

## Results Q1 2012

Transition year on track

### Highlights

- Financial results according to plan in first quarter of transition year
- EBITDA and FCF impacted by phasing and accelerated investments in The Netherlands
- Further improving Dutch mobile propositions and expanding distribution
- Increasing TV market share and start of regionalization in Consumer Residential
- Revenue growth at good EBITDA margin in Germany, strong underlying growth in Belgium
- Confirming outlook
- 2011 dividend of EUR 0.85 approved by AGM, final dividend of EUR 0.57 paid today

Group financials*	Q1 2012	Q1 2011	Δ y-on-y reported
<i>(In millions of euro unless indicated otherwise)</i>			
<b>Revenues and other income</b>	<b>3,191</b>	<b>3,235</b>	<b>-1.4%</b>
- Of which revenues	3,158	3,195	-1.2%
<b>EBITDA</b>	<b>1,104</b>	<b>1,269</b>	<b>-13%</b>
EBITDA margin	34.6%	39.2%	
Restructuring costs	19	10	90%
<b>EBITDA (excl. restructuring costs)</b>	<b>1,123</b>	<b>1,279</b>	<b>-12%</b>
Operating profit (EBIT)	564	712	-21%
Profit for the period (net result)**	288	591	-51%
<b>Earnings per share (in EUR)**</b>	<b>0.20</b>	<b>0.39</b>	<b>-49%</b>
Cash flow from operating activities	398	465	-14%
Capital expenditures (PP&E and software)	-460	-382	20%
Proceeds from real estate	37	47	-21%
Tax recapture at E-Plus	62	61	1.6%
<b>Free cash flow</b>	<b>37</b>	<b>191</b>	<b>-81%</b>

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

\*\* Profit for the period and earnings per share in Q1 2011 were positively impacted by the one-off benefit of EUR 150m related to the innovation tax facilities for the period 2007 – 2010

### Message from the CEO, Eelco Blok

"The overall performance of the KPN Group in the first quarter of the 2012 transition year was according to plan. The implementation of the accelerated investment strategy for The Netherlands is on track, and we have made several key management appointments that will help us achieve our strategic ambitions. In Consumer Mobile, we have made substantial improvements to our propositions and have expanded our distribution footprint. In Consumer Residential, our TV market share increased further and the implementation of the regionalization approach is starting. Results in Germany reflected revenue growth at a good EBITDA margin, while Belgium showed another strong quarter. We continued to invest in the high speed data network roll-out in Germany and Belgium and in new propositions to support growth. The roll-out of the high speed data network in Germany is on track to reach the target of 80% population coverage by the end of this year.

On the cost side, we continued to make progress with our FTE reduction program in The Netherlands of 4,000-5,000 FTE which we now intend to complete by the end of 2013, two years earlier than originally planned. Included in this, I have set a tough but achievable target for Group headquarters to reduce costs by 30-40% by 2013.

Needless to say, the current financial performance of the company is not in line with our medium to longer term ambition. The accelerated investment strategy in this transition year, combined with a focus on quality and simplification to drive customer satisfaction and reputation, will support a sustainable level of profit for The Netherlands from end-2012. Group profits and cash flow are planned to improve in the second half of 2012, driven by a better performance in our Dutch businesses. Therefore, I confirm the 2012 outlook."

## Group review

Revenues and other income (In millions of euro)	Q1 2012	Q1 2011	Δ y-on-y reported	Δ y-on-y underlying <sup>1</sup>
- Consumer Mobile	427	480	-11%	-8.4%
- Consumer Residential	458	479	-4.4%	-4.4%
- Business	598	614	-2.6%	-1.8%
- NetCo	664	698	-4.9%	-4.1%
- Other (incl. eliminations)	-521	-567	-8.1%	-8.1%
<b>Dutch Telco business</b>	<b>1,626</b>	<b>1,704</b>	<b>-4.6%</b>	<b>-3.2%</b>
- Corporate Market	428	449	-4.7%	-3.6%
- Other (incl. eliminations)	-78	-80	-2.5%	-2.5%
<b>The Netherlands</b>	<b>1,976</b>	<b>2,073</b>	<b>-4.7%</b>	<b>-3.3%</b>
<b>iBasis</b>	<b>255</b>	<b>226</b>	<b>13%</b>	<b>13%</b>
- Germany	794	773	2.7%	2.7%
- Belgium	191	186	2.7%	6.7%
- Rest of World	60	69	-13%	-13%
- Other (incl. eliminations)	-25	-28	-11%	-11%
<b>Mobile International</b>	<b>1,020</b>	<b>1,000</b>	<b>2.0%</b>	<b>2.7%</b>
<b>Other activities</b>	<b>19</b>	<b>16</b>	<b>19%</b>	<b>19%</b>
<b>Intercompany revenues</b>	<b>-79</b>	<b>-80</b>	<b>-1.3%</b>	<b>-1.3%</b>
<b>KPN Group</b>	<b>3,191</b>	<b>3,235</b>	<b>-1.4%</b>	<b>-0.2%</b>

