Interim Financial report Q2 2010, 27 July 2010

Good Q2 results 2010

Profitability again improved through focus on EBITDA, free cash flow and market shares

Highlights

- Continued focus on costs, customer value and market shares in Dutch Telco leads to solid profitability
- Service revenue growth and strong profitability at Mobile International
- Good result German spectrum auction, enabling mobile data as an additional area of growth
- Outlook confirmed, EUR 0.27 interim dividend per share for 2010

Group financials * *(In millions of euro, unless indicated otherwise)*	**Q2 2010**	**Q2 2009**	**Δ y-on-y**	**H1 2010**	**H1 2009**	**Δ YTD**
Revenues and other income	**3,354**	**3,411**	***-1.7%***	**6,631**	**6,807**	***-2.6%***
- Of which revenues	*3,348*	*3,408*	*-1.8%*	*6,619*	*6,796*	*-2.6%*
EBITDA	**1,386**	**1,322**	*4.8%*	**2,709**	**2,556**	*6.0%*
EBITDA margin	*41.3%*	*38.8%*		*40.9%*	*37.5%*	
Operating profit (EBIT)	839	742	*13%*	1,632	1,374	*19%*
Profit for the period (net result)	465	370	*26%*	914	687	*33%*
Earnings per share (in EUR)	**0.29**	**0.22**	***32%***	**0.57**	**0.41**	***39%***
Cash flow from operating activities	1,072	1,120	*-4.3%*	1,301	1,179	*10%*
Capital expenditures (PP&E and software)	-380	-386	*1.6%*	-715	-842	*15%*
Proceeds from real estate	15	5	*>100%*	22	19	*16%*
Tax recapture at E-Plus	–	–	–	327	327	–
Free cash flow	**707**	**739**	***-4.3%***	**935**	**683**	***37%***

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

"We are satisfied with KPN's performance in the second quarter, with profitability growing for the eighth consecutive quarter. The continued focus on costs, customer value and market shares of Dutch Telco have led to stable EBITDA in a competitive market. Going forward we remain mindful of the importance of balancing profitability with market shares. Getronics performed well in a continued difficult market environment, whilst iBasis is making good progress under its new management team. Mobile International performed very well with an ongoing strong performance in Belgium and a return to service revenue growth in Germany with a very strong margin. We are particularly pleased with the outcome of the German spectrum auction which allows us to pursue our growth ambitions in this market and, ultimately, enhance shareholder returns. All in all we are confident of achieving our objectives for 2010 and 2011 and have set an interim dividend per share of EUR 0.27 for 2010 leading into the full year target of EUR 0.80 dividend per share."

Ad Scheepbouwer, CEO KPN

Corporate Communication
Press Office
Tel: +31 70 4466300
E-mail: press@kpn.com

Investor Relations

Tel: +31 70 4460986
E-mail: ir@kpn.com

Group review

Revenues and other income *(In millions of euro)*	Q2 2010	Q2 2009	Δ y-on-y	H1 2010	H1 2009	Δ YTD
KPN Group	**3,354**	**3,411**	*-1.7%*	**6,631**	**6,807**	*-2.6%*
- The Netherlands [1]	2,339	2,393	*-2.3%*	4,631	4,806	*-3.6%*
- Mobile International	1,038	1,024	*1.4%*	2,037	2,005	*1.6%*

EBITDA *(In millions of euro)*	Q2 2010	Q2 2009	Δ y-on-y	H1 2010	H1 2009	Δ YTD
KPN Group	**1,386**	**1,322**	*4.8%*	**2,709**	**2,556**	*6.0%*
- The Netherlands [1]	970	937	*3.5%*	1,924	1,815	*6.0%*
- Mobile International	422	391	*7.9%*	806	759	*6.2%*

Declining revenues in the Netherlands, higher revenues at Mobile International

KPN Group revenues and other income were down 1.7% y-on-y in Q2 2010. Excluding the effect from disposals (SNT Belgium & Netherlands, the B2B and Carrier business in Belgium and parts of Getronics) the revenue decline was 1.0% y-on-y. The Dutch Telco business (EUR -79m) and Getronics (EUR -53m) showed lower revenues. In the Dutch Telco business circa EUR 41m relates to the impact from regulation (2.2%). Business Segment and Getronics continued to be impacted by the ongoing difficult economic environment. Revenues and other income at iBasis increased by 34% y-on-y (EUR 60m), following improved traction of turnaround measures under the new management team. Revenues and other income at Mobile International increased 1.4% y-on-y in Q2 2010 as a result of revenue growth in Germany and Rest of World.

Excluding divestments, total revenues and other income decreased 1.8% YTD. This leaves KPN on track to achieve its full year 2010 revenue guidance of staying in line with 2009.

Continued EBITDA growth

KPN Group EBITDA continued to grow in Q2 2010, resulting in a EUR 64m increase y-o-y. The Netherlands achieved a EUR 33m EBITDA increase (3.5%), of which EUR 31m was attributable to Getronics, benefiting from the absence of reorganization costs that it incurred in 2009 (Q2 2009: EUR 26m). Whilst revenues in this quarter continued to decline, the Dutch Telco business was able to maintain EBITDA flat y-on-y due to its continued focus on cost savings and managing for value. The EBITDA included some incidentals for a total of EUR 10m relating to release of provisions. At Mobile International EBITDA was up 7.9% y-on-y in Q2 2010, or EUR 31m, driven by growth in Germany and an improved EBITDA in Rest of World. This EUR 31m EBITDA increase includes a EUR 11m release of provision in Belgium.

With a YTD EBITDA increase of EUR 153m for the Group, KPN is on track to reach its EUR 5.5bn target for 2010.

EUR 707m free cash flow Q2 2010 versus EUR 739m in Q2 2009

Free cash flow for Q2 2010 amounted to EUR 707m, which is slightly below Q2 2009 (EUR 739m). The lower amount is mainly the result of an income tax receipt of EUR ~60m in Q2 2009, partly offset by lower interest payments in Q2 2010 (EUR 17m) mainly due to lower floating interest rates.

Despite the slightly lower y-on-y free cash flow in Q2, the free cash flow in the first half year of 2010 of EUR 935m is EUR 252m higher than H1 2009 (EUR 683m). Overall, KPN is on track to deliver more than EUR 2.4bn of free cash flow in 2010.

Net debt to EBITDA[2] temporarily higher at 2.3x

Net debt at the end of Q2 2010 amounted to EUR 12.1bn compared to EUR 11.4bn at the end of Q1 2010. The net debt development in Q2 was impacted by the EUR 733m final dividend 2009 payment (including dividend tax), the accelerated share buyback program (EUR 431m) and the acquisition of licenses in Germany (EUR 240m, net of EUR 44m prepayments). This resulted in a temporarily higher net debt to EBITDA ratio of 2.3x (Q1 2010: 2.2x), which

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[1] The Netherlands includes Dutch Telco business, iBasis, Getronics and Other gains and losses including eliminations
[2] 12 month rolling average excluding book gains, release of pension provisions and restructuring costs, all over EUR 20m

remains well within KPN's target financial framework of 2.0-2.5x. KPN has a solid financial profile, including a EUR 1.5bn undrawn credit facility and is committed to maintaining its prudent financing policy by covering refinancing obligations well in advance.
KPN's credit ratings remained unchanged at BBB+ with a stable outlook (Standard & Poor's) and Baa2 with a stable outlook (Moody's).

