tax from continuing operations		278	312
Adjustments for:			
- Net financial expenses	[7]	133	121
- Share-based compensation		1	-6
- Share of the profit/loss (-) of associates		-	-
- Depreciation, amortization and impairments	[2/4/6]	762	761
- Other non-cash income and expenses		-1	-5
- Changes in provisions (excl. deferred taxes)	[6/14]	3	8
Changes in working capital relating to:			
- Current assets		36	76
- Current liabilities		-201	-158
Dividends received	[7/12]	24	54
Income taxes paid/received		-7	-25
Interest paid/received		-168	-177
Net cash flow from operating activities from continuing operations		**859**	**962**
Net cash flow from operating activities from discontinued operations	[3]	**1**	**5**
Net cash flow from operating activities		**861**	**967**
Disposal of equity investments measures at fair value through other comprehensive income	[11/15]	347	260
Acquisition of subsidiaries and associates (net of acquired cash)		-2	-15
Disposal of subsidiaries and associates (net of cash)			
Investments in software		-119	-99
Investments in other intangibles assets		-	-1
Investments in property, plant & equipment		-412	-382
Disposals of property, plant & equipment		2	-
Disposals of real estate		-	5
Changes in other current financial assets		44	-77
Net cash flow from investing activities from continuing operations		**-140**	**-308**
Net cash flow from investing activities from discontinued operations		**35**	**-2**
Net cash flow from investing activities		**-105**	**-311**
Dividends paid	[12]	-336	-361
Repayment of perpetual hybrid bonds		-	-
Repayments of borrowings and settlement of derivatives	[13]	-562	-10
Share repayments		-	-
Repayment lease liabilities	[2]	-89	-89
Other		-1	-1
Net cash flow from financing activities from continuing operations		**-988**	**-461**
Net cash flow from financing activities from discontinued operations	[3]	**-**	-
Net cash flow from financing activities		**-988**	**-461**

1) 2018 financial information has been restated as a result of IFRS 16 and an amendment to IAS 12 (refer to note [2]).
[..] Bracketed numbers refer to the related notes to these Condensed Consolidated Interim Financial Statements.

(in € m)	Notes	For the six months ended 30 June 2019	30 June 2018 *(restated)*[1]
Continued from previous page			
Total net cash flow from continuing operations		-268	193
Total net cash flow from discontinued operations		37	2
Total net cash flow (changes in cash and cash equivalents)		**-231**	**195**
Net cash and cash equivalents at beginning of period		612	852
Exchange rate difference		-	-
Changes in cash and cash equivalents		-231	196
Net cash and cash equivalents at end of period		**381**	**1,047**
Bank overdrafts		-	1
Cash classified as held for sale		-1	-21
Cash and cash equivalents at end of period	[11]	**381**	**1,027**

1) 2018 financial information has been restated as a result of IFRS 16 and an amendment to IAS 12 (refer to note [2]).
[..] Bracketed numbers refer to the related notes to these Condensed Consolidated Interim Financial Statements.

Unaudited Consolidated Statement of Changes in Group Equity

(in € m, except number of shares)	Notes	Subscribed ordinary shares	Share capital	Share premium	Other reserves	Retained earnings	Equity attributable holders of perpetual capital securities	Equity attributable to equity holders of the company	Total equity
Balance at 1 January 2018		**4,202,844,404**	**168**	**8,445**	**-402**	**-5,818**	**1,089**	**3,482**	**3,482**
Transition impact IFRS 16	[2]		-	-	-	-67	-	-67	-67
Balance at 1 January 2018 ***Restated***[1]		**4,202,844,404**	**168**	**8,445**	**-402**	**-5,885**	**1,089**	**3,415**	**3,415**
Profit for the period		-	-	-	-	227	-	227	228
Other comprehensive income		-	-	-	-35	-97	-	-132	-132
Total comprehensive income		**-**	**-**	**-**	**-35**	**130**	**-**	**95**	**96**
Share based compensation		-	-	-	-	-16	-	-16	-16
Sold treasury shares		-	-	-	19	-	-	19	19
Dividends paid	[12]	-	-	-	-	-361	-	-361	-361
Other		-	-	-	-	-8	-	-8	-8
Total transactions with owners, recognized directly in equity		**-**	**-**	**-**	**19**	**-385**	**-**	**-366**	**-366**
Balance at 30 June 2018 ***Restated***[1]		**4,202,844,404**	**168**	**8,445**	**-418**	**-6,140**	**1,089**	**3,144**	**3,144**
Balance at 1 January 2019		**4,202,844,404**	**168**	**8,445**	**-398**	**-6,270**	**-**	**1,945**	**1,945**
Transition impact IFRS 16	[2]	-	-	-	-	-68	-	-68	-68
Balance at 1 January 2019 ***Restated***[1]		**4,202,844,404**	**168**	**8,445**	**-398**	**-6,338**	**-**	**1,877**	**1,878**
Profit for the period		-	-	-	-	230	-	230	230
Other comprehensive income		-	-	-	-15	-85	-	-100	-100
Total comprehensive income		**-**	**-**	**-**	**-15**	**145**	**-**	**130**	**130**
Share based compensation		-	-	-	-	-2	-	-2	-2
Sold treasury shares		-	-	-	4	-	-	4	4
Dividends paid	[12]	-	-	-	-	-336	-	-336	-336
Total transactions with owners, recognized directly in equity		**-**	**-**	**-**	**4**	**-338**	**-**	**-334**	**-334**
Balance at 30 June 2019		**4,202,844,404**	**168**	**8,445**	**-409**	**-6,532**	**-**	**1,673**	**1,674**

1) 2018 financial information has been restated as a result of IFRS 16 and an amendment to IAS 12 (refer to note [2]).
[..] Bracketed numbers refer to the related notes to these Condensed Consolidated Interim Financial Statements.

General notes to the Condensed Consolidated Interim Financial Statements

[1] Company profile

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

[2] Accounting policies

Basis of preparation

These condensed consolidated interim financial statements ('interim financial statements') for the six months ending 30 June 2019 have been prepared in accordance with IAS 34 Interim Financial Reporting and should be read in conjunction with KPN's Integrated Annual Report 2018 as this document does not include all the information and disclosures required in the annual financial statements.

The applied accounting policies are in line with those as described in KPN's Integrated Annual Report 2018 except for the impact of new accounting standards as described below. These interim financial statements have not been audited by KPN's external auditor.

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

Significant accounting estimates and judgments

These are evaluated continuously and are based on historic experience and other factors, including expectations of future events thought to be reasonable under the circumstances. Actual results may deviate from the estimates applied. Estimates are revised when material changes to the underlying assumptions occur. For more information on KPN's significant accounting estimates, judgments and assumptions, refer to the Notes to the Consolidated Financial Statements of the Integrated Annual Report 2018.

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

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

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

Change in accounting policies & restatement reconciliation

The accounting policies in preparing these interim financial statements are consistent with those disclosed in KPN's Integrated Annual Report 2018, except for the adoption of new standards and amendments effective as of 1 January 2019. KPN applies new standards and amendments issued by the International Accounting Standards Board (IASB), when effective and endorsed by the European Union. KPN has not early adopted any new standards.

Only changes with a significant impact are discussed. Per 1 January 2019, only the implementation of IFRS 16 (Leasing) had a significant impact.

Other adjustments include the following:
- The amendment to IAS 12 (Income tax) with a total impact on Profit/Loss (-) for the period from continuing operations of € 8m in H1 2018. Refer also to note [8]
- A reclassification of specific operating expenses from IT/TI to costs of goods & services based on internal review of the nature of these expenses, with a total impact of € 13m in H1 2018.

