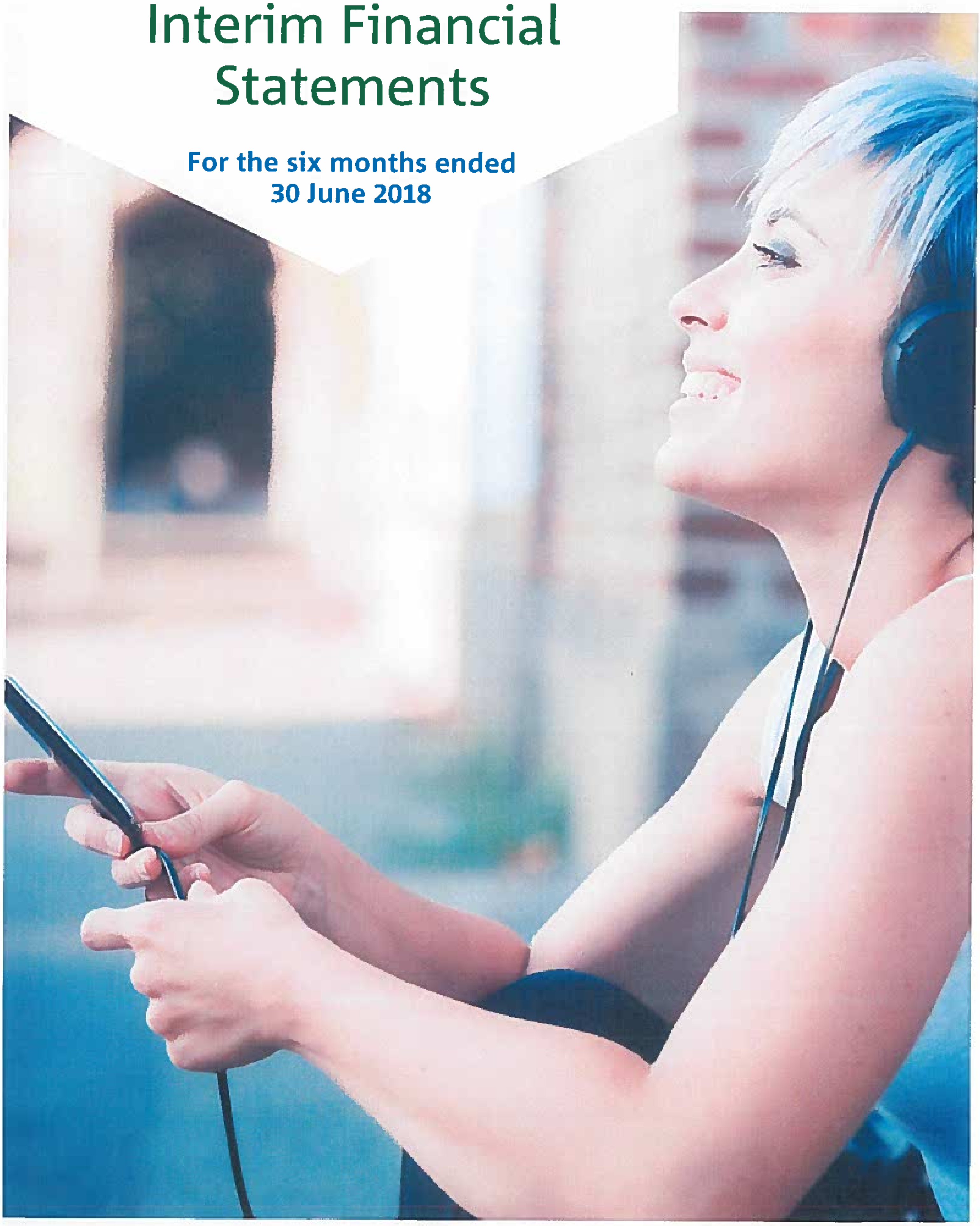
Interim Financial Statements

For the six months ended
30 June 2018



Condensed Consolidated Interim Financial Statements

for the six months ended 30 June 2018

All related documents can be found on KPN's website (ir.kpn.com), including the KPN Management Report Q2 2018.

Unaudited Consolidated Statement of Profit or Loss

(in EUR m, unless indicated otherwise)	For the three months ended 30 June 2018	2017 (restated)[1]	For the six months ended 30 June 2018	2017 (restated)[1]
Revenues from contracts with customers	1,401	1,426	2,799	2,877
Other income	-	1	5	1
Total [4,5]	**1,402**	**1,427**	**2,803**	**2,878**
Cost of goods & services	317	336	635	682
Personnel expenses	286	283	577	573
IT/TI	110	120	225	252
Other operating expenses	134	138	256	293
Depreciation, amortization & impairments (DA&I)	345	352	692	704
Total operating expenses [4,6]	**1,192**	**1,229**	**2,385**	**2,503**
Operating profit [4,6]	**210**	**198**	**418**	**375**
Finance income	55	70	55	71
Finance costs	-81	-84	-162	-170
Other financial results	1	19	1	23
Finance income and expenses [7]	**-25**	**5**	**-106**	**-77**
Share of the profit of associates and joint ventures accounted for using the equity method	-	-	-	1
Profit/Loss (-) before income tax from continuing operations	**185**	**203**	**312**	**299**
Income taxes [8]	-48	-41	-76	-64
Profit/Loss (-) for the period from continuing operations	**137**	**162**	**236**	**235**
Profit/Loss (-) for the period from discontinued operations [3]	-8	4	-17	5
Profit/Loss (-) for the period	**129**	**166**	**219**	**240**
Profit attributable to non-controlling interest	-	-	-	-
Profit/Loss (-) attributable to equity holders	129	166	218	240
Earnings per ordinary share after taxes attributable to equity holders for the period (in EUR)				
- Basic (continuing operations)	0.03	0.04	0.05	0.05
- Diluted (continuing operations)	0.03	0.04	0.05	0.05
- Basic (discontinued operations)	0.00	0.00	0.00	0.00
- Diluted (discontinued operations)	0.00	0.00	0.00	0.00
- Basic (total, including discontinued operations)	0.03	0.04	0.05	0.05
- Diluted (total, including discontinued operations)	0.03	0.04	0.05	0.05
Weighted average number of ordinary shares				
- Non-diluted			4,194,429,597	4,255,609,566
- Diluted			4,200,847,360	4,260,386,524

1) 2017 financial information has been restated as a result of IFRS 9 and IFRS 15 (refer to note [2]) and iBasis has been classified as discontinued operation as of 7 March 2018 (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 2018	For the three months ended 30 June 2017 *(restated)*[1]	For the six months ended 30 June 2018	For the six months ended 30 June 2017 *(restated)*[1]
Profit for the period	**129**	**166**	**219**	**240**
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	31	9	31	12
Income tax	-	-	-	-
Net other comprehensive income not to be reclassified to profit or loss in subsequent periods	31	9	31	12
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	6	-33	-51	54
Income tax	-1	8	13	-14
	5	-25	-38	40
Currency translation adjustments:				
Gains or losses (-) arising during the period	6	-	3	-1
Realized through profit or loss	1	-	-	-
	7	-	3	-1
Changes in fair value of equity investments measured at fair value through other comprehensive income:				
Unrealized gains or losses (-) arising during the period	-83	-87	-172	108
Income tax on unrealized gains or losses (-)	22	22	44	-26
Realized gains through profit or loss (-)	-	-26	-	-29
Income tax on realized gains	-	-1	-	-
	-61	-92	-128	53
Net other comprehensive income to be reclassified to profit or loss in subsequent periods	-49	-117	-163	92
Other comprehensive income for the period, net of income tax	-18	-108	-132	104
Total comprehensive income for the period, net of income tax	111	57	87	344
Total comprehensive income attributable to:				
- Equity holders of the company	111	57	87	344
- Non-controlling interest	-	-	-	-
Total comprehensive income attributable to equity holders arising from:				
- Continuing operations	116	61	104	348
- Discontinued operations	-5	-4	-17	-4

