

Interim Financial Statements

For the six months ended
30 June 2017



Condensed Consolidated Interim Financial Statements***for the six months ended 30 June 2017***

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All related documents can be found on KPN's website (ir.kpn.com), including the KPN Management Report Q2 2017.

Unaudited Consolidated Statement of Profit or Loss

(in EUR m, unless indicated otherwise)	For the three months ended 30 June		For the six months ended 30 June	
	2017	2016 (restated) ¹	2017	2016 (restated) ¹
Revenues	1,630	1,675	3,278	3,363
Other income	1	1	1	2
Total [6,7]	1,631	1,676	3,279	3,365
Cost of goods & services	491	528	991	1,053
Personnel expenses	291	298	589	625
IT/TI	122	134	256	277
Other operating expenses	140	137	300	272
Depreciation, amortization & impairments (DA&I)	355	374	710	792
Total operating expenses [6,8]	1,399	1,471	2,846	3,019
Operating profit [6,8]	232	205	433	346
Finance income	70	111	71	112
Finance costs	-85	-107	-171	-216
Other financial results	22	6	27	32
Finance income and expenses [9]	7	10	-73	-72
Share of the profit of associates and joint ventures	1	-2	1	-1
Profit/Loss (-) before income tax from continuing operations	240	213	361	273
Income taxes [10]	-49	-51	-78	-63
Profit/Loss (-) for the period from continuing operations	191	162	283	210
Profit/Loss (-) for the period from discontinued operations [5]	-	-	-	362
Profit/Loss (-) for the period	191	162	283	572
Profit attributable to non-controlling interest	-	1	-	7
Profit/Loss (-) attributable to equity holders	191	161	283	565
Earnings per ordinary share after taxes attributable to equity holders for the period (in EUR)				
- Basic (continuing operations)	0.04	0.04	0.06	0.05
- Diluted (continuing operations)	0.04	0.04	0.06	0.05
- Basic (discontinued operations)	0.00	0.00	0.00	0.08
- Diluted (discontinued operations)	0.00	0.00	0.00	0.08
- Basic (total, including discontinued operations)	0.04	0.04	0.06	0.13
- Diluted (total, including discontinued operations)	0.04	0.04	0.06	0.13
Weighted average number of ordinary shares				
- Non-diluted			4,255,609,566	4,259,604,083
- Diluted			4,260,386,524	4,262,577,780

1. Operating expenses have been restated to align with internal, functional based reporting. Refer to note [3].
[..] Bracketed numbers refer to the related notes to these Condensed Consolidated Interim Financial Statements.

Unaudited Consolidated Statement of Other Comprehensive Income

(in EUR m)	For the three months ended 30 June		For the six months ended 30 June	
	2017	2016	2017	2016
Profit for the period	191	162	283	572
Other comprehensive income				
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	9	-40	12	-70
Income tax	-	2	-	3
Net other comprehensive income not to be reclassified to profit or loss in subsequent periods	9	-38	12	-67
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	-33	95	54	-19
Income tax	8	-24	-14	5
	-25	71	40	-14
Currency translation adjustments:				
Gains or losses (-) arising during the period	-	8	-1	15
Realized through profit or loss	-	-	-	-
	-	8	-1	15
Fair value adjustment available-for-sale financial assets:				
Unrealized gains or losses (-) arising during the period	-87	-490	108	-550
Income tax on unrealized gains or losses (-)	22	92	-26	107
Realized gains through profit or loss (-)	-26	-	-29	-2
Income tax on realized gains	-1	-	-	-
	-92	-398	53	-445
Net other comprehensive income to be reclassified to profit or loss in subsequent periods	-117	-319	92	-444
Other comprehensive income for the period, net of income tax	-108	-357	104	-511
Total comprehensive income for the period, net of income tax	83	-195	387	61
Total comprehensive income attributable to:				
- Equity holders of the company	83	-195	387	55
- Non-controlling interest	-	-	-	6
Total comprehensive income attributable to equity holders arising from:				
- Continuing operations	83	-194	387	-306
- Discontinued operations	-	-1	-	361

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

Unaudited Consolidated Statement of Financial Position

Assets

(in EUR m)

	30 June 2017	31 December 2016
Non-current assets		
Goodwill [4]	1,450	1,428
Licenses	1,018	1,037
Software	476	519
Other intangibles	269	266
Total intangible assets	3,213	3,250
Land and buildings	469	489
Plant and equipment	5,100	5,238
Other tangible non-current assets	31	31
Assets under construction	276	211
Total property, plant and equipment	5,876	5,969
Investments in associates and joint ventures	20	24
Available-for-sale financial assets [17]	1,245	1,909
Derivative financial instruments [17]	212	298
Deferred income tax assets	979	1,091
Trade and other receivables	50	61
Total other non-current assets	2,506	3,383
Total non-current assets	11,595	12,602
Current assets		
Inventories	59	47
Trade and other receivables	779	766
Income tax receivables	3	-
Derivative financial instruments [17]	-	-
Other current financial assets [12]	239	140
Cash and cash equivalents [13]	916	1,179
Total current assets	1,996	2,132
Assets and disposal groups classified as held for sale [5]	1	2
Total assets	13,592	14,736

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

Group equity and liabilities

(in EUR m)