IFRS 16 Leases

IFRS 16 has been endorsed by the EU and is effective as of 1 January 2019. This standard introduces on balance sheet accounting for almost all leases. For lessees, the distinction between financial leases ('on balance') and operating leases ('off balance') is removed. For lessors, the accounting requirements remained substantially unchanged and the two types of leases remain in place. IFRS 16 has a significant impact on KPN as a lessee.

KPN applied the standard using the full retrospective approach. Therefore, KPN has restated the 2018 financial information included in these interim financial statements. A cumulative transitional adjustment was recorded on 1 January 2018, the date of initial application. Per transition date, KPN applies IFRS 16 only to leases which were previously identified as leases under IAS 17 and IFRIC 4 in accordance with the practical expedient allowed under IFRS 16.

a) Financial impact

Impact on the statement of profit or loss for the six months ending 30 June 2018

(in € m)	H1 2018 *Published*	IFRS 16	Other adjustments	H1 2018 *Restated*
Total revenue and other income	**2,803**	**1**	**-**	**2,804**
Cost of goods & services	635	-	13	648
Personnel expenses	577	-19	-	558
Information technology/Technical infrastructure	225	-	-13	214
Other operation expenses	256	-64	-	191
Depreciation, amortization and impairments	692	69	-	761
o/w Depreciation right-of-use assets	-	*74*	-	*74*
Total operating expenses	**2,385**	**-14**	**-**	**2,371**
Operating profit	**418**	**15**	**-**	**433**
Finance income and expenses	-106	-16	-	-121
o/w Interest lease liabilities	-	*-17*	-	*-17*
Share of the profit of associates	-	-	-	-
Profit/Loss (-) before income tax from continuing operations	**312**	**-1**	**-**	**312**
Income taxes [8]	-76	-	8	-68
Profit/Loss (-) for the period from continuing operations	**235**	**-1**	**8**	**245**
Profit/Loss (-) for the period from discontinued operations	-17	-	-	-17
Profit/Loss (-) for the period	**219**	**-1**	**8**	**228**

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

The impact of the IFRS 16 adjustments on the statement of profit or loss mainly consists of;

- Lease expenses (fixed fees only) previously reported under operating expenses have been replaced by depreciation of the right-of-use assets and interest expense from the lease liabilities. Variable lease fees and lease related expenses remain part of operating expenses. The operating expenses removed from personnel expenses mainly relate to vehicles whereas the amounts removed from other operating expenses relate to the underlying assets of the fixed and mobile network, shops and office buildings.
- The amount of depreciation and interest expenses following the implementation of IFRS 16 is not equal to the operating expenses removed as the interest expenses on the lease liability do not follow a linear pattern.
- The total impact on depreciation expenses (H1 2018: € 69m) does not equal the amount recognized as depreciation of the right-of-use asset (H1 2018: € 74m) due to the removal of depreciation expenses previously recognized for financial leases. As KPN applies IFRS 16 using the full retrospective approach, the carrying values for these contracts have been restated accordingly.

Impact on the statement of financial position as at 1 January 2018 and 31 December 2018

(in € m)	31 December 2018 *Published*	IFRS 16	31 December 2018 *Restated*	1 January 2018 *Published*	IFRS 16	1 January 2018 *Restated*
Non-current assets						
Property, plant and equipment	5,641	-46	5,595	5,811	-56	5,755
o/w Financial Lease assets (IAS 17)	*-46*	*-46*	*-*	*56*	*-56*	*-*
Right-of-Use asset (IFRS 16)	-	878	878	-	971	971
Deferred income tax assets	702	18	720	907	20	927
Current assets						
Trade and other receivables	802	-22	780	735	-19	717
Total assets	**12,177**	**828**	**13,005**	**13,776**	**916**	**14,692**
Total equity	**1,945**	**-68**	**1,878**	**3,482**	**-67**	**3,415**
Non-current liabilities						
Borrowings	6,986	-47	6,939	7,579	-56	7,523
o/w Financial Lease liabilities (IAS 17)	*47*	*-47*	*-*	*56*	*-56*	*-*
Lease liabilities (IFRS 16)	-	827	827	-	930	930
Provisions	119	-9	110	103	-10	93
Other payables	17	-12	5	22	-13	9
Current liabilities						
Trade and other payables	1,361	-4	1,357	1,517	-	1,517
Borrowings	589	-9	580	18	-10	8
o/w Financial Lease liabilities (IAS 17)	*9*	*-9*	*-*	*10*	*-10*	*-*
Lease liabilities (IFRS 16)	-	149	149	-	142	142
Total equity and liabilities	**12,177**	**828**	**13,005**	**13,776**	**916**	**14,692**

The impact of the IFRS 16 adjustments on the statement of financial position mainly consists of;

- Recognition of the right-of-use asset and lease liability, split in a non-current and a current portion.
- Reversal of the (IAS 17 based) carrying values of KPN's financial lease assets and financial lease liabilities as these contracts have been recalculated under application of IFRS 16 and absorbed in the total carrying values of the right-of-use asset and lease liability.
- The (restructuring) provision related to the onerous building leases is replaced by an impairment of the right-of-use asset for the related lease contract.
- Reversal of deferred lease incentives as under IFRS 16 these are deducted from the carrying value of the right-of-use asset or integrated in the measurement of the lease liability, depending on the nature of the incentive.
- The net impact on equity of the items described above is partly offset by a deferred tax asset.

Impact on the statement of cash flows for the six months ending 30 June 2018

(in € m)	H1 2018 *Published*	IFRS 16 adjustment	H1 2018 *Restated*
Net cash flows from operating activities	877	85	962
Net cash flow from financing activities	-375	-85	-461

The impact of the IFRS 16 adjustments on the statement of cash flows mainly consists of;

- The cash flows related to the payments on lease liabilities transferred from cash flow from operating activities to cash flow used in financing activities. The interest paid on the lease liabilities remained part of cash flow from operating activities. The total net cash flow for 2018 is not affected.

There is no material impact on other comprehensive income and the basic and diluted EPS.

b) Composition of KPN's Lease portfolio and correlation with IAS 17 based Off Balance Sheet Obligations
KPN's lease portfolio mainly consists of buildings, site rentals, mobile towers and vehicles.

As at 31 December 2017, KPN reported an off balance sheet obligation for operating leases of € 775m, and an on balance sheet financial lease liability of € 66m. The off balance sheet obligation was determined based on the nominal contract values of KPN's operating leases, not taking into account any renewal options unless they have been exercised. IFRS 16 requires the lease liability to be recognized at discounted value and, among other factors, requires that the likelihood of early terminations or use of renewal options is taken into account. The lease liability recognized at 1 January 2018 (€ 1,067m) exceeds the total lease commitments reported under IAS 17 (€ 841m) by € 226m due to a mix of renewal options deemed reasonably certain, early termination options which are reasonably certain not to be exercised and fixed indexation taken into account under IFRS 16.

The estimated impact of the adoption of IFRS 16 may be subject to change until the publication of KPN's Financial Statements 2019.

The 'on balance' recognition of KPN's lease liability did not have an impact on KPN's financing arrangements as these do not contain any financial covenants.

c) Summary of new accounting principles
Below a summary of KPN's main accounting principles related to IFRS 16;

<u>Lease Liability</u>
At the commencement date of a lease (i.e. the date on which the underlying asset of the lease is available for use by KPN), KPN recognizes a lease liability measured at the present value of future lease payments to be made over the term of the lease. These future lease payments include fixed fees (including in-substance fixed payments) less any lease incentives (in the form of rent-free periods or fee discounts), variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. KPN does not have purchase options to be taken into account. Penalties for early termination of a lease are not included when KPN is reasonably certain that the related early termination will not take place.
KPN does not have contracts containing variable lease payments that do not depend on an index or a rate. However, should these types of fees occur, the variable fees will be accounted for in the operating expenses.