1) 2017 financial information has been restated as a result of IFRS 9 and IFRS 15 (refer to note [2]) and iBasis has been classified as discontinued operation as of 7 March 2018 (refer to note [3]).
[..] 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 2018	31 December 2017 *(restated)*[1]
Non-current assets		
Goodwill	1,500	1,530
Licenses	933	976
Software	492	540
Other intangibles	276	296
Total intangible assets	**3,201**	**3,341**
Land and buildings	448	466
Plant and equipment	4,908	5,042
Other tangible non-current assets	33	35
Assets under construction	304	268
Total property, plant and equipment	**5,693**	**5,811**
Equity investments accounted for using the equity method	26	21
Equity investments measured at fair value through other comprehensive income [15]	22	20
Contract costs [2]	31	33
Derivative financial instruments [15]	169	168
Deferred income tax assets	889	907
Trade and other receivables	143	140
Total other non-current assets	**1,281**	**1,289**
Total non-current assets	**10,175**	**10,441**
Current assets		
Inventories	58	58
Trade and other receivables	756	750
Income tax receivable	10	1
Contract assets [2]	165	269
Equity investments measured at fair value through other comprehensive income [15]	637	1,071
Other current financial assets [10]	404	329
Cash and cash equivalents [11]	1,027	856
Total current assets	**3,057**	**3,333**
Assets and disposal group classified as held for sale [3]	**152**	**1**
Total assets	**13,385**	**13,776**

1) 2017 financial information has been restated as a result of IFRS 9 and IFRS 15 (refer to note [2]).
[..] Bracketed numbers refer to the related notes to these Condensed Consolidated Interim Financial Statements.

Group equity and liabilities

(in EUR m)

	30 June 2018	31 December 2017 *(restated)*[1]
Group equity		
Share capital	168	168
Share premium	8,445	8,445
Other reserves	-533	-393
Retained earnings	-5,958	-5,826
Equity attributable to holders of perpetual capital securities	1,089	1,089
Equity attributable to equity holders of the company	**3,211**	**3,482**
Non-controlling interest	-	-
Total group equity [12]	**3,211**	**3,482**
Non-current liabilities		
Borrowings [13]	7,041	7,579
Contract liabilities [2]	139	117
Derivative financial instruments [15]	330	328
Deferred income tax liabilities	2	1
Provisions for retirement benefit obligations [14]	181	218
Provisions for other liabilities and charges	108	103
Other payables and deferred income	67	61
Total non-current liabilities	**7,866**	**8,406**
Current liabilities		
Trade and other payables	1,536	1,779
Contract liabilities [2]	8	8
Borrowings [13]	586	18
Derivative financial instruments [15]	15	-
Income tax payables [8]	7	16
Provision for other liabilities and charges	52	66
Total current liabilities	**2,203**	**1,888**
Liabilities directly associated with assets and disposal group classified as held for sale [3]	**104**	-
Total equity and liabilities	**13,385**	**13,776**

1) 2017 financial information has been restated as a result of IFRS 9 and IFRS 15 (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 EUR m)	For the six months ended 30 June 2018	30 June 2017 *(restated)*[1]
Profit before income tax from continuing operations	312	299
Adjustments for:		
- Net financial income and expenses [7]	106	77
- Share-based compensation	-6	-
- Share of the profit of associated and joint ventures	-	-1
- Depreciation, amortization and impairments [4,6]	692	704
- Other non-cash income and expenses	-5	3
- Changes in provisions (excl. deferred taxes) [6,14]	8	27
Changes in working capital relating to:		
- Inventories	-	-12
- Trade receivables	-45	13
- Prepayments and accrued income	5	-30
- Contract assets [2]	104	21
- Other current assets	-5	-
- Trade payables	-114	-120
- Accruals and deferred income	-35	-7
- Current liabilities (excl. short-term financing)	-7	-19
Dividends received [7,12]	54	71
Income taxes paid/received	-25	-13
Interest paid/received	-162	-196
Net cash flow from operating activities from continuing operations	**877**	**818**
Net cash flow from operating activities from discontinued operations [3]	*5*	*18*
Net cash flow from operating activities	**881**	**835**
Disposal of equity investments [11, 15]	260	780
Disposal of subsidiaries, associates and joint ventures	-	3
Acquisition of subsidiaries, associates, joint ventures (net of acquired cash)	-15	-57
Investments in intangibles assets (excl. software)	-1	-
Investments in software [9]	-99	-105
Investments in property, plant & equipment [9]	-382	-394
Other financial assets [10]	-77	-100
Disposal of real estate	5	-
Other	-	-5
Net cash flow used in investing activities from continuing operations	**-308**	**122**
Net cash flow used in investing activities from discontinued operations [3]	*-2*	*-8*
Net cash flow used in investing activities	**-311**	**114**
Dividends paid [12]	-361	-358
Share buyback	-	-116
Repayments of borrowings and settlement of derivatives [13]	-14	-738
Other	-1	-2
Net cash flow used in financing activities from continuing operations	**-375**	**-1,214**
Net cash flow used in financing activities from discontinued operations [3]	-	-
Net cash flow used in financing activities	**-375**	**-1,214**

1) 2017 financial information has been restated as a result of IFRS 9 and IFRS 15 (refer to note [2]) and iBasis has been classified as discontinued operation as of 7 March 2018 (refer to note [3]).
[..] Bracketed numbers refer to the related notes to these Condensed Consolidated Interim Financial Statements.

(in EUR m)	For the six months ended 30 June 2018	30 June 2017 *(restated)*[1]
Continued from previous page		
Total net cash flow from continuing operations	193	-274
Total net cash flow from discontinued operations	*2*	*10*
Total net cash flow (changes in cash and cash equivalents)	**195**	**-264**
Net cash and cash equivalents at beginning of period	852	1,178
Exchange rate difference	-	-1
Changes in cash and cash equivalents	196	-264
Net cash and cash equivalents at end of period	**1,047**	**913**
Bank overdrafts	1	2
Cash classified as held for sale (discontinued operations)	-21	-
Cash and cash equivalents at end of period [11]	**1,027**	**916**

1) 2017 financial information has been restated as a result of IFRS 9 and IFRS 15 (refer to note [2]) and iBasis has been classified as discontinued operation as of 7 March 2018 (refer to note [3]).
[..] Bracketed numbers refer to the related notes to these Condensed Consolidated Interim Financial Statements.

Unaudited Consolidated Statement of Changes in Group Equity

(in EUR m, except number of shares)	Number of subscribed shares	Share capital	Share premium	Other reserves	Retained earnings	Perpetual capital securities	Equity attributable to owners of the parent	Non-controlling interests	Total Group equity
Balance at 1 January 2017	4,270,254,664	171	8,651	-451	-5,859	1,089	3,601	-	3,601
Transition impact IFRS 9 and IFRS 15 [2]	-	-	-	-	217	-	217	-	217
Balance at 1 January 2017 *Restated*[1]	4,270,254,664	171	8,651	-451	-5,642	1,089	3,818	-	3,818
Profit for the period	-	-	-	-	240	-	240	-	240
Other comprehensive income	-	-	-	92	12	-	104	-	104
Total comprehensive income	-	-	-	92	252	-	344	-	344
Share buyback [12]	-	-	-	-116	-	-	-116	-	-116
Share based compensation	-	-	-	-	-9	-	-9	-	-9
Sold treasury shares	-	-	-	12		-	12	-	12
Dividends paid [12]	-	-	-	-	-358	-	-358	-	-358
Other	-	-	-	16	-16	-	-	-	-
Total transactions with owners, recognized directly in equity	-	-	-	-88	-383	-	-471	-	-471
Balance at 30 June 2017 *Restated*[1]	4,270,254,664	171	8,651	-446	-5,773	1,089	3,692	-	3,692
Balance at 1 January 2018	4,202,844,404	168	8,445	-393	-5,826	1,089	3,482	-	3,482
Transition impact IFRS 9 [2]	-	-	-	4	-4	-	-	-	-
Balance at 1 January 2018 *Restated*[1]	4,202,844,404	168	8,445	-389	-5,830	1,089	3,482	-	3,482
Profit for the period	-	-	-	-	218	-	218	-	219
Other comprehensive income	-	-	-	-163	31	-	-132	-	-132
Total comprehensive income	-	-	-	-163	249	-	87	-	87
Share based compensation	-	-	-	-	-16	-	-16	-	-16
Sold treasury shares	-	-	-	19		-	19	-	19
Dividends paid [12]	-	-	-	-	-361	-	-361	-	-361
Total transactions with owners, recognized directly in equity	-	-	-	19	-377	-	-358	-	-358
Balance at 30 June 2018	4,202,844,404	168	8,445	-533	-5,958	1,089	3,211	-	3,211

1) 2017 financial information has been restated as a result of IFRS 9 and IFRS 15 (refer to note [2]) and iBasis has been classified as discontinued operation as of 7 March 2018 (refer to note [3]).
[..] 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 ICT 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 ICT solutions to business customers. KPN provides wholesale network services to third parties. KPN's US-based subsidiary iBasis (currently classified as discontinued operation) operates an IP-based infrastructure for international wholesale customers.