	30 June 2017	31 December 2016
Group equity		
Share capital	171	171
Share premium	8,651	8,651
Other reserves	-447	-451
Retained earnings	-5,947	-5,859
Equity attributable to holders of perpetual capital securities	1,089	1,089
Equity attributable to equity holders of the company	3,517	3,601
Non-controlling interest	-	-
Total group equity [14]	3,517	3,601
Non-current liabilities		
Borrowings [15]	7,696	7,897
Derivative financial instruments [17]	247	197
Deferred income tax liabilities	1	-
Provisions for retirement benefit obligations [16]	232	262
Provisions for other liabilities and charges	88	89
Other payables and deferred income	56	62
Total non-current liabilities	8,320	8,507
Current liabilities		
Trade and other payables	1,679	1,839
Borrowings [15]	17	735
Derivative financial instruments [17]	-	1
Income tax payables [10]	5	4
Provision for other liabilities and charges	54	49
Total current liabilities	1,755	2,628
Liabilities directly associated with assets and disposal groups classified as held for sale [5]	-	-
Total equity and liabilities	13,592	14,736

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

Unaudited Consolidated Statement of Cash Flows

(in EUR m)	For the six months ended	
	30 June 2017	30 June 2016
Profit before income tax from continuing operations	361	273
Adjustments for:		
- Net financial income and expenses [9]	73	72
- Share-based compensation	-	2
- Share of the profit of associated and joint ventures	-1	1
- Depreciation, amortization and impairments [6,8]	710	792
- Other non-cash income and expenses	3	-8
- Changes in provisions (excl. deferred taxes) [8,16]	-6	-34
Changes in working capital relating to:		
- Inventories	-12	8
- Trade receivables	22	18
- Prepayments and accrued income	-28	-34
- Other current assets	-2	-
- Trade payables	-113	-105
- Accruals and deferred income	-17	-26
- Current liabilities (excl. short-term financing)	-19	-6
Dividends received [9,17]	71	110
Income taxes paid/received	-13	44
Interest paid/received	-194	-263
Net cash flow from operating activities from continuing operations	835	844
<i>Net cash flow from operating activities from discontinued operations [5]</i>	<i>-</i>	<i>-3</i>
Net cash flow from operating activities	835	841
Disposal of available-for-sale financial assets [17]	780	31
Disposal of subsidiaries, associates and joint-ventures [17]	3	-
Acquisition of subsidiaries, associates, joint ventures (net of acquired cash) [4]	-57	-35
Investments in intangibles assets (excl. software)	-1	-27
Investments in software [11]	-105	-103
Investments in property, plant & equipment [11]	-399	-527
Other financial assets [12]	-100	475
Other	-4	1
Net cash flow used in investing activities from continuing operations	117	-185
<i>Net cash flow used in investing activities from discontinued operations [5]</i>	<i>-3</i>	<i>1,188</i>
Net cash flow used in investing activities	114	1,003
Capital repayment [14]	-	-1,193
Dividends paid [14]	-358	-346
Share buyback [14]	-116	-
Repayments of borrowings and settlement of derivatives [15]	-738	-869
Other	-1	-56
Net cash flow used in financing activities from continuing operations	-1,213	-2,464
<i>Net cash flow used in financing activities from discontinued operations [5]</i>	<i>-</i>	<i>-</i>
Net cash flow used in financing activities	-1,213	-2,464

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

(in EUR m)	For the six months ended	
	30 June 2017	30 June 2016
<i>Continued from previous page</i>		
Total net cash flow from continuing operations	-261	-1,805
Total net cash flow from discontinued operations	-3	1,185
Total net cash flow (changes in cash and cash equivalents)	-264	-620
Net cash and cash equivalents at beginning of period	1,178	1,575
Exchange rate difference	-1	-
Changes in cash and cash equivalents	-264	-620
Net cash and cash equivalents at end of period	913	955
Bank overdrafts	3	5
Cash classified as held for sale (discontinued operations)	-	-
Cash and cash equivalents at end of period [13]	916	960

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

Unaudited Consolidated Statement of Changes in Group Equity

<i>(in EUR m, except number of shares)</i>	Number of subscribed shares	Share capital	Share premium	Other reserves	Retained earnings	Perpetual capital securities	Equity attributable to owners of the parent	Non- controlling interests	Total Group equity
Balance at 1 January 2016	4,270,254,664	171	9,847	-125	-6,000	1,089	4,982	69	5,051
Profit for the period	-	-	-	-	566	-	566	6	572
Other comprehensive income	-	-	-	-444	-67	-	-511	-	-511
Total comprehensive income	-	-	-	-444	499	-	55	6	61
Capital repayment [14]	-	-	-1,196	3	-	-	-1,193	-	-1,193
Share based compensation	-	-	-	-	-13	-	-13	-	-13
Sold treasury shares	-	-	-	14	-	-	14	-	14
Dividends paid [14]	-	-	-	-	-319	-	-319	-26	-345
Acquisitions [4]	-	-	-	-	-85	-	-85	-49	-134
Other	-	-	-	-	-	-	-	7	7
Total transactions with owners, recognized directly in equity	-	-	-1,196	17	-417	-	-1,596	-68	-1,664
Balance at 30 June 2016	4,270,254,664	171	8,651	-552	-5,918	1,089	3,441	7	3,448
Balance at 1 January 2017	4,270,254,664	171	8,651	-451	-5,859	1,089	3,601	-	3,601
Profit for the period	-	-	-	-	283	-	283	-	283
Other comprehensive income	-	-	-	92	12	-	104	-	104
Total comprehensive income	-	-	-	92	295	-	387	-	387
Share buyback [14]	-	-	-	-116	-	-	-116	-	-116
Share based compensation	-	-	-	-	-9	-	-9	-	-9
Sold treasury shares	-	-	-	12	-	-	12	-	12
Dividends paid [14]	-	-	-	-	-358	-	-358	-	-358
Other	-	-	-	16	-16	-	-	-	-
Total transactions with owners, recognized directly in equity	-	-	-	-88	-383	-	-471	-	-471
Balance at 30 June 2017	4,270,254,664	171	8,651	-447	-5,947	1,089	3,517	-	3,517

[...] 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 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 infrastructure and network related ICT solutions to business customers, including other telecommunications operators. KPN also provides wholesale network services to third parties and operates an IP-based infrastructure for international wholesale customers through KPN's US-based subsidiary iBasis.

