



# KPN Interim Financial Statements

For the six months ended 30 June 2014



## Condensed Consolidated Interim Financial Statements

*for the six months ended 30 June 2014*

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All related documents can be found on KPN's website, including the [KPN Management Report Q2 2014](http://www.kpn.com/ir): <http://www.kpn.com/ir>

## 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	
	2014	2013	2014	2013
Revenues	1,998	2,135	3,994	4,303
Other income	6	21	6	28
<b>Total [3]</b>	<b>2,004</b>	<b>2,156</b>	<b>4,000</b>	<b>4,331</b>
Own work capitalized	-22	-20	-42	-41
Cost of materials	181	130	356	242
Work contracted out and other expenses	780	812	1,591	1,608
Employee benefits [2]	-133	324	189	689
Depreciation, amortization and impairments [4]	462	467	907	912
Other operating expenses	131	151	215	274
<b>Total operating expenses</b>	<b>1,399</b>	<b>1,864</b>	<b>3,216</b>	<b>3,684</b>
<b>Operating profit [4]</b>	<b>605</b>	<b>292</b>	<b>784</b>	<b>647</b>
Finance income	11	5	23	10
Finance costs	-165	-189	-335	-371
Other financial results	-7	24	-8	23
<b>Finance income and expenses [5]</b>	<b>-161</b>	<b>-159</b>	<b>-320</b>	<b>-338</b>
Share of the profit of associates and joint ventures	-	-1	-1	-4
<b>Profit before income tax</b>	<b>444</b>	<b>132</b>	<b>463</b>	<b>305</b>
Income taxes [6]	-95	30	-111	9
<b>Profit (loss) for the period from continuing operations</b>	<b>349</b>	<b>162</b>	<b>352</b>	<b>314</b>
<b>Profit (loss) for the period from discontinued operations [1,8]</b>	<b>-529</b>	<b>-54</b>	<b>-516</b>	<b>-66</b>
<b>Profit for the period</b>	<b>-180</b>	<b>108</b>	<b>-164</b>	<b>248</b>
Profit attributable to non-controlling interest	3	1	6	3
Profit attributable to equity holders	-183	107	-170	245
<b>Earnings per ordinary share from continuing operations on non-diluted basis (in EUR)*</b>	<b>0.08</b>	<b>0.04</b>	<b>0.08</b>	<b>0.10</b>
Earnings per ordinary share from continuing operations on fully diluted basis (in EUR)*	0.08	0.04	0.08	0.10
<b>Earnings per ordinary share from discontinued operations on non-diluted basis (in EUR)*</b>	<b>-0.12</b>	<b>-0.02</b>	<b>-0.12</b>	<b>-0.02</b>
Earnings per ordinary share from discontinued operations on fully diluted basis (in EUR)*	-0.12	-0.02	-0.12	-0.02
<b>Total earnings per ordinary share on non-diluted basis (in EUR)*</b>	<b>-0.04</b>	<b>0.02</b>	<b>-0.04</b>	<b>0.08</b>
Total earnings per ordinary share on fully diluted basis (in EUR)*	-0.04	0.02	-0.04	0.08
Weighted average number of ordinary shares on a non-diluted basis*			4,258,098,273	2,802,543,420
Weighted average number of ordinary shares on a fully diluted basis*			4,261,445,376	2,805,077,037

\* Historic EPS and weighted average number of shares (non-diluted and fully diluted) restated following rights issue based on the adjustment of the historical share price (adjustment factor of 0.60628)

## Unaudited Consolidated Statement of Other Comprehensive Income

(in EUR m)	For the three months ended 30 June		For the six months ended 30 June	
	2014	2013	2014	2013
<b>Profit for the period</b>	<b>-180</b>	<b>108</b>	<b>-164</b>	<b>248</b>
<b>Items of other comprehensive income that will not be reclassified subsequently to profit or loss:</b>				
Actuarial result pensions and other post-employment plans:				
Gains or (losses) arising during the period	-17	234	-25	98
Income tax	-	-36	-3	-16
	-17	198	-28	82
<b>Items of other comprehensive income that will be reclassified subsequently to profit or loss when specific conditions are met:</b>				
Cash flow hedges:				
Gains or (losses) arising during the period	-96	-158	-121	-147
Income tax	24	39	30	37
	-72	-119	-91	-110
Currency translation adjustments:				
Gains or (losses) arising during the period	-4	1	-5	5
Income tax	-	-	-	-
	-4	1	-5	5
Fair value adjustment available for sale financial assets:				
Unrealized gains or (losses) arising during the period	-1	-	4	7
Realized gains through the income statement	-	-8	-	-8
	-1	-8	4	-1
<b>Other comprehensive income for the period, net of tax</b>	<b>-94</b>	<b>72</b>	<b>-120</b>	<b>-24</b>
<b>Total comprehensive income for the period, net of tax</b>	<b>-274</b>	<b>180</b>	<b>-284</b>	<b>224</b>
Total comprehensive income attributable to:				
Equity holders	-277	179	-290	221
Non-controlling interest	3	1	6	3

## Unaudited Consolidated Statement of Financial Position

ASSETS (in EUR m)	As at	
	30 June 2014	31 December 2013
<b>NON-CURRENT ASSETS</b>		
Goodwill	1,169	1,169
Licenses	1,647	1,729
Software	571	610
Other intangibles	108	135
<b>Total intangible assets</b>	<b>3,495</b>	<b>3,643</b>
Land and buildings	570	596
Plant and equipment	4,156	4,274
Other tangible non-current assets	58	80
Assets under construction	439	390
<b>Total property, plant and equipment</b>	<b>5,223</b>	<b>5,340</b>
Investments in associates and joint ventures	318	320
Loans to associates and joint ventures	579	453
Available-for-sale financial assets	24	20
Derivative financial instruments	252	117
Deferred income tax assets	1,214	1,167
Other financial non-current assets	122	122
<b>Total non-current assets</b>	<b>11,227</b>	<b>11,182</b>
<b>CURRENT ASSETS</b>		
Inventories	70	60
Trade and other receivables	1,209	1,214
Income tax receivables	56	1
Cash and cash equivalents [7]	1,531	3,946
<b>Total current assets</b>	<b>2,866</b>	<b>5,221</b>
<b>Non-current assets and disposal groups classified as held for sale [1,8]</b>	<b>8,729</b>	<b>9,469</b>
<b>TOTAL ASSETS</b>	<b>22,822</b>	<b>25,872</b>