[2] Accounting policies

Basis of preparation

These Condensed Consolidated Interim Financial Statements ('Interim Financial Statements') for the six months ending 30 June 2018 have been prepared in accordance with IAS 34 Interim Financial Reporting and should be read in conjunction with KPN's Integrated Annual Report 2017 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 2017 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 2017.

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 value in use of cash-generating units for goodwill impairment testing;
- assessment of exposure to credit risk and financial market risks; and
- 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.

Change in accounting policies & restatement reconciliation

KPN applies new standards and amendments issues by the International Accounting Standards Board (IASB), when effective and endorsed by the European Union. KPN has not early adopted any new standards.

As of 1 January 2018, KPN has adopted IFRS 15 'Revenue from Contracts with customers' and IFRS 9 'Financial Instruments'. Refer to Note 2 of KPN's Integrated Annual Report 2017 for a full description of the impact of these new standards on KPN's accounting policies and financial results.

IFRS 15 'Revenue from Contracts with customers' introduced new guidance on the recognition and measurement of revenues and provided a model for the sale of some non-financial assets that are not an output of KPN's ordinary business activities. IFRS 9 'Financial Instruments' introduced new requirements for classification and measurement, impairment and hedge accounting of financial instruments.

KPN has adopted both standards retrospectively (IFRS 9 except for hedge accounting which will be applied prospectively) and has restated 2017 financial information. The cumulative transition adjustment following the implementation of both standards has been recognized as per 1 January 2017, the date of initial application.

(in EUR m)	H1 2017 *Published*	IFRS 9 Adjustment	IFRS 15 Adjustment	iBasis Discontinued Operations	H1 2017 *Restated*
Revenue from contracts with customers	3,278	-	-65	-336	2,877
Other income	1	-	-	-	1
Total Revenue	**3,279**	-	**-65**	**-336**	**2,878**
Total operating expenses	2,846	-	-11	-332	2,503
Operating profit	**433**	-	**-55**	**-4**	**375**
Finance income and expenses	73	-	-	-4	-77
Share of the profit of associates and joint ventures accounted for using the equity method	1	-	-	-	1
Profit/Loss (-) before income tax from continuing operations	**361**	-	**-55**	**-8**	**299**
Income taxes	78	-	-12	-2	64
Profit/Loss (-) for the period from continuing operations	**283**	-	**-43**	**-6**	**235**
Profit/Loss (-) for the period from discontinued operations	-	-	-	6	5
Profit/Loss (-) for the period	**283**	-	**-43**	-	**240**

(in EUR m)	1 January 2017 Published	Adjustments IFRS 9	IFRS 15	1 January 2017 Restated	31 December 2017 Published	Adjustments IFRS 9	IFRS 15	31 December 2017 Restated
Trade and other receivables	766	-7	-5	754	762	-7	-5	750
Contract assets[1]	-	-	325	325	-	-	269	269
Contract cost	-	-	42	42	-	-	33	33
Deferred income tax	1,091	2	-63	1,030	947	2	-45	904
Total assets[2]	14,736	-5	296	15,027	13,530	-5	249	13,774
Total equity	3,601	-5	222	3,818	3,358	-5	127	3,480
Contract liabilities	-	-	77	77	-	-	124	124
Total equity and liabilities[3]	14,736	-5	296	15,027	13,530	-5	249	13,774

(in EUR m)	30 June 2017 Published	Adjustments IFRS 9	IFRS 15	30 June 2017 Restated
Trade and other receivables	779	-7	-9	763
Contract assets[1]	-	-	304	304
Contract cost	-	-	37	37
Deferred income tax	979	2	-51	930
Total assets[2]	13,592	-5	279	13,866
Total equity	3,517	-5	175	3,692
Contract liabilities	-	-	103	103
Total equity and liabilities[3]	13,592	-5	279	13,866

1) Under IFRS 9, a provision for expected credit losses is recorded on the IFRS 15 contract assets. This transition impact is presented as part of the IFRS 15 impact.
2) Total assets figures include IFRS 15 adjustments regarding other line items of EUR -3m as of 1 January, EUR -2m as of 30 June 2017 and EUR -3m as of 31 December 2017.
3) Total equity and liabilities figures include IFRS 15 adjustments regarding other line items of EUR -3m as of 1 January 2017, EUR 1m as of 30 June 2017 and EUR -2m as of 31 December 2017.

The adoption of IFRS 9 'Financial Instruments' for hedge accounting on 1 January 2018 prospectively, had a positive impact on the hedge reserve of EUR 4m (net of tax) and a negative impact on retained earnings for the same amount.

KPN other accounting policies as described in the Integrated Annual Report 2017 have not been changed.

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.

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 2017.

IFRS 16 has been endorsed and will be effective as of 1 January 2019. KPN intends to apply IFRS 16 retrospectively, including restatement of the 2018 comparative figures.

IFRS 16 will increase KPN's EBITDA due to the replacement of operating lease expenses with amortization charges of the Right of Use assets and the interest expenses related to the Lease

Liabilities. The impact on net profit is expected to be limited. The 'on balance' recognition of KPN's lease liability is not expected to have an impact on KPN's financing arrangements which do not contain any financial covenants.

KPN continues to work on the new accounting policies on leases. As these new accounting policies have not yet been finalized, no reliable estimate of the impact is available. As at 30 June 2018, KPN reports an off balance sheet obligation for operating leases of EUR 715m, 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.

KPN is currently implementing the IFRS 16 solution within its IT landscape. The majority of KPN's lease contracts is captured in KPN's lease management systems. These lease management systems will interface IFRS 16 relevant contract data to KPN's central IFRS 16 calculator (part of KPN's IFRS 16 solution). Leases at subsidiary companies have been prepared for inclusion in the IFRS 16 calculator as well. The data enrichment of KPN's lease contracts is nearly complete and KPN is preparing for the initial load of historic contract information into the IFRS 16 calculator.

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

On 7 March 2018, KPN announced that it reached an agreement to sell US-based subsidiary iBasis Inc. to Tofane Global.

iBasis is classified as 'disposal group held for sale' as of 7 March 2018. The classification as 'disposal group held for sale' resulted in an accumulated impairment of EUR 17m as of 30 June 2018, as the fair value less costs to sell of the disposal group was lower than the carrying value. iBasis continues to be included in KPN's segment reporting until the sale is completed.

At completion of the sale of iBasis, the cumulative amount of currency translation adjustments recorded in other comprehensive income will be recognized in the Consolidated Statement of Profit or Loss (result from discontinued operations). The balance as at 30 June 2018 is a gain of EUR 10m.

All assets and liabilities of iBasis have been presented separately on KPN's Consolidated Statement of Financial Position as of 7 March 2018 as 'assets of disposal group classified as held for sale' and 'liabilities directly associated with assets and disposal group held classified as held for sale'. These assets and liabilities will continue to be accounted for in accordance with the relevant IFRS standards except that the non-current assets are no longer amortized or depreciated as of 7 March 2018 following guidance of IFRS 5.

IFRS classifies iBasis as a 'discontinued operation'. As of Q1 2018 iBasis is presented as discontinued operations in the Consolidated Statement of Profit or Loss and in the Consolidated Statement of Cash Flows. Comparative financial information has been restated in accordance with relevant IFRS standards. Results from iBasis are reported as 'profit/loss for the period from discontinued operations' and cash flows as 'cash flows from discontinued operations'. Since the internal reporting of iBasis as operating segment to KPN's Chief Operating Decision Maker remains unchanged, iBasis is still included in KPN's segment reporting.