EBITDA (In millions of euro)	Q1 2012	Q1 2011	Δ y-on-y reported	Δ y-on-y underlying <sup>1</sup>
- Consumer Mobile	94	145	-35%	-33%
- Consumer Residential	106	131	-19%	-19%
- Business	197	195	1.0%	8.3%
- NetCo	387	428	-9.6%	-12%
- Other (incl. eliminations)	-3	-2	50%	0.0%
<b>Dutch Telco business</b>	<b>781</b>	<b>897</b>	<b>-13%</b>	<b>-12%</b>
<i>EBITDA margin</i>	<i>48.0%</i>	<i>52.6%</i>		
- Corporate Market	4	31	-87%	n.m.
- Other gains/losses	-	-1	-100%	-100%
<b>The Netherlands</b>	<b>785</b>	<b>927</b>	<b>-15%</b>	<b>-14%</b>
<i>EBITDA margin</i>	<i>39.7%</i>	<i>44.7%</i>		
<b>iBasis</b>	<b>7</b>	<b>7</b>	<b>0.0%</b>	<b>0.0%</b>
- Germany	303	301	0.7%	0.7%
- Belgium	60	57	5.3%	13%
- Rest of World	-5	-4	25%	25%
- Other (incl. eliminations)	1	-1	n.m.	n.m.
<b>Mobile International</b>	<b>359</b>	<b>353</b>	<b>1.7%</b>	<b>2.9%</b>
<i>EBITDA margin</i>	<i>35.2%</i>	<i>35.3%</i>		
<b>Other activities</b>	<b>-47</b>	<b>-18</b>	<b>&gt;100%</b>	<b>&gt;100%</b>
<b>KPN Group</b>	<b>1,104</b>	<b>1,269</b>	<b>-13%</b>	<b>-12%</b>

<sup>1</sup> The definition of underlying is explained in the safe harbor section at the end of the condensed financial report. For a detailed overview of the underlying figures refer to page 9

### **Revenue decline The Netherlands partly offset by good performance at international businesses**

KPN Group revenues and other income were 1.4% or EUR 44m lower y-on-y due to a decline in The Netherlands partly offset by increased revenues in Germany, Belgium and iBasis. The negative impact on Group revenues from regulation in Q1 was EUR 31m y-on-y (1.0%). Group revenues were impacted by a net negative effect of incidentals of EUR 7m. The incidentals in both Q1 2012 and Q1 2011 included a book gain on the sale of towers (EUR 31m and EUR 33m respectively). The Netherlands showed a revenue decline as a result of the continued difficult market conditions and regulation. Consumer Mobile remained exposed to strong competition and changing customer behavior, resulting in lower service revenues. In Consumer Residential, churn in the single and dual play markets put pressure on the broadband market share and on revenues. Performance of the Business segment was satisfactory, driven by stable market share positions, but Corporate Market faced continued price pressure and lower demand as a result of the difficult economic climate in The Netherlands. In Germany revenue growth was balanced with investments in longer term growth whereas Belgium showed strong underlying growth.