After the commencement date, the lease liabilities increase due to the accrual of interest and decrease due to the payments of the fees due. The lease liabilities are remeasured when a change occurs in the fees due, the lease term deemed reasonably certain and/or changes to the scope of a lease. Upon remeasurement of the lease liability of a contract, the applied discount rate (incremental borrowing rate) is revised unless the remeasurement relates to a fee increase following a consumer price index.

The total lease liability recognized is split in a non-current and a current portion. The short-term lease liabilities reflect only the part of the payments due within one year related to the repayment of the total lease liability.

Incremental borrowing rate
As the implicit discount rates of KPN's leases were not readily available, with the exception for vehicles, KPN applies the incremental borrowing rate applicable at commencement date of a lease to determine the discounted value of the lease liabilities. Upon modification of a lease, the remeasurement of the lease liability is performed using the applicable discount rate at the date of the remeasurement. KPN's incremental borrowing rates are mainly determined using a risk free rate combined with a spread reflecting KPN's credit risk. The applicable rate per contract is primarily dependent on the expected term of a lease at its commencement date.

Application of practical expedients
KPN does not apply the practical expedients for low value leases (leases of an underlying asset with a value less than € 5,000) and short-term leases (leases with a total expected term less than 12 months) except for short-term rental vehicles. Regarding vehicles leases, KPN applies the practical expedient not to separate non-lease components from lease components. Therefore, the full monthly lease fees are reflected on KPN's balance sheet. For all types of leased assets, electricity and fuel related expenses remain part of operating expenses.

Right-of-use asset
The right-of-use assets are recognized at commencement date of a lease as counterpart to the lease liabilities. The right-of-use assets are measured at cost, less accumulated depreciation and impairment losses and adjusted for any remeasurement in the corresponding lease liabilities. The cost of the right-of-use asset include the initially recognized amount of the corresponding lease liabilities, initial direct costs incurred in obtaining the lease (if any) and lease payments made at or before commencement of the lease. Lease incentives received are deducted from the carrying value of the right-of-use asset.
The right-of-use assets are depreciated on a straight-line basis over the shorter of the estimated useful life of the underlying asset and the lease term.
Right-of-use assets are subject to impairment.

Significant judgements applied in determining the Lease Liabilities
KPN determined the lease term as the non-cancellable term of a contract together with any periods covered by an option to extend the lease if it is reasonable certain to be exercised, or any periods covered by an option to terminate the lease if it is reasonably certain not to be exercised.
Most of KPN's lease contract have extension options with renewal terms with a wide range of renewal terms.

KPN applies judgment when assessing if the use of an option is reasonably certain. Factors included are KPN's asset and network strategy, technological development and other circumstances that may impose an economic incentive affecting the expected use of an underlying asset.
For vehicles, renewal options are not included in the initial assessment of the lease term as KPN's policy prescribes the return of vehicles to the lessor at the end of the lease term.

c) Movement schedules right-of-use asset and lease liability

(in € m)	Mobile network	Fixed network & Datacenters	Real Estate	Vehicles	Other	Total
Right-of-use asset						
Cost	740	302	547	161	4	1,754
Accumulated Depreciation & impairment	-308	-164	-234	-74	-3	-783
Balance as at 1 January 2018	**433**	**138**	**313**	**86**	**2**	**971**
Additions	7	1	3	16	-	28
Remeasurement & lease modifications	6	-	-	-2	-	5
Depreciation expense	-25	-11	-19	-19	-	-73
Impairment expense	-	-	-1	-	-	-1
Closing net book value	**421**	**128**	**297**	**82**	**1**	**929**
Cost	752	303	552	157	4	1,768
Accumulated Depreciation & impairment	-331	-175	-254	-75	-3	-839
Balance as at 30 June 2018	**421**	**128**	**297**	**82**	**1**	**929**
Lease Liability						
Non-current lease liability	412	143	322	53	1	930
Current lease liability	47	20	38	32	1	137
Balance as at 1 January 2018	**458**	**163**	**359**	**85**	**1**	**1,067**
Additions	7	1	3	16	-	28
Remeasurement & lease modifications	6	-	-1	-2	-	4
Interest expense	8	3	5	-	-	17
Redemption	-27	-14	-24	-19	-	-84
Closing net book value	**454**	**153**	**343**	**81**	**1**	**1,032**
Non-current lease liability	405	131	304	49	-	890
Current lease liability	49	22	39	32	1	142
Balance as at 30 June 2018	**454**	**153**	**343**	**81**	**1**	**1,032**
Less: Prepayments						-17
Total Lease Liability as at 30 June 2018						**1,015**

(in € m)	Mobile network	Fixed network & Datacenters	Real Estate	Vehicles	Other	Total
Right-of-use asset						
Cost	757	304	541	156	4	1,762
Accumulated Depreciation & impairment	-355	-186	-263	-77	-3	-884
Balance as at 1 January 2019	**402**	**119**	**278**	**79**	**2**	**878**
Additions	6	-	2	17	-	25
Remeasurement & lease modifications	6	-	-3	-	-	3
Depreciation expense	-26	-9	-18	-18	-	-72
Impairment expense	-	-	-	-	-	-
Transfer to held for sale [3]	-	-77	-	-	-	-77
Closing net book value	**388**	**33**	**258**	**77**	**1**	**757**
Cost	763	152	521	156	5	1,596
Accumulated Depreciation & impairment	-375	-119	-263	-79	-3	-839
Balance as at 30 June 2019	**388**	**33**	**258**	**77**	**1**	**757**
Lease Liability						
Non-current lease liability	379	121	282	47	-	829
Current lease liability	50	22	38	31	-	142
Balance as at 1 January 2019	**429**	**144**	**320**	**78**	**1**	**972**
Additions	6	-	2	17	-	25
Remeasurement & lease modifications	5	-	-5	-	-	1
Interest expense	7	3	4	-	-	15
Redemption	-27	-14	-24	-19	-	-85
Transfer to held for sale [3]	-	-91	-	-	-	-91
Closing net book value	**420**	**42**	**297**	**76**	**1**	**837**
Non-current lease liability	368	29	259	45	1	702
Current lease liability	52	12	38	31	1	135
Balance as at 30 June 2019	**420**	**42**	**297**	**76**	**1**	**837**
Less: Prepayments						-13
Total Lease Liability as at 30 June 2019						**823**

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

Future implications of new and amended standards and interpretations

The IASB has issued several new standards and amendments to existing standards with an effective date 1 January 2020 or later. KPN does not expect a material impact on its financial performance and/or the presentation thereof.

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

Discontinued operations: Sale iBasis completed

The sale of iBasis Inc. has been completed on 8 February 2019. iBasis has been eliminated from the segment disclosures but the 'profit/loss (-) for the period from discontinued operations' in the Consolidated Statement of Profit or Loss and 'cash flows from discontinued operations' include results related to iBasis until 8 February 2019.

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

(in € m)	For the six months ended 30 June 2019	For the six months ended 30 June 2018
Revenues and other income	36	233
Operating expenses	-35	-222
Finance income and expenses	-	1
Share of the loss of associated and joint ventures	-	-
Income taxes	-	-3
Result for the period from discontinued operations before impairment and tax effects resulting from the transaction	**-**	**9**
Impairment disposal group	-	-17
Realized cumulative currency translation adjustment	12	-
Profit/Loss (-) for the period from discontinued operations related to iBasis	**13**	**-8**

Some results (and cash flows) from discontinued operations may continue to arise following the unwinding of remaining positions of E-Plus (sold in 2014) and BASE Company (sold in 2016). The result from discontinued operations in H1 2019 (€ 13m) and H1 2018 (€ -17m) includes, besides the result from iBasis mentioned above (€ -8m), results related to BASE Company (€ -9m in H1 2018) and E-Plus (€ 1m in H1 2019 and € -1m in 2018). The negative result related to BASE Company arose from a balance sheet guarantee.