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

(in EUR m)	As at 30 June 2018	As at 7 March 2018
Intangible assets	48	46
Property, plant and equipment	21	19
Other non-current assets	12	13
Current assets	89	86
Non-current liabilities	-2	-2
Current liabilities	-102	-98
Fair value adjustment of disposal group	-17	-12
Net assets and liabilities	**48**	**52**

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':

	For the three months ended 30 June		For the six months ended 30 June	
(in EUR m)	2018	2017	2018	2017
Revenues and other income	120	168	233	336
Operating expenses	-112	-166	-222	-332
Finance income and expenses	-	3	1	4
Share of the loss of associated and joint ventures	-	-	-	-
Income taxes	-2	-1	-3	-2
Result for the period from discontinued operations before impairment and tax effects resulting from the transaction	**6**	**4**	**10**	**6**
Impairment disposal group	-5	-	-17	-
Profit/Loss (-) for the period from discontinued operations related to iBasis	**1**	**4**	**-8**	**6**

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 2018 of EUR -17m includes, besides the negative result from iBasis mentioned above (EUR -8m), results related to BASE Company (EUR -9m) and E-Plus (EUR -1m). The negative result related to BASE Company arose from a balance sheet guarantee.

Notes to the Condensed Consolidated Statement of Profit or Loss

[4] Segment information Profit or Loss

The organizational structure of KPN Group has not changed compared to 31 December 2017 other than due to the classification of iBasis as discontinued operation (refer to note [3] of these Interim Financial Statements. For a description of the activities of the segments, refer to Note 3 of the Integrated Annual Report 2017.

For the six months period ending 30 June 2018

	Commercial			Operations		
in EUR m	Consumer	Business	Wholesale	NOI	Other	Total The Netherlands
Statement of Profit or Loss						
External revenues	1,478	1,055	246	10	1	2,790
Other income	-	-	-	5	-	5
Inter-division revenues	5	17	59	1	-74	8
Total [5]	**1,484**	**1,072**	**305**	**15**	**-74**	**2,803**
Operating expenses	535	505	80	511	61	1,692
EBITDA *(contribution margin)* [6]	**949**	**568**	**225**	**-496**	**-135**	**1,111**
DA&I	82	32	9	564	4	692
Operating profit [6]	**866**	**536**	**216**	**-1060**	**-139**	**419**

in EUR m	Total The Netherlands	iBasis	Other activities (incl elim.)	KPN Group	Of which discontinued operations	KPN continuing operations
Statement of Profit or Loss						
External revenues	2,790	242	-	3,032	-233	2,799
Other income	5	-	-	5	-	5
Inter-division revenues	8	23	-31	-	-	-
Total [5]	**2,803**	**264**	**-31**	**3,037**	**-233**	**2,803**
Operating expenses	1,692	251	-30	1,913	220	-1,693
EBITDA *(contribution margin)* [6]	**1,111**	**13**	**-1**	**1,123**	**-13**	**1,110**
DA&I	692	5	-	697	-5	692
Operating profit [6]	**419**	**9**	**-1**	**427**	**-9**	**418**

For the six months period ending 30 June 2017 *(restated)*

	Commercial			Operations		
in EUR m	Consumer	Business	Wholesale	NOI	Other	Total The Netherlands
Statement of Profit or Loss						
External revenues	1,511	1,061	278	9	1	2,860
Other income	-	-	-	1	-	1
Inter-division revenues	11	23	71	-	-89	17
Total [5]	**1,523**	**1,084**	**349**	**10**	**-88**	**2,878**
Operating expenses	588	504	121	536	45	1,794
EBITDA *(contribution margin)* [6]	**935**	**580**	**228**	**-526**	**-133**	**1,084**
DA&I	88	31	9	571	4	704
Operating profit [6]	**847**	**549**	**219**	**-1,097**	**-137**	**381**

in EUR m	Total The Netherlands	iBasis	Other activities (incl. elim.)	KPN Group	Of which discontinued operations	KPN continuing operations
Statement of Profit or Loss						
External revenues	2,860	353	-	3,213	-336	2,877
Other income	1	-	-	1	-	1
Inter-division revenues	17	32	-49	-	-	-
Total [5]	**2,878**	**385**	**-49**	**3,214**	**-336**	**2,878**
Operating expenses	1,794	376	-43	2,126	-327	1,799
EBITDA *(contribution margin)* [6]	**1,084**	**9**	**-6**	**1,088**	**-9**	**1,079**
DA&I	704	6	-	709	-5	704
Operating profit [6]	**381**	**4**	**-6**	**379**	**-4**	**375**

[5] Revenues and other income

Total revenues and other income from continuing operations in H1 2018 were EUR 75m lower compared to H1 2017. This was mainly due to lower revenues in Wholesale (EUR 43m) and Consumer (EUR 39m), driven by the effect of regulation (roaming, MTA/FTA) and lower handset revenues, resulting from the ongoing shift to SIM-only propositions in Consumer. In Business, the effect of regulation and the lower revenues from traditional single-play services were mostly offset by growth of revenues from IT Services and Professional Services & Consultancy.

External revenues in H1 2018 were not impacted by incidentals. In H1 2017, external revenues at Wholesale included a release of a revenue related provision for EUR 3m.

[6] Operating expenses, EBITDA & DA&I

Operating expenses (excluding DA&I) decreased by EUR 106m as a result of benefits related to the Simplification program and lower costs of goods & services, mainly driven by lower traffic expenses at Consumer and Wholesale following reduction of regulatory MTA/FTA tariffs. The Simplification program is leading to structurally lower indirect expenses.

EBITDA increased by EUR 31m in H1 2018 compared to H1 2017. The impact of restructuring costs on EBITDA in H1 2018 was EUR 36m (H1 2017: EUR 39m). Adjusted for these expenses and the net effect of incidentals (nil in H1 2018 against EUR 8m negative in H1 2017), EBITDA increased by EUR 20m.

The negative impact of incidentals on EBITDA (contribution margin) in H1 2017 consisted of:
- change in provisions at Business of EUR 4m
- change in provisions at Wholesale of EUR 4m

Operating profit (EBIT) increased by EUR 43m in H1 2018, due to the increase in EBITDA (EUR 31m) and lower depreciation and amortization expenses (EUR 12m). 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 2018 included impairment expenses of EUR 6m, mainly related to software DA&I expenses in H1 2017 included impairment expenses of EUR 9m, mainly related to decommissioned legacy systems (hardware and software).

[7] Finance income and expenses

Total finance income and expenses amounted to EUR -106m in H1 2018, which was EUR 30m lower compared to H1 2017 (EUR -77m).

Finance income in H1 2018 decreased by EUR 16m to EUR 55m compared to H1 2017 (EUR 71m) as a result of less dividend received from KPN's shareholding in Telefónica Deutschland (H1 2018: EUR 54m, H1 2017: EUR 70m).

Finance costs in H1 2018 decreased by EUR 8m to EUR 162m compared to H1 2017 (EUR 170m), mainly due to lower average interest rates as a result of an adjustment of the interest rate duration of KPN's bond portfolio.

Other financial results in H1 2018 amounted to a net gain of EUR 1m, which is EUR 22m lower compared to H1 2017 (net gain EUR 23m), mainly as a result of the sale of KPN's stake in Tecnocom in H1 2017 (EUR 30m gain).

[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 2018 was EUR 76m compared to EUR 64m in H1 2017.

KPN benefits from 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 tax rate of 7%. KPN expects that the effective tax rate will be approximately 23% in 2018-2019 period. This effective tax rate does not take into account planned changes to the Dutch corporate tax rate as this change has not yet been formalized in law.

The effective tax rate for H1 2018 was 24.4% against 21.5% in H1 2017. 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 2018 (approximately 23% in H1 2017).

Notes to the Condensed Statement of Financial Position

[9] Segment information Statement of Financial Position

Segment information as at 30 June 2018

in EUR m	Commercial Consumer	Commercial Business	Operations Wholesale	Operations NOI	Other	Total The Netherlands
Total assets	3,076	2,203	789	7,264	-1,699	11,633
Total liabilities	2,220	1,696	341	8,013	-9,784	2,486

in EUR m	Total The Netherlands	iBasis	Other activities (incl elim.)	KPN Group	Of which discontinued operations	KPN continuing operations
Total assets	11,633	176	1,590	13,400	-15	13,385
Total liabilities	2,486	159	7,528	10,173	-	10,173

Segment information as at 31 December 2017

in EUR m	Commercial Consumer	Commercial Business	Operations Wholesale	Operations NOI	Other	Total The Netherlands
Total assets	5,054	2,906	896	9,635	-6,969	11,522
Total liabilities	5,123	2,885	887	9,526	-15,721	2,700

in EUR m	Total The Netherlands	iBasis	Other activities (incl elim.)	KPN Group	Of which discontinued operations	KPN continuing operations
Total assets	11,522	288	1,967	13,776	-	13,776
Total liabilities	2,700	163	7,430	10,294	-	10,294

The change in the total assets and total liabilities of the segments was mainly the result of internal transfer of the result of 2017 and changes in intercompany balances.