EQUITY AND LIABILITIES (in EUR m)	As at	
	30 June 2014	31 December 2013
<b>GROUP EQUITY</b>		
Share capital	171	1,025
Share premium	9,847	8,993
Other reserves	-613	-517
Perpetual capital securities [10]	1,089	1,089
Retained earnings	-5,532	-5,340
<b>Equity attributable to equity holders</b>	<b>4,962</b>	<b>5,250</b>
Non-controlling interest	50	53
<b>Total group equity [9]</b>	<b>5,012</b>	<b>5,303</b>
<b>NON-CURRENT LIABILITIES</b>		
Borrowings [10]	10,887	11,656
Derivative financial instruments	787	753
Deferred income tax liabilities	3	9
Provisions for retirement benefit obligations [2]	559	1,019
Provisions for other liabilities and charges	128	163
Other payables and deferred income	69	77
<b>Total non-current liabilities</b>	<b>12,433</b>	<b>13,677</b>
<b>CURRENT LIABILITIES</b>		
Trade and other payables	2,574	2,927
Borrowings [10]	1,228	2,008
Derivative financial instruments	4	10
Income tax payables	121	289
Provision for other liabilities and charges	64	120
<b>Total current liabilities</b>	<b>3,991</b>	<b>5,354</b>
<b>Liabilities directly associated with non-current assets and disposal groups classified as held for sale [1,8]</b>	<b>1,386</b>	<b>1,538</b>
<b>TOTAL EQUITY AND LIABILITIES</b>	<b>22,822</b>	<b>25,872</b>

## Unaudited Consolidated Statement of Cash Flows

(in EUR m)	For the six months ended	
	30 June 2014	30 June 2013
<b>Profit before income tax</b>	<b>463</b>	<b>305</b>
Adjustments for:		
- Net finance costs	320	338
- Share-based compensation	2	1
- Share of the profit of associated and joint ventures	1	4
- Depreciation, amortization and impairments	907	912
- Other income	-7	-25
- Changes in provisions (excl. deferred taxes)	-604	-101
Changes in working capital relating to:		
- Inventories	-11	3
- Trade receivables	109	76
- Prepayments and accrued income	-137	-35
- Other current assets	15	20
- Trade payables	-156	121
- Accruals and deferred income	-32	-84
- Current liabilities (excl. short-term financing)	24	-69
Change in working capital	-188	32
Dividends received	1	1
Taxes received / paid	-13	-136
Interest received / paid	-455	-416
<b>Net cash flow provided by operating activities from continuing operations</b>	<b>427</b>	<b>915</b>
<i>Net cash flow provided by operating activities from discontinued operations</i>	<i>67</i>	<i>297</i>
<b>Net cash flow provided by operating activities</b>	<b>494</b>	<b>1,212</b>
Acquisition of subsidiaries, associates and joint ventures (net of acquired cash)	-1	-6
Disposal of subsidiaries, associates and joint ventures	-7	53
Investments in intangible assets (excl. software)	-3	-1,358
Investments in property, plant & equipment and software	-647	-848
Disposal in property, plant & equipment	3	8
Disposal in intangible assets	2	-
Disposals of real estate	-	2
Other changes and disposals	-116	-21
<b>Net cash flow used in investing activities from continuing operations</b>	<b>-769</b>	<b>-2,170</b>
<i>Net cash flow used in investing activities from discontinued operations</i>	<i>-175</i>	<i>-261</i>
<b>Net cash flow used in investing activities</b>	<b>-944</b>	<b>2,431</b>
Rights issue [9]	1	2,948
Dividends paid	-9	-4
Repayment Preference Shares B [9]	-255	-
Issuance of perpetual hybrid bonds [10]	-	1,085
Proceeds from borrowings [10]	-	915
Repayments from borrowings and settlement of derivatives	-1,407	-553
Other changes in interest-bearing current liabilities	-14	-26
<b>Net cash flow used in financing activities from continuing operations</b>	<b>-1,684</b>	<b>4,365</b>
<i>Net cash flow used in financing activities from discontinued operations</i>	<i>-158</i>	<i>-59</i>
<b>Net cash flow used in financing activities</b>	<b>-1,842</b>	<b>4,306</b>

<i>(in EUR m)</i>	For the six months ended	
	30 June 2014	30 June 2013
<i>Continued from previous page</i>		
<b>Total net cash flow from continuing operations</b>	<b>-2,026</b>	<b>3,110</b>
<i>Total net cash flow from discontinued operations</i>	<i>-266</i>	<i>-23</i>
<b>Total net cash flow (changes in cash and cash equivalents)</b>	<b>-2,292</b>	<b>3,087</b>
<b>Net cash and cash equivalents at beginning of period</b>	<b>3,620</b>	<b>947</b>
Exchange rate difference	-	-
Changes in cash and cash equivalents	-2,292	3,087
<b>Net cash and cash equivalents at end of period</b>	<b>1,328</b>	<b>4,034</b>
Bank overdrafts	203	311
Cash classified as held for sale	-	-
<b>Cash and cash equivalents at end of period [7]</b>	<b>1,531</b>	<b>4,345</b>



## 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	Perpetual capital securities	Other reserves	Retained earnings	Equity attributable to owners of the parent	Non-controlling interests	Total Group equity
<b>Balance at 1 January 2013</b>	<b>1,431,522,482</b>	<b>344</b>	<b>6,717</b>	-	<b>-361</b>	<b>-5,417</b>	<b>1,283</b>	<b>51</b>	<b>1,334</b>
Profit for the period	-	-	-	-	-	245	245	3	248
Other comprehensive income for the period	-	-	-	-	-106	82	-24	-	-24
<i>Total comprehensive income for the period</i>	-	-	-	-	-106	327	221	3	224
Rights issue	2,838,732,182	681	2,276	-	-	-	2,957	-	2,957
Issuance of perpetual hybrid bond	-	-	-	1,089	-	-	1,089	-	1,089
Share based compensation	-	-	-	-	-	1	1	-	1
Dividends paid	-	-	-	-	-	-	-	-4	-4
<b>Balance at 30 June 2013</b>	<b>4,270,254,664</b>	<b>1,025</b>	<b>8,993</b>	<b>1,089</b>	<b>-467</b>	<b>-5,089</b>	<b>5,551</b>	<b>50</b>	<b>5,601</b>
<b>Balance at 1 January 2014</b>	<b>4,270,254,664</b>	<b>1,025</b>	<b>8,993</b>	<b>1,089</b>	<b>-517</b>	<b>-5,340</b>	<b>5,250</b>	<b>53</b>	<b>5,303</b>
Profit for the period	-	-	-	-	-	-170	-170	6	-164
Other comprehensive income for the period	-	-	-	-	-96	-24	-120	-	-120
<i>Total comprehensive income for the period</i>	-	-	-	-	-96	-194	-290	6	-284
Share based compensation	-	-	-	-	-	2	2	-	2
Reduction nominal value [9]	-	-854	854	-	-	-	-	-	-
Dividends paid	-	-	-	-	-	-	-	-9	-9
<b>Balance at 30 June 2014</b>	<b>4,270,254,664</b>	<b>171</b>	<b>9,847</b>	<b>1,089</b>	<b>-613</b>	<b>-5,532</b>	<b>4,962</b>	<b>50</b>	<b>5,012</b>

\* Subscribed ordinary shares (including treasury shares). Preference shares B classify as current liabilities

## Notes to the Condensed Consolidated Interim Financial Statements

### Company profile

KPN is the leading telecommunications and ICT provider in The Netherlands offering wireline and wireless telephony, broadband and TV to consumers, and end-to-end telecom and ICT services to business customers. In Germany and Belgium, KPN pursues a Challenger strategy in its wireless operations and offers mobile telephony products and services to retail customers through E-Plus (discontinued operation) and BASE Company, respectively. BASE Company also offers fixed line services, via the incumbent's VDSL network. KPN operates an efficient IP-based infrastructure with global scale in international wholesale through iBasis.