### **KPN Group profitability impacted by lower revenues and investments to strengthen the Dutch businesses**

KPN Group EBITDA decreased by 13% or EUR 165m y-on-y. EBITDA was impacted by regulation of EUR 11m and restructuring costs of EUR 19m (Q1 2011: EUR 10m). The Q1 2012 incidentals related to the book gain on the sale of towers (EUR 31m NetCo), a release of employee benefit provisions (EUR 10m Corporate Market) and a release of provision for asset retirement obligation (EUR 9m NetCo), however the net effect of incidentals compared to Q1 2011 was only EUR 2m. EBITDA was impacted by the financial performance of Dutch Telco and Corporate Market, resulting from a decline in traditional high margin services, investments to strengthen the domestic market positions and difficult market conditions. Furthermore, pension costs were EUR 34m higher y-on-y of which EUR 19m was related to actuarial losses at the Getronics UK and US pension funds. The total costs in 2012 related to the recognition of these actuarial losses will amount to EUR 75m, to be evenly spread over the quarters. No further costs related to these losses are expected after 2012.

EBIT decreased by EUR 148m (21%) y-on-y, following the EBITDA decrease partly offset by lower depreciation and amortization. Net profit decreased by EUR 303m y-on-y to EUR 288m in Q1 2012 as a result of the EBIT decline, the one-off tax benefit recorded in Q1 2011 relating to the innovation tax facilities for the period 2007-2010 (EUR 150m) and higher financial expenses (EUR 32m) mainly due to a one-off gain in Q1 2011.

### **Free cash flow**

Q1 2012 free cash flow amounted to EUR 37m (Q1 2011: EUR 191m). The decrease compared to last year is explained by lower EBITDA (EUR 165m) and higher Capex (EUR 78m), offset by lower tax payments (EUR 24m) and lower change in provisions (EUR 62m). Within the cash flow line change in provisions there was less cash out with respect to pensions (EUR 12m) and restructuring (EUR 15m), while higher additions were made to provisions for pension costs (EUR 34m) and restructuring costs (EUR 9m).

### **Capex**

Capex was EUR 78m higher in Q1 2012 compared to Q1 2011 driven by the continuation of the accelerated high speed data network roll-out in Germany and Belgium and increased investments to strengthen the Dutch businesses. At Dutch Telco, the increase related mainly to upgrades of the fixed and mobile network, increased spend on customer premises equipment related to IPTV and FttH activations, and investments in IT.

### **Net debt to EBITDA<sup>1</sup> at 2.4x, within target range**

Net debt at the end of Q1 2012 amounted to EUR 11.8bn, compared to EUR 11.7bn at the end of Q4 2011. Combined with lower EBITDA, this resulted in a net debt to EBITDA ratio of 2.4x (Q4 2011: 2.3x) which remains within KPN's target financial framework of 2.0-2.5x.

In Q1 2012 Moody's confirmed its Baa2 rating but lowered its outlook to negative and Standard & Poor's lowered its credit rating on KPN from BBB+ to BBB with a stable outlook based on KPN's full year 2012 guidance. KPN remains committed to minimum credit ratings of Baa2 and BBB by Moody's and Standard & Poor's respectively.

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<sup>1</sup> Based on 12 months rolling total EBITDA excluding book gains/losses, release of pension provisions and restructuring costs, when over EUR 20m

### **KPN pension funds average coverage ratio at 101%**

At the end of Q1 2012, the average coverage ratio of the KPN pension funds in The Netherlands was 101%, in line with the end of Q4 2011. In Q1 2012, recovery payments of EUR 21m were made. Based on the coverage ratios at the end of Q4 2011 and the end of Q1 2012, recovery payments of EUR 19m are required in both Q2 2012 and Q3 2012.

## **Financial and operating review by segment**

### **Accelerated investment strategy Dutch Telco on track**

Reported revenues and other income at Dutch Telco decreased by 4.6% or EUR 78m in Q1 2012, including a regulatory impact of EUR 24m. Underlying revenues declined by 3.2% as a result of the ongoing change in customer behavior in Consumer Mobile, lower traffic across all segments and lower revenues from traditional services in Consumer Residential and Business.

Reported EBITDA in Q1 2012 was EUR 116m lower y-on-y including a regulatory impact of EUR 7m and net positive incidentals of EUR 7m. The EBITDA margin decreased to 48.0% (Q1 2011: 52.6%) as a result of investments to strengthen the market positions and the decline of traditional high margin services.