Assets held for sale

<u>NLDC</u>

On 20 May 2019, KPN announced the sale of its subsidiary NLDC to DWS. NLDC was part of KPN's Wholesale segment. As per 8 May, the business has been classified as held for sale. The sale is subject to regular closing conditions. The transaction will result in a net book gain which will be presented as part of "other income" at completion.

<u>KPN International</u>

On 8 July 2019, KPN announced that it had reached an agreement to sell its international network to GTT Communications, Inc., a global cloud networking provider to multinational clients and operator of a Tier 1 IP network. The sale is subject to regular closing conditions, including regulatory approvals. KPN's international network has been classified as held for sale as of 25 June 2019. The transaction will result in a net book gain which will be presented as part of other income at completion.

Due to their relative size for the KPN Group, neither transaction qualified as discontinued operation. Therefore, the results of NLDC and KPN International remain included in KPN's consolidated results until the date of completion of the transaction whereas their assets and liabilities are classified on KPN's consolidated balance sheet as part of the 'assets and liabilities held for sale'.

Notes to the Condensed Consolidated Statement of Profit or Loss

[4] Segment information Profit or Loss

KPN's segment information has changed compared to 31 December 2018, as presented in Note 3 of the Integrated Annual Report 2018. The changes comprise the implementation of IFRS 16 and several relatively small changes to the organizational structure of KPN Group. As the sale of iBasis has been completed, this segment is no longer included in KPN's segment information. Also, KPN no longer reports on the subtotal 'The Netherlands'. The former segments 'Other activities' and 'Other The Netherlands' are now combined in 'Other'.

For the six months period ending 30 June 2019

in € m	*Consumer*	*Business*	*Wholesale*	*NOI*	*Other*	*Total*
Statement of Profit or Loss						
External revenues	1,446	1,004	268	1	1	2,720
Other income	-	-	-	1	-	1
Inter-division revenues	5	9	48	-	-62	-
Total [5]	**1,450**	**1,013**	**316**	**3**	**-61**	**2,721**
Operating expenses	-531	-557	-73	-333	-55	-1,549
EBITDA *(contribution margin)* **[6]**	**919**	**456**	**243**	**-330**	**-116**	**1,172**
DA&I	-105	-40	-10	-576	-31	-762
Operating profit [6]	**814**	**416**	**233**	**-906**	**-147**	**410**
EBITDA	919	456	243	-330	-116	1,172
DA&I right-of-use asset [2]	-4	-3	-3	-32	-27	-70
Interest lease liabilities [2]	-1	-	-2	-8	-3	-15
EBITDA after leases	**914**	**453**	**238**	**-371**	**-146**	**1,087**

For the six months period ending 30 June 2018 *(restated)*

in € m	**Consumer**	**Business**	**Wholesale**	**NOI**	**Other**	**Total**
Statement of Profit or Loss						
External revenues	1,476	1,058	254	2	9	2,799
Other income	-	-	-	5	-	5
Inter-division revenues	5	11	54	1	-70	-
Total [5]	**1,481**	**1,069**	**308**	**8**	**-61**	**2,804**
Operating expenses	-553	-565	-76	-353	-64	-1,611
EBITDA *(contribution margin)* **[6]**	**928**	**503**	**232**	**-345**	**-125**	**1,194**
DA&I	-110	-38	-13	-566	-33	-761
Operating profit [6]	**818**	**465**	**219**	**-911**	**-158**	**433**
EBITDA	928	503	232	-345	-125	1,194
DA&I right-of-use asset [2]	-5	-3	-5	-32	-29	-74
Interest lease liabilities [2]	-2	-	-2	-10	-3	-17
EBITDA after leases	**921**	**500**	**225**	**-386**	**-157**	**1,103**

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

[5] Revenues and other income

Total revenues and other income from continuing operations in H1 2019 were € 84m lower compared to H1 2018. This was mainly due to lower revenues in Business (€ 56m) and Consumer (€ 31m). The strategic focus on value over volume and the implementation of related portfolio rationalization, such as the migrations from traditional fixed voice and legacy broadband services to KPN EEN and lower revenue from hardware and licenses compared to H1 2018 impacted the revenue trend at Business in H1 2019. In Consumer, the decrease in revenues was driven by lower mobile service revenues and lower mobile handset sales.

External revenues were not impacted by incidentals in H1 2019 nor H1 2018.

For further information on disaggregation of revenue, refer to the factsheet accompanying the Q2 2019 quarterly press release (available on KPN's website; ir.kpn.com).

[6] Operating expenses, DA&I

Operating expenses (excluding DA&I) decreased by € 62m as a result of lower costs of goods & services following the lower hardware and license revenues at Business and lower mobile handset sales at Consumer and the impact of the Simplification program on the indirect expenses. Personnel expenses declined due to a reduction in own and temporary personnel. IT/TI expenses declined driven by the simplification of KPN's networks, contract negotiations with suppliers and insourcing of activities. Other operating expenses increased mainly due to higher restructuring expenses (H1 2019: € 70m, H1 2018: € 35m).

DA&I expenses remained stable compared to H1 2018 and included impairment expenses of € 9m, mainly related to software DA&I expenses. H1 2018 included impairment expenses of € 6m, mainly related to decommissioned legacy systems (hardware and software).

[7] Finance income and expenses

Total finance income and expenses amounted to € -133m in H1 2019, € 11m higher net costs compared to H1 2018 (€ -121m). Finance income in H1 2019 decreased by € 31m to € 24m compared to H1 2018 (€ 55m) mainly as a result of less dividend received from KPN's shareholding in Telefónica Deutschland (H1 2019: € 24m, H1 2018: € 54m).

Finance costs in H1 2019 decreased by € 20m to € -157m compared to H1 2018 (€ -177m), mainly due to the regular redemption of the 7.5% Eurobond 2009-2019 (€ 465m outstanding) and lower average interest rates as a result of an adjustment of the interest rate duration of KPN's bond portfolio. Interest expenses on lease liabilities amounted to € 15m in H1 2019 (H1 2018: € 17m).

Other financial results in H1 2019 amounted to nil in H1 2019, which was € 1m lower compared to H1 2018 (€ 1m).

[8] Income taxes

KPN calculates the income tax expense for the period using the tax rate applicable to the expected total annual earnings. The income tax charge for H1 2019 was € 61m compared to € 68m in H1 2018.

KPN benefits from innovation box tax facilities which are facilities under Dutch corporate income tax law, whereby profits attributable to innovation are taxed at an effective tax rate of 7%. KPN expects that the effective tax rate will be approximately 23% in 2019.

The effective tax rate for H1 2019 was 22.0% against 21.7% in H1 2018. The effective tax rate was mainly influenced by one-off effects. Without one-off effects, the effective tax rate would have been approximately 23% in H1 2019 (approximately 23% in H1 2018).

Due to an amendment on IAS12, the 2018 P&L tax expense for H1 2018 was restated (€ 8m additional tax benefit) as income tax consequences of (hybrid) dividends are recorded in line with the past transactions or events that generated distributable profits.