FTE reductions ongoing

At the end of Q2 2010 the total number of FTEs of KPN Group amounted to 31,121 FTEs, which is 2,027 FTEs lower compared to the end of 2009. Of this total, a reduction of 1,082 FTEs was realized in Q2. Getronics reduced 446 FTEs in Q2, mainly related to the reduction program of 2009.
In the Netherlands (excluding Getronics and acquisitions) there was a reduction of 896 FTEs compared to year-end 2009, bringing the total reduction in the Netherlands since 2005 to 8,957 FTEs. Pending a number of outsourcing decisions as part of the previously announced reorganization plans, KPN is on track to reach its objective of a cumulative FTE reduction in the Netherlands of 10,000 between 2005 and 2010.

KPN pension funds impacted in Q2

In Q2 2010, the KPN pension funds in the Netherlands were negatively impacted by declining interest rates and deterioration of financial markets. As a result, the average coverage ratio of KPN's pension funds decreased to 100.5% (end of Q1 2010: 109%) under statutory coverage measurements. As long as the coverage ratio is below 105%, KPN is obliged to make additional payments, up to a maximum of EUR 360m over a five year period. In Q4 2010, KPN will make an additional cash payment of EUR 11m.

New collective labor agreement

A new collective labor agreement for KPN in the Netherlands has been negotiated for 2010. The main elements of the new agreement include a 1% increase of fixed salary starting 1 January 2010, a variable salary (bonus) increase of 1%-point, an employee pension contribution increase of 1%-point to 5% of the pensionable wage effective 1 July 2010 and an employee pension contribution of 7% (up 3%-points) of the pensionable wage for new employees starting from 1 January 2011. In the collective labor agreement, KPN promotes the 'New Way of Working'. With some 10,000 employees at KPN and Getronics working accordingly, this translates on the one hand into cost savings as a result of less office space used, while on the other hand this gives KPN and Getronics the opportunity to be an example for prospective clients. Furthermore, the 'New Way of Working' provides employees flexibility on when and where to work, thereby increasing efficiency and improving their work-life balance. A new collective labor agreement 2010 has also been negotiated for Getronics in the Netherlands. A one time payment of EUR 300 for every employee is agreed upon and no structural salary increase for 2010.

Financial and operating review by Segment

The Netherlands

Revenues and other income *(In millions of euro)*	Q2 2010	Q2 2009	Δ y-on-y	H1 2010	H1 2009	Δ YTD
- Consumer	990	1,042	*-5.0%*	1,959	2,073	*-5.5%*
- Business	604	631	*-4.3%*	1,238	1,265	*-2.1%*
- Wholesale & Operations (national, excl book gains)	704	724	*-2.8%*	1,408	1,459	*-3.5%*
- Other (incl. eliminations)	-539	-559	*3.6%*	-1,088	-1,135	*4.1%*
Dutch Telco business	**1,759**	**1,838**	***-4.3%***	**3,517**	**3,662**	***-4.0%***
- iBasis Group	237	177	*34%*	430	376	*14%*
- Getronics	478	531	*-10%*	952	1,073	*-11%*
- Other gains/losses, eliminations	-135	-153	*12%*	-268	-305	*12%*
of which Real estate	*4*	*3*	*33%*	*6*	*10*	*-40%*
The Netherlands	**2,339**	**2,393**	***-2.3%***	**4,631**	**4,806**	***-3.6%***

EBITDA *(In millions of euro)*	Q2 2010	Q2 2009	Δ y-on-y	H1 2010	H1 2009	Δ YTD
- Consumer	289	280	*3.2%*	550	524	*5.0%*
- Business	197	211	*-6.6%*	420	407	*3.2%*
- Wholesale & Operations (national, excl book gains)	424	434	*-2.3%*	851	879	*-3.2%*
- Other	9	-3	*n.m.*	15	-5	*n.m.*
Dutch Telco business	**919**	**922**	***-0.3%***	**1,836**	**1,805**	***1.7%***
EBITDA margin	*52.2%*	*50.2%*		*52.2%*	*49.3%*	
- iBasis Group	9	6	*50%*	17	13	*31%*
- Getronics	40	9	*>100%*	69	-6	*n.m.*
- Other gains/losses	2	–	*n.m.*	2	3	*-33%*
of which Real estate	*2*	*1*	*100%*	*2*	*4*	*-50%*
The Netherlands	**970**	**937**	***3.5%***	**1,924**	**1,815**	***6.0%***
EBITDA margin	*41.5%*	*39.2%*		*41.5%*	*37.8%*	

Continued focus on costs, customer value and market shares in Dutch Telco

Revenues and other income in Dutch Telco declined by 4.3% y-on-y in Q2 2010, due to continued pressure on traditional businesses, regulation (2.2% effect) and continued effects of the difficult economic environment in the business market. EBITDA however remained flat against a strong second quarter last year due to continued focus on maximizing market value as well as customer value, cost reductions and selective price increases. Dutch Telco's EBITDA margin increased from 50.2% in Q2 2009 to 52.2% in Q2 2010. The EBITDA included EUR 13m of releases recorded in the Wholesale & Operations Segment and a EUR 3m negative incidental at Business Segment. Whilst managing the market for value with efficient SAC/SRC spending and selective price increases, the consumer broadband and wireless market shares have come slightly under pressure in the competitive Dutch market.

Whilst investing in new services, cost reductions continue in 2010 and beyond

KPN has built a strong track record of reducing cost in the Dutch Telco business. These cost savings have been realized on both the fixed and variable cost side in the areas of procurement, consultancy, employees, network, IT and SAC/SRC. Cost scrutiny will continue in these areas and will materialize over a multi-year period. Whilst reducing costs, KPN has continued its investments in new services like TV, fiber, mobile data and IP connectivity services.
Continued 'best-in-class' benchmarking has resulted in newly identified cost efficiency areas, contributing to further cost reductions. These areas include amongst others: network rationalization, billing systems, service delivery streets, selective centralization within the Netherlands (e.g. Shared services, Finance) further simplifying the organization and next level reductions in procurement costs. In summary, KPN will continue to invest in new services whilst continuing its track record of cost reductions in 2010 and beyond.

Mobile data, a growth opportunity in the years to come

KPN has experienced a strong increase in data users on its Dutch network, with the average data usage per customer also increasing. Both these trends and the uptake of smartphones and applications have resulted in an exponential growth in data and signaling traffic. KPN believes in the need for a high quality network to be able to provide customers with a superior experience and to capture the strong data uptake. Therefore, continued investments in capacity are required as well as further improvements in active traffic controls to effectively manage the network. The capacity expansion in KPN's network to provide for the data growth opportunity requires only limited additional Capex. Meanwhile, data pricing needs to be more closely linked to the cost of delivering the service in order for KPN to be able to monetize the data growth opportunity. KPN has therefore already started to actively inform customers on data pricing and will further implement pricing differentiation.