### Accounting policies

#### *Basis of presentation*

The Condensed Consolidated Interim Financial Statements have been prepared in accordance with IAS 34 *Interim Financial Reporting* as adopted by the European Union. As permitted by IAS 34, the Condensed Consolidated Interim Financial Statements do not include all of the information required for full annual financial statements. In addition, the notes to these consolidated financial statements are presented in a condensed format. The applied accounting policies are in line with those as described in KPN's Integrated Annual Report 2013 except for the impact of new accounting standards (described below). These Condensed Consolidated Interim Financial Statements have not been audited or reviewed by KPN's external auditor.

#### *Critical accounting estimates and judgments*

The preparation of financial statements in conformity with IFRS requires management to make estimates and judgments that affect the reported amounts of assets and liabilities and the reported amounts of revenues and expenses during the period as well as the information disclosed. For KPN's critical accounting estimates and judgments, reference is made to the notes to the Consolidated Financial Statements contained in the Integrated Annual Report 2013, including the determination of deferred tax assets for carry forward losses and the provision for tax contingencies, the determination of fair value less costs to sell and value in use of cash-generating units for goodwill impairment testing, the depreciation rates for the copper and fiber network, the assumptions used to determine the value of the call/put arrangements of Reggefiber Group, the assumptions used to determine the provision for retirement benefit obligations and pension and net interest costs (such as expected discount rates, return on plan assets and benefit increases) 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. Also reference is made to Note 29 'Capital and Financial Risk Management' of the Integrated Annual Report 2013 which discusses KPN's exposure to credit risk and financial market risks.

Assumptions applied in determining the fair value of the non-current assets and disposal groups classified as held for sale (E-Plus) are discussed in note [1].

#### *Change in accounting policies*

The following IFRS standards are effective as of 1 January 2014 (endorsed) and have been applied in these Condensed Consolidated Interim Financial Statements:

- IAS 36 '*Impairment of assets*' has been amended regarding disclosure requirements for the recoverable amount of non-financial assets. Certain disclosure requirements of the recoverable amount of the cash-generating units have been removed from IAS 36 since these are now covered by IFRS 13. The impact is limited to disclosures in KPN's Integrated Annual Report.
- IAS 39 '*Financial Instruments: Recognition and Measurement*' has been amended to ensure that novation of derivatives, designated as hedge instruments, from one counterparty to a central

counterparty as a consequence of law or regulation would not result in discontinuance of the hedge relationship. The amendment has no impact on KPN's financial position.

- IFRS 10 '*Consolidated Financial Statements*' establishes a single control model that applies to all entities including special purpose entities. The introduction of this new standard has not changed KPN's financial position.
- IFRS 11 '*Joint arrangements*' classifies joint arrangements either as joint operation or joint venture by focusing on the rights and obligations of the parties to the arrangement rather than its legal form. The introduction of this new standard has not changed KPN's financial position.
- IFRS 12 '*Disclosures of interests in other entities*' includes the disclosure requirements for all forms of interests in other entities, including joint arrangements, associates, special purpose vehicles and other off balance sheet vehicles. It is the complement of IFRS 10 and IFRS 11 and the impact is limited to the disclosures in KPN's annual financial report.
- The amendments to IFRS 10, IFRS 12 and IAS 27 as issued in October 2012 and endorsed in November 2013 provide an exception to the consolidation requirement for entities that meet the definition of an investment entity under IFRS 10 '*Consolidated Financial Statements*'. The exception to consolidation requires investment entities to account for subsidiaries at fair value through profit or loss. These amendments have no impact on KPN since KPN has not qualified any entities as investment entities under IFRS 10.

The following standards have an effective date of 1 January 2014 (or 1 July 2014) and will be implemented as of 1 January 2015 (retrospectively) due to the timing of their endorsement by the European Union:

- IFRIC 21 '*Levies*' provides guidance in addition to IAS 37 '*Provisions, Contingent Liabilities and Contingent Assets*' on how to account for levies posed by governments other than income taxes, specifically on when to account for the liability. This IFRIC is effective as of 1 January 2014 and has been endorsed in June 2014. KPN will apply this standard as of 1 January 2015. No material impact is expected.
- IAS 19 '*Employee benefits*' has been amended regarding treatment of employee contributions in defined benefit plans. The amendment aims to simplify the calculation of employee contributions and will not affect KPN's financial position. This amendment is effective as of 1 July 2014 and will be applied after endorsement (expected in 2014).
- The Annual Improvements 2010-2012 and the Annual Improvements 2011-2013 cover amendments to several standards, none of which are expected to have a material impact on KPN's financial position. The amendments are effective as of 1 July 2014 and will be applied after endorsement (expected in 2014).

The following new standards, interpretations and amendments to existing standards will become effective on or after 1 January 2015. These standards have not been applied in preparing these 2014 Condensed Consolidated Interim Financial Statements:

- IFRS 15 '*Revenue from contracts with customers*'. This standard has been issued in May 2014 and is effective as of 1 January 2017, endorsement is pending. The standard introduces new guidance on the recognition and measurement requirements of revenues. The standard applies to revenue from contracts with customers and also provides a model for the sale of some non-financial assets that are not an output of a company's ordinary business activities (such as the sale of property, plant and equipment or intangibles). IFRS 15 provides more detailed requirements than the current standards. KPN is currently reviewing the extent of the impact of this new standard in anticipation of endorsement. KPN mainly expects an impact on the timing of revenue recognition due to the removal of the cash restriction rule currently applied in revenue arrangements with multiple deliverables and on the accounting treatment of dealer commissions. Due to potential mismatches between timing of revenue recognition required by the new standard and receipt of corresponding cash flows KPN expects an impact on its balance sheet (recognition of contract assets and contract liabilities). The disclosures in KPN's Integrated Annual Report will be expanded to include required information such as movement schedules for recognized contract assets and

contract liabilities, information about performance obligations and information on key judgments and estimates applied in recognition and measurement of revenues. KPN does not intend to early adopt this standard and expects to apply the new standard in its Integrated Annual Report 2017 provided timely endorsement of the standard by the European Commission.

- IAS 16 '*Property, Plant and Equipment*' and IAS 36 '*Impairment of Assets*' have been amended to clarify the acceptable methods of depreciation and amortization. The principle for the basis of depreciation and amortization is the expected pattern of consumption of the future economic benefits of an asset. These amendments have been issued in May 2014 and are effective as of 1 January 2016, endorsement is pending. KPN does not expect an impact on its financial performance.
- IFRS 11 '*Joint Arrangements*' has been amended to include new guidance on how to account for the acquisition of an interest in a joint operation that constitutes a business. The amendment has been issued in May 2014 and is effective as of 1 January 2016, endorsement is pending. Based on current practice, KPN does not expect a material impact.
- IFRS 9 '*Financial instruments*'. This standard is the first step in the process taken by the IASB to replace IAS 39 '*Financial instruments: Recognition and Measurement*'. Since the standard has not yet been endorsed by the European Commission, it is uncertain when it needs to be applied by KPN. The remaining uncertainty with respect to subsequent phases of the project makes it impossible to quantify the impact of the new standard on KPN's financial statements.