Notes to the Condensed Statement of Financial Position

[9] Segment information Statement of Financial Position

Segment information as at 30 June 2019

in € m	Consumer	Business	Wholesale	NOI	Other	Total
Total assets	2,851	1,904	545	6,983	-337	11,946
Total liabilities	2,124	1,496	308	7,899	-1,554	10,273

Segment information as at 31 December 2018 *(restated)*

in € m	Consumer	Business	Wholesale	NOI	Other	Total
Total assets	4,545	2,646	1,040	9,520	-4,747	13,005
Total liabilities	4,607	2,585	1,037	9,191	-6,292	11,127

The change in the total assets and total liabilities of the segments was mainly the result of internal transfer of the result of 2018 and changes in intercompany balances.

[10] Other current financial assets

To manage group liquidity, from time to time KPN invests in short-duration fixed income funds and unrated money market funds, which are measured at fair value through profit or loss. These funds have low volatility with an investment objective of preservation of principal and are classified as short-term investments in KPN's Net Debt definition. At 30 June 2019, other current financial assets consisted of nil investments in these funds (at 31 December 2018: € 50m).

[11] Cash and cash equivalents

At 30 June 2019, cash and cash equivalents amounted to € 381m, compared to € 594m at 31 December 2018. The movement in KPN's cash and cash equivalents was mainly caused by free cash flow generated in H1 2019 (€ 240m), proceeds from the sale of all remaining shares of Telefónica Deutschland shares (€ 347m), partly offset by bond redemptions (€ 588m) and dividend payments (€ 336m).

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

At 31 December 2018, part of KPN's cash balances were invested in instruments that cannot be classified as cash and cash equivalents. These are classified as other current financial assets, refer to note [10] for further information.

[12] Group equity

In the first six months of 2019, the number of ordinary shares outstanding remained unchanged at 4,202,844,404.

On 18 April 2019, KPN paid a final dividend in respect of 2018 of € 8.0 cents per share, in total € 336m. The total regular dividend in respect of 2018 was € 12.0 cents, in total € 504m.

[13] Borrowings, bond issues and redemptions

On 4 February 2019, KPN redeemed the 7.50% coupon Eurobond 2009-2019 with a remaining outstanding principal amount of € 465m. On 29 May 2019, KPN redeemed the 6.00% coupon Eurobond GBP 2007-2019 with a remaining outstanding principal amount of GBP 96m (€ 123m and 4.58% coupon after swaps). KPN redeemed both bonds in line with the regular redemption schedule.

At 30 June 2019, the average maturity of the senior bond portfolio was 6.7 years (31 December 2018: 6.5 years). The average interest rate (after swaps) on the overall bond portfolio, including hybrid bonds, was 3.92% at 30 June 2019 (31 December 2018: 4.17%). Excluding the hybrid bonds, the average interest rate (after swaps) on the senior bond portfolio was 3.49% at 30 June 2019 (31 December 2018: 3.81%).

[14] Provisions for retirement benefit obligations

The remaining pension provision at 30 June 2019 of € 200m (31 December 2018: € 206m) 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.

[15] Fair value disclosures

The following table presents the Group's assets and liabilities that are measured at fair value at 30 June 2019 and 31 December 2018:

		30 June 2019		31 December 2018 *restated*	
(in € m)		Carrying amount	Fair value	Carrying amount	Fair value
Financial assets at FVPL					
Other current financial assets	[10]	-	-	50	50
Derivatives		263	263	185	185
Cash and cash equivalents, including classified as held for sale	[11]	381	381	618	618
Financial assets at amortized cost					
Trade and other receivables, contract assets and prepayments		864	864	951	951
Financial assets at FVOCI					
Equity investments		30	30	475	475
Total financial assets		**1,538**	**1,538**	**2,279**	**2,279**
Financial liabilities FVPL					
Derivatives		339	339	318	318
Financial liabilities at amortized cost					
Borrowings		6,992	7,474	7,519	8,070
Lease liability	[2]	823	823	976	976
Trade and other payables		998	998	1,168	1,168
Total financial liabilities		**8,813**	**9,295**	**9,663**	**10,214**

Assets and liabilities measured at fair value *(in € m)*	As at 30 June 2019 Level 1	Level 2	Level 3	Total	As at 31 December 2018 Level 1	Level 2	Level 3	Total
Financial assets at FVPL								
Derivatives (cross currency interest rate swap)	-	40	-	40	-	23	-	23
Derivatives (interest rate swap) and other	-	223	-	223	-	162	-	162
Financial assets at FVOCI								
Equity investments								
- Listed securities	-	-	-	-	449	-	-	449
- Unlisted securities	-	-	30	30	-	-	26	26
Total assets	**-**	**263**	**30**	**293**	**449**	**185**	**26**	**660**
Financial liabilities at FVPL								
Derivatives (cross currency interest rate swap)	-	286	-	286	-	280	-	280
Derivatives (interest rate swap)	-	53	-	53	-	38	-	38
Total liabilities	**-**	**339**	**-**	**339**	**-**	**318**	**-**	**318**

Fair value estimation

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

KPN reports its derivatives positions on the balance sheet on a gross basis. Part of the derivatives portfolio is subject to master netting agreements that allow netting under certain circumstances. If netting would be applied at 30 June 2019, the total derivatives asset position would be € 52m (31 December 2018: € 26m) and the total derivatives liability position would be € 128m (31 December 2018: € 159m).

[16] Commitments and contingencies

(in € m)	Amounts due by period Less than 1 year	1–5 years	More than 5 years	Total 30 June 2019	Total 31 December 2018
Capital and purchase commitments	769	106	10	885	1,027
Guarantees and other	-	10	129	139	139
Total commitments	**769**	**116**	**139**	**1,025**	**1,166**

The capital and purchase commitments mainly relate to minimum contractual obligations with regard to network operations, mobile handsets and telco services.

Guarantees consist of financial obligations of group companies under certain contracts guaranteed by KPN. A total amount of € 139m relates to parent guarantees (31 December 2018: € 139m).

Contingent liabilities

No significant changes have occurred in KPN's contingent liabilities during H1 2019. Further information is available in Note 21 of the Integrated Annual Report 2018.

[17] Related party transactions

For a description of the related parties of KPN and transactions with related parties, including major shareholders, refer to Note 22 of the Integrated Annual Report 2018. In the first six months of 2019 there have been no changes in the type of related party transactions as described in the Integrated Annual Report 2018, which could have a material effect on the financial position or performance of KPN.

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

On 16 July 2019, América Móvil, S.A.B. de C.V. ('AMX') published that it held 16.1% of the shares related to KPN's ordinary share capital as at 30 June 2019.

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

- On 26 June 2019, BlackRock, Inc. notified the AFM that it held 4.28% of the shares and 5.07% of the voting rights related to KPN's ordinary share capital.
- On 1 July 2019, Capital Group International Inc. notified the AFM that it reduced its voting rights related to KPN's ordinary share capital to 0%. Its previous AFM notification dated 23 August 2017, holding 3.01% 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 2019.

[18] 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 2018 (pages 81-87, Note 12.4 and Appendix 4). Those risk categories and factors are deemed incorporated and repeated in this report by this reference and KPN believes that these risks similarly apply for H2 2019.

KPN will publish its Integrated Annual Report 2019 in February 2020, with a detailed update of KPN's principal risks.

With respect to regulatory risk, refer to note [19], with respect to related parties, refer to note [17] and with respect to discontinued operations, refer to note [3].

[19] Regulatory developments

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

European developments; the European Electronic Communications Code

Regulation of the electronic communications markets is largely based on European legislation. The EU's roaming and open internet access regulations are directly applicable in all member states. The application of the regulation of operators with significant market power is enforced nationally, but under coordination of the European Commission. This still affects KPN in some fixed markets and on fixed and mobile call termination services. Licensing regimes for frequencies are based on national law. Increasingly, also other regulation (such as privacy law and content-related law) has an impact.