Consumer fixed line strategy: FttH is superior technology, mix of infrastructures going forward

KPN sees the end customer's need for functionality (e.g. Triple-play, HD TV) as the main driver of its network strategy, being technology independent. With the current mainly copper-based mix of infrastructures maintaining KPN's medium term position, the shift to FttH is securing its long term position. In addition to infrastructure, KPN has a number of differentiating assets to effectively compete in the Dutch market. A combination of strong distribution power, multi-brand propositions, an extensive fixed and mobile customer database, a low entry digital TV proposition and operational excellence has proven highly valuable.

To remain competitive, KPN's copper network requires continuous upgrades. In April 2010, the VDSL from the Central Office (VDSL-CO) network upgrade was finalized, enabling 80% IPTV coverage and thereby matching customer demand for this service. The Fiber-to-the-Curb market approach will be aligned with VDSL as a result of similar customer experience. In addition, KPN is implementing a network roll-out of VDSL outside Central Office ('outer rings'), which will further increase its high speed broadband and IPTV coverage as from Q2 2011.

At the end of Q2 2010, KPN had 288k homes passed with fiber, via Reggefiber, of which 26k had been activated. The penetration of activated homes materially differs per region, mainly as a result of difference in the number of sales months. Nonetheless, activating homes takes time, amongst others due to operational issues in the past, sub-optimal customer profiling and previous sales methods that were not effective enough. An adjusted approach has therefore been implemented to increase the activation growth rate of FttH. This approach includes an optimization of the area selection for roll-out, full deployment of all sales channels and further optimization of the fiber delivery process. Furthermore, with effect from 1 July 2010, a new pricing and proposition strategy has been implemented for the combined copper and fiber infrastructures. Product entry levels have been lowered whereas ARPU is expected to remain stable.

KPN maintains its overall ambition of creating a substantial TV position in the Dutch market (1.5 million customers by 2012) and the company therefore continues to improve its medium-term position with VDSL on the copper network. KPN also remains committed to achieving critical mass in fiber, translated into its unchanged long-term ambition regarding FttH of reaching a penetration level of 60% in the areas where FttH is rolled out. KPN targets a minimum of 250k active FttH KPN customers and 1.1-1.3 million FttH homes passed through the Reggefiber joint-venture by 2012.

Cost reductions support continued EBITDA growth in Consumer Segment

Revenues and other income were down 5.0% y-on-y in Q2 2010, caused by lower revenues from both wireless as well as voice wireline. KPN continued its focus on maximizing customer value whilst at the same time making efficient use of SAC/SRC. Market shares have been slightly under pressure and we are carefully following these market share developments. EBITDA was supported by ongoing cost reductions, resulting in a 3.2% y-on-y increase in Q2 2010. As a result, the margin reached 29.2% compared to 26.9% in Q2 2009.

Wireless service revenues decreased by 6.1% compared to Q2 2009, mainly due to regulatory pressure affecting MTA and roaming tariffs (EUR 22m or 4.6%) as well as focus on profitable revenues, partially offset by 47% y-on-y higher revenues from non-SMS data. Consequently, non-voice revenues (incl. SMS) as a percentage of ARPU increased to 34%. Selective price increases, an increase in data revenues and a higher proportion of high value postpaid customers have led to a wireless ARPU increase to EUR 25 in Q2 2010.

A low growth broadband market combined with a stable decline of PSTN lines, resulted in a net line loss of 45k in Q2 2010 (Q1 2010: 35k). Despite increasing competitive trends, KPN's broadband customer base remained relatively stable with its market share of 42% slightly under pressure.

KPN's TV subscriber base and market share continued to grow rapidly, with a shift in growth from Digitenne (DTT) to IPTV following the network upgrade with VDSL and a national marketing campaign of KPN's interactive TV. Together with a stabilizing Digitenne base, the number of KPN TV customers increased to almost 1.1 million, resulting in a 14% market share (Q1 2010: 13%).

In June, KPN announced the intention to expand its national distribution footprint with 52 shops from independent reseller *t for telecom.* The number of KPN shops will increase to 213 and this strengthens customer intimacy and own store sales via the enhanced distribution coverage of the KPN, Telfort and Hi brands.

Business Segment revenues and EBITDA negatively impacted, primarily due to Business wireline

Revenues and other income for the Business Segment decreased 4.3% y-on-y primarily due to continued decline in traditional services and continued pressure on prices and order intake because of both difficult economic circumstances and competition. The Business Segment experienced a negative regulatory impact of EUR 8m on revenues (or 1.3%). EBITDA was down 6.6% y-on-y, as the decline in revenues was not fully offset by cost savings. As a result, the EBITDA margin decreased to 32.6% (Q2 2009: 33.4%). The EBITDA includes a negative EUR 3m incidental related to the release of deferred connection fees in Q1 2010 of EUR 19m (full year net effect is EUR 9m).
Wireless services showed a satisfactory performance in Q2, delivering stable service revenues as higher mobile data revenues helped to offset a decline in mobile voice. Currently 50% of customers use data services (Q1 2010: 47%). Non-voice revenues (incl. SMS) as a percentage of ARPU increased to 29%. KPN was able to maintain its market share even though intensified competition on both smartphones and dongles was noticeable.
Traditional services showed a continued negative trend, whereas seizing significant opportunities in new business areas remained challenging in Q2 2010. The growth in VPN connections was driven by unmanaged VPN connections whilst the more profitable managed VPN connections declined, because of customer rationalization.

Wholesale & Operations Segment remained focused on cost reduction

Revenues and other income declined 2.8% y-on-y in Q2 2010, mainly as a result of the ongoing decline of traditional business and regulation (EUR 11m or 1.5% effect). Revenues included a one-off gain of EUR 9m in Q2 2010 (full year net effect is EUR 8m) due to a release of deferred connection fees.
The revenue decline was offset by cost reductions and resulted in a stable EBITDA margin of 60.2% (Q2 2009: 59.9%). Corrected for EUR 13m one-off releases, the underlying EBITDA margin was 59.1% in Q2 2010.
Through the Reggefiber joint-venture, further progress was made in Q2 with the FttH roll-out. At the end of Q2 the number of homes passed reached 569k. In Q2 2010, Reggefiber made good progress in securing external financing for a total amount of EUR 285m, through a project finance facility with four commercial banks (50%) and the European Investment Bank, or 'EIB' (50%). Reggefiber has obtained commitment from its commercial banks subject to final documentation and approval from the EIB, which is in the final stages of its credit approval process. Finalization of the financing is expected in the next few months.

Strong revenue and profitability growth at iBasis

iBasis' current focus rests on balancing revenue growth with profitability, whilst also working to improve market shares. This approach has resulted in an increase in revenues and other income of 34% y-on-y to EUR 237m, including a favorable foreign exchange effect of EUR 4m (~2%). Continued savings on overhead costs supported EBITDA (+50% y-on-y), resulting in an improved EBITDA margin of 3.8% compared to 3.4% in Q2 '09. Due to more management focus on the business and more stability following the full takeover by KPN, iBasis had a record quarter in the number of minutes sold, improving the company's market share position.

