

## Results Q3 2011

### Highlights

- Financial results in line to realize full year outlook
- Continued strong performances in Germany and Belgium
- Consumer wireless in transition period; accompanied by lower service revenues
- Continued growing TV market share in Consumer wireline
- Corporate Market<sup>1</sup> (Getronics) restructuring program in progress; aligning cost base with lower revenue level

Group financials*	Q3 2011	Q3 2010	Δ y-on-y	YTD 2011	YTD 2010	Δ y-on-y
(In millions of euro unless indicated otherwise)			reported			reported
<b>Revenues and other income</b>	<b>3,263</b>	<b>3,378</b>	<b>-3.4%</b>	<b>9,788</b>	<b>10,009</b>	<b>-2.2%</b>
- Of which revenues	3,256	3,335	-2.4%	9,727	9,954	-2.3%
<b>EBITDA</b>	<b>1,245</b>	<b>1,408</b>	<b>-12%</b>	<b>3,822</b>	<b>4,117</b>	<b>-7.2%</b>
EBITDA margin	38.2%	41.7%		39.0%	41.1%	
Restructuring costs	85	-1	n.m.	108	-2	n.m.
<b>EBITDA (excl. restructuring)</b>	<b>1,330</b>	<b>1,407</b>	<b>-5.5%</b>	<b>3,930</b>	<b>4,115</b>	<b>-4.5%</b>
Operating profit (EBIT)	657	847	-22%	2,113	2,479	-15%
Profit for the period (net result)	368	406	-9.4%	1,373	1,320	4.0%
<b>Earnings per share (in EUR)</b>	<b>0.26</b>	<b>0.27</b>	<b>-3.7%</b>	<b>0.93</b>	<b>0.84</b>	<b>11%</b>
Cash flow from operating activities	948	1,061	-11%	2,613	2,362	11%
Capital expenditures (PP&E and software)	-498	-431	16%	-1,395	-1,146	22%
Proceeds from real estate	13	51	-75%	75	73	2.7%
Tax recapture at E-Plus	92	-	n.m.	245	327	-25%
<b>Free cash flow</b>	<b>555</b>	<b>681</b>	<b>-19%</b>	<b>1,538</b>	<b>1,616</b>	<b>-4.8%</b>

\* All non-IFRS items are explained in the safe harbour section at the end of the condensed financial report

### Message from the CEO, Eelco Blok

"Q3 results were broadly in line with our expectations, with Consumer wireless in a transition period. We made further progress in strengthening the business in The Netherlands, especially in Consumer wireline where we launched multi-screen IPTV and in Consumer wireless where we implemented new tariffs. Within the renamed Corporate Market (Getronics) we have accelerated the restructuring program to align our cost base with a lower revenue level. As per our guidance we have again achieved high underlying service revenue growth in Mobile International with strong margin performances in Germany and Belgium. We remain on track to realize our outlook for the year."

<sup>1</sup> As of 1 October 2011 the Getronics Segment has been renamed Corporate Market

## Group review

Revenues and other income (In millions of euro)	Q3 2011	Q3 2010	Δ y-on-y reported	Δ y-on-y underlying <sup>1</sup>	YTD 2011	YTD 2010	Δ y-on-y reported	Δ y-on-y underlying <sup>1</sup>
<b>KPN Group</b>	<b>3,263</b>	<b>3,378</b>	<b>-3.4%</b>	<b>0.8%</b>	<b>9,788</b>	<b>10,009</b>	<b>-2.2%</b>	<b>1.7%</b>
- The Netherlands <sup>2</sup>	2,212	2,333	-5.2%	-2.9%	6,756	6,964	-3.0%	-1.4%
- Mobile International	1,087	1,087	n.m.	8.3%	3,132	3,124	0.3%	9.6%

<sup>1</sup> The definition of underlying is explained in the safe harbour section at the end of the condensed financial report

<sup>2</sup> The Netherlands includes Dutch Telco business, iBasis, Corporate Market (Getronics) and Other gains and losses including eliminations

EBITDA (In millions of euro)	Q3 2011	Q3 2010	Δ y-on-y reported	Δ y-on-y underlying <sup>1</sup>	YTD 2011	YTD 2010	Δ y-on-y reported	Δ y-on-y underlying <sup>1</sup>
<b>KPN Group</b>	<b>1,245</b>	<b>1,408</b>	<b>-12%</b>	<b>-0.1%</b>	<b>3,822</b>	<b>4,117</b>	<b>-7.2%</b>	<b>-0.7%</b>
- The Netherlands <sup>2</sup>	834	965	-14%	-1.5%	2,687	2,889	-7.0%	-2.9%
- Mobile International	430	452	-4.9%	5.9%	1,180	1,258	-6.2%	6.1%

<sup>1</sup> The definition of underlying is explained in the safe harbour section at the end of the condensed financial report

<sup>2</sup> The Netherlands includes Dutch Telco business, iBasis, Corporate Market (Getronics) and Other gains and losses including eliminations

### Impact from regulation leads to lower revenues for the Group, good underlying performance at Mobile International

KPN Group revenues and other income were 3.4% or EUR 115m lower y-on-y in Q3 2011 due to a decline in The Netherlands while Mobile International showed flat revenues. The negative y-on-y impact on group revenues from regulation was EUR 116m. Group revenues were also affected by net negative incidentals of EUR 27m and positively impacted by a net effect from acquisitions of EUR 3m. Dutch Telco continued to show a revenue decline mainly due to regulation effects and difficult market conditions. Consumer wireless is dealing with an ongoing change in customer behavior and competition in the 'value for money' segment. In Consumer wireline the broadband base declined slightly, with net line loss improving, PSTN / ISDN losses stabilizing and TV additions increasing. The Business Segment saw satisfactory market share performance combined with continued price pressure. A continued difficult market for the Corporate Market (Getronics) Segment resulted in a y-on-y revenue decline. At Mobile International, underlying revenues and other income increased 8.3% y-on-y in Q3 with Germany, Belgium and Rest of World all contributing.

### KPN Group profitability impacted by regulation, strong underlying EBITDA growth at Mobile International

KPN Group EBITDA decreased by 12% or EUR 163m y-on-y, however the underlying EBITDA was flat y-on-y. The EBITDA was negatively impacted by regulation of EUR 49m, the negative impact from restructuring of EUR 85m and net negative impact from incidentals and acquisitions of EUR 29m. EBIT decreased EUR 190m (22%) y-on-y, as a result of lower EBITDA of EUR 163m and higher amortization and depreciation compared to last year of EUR 27m. Net profit decreased by EUR 38m y-on-y to EUR 368m in Q3 2011 following the EBIT decline. YTD net profit amounted to EUR 1,373m, a 4% rise y-on-y mainly as a result of the innovation tax facilities and lower financing costs.

### Restructuring program at Corporate Market (Getronics) accelerated

As announced at Q2, Corporate Market (Getronics) accelerated its restructuring program. The restructuring costs at Corporate Market (Getronics) in Q3 amounted to EUR 78m (YTD EUR 90m). The YTD restructuring costs of EUR 90m are related to a staff reduction of ~1,350 FTE of which ~900 FTE relates to efficiency improvements and ~450 FTE relates to off-shoring.

### Free cash flow in Q3 at EUR 555m

Free cash flow in Q3 2011 amounted to EUR 555m, which is EUR 126m below last year. Main reasons were lower EBITDA excluding restructuring costs of EUR 77m, higher Capex spend of EUR 67m and less proceeds from real estate.