#### **Changes to organizational structure**

As per 1 January 2014 KPN Group's organizational structure and reporting format has been changed.

IT Solutions has been integrated in the Business segment. The 2013 comparative figures have been restated. For details on the restatements reference is made to the separate press release issued on 15 March 2014 ([www.kpn.com/ir](http://www.kpn.com/ir)).

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

E-Plus is classified as 'disposal group held for sale' as of 23 July 2013. The remaining operations in Germany will not be sold and remain reported in continuing operations. On 2 July 2014, the European Commission conditionally approved the transaction subject to the fulfillment of specific remedies. KPN expects the sale of E-Plus to Telefónica Deutschland to close in Q3 2014.

KPN will receive a total cash consideration of EUR 5.0bn less working capital and net debt adjustments and a stake in the combined entity of 20.5%, initially valued at EUR 3.55bn. Furthermore, KPN provides a call option to Telefónica to acquire a 2.9% stake in Telefónica Deutschland from KPN, exercisable one year after closing of the transaction, either partial or in full. The exercise price for the 2.9% stake amounts to EUR 510m, plus interest at 2.27% from the time of completion of the sale of E-Plus and reduced by any dividend payments on the 2.9% stake.

At 30 June 2014, the fair value less cost to sell of E-Plus as disposal group held for sale amounted to EUR 7.3bn (31 December 2013: EUR 7.9bn), being the lower of the fair value less costs to sell and the carrying value. As a result of the development of the fair value of the 20.5% stake in the combined entity, KPN has recorded an impairment loss in Q2 2014 of EUR 744m. Furthermore, in Q2 2014 a reversal of the impairment of E-Plus amounting to EUR 124m has been recorded, mainly as a result of an impairment of deferred tax assets within E-Plus in Q2 2014. Therefore, the net impairment of E-Plus in Q2 2014 amounted to EUR 620m (H1 2014 EUR 751m). As a consequence, KPN increased the deferred tax asset of the Dutch fiscal unity with regard to the book loss on the sale of E-Plus with EUR 210m to EUR 1,142m in Q2 2014, limiting KPN's taxable income in The Netherlands in the coming years.

The estimation of the deal proceeds has been based on the share price of Telefónica Deutschland at 14 July 2014. The final result on the sale of E-Plus will be booked at closing. The fair value of this stake at completion of the sale could be higher or lower than KPN management's estimated fair value of this stake at 30 June 2014. In case the share price at closing of the transaction is lower than estimated at 30 June 2014, an additional impairment will have to be recorded.

For further details on the transaction, refer to Note 18 of KPN's Integrated Annual Report 2013.

All assets and liabilities of E-Plus have been presented separately on KPN's statement of financial position as of 23 July 2013 as 'non-current assets of disposal groups classified as held for sale' and 'liabilities directly associated with non-current assets and disposal group held for sale'. These assets and liabilities will continue to be accounted for in accordance with the relevant IFRS standards as before except that non-current assets are no longer amortized or depreciated following the requirements of IFRS 5.

Given the significance of E-Plus to KPN Group, IFRS also classifies E-Plus as a 'discontinued operation'. As of Q3 2013, E-Plus is presented as discontinued operation in the Consolidated Statement of Profit or Loss and Consolidated Statement of Cash Flows. Results from E-Plus are reported as 'profit for the period from discontinued operations' and cash flows as 'cash flows from discontinued operations'. Since the internal reporting of E-Plus as operating segment to KPN's Chief Operating Decision Maker remains unchanged, E-Plus is still included in KPN's segment reporting.

The following table summarizes the results of E-Plus included in the Consolidated Statement of Profit or Loss as 'profit for the period from discontinued operations'.

<i>(in EUR m)</i>	For the three months ended 30 June		For the six months ended 30 June	
	2014	2013	2014	2013
Revenues and other income	789	779	1,547	1,515
Operating expenses	-524	-818	-1,060	-1,544
Finance income and expenses	-8	-8	-15	-15
Share of result from non-controlling interest	-1	-8	-3	-8
Income taxes	-375	1	-444	-14
<b>Result for the period from discontinued operations before impairment and tax effects resulting from the transaction</b>	<b>-119</b>	<b>-54</b>	<b>25</b>	<b>-66</b>
Additional impairment disposal group	-620	-	-751	-
Increase income tax benefit Dutch fiscal unity	210	-	210	-
<b>Total profit (loss) for the period from discontinued operations</b>	<b>-529</b>	<b>-54</b>	<b>-516</b>	<b>-66</b>

The decrease in operating expenses in 2014 compared to 2013 is mainly due to the fact that since classification as held for sale as of 23 July 2013, amortization and depreciation of property, plant and equipment and of intangible assets no longer takes place.

The income tax expense for discontinued operations in H1 2014 includes an impairment of deferred tax assets of approximately EUR 317m relating to the forfeiture of tax losses carried forward and temporary differences in Germany.

The following table presents the assets and liabilities of E-Plus, classified as held for sale.

<b>ASSETS</b>	<b>As at 30 June 2014</b>
<i>(in EUR m)</i>	
Intangible assets	6,014
Property, plant and equipment	3,467
Other non-current assets	76
Current assets	478
Fair value adjustment of disposal group	-1,306
<b>Total non-current assets and disposal groups classified as held for sale</b>	<b>8,729</b>

<b>EQUITY AND LIABILITIES</b>	<b>As at 30 June 2014</b>
<i>(in EUR m)</i>	
Non-current liabilities	319
Current liabilities	1,067
<b>Total liabilities directly associated with the non-current assets and disposal groups classified as held for sale</b>	<b>1,386</b>

**[2] Pensions**

In June 2014 the trade unions and the board of Stichting Pensioenfonds KPN approved the proposal to implement a Collective Defined Contribution pension plan ('CDC pension plan') as of 1 January 2015 for KPN's main pension plan, which covers the majority of the employees subject to KPN's collective labor agreement in The Netherlands.

The new CDC pension plan that becomes effective as of 1 January 2015 entails the following:

- KPN's only obligation will be to pay an annual fixed premium
- The annual fixed premium will be 23.0% of the pensionable base for a period of 5 years. Under the current main pension plan, KPN pays a premium of 20.9% in 2014
- KPN will be released from its obligation to make recovery payments as of 1 January 2015
- KPN will make a one-off lump-sum cash payment of EUR 200m, payable at year end 2014 which will remove the abovementioned obligation

For the current main pension plan, which is accounted for as a defined benefit plan, KPN has recorded a provision based on the requirements of IAS 19R on its Consolidated Statement of Financial Position. The fair value of the plan assets is deducted from the present value of the defined benefit obligation in determining the pension provision. The measurement of the defined benefit obligation is based on an actuarial valuation and includes, among others, future indexation and future salary increases. Funding is based on requirements of the Dutch pension regulator. The coverage ratio of the current main pension plan at 30 June 2014 was 112%.

Under the current main pension plan and the pension plan for Senior Management with an individual labor agreement in The Netherlands, recovery payments of approximately EUR 18m and EUR 2m, respectively, are required if the coverage ratio at the end of a quarter is below the minimum requirement of approximately 105%. The recovery payments must be made on the first day of the second quarter thereafter. In the first six months of 2014, no recovery payments were made. Based on the coverage ratios at the end of Q1 and Q2 2014 no recovery payments will be required in Q3 or Q4 2014. Should the coverage ratio at the end of Q3 and/or Q4 2014 drop below the minimum requirement of approximately 105%, recovery payments will be required and have to be paid in Q1 and/or Q2 2015.