Capex *(in EUR m)*	For the six months ended 30 June 2018	For the six months ended 30 June 2017
The Netherlands	**481**	**499**
iBasis	**2**	**5**
Other activities	-	-
KPN Group	**483**	**504**
Of which discontinued operations	2	5
KPN Continuing operations	**481**	**499**

[10] Other current financial assets

At 30 June 2018, other current financial assets consisted of EUR 354m investments in short-duration fixed income funds and unrated money market funds, which were measured at fair value through profit and loss (at 31 December 2017: EUR 329m). At 30 June 2018, other current financial assets also included EUR 50m repurchase agreements with initial maturities of more than 3 months, which were measured at amortized cost (at 31 December 2018: nil). These funds have low volatility with an investment objective of preservation of principal. Both categories are classified as short-term investments in KPN's Net Debt definition.

[11] Cash and cash equivalents

At 30 June 2018, cash and cash equivalents amounted to EUR 1,027m, compared to EUR 856m at 31 December 2017. The movement in KPN's cash and cash equivalents was mainly caused by free cash flow generated in H1 2018 (EUR 401m), proceeds from the sale of Telefónica Deutschland shares (EUR 260m), partly offset by dividend payments (EUR 361m).

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.

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 [10] for further information.

[12] Group equity

In the first six months of 2018, the number of ordinary shares outstanding remained unchanged at 4,202,844,404.

On 26 April 2018, KPN paid a final dividend in respect of 2017 of EUR 7.3 cents per share, in total EUR 306m. The total regular dividend in respect of 2017 was EUR 11.0 cents, in total EUR 462m.

In May 2018, KPN received a dividend of EUR 54m from its shareholding in Telefónica Deutschland, related to 2017. KPN distributed this dividend to KPN shareholders as an additional interim cash dividend of EUR 1.3 cents, in total EUR 55m, on 25 May 2018.

[13] 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 2018, the average maturity of the senior bond portfolio was 7.0 years (31 December 2017: 7.5 years). The average interest rate (after swaps) on the overall bond portfolio, including hybrid bonds, was 4.4% at 30 June 2018 (31 December 2017: 4.5%). Excluding the hybrid bonds, the average interest rate (after swaps) on the senior bond portfolio was 3.8% at 30 June 2018 (31 December 2017: 3.9%).

[14] Provisions for retirement benefit obligations

The remaining pension provision at 30 June 2018 of EUR 181m (31 December 2017: EU 218m) 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 2018 and 31 December 2017:

Assets and liabilities measured at fair value *(in EUR m)*	As at 30 June 2018 Level 1	Level 2	Level 3	Total	As at 31 December 2017 Level 1	Level 2	Level 3	Total
Assets								
Financial assets at fair value through profit or loss:								
Derivatives (cross currency interest rate swap)	-	3	-	3	-	3	-	3
Derivatives (interest rate swap)	-	166	-	166	-	165	-	165
Equity investments at fair value through other comprehensive income:								
Listed securities	637	-	-	637	1,071	-	-	1,071
Unlisted securities	-	-	22	22	-	-	20	20
Total assets	**637**	**169**	**22**	**828**	**1,071**	**168**	**20**	**1,259**
Liabilities								
Financial liabilities at fair value through profit or loss:								
Derivatives (cross currency interest rate swap)	-	308	-	308	-	294	-	294
Derivatives (interest rate swap)	-	36	-	36	-	35	-	35
Total liabilities	**-**	**345**	**-**	**345**	**-**	**328**	**-**	**328**

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 at financial institutions that had a counterparty risk rating of A3 or higher at 30 June 2018.

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 equity investments is based upon 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 2018, the total derivatives asset position would be EUR 22m (31 December 2017: EUR 32m) and the total derivatives liability position would be EUR 197m (31 December 2017: EUR 192m).

[16] Commitments and contingencies

Commitments

	Amounts due by period				
(in EUR m)	Less than 1 year	1-5 years	More than 5 years	Total 30 June 2018	Total 31 December 2017
Capital and purchase commitments	872	254	13	1,139	1,059
Rental and operational lease contracts	132	341	241	715	775
Guarantees	1	13	137	151	155
Total commitments	**1,006**	**609**	**390**	**2,005**	**1,989**

The amounts as at 30 June 2018 are excluding iBasis. Total commitments of iBasis as at 30 June 2018 are EUR 12m. The total commitments of iBasis as at 31 December 2017 (EUR 17m) are included in the total amount of EUR 1,989m.

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 2018 amount to EUR 6m and EUR 7m as at 31 December 2017 (iBasis: nil for both period ends). 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 91m in H1 2018 (H1 2017: EUR 93m), 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 151m relates to parent guarantees (31 December 2017: EUR 153m).

Contingent liabilities

No significant changes have occurred in KPN's contingent liabilities during H1 2018. Further information is available in Note 20 of the Integrated Annual Report 2017.

[17] Related party transactions

For a description of the related parties of KPN and transactions with related parties, including major shareholders, refer to Note 21 of the Integrated Annual Report 2017. In the first six months of 2018 there have been no changes in the type of related party transactions as described in the Integrated Annual Report 2017, 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 2018, América Móvil, S.A.B. de C.V. ('AMX') published that it held 21.4% of the shares related to KPN's ordinary share capital as at 30 June 2018.

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

- On 17 January 2017, Franklin Mutual Series Fund, Inc. notified the AFM that it held 5.00% of the shares and voting rights related to KPN's ordinary share capital.
- On 23 August 2017, Capital Group International Inc. notified the AFM that it held 3.01% of the voting rights related to KPN's ordinary share capital.
- On 4 June 2018, BlackRock, Inc. notified the AFM that it held 3.98% of the shares and 5.05% 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 2018.

[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 2017 (page 46-50 and Appendix 8). 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 2018.

KPN will publish its Integrated Annual Report 2018 in February 2019, 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 current directives constituting the European regulatory framework for electronic communications are under review. On 6 June 2018, the European institutions reached a compromise for a new 'European Electronic Communications Code' (EECC), which will replace the current directives. Formal approval and publication are expected later this year and implementation into national law has to be finalized two years thereafter.

Other regulatory instruments with relevance for the telecommunications sector – such as an e-Privacy Regulation, a Cyber Security Act, an e-Evidence Regulation and updates of general copyright and consumer law – are still in the process of negations in and between the European Institutions.

Market analysis decisions in the Netherlands

A new decision related to the market for wholesale fixed access has been consulted nationally by ACM and is expected to be notified to the European Commission in summer 2018. The decision could thereby enter into force in autumn 2018, if the European Commission does not block the decision. ACM proposes to designate KPN (for VDSL and Fiber-to-the-Home networks) as well as VodafoneZiggo (cable/docsis network) as operators with (joint) significant market power on this market. Both will be obliged to offer (virtual) broadband access upon reasonable commercially agreed terms, according to ACM, although obligations may differ in detail.

An appeal by competitors to ACM's decision of 7 April 2016, not to regulate the Fiber-to-the-Office market was refused by the court in 19 June 2018, meaning KPN remains unregulated in that market.

Spectrum licenses

Preparations for an auction of the 700, 1400 ('Lband') and 2100MHz bands are ongoing, but no formal decisions on the auction procedure are available yet. The Ministry of Economic Affairs is awaiting advice of ACM before final decisions on the auction will be made, which has been delayed due to the second phase of the European Commission's review of the T-Mobile/Tele-2 merger. The auction may therefore be postponed from end 2019 to the first half of 2020.