**Capex at EUR 1,395m YTD**

The increase in Capex YTD of EUR 249m y-on-y was related to the accelerated high speed data network roll-outs in Germany and Belgium, continued upgrades of the mobile and fixed networks in The Netherlands and increased spend on customer equipment in Dutch Telco. Capex level in Q4 y-on-y is expected to be lower due to phasing through the year.

**Net debt to EBITDA<sup>2</sup> at 2.5x, within target range**

Net debt at the end of Q3 2011 amounted to EUR 12.9bn compared to EUR 12.5bn at the end of Q2 2011. The net debt development in Q3 was mainly the result of the EUR 405m interim dividend payment in August 2011 (including dividend tax) and the accelerated share repurchase program (EUR 333m). Combined with a lower EBITDA over the last nine months, this resulted in a net debt to EBITDA ratio of 2.5x (Q2 2011: 2.4x) which remains within KPN's target financial framework of 2.0-2.5x.

KPN's credit ratings remained unchanged at BBB+ with a stable outlook (Standard & Poor's) and Baa2 with a stable outlook (Moody's).

**KPN pension funds average coverage ratio end of Q3 at 96%**

In Q3 2011, KPN's pension funds in The Netherlands were negatively impacted by declining interest rates and deterioration of financial markets, resulting in an average coverage ratio for KPN pension funds of 96% (end of Q2 2011: 108%). KPN is obliged to make additional recovery payments as long as the coverage ratio remains below the minimum required coverage ratio of 105%. There was no recovery payment in Q3 and there will be no recovery payment in Q4 2011. In Q1 2012 an additional cash payment of EUR 21m is required.

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<sup>2</sup> 12 month rolling average excluding book gains, release of pension provisions and restructuring costs, when over EUR 20m

## Financial and operating review by Segment

### The Netherlands

Revenues and other income (In millions of euro)	Q3 2011	Q3 2010	Δ y-on-y reported	Δ y-on-y underlying	YTD 2011	YTD 2010	Δ y-on-y reported	Δ y-on-y underlying
- Consumer	927	991	-6.5%	-4.6%	2,821	2,950	-4.4%	-2.3%
- Business	586	577	1.6%	-0.7%	1,786	1,815	-1.6%	-1.8%
- Wholesale & Operations (national)	641	711	-9.8%	-4.5%	1,976	2,119	-6.7%	-5.5%
- Other (incl. eliminations)	-503	-532	-5.5%	-5.6%	-1,523	-1,620	-6.0%	-6.1%
<b>Dutch Telco business</b>	<b>1,651</b>	<b>1,747</b>	<b>-5.5%</b>	<b>-2.9%</b>	<b>5,060</b>	<b>5,264</b>	<b>-3.9%</b>	<b>-2.2%</b>
- iBasis Group	256	248	3.2%	3.2%	728	678	7.4%	7.4%
- Corporate Market (Getronics)	447	476	-6.1%	-4.3%	1,381	1,428	-3.3%	-2.1%
- Other gains/losses, eliminations	-142	-138	2.9%	2.9%	-413	-406	1.7%	0.2%
of which Real estate	-	-	n.m.	n.m.	-	6	-100%	n.m.
<b>The Netherlands</b>	<b>2,212</b>	<b>2,333</b>	<b>-5.2%</b>	<b>-2.9%</b>	<b>6,756</b>	<b>6,964</b>	<b>-3.0%</b>	<b>-1.4%</b>

EBITDA (In millions of euro)	Q3 2011	Q3 2010	Δ y-on-y reported	Δ y-on-y underlying	YTD 2011	YTD 2010	Δ y-on-y reported	Δ y-on-y underlying
- Consumer	256	278	-7.9%	-5.5%	801	828	-3.3%	-1.6%
- Business	207	189	9.5%	6.2%	604	609	-0.8%	0.3%
- Wholesale & Operations (national)	404	448	-9.8%	-2.7%	1,239	1,299	-4.6%	-4.4%
- Other	13	11	18%	27%	27	26	3.8%	12%
<b>Dutch Telco business</b>	<b>880</b>	<b>926</b>	<b>-5.0%</b>	<b>-1.2%</b>	<b>2,671</b>	<b>2,762</b>	<b>-3.3%</b>	<b>-2.4%</b>
EBITDA margin	53.3%	53.0%			52.8%	52.5%		
- iBasis Group	7	8	-13%	-13%	24	25	-4.0%	-4.0%
- Corporate Market (Getronics)	-53	34	n.m.	-17%	-8	103	n.m.	-26%
- Other gains/losses	-	-3	n.m.	n.m.	-	-1	n.m.	n.m.
of which Real estate	-	-3	n.m.	n.m.	-	-1	n.m.	n.m.
<b>The Netherlands</b>	<b>834</b>	<b>965</b>	<b>-14%</b>	<b>-1.5%</b>	<b>2,687</b>	<b>2,889</b>	<b>-7.0%</b>	<b>-2.9%</b>
EBITDA margin	37.7%	41.4%			39.8%	41.5%		

#### Continued impact from trends in Dutch Telco

Reported revenues and other income at Dutch Telco decreased by 5.5% or EUR 96m including a regulatory impact of EUR 39m, net negative incidentals of EUR 24m (amongst others the sale of towers in Q3 '10) and net positive effect of acquisitions of EUR 16m. Underlying revenues declined by 2.9% mainly as a result of the ongoing change in customer behavior and continued competition in the 'value for money' segment of Consumer wireless.

Reported EBITDA in Q3 was EUR 46m lower y-on-y including a regulatory impact of EUR 10m and net negative incidentals of EUR 24m. The EBITDA margin was relatively stable, whereby the lower revenues and increased costs to strengthen the businesses (e.g. IPTV and Fiber-to-the-Home sales) were partly offset by the continued reduction of fixed costs and also lower traffic costs.

#### Lower revenues at Consumer, mainly due to transition period at Consumer wireless

Underlying results declined, whereby revenues were down 4.6% y-on-y and EBITDA declined 5.5% y-on-y. The main causes were a change of customer behavior, decreasing prepaid revenues, and continued competition in the 'value for money' segment, partly offset by continued data growth. Wireline revenues benefited from the strong growth in IPTV, but continued to see voice revenues decline. The underlying Consumer EBITDA margin remained fairly stable at 27.8%.

### *Consumer wireless*

In September, new integrated data / voice / SMS propositions were launched. Special attention is being given to advising customers about data usage and bundles in the new tariffs, to help them choose the most appropriate propositions for their mobile usage requirements. In Q3, the wireless market remained challenging and we saw a further decrease of voice and SMS service revenues. The increase in usage of communication apps and free WiFi spots continued to spur significantly rising data usage. This changing customer behavior, which was first witnessed in Q1 in the Hi brand, is starting to become visible in the KPN brand as well. Outgoing SMS per customer decreased by 24% y-on-y in the Hi brand, and by 5% y-on-y in the KPN brand. Furthermore, prepaid revenues decreased and the competition in the 'value for money' segment continued. The decrease in service revenues was partly countered by a variety of short term mitigating actions, such as upselling customers to higher value bundles and attractive retention offerings. These actions continued to have good hit rates, with around 35% of addressed customers adjusting their contract.

The transition period at Consumer wireless led to a decline in the total Dutch mobile service revenue market share to 45% (Q2: 46%). This resulted from a first step in lowering SAC/SRC per customer, rebalancing of the Dutch distribution landscape and the focus on high value customers in the prepaid segment. The developments of the before mentioned effects on total Dutch mobile service revenue market share will be closely monitored. The blended ARPU decreased with 4% y-on-y, the share of non-voice in ARPU remained stable in Q3 at 39% compared to Q2 2011.