[2] Accounting policies

Basis of preparation

These Condensed Consolidated Interim Financial Statements ('Interim Financial Statements') for the six months ending 30 June 2017 have been prepared in accordance with IAS 34 Interim Financial Reporting and should be read in conjunction with KPN's Integrated Annual Report 2016 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 2016 except for the impact of new accounting standards as described below. These Interim Financial Statements have not been audited by KPN's external auditor.

Significant accounting estimates and judgments

The preparation of these Interim Financial Statements requires management to make estimates, judgments and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses as well as the information disclosed and the contingent liabilities. Actual results may therefore deviate from the estimates applied. Estimates and judgments are evaluated continuously and are based on historic experience and other factors, including expectations of future events thought to be reasonable under the circumstances. Estimates are revised when material changes to the underlying assumptions occur. For more information on KPN's significant accounting estimates, judgments and assumptions, refer to the Notes to the Consolidated Financial Statements of the Integrated Annual Report 2016.

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

- the determination of deferred tax assets for losses carry forward and provisions for tax contingencies;
- the determination of fair value less costs of disposal and value in use of cash-generating units for goodwill impairment testing;
- the depreciation rates of the copper and fiber network included within property, plant and equipment;
- the valuation of available-for-sale financial assets with significant or prolonged fair market value below the historic cost value. In this context, KPN deems 20% 'significant' and a period of nine months measured at reporting date 'prolonged';
- the 'more likely than not' assessment required to determine whether or not to recognize a provision for idle cables, which are part of a public electronic communications network; and
- the assessments of 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 2016. KPN has not early adopted any standard, interpretation or amendment that has been issued but is not yet effective and endorsed.

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 2018 or later. Only those with an expected material impact on KPN's financial performance and/or the presentation thereof are discussed.

KPN's approach regarding implementation of IFRS 9, IFRS 15 and IFRS 16 as described in the Integrated Annual Report 2016 has remained unchanged. The current status regarding implementation of these new standards is described below.

For all three standards, the project structure, team as well as the governance structure remain in place. The implementation plans comprise four phases:

- accounting policy impact analysis;
- decision on accounting policies and IT design;
- implementation; and
- completion and integration of all system process changes.

IFRS 9 'Financial Instruments'

This standard introduces new requirements for classification and measurement, impairment and hedge accounting of financial instruments. IFRS 9 must be applied retrospectively. However, the hedge accounting requirements are generally applied prospectively. Apart from some aspects of hedge accounting, restatement of comparative information is not mandatory and is only permitted if information is available without the use of hindsight.

KPN has started the accounting impact analysis and will take decisions on accounting policies and IT if needed. Based on a preliminary impact analysis, IFRS 9 is expected to predominantly have an impact on the determination of the provision for doubtful trade receivables, the IFRS 15 contract assets and hedge accounting. Also, IFRS 9 could have an impact on the recognition of changes in the fair value of available-for-sale financial assets.

The implementation for hedge accounting is on track and requires some changes in KPN's IT systems. All active cash flow and fair value hedge relations under IAS 39 will be de-designated per 31 December 2017 and new IFRS 9 hedge relationships will be designated as of the original start date of the hedge relationships. KPN expects that these hedges will not have a material impact on equity and/or profit or loss. Also, cash flow hedges and fair value hedges which had already been de-designated under IAS 39 will continue to be de-designated under IFRS 9.

KPN also specifically addresses dependencies with other existing and new IFRS standards, including IFRS 15 and IFRS 16. As these new accounting policy decisions have not yet been completed, no reliable estimate of the impact is available. IFRS 9 has been endorsed by the European Union and will be applied by KPN upon effective date (1 January 2018).

IFRS 15 'Revenue from Contracts with Customers'

IFRS 15 introduces new guidance on the recognition and measurement of revenues 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. The new requirements become effective as of 1 January 2018. As disclosed in the

Integrated Annual Report 2016, KPN intends to apply IFRS 15 in 2018 retrospectively, including restatement of the 2017 comparative figures.

To date, the first set of adjustments to KPN's opening equity upon transition to IFRS 15 is in the process of validation. The work completed to date supports the expected qualitative impacts as disclosed in Note 2 of the 2016 Consolidated Financial Statements. However, KPN has not yet completed the detailed work on the opening balance and the overall impact cannot yet be reliably quantified. KPN will quantify the impact of IFRS 15 no later than in the Integrated Annual Report 2017.

In 2017, KPN continued to work on implementing the IT solution, collecting and integrating data from various sources. KPN is applying the concept of "store once, use many" with IFRS 15 as launching program. The IT solution is being implemented in two releases. The first release consisting of KPN's main revenue cycles has been built and is now being submitted to testing procedures.

The implementation is driven by dedicated teams, typically built around a source billing system. These teams consist of members of the core program team and representatives from related Finance and Business functions, IT and source system experts. Based on KPN's current project plan, the restated figures for the first six months of 2017 will be available for validation and internal sign-off in Q4 2017. KPN will then also complete the work on the second release of the IT solution and process the remaining revenue cycles.