The accelerated investment strategy which was announced at the full-year results is currently on track. Operating expenses excluding depreciation & amortization and restructuring costs are up 3.3% y-on-y as a result of higher costs of goods sold, higher SAC and increases in marketing and distribution expenses, the latter due to additional shops. Furthermore employee benefits increased due to higher costs per employee and higher pension costs. Improvements in the underlying cost structure are planned. The main cost savings are related to outsourcing, off-shoring and efficiency resulting in FTE reduction. The restructuring program as announced in May 2011 is expected to be finalized by the end of 2013.

### **Introduction of new propositions and expanding distribution at Consumer Mobile**

Underlying revenues were down 8.4% y-on-y, caused primarily by continued changing customer behavior and market share pressure during the transition period at Consumer Mobile. These trends were partly offset by higher data revenues as a result of the introduction of new mobile propositions. Underlying EBITDA decreased 33% as a result of lower revenue, regulation as well as higher costs related to increased commercial efforts and more high end handsets sold, resulting in an underlying EBITDA margin of 22.0% (Q1 2011: 30.3%).

Consumer Mobile ended the quarter with 7.6m customers. The retail postpaid net adds trend in Q1 2012 is promising (-9k net adds) and the wholesale postpaid base increased by 14k customers, driven by good performance in the 'value for money' segment. The introduction of the new propositions at Hi and Telfort should strengthen the postpaid customer base going forward. The retail postpaid ARPU continued to decline impacted by the changing customer behavior and regulation. The prepaid segment is under pressure due to increased competition in the ethnic segment with net adds at -85k in Q1 2012.

All in all, service revenues were down by 12% y-on-y while total Dutch service revenue market share was 45% in Q1 2012. To counter the adverse trends in the Consumer Mobile segment, significant steps have been taken in the past 12 months to develop improved customer oriented propositions. First of all, in April 2011 short-term measures were taken at the Hi brand to upsell high value customers to more valuable bundles. As a further step, integrated data / voice / SMS propositions for KPN and Hi were launched in September 2011 to meet the growing data demand. Those propositions continued to perform in line with expectations through upselling of customers to higher value bundles and attractive retention offerings, driving the percentage of contracted revenue (committed ARPU) to ~65%, up 11 percentage points y-on-y.

In line with KPN's objective to build a future proof portfolio, new propositions for the Hi (March '12) and Telfort (April '12) brands were recently launched. The new propositions offer a simple three step modular approach, which is transparent, simple and flexible for customers. The propositions have a strong focus on customer preferences and give customers a clear insight into their usage and monthly costs. Furthermore, a handset lease model has been introduced for both propositions that gives customers a choice of handset without any upfront costs.

In line with the ambition to expand the distribution footprint, 9 new own retail shops were opened during Q1. The XL store, offering a full range of products and services, which was introduced in December, is meeting expectations both in terms of sales and customer service. Moreover, multi-year strategic partnerships have been agreed with The Phone House and Telecombinatie, which are the key remaining independent retail channels.

### **Regionalization introduced at Consumer Residential**

Underlying revenues and other income at Consumer Residential fell by 4.4% y-on-y due to declining voice revenues in combination with pressure on broadband market share. Underlying EBITDA decreased 19% y-on-y as a result of declining revenues and higher acquisition costs for Fiber-to-the-Home (FttH) and IPTV, resulting in an underlying EBITDA margin of 23.4% (Q1 2011: 27.6%).

KPN's broadband market share remained under pressure at 39% (Q4 2011: 40%). Improved churn in triple play was offset by increased churn in the single and dual play markets. The growth of IPTV and FttH activations continued in Q1 2012. To reduce churn in copper areas, a number of strategic initiatives have been implemented such as network upgrades, a churn reduction program on ADSL only, proposition enrichments and regionalization. In order to determine the relevant regional market approach, certain regions are selected and analyzed taking future FttH roll-out and copper network upgrades into account. Following this analysis, the marketing and sales approach is determined with strong short-term specific regional offers in selected regions. Furthermore, KPN has reached agreement with HBO to offer three premium TV channels to its customers. This agreement is another step in the strategy to further enrich the IPTV proposition. The HBO channels, including On Demand and HBO Go are expected to become available to KPN IPTV subscribers in the coming months.