### *Consumer wireline*

KPN's broadband market share remained under pressure from competition, partly offset by the growth of IPTV and Fiber-to-the-Home ("FtH") activations. Revenue Generating Units per customer increased steadily as the PSTN / ISDN line loss is being offset by IPTV additions. Net line loss improved to 35k (Q2: 45k), mainly due to successful PSTN / ISDN retention campaigns and increased FtH activations. The number of FtH homes activated increased to 77k (Q2: 61k) in Q3. Full year line loss is expected to be similar to the line loss in 2010.

KPN saw positive results in KPN FtH areas as the sales run-rate increased to 2k per week at the end of Q3. In addition, KPN FtH areas saw promising broadband and TV market share developments in comparison with the KPN national average.

Q3 showed a strong commercial momentum for IPTV. TV on iPad and laptop was introduced and the launch of multi-room IPTV was expanded further. Under the Telfort brand the IPTV product was launched as well, which supported an increase in net adds to 73k in Q3. The run-rate of IPTV additions had increased to ~6.5k per week at the end of Q3. This good progress in TV is also reflected in a further increasing market share, reaching 17% compared to 14% in Q3 2010. The TV ARPU increased by 22% y-on-y to EUR 11 in Q3.

The wireline innovation roadmap is on track, a 500 Mbps up- and download speed FtH product and a new IPTV user interface will be launched in Q4 '11.

### **Satisfactory performance at Business**

Underlying revenues and other income for the Business Segment decreased slightly (0.7% y-on-y in Q3) driven by pressure on traditional services in wireline and competition in wireless, nearly offset by the growth in wireless data revenues. The underlying EBITDA increased by 6.2% compared to Q3 2010, resulting in an increased underlying EBITDA margin of 36.3% compared to 33.9% last year. The improved EBITDA margin was mainly driven by a continued focus on costs.

Wireless service revenues showed an increase of 5.3% y-on-y, which was attributable to an increase in smartphones, growing data usage and the positive effect of the acquisition of Yes Telecom. The voice customer base, average minutes and SMS per user were stable y-on-y.

In Q4, Business wireless will introduce future proof integrated data / voice / SMS propositions.

Business DSL and managed data services continued to show a solid performance. The migration from traditional to IP based services continued steadily. The decline in access lines was compensated by the acquisition of Atlantic Telecom and new pricing schemes on traditional services. KPN continued to focus on customer retention to further strengthen its position in the business market.

### **Continued cost reductions and declining revenues at Wholesale & Operations**

Underlying revenues and other income decreased by 4.5% y-on-y, caused by the ongoing decline of traditional services. The underlying EBITDA margin increased to 63% driven by efficiency improvements (e.g. FTE reductions) and improved supplier conditions.

The FttH roll-out, through the Reggefiber joint-venture, continued on track. The number of homes passed in Q3 2011 increased by 76k to 844k. Homes activated at Reggefiber increased by 25k and reached 240k.

### **Difficult conditions for Corporate Market (Getronics), restructuring plan on track**

As of 1 October 2011, the Getronics Segment has been renamed Corporate Market, and in The Netherlands Getronics will operate under the KPN brand. This will enable Corporate Market (Getronics) to leverage its capabilities to act with a single point of contact in the markets for both ICT services and Telecom services, and to optimize the synergies between both portfolios.

Underlying revenues and other income at Corporate Market (Getronics) decreased by 4.3% y-on-y. As a result of the lower revenues and increasing pressure on gross margins the underlying EBITDA declined 17%, leading to an underlying EBITDA margin of 5.6% in Q3 2011. Corporate Market (Getronics) expects to have maintained its market share in a difficult market. In line with the phasing in previous years, Q4 revenues and EBITDA are expected to increase.

Most notably, clients in the governmental sector are postponing new investments and there is a low demand for business communication and connectivity solutions. To maintain its leading position in the ICT-market and to counter the effects of price pressure and adverse market conditions, Corporate Market (Getronics) is progressing well with its accelerated restructuring plans. The restructuring plan includes off-shoring, outsourcing and efficiency initiatives to further reduce the cost base. The combined programs will result in a staff reduction of around 2,000-2,500 FTE. The YTD restructuring costs in the Corporate Market (Getronics) of EUR 90m are related to a planned staff reduction of ~1,350 FTE of which ~900 FTE relates to efficiency improvements and ~450 FTE relates to off-shoring. The restructuring plan will allow Corporate Market (Getronics) to align its cost base with the lower revenue level.

### **Increased revenues at iBasis in a competitive environment**

Revenues at iBasis increased by 3.2% y-on-y, despite a negative currency effect of 5.8%. In Q3 the EBITDA margin decreased to 2.7% as a result of a competitive environment. iBasis continued to improve its market share and retained its top 5 position in the international voice traffic market, despite challenging market conditions.

## Mobile International

Revenues and other income (In millions of euro)	Q3 2011	Q3 2010	Δ y-on-y reported	Δ y-on-y underlying	YTD 2011	YTD 2010	Δ y-on-y reported	Δ y-on-y underlying
- Germany	838	850	-1.4%	6.8%	2,413	2,421	-0.3%	7.8%
- Belgium	198	192	3.1%	10%	578	595	-2.9%	8.9%
- Rest of World (incl. eliminations)	51	45	13%	29%	141	108	31%	50%
<b>Mobile International</b>	<b>1,087</b>	<b>1,087</b>	<b>n.m.</b>	<b>8.3%</b>	<b>3,132</b>	<b>3,124</b>	<b>0.3%</b>	<b>9.6%</b>

EBITDA (In millions of euro)	Q3 2011	Q3 2010	Δ y-on-y reported	Δ y-on-y underlying	YTD 2011	YTD 2010	Δ y-on-y reported	Δ y-on-y underlying
- Germany	354	386	-8.3%	3.2%	990	1,052	-5.9%	4.0%
- Belgium	73	68	7.4%	9.5%	194	216	-10%	11%
- Rest of World	3	-2	n.m.	n.m.	-4	-10	-60%	n.m.
<b>Mobile International</b>	<b>430</b>	<b>452</b>	<b>-4.9%</b>	<b>5.9%</b>	<b>1,180</b>	<b>1,258</b>	<b>-6.2%</b>	<b>6.1%</b>
<i>EBITDA margin</i>	<i>39.6%</i>	<i>41.6%</i>			<i>37.7%</i>	<i>40.3%</i>		

### Underlying revenue growth and good profitability at Mobile International

Reported revenues remained stable despite a severe regulatory impact of EUR 77m. Compared to Q3 2010, underlying revenues and other income increased by 8.3%. Reported EBITDA decreased by 4.9% or EUR 22m, including regulatory impact of EUR 39m in Q3 2011 and net negative incidentals of EUR 7m. Excluding these impacts, underlying Q3 EBITDA increased by 5.9% y-on-y.

### Continued high underlying service revenue growth of 8.1% in Germany, at strong margin

Underlying revenues and other income in Germany increased by 6.8% y-on-y. Underlying service revenues grew 8.1% compared to Q3 2010, driven by the successful 'Mein BASE' brand and partners. With postpaid net adds in Q3 of 92k and 518k prepaid net adds, total net adds amounted to 610k in Q3. Despite the higher regulatory impact at E-Plus compared to its competitors, E-Plus' market share in service revenues is expected to be stable y-on-y at 15.9%. The underlying EBITDA margin was strong at 42.2% due to targeted marketing activities and cost efficiencies.