Although the 3.5GHz band at European level is seen as the primary band for 5G, in the Netherlands it is not clear when this band will be available for 5G use. Severe restrictions on the use of this spectrum apply to prevent interference with the use of this band by an earth satellite station of the Dutch Ministry of Defense. Several studies to examine the options for the 3.5GHz band that should lead to a good overview of the options for the 3.5GHz band for 5G are ongoing. The Ministry of Economic Affairs indicated to take a decision on the availability of the 3.5GHz band before the end of 2018.

[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 other than the event mentioned below.

Intention to redeem perpetual hybrid

On 26 July 2018, KPN announces its intention to redeem the EUR 1.1 billion Perpetual Capital Securities (the Perpetual Hybrids) by way of exercise of the issuer's call option. The Perpetual Hybrids were issued on 14 March 2013 and, until the date of formal announcement of the exercise of the call option, are classified as equity under IFRS, with interest payments recorded directly in equity as dividends.

The redemption is intended to take place on 14 September 2018 at their principal amount plus accrued interest and will be financed from existing cash.

The impact in H2 2018 of the exercise of the call option and final coupon payment will result in a decrease of cash and cash equivalents of EUR 1,167m against a decrease in equity for the same amount. The impact on KPN's net result (consisting of net finance cost and income tax) and free cash flow is less than EUR 1m.

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 2018, 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 2018 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, 26 July 2018

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

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 2017. 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. The figures shown in this report were rounded in accordance with standard business principles. As a result, totals indicated may not be equal to the precise sum of the individual figures.

*KPN defines **EBITDA** as operating result before depreciation (including impairments) of PP&E and amortization (including impairments) of intangible assets. Note that KPN's definition of EBITDA deviates from the literal definition of earnings before interest, taxes, depreciation and amortization and should not be considered in isolation or as a substitute for analyses of the results as reported under IFRS as adopted by the European Union. In the **Net Debt / EBITDA ratio**, KPN defines **Net Debt** as the nominal value of interest bearing financial liabilities excluding derivatives and related collateral, representing the net repayment obligations in Euro, taking into account 50% of the nominal value of the hybrid capital instruments, less net cash and short-term investments, and defines EBITDA as a 12 month rolling total excluding restructuring costs, incidentals and major changes in the composition of the Group (acquisitions and disposals). **Free Cash Flow** is defined as cash flow from continuing operating activities plus proceeds from real estate, minus capital expenditures (Capex), being expenditures on PP&E and software. **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 2017.

Second Quarter 2018 Results

Highlights

- Focus on value and convergence delivers ongoing success in Consumer
  - +19k fixed-mobile households, reaching 44% of broadband base (Q2 '17: 40%)
  - +46k fixed-mobile postpaid customers, representing 54% of postpaid base (Q2 '17: 47%)
- Retention of high value customers; competitive pressure on single-play services
  - Flat KPN brand postpaid net adds and -10k no frills, -5k[1] broadband and +10k IPTV net adds
  - ARPU per household increased by 3.9% y-on-y to EUR 43, postpaid ARPU lower at EUR 18 (-1.5% y-on-y excluding the effect of regulation)
- Business transformation is taking shape
  - Continued successful bundling of services in SME; +33k multi play seats
  - Growth in Professional Services driven by increased order intake in prior quarters
  - Migrations from Consumer broadband to new small business proposition providing margin uplift
- Second wave Simplification program delivered ~EUR 175m run-rate savings end Q2 2018
- Intention to redeem EUR 1.1bn hybrid bond from existing cash at first call date in September 2018

Key figures* (from continuing operations)

Group financials (unaudited) *(in EUR m, unless stated otherwise)*	**Q2 2018**	**Q2 2017**	**Δ y-on-y**	**YTD 2018**	**YTD 2017**	**Δ y-on-y**
Revenues	1,402	1,427	-1.7%	2,803	2,878	-2.6%
Adjusted revenues**	**1,402**	**1,424**	**-1.5%**	**2,803**	**2,875**	**-2.5%**
EBITDA	555	550	1.0%	1,110	1,079	2.9%
Adjusted EBITDA**	**577**	**569**	**1.3%**	**1,146**	**1,126**	**1.8%**
Adjusted EBITDA margin	***41.1%***	***40.0%***		***40.9%***	***39.2%***	
Operating profit (EBIT)	210	198	6.3%	418	375	11%
Profit for the period (net profit)	137	162	-15%	236	235	0.4%
Capex	**245**	**235**	**4.1%**	**481**	**499**	**-3.8%**
Free cash flow	**278**	**289**	**-3.8%**	**401**	**318**	**26%**

* All non-IFRS terms are explained in the safe harbor section
** Adjusted revenues and adjusted EBITDA reconciliations to be found on page 8 and 9

Financial performance

- Adjusted revenues were 1.5% lower y-on-y in Q2 2018, fully driven by the effect of regulation. Excluding this effect, adjusted revenues grew 0.5% y-on-y as a result of higher ARPU per household in Consumer and growth in Professional Services and IT Services in Business. This was partly offset by continued price pressure in mobile and lower Wholesale revenues
- Adjusted EBITDA was 1.3% higher in Q2 2018, or 2.3% excluding the effect of regulation. This was mainly driven by savings related to Simplification and digitalization of services, and intrayear phasing
- Net profit of EUR 137m in Q2 2018 declined 15% y-on-y. Higher operating profit was offset mainly by less dividend received from Telefónica Deutschland
- Free cash flow (excl. TEFD dividend) of EUR 347m in H1 2018 was EUR 99m higher compared to the same period last year. Growth was driven by less impact from change in working capital, lower interest paid and higher EBITDA, partly supported by intrayear phasing

[1] Corrected for migrations to and new customers of small business proposition (6k) launched in Q4 2017

Message from the CEO, Maximo Ibarra

"Our solid second quarter performance reflects a more focused and digital organization. Using advanced data & analytics to optimize our customer service is improving customer satisfaction while lowering associated costs. Although we're operating in a competitive environment, our targeted household approach in Consumer is yielding tangible results, visible in the continued growth of our fixed-mobile customer base and lower churn for these customers. We have implemented more-for-more changes to our fixed Consumer propositions, reflecting our ongoing focus on value and convergence. In Business, we are on track for stabilization as our exposure to legacy services declines, our IT Services business continues to grow, and we go on winning value accretive contracts with large Dutch corporates.

All in all, we are well on track to deliver on our full-year outlook and the current Simplification program has delivered substantial run-rate savings halfway through its second wave. I am confident that further digitalization and virtualization of networks and services provide scope for further improvements. We intend to provide an update of our strategy and ambitions at the end of November during a Capital Markets Day."

Outlook 2018 (continuing operations)

- Adjusted EBITDA in line with 2017
- Capex ~EUR 1.1bn
- Free cash flow (excl. TEFD dividend) growing

Shareholder remuneration and financial profile

KPN intends to pay a regular dividend per share of EUR 12 cents in respect of 2018 and grow the regular dividend in line with its free cash flow growth profile thereafter. EUR 4.0 cents per share will be paid as an interim dividend on 2 August 2018. The ex-dividend date is 30 July 2018.

At the end of Q2 2018, KPN owned a stake of 6.3% in Telefónica Deutschland which is treated as a financial investment. KPN benefits from dividend payments by Telefónica Deutschland and the additional financial flexibility the stake provides.

Today, KPN announces its intention to redeem the EUR 1.1bn perpetual hybrid bond from existing cash at its first call date (14 September 2018) in accordance with the terms and conditions of this security. Through the planned redemption KPN will save the instrument's EUR 67m annual coupon from 2019 onwards. KPN remains committed to hybrid capital securities as a permanent part of its capital structure. KPN considers realignment of the proportion of hybrid capital to be appropriate, given its current solid financial position and following successful execution of KPN's strategy since issuance in 2013.

KPN remains committed to an investment grade credit profile and expects to utilize excess cash for operational and financial flexibility, (small) in-country M&A and/or shareholder remuneration. KPN has a credit rating of Baa3 with a stable outlook from Moody's, BBB with a stable outlook from Fitch Ratings and BBB- with a positive outlook from Standard & Poor's.

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

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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 2017. 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. The figures shown in this report were rounded in accordance with standard business principles. As a result, totals indicated may not be equal to the precise sum of the individual figures.