In Q1 growth of IPTV activations continued with 79k net adds, resulting in a TV market share of 18%. The TV ARPU increased by 9.1% y-on-y to EUR 12 in Q1 due to higher share of IPTV and customer demand for more value added services (e.g. premium channels, multi-room IPTV). In Q1, KPN introduced a smaller, faster and eco-friendly set top box and a new user interface allowing for faster zapping.

Revenue Generating Units per customer increased to 1.94 (Q1 2011: 1.85) reflecting the growth in triple play propositions as a percentage of the total customer base. Net line loss of 50k in Q1 was in line with last year. Positive results were visible in the FttH areas. FttH activations continued to grow steadily, with 23k net adds in Q1 2012.

### **Satisfactory performance at Business**

Underlying revenues and other income for the Business segment decreased by 1.8% y-on-y, mainly driven by the continued decline in traditional wireline services and price pressure in wireless services, partly offset by increasing revenues from wireless data and hardware sales. Although revenues decreased, KPN was able to keep its market shares stable. Underlying EBITDA increased by 8.3% y-on-y due to increased revenues in the value for money segment and supported by a number of smaller incidentals. The underlying EBITDA margin increased to 34.8% (Q1 2011: 31.5%). The Business segment made good progress with its restructuring program with EUR 11m restructuring costs taken in Q1 2012.

The first results of the new wireless portfolio introduced in December 2011 were positive; 77% of the new customers take a data plan. At Business wireless, service revenues increased by 2.9% y-on-y driven by a larger customer base. For mobile data, both the customer base and usage increased, leading to mobile data revenue growth. The ARPU decreased to EUR 39 (Q1 2011: EUR 42) negatively impacted by regulation and the mix effect of voice versus M2M and data customers. Additionally, the business market challenger brands (Telfort Business, Atlantic Telecom) showed stable growth in Q1 2012.

While traditional wireline services showed a decline in access lines and traffic revenues due to rationalization, Business DSL and managed data services continued to show a solid performance. The migration from traditional to IP based services continued steadily, leading to pressure on prices and margins. KPN continued its focus on the performance of its new portfolio including vertical infrastructures and challenger services as well as introducing Cloud services and integrated fixed / mobile propositions.

### **Network upgrades continued at NetCo**

Underlying revenues and other income at NetCo decreased 4.1% y-on-y, mainly caused by lower traffic and the decline of traditional services at Consumer Residential and Business. Underlying EBITDA decreased 12% as a result of lower revenues and higher costs related to the uptake of FttH activations, leading to an underlying EBITDA margin

of 54.8% (Q1 2011: 59.8%). The sale of the second tranche of towers as announced at the full-year 2011 results release was realized in Q1 2012 and resulted in a book gain of EUR 31m.

NetCo continued upgrading the network in Q1. The copper network upgrades are on track with VDSL upgrades and roll-out of VDSL to the outer-rings. In 2011 the network was prepared for the roll-out of pair-bonding, planned to be commercially available in the summer of this year. The FttH roll-out, through the Reggefiber joint-venture, continued as planned. Reggefiber reached more than 1 million homes passed in Q1 (1,005k versus 693k in Q1 2011).

#### **Continued price pressure at Corporate Market**

Underlying revenues and other income at Corporate Market decreased by 3.6% y-on-y, as a result of the ongoing difficult market conditions in The Netherlands, with no improvement visible in Q1. Clients continued to postpone new investments in ICT, especially in the governmental and financial sectors and price pressure on existing services persisted. As a result underlying EBITDA declined from EUR 21m in Q1 2011 to EUR -3m in Q1 2012. Despite these disappointing results Corporate Market expects to have maintained its market position.

Corporate Market continued the implementation of its off-shoring program and the execution of its efficiency program in Q1 2012 to reduce its operating costs. The restructuring program will result in a staff reduction between 2,000 - 2,500 FTE, with the majority of the reduction in FTE expected in the second half of 2012.

The relationships and synergies between Corporate Market and the Business segment are continuing to evolve. Joint development of new propositions include an infrastructure as a service solution which meets the compliance needs for specific verticals like healthcare, finance or government. Furthermore, Unified Communications cloud services will be launched in Q2 2012 to enable customers to communicate and collaborate using the medium and device of their choice.