In December 2018, the new European Electronic Communications Code entered into force, including amended regulation for the electronic communications sector. The scope of the regulation now includes all interpersonal communications services (including over-the-top), thereby creating an increased level playing field for comparable services. Implementation of the new rules in national law should be finalized on 21 December 2020, except for the regulation of international communication tariffs from home countries to other EU countries (capped by 15 May 2019 at € 19ct voice or € 6ct sms, excl. VAT). The impact of most of the many other detailed changes will only be clear after national implementation.

A draft of a new e-privacy regulation (in addition to the General Data Protection Regulation, replacing the existing e-Privacy Directive) is still being discussed by EU institutions. Various legislative instruments that will have lesser impact on KPN have entered into force (such as a new Audiovisual Media Services Directive) or are still being discussed (such as a draft e-evidence regulation).

Spectrum licenses

The preparations for an auction in 2019 or 2020 of the 700, 1,400 (L-band) and 2,100 MHz bands are ongoing, but no formal decisions on timing of the auction procedure are available yet. It is announced that the auction will be conducted early 2020. Although the 3.5GHz band at European level is seen as the primary band for 5G, in the Netherlands severe restrictions on the use of this spectrum still apply, to prevent interference with the use of this band by an earth satellite station of the Dutch Ministry of Defense. It was announced in December 2018 that this spectrum will be released for 5G. Although no formal date for actual use is defined, at least parts of this band are expected to be available by the end of 2022. An auction is announced to be scheduled in 2021-2022.

Market analysis decisions in the Netherlands

A decision related to the market for unbundled access to fixed networks came into effect on 1 October 2018. KPN and VodafoneZiggo were designated by ACM as having joint significant market power in this market. Consequently, both KPN and VodafoneZiggo must offer (virtual) access to their networks. KPN's obligations mainly remained the same, although with more flexibility to migrate from legacy technologies. VodafoneZiggo must first provide an offer, after which negotiations (and if necessary dispute resolution by ACM) can start. ACM's decision is under appeal.
ACM's prior decision to regulate the fixed-voice telephony market for dual calls (ISDN2) were annulled by the court effective as of April 2019.

[20] Subsequent events

KPN has evaluated events up to publication date of these Interim Financial Statements and determined that no subsequent event activity required disclosure.

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 2019, give a true and fair view of the assets, liabilities, financial position and income of KPN and the undertakings included in the consolidation taken as a whole, and the interim Management Report (Q2 2019 press release) 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).

Rotterdam, 24 July 2019

Maximo Ibarra
Chairman of the Board of Management
and Chief Executive Officer

Jan Kees de Jager
Member of the Board of Management
and Chief Financial Officer

Joost Farwerck
Member of the Board of Management
and Chief Operating Officer

Safe harbor

Alternative performance measures and management estimates

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Forward-looking statements

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Comparative figures regarding IFRS 16 and amendment IAS 12

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Press release
24 July 2019

Second quarter 2019 results

Operational highlights

- Solid performance in Consumer convergence, partially due to Telfort integration
  - +41k fixed-mobile households (of which +38k Telfort), 48% of broadband base (Q2 2018: 44%)
  - +104k fixed-mobile postpaid customers (of which +54k Telfort), 62% of postpaid base (Q2 2018: 54%)

- Single-play services impacted by Telfort integration and ongoing competition
  - Fixed: -24k[1] broadband and -7k IPTV net adds; ARPU increased 6.0% y-on-y to € 46
  - Mobile: +17k KPN brand postpaid net adds, flat postpaid customer base across all brands; postpaid ARPU of € 17, flat q-on-q and 5.6% lower y-on-y
  - Consumer NPS +13 (Q2 2018: +13)

- Good progress with customer migrations in Business, negatively impacting revenues in short term
  - 59% of SME customers migrated from traditional fixed voice or legacy broadband services
  - Business NPS of +1 (Q2 2018: -4)

- Net indirect opex savings[2] of € 40m in Q2 2019, € 66m in H1 2019

- Progress in simplification of the company
  - Disposal of NLDC and international network announced
  - Sale of TEFD stake completed

Key figures*

Group financials (unaudited) *(in € m, unless stated otherwise)*	**Q2 2018**	**Q2 2019**	**Δ y-on-y**	**H1 2018**	**H1 2019**	**Δ y-on-y**
Adjusted revenues**	1,402	1,359	-3.1%	2,804	2,721	-3.0%
EBITDA	596	602	1.1%	1,194	1,172	-1.8%
Adjusted EBITDA after leases**	**573**	**594**	**3.6%**	**1,138**	**1,157**	**1.7%**
As % of Adjusted revenues	*40.9%*	*43.7%*		*40.6%*	*42.5%*	
Operating profit (EBIT)	218	221	1.6%	433	410	-5.3%
Net profit	142	128	-9.8%	245	217	-11%
Capex	245	269	9.9%	481	531	10%
Free cash flow (excl. TEFD dividend)	**222**	**147**	**-34%**	**343**	**216**	**-37%**

* All non-IFRS terms are explained in the safe harbor section
** Adjusted revenues and adjusted EBITDA after leases reconciliations to be found on page 8

Financial highlights

- Adjusted revenues 3.1% lower y-on-y
  - Growth in bundled services in Consumer, cloud and workspace services in Business and Wholesale
  - Offset by a decline in legacy services, continued pressure in mobile and lower hardware revenues

- Solid growth in adjusted EBITDA after leases (+3.6% y-on-y)
  - Effect of lower revenues fully offset by € 24m lower cost of goods & services, and € 40m net indirect opex savings[2] resulting from accelerated simplification and digitalization

- Net profit 9.8% lower y-on-y
  - Impacted by € 12m higher restructuring costs and € 31m lower finance income driven by less dividend received from the stake in Telefónica Deutschland, partly offset by € 7m lower income taxes

- Free cash flow (excluding TEFD dividend) of € 216m in H1 2019, € 127m lower compared to H1 2018
  - Negative change in working capital expected to recover in the second half of the year
  - Higher Capex y-on-y mainly due to accelerated fiber roll-out

[1] Corrected for migrations to, and new customers of, small business proposition (7k)
[2] Net savings in adjusted indirect opex after leases

Message from the CEO, Maximo Ibarra

"We made good progress with the execution of our strategy. We have started the brand integration in the second quarter and have seen strong interest in converged propositions from our Telfort customers, leading to strengthened household relationships. In Business, we continued with the execution of customer migrations to our future proof KPN EEN portfolio and 'value over volume' strategy.

KPN has a strong track record in cost management. Accelerated simplification and digitalization delivered substantial cost savings this quarter, resulting in a solid growth in adjusted EBITDA after leases.

On a final note, as announced in June, pressing family reasons have led me to resign as CEO of KPN and return to Italy. I am confident that I will leave KPN in very capable hands, backed by the strong Executive team that KPN has in place. I'd like also to thank the Boards, my team and everyone involved in KPN for their support during my tenure with the Company."

Outlook 2019 and 2019 – 2021 ambitions

	Outlook 2019	2019 – 2021 ambitions
Adjusted EBITDA AL	Slightly growing compared with 2018*	Organic growth
Capex	€ 1.1bn	Stable at € 1.1bn annually
FCF (excl. TEFD dividend)	Incidentally lower FCF compared with 2018 due to front-end loaded restructuring charges and adverse phasing of working capital**	Three-year mid-single digit CAGR*** driven by EBITDA AL growth
Regular DPS	€ 12.5 cents	Progressive dividend, supported by FCF

* Previous Adjusted EBITDA AL outlook: "In line with 2018"

** FCF outlook: Impact materially higher restructuring cash out in 2019 is partially mitigated by natural employee attrition, but this is in turn offset by change in working capital

*** Three-year CAGR calculated from the end of 2018 to the end of 2021

Shareholder remuneration and financial profile

KPN intends to pay a regular dividend per share of € 12.5 cents in respect of 2019. An interim dividend of € 4.2 cents will be paid on 1 August 2019. The ex-dividend date is 26 July 2019. KPN aims for sustainable FCF (excl. TEFD dividend) growth, driving a progressive regular dividend per share and deleveraging.