Focus for the second half of 2017 is to finalize the IT solution, prepare restated figures 2017 and embed the changes brought by IFRS 15 into everyday business and reporting cycles to ensure ongoing compliance.

IFRS 16 'Leases'

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 whereas for lessors, these two types of leases remain in place. IFRS 16 will have a significant impact on KPN as described in the Integrated Annual Report 2016.

KPN continues to work on the new lease accounting policies. Main items currently under review include the assessment of the lease term. Regarding scoping, KPN is finalizing the identification of lease contracts where KPN is lessee and is reviewing the contracts where KPN may act as lessor.

KPN is preparing for decisions on accounting policies. As new accounting policy decisions have not yet been finalized, no reliable estimate of the impact is available. Regarding the IT impact, KPN has completed the vendor selection and is now preparing for the implementation of the IFRS 16 solution within its IT landscape. Also, data currently captured in KPN's existing lease management systems is under review and completed for missing IFRS 16 data-points.

IFRS 16 will be effective as of 1 January 2019, but may be applied earlier in conjunction with IFRS 15. The standard has not yet been endorsed by the European Union. KPN will not early adopt this standard. KPN intends to apply IFRS 16 retrospectively, including restatement of the 2018 comparative figures.

As at 30 June 2017, KPN reports an off balance sheet obligation for operating leases of EUR 772m, determined based on the nominal contract values of KPN's operating leases. IFRS 16 requires the lease liability to be recognized at discounted value and, among other factors, requires that the likelihood of early terminations or expected use of renewal options are taken into account as well. Therefore, the amounts KPN will recognize as lease liability and right of use asset upon transition are not expected to be equal to the currently reported off balance sheet obligation.

[3] Restatements of 2016 financial results

The comparative financial information for 2016 has been restated to reflect a number of developments in KPN's internal management reporting. All comparative financial information in these Interim Financial Statements has been restated accordingly.

In terms of 2016 operating expenses, the main impact is visible in lower operating expenses for Network, Operations & IT and higher costs for the Wholesale segment.

The main restatements are explained below:

- KPN moved six data centers focused on offering colocation services, to a separate entity ('NLDC') within Wholesale. The activities of NLDC moved from Business to Wholesale and the related expenses moved from Network, Operations & IT to Wholesale. As per KPN's policy, intercompany revenues are minimized; therefore revenues generated by NLDC via the sales channel of the Business segment remain recorded at Business and not at Wholesale
- Reallocation of certain expenses from Cost of goods & services to IT/TI. KPN has decided to reallocate some isolated customer related expenses (COGS) in the Business segment to central IT costs (IT/TI) within Network, Operations & IT as this is a better fit with the nature of these expenses and the way these are managed
- Operating expenses for certain new business activities were moved from Network, Operations & IT to the Business segment, where the related revenues were already recognized

Restatements to adjusted revenues 2016

Adjusted revenues* (in EUR m)	FY 2016	Published figures				FY 2016	Restated figures				Delta FY 2016
		Q4 2016	Q3 2016	Q2 2016	Q1 2016		Q4 2016	Q3 2016	Q2 2016	Q1 2016	
Consumer	3,139	799	802	767	771	3,143	802	801	768	772	4
Business	2,303	572	569	573	589	2,309	573	569	574	593	6
Wholesale	737	186	187	184	180	734	185	185	184	180	-3
Network, Operations & IT	17	3	5	5	4	17	3	5	5	4	-
Other (incl. eliminations)	-170	-41	-45	-43	-41	-177	-44	-42	-45	-46	-7
The Netherlands	6,026	1,519	1,518	1,486	1,503	6,026	1,519	1,518	1,486	1,503	-

* Adjusted for incidentals

Restatements to operating expenses (excl. D&A) by function 2016

Opex excl. D&A by function* (in EUR m)	FY 2016	Published figures				FY 2016	Restated figures				Delta FY 2016
		Q4 2016	Q3 2016	Q2 2016	Q1 2016		Q4 2016	Q3 2016	Q2 2016	Q1 2016	
Cost of goods & services	1,449	365	356	362	366	1,421	360	348	357	356	-28
Personnel expenses	1,149	285	259	291	314	1,149	285	259	291	314	-
IT/TI	517	137	119	128	133	547	143	127	134	143	30
Other operating expenses	500	130	127	118	125	498	129	127	117	125	-2
The Netherlands	3,615	917	861	899	938	3,615	917	861	899	938	-

* Adjusted for restructuring costs and incidentals

Restatements to operating expenses (excl. D&A) by segment 2016

Opex excl. D&A by segment* (in EUR m)	FY 2016	Published figures				FY 2016	Restated figures				Delta FY 2016
		Q4 2016	Q3 2016	Q2 2016	Q1 2016		Q4 2016	Q3 2016	Q2 2016	Q1 2016	
Consumer	1,247	305	304	317	321	1,242	306	303	316	317	-5
Business	921	240	221	226	234	929	239	221	231	238	8
Wholesale	227	56	60	56	55	252	63	66	62	61	25
Network, Operations & IT	1,141	289	262	281	309	1,106	282	253	271	300	-35
Other (incl. eliminations)	79	27	14	19	19	86	27	18	19	22	7
The Netherlands	3,615	917	861	899	938	3,615	917	861	899	938	-

* Adjusted for restructuring costs and incidentals

[4] Changes to organizational structure

During H1 2017, KPN completed several small in-country acquisitions;