*KPN defines **EBITDA** as operating result before depreciation (including impairments) of PP&E and amortization (including impairments) of intangible assets. Note that KPN's definition of EBITDA deviates from the literal definition of earnings before interest, taxes, depreciation and amortization and should not be considered in isolation or as a substitute for analyses of the results as reported under IFRS as adopted by the European Union. In the **Net Debt / EBITDA ratio**, KPN defines **Net Debt** as the nominal value of interest bearing financial liabilities excluding derivatives and related collateral, representing the net repayment obligations in Euro, taking into account 50% of the nominal value of the hybrid capital instruments, less net cash and short-term investments, and defines EBITDA as a 12 month rolling total excluding restructuring costs, incidentals and major changes in the composition of the Group (acquisitions and disposals). **Free Cash Flow** is defined as cash flow from continuing operating activities plus proceeds from real estate, minus capital expenditures (Capex), being expenditures on PP&E and software. **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 2017.

Financial and operating review KPN Group

(in EUR m)	Q2 2018	Q2 2017	Δ y-on-y	YTD 2018	YTD 2017	Δ y-on-y
Adjusted revenues						
Consumer	739	758	-2.5%	1,484	1,523	-2.5%
Business	538	536	0.3%	1,072	1,084	-1.1%
Wholesale	154	169	-8.7%	305	346	-12%
Network, Operations & IT	6	6	12%	15	10	53%
Other (incl. eliminations)	-35	-45	-21%	-73	-88	-16%
KPN Group (continuing operations)	**1,402**	**1,424**	**-1.6%**	**2,803**	**2,875**	**-2.5%**

Consumer

KPN's focus on value and convergence, supported by personalized offerings, is driving ongoing success in Consumer. In particular, the successful up- and cross-sell of services through KPN's targeted household approach is reflected in increased fixed-mobile penetration. Churn approximately halves when KPN customers combine fixed and mobile services, while adding additional SIMs delivers an even further reduction in churn. In the second quarter, KPN introduced new propositions for its Telfort brand with a clear focus on convergence. In addition, effective 1 July 2018, more-for-more changes were announced for the KPN brand residential portfolio, including higher access speeds for its customers. Customer satisfaction increased to an NPS of +14 in Q2 2018 (Q2 2017: +13).

Adjusted revenues in Consumer declined 2.5% y-on-y in Q2 2018, mainly driven by the effect of regulation. An increasing ARPU per household led to 1.7% higher residential revenues in Q2 2018. Mobile service revenues declined by 9.2% y-on-y in Q2 2018 mainly due to regulation. Excluding the effect of regulation, mobile service revenues declined 3.5% y-on-y, resulting from price pressure in the mobile-only postpaid and prepaid segment.

KPN's position as leading converged operator in the Dutch market was further strengthened in Q2 2018. Fixed-mobile households grew by 19k to 1,299k, representing 44% of broadband customers. The number of fixed-mobile postpaid customers grew by 46k in Q2 2018, reaching 54% of the postpaid customer base across all brands. At the end of the second quarter of 2018, more than two-thirds of the high value KPN brand postpaid base was part of a fixed-mobile bundle.

In Q2 2018, ARPU per household increased 3.9% y-on-y to EUR 43 in Q2 2018. KPN's broadband net adds were -5k, adjusted for migrations from Consumer to the new proposition for small businesses (-2k) and new customers for this proposition (-4k). Furthermore, KPN is nearing the end of its brand rationalization efforts for the Edutel brand, which resulted in higher churn (4k) for this particular customer base. KPN added 10k IPTV customers to its base.

In a competitive mobile market, KPN continues to focus on retention of its high value postpaid customers. Consequently, the KPN brand's postpaid customer base was flat in Q2 2018, while the customer base of no frills brands Telfort and Simyo continued to be impacted and declined by 10k in Q2 2018. Postpaid ARPU declined 7.3% y-on-y to EUR 18, or 1.5% y-on-y excluding the effect of regulation.

Business

In the Business segment, KPN continues to enable the ongoing shift towards standardized and integrated solutions, away from tailor made single-play services. KPN capitalizes on these developments through its integrated KPN ÉÉN product for SME, which showed continued growth (+33k multi play seats[2]). KPN strengthened the delivery of its KPN ÉÉN service by simplifying the underlying IT infrastructure to a single platform. This enables faster delivery of services and improved digital customer interaction, resulting in higher customer satisfaction.

The proposition for small businesses is gaining traction (+8k customers in Q2 2018) as KPN witnesses solid inflow of new customers as well as migrations from the Consumer segment to this new proposition. KPN benefits from the migrations from Consumer as it provides an average monthly margin uplift of EUR 5-10 per customer.

For the second consecutive year KPN is recognized as leading business service provider in The Netherlands by the Dutch IT Partner Preference Survey of Dutch CIOs. Business NPS was -5 in Q2 2018 (Q2 2017: -6). KPN remains dedicated to further improve customer satisfaction.

Adjusted revenues in Business grew 0.3% y-on-y in Q2 2018. Growth in Professional Services and IT Services was partly offset by lower revenues from traditional single-play services.

Fixed voice revenues declined 15% y-on-y due to a reduction of traditional voice lines. KPN continues to reduce its exposure to traditional single-play services through active migrations to its integrated product KPN ÉÉN.

In Q2 2018, mobile service revenues declined 6.2% y-on-y, mainly due to the effect of regulation and lower ARPU as a result of ongoing mobile price pressure, especially in the Corporate and Large Enterprise segment. The mobile base grew by 7k during the second quarter.

Revenues from KPN's Internet of Things (IoT) proposition increased 8.3% y-on-y in Q2 2018. Over the past year, KPN's M2M base grew by 1.2m SIMs to 4.3m.

Revenues from IT Services grew 28% y-on-y in Q2 2018, supported by security and cloud services, and some non-recurring hardware revenues.

Revenues from Professional Services & Consultancy grew 9.1% y-on-y in Q2 2018. Several landmark corporate deals signed in the last quarters are starting to contribute to revenues.

Wholesale

Adjusted revenues in Wholesale declined by EUR 15m or 8.7% y-on-y in Q2 2018. Lower regulated tariffs (MTA/FTA) and less (low margin) international voice traffic impacted fixed Wholesale revenues.

Network, Operations & IT

KPN continuously upgrades the capacity and quality of its best-in-class integrated network and ICT infrastructure. In Q2 2018, KPN continued to implement its hybrid access strategy to larger cities and business parks, ensuring an optimized connection to deliver an excellent customer experience.

In the second quarter of 2018, KPN finalized the build of its multi-brand business support system (BSS) for both Consumer and Business mobile customers by integrating the Telfort Business mobile IT system. This enables full decommissioning of legacy IT systems and allows easier customer migration between brands, improving time-to-market.

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[2] Multi play seats consist of the total number of fixed voice lines plus the total number of mobile SIMs in multi play

Operating expenses

(in EUR m)	Q2 2018	Q2 2017	Δ y-on-y	YTD 2018	YTD 2017	Δ y-on-y
Opex (excl. D&A)*						
Cost of goods & services	317	336	-5.8%	635	682	-6.8%
Personnel expenses	286	283	0.9%	577	573	0.8%
IT/TI	110	120	-8.5%	225	252	-11%
Other operating expenses	113	115	-2.2%	220	243	-9.6%
Adjusted EBITDA (continuing operations)	**577**	**569**	**1.3%**	**1,146**	**1,126**	**1.8%**

* Adjusted for restructuring costs and incidentals

Adjusted EBITDA was 1.3% y-on-y higher in Q2 2018, or +2.3% y-on-y excluding the effect of regulation. This was mainly driven by improved operational efficiency through digitalization of services and ongoing Simplification savings, and intrayear phasing. The adjusted EBITDA margin improved to 41.1% (Q2 2017: 40.0%).

In Q2 2018, costs of goods & services were supported by lower traffic costs, due to the reduction of regulatory tariffs (MTA/FTA).

Simplification and digitalization initiatives are delivering sustained improvements in quality and customer satisfaction, and structural savings. For example, KPN continues to focus on solutions related to interruptions at customers. Currently more than 70% of KPN's customers find solutions to their questions online, compared to less than 30% two years ago. In addition, KPN optimizes routing of service calls to its most suitable service center agents through advanced data & analytics. By optimizing the customer journey related to interruptions, KPN expects to save approximately EUR 10m per annum while offering an improved customer experience due to a reduced call handling time.