In Q3, E Plus made good progress with the accelerated roll-out of its high speed mobile data network. Furthermore, E-Plus continued its marketing efforts, thereby improving awareness of the 'Mein BASE' brand and new propositions, which were particularly successful in the captive channels.

### Strong underlying service revenue growth of 11% in Belgium

Underlying revenues and other income in Belgium increased y-on-y by 10%. The increase in underlying service revenues by 11% y-on-y resulted from a strong regional focus with an increasing number of shops, good performance of the simplified BASE proposition and a good take-up of flat fee data bundles. In Q3 2011, BASE is expected to have outperformed the market again reaching a market share of approximately 19%. The underlying EBITDA margin of 34.8% has been realized due to improved cost consciousness.

KPN Group Belgium continued the high speed commercial data roll-out leading to data growth via own and partner brands. High speed data has been launched in 6 large cities, in 15 medium sized cities and in 23 smaller cities. In Q3, postpaid net adds amounted to 11k and the prepaid base showed net adds of 152k.

### Continued growth with improving profitability in Rest of World

External revenues increased by approximately 13% y-on-y, combined with an underlying EBITDA of EUR 5m. EBITDA is positive and increasing due to the value focus at KPN Spain and KPN France which has more than offset the investments in growth from Ortel Mobile in new markets. On 5 October 2011, Ortel Switzerland was launched, targeting the cultural segments through leveraging its distinctive marketing and sales approach.

## Outlook

The Q3 results reflected a number of continued adverse trends in The Netherlands, mainly visible at Consumer wireless and Corporate Market (Getronics). On the other hand, in Q3 KPN continued to focus on the initiatives to fulfill the strategic objectives set at the Investor Day in May 2011. Within Consumer wireless, the change in consumer behavior and competition in the 'value for money' segment put further pressure on service revenues. Consumer wireline showed good progress on improving the quality of the TV product with the launch of multi-screen IPTV. Corporate Market (Getronics) accelerated its restructuring plan to align the cost base with a lower revenue level. Mobile data is proving a continued success at Mobile International, contributing to high underlying service revenues growth with strong margins. In summary, although KPN's Q3 financial results were down as the market environment remained challenging in some areas, at the same time, good progress is being made on the strategic objectives.

KPN will continue to focus on EBITDA, cash flow generation and achieving its strategic market share objectives. A solid EBITDA performance is expected in Q4 2011, excluding restructuring costs, supported by profitable growth in Germany and Belgium, lower MTA impact in Germany and Belgium and seasonality at Corporate Market (Getronics) leading to higher EBITDA. KPN confirms the 2011 outlook.

KPN remains committed to prudent financing and sustainable shareholder remuneration. The interim dividend for 2011 of EUR 0.28 has been paid in August and KPN confirms the dividend per share objective for 2011 of at least EUR 0.85.

Guidance metrics	Outlook 2011
EBITDA	> EUR 5.3bn <sup>3</sup>
Capex	< EUR 2bn
Free cash flow <sup>4</sup>	Growth <sup>5</sup>
Dividend per share	At least EUR 0.85

For 2012, KPN expects to achieve around EUR 2.4bn in free cash flow. Over the years 2012 and 2013, KPN targets a growing dividend per share of EUR 0.90 and EUR 0.95 respectively.

<sup>3</sup> Excluding 2011 restructuring costs

<sup>4</sup> Free cash flow defined as cash flow from operating activities, plus proceeds from real estate, minus Capex and excluding tax recapture E-Plus

<sup>5</sup> "Growth" defined as growth compared to 2010 free cash flow, set on 26 January 2010 (free cash flow in 2010 was EUR 2,428m)



## Analysis of underlying results

Consolidated figures	Q3 2011	Result of		Q3 2011	Q3 2010	Result of			Q3 2010	Δ y-on-y	Δ y-on-y
	reported	M&A	Incidentals <sup>6</sup>	under-lying	reported	Regulation	M&A	Incidentals <sup>6</sup>	under-lying	reported	under-lying
Germany	838	-	-	838	850	65-	-	-	785	-1.4%	6.8%
Belgium	198	-	-	198	192	12-	-	-	180	3.1%	10%
Rest Of World	51	7-	-	58	45	-	-	-	45	13%	29%
<b>Mobile International</b>	<b>1,087</b>	<b>7-</b>	<b>-</b>	<b>1,094</b>	<b>1,087</b>	<b>77-</b>	<b>-</b>	<b>-</b>	<b>1,010</b>	<b>0.0%</b>	<b>8.3%</b>
Consumer	927	-	-	927	991	19-	-	-	972	-6.5%	-4.6%
Business	586	18	3-	571	577	13-	-	11-	575	1.6%	-0.7%
Wholesale & Operations (national)	641	1	5	635	711	9-	-	37	665	-9.8%	-4.5%
Other (incl. ITNL, SSCO & eliminations)	503-	-	-	503-	532-	2	3	-	533-	-5.5%	-5.6%
<b>Dutch Telco Business</b>	<b>1,651</b>	<b>19</b>	<b>2</b>	<b>1,630</b>	<b>1,747</b>	<b>39-</b>	<b>3</b>	<b>26</b>	<b>1,679</b>	<b>-5.5%</b>	<b>-2.9%</b>
iBasis Group	256	-	-	256	248	-	-	-	248	3.2%	3.2%
Corporate Market (Getronics)	447	-	-	447	476	-	6	3	467	-6.1%	-4.3%
Other gains/losses, eliminations of which Cheops & Orion	142-	-	-	142-	138-	-	-	-	138-	-2.9%	-2.9%
<b>The Netherlands</b>	<b>2,212</b>	<b>19</b>	<b>2</b>	<b>2,191</b>	<b>2,333</b>	<b>39-</b>	<b>9</b>	<b>29</b>	<b>2,256</b>	<b>-5.2%</b>	<b>-2.9%</b>
Intercompany revenues	51-	-	-	51-	58-	-	-	-	58-	12%	12%
Other activities	15	-	-	15	16	-	-	-	16	-6.3%	-6.3%
<b>Revenues and Other income</b>	<b>3,263</b>	<b>12</b>	<b>2</b>	<b>3,249</b>	<b>3,378</b>	<b>116-</b>	<b>9</b>	<b>29</b>	<b>3,224</b>	<b>-3.4%</b>	<b>0.8%</b>