Name	Description	Segment	Date of control	Purchased participation
DearBytes B.V.	Dutch based cyber security company. With the acquisition KPN strengthened its position as leading security services provider in the Netherlands	Business	31 January 2017	100%
Divider B.V.	Dutch based B2B IT provider of specialized VPN and network solutions	Business	23 February 2017	100%
Vrieservice B.V.	Dutch based company offering telecommunication services mainly for small and medium-sized enterprises	Business	23 March 2017	100%
Solcon Internetdiensten N.V.	Dutch based internet services provider to consumer markets	Consumer	29 June 2017	100%

The aggregated consideration, including earn-out obligations, for these acquisitions amounted to EUR 43m. The preliminary purchase price allocations resulted in recognition of EUR 25m in goodwill. In aggregate, these acquisitions contributed EUR 5m to revenue and nil to EBITDA during H1 2017. If all acquisitions had taken place at the beginning of the year, revenues and other income of KPN Group would have been EUR 3,296m and EBITDA would have been EUR 1,145m for H1 2017.

During H1 2016, the following changes to KPN's organizational structure occurred;

- On 11 February 2016, KPN sold and transferred 100% of its interest in BASE Company to Telenet for a consideration of EUR 1,325m. The book gain from the disposal of BASE Company, recognized in discontinued operations, was EUR 365m. For further details refer to note [5].
- On 1 April 2016, KPN purchased the remaining 87.5% shares of GroupIT B.V., which was already consolidated in full as KPN held the option to purchase the remaining shares. The transaction was recorded through KPN's equity and did not have an effect on net profit.
- On 30 June 2016, KPN obtained control over Dekatel Nederland B.V. ('Dekatel') as KPN's subsidiary Yes Telecom Netherlands B.V. acquired all issued shares of Dekatel, a provider of telecommunication services to the Dutch business market. Dekatel has been consolidated as of 30 June 2016. The final purchase price allocation ('PPA') resulted in an addition to goodwill of EUR 22m (recorded in 2016).

[5] Disposal group held for sale

The sale of BASE Company to Telenet, for a consideration of EUR 1,325m, has been completed on 11 February 2016. The sale resulted in a gain on disposal of EUR 365m. The 'profit for the period from discontinued operations' in the Consolidated Statement of Profit or Loss and 'cash flows from discontinued operations' include results related to BASE Company until 11 February 2016 (EUR 2m). BASE Company has been eliminated from the segment disclosures 2016.

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

Notes to the Condensed Consolidated Statement of Profit or Loss

[6] Segment information Profit or Loss

Changes to the organizational structure are described in note [4] of these Interim Financial Statements. For a description of the activities of the segments, refer to Note 3 of the Integrated Annual Report 2016.

For the six months period ending 30 June 2017

in EUR m	Commercial		Operations			Total The Netherlands	iBasis	Other activities	KPN Group
	Consumer	Business	Wholesale	NOI	Other				
Statement of Profit or Loss									
External revenues	1,560	1,069	287	9	1	2,926	353	-1	3,278
Other income	-	-	-	1	-	1	-	-	1
Inter-division revenues	12	23	69	-	-88	16	32	-48	-
Total [7]	1,572	1,092	356	10	-87	2,943	385	-49	3,279
Operating expenses	597	503	120	538	46	1,804	376	-44	2,136
EBITDA (contribution margin) [8]	975	589	236	-528	-133	1,139	9	-5	1,143
DA&I	88	32	10	571	3	704	5	1	710
Operating profit [8]	887	557	226	-1,099	-136	435	4	-6	433

For the six months period ending 30 June 2016 (restated)

in EUR m	Commercial		Operations			Total The Netherlands	iBasis	Other activities	KPN Group
	Consumer	Business	Wholesale	NOI	Other				
Statement of Profit or Loss									
External revenues	1,529	1,138	296	8	2	2,973	389	1	3,363
Other income	-	-	1	1	-	2	-	-	2
Inter-division revenues	11	29	67	-	-93	14	44	-58	-
Total [7]	1,540	1,167	364	9	-91	2,989	433	-57	3,365
Operating expenses	638	468	123	584	44	1,857	421	-51	2,227
EBITDA (contribution margin) [8]	902	699	241	-575	-135	1,132	12	-6	1,138
DA&I	109	38	9	576	9	741	51	-	792
Operating profit [8]	793	661	232	-1,151	-144	391	-39	-6	346

[7] Revenues and other income

Total revenues and other income in H1 2017 were EUR 86m lower compared to H1 2016. The increase in revenues at Consumer was offset by lower revenues at Business, Wholesale and iBasis. The increase in revenues at Consumer was driven by the higher customer base, price adjustments and a VAT benefit. Revenues at Business decreased due to lower revenues from traditional services, migrations to integrated solutions and new technologies, and repricing of mobile services. This was partly offset by growing revenues from IT related services, Internet of Things and Security. Revenues at Wholesale decreased mainly due to lower international traffic and competitive dynamics in the Dutch mobile market leading to lower revenues from MVNOs. At iBasis, the revenue decrease was a result of continued price pressure in the wholesale voice carrier market and partly driven by less traffic as a result of the divestments of E-Plus and BASE Company.

The VAT benefit at Consumer originated from a change in the VAT calculation methodology, the consequence of the introduction of new mobile consumer propositions in August 2016. This has resulted in a lower remittance of VAT from August 2016 onwards of approximately EUR 3m per month. Although the view of KPN is not shared by the Dutch Tax Administration, based on the current legislation, KPN is sufficiently confident of this position. Therefore, in line with IFRS, KPN has taken no provision at 30 June 2017.