The sale of Getronics International which was announced on 24 January 2012 is expected to close in Q2 2012.

#### **Increased revenues at iBasis**

Underlying revenues and other income at iBasis increased by 13% y-on-y, including a favourable currency effect of 2.4%. The average revenue per minute increased 11% y-on-y, while the total number of minutes remained stable y-on-y. Underlying EBITDA remained flat and the EBITDA margin was relatively stable at 2.7%. iBasis retained its top-5 position in the international wholesale voice traffic market, despite challenging market conditions.

#### **Service revenue growth at good EBITDA margin in Germany**

Compared to Q1 2011, underlying revenues and other income in Germany increased by 2.7%. Revenues were driven by increased service revenues (4.2%), partly offset by lower hardware revenues. Service revenue growth was driven by continued growth of customers at BASE and the focus on data in the postpaid segment. In February, the new proposition BASE *plus* was introduced and the commercial roll-out is now in its start-up phase, with a focus on higher value customers and supporting further growth in data service revenue. The underlying EBITDA margin amounted to 38.2%, showing a slight decrease y-on-y (Q1 2011: 38.9%), impacted by investments to support the introduction of new propositions. Postpaid net adds (105k) continued at a good level in line with previous quarters, though prepaid net adds were lower, mainly a result of increased competition in the ethnic segment and a value focus in acquisition. E-Plus' market share in service revenues was estimated at 15.7% in Q1 2012, which is a slight increase compared to Q1 2011 (15.5%). In Q1 2012, E-Plus continued to make good progress with the accelerated roll-out of its high speed mobile data network. The HSPA+ roll-out is on track to reach the target of more than 80% population coverage with speeds of up to 42 Mbps by the end of 2012.

Furthermore, on 17 April the new brand 'yourfone' was introduced into the German market. The yourfone brand comes with an attractive all-net flat proposition to target the no-frills postpaid market. The proposition is based on simplicity and transparency with online distribution as the key distribution channel. The introduction of the yourfone brand fits in E-Plus' multi-brand strategy.

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

Underlying revenues and other income in Belgium increased by 6.7% y-on-y. Service revenues increased by 6.3% to EUR 170m. Adjusted for the impact of regulation (EUR 7m), underlying service revenues increased by 11% y-on-y. Key drivers were the good performance of the new propositions (BASE C, Base Check and Contact Mobile), continued growth via partner brands Jim mobile and Allo RTL and an uptake of interconnect traffic, mobile data, B2B and wholesale. The underlying EBITDA margin of 31.4% improved compared to Q1 2011 (29.6%) due to increased cost discipline.

In Q1 2012, postpaid net adds amounted to 9k and the prepaid base showed strong net adds of 133k, resulting in 4.3m customers in total (up 3.4% compared to Q4 2011). KPN Group Belgium is expected to have outperformed the market again, and to have reached a service revenue market share of more than 19%. KPN Group Belgium continued the high speed commercial data roll-out leading to data growth via own and partner brands. High speed data has now been launched in 6 large cities, in 19 medium sized cities and more than 60 smaller cities and key business areas such as airports and metros.

**Rest of World impacted by competition in ethnic segment**

Following the sale of KPN France, Rest of World consists of KPN Spain and Ortel Mobile, with the latter active in six European countries. Revenues of Rest of World declined by 13% as a result of intense competition in the ethnic segment and the sale of KPN France. EBITDA was relatively stable y-on-y (EUR -5m).

## Outlook

KPN has entered the 2012 transition year which is marked by the accelerated investment strategy to strengthen the Dutch market positions. The accelerated investment strategy is three-fold, consisting of; (1) investments in the fixed network through a hybrid fiber and copper strategy, and in the mobile network via HSPA evolved and LTE; (2) further improving propositions and expanding distribution footprint, and; (3) improving the underlying cost structure. In 2012, KPN aims to stabilize market share in Consumer Mobile and keep the Business market share stable, while it is expected that the broadband market share will bottom-out. The accelerated investment strategy is planned to lead to improving performance of the Dutch businesses in the second half of 2012 and sustainable profit levels in The Netherlands are expected from end-2012 onwards.