Getronics on track for EBITDA uplift in 2010

Revenues and other income at Getronics decreased by 10% y-on-y in Q2 2010 mainly as a result of continued difficult economic circumstances. This is expressed in continued pressure on prices and by clients postponing investments in ICT projects. With no signs of economic recovery or deterioration, the sales funnel remained stable q-on-q. Whilst the Netherlands showed a revenue decline of 12% y-on-y, revenues at Getronics International have stabilized, including a positive foreign exchange impact of ~6%. The recovery of the Dutch market is lagging behind the rest of Europe, with Getronics maintaining its market position.
In Q2 2010 EBITDA improved by EUR 31m y-o-y as a result of the absence of restructuring and reorganization costs of EUR 26m in Q2 2009 and a EUR 5m release of onerous contract provisions in Q2 2010. The EBITDA margin increased from 6.1% in Q1 2010 to 8.4% in Q2 2010. YTD the EBITDA margin is 7.2%. This is in line with expectations and a further EBITDA margin improvement is expected in the second half of the year, leaving Getronics on track to achieve the 8% EBITDA margin target for 2010.

M2M opportunity

In Q2 2010, KPN signed a strategic partnership with Jasper Wireless, an independent Machine-to-Machine ('M2M') platform that provides a highly flexible and global M2M solution. M2M is a scale business and by leveraging this independent M2M platform with various network operators that cover all parts of the world, KPN can provide customers a true global solution at low cost. An important element of the strategic partnership is to exchange leads with the other operators (e.g. AT&T) that make use of the platform, with KPN representing Europe. In order to fully benefit from the M2M opportunity, KPN has adopted a Group wide strategy with local teams in local markets and a pan-European team that services large clients that require solutions covering several markets. This Group wide strategy has resulted in the first successes with contract wins for pan-European and global solutions for Garmin, Konica Minolta and Pandigital.

Mobile International

Revenues and other income *(In millions of euro)*	**Q2 2010**	**Q2 2009**	**Δ y-on-y**	**H1 2010**	**H1 2009**	**Δ YTD**
- Germany	803	797	*0.8%*	1,571	1,571	*0.0%*
- Belgium	201	204	*-1.5%*	403	395	*2.0%*
- Rest of World (incl. eliminations)	34	23	*48%*	63	39	*62%*
Mobile International	**1,038**	**1,024**	***1.4%***	**2,037**	**2,005**	***1.6%***

EBITDA *(In millions of euro)*	**Q2 2010**	**Q2 2009**	**Δ y-on-y**	**H1 2010**	**H1 2009**	**Δ YTD**
- Germany	345	333	*3.6%*	666	655	*1.7%*
- Belgium	81	68	*19%*	148	130	*14%*
- Rest of World	-4	-10	*60%*	-8	-26	*69%*
Mobile International	**422**	**391**	***7.9%***	**806**	**759**	***6.2%***
EBITDA margin	*40.7%*	*38.2%*		*39.6%*	*37.9%*	

Continued revenue growth with strong margins at Mobile International

Revenues and other income increased 1.4% y-on-y, with service revenues up 4.7% following strong performance in all markets as the Challenger strategy continued to prove successful. Mobile International has created a roadmap for an accelerated roll-out of high speed data networks in both Belgium and Germany to benefit from the mobile data opportunity that is materializing. The accelerated roll-out and data opportunity are supported by the spectrum acquired in the German auction and the various operational, technological and commercial partnerships in place.

Good outcome of German frequency auction

On 20 May 2010, the German spectrum auction for a total of 359.2MHz of frequencies ended. E-Plus' value-driven approach resulted in the acquisition of 70MHz of frequencies (19% of the auctioned amount) for a consideration of EUR 284m. This acquisition doubles the amount of spectrum for E-Plus and the company now holds about 25% of total spectrum in the German mobile market. E-Plus is particularly pleased to have obtained two additional blocks in the 2.1GHz band, allowing the company to become the only operator in the German market with 2 x 20MHz of connected spectrum in this band. This unique combination of four blocks in 2.1GHz provides the highest possible capacity in the most standardized frequency for mobile data, perfectly suiting the Challenger strategy.

Furthermore, the 2.1GHz band is highly flexible in the use of technology, enabling E-Plus to easily upgrade to HSPA+ or LTE when demand justifies this. Also, E-Plus' current 1800 network infrastructure can be used for the further roll-out of mobile data, so that no additional site locations have to be build for coverage in the areas where the company has its focus. By using its current sites, E-Plus will save a significant amount of time as well as Capex in the network roll-out. The company can therefore very quickly establish the highest capacity network in Germany with only limited additional investments.

Furthermore, E-Plus does not have any roll-out obligations following the auction, so the company can fully concentrate on upgrading and further expanding its high speed in those areas where it already has a sound customer base.

E-Plus remains open to partnerships, as it could further lower the company's cost to serve. The company is however not dependent on a network partnership for deploying a high speed data network at low cost.

Mobile data opportunity providing an additional area of growth

Mobile data is becoming a mass market service, with customer demand picking up. Mobile International will stick to its key pillars of multi-brands, partnerships and smart follower to benefit from this opportunity at the lowest possible cost to serve and will therefore remain the most profitable number three operator. Because of the Challenger strategy and the positive outcome of the German spectrum auction, E-Plus and KPN Group Belgium are able to accelerate the roll-out of their high speed mobile data network whilst keeping Capex within a range of EUR 550m – EUR 750m in the medium term. The accelerated data network roll-out will result in an expansion of the number of HSPA sites in Germany from 2,000 today to 12,000 by year end 2012, enabling speeds of 21.6Mb/s.

Mobile data services will be marketed on a region by region basis, following the network roll-out. Initial focus is on those regions in Belgium and Germany where the company has a high existing market share, starting Q4 2010 in Belgium and Q2 2011 in Germany.

Currently, the vast majority of revenues are generated by voice and sms and Mobile International will continue its focus on growing these revenues, with mobile data being an additional area of growth. In the medium term, mobile data revenues are expected to grow from a low/ mid single digit percentage of service revenues today to market average. The company remains confident to achieve its earlier indicated market share ambition of 20-25%.

Following preparations in the past year with the ZTE equipment agreement, commercial deals, regionalization, the relaunch of the BASE brand and the German spectrum auction, all elements are in place for Mobile International to benefit from the opportunity that mobile data brings. Focus now rests on executing these plans.

Increased service revenues with very strong EBITDA margin in Germany

Revenues and other income in Q2 2010 slightly increased compared to the prior year. Service revenues were up 2.0% y-on-y, a good trend compared to previous quarters. Corrected for an intercompany transfer of the Multiconnect business from 'Other' Segment, service revenues were up 1.5% after two quarters of decline. E-Plus is expected to have maintained its Q2 service revenue market share at 15.6%, as in Q2 2009. E-Plus continued its commercial activities in support of the launch of 'Mein BASE'. As a consequence, marketing spend significantly increased (+36% y-on-y), offset by declining distribution costs due to another quarter of good uptake in captive channels. This led to a very strong EBITDA margin of 43.0% in Q2 2010. In H2 2010 we expect a margin of around 40%. In the medium term, we expect an EBITDA margin in the upper end of the range of 35-40%.

E-Plus achieved 300k net adds in Q2, of which 51k were postpaid, showing the first signs of success of the 'Mein BASE' proposition. The total customer base at the end of Q2 2010 was 19.6 million. In Q2 2010, further progress was made with the regionalization strategy. With the combination of this progress and the successful relaunch of the BASE brand, E-Plus is confident that it is well on track to achieve higher service revenue growth in the quarters ahead.