External revenues were positively impacted by changes in revenue related provisions at Wholesale (EUR 8m) in H1 2017. External revenues for H1 2016 were not impacted by incidentals. For more detailed information on incidentals, refer to the Analysis of adjusted results included in the separately published KPN Management Report Q2 2017.

[8] Operating expenses, EBITDA & DA&I

Operating expenses decreased by EUR 90m as a result of benefits of the Simplification program and lower costs of goods & services, mainly driven by lower subscriber acquisition and retention costs at Consumer. The Simplification program is leading to structurally lower indirect expenses, mainly in IT/TI and personnel expenses.

EBITDA increased by EUR 5m in H1 2017 compared to H1 2016. The impact of restructuring costs on EBITDA in H1 2017 was EUR 39m (H1 2016: EUR 28m). Adjusted for these expenses and the net effect of incidentals (EUR 3m negative in H1 2017 against EUR 6m positive in H1 2016), EBITDA increased by EUR 25m.

The negative impact of incidentals on EBITDA (contribution margin) in H1 2017 consisted of:

- change in provisions at Business of EUR 4m (negative impact)
- change in provisions at Wholesale of EUR 1m (positive impact)

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

Operating profit (EBIT) increased by EUR 87m in H1 2017, mainly due to lower depreciation and amortization (EUR 82m) expenses. The decrease in DA&I is the result of structurally lower regular schedule amortizations for licenses and software as well as lower impairment expenses. DA&I expenses in H1 2017 included impairment expenses of EUR 9m, mainly related to decommissioned legacy systems (hardware and software). The impairment expenses for H1 2016 (EUR 56m) included a goodwill impairment of EUR 45m related to iBasis.

[9] Finance income and expenses

Total finance income and expenses amounted to EUR 73m in H1 2017 which was stable compared to H1 2016 (EUR 72m) as lower dividend income was almost fully offset by lower interest expenses.

Finance income in H1 2017 included a EUR 70m dividend received from its shareholding in Telefónica Deutschland (H1 2016: EUR 110m).

Finance costs in H1 2017 decreased by EUR 45m compared to H1 2016 to EUR 171m, mainly as a result of the bond tender executed in H2 2016 and the regular bond redemption in Q1 2017.

Other financial results in H1 2017 amounted to a net gain of EUR 27m (H1 2016: EUR 32m gain) and included a EUR 30m book gain on the sale of a stake in Tecnocom (refer to note [17]).

[10] Income taxes

KPN calculates the income tax expense for the period using the tax rate that would be applicable to the expected total annual earnings. The income tax charge for H1 2017 was EUR 78m compared to EUR 63m in H1 2016.

KPN benefits from an agreement with the Dutch tax authorities with regard to the application of innovation box tax facilities. Innovation tax facilities are facilities under Dutch corporate income tax law, whereby profits attributable to innovation are taxed at an effective rate of 5%. KPN expects that the effective tax rate will be approximately 21% in 2017-2018 period.

The effective tax rate for H1 2017 was 21.7%. The effective tax rate in H1 2016 was 23.0%. The effective tax rate was 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 23% in H1 2017 (approximately 22% in H1 2016).

Notes to the Condensed Statement of Financial Position

[11] Segment information Statement of Financial Position

Segment information as at 30 June 2017

in EUR m	Commercial		Operations			Total The Netherlands	iBasis	Other activities	KPN Group
	Consumer	Business	Wholesale	NOI	Other				
Total assets	3,122	1,886	692	7,324	11,981	25,005	319	-11,732	13,592
Total liabilities	2,316	1,375	431	8,181	-10,008	2,295	187	7,593	10,075

Segment information as at 31 December 2016

in EUR m	Commercial		Operations			Total The Netherlands	iBasis	Other activities	KPN Group
	Consumer	Business	Wholesale	NOI	Other				
Total assets	4,225	2,751	898	9,782	7,325	24,981	334	-10,579	14,736
Total liabilities	4,352	2,730	888	9,523	-14,844	2,649	198	8,288	11,135

The change in the total assets and total liabilities of the segments in The Netherlands was mainly the result of internal transfer of the result of 2016 and changes in intercompany balances. The decrease of the total assets and total liabilities at KPN Group level was due to the bond redemption in Q1 2017, dividends paid and the share buyback. Refer to note [14] and [15], and the Consolidated Statement of Changes in Group Equity.

Capex (in EUR m)	For the six months ended	
	30 June 2017	30 June 2016
The Netherlands	499	627
iBasis	5	3
Other activities	-	-
KPN Group	504	630

Capex in H1 2017 mainly decreased due to different intrayear phasing compared to last year.

[12] Other current financial assets

At 30 June 2017, other current financial assets consisted of EUR 239m investments in short-duration fixed income funds, which were held at fair value through profit and loss (at 31 December 2016: EUR 140m). These funds have low volatility with an investment objective of preservation of principal. KPN did not have any held-to-maturity investments at 30 June 2017. Both categories are classified as short-term investments in KPN's Net Debt definition.

[13] Cash and cash equivalents

At 30 June 2017, cash and cash equivalents amounted to EUR 916m, compared to EUR 1,179m at 31 December 2016. The movement in KPN's cash and cash equivalents was mainly caused by proceeds from the sale of Telefónica S.A. ('Telefónica') shares (EUR 741m) and free cash flow generated in H1 2017 (EUR 331m), offset by EUR 720m bond redemptions, EUR 358m dividend payments and EUR 116m related to the share buyback.

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

Part of KPN's cash balances have been invested in instruments that cannot be classified as cash and cash equivalents. These are classified as other current financial assets, refer to note [12] for further information.