KPN confirms the outlook for 2012. KPN remains committed to an attractive dividend policy and returning excess cash to shareholders via share buybacks. KPN continues to target a net debt to EBITDA ratio between 2.0 - 2.5x and remains committed to minimum credit ratings of Baa2 and BBB by Moody's and Standard & Poor's respectively.

Guidance metrics	Outlook 2012
EBITDA <sup>2</sup>	EUR 4.7 - 4.9bn
Capex	EUR 2.0 - 2.2bn
Free cash flow <sup>3</sup>	EUR 1.6 - 1.8bn
Dividend per share <sup>4</sup>	EUR 0.90

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<sup>2</sup> Excluding restructuring costs

<sup>3</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>4</sup> Subject to approval by the Annual General Meeting



## Analysis of underlying results

Consolidated figures	Q1 2012	Result of			Q1 2012	Q1 2011	Result of			Q1 2011	Δ y-on-y	Δ y-on-y
	reported	M&A	Incidentals	underlying	reported	Regulation	M&A	Incidentals	underlying	reported	underlying	
Germany	794			794	773				773	2.7%	2.7%	
Belgium	191			191	186	-7			179	2.7%	6.7%	
Rest of World	60			60	69				69	-13%	-13%	
Other (incl. eliminations)	-25			-25	-28				-28	-11%	-11%	
<b>Mobile International</b>	<b>1,020</b>			<b>1,020</b>	<b>1,000</b>	<b>-7</b>			<b>993</b>	<b>2.0%</b>	<b>2.7%</b>	
Consumer Mobile	427			427	480	-14			466	-11%	-8.4%	
Consumer Residential	458			458	479				479	-4.4%	-4.4%	
Business	598			598	614	-5			609	-2.6%	-1.8%	
NetCo	664		31	633	698	-5		33	660	-4.9%	-4.1%	
Other (incl. eliminations)	-521			-521	-567				-567	-8.1%	-8.1%	
<b>Dutch Telco business</b>	<b>1,626</b>		<b>31</b>	<b>1,595</b>	<b>1,704</b>	<b>-24</b>		<b>33</b>	<b>1,647</b>	<b>-4.6%</b>	<b>-3.2%</b>	
Corporate Market	428			428	449			5	444	-4.7%	-3.6%	
Other (incl. eliminations)	-78			-78	-80				-80	-2.5%	-2.5%	
<b>The Netherlands</b>	<b>1,976</b>		<b>31</b>	<b>1,945</b>	<b>2,073</b>	<b>-24</b>		<b>38</b>	<b>2,011</b>	<b>-4.7%</b>	<b>-3.3%</b>	
<b>iBasis</b>	<b>255</b>			<b>255</b>	<b>226</b>				<b>226</b>	<b>13%</b>	<b>13%</b>	
Intercompany revenues	-79			-79	-80				-80	-1.3%	-1.3%	
Other activities	19			19	16				16	19%	19%	
<b>Revenues and other income</b>	<b>3,191</b>		<b>31</b>	<b>3,160</b>	<b>3,235</b>	<b>-31</b>		<b>38</b>	<b>3,166</b>	<b>-1.4%</b>	<b>-0.2%</b>	