Continued service revenue growth with strong EBITDA margin in Belgium

Revenues and other income were EUR 3m lower compared to Q2 2009, due to the effects of the divestment of the fixed B2B and Carrier business, which closed on 31 March 2010. Revenues and EBITDA of the divested assets were EUR 12m and EUR 2m respectively in Q2 2009.

Wireless service revenues of KPN Group Belgium (BASE) showed another strong increase, up by 6.6% in Q2 2010, driven by high value postpaid customers and by regional focus. BASE is expected to have increased its service revenue market share to more than 18% in Q2, up 1%-point y-on-y. EBITDA was positively impacted by the release of a EUR 11m provision, reaching a margin of 40.3%. Without the release of this provision, the EBITDA margin would have been 34.8%. Regional focus and further strengthening of distribution and partnerships resulted in increased traction in the Walloon area. BASE gained 10k postpaid and 53k prepaid net adds in Q2 2010, leading to a total of 3.6 million customers. In H2 2010, wireless service revenues will be negatively impacted by significant MTA reductions. BASE's service revenue market share, however, is expected to remain stable at its current level in 2010.

Continued growth at low cost in Rest of World

Benefiting from a more focused approach, revenues and other income (including elimination of intercompany revenues) increased by 48% y-on-y. External revenues increased 34% y-on-y, with continued growth in all markets, and EBITDA improved compared to last year. In Q2 2010, KPN Spain concluded a new agreement with its network provider, improving the terms and conditions and leading to lower costs. The number of customers in Spain increased to ~400k, primarily driven by the Simyo brand and wholesale partners. ARPU was healthy due to a strong postpaid share and increasing demand for data services. In France, the customer base has grown to circa 200k customers (Q4 2009: ~100k) with a higher run rate than prior in quarters. Following the successful launch in March 2010, Ortel France is generating more than 1,000 gross adds per day. Based on the proven success in its existing markets, Ortel expects to expand into Spain at the end of the year 2010.

Outlook and risk management

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 2009 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 second half of 2010, except for risks from economic downturn, regulation and the license auctions in Germany and Belgium. With respect to regulatory risk, reference is made to note [13] Regulatory developments of the consolidated interim financial statements of Q2 2010.

Following the **economic downturn** in 2009, that mainly affected the business markets in which KPN operates, no signs of economic recovery were visible in H1 2010. The Business Segment and Getronics experienced continued pressure on prices and a lower order intake, due to customers postponing investment decisions. There are at present no signs of further deterioration. However, if circumstances worsen, future operating results could be adversely affected, particularly relative to current expectations, and jeopardize KPN's objective of achieving sound financial performance.

In May 2010, E-Plus acquired 70MHz of additional spectrum in the **frequency auctions** in Germany for EUR 284m, suiting the challenger strategy. This outcome removed the risk of paying a too high price for the spectrum. In coming quarters, KPN Group Belgium faces an auction of various frequency bands in Belgium, for which preparations have started. The same principles as used in Germany will be applied in Belgium, whereby KPN Group Belgium will only acquire any additional spectrum at reasonable prices.

Outlook

Solid progress has been made in achieving the strategic objectives first formulated in February 2008, in spite of the increased challenges brought about by the economic downturn. EBITDA inflection has been reached in the Netherlands as a result of substantial cost reductions being achieved without compromising on quality of service and the overall health of the company. Mobile International continues its profitable growth path and is on the brink of adding mobile data as another area of growth to the Challenger strategy. Getronics continues to deliver a robust performance despite the economic headwind. In summary, KPN is on track strategically, remains soundly financed and has delivered a solid performance over the past two and a half years.
KPN will continue to focus on EBITDA and cash flow while keeping a close eye on market shares. KPN expects to achieve higher y-on-y revenues in the second half of 2010, excluding divestments. Furthermore, as indicated earlier, for the full year 2010, KPN expects to realize an EBITDA growth of EUR 300m. Despite new regulatory tariff cuts announced for the Netherlands and Belgium, the Board of Management remains confident that it can deliver on the objectives set for 2010 and 2011 and the outlook is therefore confirmed.

KPN remains committed to industry-leading shareholder returns. The interim dividend for 2010 has been set at EUR 0.27 and KPN confirms the EUR 0.80 dividend per share objective for 2010.

For 2011, KPN expects to further grow EBITDA, free cash flow and dividend per share. Over the full year 2011, KPN is targeting a dividend per share of at least EUR 0.85.

Guidance metrics	Outlook 2010	Outlook 2011
Revenues and other income	In line with 2009 (EUR 13.5bn)	-
EBITDA	> EUR 5.5bn	Growing EBITDA
Capex	< EUR 2bn	-
Free cash flow	> EUR 2.4bn	Growing free cash flow
Dividend per share	EUR 0.80	At least EUR 0.85

Condensed Consolidated Interim Financial Statements for the six months ended 30 June 2010 and 2009

Unaudited Consolidated Statement of Income

(In millions of euro, unless indicated otherwise)	For the three months ended 30 June		For the six months ended 30 June	
	2010	**2009**	**2010**	**2009**
Revenues	3,348	3,408	6,619	6,796
Other income	6	3	12	11
Revenues and other income [1]	**3,354**	**3,411**	**6,631**	**6,807**
Own work capitalized	-25	-28	-49	-49
Cost of materials	199	223	404	432
Work contracted out and other expenses	1,144	1,182	2,260	2,413
Employee benefits	493	541	999	1,087
Depreciation, amortization and impairments	547	580	1,077	1,182
Other operating expenses	157	171	308	368
Total operating expenses	**2,515**	**2,669**	**4,999**	**5,433**
Operating profit [2]	**839**	**742**	**1,632**	**1,374**
Finance income	7	10	10	19
Finance costs [3]	-196	-220	-389	-413
Other financial results	-5	-2	-7	7
Share of the profit of associates and joint ventures	-11	-2	-21	-1
Profit before income tax	**634**	**528**	**1,225**	**986**
Income taxes [4]	-169	-158	-311	-299
Profit for the period	**465**	**370**	**914**	**687**
Profit attributable to:				
Owners of the parent	464	371	912	688
Minority interest	1	-1	2	-1
Earnings per ordinary share on a non-diluted basis (in EUR)	**0.29**	**0.22**	**0.57**	**0.41**
Earnings per ordinary share on a fully diluted basis (in EUR)	**0.29**	**0.22**	**0.57**	**0.41**
Weighted average number of shares on a non-diluted basis			1,585,961,990	1,662,408,169
Weighted average number of shares on a fully diluted basis			1,589,182,711	1,666,880,587