Simplification also resulted in lower IT/TI costs, which declined 8.5% y-on-y in Q2 2018. The second wave of KPN's Simplification program has realized run-rate savings of approximately EUR 175m by end Q2 2018, compared to the end of Q4 2016. KPN is well on track to realize its ambition of at least EUR 350m run-rate savings by the end of 2019.

iBasis (discontinued operations)

On 7 March 2018, KPN announced that it reached an agreement to sell iBasis to Tofane Global. Therefore, KPN has accounted for iBasis as discontinued operation as per Q1 2018. iBasis continues to be included in KPN's segment reporting until the sale is completed.

Profit, Capex, FCF and financial position KPN Group (continuing operations)

In Q2 2018, Group operating profit (EBIT) increased 6.3% y-on-y to EUR 210m due to higher EBITDA and lower depreciation charges. Net profit of EUR 137m was 15% y-on-y lower in Q2 2018, mainly due to a lower net finance result. Other financial result was lower due to the sale of KPN's stake in Tecnocom in H1 2017 (EUR 30m gain) and finance income was lower as a result of less dividend received from the stake in Telefónica Deutschland. This was partly offset by lower finance expenses due to a lower gross debt level.

Capex increased 4.1% y-on-y to EUR 245m in Q2 2018. Capex for H1 2018 decreased 3.8% y-on-y to EUR 481m.

Free cash flow (excl. TEFD dividend) of EUR 224m in Q2 2018 was EUR 5m higher compared to the same period last year, while for H1 2018 it was EUR 99m higher y-on-y at EUR 347m. The increase for the first six months of 2018 was mainly driven by EUR 56m less impact from change in working capital, EUR 34m less interest paid due to the lower gross debt level and EUR 31m higher EBITDA, partly supported by intrayear phasing. Growth was partly offset by a EUR 19m higher impact from change in provisions.

Net debt amounted to EUR 5.8bn at the end of Q2 2018, in line with end Q1 2018. Movements in net debt were mainly driven by free cash flow generation in Q2 2018 and the sale of Telefónica Deutschland shares during the quarter, partly offset by the final dividend payment over 2017 in April 2018. At the end of Q2 2018, net debt to EBITDA was 2.5x (Q1 2018: 2.5x). This includes the equity credit on the hybrid bonds, representing 0.4x net debt to EBITDA. The average coupon on KPN's senior bonds of 3.8% was lower compared to the same period last year (Q2 2017: 4.1%), mainly due to an adjustment of the interest duration of KPN's bond portfolio.

At the end of Q2 2018, Group equity amounted to EUR 3,211m, EUR 249m lower compared to the end of Q1 2018. The decrease was mainly driven by the final dividend payment over 2017 in April and a revaluation of the stake in Telefónica Deutschland, partly offset by net income generated in Q2 2018.

Analysis of adjusted results Q2 2018

The following table shows the key items between reported and adjusted revenues:

Revenues *(in EUR m)*	Q2 2018 reported	Incidentals	Q2 2018 adjusted	Q2 2017 reported	Incidentals	Q2 2017 adjusted	Δ y-on-y reported	Δ y-on-y adjusted
Consumer	739	-	739	758	-	758	-2.5%	-2.5%
Business	538	-	538	536	-	536	0.3%	0.3%
Wholesale	154	-	154	172	3	169	-10%	-8.7%
Network, Operations & IT	6	-	6	6	-	6	12%	12%
Other (incl. eliminations)	-35	-	-35	-45	-	-45	-21%	-21%
The Netherlands	1,402	-	1,402	1,426	3	1,424	-1.7%	-1.6%
iBasis *(discontinued operations)*	136	-	136	192	-	192	-29%	-29%
Other activities	-	-	-	-	-	-	>100%	>100%
Intercompany revenues	-16	-	-16	-23	-	-23	-32%	-32%
KPN Group	1,522	-	1,522	1,595	3	1,592	-4.6%	-4.4%
of which discontinued operations	*-120*	-	*-120*	*-168*	-	*-168*	*-29%*	*-29%*
KPN Group continuing operations	1,402	-	1,402	1,427	3	1,424	-1.7%	-1.5%

The following table specifies the revenue incidental in more detail:

Revenue incidentals *(in EUR m)*	Segment	Q2 2018	Q2 2017
Release of revenue related provision	Wholesale	-	3
KPN Group		-	3

The following table shows the key items between reported and adjusted EBITDA:

EBITDA *(in EUR m)*	Q2 2018 reported	Incidentals	Restruc-turing	Q2 2018 adjusted	Q2 2017 reported	Incidentals	Restruc-turing	Q2 2017 adjusted	Δ y-on-y reported	Δ y-on-y adjusted
The Netherlands	555	-	-20	575	552	3	-21	570	0.6%	0.9%
iBasis *(disc. operations)*	8	-	-	8	5	-	-	5	66%	66%
Other activities	-	-	-2	2	-2	-	-1	-1	-98%	n.m.
KPN Group	563	-	-22	584	554	3	-22	574	1.6%	1.9%
of which disc. operations	*-8*	-	-	*-8*	*-5*	-	-	*-5*	*70%*	*70%*
KPN Group cont. ops.	555	-	-22	577	550	3	-22	569	1.0%	1.3%

There were no opex incidentals in Q2 2018 and Q2 2017.

The following table shows the key items between reported and adjusted revenues for YTD 2018:

Revenues *(in EUR m)*	YTD 2018 reported	Incidentals	YTD 2018 adjusted	YTD 2017 reported	Incidentals	YTD 2017 adjusted	Δ y-on-y reported	Δ y-on-y adjusted
Consumer	1,484	-	1,484	1,523	-	1,523	-2.5%	-2.5%
Business	1,072	-	1,072	1,084	-	1,084	-1.1%	-1.1%
Wholesale	305	-	305	349	3	346	-12%	-12%
Network, Operations & IT	15	-	15	10	-	10	53%	53%
Other (incl. eliminations)	-74	-	-74	-88	-	-88	-16%	-16%
The Netherlands	**2,803**	**-**	**2,803**	**2,878**	**3**	**2,875**	**-2.6%**	**-2.5%**
iBasis	264	-	264	385	-	385	-31%	-31%
Other activities	-	-	-	-	-	-	>100%	>100%
Intercompany revenues	-31	-	-31	-49	-	-49	-37%	-37%
KPN Group	**3,037**	**-**	**3,037**	**3,214**	**3**	**3,211**	**-5.5%**	**-5.4%**
of which discontinued operations	*-233*	-	*-233*	*-336*	-	*-336*	*-31%*	*-31%*
KPN Group continuing operations	**2,803**	**-**	**2,803**	**2,878**	**3**	**2,875**	**-2.6%**	**-2.5%**

The following table specifies the revenue incidental in more detail for YTD 2018:

Revenue incidentals *(in EUR m)*	Segment	YTD 2018	YTD 2017
Release of revenue related provision	Wholesale	-	3
KPN Group		**-**	**3**

The following table shows the key items between reported and adjusted EBITDA for YTD 2018:

EBITDA *(in EUR m)*	YTD 2018 reported	Incidentals	Restructuring	YTD 2018 adjusted	YTD 2017 reported	Incidentals	Restructuring	YTD 2017 adjusted	Δ y-on-y reported	Δ y-on-y adjusted
The Netherlands	**1,111**	**-**	**-33**	**1,144**	**1,084**	**-8**	**-34**	**1,127**	**2.5%**	**1.5%**
iBasis	13	-	-	13	9	-	-	9	42%	42%
Other activities	-1	-	-3	2	-6	-	-5	-1	-89%	n.m.
KPN Group	**1,123**	**-**	**-36**	**1,160**	**1,088**	**-8**	**-39**	**1,135**	**3.3%**	**2.1%**
of which disc. operations	*-13*	-	-	*-13*	*-9*	-	-	*-9*	*44%*	*44%*
KPN Group cont. ops.	**1,110**	**-**	**-36**	**1,146**	**1,079**	**-8**	**-39**	**1,126**	**2.9%**	**1.8%**

The following table specifies the opex incidentals in more detail for YTD 2018:

Opex incidentals *(in EUR m)*	Opex category	YTD 2018	YTD 2017
Change in provisions	Other operating expenses	-	-11
KPN Group		**-**	**-11**