The approval in June 2014 of the new CDC pension plan is an amendment of the current pension plan. In Q2 2014 the pension provision was lowered with EUR 451m (amendment gain) to equal the amount that reflects the lump-sum cash payment of EUR 200m that is payable by KPN at year end 2014. This release was recorded in KPN's Consolidated Statement of Profit or Loss in Q2 2014 as a reduction of the pension expenses. The release has resulted in a EUR 90m income tax expense in the Consolidated Statement of Profit or Loss in Q2 2014. The lump-sum cash payment of EUR 200m will be deductible for tax purposes whereas the release of the provision in Q2 2014 will not lead to tax payments. At 31 December 2014, the pension provision relating to the current main pension plan will be fully released (plan settlement).

Under the new CDC pension plan, KPN will have no other obligation than to pay the annual fixed premium. Therefore, no pension provision for the new CDC pension plan will be recorded on KPN's Consolidated Statement of Financial Position as of 1 January 2015.



### [3] Revenues and other income

For a description of the activities of the segments, reference is made to the Integrated Annual Report 2013. For operating profit reference is made to note [4] and for other segment information reference is made to note [11] in these Condensed Consolidated Interim Financial Statements.

Revenues and other income (in EUR m)	For the six months ended 30 June 2014				For the six months ended 30 June 2013 (restated)			
	External revenues	Other income	Inter segment revenues	Total revenues	External revenues	Other income	Inter segment revenues	Total revenues
Germany (incl. discontinued operations)	1,583	2	6	1,591	1,552	3	8	1,563
Belgium	350	-	5	355	362	-	4	366
Other (incl. eliminations)	22	-	-4	18	25	-1	-3	21
<b>Mobile International</b>	<b>1,955</b>	<b>2</b>	<b>7</b>	<b>1,964</b>	<b>1,939</b>	<b>2</b>	<b>9</b>	<b>1,950</b>
Consumer Mobile	670	2	29	701	744	-	38	782
Consumer Residential	899	-	60	959	921	-	60	981
Business	1,352	5	105	1,462	1,532	25	103	1,660
NetCo	255	-	884	1,139	249	3	938	1,190
Other (incl. eliminations)	2	-	-1,062	-1,060	1	-	-1,120	-1,119
<b>The Netherlands</b>	<b>3,178</b>	<b>7</b>	<b>16</b>	<b>3,201</b>	<b>3,447</b>	<b>28</b>	<b>19</b>	<b>3,494</b>
<b>iBasis</b>	<b>365</b>	<b>-</b>	<b>92</b>	<b>457</b>	<b>390</b>	<b>-</b>	<b>99</b>	<b>489</b>
Other activities	40	-1	-1	38	40	-	-1	39
Eliminations	-	-	-113	-113	-	-	-126	-126
<b>KPN Group</b>	<b>5,538</b>	<b>8</b>	<b>1</b>	<b>5,547</b>	<b>5,816</b>	<b>30</b>	<b>-</b>	<b>5,846</b>
<i>Of which discontinued operations</i>	<i>1,544</i>	<i>2</i>	<i>1</i>	<i>1,547</i>	<i>1,513</i>	<i>2</i>	<i>-</i>	<i>1,515</i>
<b>KPN continuing operations</b>	<b>3,994</b>	<b>6</b>	<b>-</b>	<b>4,000</b>	<b>4,303</b>	<b>28</b>	<b>-</b>	<b>4,331</b>

Total revenues (continuing operations) in H1 2014 were EUR 331m lower compared to H1 2013, mainly due to lower revenues at Business and Consumer Mobile. The negative impact on revenues from regulation was EUR 30m. Other income (continuing operations) in H1 2014 consisted mainly of the book gain on the sale of fixed assets (hardware) at Business of EUR 5m. Other income (continuing operations) in H1 2013 consisted mainly of a book gain related to the sale of IS&P of EUR 23m at Business.

The positive impact of incidentals on external revenues (continuing operations) in H1 2014 was EUR 17m, all of which related to the release of a revenue related at NetCo. The positive impact of incidentals on external revenues (continuing operations) in H1 2013 was EUR 14m, consisting of a provision recorded at NetCo (EUR 6m) and adjustments of deferred revenues at Consumer Mobile (EUR 7m) and Consumer Residential (EUR 13m).

For more detailed information on revenues and the incidentals, reference is made to the Adjusted Analysis included in the separately published Q2 2014 Management Report.



[4] Operating profit, DA&I and EBITDA

Operating profit, DA&I and EBITDA (in EUR m)	For the six months ended 30 June 2014			For the six months ended 30 June 2013 (restated)		
	Operating profit	Depreciation, Amortization & Impairments (DA&I)	EBITDA	Operating profit	Depreciation, Amortization & Impairments (DA&I)	EBITDA
Germany (incl. discontinued operations)	-14	502	488	-34	504	470
Belgium	2	75	77	20	75	95
Other (incl. eliminations)	-4	-	-4	-5	-	-5
<b>Mobile International</b>	<b>-16</b>	<b>577</b>	<b>561</b>	<b>-19</b>	<b>579</b>	<b>560</b>
Consumer Mobile	15	90	105	158	118	276
Consumer Residential	49	151	200	23	149	172
Business	187	104	291	274	110	384
NetCo	152	466	618	226	441	667
Other (incl. eliminations)	-39	12	-27	-25	5	-20
<b>The Netherlands</b>	<b>364</b>	<b>823</b>	<b>1,187</b>	<b>656</b>	<b>823</b>	<b>1,479</b>
<b>iBasis</b>	<b>6</b>	<b>4</b>	<b>10</b>	<b>8</b>	<b>6</b>	<b>14</b>
Other activities	418	2	420	-27	2	-25
<b>KPN Group</b>	<b>772</b>	<b>1,406</b>	<b>2,178</b>	<b>618</b>	<b>1,410</b>	<b>2,028</b>
<i>Of which discontinued operations</i>	<i>-12</i>	<i>499</i>	<i>487</i>	<i>-29</i>	<i>498</i>	<i>469</i>
<b>KPN continuing operations</b>	<b>784</b>	<b>907</b>	<b>1,691</b>	<b>647</b>	<b>912</b>	<b>1,559</b>

EBITDA (continuing operations) increased by EUR 132m in H1 2014 compared to H1 2013 due to the net positive impact of incidentals (EUR 414m), largely offset by lower revenues at Business and Consumer Mobile and higher subscriber acquisition costs at Consumer Mobile as a result of the phasing out of the handset leases. The impact of regulation on EBITDA (continuing operations) was EUR 14m. The impact of restructuring costs on EBITDA (continuing operations) was EUR 36m (H1 2013: EUR 70m).

The positive impact of incidentals in H1 2014 (EUR 473m) included;

- release of the pension provision as a result of the approval of the new CDC pension plan in June 2014 (EUR 451m) as disclosed in note [2];
- release of a revenue related provision at NetCo (EUR 17m); and
- book gain on the sale of fixed assets (hardware) at Business (EUR 5m).