Unaudited Consolidated Statement of Comprehensive Income

(In millions of euro)	For the three months ended 30 June		For the six months ended 30 June	
	2010	**2009**	**2010**	**2009**
Profit for the period	**465**	**370**	**914**	**687**
Other comprehensive income:				
Cash flow hedges:				
Gains or (losses) arising during the period	18	-7	-2	-55
Tax	-4	2	1	14
	14	-5	-1	-41
Currency translation adjustments:				
Gains or (losses) arising during the period	1	–	8	-7
Tax	–	–	–	–
	1	–	8	-7
Fair value adjustment available for sale financial assets:				
Gains or (losses) arising during the period	-3	6	-5	4
Other comprehensive income for the period, net of tax	**12**	**1**	**2**	**-44**
Total comprehensive income for the year, net of tax	**477**	**371**	**916**	**643**
Total comprehensive income attributable to:				
Owners of the parent	475	370	913	645
Non controlling interest	2	1	3	-2

Consolidated Statement of Financial Position

	As at	
ASSETS	**30 June 2010**	**31 December 2009**
(In millions of euro)	**(unaudited)**	
NON-CURRENT ASSETS		
Goodwill	5,770	5,769
Licenses [5]	2,981	2,853
Software	763	783
Other intangibles	392	427
Total Intangible assets	**9,906**	**9,832**
Land and buildings	889	920
Plant and equipment	5,492	5,627
Other tangible non current assets	153	177
Assets under construction	853	799
Total property, plant and equipment	**7,387**	**7,523**
Investments in associates and joint ventures	250	267
Available-for-sale financial assets	59	51
Derivative financial instruments [7]	167	8
Deferred income tax assets	2,001	2,135
Other financial non-current assets	218	231
Total non-current assets	**19,988**	**20,047**
CURRENT ASSETS		
Inventories	110	93
Trade and other receivables	2,265	1,895
Current income tax receivables [4]	253	9
Available-for-sale financial assets	2	2
Cash	1,622	2,690
Total current assets	**4,252**	**4,689**
Non-current assets and disposal groups held for sale [6]	**19**	**115**
TOTAL ASSETS	**24,259**	**24,851**

LIABILITIES *(In millions of euro)*	As at 30 June 2010 (unaudited)	 31 December 2009
GROUP EQUITY		
Share capital	388	391
Share premium	8,673	8,799
Other reserves	-785	-370
Retained earnings	-4,801	-4,982
Equity attributable to owners of the parent	**3,475**	**3,838**
Non controlling interest	6	3
Total group equity [9]	**3,481**	**3,841**
NON-CURRENT LIABILITIES		
Borrowings [7]	12,937	12,502
Derivative financial instruments [7]	147	511
Deferred income tax liabilities	1,102	1,275
Provisions for retirement benefit obligations [8]	670	717
Provisions for other liabilities and charges	403	414
Other payables and deferred income	284	337
Total non-current liabilities	**15,543**	**15,756**
CURRENT LIABILITIES		
Trade and other payables	3,930	3,990
Borrowings [7]	1,023	869
Derivative financial instruments (current liabilities)	–	51
Current income tax liabilities	134	100
Provisions (current portion)	148	211
Total current liabilities	**5,235**	**5,221**
Liabilities directly associated with non-current assets and disposal groups classified as held for sale [6]	**–**	**33**
TOTAL EQUITY AND LIABILITIES	**24,259**	**24,851**

Unaudited Consolidated Statement of Cash Flows

(In millions of euro)	For the six months ended 30 June	
	2010	**2009**
Profit before income tax	**1,225**	**986**
Finance costs – net	386	387
Share of the profit of associates and joint ventures	21	1
Adjustments for :		
Depreciation, amortization and impairments	1,077	1,182
Share-based compensation	-18	7
Other income	-8	-7
Changes in provisions (excluding deferred taxes)	-166	-103
Inventories	-9	10
Trade receivables	-71	139
Prepayments and accrued income	-155	-172
Other current assets	-12	65
Trade payables	121	-147
Accruals and deferred income	-130	-302
Current liabilities (excluding short-term financing)	-37	-32
Change in working capital	**-293**	**-439**
Received dividends from associates and joint ventures	1	1
Taxes received (paid)	-558	-554
Interest paid	-366	-282
Net cash flow generated from operations	**1,301**	**1,179**
Acquisition of subsidiaries, associates and joint ventures	-66	-100
Disposal of subsidiaries, associates and joint ventures	59	39
Investments in intangible assets (excluding software)	-289	-3
Investments in property, plant & equipment and software [11]	-715	-842
Disposal of property, plant & equipment and software	16	9
Disposals of real estate	22	19
Other changes and disposals	-28	–
Net cash flow used in investing activities	**-1,001**	**-878**
Share repurchases [9]	-532	-511
Dividends paid [10]	-733	-664
Exercised options	12	15
Proceeds from borrowings	–	1,500
Repayments of borrowings and settlement of derivatives	-126	-32
Other changes in interest-bearing current liabilities	–	-4
Net cash flow used in financing activities	**-1,379**	**304**
Changes in cash	**-1,079**	**605**
Net Cash at beginning of period	**2,652**	**771**
Changes in cash	-1,079	605
Exchange rate difference	6	2
Net Cash at end of period	**1,579**	**1,378**
Bank overdrafts	43	541
Cash at end of period	**1,622**	**1,919**

Unaudited Consolidated Statement of Changes in Group Equity

(Amounts in millions of euro, except number of shares)	Number of subscribed shares	Share capital	Share premium	Other reserves	Retained earnings	Equity attribu-table to owners of the parent	Non controlling interests	Total Group equity
Balance as of 1 January 2009	**1,714,362,792**	**411**	**9,650**	**-228**	**-6,103**	**3,730**	**29**	**3,759**
Share based compensation (net of tax)	–	–	–	16	-15	1	–	1
Exercise of options	–	–	–	15	–	15	–	15
Shares repurchased	–	–	–	-514	–	-514	–	-514
Dividends paid	–	–	–	–	-664	-664	-2	-666
Shares cancelled	-43,457,887	-10	-436	446	–	–	–	–
Total comprehensive income for the period	–	–	–	-42	687	645	-2	643
Balance as of 30 June 2009	**1,670,904,905**	**401**	**9,214**	**-307**	**-6,095**	**3,213**	**25**	**3,238**
Balance as of 1 January 2010	**1,628,855,322**	**391**	**8,799**	**-370**	**-4,982**	**3,838**	**3**	**3,841**
Share based compensation (net of tax)	–	–	–	–	2	2	–	2
Exercise of options	–	–	–	12	–	12	–	12
Shares repurchased	–	–	–	-557	–	-557	–	-557
Dividends paid	–	–	–	–	-733	-733	–	-733
Shares cancelled	-10,711,653	-3	-126	129	–	–	–	–
Total comprehensive income for the period	–	–	–	1	912	913	3	916
Balance as of 30 June 2010	**1,618,143,669**	**388**	**8,673**	**-785**	**-4,801**	**3,475**	**6**	**3,481**

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's subsidiary 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 international wholesale through iBasis.

Accounting policies

Basis of presentation

These Condensed Consolidated Interim 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 2009 Annual Report. These condensed consolidated financial statements have not been audited or reviewed and are based on IFRS as adopted by the European Union.