Consolidated figures	Q3 2011	Result of		Q3 2011	Q3 2010	Result of			Q3 2010	Δ y-on-y	Δ y-on-y
	reported	M&A	Incidentals <sup>6</sup>	under-lying	reported	Regulation	M&A	Incidentals <sup>6</sup>	under-lying	reported	under-lying
Germany	354	-	-	354	386	34-	-	9	343	-8.3%	3.2%
Belgium	73	-	4	69	68	5-	-	-	63	7.4%	9.5%
Rest Of World	3	1-	1-	5	2-	-	-	-	2-	n.m.	n.m.
<b>Mobile International</b>	<b>430</b>	<b>1-</b>	<b>3</b>	<b>428</b>	<b>452</b>	<b>39-</b>	<b>-</b>	<b>9</b>	<b>404</b>	<b>-4.9%</b>	<b>5.9%</b>
Consumer	256	-	2-	258	278	5-	-	-	273	-7.9%	-5.5%
Business	207	3	3-	207	189	5-	-	11-	195	9.5%	6.2%
Wholesale & Operations (national)	404	-	4	400	448	-	-	37	411	-9.8%	-2.7%
Other (incl. ITNL, SSCO & eliminations)	13	-	1-	14	11	-	-	-	11	18%	27%
<b>Dutch Telco Business</b>	<b>880</b>	<b>3</b>	<b>2-</b>	<b>879</b>	<b>926</b>	<b>10-</b>	<b>-</b>	<b>26</b>	<b>890</b>	<b>-5.0%</b>	<b>-1.2%</b>
iBasis Group	7	-	-	7	8	-	-	-	8	-13%	-13%
Corporate Market (Getronics)	53-	-	78-	25	34	-	1	3	30	n.m.	-17%
Other gains/losses, eliminations of which Cheops & Orion	-	-	-	-	3-	-	-	-	3-	-100%	-100%
<b>The Netherlands</b>	<b>834</b>	<b>3</b>	<b>80-</b>	<b>911</b>	<b>965</b>	<b>10-</b>	<b>1</b>	<b>29</b>	<b>925</b>	<b>-14%</b>	<b>-1.5%</b>
Other activities	19-	-	1-	18-	9-	-	-	-	9-	>100%	100%
<b>EBITDA</b>	<b>1,245</b>	<b>2</b>	<b>78-</b>	<b>1,321</b>	<b>1,408</b>	<b>49-</b>	<b>1</b>	<b>38</b>	<b>1,320</b>	<b>-12%</b>	<b>0.1%</b>

<sup>6</sup> Including restructuring costs

## **Condensed Consolidated Interim Financial Statements for the nine months ended 30 September 2011 and 2010**

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## Unaudited Consolidated Statement of Income

<i>(In millions of euro, unless indicated otherwise)</i>	For the three months ended 30 September		For the nine months ended 30 September	
	2011	2010	2011	2010
Revenues	3,256	3,335	9,727	9,954
Other income	7	43	61	55
<b>Revenues and other income [1]</b>	<b>3,263</b>	<b>3,378</b>	<b>9,788</b>	<b>10,009</b>
Own work capitalized	-26	-24	-85	-73
Cost of materials	230	226	720	630
Work contracted out and other expenses	1,134	1,160	3,376	3,420
Employee benefits	446	471	1,394	1,470
Depreciation, amortization and impairments	588	561	1,709	1,638
Other operating expenses	234	137	561	445
<b>Total operating expenses</b>	<b>2,606</b>	<b>2,531</b>	<b>7,675</b>	<b>7,530</b>
<b>Operating profit [2]</b>	<b>657</b>	<b>847</b>	<b>2,113</b>	<b>2,479</b>
Finance income	5	6	23	16
Finance costs	-172	-296	-515	-685
Other financial results	-32	-20	-42	-27
<b>Finance income and expenses [3]</b>	<b>-199</b>	<b>-310</b>	<b>-534</b>	<b>-696</b>
Share of the profit of associates and joint ventures, net of tax	-6	-17	-17	-38
<b>Profit before income tax</b>	<b>452</b>	<b>520</b>	<b>1,562</b>	<b>1,745</b>
Income taxes [4]	-84	-114	-189	-425
<b>Profit for the period</b>	<b>368</b>	<b>406</b>	<b>1,373</b>	<b>1,320</b>
Profit (loss) attributable to non-controlling interest	-	-	-	2
Profit attributable to equity holders	368	406	1,373	1,318
<b>Earnings per ordinary share on a non-diluted basis (in EUR)</b>	<b>0.26</b>	<b>0.27</b>	<b>0.93</b>	<b>0.84</b>
<b>Earnings per ordinary share on a fully diluted basis (in EUR)</b>	<b>0.26</b>	<b>0.27</b>	<b>0.93</b>	<b>0.84</b>
Weighted average number of shares on a non-diluted basis			1,474,868,833	1,573,010,411
Weighted average number of shares on a fully diluted basis			1,476,307,630	1,576,788,062

## Unaudited Consolidated Statement of Comprehensive Income

<i>(In millions of euro)</i>	For the three months ended 30 September		For the nine months ended 30 September	
	2011	2010	2011	2010
<b>Profit for the period</b>	<b>368</b>	<b>406</b>	<b>1,373</b>	<b>1,320</b>
<b>Other comprehensive income:</b>				
Cash flow hedges:				
Gains or (losses) arising during the period	-12	-31	8	-33
Tax	3	8	-2	9
	-9	-23	6	-24
Currency translation adjustments:				
Gains or (losses) arising during the period	-8	-3	-14	5
Tax	-	-	-	-
	-8	-3	-14	5
Fair value adjustment available for sale financial assets:				
Unrealized gains or (losses) arising during the period	-3	-1	-7	-6
Impairment charge through P&L	2	-	13	-
	-1	-1	6	-6
<b>Other comprehensive income for the period, net of taxes</b>	<b>-18</b>	<b>-27</b>	<b>-2</b>	<b>-25</b>
<b>Total comprehensive income for the year, net of tax</b>	<b>350</b>	<b>379</b>	<b>1,371</b>	<b>1,295</b>
Total comprehensive income attributable to:				
Owners of the parent	350	379	1,371	1,293
Non-controlling interest	-	-	-	2

## Consolidated Statement of Financial Position

ASSETS <i>(In millions of euro)</i>	As at	
	30 September 2011 (unaudited)	31 December 2010
<b>NON-CURRENT ASSETS</b>		
Goodwill	5,736	5,733
Licenses	2,568	2,818
Software	788	819
Other intangibles	336	385
<b>Total intangible assets</b>	<b>9,428</b>	<b>9,755</b>
Land and buildings	760	875
Plant and equipment	5,559	5,619
Other tangible non current assets	115	130
Assets under construction	1,117	890
<b>Total property, plant and equipment</b>	<b>7,551</b>	<b>7,514</b>
Investments in associates and joint ventures	271	284
Loans to associates [5]	142	33
Available-for-sale financial assets	45	53
Derivative financial instruments	137	17
Deferred income tax assets	1,861	1,918
Other financial non-current assets	256	236
<b>Total non-current assets</b>	<b>19,691</b>	<b>19,810</b>
<b>CURRENT ASSETS</b>		
Inventories	144	153
Trade and other receivables	1,850	1,867
Current income tax receivables	56	27
Available-for-sale financial assets		
Cash	645	823
<b>Total current assets</b>	<b>2,695</b>	<b>2,870</b>
<b>Non-current assets and disposal groups held for sale [6]</b>	<b>6</b>	<b>57</b>
<b>TOTAL ASSETS</b>	<b>22,392</b>	<b>22,737</b>

LIABILITIES (In millions of euro)	As at	
	30 September 2011 (unaudited)	31 December 2010
<b>GROUP EQUITY</b>		
Share capital	354	377
Share premium	7,198	8,184
Other reserves	-695	-709
Retained earnings	-4,181	-4,352
<b>Equity attributable to owners of the parent</b>	<b>2,676</b>	<b>3,500</b>
Non controlling interest	-	-
<b>Total group equity</b>	<b>2,676</b>	<b>3,500</b>
<b>NON-CURRENT LIABILITIES</b>		
Borrowings [7]	11,981	11,359
Derivative financial instruments	268	250
Deferred income tax liabilities	943	956
Provisions for retirement benefit obligations [8]	463	608
Provisions for other liabilities and charges	409	404
Other payables and deferred income	143	225
<b>Total non-current liabilities</b>	<b>14,207</b>	<b>13,802</b>
<b>CURRENT LIABILITIES</b>		
Trade and other payables	3,632	3,982
Borrowings [7]	1,559	1,178
Derivative financial instruments (current liabilities)	-	1
Current income tax liabilities	183	152
Provisions (current portion)	135	106
<b>Total current liabilities</b>	<b>5,509</b>	<b>5,419</b>
<b>Liabilities directly associated with non-current assets and disposal groups classified as held for sale [6]</b>	<b>-</b>	<b>16</b>
<b>TOTAL EQUITY AND LIABILITIES</b>	<b>22,392</b>	<b>22,737</b>