The positive impact of incidentals H1 2013 (EUR 59m) included;

- release of accruals and provisions at NetCo (EUR 11m);
- adjustments of deferred revenues at Consumer Mobile (EUR 7m) and Residential (EUR 13m);
- book gain related to the sale of IS&P at Business (EUR 23m); and
- release of the asset retirement obligation at NetCo (EUR 5m).

Operating profit (EBIT) (continuing operations) increased by EUR 137m y-on-y, resulting from the EBITDA increase (EUR 132m) and decreased depreciation and amortization (EUR 5m) compared to the same period last year. In The Netherlands, the decrease of DA&I as a result of the phasing out of the handset lease model at Consumer Mobile was offset by increased DA&I expenses at Consumer Residential (customer premises equipment related to IPTV and FttH activations) and NetCo (following the continuing network upgrade). The DA&I expenses (continuing operations) included impairment expenses of EUR 9m (H1 2013: EUR 1m).

### [5] Finance income and expenses

Net finance costs for H1 2014 decreased by EUR 18m y-on-y to EUR 320m, mainly as a result of a lower gross debt position compensated by fair value movements on swaps. Net finance costs for H1 2013 include the net result of the sale of available for sale financial assets (11% stake in Compucom) for an amount of EUR 21m (gain), realized in May 2013.

### [6] Income taxes

KPN calculates the income tax expense for the period using the tax rate that would be applicable to the expected total annual earnings. The major components of income tax expense in the Interim Consolidated Statement of Profit or Loss are:

(in EUR m)	For the six months ended 30 June	
	2014	2013
Current tax	-43	-36
Changes in deferred taxes	-68	45
<b>Income tax benefit/(charge) from continuing operations</b>	<b>-111</b>	<b>9</b>

KPN benefits from an agreement with the Dutch tax authorities with regard to the application of innovation tax facilities. Innovation tax facilities are facilities under Dutch corporate income tax law, whereby profits attributable to innovation are taxed at an effective rate of 5%. Due to the application of the innovation tax facilities, KPN's effective tax rate in The Netherlands is reduced from the statutory tax rate of 25% to approximately 20%. The effective tax rate (continuing operations) for the first six months of 2014 is 23.9% (first six months of 2013: -2.9%, mainly due to a positive one-off impact of the innovation tax facilities for previous years (EUR 22m) and a EUR 22m tax benefit for a future deductible liquidation loss of a subsidiary). The effective tax rate is a consequence of 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 around 22% in the first six months of 2014. The effective tax rate (continuing operations) is expected to be approximately 20%<sup>1</sup> in the 2014-2016 period.

For further information on the tax impact of the sale of E-Plus refer to note [1].

### [7] Cash and cash equivalents

At 30 June 2014, cash and cash equivalents amounted to EUR 1,531m, compared to EUR 3,946m at 31 December 2013. Cash and cash equivalents consist of highly liquid instruments, mainly deposits, interest-bearing bank accounts and money market funds. KPN's cash balances have been invested with a wide range of strong counterparties. KPN's net cash position mainly decreased as a result of scheduled repayments of borrowings (EUR 1,400m), the repayment of the paid-up amount for the Preference Shares B (EUR 255m) and negative free cash flow during H1 2014 (EUR 220m).

### [8] Non-current assets, liabilities and disposal groups held for sale

E-Plus is classified as 'disposal group held for sale' as of 23 July 2013. For further details reference is made to note [1] of these Condensed Consolidated Interim Financial Statements.

<sup>1</sup> Excluding effects of, amongst others, impairments, revaluations and/or Reggefiber options

### **[9] Group equity**

On 17 May 2013, KPN successfully concluded its EUR 4bn equity equivalent capital raise, consisting of EUR 1bn equity equivalent hybrid bonds and a EUR 3bn rights issue. These transactions have been disclosed in KPN's Integrated Annual Report 2013.

During the first six months of 2014, the number of ordinary shares outstanding remained unchanged at 4,270,254,664.

On 29 August 2013, the Foundation Preference Shares B KPN exercised its call option and obtained 4,258,098,272 newly issued Preference Shares B. These shares reflected an interest in KPN's outstanding shares of 50% minus 1 share. In compliance with the statutory arrangement, 25% of the nominal value of these shares (EUR 255m) was paid to KPN in cash. On 21 March 2014, KPN cancelled the Preference Shares B against repayment of the paid-up amount to Foundation Preference Shares B. The cancellation was approved by the Extraordinary General Meeting of Shareholders on 10 January 2014.

On 9 April 2014 KPN reduced the nominal value of its ordinary shares from EUR 0.24 to EUR 0.04 following the approval by the Annual General Meeting of Shareholders.

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

On 4 February 2014, KPN redeemed the 6.25% coupon Eurobond 2009-2014 with an outstanding amount of EUR 750m. On 30 May 2014, KPN redeemed the 4.75% coupon Eurobond 2007-2014 with an outstanding amount of EUR 650m. Both bonds were redeemed in accordance with the regular redemption schedule.

At 30 June 2014, the average maturity of the senior bond portfolio was 7.0 years (31 December 2013: 6.6 years). The average interest rate on the overall bond portfolio, including hybrid bonds, was 5.2% as at 30 June 2014 (31 December 2013: 5.2%). Excluding the hybrid bonds, the average interest rate on the senior bond portfolio was 4.9% as at 30 June 2014 (31 December 2013: 5.0%).

On 21 March 2014, the outstanding Preference Shares B were cancelled following the decision of the Extraordinary General Meeting of Shareholders on 10 January 2014. The paid up value was classified as current liability (EUR 255m) at 31 December 2013 and dividends (EUR 2m) have been recorded as financial expenses in Q1 2014.

For further details on the Foundation Preference Shares B, reference is made to page 143 of KPN's Integrated Annual Report 2013.

[11] Other segment information

Assets and liabilities (in EUR m)	As at 30 June 2014		As at 31 December 2013 (restated)	
	Total assets	Total liabilities	Total assets	Total liabilities
Germany (incl. discontinued operations)	10,727	26,048	11,189	26,328
Belgium	2,031	391	2,047	410
Other (incl. eliminations)	19	28	21	26
<b>Mobile International</b>	<b>12,777</b>	<b>26,467</b>	<b>13,257</b>	<b>26,764</b>
Consumer Mobile	851	995	1,805	1,492
Consumer Residential	1,453	1,335	2,003	1,929
Business	2,325	1,860	3,492	3,171
NetCo	7,570	7,410	10,081	10,083
Other (incl. eliminations)	-42	-4	-286	-287
<b>The Netherlands</b>	<b>12,157</b>	<b>11,596</b>	<b>17,095</b>	<b>16,388</b>
<b>iBasis</b>	<b>374</b>	<b>235</b>	<b>389</b>	<b>253</b>
Other activities	-1,926	-20,416	-4,596	-22,851
<b>Total segments</b>	<b>23,382</b>	<b>17,882</b>	<b>26,145</b>	<b>20,554</b>
<i>Other adjustments</i>	<i>-560</i>	<i>-73</i>	<i>-273</i>	<i>15</i>
<b>Total KPN Group</b>	<b>22,822</b>	<b>17,809</b>	<b>25,872</b>	<b>20,569</b>

The decrease in the total assets and total liabilities of the segments in The Netherlands is mainly the result of internal transfer of the result of 2013 and settlement of intercompany balances. Other adjustments include the effects of discontinued operations on the balance sheet including reversal of E-Plus depreciation and amortization (EUR 342m, net of tax), the fair value adjustment of the disposal group (EUR 751m), increase of the deferred tax asset with regard to the book loss on the sale of E-Plus (EUR 210m) and elimination effects. Refer also to note [1].