As of 1 January 2010, IFRS 3 (revised) 'Business Combinations' became effective and has been applied by KPN. IFRS 3 (revised) requires:

- Goodwill to be measured as the difference at acquisition date between the fair value of any investment in the business held before the acquisition, the consideration transferred and the net assets acquired. The requirement to measure every asset and liability at fair value at each step in acquisitions for the purposes of calculating a portion of goodwill has been removed;
- Acquisition-related costs are generally recognized as expenses (rather than included in goodwill);
- Contingent consideration must be recognized and measured at fair value at the acquisition date. Subsequent changes in fair value are recognized in accordance with other IFRS standards;
- An increase in the deferred tax asset after the one year window for carry forward losses which stem from the period prior to the acquisition does no longer lead to an impairment of goodwill.

In accordance with the transition provisions of the standard, KPN will apply IFRS 3 (revised) prospectively to all business combinations as from 1 January 2010.

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 Condensed Consolidated Financial Statements contained in the 2009 Annual Report, including the determination of deferred tax assets for carry forward losses and 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 2009 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

Following a number of previously announced organizational changes that came into effect as of the start of this year, KPN publishes its H1 2010 results in a new reporting format. The main changes that have taken place are that iBasis and book gains on real estate are both no longer part of Wholesale & Operations. iBasis will be reported as a separate segment according to IFRS 8 and book gains on real estate are included in 'Other gains/losses and eliminations' in the Netherlands. The transfer pricing has not been changed.

The new reporting format will only have an impact on segment information, not on Group numbers.

The reportable segments 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 2009 Annual Report. For operating profit reference is made to note [2] and for other segment information reference is made to note [11] in these Condensed Consolidated Interim Financial Statements.

	For the six months ended 30 June 2010				For the six months ended 30 June 2009			
Revenues and Other income	**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	1,529	2	40	1,571	1,532	–	39	1,571
Belgium	374	–	29	403	366	–	29	395
Rest of World	111	–	3	114	82	1	10	93
Eliminations	–	–	-51	-51	–	–	-54	-54
Mobile International	**2,014**	**2**	**21**	**2,037**	**1,980**	**1**	**24**	**2,005**
Consumer	1,875	–	84	1,959	1,967	–	106	2,073
Business	1,130	–	108	1,238	1,123	–	142	1,265
Wholesale & Operations (national, excl. book gains)	328	2	1,078	1,408	351	–	1,108	1,459
Other (incl. eliminations)	–	1	-1,089	-1,088	–	1	-1,136	-1,135
Dutch Telco business	**3,333**	**3**	**181**	**3,517**	**3,441**	**1**	**220**	**3,662**
iBasis Group	348	–	82	430	298	–	78	376
Getronics	874	1	77	952	1,000	–	73	1,073
Other gains/losses, eliminations	–	5	-273	-268	–	9	-314	-305
The Netherlands	**4,555**	**9**	**67**	**4,631**	**4,739**	**10**	**57**	**4,806**
Other activities	50	1	-1	50	77	–	-1	76
Eliminations	–	–	-87	-87	–	–	-80	-80
KPN Total	**6,619**	**12**	**–**	**6,631**	**6,796**	**11**	**–**	**6,807**

KPN group revenues and other income were down 2.6%, caused by a decline of revenues in the Dutch Telco business and in Getronics. Revenues at iBasis increased by 14% and Mobile International showed an increase of 1.6% which was attributable to growth in Belgium and Rest of World.
Other income in Wholesale & Operations is related to a gain on the sale of the outsourcing of facility services in Q1 2010. Furthermore, other income within Segment 'Other gains/losses, eliminations in the Netherlands' includes a book gain from the sale of real estate. For more detailed information on revenues, reference is made to the Management Report.

[2] Operating profit

	For the six months ended 30 June 2010			For the six months ended 30 June 2009		
Operating profit, DA&I and EBITDA	**Operating profit**	**Depreciation, amortization and impairments (DA&I)**	**EBITDA**	**Operating profit**	**Depreciation, amortization and impairments (DA&I)**	**EBITDA**
Germany	354	312	666	316	339	655
Belgium	88	60	148	64	66	130
Rest of World	-12	4	-8	-29	3	-26
Mobile International	**430**	**376**	**806**	**351**	**408**	**759**
Consumer	437	113	550	369	155	524
Business	374	46	420	368	39	407
Wholesale & Operations (national, excl. book gains)	419	432	851	428	451	879
Other	-3	18	15	-24	19	-5
Dutch Telco business	**1,227**	**609**	**1,836**	**1,141**	**664**	**1,805**
iBasis Group	4	13	17	-11	24	13
Getronics	-6	75	69	-87	81	-6
Other gains/losses	2	–	2	4	-1	3
The Netherlands	**1,227**	**697**	**1,924**	**1,047**	**768**	**1,815**
Other activities	-25	4	-21	-24	6	-18
KPN Total	**1,632**	**1,077**	**2,709**	**1,374**	**1,182**	**2,556**

Total EBITDA for KPN Group was up 6.0% y-on-y, driven by cost reductions in all segments. Dutch Telco EBITDA increased 1.7% y-on-y driven by Consumer and Business Segment and partly offset by a decline at Wholesale & Operations. Getronics EBITDA increased EUR 75m compared to H1 2009 mainly as a result of reorganization benefits and the absence of restructuring and reorganization costs (EUR 35m), as well as EUR 8m of pension costs in Q1 2009. Operating profit for KPN Group increased EUR 258m compared to H1 2010.
Depreciation, amortization and impairments decreased EUR 105m y-on-y as a result of three effects. Firstly, the lifetime of mobile masts was changed from 14 to 20 years as of 1 January 2010, with an impact of EUR 40m y-on-y in H1 2010, secondly Q1 2009 included an impairment result of EUR 24m and lastly the asset base declined compared to former years.

[3] Finance costs

Finance costs decreased by EUR 24m to EUR 389m, mainly due to one-off premium costs in 2009 related to a tender offer (EUR 27m). The effects of higher borrowings compared to prior year (EUR 24m interest costs) were almost offset by lower floating interest rates (EUR 12m positive) and lower other interest expenses (EUR 8m).
Also see note [7] Borrowings.

[4] Income taxes

The effective tax rate in the first six month of 2010 was 24.9% compared to 30.2% in H1 2009. The lower effective tax rate is due to a new methodology implemented as per 31 December 2009 for the valuation of the deferred tax asset (DTA) at E-Plus. For a more detailed explanation of the new DTA valuation methodology at E-Plus, reference is made to the tax paper published on KPN's website on 26 January 2010.

In Q1 2010 KPN settled the preliminary Dutch corporate income tax assessment for 2010 of EUR 549m by a net prepayment of EUR 543m to the Dutch tax authorities. KPN benefitted from a EUR 6m discount based on the applicable Dutch tax legislation for such a prepayment. In Q1 2009 KPN prepaid EUR 598m, benefitting from a EUR 10m discount. The discounts have been recorded as a reduction of interest paid in the Consolidated Statement of Cash Flows. Both in 2010 and 2009 an amount of EUR 327m of the prepayment was attributable to the E-Plus tax recapture. However this should not be considered indicative for the EBITDA to be achieved by E-Plus in 2010.

[5] Licenses

In May 2010, E-Plus acquired licenses for additional spectrum in Germany for an amount of EUR 284m. These licenses were not amortized in Q2 2010, since the additional spectrum has not been taken into operation yet.