[14] Group equity

In the first six months of 2017, the number of ordinary shares outstanding remained unchanged at 4,270,254,664.

On 21 April 2017, KPN paid a final dividend in respect of 2016 of EUR 6.7 cents per share, in total EUR 285m. The total regular dividend in respect of 2016 was EUR 10.0 cents, in total EUR 426m.

In May 2017, KPN received a dividend of EUR 70m from its shareholding in Telefónica Deutschland, related to 2016. KPN distributed this dividend to KPN shareholders as an additional interim cash dividend of EUR 1.7 cents, in total EUR 72m. This dividend was paid on 22 May 2017.

As part of the EUR 200m share buyback program announced in April 2017, in total 37.6m own shares for an amount of EUR 116m were purchased in May and June 2017.

[15] Borrowings, bond issues and redemptions

On 17 January 2017, KPN redeemed the 4.75% coupon Eurobond 2006-2017 with a remaining outstanding principal amount of EUR 720m, in line with the regular redemption schedule.

At 30 June 2017, the average maturity of the senior bond portfolio was 8.0 years (31 December 2016: 7.6 years). The average interest rate (after swaps) on the overall bond portfolio, including hybrid bonds, was 4.6% at 30 June 2017 (31 December 2016: 4.6%). Excluding the hybrid bonds, the average interest rate (after swaps) on the senior bond portfolio was 4.1% at 30 June 2017 (31 December 2016: 4.1%).

[16] Provisions for retirement benefit obligations

The remaining pension provision at 30 June 2017 of EUR 232m (31 December 2016: EUR 262m) 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.

[17] Fair value disclosures

The following table presents the Group's assets and liabilities that are measured at fair value at 30 June 2017 and 31 December 2016:

Assets and liabilities measured at fair value (in EUR m)	As at 30 June 2017				As at 31 December 2016			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Assets								
Financial assets at fair value through profit or loss:								
Derivatives (cross currency interest rate swap)	-	30	-	30	-	84	-	84
Derivatives (interest rate swap)	-	182	-	182	-	214	-	214
Available-for-sale financial assets:								
Listed securities	1,230	-	-	1,230	1,902	-	-	1,902
Unlisted securities	-	-	15	15	-	-	7	7
Total assets	1,230	212	15	1,457	1,902	298	7	2,207
Liabilities								
Financial liabilities at fair value through profit or loss:								
Derivatives (cross currency interest rate swap)	-	211	-	211	-	142	-	142
Derivatives (interest rate swap)	-	36	-	36	-	55	-	55
Other derivatives	-	-	-	-	-	1	-	1
Total liabilities	-	247	-	247	-	198	-	198

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

Level 2: An instrument is included in Level 2 if the financial instrument is not traded in an active market and if the fair value is determined by using valuation techniques based on maximum use of observable market data for all significant inputs. For the derivatives used for hedging purposes, KPN uses the estimated fair value of financial instruments determined by using available market information and appropriate valuation methods, including relevant credit risks. The estimated fair value approximates the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. KPN has its derivative instruments outstanding with financial institutions that had a credit rating of Baa1 or higher at 30 June 2017.

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

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

The decrease of the available-for-sale financial assets was mainly due to the sale of part of the stake in Telefónica Deutschland. On 13 March 2017, KPN exchanged 6% of Telefónica Deutschland shares with a fair value of EUR 740m for approximately 1.4% of Telefónica's share capital. Subsequently, KPN sold its shares in Telefónica in H1 2017, resulting in EUR 741m proceeds.

The fair value of KPN's remaining 9.5% stake in Telefónica Deutschland was EUR 1,230m at 30 June 2017 (31 December 2016: EUR 1,867m for a 15.5% stake). In H1 2017, a net gain of EUR 103m in the fair value of the stake in Telefónica Deutschland has been recorded through Other Comprehensive Income.

KPN sold its shares in Tecnocom in H1 2017, which had a fair value of EUR 35m at 31 December 2016. This sale resulted in a book gain of EUR 30m which has been recorded as other financial results.

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 2017, the total derivatives asset position would be EUR 46m (31 December 2016: EUR 124m) and the total derivatives liability position would be EUR 81m (31 December 2016: EUR 24m).

[18] Commitments and contingencies

Commitments

(in EUR m)	Amounts due by period				
	Less than 1 year	1–5 years	More than 5 years	Total 30 June 2017	Total 31 December 2016
Capital and purchase commitments	807	221	10	1,038	976
Rental and operational lease contracts	123	354	295	772	821
Guarantees	4	-	132	136	155
Total commitments	934	575	437	1,946	1,952

Capital and purchase commitments

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

Rental and operational lease contracts

For buildings, the majority of contracts include rental fees that are subject to a yearly indexation. Some contracts give KPN an option to buy the property when the landlord wants to sell that property. For site rentals and mobile towers, the majority of agreements include an option for renewal of the contract and rental fees that are subject to a yearly indexation percentage. In addition, the majority of contracts can be canceled by KPN only, with a notice period of 12 months.

The minimum non-cancellable sublease amounts expected to be received as at 30 June 2017 amount to EUR 8m (31 December 2016: EUR 8m). These amounts mainly relate to subleases of buildings and site sharing arrangements.

The total net costs of operating leases and rental contracts amounted to EUR 95m in H1 2017 (H1 2016: EUR 99m), which are (mainly) included in other operating expenses in the Statement of Profit or Loss. The operating lease and rental commitments mainly relate to property, plant and equipment.