## Unaudited Consolidated Statement of Cash Flows

<i>(In millions of euro)</i>	<b>For the nine months 30 September</b>	
	<b>2011</b>	<b>2010</b>
<b>Profit before income tax</b>	<b>1,562</b>	<b>1,745</b>
Adjustments for:		
- Net finance costs	534	696
- Share-based compensation	-9	-12
- Share of the profit of associates and joint ventures	17	38
- Depreciation, Amortization and Impairments	1,709	1,638
- Other income	-57	-47
- Changes in provisions (excluding deferred taxes)	-179	-259
Changes in working capital relating to:		
- Inventories	9	-12
- Trade receivables	38	-44
- Prepayments and accrued income	-66	-81
- Other current assets	39	-16
- Trade payables	-56	38
- Accruals and deferred income	-161	-117
- Current liabilities (excluding short-term financing)	-49	-38
<b>Change in working capital</b>	<b>-246</b>	<b>-270</b>
Dividends received	1	1
Taxes paid / received	-149	-564
Interest paid	-570	-604
<b>Net cash flow generated from operations</b>	<b>2,613</b>	<b>2,362</b>
Acquisition of subsidiaries, associates and joint ventures (net of acquired cash)	-26	-83
Disposal of subsidiaries, associates and joint ventures	5	65
Investments in intangible assets (excluding software)	-26	-323
Investments in property, plant & equipment	-1,112	-895
Investments in software	-283	-251
Disposal of intangibles (excluding software)	9	-
Disposal in property, plant & equipment	2	16
Disposal in software	-	1
Disposals of real estate	75	73
Other changes and disposals	-90	-88
<b>Net cash flow used in investing activities</b>	<b>-1,446</b>	<b>-1,485</b>
Share repurchase	-1,000	-648
Share repurchases for option plans	-	-
Dividends paid	-1,200	-1,152
Exercised options	5	13
Proceeds from borrowings	1,696	991
Repayments from borrowings and settlement of derivatives	-1,027	-1,614
Other changes in interest-bearing current liabilities	-7	-2
<b>Net cash flow used in financing activities</b>	<b>-1,533</b>	<b>-2,412</b>
<b>Changes in cash</b>	<b>-366</b>	<b>-1,535</b>
<b>Net Cash at beginning of period</b>	<b>682</b>	<b>2,652</b>
Exchange rate difference	-1	2
Changes in cash	-366	-1,535
<b>Net Cash at end of period</b>	<b>315</b>	<b>1,119</b>
Bank overdrafts	330	216
Cash classified as held for sale	-	-
<b>Cash at end of period</b>	<b>645</b>	<b>1,335</b>

## Unaudited Consolidated Statement of Changes in Group Equity

<i>(Amounts in millions of euro, except number of shares)</i>	Number of subscribed shares	Share capital	Share premium	Other reserves	Retained earnings	Equity attributable to owners of the parent	Non controlling interests	Total Group equity
<b>Balance as of 1 January 2010</b>	<b>1,628,855,322</b>	<b>391</b>	<b>8,799</b>	<b>-370</b>	<b>-4,982</b>	<b>3,838</b>	<b>3</b>	<b>3,841</b>
Share based compensation	-	-	-	-	3	3	-	3
Exercise of options	-	-	-	12	-	12	-	12
Shares repurchased	-	-	-	-659	-	-659	-	-659
Dividends paid	-	-	-	-	-1,152	-1,152	-	-1,152
Shares cancelled	-56,245,438	-14	-615	629	-	-	-	-
Purchased from non controlling interests	-	-	-	-	-14	-14	-5	-19
Total comprehensive income for the period	-	-	-	-25	1,318	1,293	2	1,295
<b>Balance as of 30 September 2010</b>	<b>1,572,609,884</b>	<b>377</b>	<b>8,184</b>	<b>-413</b>	<b>-4,827</b>	<b>3,321</b>	<b>-</b>	<b>3,321</b>
<b>Balance as of 1 January 2011</b>	<b>1,572,609,884</b>	<b>377</b>	<b>8,184</b>	<b>-709</b>	<b>-4,352</b>	<b>3,500</b>	<b>-</b>	<b>3,500</b>
Share based compensation	-	-	-	-	-	-	-	-
Exercise of options	-	-	-	7	-	7	-	7
Shares repurchased	-	-	-	-1,000	-	-1,000	-	-1,000
Dividends paid	-	-	-	-	-1,202	-1,202	-	-1,202
Shares cancelled	-95,083,600	-23	-986	1,009	-	-	-	-
Total comprehensive income for the period	-	-	-	-2	1,373	1,371	-	1,371
<b>Balance as of 30 September 2011</b>	<b>1,477,526,284</b>	<b>354</b>	<b>7,198</b>	<b>-695</b>	<b>-4,181</b>	<b>2,676</b>	<b>-</b>	<b>2,676</b>



## 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, internet and TV to consumers and end-to-end telecom and ICT services to business customers. KPN Corporate Market (Getronics) operates a global ICT services company with a market leading position in the Benelux offering end-to-end solutions in infrastructure and network-related IT. In Germany and Belgium, KPN pursues a Challenger strategy in its wireless operations and holds number three market positions through E-Plus and KPN Group Belgium. In Spain and France, KPN offers wireless services as an MVNO through its own brands and through partner brands. KPN provides wholesale network services to third parties and operates an efficient IP-based infrastructure with global scale in international wholesale through iBasis.

### Accounting policies

#### *Basis of presentation*

These Condensed Consolidated Financial Statements have been prepared in accordance with IAS 34, Interim Financial Reporting. As permitted by IAS 34, the condensed consolidated 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 principles are in line with those as described in KPN's 2010 Annual Report. These condensed consolidated financial statements have not been audited or reviewed and are based on IFRS as adopted by the European Union.

#### *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 revenue 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 2010 Annual Report, including the determination of deferred tax assets for carry forward losses, the provision for tax contingencies, the determination of fair value 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 provision for retirement benefit obligations and periodic pension costs (such as expected salary increases, 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' to the Consolidated Financial Statements contained in the 2010 Annual Report which discusses KPN's exposure to credit risk and financial market risks.

Actual results in the future may differ from those estimates. Estimates and judgments are being continually evaluated and based on historic experience and other factors, including expectations of future events believed to be reasonable under the circumstances.

## [1] Revenues and other income

The Segments presented below are based on KPN's internal structure and internal reporting to the CEO. For a description of the activities of these segments, reference is made to the 2010 Annual Report. For operating profit reference is made to note [2] and for other segment information reference is made to note [10] in these Condensed Consolidated Interim Financial Statements.