KPN sold its remaining shares in Telefónica Deutschland on 13 June 2019. The proceeds, as well as the dividend received from Telefónica Deutschland on 24 May 2019, will be retained to increase operational and financial flexibility.

KPN remains committed to an investment grade credit profile and aims for a leverage ratio of <2.5x in the medium-term (Q2 2019: 2.4x). KPN has a credit rating of BBB with a stable outlook from Standard & Poor's and Fitch Ratings, and Baa3 with a stable outlook from Moody's.

Press release
24 July 2019

All related documents can be found on KPN's website:
ir.kpn.com

For further information:		Formal disclosures:
Corporate Communications	**Investor Relations**	**Royal KPN N.V.**
Media Relations		Head of IR: Bisera Grubesic
Tel: +31 70 446 6300	Tel: +31 70 446 0986	Inside information: No
E-mail: press@kpn.com	ir.kpn.com	Topic: Q2 2019 Results
		24/07/2019; 7:30h

Safe harbor

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Financial and operating review KPN Group

(in € m)	Q2 2018	Q2 2019	Δ y-on-y	H1 2018	H1 2019	Δ y-on-y
Adjusted revenues						
Consumer	738	722	-2.1%	1,481	1,450	-2.1%
Business	536	507	-5.5%	1,069	1,013	-5.2%
Wholesale	155	159	2.4%	308	316	2.7%
Network, Operations & IT	2	1	-37%	8	3	-63%
Other (incl. eliminations)	-29	-30	2.7%	-61	-61	0.2%
KPN Group	**1,402**	**1,359**	**-3.1%**	**2,804**	**2,721**	**-3.0%**

Consumer

KPN saw solid growth of its converged customer base, supported by its strategic decision to focus on the KPN brand. In the second quarter, KPN began the integration of existing Telfort customers, while the acquisition of new Telfort customers has ended per 1 May 2019. More than half of new converged postpaid customers in Q2 are Telfort customers who now opt for a fixed-mobile combination with the KPN brand and receive additional benefits. This will strengthen KPN's household relationships as churn is significantly lower for converged customers. Convergence NPS is higher with +23 (Q2 2018: +25), compared to a Consumer NPS of +13 in Q2 2019 (Q2 2018: +13).

In Q2 2019, the converged postpaid customer base grew by 104k (of which 54k due to Telfort integration) to 2,230k, representing 62% of postpaid customers (Q2 2018: 54%). Fixed-mobile penetration for the high value KPN brand postpaid customers reached 72% (Q2 2018: 67%). Converged households grew by 41k (of which 38k due to Telfort integration) to 1,399k, representing 48% of broadband customers. KPN's growing converged customer base makes it more resistant to competitive pressure in the mobile market and enables KPN to create value through lower churn for these customers and higher ARPU per converged household.

KPN's broadband net adds were -24k, adjusted for migrations from Consumer to the proposition for small businesses and new customers for this proposition (7k). The IPTV customer base declined by 7k. The decline in broadband and IPTV customers is mainly driven by the brand rationalization as acquisition of Telfort customers was discontinued per 1 May 2019. Furthermore, it was also impacted by the announcement of price adjustments and by communication on changes in TV content offering in April this year. In Q2 2019, Residential revenues grew 0.8% y-on-y, driven by increasing revenues from bundled services. Fixed ARPU increased 6.0% y-on-y to € 46 in Q2 2019. Price adjustments in fixed were effective from 1 June 2019.

In an ongoing competitive mobile market, KPN continues to focus on its high value KPN brand. The new mobile propositions launched in Q1 2019 successfully mitigated the discontinued acquisition of Telfort postpaid customers in the second quarter. This resulted in 17k postpaid net adds for the KPN brand, while the total postpaid customer base remained flat. Postpaid ARPU was € 17, flat compared to Q1 2019 and 5.6% lower y-on-y. Mobile service revenues declined 5.8% y-on-y, mainly driven by lower postpaid ARPU.

Adjusted revenues in Consumer declined by 2.1% y-on-y in Q2 2019, fully driven by lower mobile service revenues and lower mobile handset sales.

Business

In the Business segment, KPN focuses on value over volume, a strategy designed to leveraging KPN's leading market positions, high-quality brand perception, and solid reputation to develop more profitable revenues in the years to come. Part of this strategy is emphasis on a future-proof, simplified product portfolio and network upgrades with improved access speeds. KPN's one-stop-shop of standardized and converged solutions are designed to replace tailor made single-play services as customers are moving away from traditional on-premise IT environments to (public) cloud solutions. The newly introduced Cloud Communications and Secure Networking propositions are the first of new Smart Combinations to come for the Business Market.

In the quarter, KPN continued to migrate customers to KPN EEN and its small business proposition. At the end of Q2 2019, 59% of SME customers and 33% of LE customers eligible for migration have migrated from legacy services. Although negatively impacting service revenues from Fixed Voice in the shorter term due to rationalization, this provides significant opportunities for up and cross-sell of additional services and cost reductions from moving to lean and digital operations. In addition, it supports lower churn as the future proof KPN EEN platform improves customer experience and value creation for customers.

Business customer satisfaction in the quarter improved to an NPS of +1 (Q2 2018: -4). Customer recognition is also evidenced by several awards and award nominations. During the quarter, KPN integrated its entire security services portfolio under the name of KPN Security. KPN's subsidiary InSpark was winner of Microsoft's "Global Security & Compliance Partner of the Year 2019" award and the KPN EEN platform is nominated as "Best offer for SME" by Computable. This nomination shows that customers benefit from the simplified product portfolio.

In the quarter, adjusted revenues in Business declined 5.5% y-on-y. This decline was impacted considerably by planned strategic actions we undertook in the segment, such as the migrations from traditional technology to KPN EEN and by lower revenues from hardware and licenses compared to last year due to KPN's 'value over volume' strategy. The service revenue trend in the Business segment was less negative than total revenue trend as non-service revenues declined strongly in Q2 2019.

In Q2 2019, revenues from Communication Services declined 8.0% y-on-y. This was mainly driven by lower revenues from Fixed Voice (-17% y-on-y) because pro-active migrations to KPN EEN cloud telephony continue, and by lower mobile service revenues (-8.4% y-on-y) because of the ongoing competitive environment, particularly in the Large Enterprise segment. This was partly offset by growth of KPN's IoT solution (+11% y-on-y). Over the past 12 months KPN's M2M base grew by 1.3m SIMs to 5.6m at the end of Q2 2019.

Revenues from IT Services declined 3.1% y-on-y in Q2 2019. Growth in cloud and workspace services was fully offset by lower revenues from licenses and hardware, which supported KPN's IT Services revenues in Q2 2018. Excluding this effect from hardware and licenses, revenues from IT Services would have grown approximately 9% y-on-y.

In the second quarter, revenues from Professional Services & Consultancy were in line with last year (+0.5% y-on-y). KPN continued to experience pressure in the Large Enterprise and Corporate segments as customers focus on simplifying their IT landscape with a value-for-money approach. This can result in repriced extended contracts or contracts lost, however this is in line with KPN's 'value over volume' strategy.