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

At the end of Q1 2010 KPN closed the transaction with Mobistar regarding the sale of its fixed Belgian B2B and Carrier business, including the fiber network. This business was classified as held for sale at 31 December 2009. The remaining part in assets held for sale relates to the program of KPN to sell its real estate portfolio.

[7] Borrowings

In Q2 2010, KPN did not have bond issues or redemptions. At the end of Q2 2010, KPN had an average interest rate of 5.4% (2009: 5.3%) and an average maturity profile of 6.6 years. The value of borrowings increased by EUR 589m, due to changes in the fair value of bonds as a result of currency and interest rate fluctuations. The increase in borrowings is offset by a decrease in fair value of derivatives. Therefore, there is no impact on gross debt, as hedge accounting is applicable on all foreign currency bonds

[8] Provisions for retirement benefit obligations

In H1 2010, the KPN pension funds in the Netherlands were negatively impacted by declining interest rates and deterioration of financial markets. Furthermore the coverage ratio was negatively impacted by some 4% due to the use of updated mortality tables as from 1 January 2010. As a result, the average coverage ratio of KPN's pension funds decreased to 100.5% (end of Q4 2009: 111%) under statutory coverage measurements. As long as the coverage ratio is below 105%, KPN is obliged to make additional payments, up to a maximum of EUR 360m over a five year period. In Q4 2010 an additional cash payment of EUR 11m is required.

[9] Share repurchases

On 26 January 2010, KPN announced its EUR 1bn share repurchase program for 2010, which started in February 2010. Under this program, between 1 January and 30 June 2010, KPN repurchased 51.0 million shares at an average price of EUR 10.93, for a total amount of EUR 557m.

Cancellation of shares

On 23 March 2010, KPN concluded the cancellation of 10,711,653 ordinary shares that were repurchased as part of the EUR 1bn share repurchase program of 2009. Following this cancellation, KPN has 1,618,143,669 ordinary shares outstanding.
In Q3 2010, KPN will cancel 45,533,785 shares which were repurchased as part of the 2010 share repurchase program.

[10] Dividend

In Q2 2010 KPN paid the final dividend for 2009, for a total of EUR 733m (including dividend tax), or EUR 0.46 per share, resulting in a total 2009 dividend of EUR 1,109m (including dividend tax) or EUR 0.69 per share.

KPN declares an interim dividend for 2010 of EUR 0.27, up 17% compared to last year, payable in Q3 2010.

[11] Other Segment information

Assets, liabilities and CAPEX	As at 30 June 2010		As at 31 December 2009		For the six months ended 30 June	
	Total Assets	Total liabilities	Total assets	Total liabilities	2010 CAPEX	2009 CAPEX
Germany	10,655	27,942	10,342	29,180	163	225
Belgium	1,848	276	1,877	330	25	40
Rest of World (incl. eliminations)	133	93	144	146	2	2
Mobile International	**12,636**	**28,311**	**12,363**	**29,656**	**190**	**267**
Consumer	2,645	2,111	3,203	3,084	160	107
Business	1,619	1,252	2,956	2,963	34	61
W&O (national, excl. book gains)	6,936	6,521	9,444	9,494	266	342
Other (incl. eliminations)	-606	-601	-493	-492	17	20
Dutch Telco business	**10,594**	**9,283**	**15,110**	**15,049**	**477**	**530**
iBasis Group	489	398	429	311	5	5
Getronics	2,705	1,838	2,765	1,889	38	36
Other gains/losses (incl. eliminations)	-580	-580	-513	-448	3	-1
The Netherlands	**13,208**	**10,939**	**17,791**	**16,801**	**523**	**570**
Other activities (incl. eliminations)	-1,585	-18,472	-5,303	-25,447	2	5
KPN Total	**24,259**	**20,778**	**24,851**	**21,010**	**715**	**842**

Capex decreased by EUR 127m, which is mainly visible in Germany, Business and Wholesale & Operations. Due to changed phasing compared to 2009, Capex in Germany in H1 2010 was lower than in H1 2009.
The intercompany positions on the balance sheet of the segments are eliminated through Segment Other.

[12] Off-balance sheet commitments

The off-balance sheet commitments as at 30 June 2010 remained stable at EUR 3.9bn, as a decrease in the rental and lease commitments was offset by an increase in purchasing commitments.

[13] Regulatory Developments

The Netherlands: MTA and FTA glidepath implemented

On 7 July 2010 OPTA published its revised MTA and FTA decision for the period July 2010 to September 2013. On 26 May 2010 the Trade and Industry Appeal Tribunal (College van Beroep voor het bedrijfsleven) annulled OPTA's earlier decision for the period August 2007 to August 2010. OPTA announced it will not retroactively apply tariffs for that period. OPTA takes into account the CBb decision in the future tariff regulation, leading to a lower glide path to the ultimate 'pure BULRIC' tariffs for 2012 and onwards than it had initially envisaged. OPTA imposes a glide path for mobile operators to a pure BULRIC-based MTR of EUR 1.20 ct/min as of September 2012. For FTA, OPTA also imposes pure BULRIC-based tariffs as of that date of EUR 0.36 ct/min. Until January 2012 however, OPTA follows its earlier decision for that period.

Belgium: Update on MTA regulation

On 29 June 2010, BIPT published its final decision in relation to market 7 ('MTR'). In its final decision, BIPT imposes an asymmetric glide path between Proximus, Mobistar and BASE. KPN Group Belgium will launch both a suspension and an annulment procedure against the decision. The suspension procedure will focus on the fact that BIPT has unduly awarded a glide path to Proximus (Belgacom) and Mobistar, instead of forcing them immediately to the pure LRIC-based MTR of EUR 1.08 ct/min.

Wholesale pricing of fiber related products

In Q2 2010, OPTA published new price caps for several wholesale broadband services. These new price caps do not force KPN to lower commercial tariffs of the related fiber products.

[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 2009 Annual Report, including major shareholders. On 2 July 2010, BlackRock, Inc. notified the AFM that they held 4.9% in KPN's ordinary share capital. On 20 April 2010, Capital Research and Management Company notified the AFM that they held 9.98% in KPN's ordinary share capital.

In the six months ended 30 June 2010, there have been no changes in the type of related party transactions as described in the Annual Report 2009 that could have a material effect on the financial position or performance of KPN. Nor have related party transactions taken place in the first six months of 2010 that have materially affected the financial position or the performance of KPN.

[15] Subsequent events

Share repurchase after 30 June 2010

As part of the EUR 1bn share repurchase program for 2010, KPN repurchased 2.3 million shares at an average price of EUR 10.34, for a total amount of EUR 23.9m between 1 July and 26 July 2010.
Until 26 July 2010 KPN completed 58% of its 2010 share repurchase program following acceleration in May 2010.

Responsibility statement

The Board of Management of the Company hereby declares that, to the best of their knowledge, the interim financial statements for the six months ended 30 June 2010, 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, 27 July 2010

A.J. Scheepbouwer,	Chairman of the Board of Management and Chief Executive Officer
C.M.S. Smits-Nusteling,	Member of the Board of Management and Chief Financial Officer
E. Blok,	Member of the Board of Management
J.B.P. Coopmans,	Member of the Board of Management

Safe harbor

Non-GAAP measures and management estimates

This financial report contains a number of non-GAAP figures, such 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.*

*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.

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 2009.