Revenues and Other income	For the nine months ended 30 September 2011				For the nine months ended 30 September 2010			
	External revenues	Other income	Inter segment revenues	Total revenues and Other income	External revenues	Other income	Inter segment revenues	Total revenues and Other income
Germany	2,344	4	65	2,413	2,353	4	64	2,421
Belgium	533	1	44	578	551	1	43	595
Rest of World	226	-1	4	229	183	-1	6	188
Eliminations	-	-	-88	-88	-	-	-80	-80
<b>Mobile International</b>	<b>3,103</b>	<b>4</b>	<b>25</b>	<b>3,132</b>	<b>3,087</b>	<b>4</b>	<b>33</b>	<b>3,124</b>
Consumer	2,719	-	102	2,821	2,825	1	124	2,950
Business	1,630	-	156	1,786	1,651	-	164	1,815
Wholesale & Operations (national)	434	51	1,491	1,976	478	39	1,602	2,119
Other (incl. ITNL & eliminations)	-	-	-1,523	-1,523	-	-	-1,620	-1,620
<b>Dutch Telco business</b>	<b>4,783</b>	<b>51</b>	<b>226</b>	<b>5,060</b>	<b>4,954</b>	<b>40</b>	<b>270</b>	<b>5,264</b>
iBasis Group	558	-	170	728	540	-	138	678
Corporate Market (Getronics)	1,235	5	141	1,381	1,307	4	117	1,428
Other gains/losses, eliminations	-	-	-413	-413	-	6	-412	-406
<b>The Netherlands</b>	<b>6,576</b>	<b>56</b>	<b>124</b>	<b>6,756</b>	<b>6,801</b>	<b>50</b>	<b>113</b>	<b>6,964</b>
Other activities	48	1	-	49	66	1	-1	66
Eliminations	-	-	-149	-149	-	-	-145	-145
<b>KPN Total</b>	<b>9,727</b>	<b>61</b>	<b>-</b>	<b>9,788</b>	<b>9,954</b>	<b>55</b>	<b>-</b>	<b>10,009</b>

KPN Group revenues and other income for the first 9 months were down 2.2% y-on-y, including an impact of EUR 385m (3.8%) from regulatory tariff cuts for MTA and roaming. The lower revenue performance at the Group was a combination of declining revenues and other income in the Dutch Telco business (EUR 204m) and Corporate Market (Getronics) (EUR 47m), and higher revenues at Mobile International (EUR 8m) and iBasis (EUR 50m).

Other income in Wholesale & Operations is related to book gains on the sale of mobile towers and real estate. Other income at Corporate Market (Getronics) relates to the book gain from the sale of PharmaPartners in Q1 2011. For more detailed information on revenues, reference is made to the Management Report.

## [2] Operating profit

	For the nine months ended 30 September 2011			For the nine months ended 30 September 2010		
	Operating profit	Depreciation, Amortization & Impairments (DA&I)	EBITDA	Operating profit	Depreciation, Amortization & Impairments (DA&I)	EBITDA
<b>Operating profit, DA&amp;I and EBITDA</b>						
Germany	505	485	990	566	486	1,052
Belgium	90	104	194	126	90	216
Rest of World	-21	17	-4	-15	5	-10
<b>Mobile International</b>	<b>574</b>	<b>606</b>	<b>1,180</b>	<b>677</b>	<b>581</b>	<b>1,258</b>
Consumer	601	200	801	653	175	828
Business	520	84	604	540	69	609
Wholesale & Operations (national)	586	653	1,239	655	644	1,299
Other (incl. ITNL)	-6	33	27	-4	30	26
<b>Dutch Telco business</b>	<b>1,701</b>	<b>970</b>	<b>2,671</b>	<b>1,844</b>	<b>918</b>	<b>2,762</b>
iBasis Group	9	15	24	5	20	25
Corporate Market (Getronics)	-123	115	-8	-8	111	103
Other gains/losses	1	-1		-2	1	-1
<b>The Netherlands</b>	<b>1,588</b>	<b>1,099</b>	<b>2,687</b>	<b>1,839</b>	<b>1,050</b>	<b>2,889</b>
Other activities	-49	4	-45	-37	7	-30
<b>KPN Total</b>	<b>2,113</b>	<b>1,709</b>	<b>3,822</b>	<b>2,479</b>	<b>1,638</b>	<b>4,117</b>

KPN Group EBITDA for the first 9 months decreased by 7.2% y-on-y to EUR 3,822m, including the impact of regulatory cuts (EUR 161m or -3.9%) and EUR 108m of restructuring costs, mainly related to the Corporate Market (Getronics) Segment. The YTD restructuring costs for Corporate Market (Getronics) were EUR 90m and EUR 78m in Q3 '11. Operating profit decreased by EUR 366m (15%) y-on-y. This is mainly the result of lower EBITDA and higher amortization of spectrum licenses and software compared to last year (EUR 53m) and a one-off additional depreciation charge regarding mobile towers.

## [3] Finance income and expenses

Net finance costs at the end of Q3 2011 decreased by EUR 162m y-on-y to EUR 534m, mainly due to the tender and new issue transaction in September 2010 (EUR 97m). Net finance costs also decreased as a result of a lower bond position following scheduled redemptions, partly offset by negative results in 2011 on the ineffective portion of the USD fair value hedges and impairment charges.

## [4] Income taxes

In Q2 '11, KPN has reached an agreement in principle with the Dutch tax authorities with regard to the application of the so called 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%. The agreement has retroactive effect to 1 January 2007.

The application of the innovation tax facilities resulted in a one-off benefit of EUR 118m mainly reflecting the period 2007 to 2010, based on management's best estimates.

KPN's effective tax rate in The Netherlands will be reduced from the statutory tax rate of 25% to approximately 18% in the years 2011 to 2013 as a result of the application of the innovation tax facilities. The effective tax rate (adjusted for the innovation tax facilities 2007-2010) for the Group will be reduced to approximately 20% from 2011 onwards.

#### **[5] Loans to associates**

Loans to associates concern the shareholder loans provided to Reggefiber.

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

In Q1 2011, KPN sold a number of mobile towers and a division (PharmaPartners) of Corporate Market (Getronics) which were presented as held for sale as at 31 December 2010.

#### **[7] Borrowings**

In July 2011, KPN signed a new EUR 2.0bn Revolving Credit Facility with a tenor of five years with two one-year extension options. The facility replaces the previous EUR 1.5bn revolving credit facility, thereby extending the maturity profile from August 2013 to July 2016 while obtaining competitive conditions.

The size of the credit facility has been increased to EUR 2.0bn in line with the Treasury optimization initiatives announced during KPN's Investor Day in May 2011. The facility will be used for general corporate purposes and working capital.

On 8 September 2011, KPN issued a Eurobond for an amount of EUR 500m, with a 10 year maturity and a fixed coupon of 4.50%. The bond has been placed with a broad range of institutional investors across Europe. The bond has been issued under KPN's Global Medium Term Note program and is listed on Euronext Amsterdam.

In September 2011, KPN optimized its interest rate profile by swapping the coupons on its Eurobonds maturing on 21 September 2020 and 30 September 2024. This initiative was announced at KPN's Investor Day in May 2011 and benefits from the current steepness of the interest rate curve. The bonds have been swapped to a floating rate, but with a fixed rate for the first two years. This is expected to lower interest costs, while visibility on interest paid for the next two years is fully maintained. The bond maturity profile remains unchanged, with an average maturity of 7.4 years.

At the end of Q3 2011, KPN's bond portfolio carried an average interest rate of 5.0%.