Wholesale

Adjusted revenues in Wholesale increased by 2.4% y-on-y in Q2 2019. This was driven by higher mobile service revenues as a result of a higher number of data users and increasing data usage. Declining fixed revenues from traditional fixed portfolio (WLR, MDF) and international terminating traffic were largely offset by higher revenues from Wholesale Broadband Access (WBA) with more customers taking these services.

Network, Operations & IT

KPN continued to ramp up its accelerated fiber roll-out strategy, having started construction with several field services contractors in 19 different areas in the Netherlands since the start of the year. This will position KPN to deliver on the one million extra FttH households by end 2021. Furthermore, in a test environment but with live customers, KPN has realized its first XGS-PON connection together with Nokia. This will further strengthen the performance of KPN's fiber network.

In its aim to improve mobile networks in the coming years and making it 5G-ready by the end of 2021, KPN signed a memorandum of understanding with Huawei to modernize its mobile radio and antenna network. According to KPN's multi-vendor policy, preparations are made to contract a different and Western supplier for the realization of a new mobile core network.

Furthermore, KPN made solid progress in becoming All-IP by the end of 2021. Currently approximately 400k lines are left to be migrated to goal portfolio.

Operating expenses*

(in € m)	Q2 2018	Q2 2019	Δ y-on-y	H1 2018	H1 2019	Δ y-on-y
Cost of goods & services	326	302	-7.3%	648	611	-5.6%
Personnel expenses	276	252	-8.6%	558	529	-5.3%
IT/TI	101	91	-9.5%	214	184	-14%
Other operating expenses	81	77	-5.2%	156	154	-0.7%
Total adjusted operating expenses	**785**	**723**	**-7.8%**	**1,575**	**1,479**	**-6.1%**
Depreciation right-of-use asset	36	35	-2.2%	74	70	-4.9%
Interest lease liabilities	8	7	-14%	17	15	-13%
Total adjusted indirect operating expenses after leases	**502**	**463**	**-7.9%**	**1,019**	**952**	**-6.5%**
Adjusted EBITDA after leases	**573**	**594**	**3.6%**	**1,138**	**1,157**	**1.7%**

* Operating expenses adjusted for restructuring and incidentals, excluding D&A

Adjusted EBITDA after leases increased 3.6% y-on-y in Q2 2019. Lower revenues were fully offset by lower costs of goods & services and savings from accelerated simplification and digitalization. In Q2 2019, the adjusted EBITDA AL margin increased to 43.7% (Q2 2018: 40.9%).

In Q2 2019, costs of goods & services declined 7.3% y-on-y, partly supported by lower hardware and licenses revenues in Business and lower mobile handset sales. Personnel expenses declined 8.6% y-on-y, due to a reduction in own and temporary personnel. IT/TI expenses declined 9.5% y-on-y in Q2 2019, largely driven by simplification of networks, contract renegotiations with suppliers and insourcing.

Accelerating simplification and digitalization drives substantial improvements in quality and customer experience and results in structural savings. In Q2 2019, the program realized indirect opex savings[3] of € 40m. Total indirect opex savings since the start of 2019 are € 66m. KPN expects to realize approximately € 350m net indirect opex savings over the period 2019 – 2021[3].

[3] Indirect opex after leases, adjusted for the impact of restructuring costs and incidentals

Profit, Capex, FCF and financial position KPN Group

In Q2 2019, Group operating profit (EBIT) increased € 3m, or 1.6% y-on-y to € 221m. Higher EBITDA, driven by strong cost savings was partly offset by higher depreciation charges.

Net profit of € 128m was € 14m, or 9.8% lower y-on-y in Q2 2019. Higher operating profit and lower taxes were offset by lower finance income, driven by less dividend received from the stake in Telefónica Deutschland.

Capex increased by 9.9% to € 269m in Q2 2019, mainly driven by higher fixed access investments. Capex in H1 2019 increased by 10% to € 531m.

Free cash flow (excl. TEFD dividend) of € 147m in Q2 2019 was € 75m, or 34% lower y-on-y. Free cash flow (excl. TEFD dividend) of € 216m in H1 2019 was € 127m, or 37% lower compared to the same period last year. The strong y-on-y decline in H1 2019 was mainly driven by € 83m higher impact from change in working capital, € 50m higher Capex, partly offset by € 17m lower cash taxes paid and € 9m lower cash interest paid. The change in working capital is partly driven by higher Capex in Q4 2018 leading to additional payments in H1 2019, by intra-year phasing, and by lower opex due to cost savings.

As of 30 June 2019, net debt amounted to € 5,554m, € 90m lower compared to the end of Q1 2019. The movement in net debt was mainly driven by the sale of the remaining stake in Telefónica Deutschland and free cash flow generation during the quarter, partly offset by the final dividend payment over 2018 in April 2019. At the end of Q2 2019, KPN's leverage ratio was 2.4x (Q1 2019: 2.5x). This includes the equity credit on the hybrid bonds representing 0.2x net debt to EBITDA. In Q2 2019, the average coupon on senior bonds was 3.5%, 30bps lower y-on-y.

At the end of Q2 2019, Group equity amounted to € 1,674m, a decrease of € 260m compared to 31 March 2019. This was mainly driven by the final dividend payment over 2018 in April 2019, partly offset by net profit generated during the quarter.

Analysis of adjusted results Q2 and H1 2019

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

Revenues *(in € m)*	**Q2 2018**	**Q2 2019**	**Δ y-on-y**	**H1 2018**	**H1 2019**	**Δ y-on-y**
Consumer	738	722	-2.1%	1,481	1,450	-2.1%
Business	536	507	-5.5%	1,069	1,013	-5.2%
Wholesale	155	159	2.4%	308	316	2.7%
Network, Operations & IT	2	1	-37%	8	3	-63%
Other (incl. eliminations)	-29	-30	2.7%	-61	-61	0.2%
Total revenues	**1,402**	**1,359**	**-3.1%**	**2,804**	**2,721**	**-3.0%**
Revenues incidentals						
Consumer	-	-	n.m.	-	-	n.m.
Business	-	-	n.m.	-	-	n.m.
Wholesale	-	-	n.m.	-	-	n.m.
Network, Operations & IT	-	-	n.m.	-	-	n.m.
Other (incl. eliminations)	-	-	n.m.	-	-	n.m.
Total revenues incidentals	**-**	**-**	**n.m.**	**-**	**-**	**n.m.**
Consumer	738	722	-2.1%	1,481	1,450	-2.1%
Business	536	507	-5.5%	1,069	1,013	-5.2%
Wholesale	155	159	2.4%	308	316	2.7%
Network, Operations & IT	2	1	-37%	8	3	-63%
Other (incl. eliminations)	-29	-30	2.7%	-61	-61	0.2%
Total adjusted revenues	**1,402**	**1,359**	**-3.1%**	**2,804**	**2,721**	**-3.0%**

There were no revenue related incidentals in H1 2019 and H1 2018.

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

(in € m)	**Q2 2018**	**Q2 2019**	**Δ y-on-y**	**H1 2018**	**H1 2019**	**Δ y-on-y**
EBITDA	**596**	**602**	**1.1%**	**1,194**	**1,172**	**-1.8%**
Incidentals	-	-	n.m.	-	-	n.m.
Restructuring	-22	-34	56%	-35	-70	100%
Lease-related expenses						
Depreciation right-of-use asset	36	35	-2.2%	74	70	-4.9%
Interest lease liabilities	8	7	-14%	17	15	-13%
Adjusted EBITDA after leases	**573**	**594**	**3.6%**	**1,138**	**1,157**	**1.7%**

There were no EBITDA related incidentals in H1 2019 and H1 2018.