Capex (in EUR m)	For the six months ended 30 June	
	2014 Capex	2013 Capex
Germany (incl. discontinued operations)	172	235
Belgium	73	74
Other (incl. eliminations)	-	-
<b>Mobile International</b>	<b>245</b>	<b>309</b>
Consumer Mobile	16	166
Consumer Residential	79	158
Business	35	69
NetCo	299	371
Other (incl. eliminations)	139	6
<b>The Netherlands</b>	<b>568</b>	<b>770</b>
<b>iBasis</b>	<b>3</b>	<b>3</b>
Other activities	3	1
<b>KPN Group</b>	<b>819</b>	<b>1,083</b>
<i>Of which discontinued operations</i>	172	235
<b>KPN Continuing operations</b>	<b>647</b>	<b>848</b>

Capex (continuing operations) decreased to EUR 647m in the first half of 2014 compared to EUR 848m in the first half of 2013 mainly due to lower customer driven investments (including the phasing out of handset lease at Consumer Mobile), the first results of the Simplification program and lower network investments.

As of 1 January 2014, certain Capex activities for The Netherlands were centralized as part of the Simplification program. This caused an increase of the Capex reported in Other. Comparative information is not restated.

### [12] Fair value disclosures

The following table presents the Group's assets and liabilities that are measured at fair value at 30 June 2014.

Assets and liabilities measured at fair value (in EUR m)	As at 30 June 2014			
	Level 1	Level 2	Level 3	Total balance
<b>Assets</b>				
<b>Financial assets at fair value through profit and loss:</b>				
Derivatives (cross currency interest rate swap)	-	32	-	32
Derivatives (interest rate swap)	-	209	-	209
Other derivatives	-	-	11	11
<b>Available for sale financial assets:</b>				
Listed securities	14	-	-	14
Unlisted securities	-	-	10	10
<b>Total assets</b>	<b>14</b>	<b>241</b>	<b>21</b>	<b>276</b>
<b>Liabilities</b>				
<b>Financial liabilities at fair value through profit and loss:</b>				
Derivatives (cross currency interest rate swap)	-	440	-	440
Derivatives (interest rate swap)	-	16	-	16
Other derivatives	-	-	334	334
<b>Total liabilities</b>	<b>-</b>	<b>456</b>	<b>334</b>	<b>790</b>

The following table presents the Group's assets and liabilities that are measured at fair value at 31 December 2013.

Assets and liabilities measured at fair value (in EUR m)	As at 31 December 2013			
	Level 1	Level 2	Level 3	Total balance
<b>Assets</b>				
<b>Financial assets at fair value through profit and loss:</b>				
Derivatives (cross currency interest rate swap)	-	13	-	13
Derivatives (interest rate swap)	-	93	-	93
Other derivatives	-	-	11	11
<b>Available for sale financial assets:</b>				
Listed securities	10	-	-	10
Unlisted securities	-	-	10	10
<b>Total assets</b>	<b>10</b>	<b>106</b>	<b>21</b>	<b>137</b>
<b>Liabilities</b>				
<b>Financial liabilities at fair value through profit and loss:</b>				
Derivatives (cross currency interest rate swap)	-	415	-	415
Derivatives (interest rate swap)	-	13	-	13
Other derivatives	-	1	334	335
<b>Total liabilities</b>	<b>-</b>	<b>429</b>	<b>334</b>	<b>763</b>

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

An instrument is included in Level 2 if the financial instrument is not traded in an active market and if the fair value is determined by using valuation techniques based on maximum use of observable market data for all significant inputs. For the derivatives used for hedging purposes, KPN uses the estimated fair value of financial instruments determined by using available market information and appropriate valuation methods, including relevant credit risks. The estimated fair value approximates the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. KPN has its derivative instruments outstanding with financial institutions that had a credit rating equivalent to A3 or higher with Moody's at 30 June 2014.

If one or more of the significant inputs is not based on observable market data, the instrument is included in Level 3 and their 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.

Other derivatives under financial liabilities at fair value through profit and loss are the call/put arrangements of Reggefiber Group B.V. These options are valued using a binominal tree approach and depend on the business performance of Reggefiber under various scenarios with different probabilities (combination of penetration rates, Capex per home passed), the probability of approval by the Dutch competition authority ACM, discount rates and the conditions of the call/put arrangement itself. Based on current business performance and management's best estimate of the likelihood of possible scenarios and expected business performance, the value of the call/put arrangements was EUR 334m (liability) at 30 June 2014 and at 31 December 2013 and EUR 278m (liability) at 30 June 2013. There was no change in the value of the call/put arrangements in H1 2014 and H1 2013 and therefore there was no impact on the Consolidated Statement of Profit and Loss.

The increase in value during H1 2014 of the available for sale financial assets was EUR 4m and was recognized in Other Comprehensive Income.

KPN reports its derivatives positions on the balance sheet on a gross basis. Part of the derivatives portfolio is subject to master netting agreements that allow netting under certain circumstances. If netting would be applied at 30 June 2014, the total derivatives asset position would be EUR 62m (31 December 2013: EUR 20m, 30 June 2013: EUR 16m) and the total derivatives liability position would be EUR 601m (31 December 2013: EUR 666m, 30 June 2013: EUR 570m).

### **[13] Off-balance sheet commitments**

At the end of Q2 2014 off-balance sheet commitments increased to EUR 4.9bn of which EUR 2.1bn related to discontinued operations. The off-balance sheet commitments at 31 December 2013 were EUR 4.8bn, of which EUR 1.8bn related to discontinued operations.

### **[14] Related party transactions**

For a description of the related parties of KPN and transactions with related parties, reference is made to Note 32 of the Integrated Annual Report 2013, including major shareholders. In 2014 there have been no changes in the type of related party transactions as described in the Integrated Annual Report 2013 that could have a material effect on the financial position or performance of KPN. On 21 March 2014 KPN cancelled its Preference Shares B (4,258,098,272 shares in total) against repayment of the paid up amount (EUR 255m) to Stichting Preferente Aandelen B KPN (see note [9]).

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 12 February 2014, América Móvil (AMX) made a public statement that they owned 13.6% of KPN's ordinary share capital (taking into account the issuance of the preference shares B) at 31 December 2013. On 21 July 2014, AMX published that it held 22.6% of the shares and voting rights (after the cancellation of the Preference Shares B) related to KPN's ordinary share capital as at 30 June 2014.