#### **[8] Provisions for retirement benefit obligations**

In Q3 2011, KPN's pension funds in The Netherlands were negatively impacted by declining interest rates and deterioration of financial markets, resulting in an average coverage ratio for all KPN's pension funds of 96%. In Q1 2012 an additional cash payment of EUR 21m is required.

#### **[9] Share repurchases**

On 26 January 2011, KPN announced its EUR 1bn share repurchase program for 2011. The program started on 21 February 2011 and was completed on 23 September 2011. Under the program, KPN repurchased 96.7 million shares at an average price of EUR 10.34, for a total amount of EUR 1.0bn.

#### **Cancellation of shares**

On 10 March 2011, KPN concluded the cancellation of 44,358,475 shares that were repurchased as part of the share repurchase program of 2010. On 18 August 2011, KPN concluded the cancellation of 50,725,125 shares that were repurchased as part of the share repurchase program of 2011. Following the cancellations in March and August 2011, KPN has 1,477,526,284 ordinary shares outstanding.

## [10] Other Segment information

Assets, liabilities and Capex	As at 30 September 2011		As at 31 December 2010		For the nine months ended 30 September	
	Total assets	Total liabilities	Total assets	Total liabilities	2011 Capex	2010 Capex
Germany	10,222	26,774	10,462	27,419	371	299
Belgium	1,836	307	1,969	348	79	54
Rest of World (incl. eliminations)	157	150	162	135	6	5
<b>Mobile International</b>	<b>12,215</b>	<b>27,231</b>	<b>12,593</b>	<b>27,902</b>	<b>456</b>	<b>358</b>
Consumer	2,845	2,074	3,152	2,955	222	228
Business	1,837	1,328	2,710	2,718	79	56
Wholesale & Operations (national)	7,040	6,477	9,178	9,178	511	405
Other (incl. ITNL & eliminations)	-345	-338	-348	-345	30	21
<b>Dutch Telco business</b>	<b>11,377</b>	<b>9,541</b>	<b>14,692</b>	<b>14,506</b>	<b>842</b>	<b>710</b>
iBasis Group	605	518	534	447	5	8
Corporate Market (Getronics)	2,713	1,837	2,904	1,930	88	64
Other gains/losses, eliminations	-742	-741	-657	-658	1	2
<b>The Netherlands</b>	<b>13,953</b>	<b>11,155</b>	<b>17,473</b>	<b>16,225</b>	<b>936</b>	<b>784</b>
Other activities	-3,776	-18,670	-7,329	-24,890	3	4
<b>KPN Total</b>	<b>22,392</b>	<b>19,716</b>	<b>22,737</b>	<b>19,237</b>	<b>1,395</b>	<b>1,146</b>

The EUR 249m Capex increase is related to the accelerated high speed data network roll-out at Mobile International, the continued upgrades of the mobile and fixed networks at Wholesale & Operations and the increased spend on customer equipment in Dutch Telco. The intercompany positions on the balance sheet of Segments are eliminated through Segment Other.

### [11] Dividend

In Q2 2011, KPN paid the final dividend for 2010, for a total of EUR 795m (incl. dividend tax), or EUR 0.53 per share. This resulted in a total dividend over 2010 of EUR 1,214m (incl. dividend tax), or EUR 0.80 per share.

In Q3 2011, KPN paid the interim dividend for 2011, totaling EUR 405m (incl. dividend tax), or EUR 0.28 per share, up 3.7% compared to last year.

### [12] Off-balance sheet commitments

At the end of Q3 2011 off-balance sheet commitments decreased to EUR 4.2bn (31 December 2010: EUR 4.3bn), mainly due to a decrease in purchasing commitments.

### [13] Regulatory developments

#### The Netherlands: Update on MTA regulation

On 31 August 2011, the Dutch court overruled OPTA's MTA tariff decision and determined a new tariff as from 1 September 2012. The MTA rate will be lowered to EUR 2.40 ct / min instead of EUR 1.20 ct / min.

#### The Netherlands: Mobile spectrum auction

In a letter to the parliament, the Minister of Economic Affairs, Agriculture and Innovation has confirmed an extension of the part of the sub-1-GHz spectrum reserved for new market entrants. The extension encompasses 2\*5MHz in the 900MHz band (formerly the GSM-band). 2\*10MHz in the 800MHz band had been assigned for new market entrants at an earlier stage. There will be a cap for new entrants within the reserved spectrum at 2\*10MHz. The Minister intends to auction 800MHz, 900MHz, 1800MHz and remaining 2.1GHz - 2.6GHz spectrum simultaneously. Due to the recent discussions on the draft auction document, the auction has been delayed and is now expected in the summer of 2012.

**Germany: Update on MTA regulation**

On 24 February 2011, BNetzA adopted its final MTA decisions, setting the rate for E-Plus at EUR 3.36 ct / min, slightly higher than its preliminary decision of 30 November 2010. In doing so, BNetzA did not follow the EU Commission's comments which had questioned the asymmetric MTA rates (to the benefit of Deutsche Telekom). E-Plus (and numerous other operators including all MNOs) have ongoing legal proceedings against these decisions.

**Belgium: Update on MTA regulation**

In its final decision in relation to market 7 ('MTA'), BIPT imposed an asymmetric glide path between Proximus (Belgacom), Mobistar and BASE. KPN Group Belgium launched both a suspension and an annulment procedure against the decision. The suspension request, which focused on the fact that BIPT has unduly awarded a glide path to Proximus and Mobistar, instead of forcing them immediately to the pure LRIC-based MTA of EUR 1.08 ct/min, was overruled on the basis of formal grounds. The annulment procedure is currently pending and will be pleaded in December 2011. A decision regarding the annulment procedure is expected in the course of Q1 or Q2 2012.

**Belgium: Mobile spectrum auction**

On 2 August 2011, BIPT announced that it has granted the fourth 3G license to Telenet Tecteo Bidco NV/SA, the only candidate for the 3G license. On 1 June 2011, BIPT launched an invitation to submit applications for the acquisition of 2600 MHz spectrum (4G auction). Five interested parties (including KPN Group Belgium) have submitted their application to BIPT. The auction for spectrum in the 2600 MHz spectrum (4G) will kick off on 28 November 2011.

**[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 2010 Annual Report, including major shareholders. On 8 March 2011, BlackRock Inc. notified the AFM that they held 5.01% in KPN's ordinary share capital. On 16 June 2011, Capital Research and Management Company notified the AFM that they held 5.14% in KPN's ordinary share capital. On 11 August 2011, Capital Research and Management Company notified that they increased their stake to 10.10% in KPN's ordinary share capital. To KPN's knowledge, no other shareholder owned 5% or more of KPN's outstanding shares as at 30 September 2011.

**[15] Subsequent events**

There have been no subsequent events.

**Risk management**

KPN's risk categories and risk factors which could have a material impact on its financial position and results are extensively described in KPN's 2010 Annual Report. 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 the last quarter of 2011.

With respect to regulatory risk, reference is made to note [13] regulatory developments of the Condensed Consolidated Interim Financial Statements for the nine months ended 30 September 2011.

## **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. 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. In the **net debt/EBITDA ratio**, KPN defines EBITDA as a 12 month rolling average excluding book gains, release of pension provisions and restructuring costs, when over EUR 20m.*

***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.*

***Underlying revenues and other income** and **underlying EBITDA** are derived from revenues and other income and EBITDA, respectively, and are adjusted for the impact of MTA and roaming (regulation), changes in the composition of the group (acquisitions and disposals), 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 [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" 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 Annual Report 2010.*