Guarantees

These commitments consist of financial obligations of Group companies under certain contracts guaranteed by KPN. A total amount of EUR 136m relates to parent guarantees (31 December 2016: EUR 155m).

Contingent liabilities

No significant changes have occurred in KPN's contingent liabilities during H1 2017. Further information is available in Note 30 of the Integrated Annual Report 2016.

[19] Related party transactions

For a description of the related parties of KPN and transactions with related parties, including major shareholders, refer to Note 31 of the Integrated Annual Report 2016. In the first six months of 2017 there have been no changes in the type of related party transactions as described in the Integrated Annual Report 2016, 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 18 July 2017, 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 2017.

On 17 January 2017, Franklin Mutual Series Fund, Inc. notified that it held 5.0% of the shares and voting rights related to KPN's ordinary share capital.

On 30 April 2015, BlackRock, Inc. notified that it held 5.01% of the shares and 5.87% of the voting rights related to KPN's ordinary share capital.

Based on publicly available information, no other shareholder owned 3% or more of KPN's issued share capital as at 30 June 2017.

[20] 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 2016 (page 52-57 and Appendix 10). 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 2017.

KPN will publish its Integrated Annual Report 2017 in February 2018, with a detailed update of KPN's principal risks.

With respect to regulatory risk, refer to note [21], with respect to related parties, refer to note [19] and with respect to discontinued operations, refer to note [5].

[21] Regulatory developments

The Netherlands: wholesale call termination regulation

On 10 July 2017, the Trade and Industry Appeals Court ('CBB') decided on the appeal to ACM's decision that entered into force in September 2013, taking into account the decision of the European Court of Justice of 15 September 2016. The Court rejected appeals to ACM's decision to apply tariffs based on a 'pure BULRIC' cost model (as recommended by the European Commission), but also decided that ACM should have included a glide path for the tariff reduction. Thereby the Court decided that the tariffs that were applied until the date of the decision effectively remain unchanged (no retro-active effect). As of 12 July 2017, ACM's new decision on call termination of 1 June 2017 entered into force. The wholesale call termination tariffs will be decreased from EUR 1.861 cents to EUR 0.581 cents (mobile) and from EUR 0.302 cents to EUR 0.139 cents (fixed).

The Netherlands: review of wholesale regulation of fixed markets by ACM

The current decision of ACM concerning 'the market for unbundled access' of 17 December 2015 entered into force on 1 January 2016. ACM concluded that KPN still has significant market power on the wholesale local access markets. As a remedy, ACM imposed obligations upon KPN to offer (virtual) unbundled access to its copper and fiber network at wholesale level. Upon the approval of the merger of Vodafone NL and Ziggo, ACM started a review of the decision that is currently running. A draft decision for national consultation is scheduled by ACM for late 2017, where after a draft decision may be notified to the European Commission, expected no earlier than February 2018.

On 1 March 2017, a new decision of ACM entered into force on the market of (wholesale) voice telephony. ACM concluded that the market is increasingly competitive and withdrew regulation for KPN on consumer and large business voice market. According to ACM, KPN still has significant market power on the market for two voice lines (such as ISDN 2) and ACM still imposed remedies on KPN for that market.

On 13 February 2017, the European Commission raised serious doubts towards a draft decision of ACM on the market of High-Quality Wholesale Access. ACM is now reviewing the draft. Until a new decision enters into force current obligations remain applicable.

EU Roaming Regulation

By 15 June 2017, the amended EU Roaming Regulation entered into force, whereby the principle of 'roam-like-at-home' now applies for all mobile tariffs within the EU. Only where traffic exceeds defined strict criteria of 'fair use', or unsustainability of national tariffs, surcharges will remain possible.

European developments: review of the rules for electronic communications markets

Proposals of the European Commission for a new European Electronic Communications Code (of 14 September 2016) and an e-Privacy Regulation (of 10 January 2017), that together will replace the current European regulatory framework, are now under discussion in the European Parliament and the European Council of Ministers. Many amendments to the proposal of the Commission are presented and it is uncertain what the outcome of the legislative process will be and when final texts may be agreed between the European Institutions.

[22] 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 2017, give a true and fair view of the assets, liabilities, financial position and income of the company and the undertakings included in the consolidation taken as a whole, and the interim management report give a fair review of the information required pursuant to section 5:25d, subsection 8 and, as far as applicable, subsection 9 of the Dutch Financial Markets Supervision Act (Wet op het financieel toezicht).

The Hague, 26 July 2017

Eelco Blok

Chairman of the Board of Management
and Chief Executive Officer

Jan Kees de Jager

Member of the Board of Management
and Chief Financial Officer

Frank van der Post

Member of the Board of Management
and Chief Commercial Officer

Joost Farwerck

Member of the Board of Management
and Chief Operations Officer

Safe harbor**Alternative performance measures and management estimates**

This financial report contains a number of alternative performance measures (non-GAAP figures) to provide readers with additional financial information that is regularly reviewed by management, such as EBITDA and Free Cash Flow ('FCF'). These non-GAAP figures should not be viewed as a substitute for KPN's GAAP figures and are not uniformly defined by all companies including KPN's peers. Numerical reconciliations are included in KPN's quarterly factsheets and in the Integrated Annual Report 2016. KPN's management considers these non-GAAP figures, combined with GAAP performance measures and in conjunction with each other, most appropriate to measure the performance of the Group and its segments. The non-GAAP figures are used by management for planning, reporting (internal and external) and incentive purposes. KPN's main alternative performance measures are listed below.

*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. **Operating free cash flow** is defined as adjusted EBITDA minus Capex. **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 2016.