On 21 March 2014, Discovery Capital Management, LLC notified that it held 3.77% of the shares and voting rights related to KPN's ordinary share capital. On 24 March 2014, Franklin Resources, Inc and Paulson & Co, Inc notified that they held 3.63% and 4.54%, respectively, of the shares and voting rights related to KPN's ordinary share capital. On 26 June 2014 and on 1 July 2014, Norges Bank notified that it held 3.04% and 2.94% respectively, of the shares and voting rights related to KPN's ordinary share capital. To KPN's knowledge, no other shareholder owned 3% or more of KPN's issued share capital as at 30 June 2014.

### **[15] Risk management**

KPN's risk categories and risk factors which could have a material impact on its financial position and results, are described in KPN's Integrated Annual Report 2013 (pages 70-73). Those risk categories and factors are deemed incorporated and repeated in this report by this reference. There are no material changes in those risk categories and factors for the remaining 6 months of the financial year, except for the risks mentioned below.

#### ***Sale of E-Plus***

On 2 July 2014, the European Commission has conditionally approved the acquisition of E-Plus by Telefónica Deutschland. The approval is conditional upon the implementation of a remedy package submitted by Telefónica Deutschland, that addresses the Commission's competition concerns. Until final approval by the European Commission regarding the fulfillment of these remedies, there is a risk that the transaction will not be closed. In that case, E-Plus will no longer be classified as held for sale



(‘discontinued operations’) and an impairment risk on the assets and goodwill of E-Plus as well as the risks related to future frequency auctions in Germany become current again.

The consideration KPN will receive for the sale of E-Plus includes a 20.5% stake in Telefónica Deutschland. This 20.5% stake will be recorded at fair value based on the listed share price of Telefónica Deutschland at completion of the sale. The fair value of this stake at completion of the sale could be higher or lower than KPN management’s estimated fair value of this stake at 30 June 2014. In case the share price at deal close is lower than estimated at 30 June 2014, an additional impairment would have to be recorded. Reference is made to note [1] of the Condensed Consolidated Interim Financial Statements for the six months ended 30 June 2014 for further details.

#### ***Acquisition of majority share in Reggefiber***

On 2 January 2014, the second option of the Reggefiber joint venture agreement was exercised. The exercise price of the second option has been determined at EUR 161m. Completion is subject to approval by the Dutch Competition Authority (‘ACM’). The merger clearance process has entered ‘Phase 2’, in which ACM will execute an in depth investigation. As such, there is always a risk that the acquisition of the majority of the shares in Reggefiber might not be approved by the regulator.

#### ***Pensions***

Specifically for the defined benefit schemes of KPN, (unexpected) movements in interest rates, equity values (or ‘value of the plan assets’), inflation rates and mortality rates could lead to volatility in KPN’s equity, cash positions and income statement. For further information about KPN’s pension schemes, including the funding requirements and a sensitivity analysis, reference is made to Note 22 of the Integrated Annual Report 2013 and to note [2] of the Condensed Consolidated Interim Financial Statements for the six months ended 30 June 2014.

In June 2014 the trade unions and the board of Stichting Pensioenfonds KPN (‘KPN Pension Fund’) approved the proposal to implement a Collective Defined Contribution pension plan (‘CDC pension plan’) as of 1 January 2015 for KPN’s main pension plan, which covers the majority of the employees subject to KPN’s collective labor agreement in The Netherlands. Under this CDC plan, KPN will only be liable for paying the annual fixed contribution into the fund.

#### **[16] Regulatory developments**

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

ACM is conducting its fourth round of market analyses procedures into the fixed broadband, telephony and business networks markets in the Netherlands, on which KPN currently has specific obligations as operator designated with significant market power on some of these fixed (mainly wholesale) markets. The analyses coincides with the merger cases of KPN of acquiring full control in Reggefiber (case handled by ACM) and Liberty Global/UPC acquiring full control in Ziggo (case handled by the European Commission). It is expected that ACM will consult new draft decisions in its market analysis procedures only after the European Commission has decided on the UPC/Ziggo merger (announced for ultimately mid October 2014).

##### ***Enhanced supervision ACM lifted***

On 25 June 2014, ACM announced to lift its enhanced supervision on KPN as of 1 July 2014. A number of long lasting cases with ACM were closed, and KPN aims to close certain pending matters in the near future. The Compliance Charter that KPN and ACM had entered into in 2008 was also amended per 1 July 2014. The Charter, that lays down certain arrangements on KPN’s Compliance Program, now focusses fully on compliance with those laws and regulations that are applicable specifically to KPN as party with significant market power. This will enable KPN to simplify and enhance its compliance



efforts in this area. The Charter is an important instrument to promote a professional relationship between KPN and ACM.

#### **[17] Subsequent events**

##### ***Appointment of new Chief Financial Officer***

On 21 July 2014, KPN announced its intention to appoint Jan Kees de Jager to KPN's Board of Management as the company's new Chief Financial Officer. His contract will start per 15 August 2014 and he will assume responsibilities for the CFO role per 1 November 2014 after a transition period. The Supervisory Board will inform shareholders on the appointment during an Extraordinary General Meeting of Shareholders which is expected to be held in September, following which the formal appointment to the Board of Management takes place. Steven van Schilfgaarde has been acting as interim CFO since September 2013 and will continue his role as interim CFO until 1 November 2014.

##### ***New management structure & composition of the Board subsequent to sale of E-Plus***

Following the sale of E-Plus, KPN intends to implement a new management structure. The Board of Management will assume more direct control of operations by creating two new positions, Chief Commercial Officer and Chief Operating Officer, next to the existing CEO and CFO positions in the Board of Management. Joost Farwerck, currently already member of the Board of Management and Managing Director The Netherlands, will assume the role of Chief Operating Officer. There is a vacancy for the role of Chief Commercial Officer which will be filled on an interim basis by Eelco Blok, CEO of KPN, until a permanent appointment has been made. The CEO of BASE Company will report directly to the CEO of KPN.

Thorsten Dirks will step down as member of the Board of Management of KPN to become CEO of Telefónica Deutschland subsequent to the sale of E-Plus.

## **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 2014, give a true and fair view of the assets, liabilities, financial position and income of the Company and the undertakings included in the consolidation taken as a whole, and the interim management report gives a fair review of the information required pursuant to section 5:25d, subsection 8 and, as far as applicable, subsection 9 of the Dutch Financial Markets Supervision Act (Wet op het financieel toezicht).

The Hague, 30 July 2014

E. Blok	Chairman of the Board of Management and Chief Executive Officer
T. Dirks	Member of the Board of Management and CEO E-Plus
J.F.E. Farwerck	Member of the Board of Management and Managing Director The Netherlands

## Safe harbor

### Non-GAAP measures and management estimates

*This financial report contains a number of non-GAAP figures, such as EBITDA and Free Cash Flow ('FCF'). These non-GAAP figures should not be viewed as a substitute for KPN's GAAP figures.*

*KPN defines **EBITDA** as operating result before depreciation and impairments of PP&E and amortization and 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 operating activities plus proceeds from real estate, minus capital expenditures (Capex), being expenditures on PP&E and software and excluding tax recapture regarding E-Plus.*

***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. **Underlying service revenues** are derived from service revenues adjusted for the impact of MTA and roaming (regulation) and incidentals.*

*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 [www.kpn.com/ir](http://www.kpn.com/ir).*

### 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 2013.*