Consolidated figures	Q1 2012	Result of			Q1 2012	Q1 2011	Result of			Q1 2011	Δ y-on-y	Δ y-on-y
	reported	M&A	Incidentals <sup>5</sup>	underlying	reported	Regulation	M&A	Incidentals <sup>5</sup>	underlying	reported	underlying	
Germany	303			303	301				301	0.7%	0.7%	
Belgium	60			60	57	-4			53	5.3%	13%	
Rest of World	-5			-5	-4				-4	25%	25%	
Other (incl. eliminations)	1			1	-1				-1	n.m.	n.m.	
<b>Mobile International</b>	<b>359</b>			<b>359</b>	<b>353</b>	<b>-4</b>			<b>349</b>	<b>1.7%</b>	<b>2.9%</b>	
Consumer Mobile	94			94	145	-4			141	-35%	-33%	
Consumer Residential	106		-1	107	131			-1	132	-19%	-19%	
Business	197		-11	208	195	-3			192	1.0%	8.3%	
NetCo	387		40	347	428			33	395	-9.6%	-12%	
Other (incl. eliminations)	-3		-1	-2	-2				-2	50%	0.0%	
<b>Dutch Telco business</b>	<b>781</b>		<b>27</b>	<b>754</b>	<b>897</b>	<b>-7</b>		<b>32</b>	<b>858</b>	<b>-13%</b>	<b>-12%</b>	
Corporate Market	4		7	-3	31			10	21	-87%	n.m.	
Other (incl. eliminations)					-1				-1	-100%	-100%	
<b>The Netherlands</b>	<b>785</b>		<b>34</b>	<b>751</b>	<b>927</b>	<b>-7</b>		<b>42</b>	<b>878</b>	<b>-15%</b>	<b>-14%</b>	
<b>iBasis</b>	<b>7</b>			<b>7</b>	<b>7</b>				<b>7</b>	<b>0.0%</b>	<b>0.0%</b>	
Other activities	-47		-3	-44	-18			-4	-14	>100%	>100%	
<b>EBITDA</b>	<b>1,104</b>		<b>31</b>	<b>1,073</b>	<b>1,269</b>	<b>-11</b>		<b>38</b>	<b>1,220</b>	<b>-13%</b>	<b>-12%</b>	

<sup>5</sup> Including restructuring costs

## **Condensed Consolidated Interim Financial Statements for the First Quarter ended 31 March 2012 and 2011**

Unaudited Consolidated Statement of Income	11
Unaudited Consolidated Statement of Comprehensive Income	12
Unaudited Consolidated Statement of Financial Position	13
Unaudited Consolidated Statement of Cash Flows	15
Unaudited Consolidated Statement of Changes in Group Equity	16
Notes to Condensed Consolidated Interim Financial Statements	17

## Unaudited Consolidated Statement of Income

<i>(In millions of euro, unless indicated otherwise)</i>	For the three months ended 31 March	
	2012	2011
Revenues	3,158	3,195
Other income	33	40
<b>Revenues and other income [1]</b>	<b>3,191</b>	<b>3,235</b>
Own work capitalized	-28	-29
Cost of materials	264	258
Work contracted out and other expenses	1,143	1,106
Employee benefits	532	477
Depreciation, amortization and impairments	540	557
Other operating expenses	176	154
<b>Total operating expenses</b>	<b>2,627</b>	<b>2,523</b>
<b>Operating profit [2]</b>	<b>564</b>	<b>712</b>
Finance income	5	2
Finance costs	-178	-169
Other financial results	-14	12
<b>Finance income and expenses [3]</b>	<b>-187</b>	<b>-155</b>
Share of the profit of associates and joint ventures, net of tax	-6	1
<b>Profit before income tax</b>	<b>371</b>	<b>558</b>
Income taxes [4]	-83	33
<b>Profit for the period</b>	<b>288</b>	<b>591</b>
Profit (loss) attributable to non-controlling interest	-	-
Profit attributable to equity holders	288	591
<b>Earnings per ordinary share on a non-diluted basis (in EUR)</b>	<b>0.20</b>	<b>0.39</b>
<b>Earnings per ordinary share on a fully diluted basis (in EUR)</b>	<b>0.20</b>	<b>0.39</b>
Weighted average number of shares on a non-diluted basis	1,418,721,237	1,511,545,751
Weighted average number of shares on a fully diluted basis	1,419,412,939	1,514,468,088

## Unaudited Consolidated Statement of Comprehensive Income

<i>(In millions of euro)</i>	For the three months ended 31 March	
	2012	2011
<b>Profit for the period</b>	<b>288</b>	<b>591</b>
<b>Other comprehensive income:</b>		
Cash flow hedges [5]:		
Gains or (losses) arising during the period	-290	20
Tax	72	-11
	<b>-218</b>	<b>9</b>
Currency translation adjustments:		
Gains or (losses) arising during the period	4	-4
Tax	-	-
	<b>4</b>	<b>-4</b>
Fair value adjustment available for sale financial assets:		
Gains or (losses) arising during the period	3	-3
<b>Other comprehensive income for the period, net of tax</b>	<b>-211</b>	<b>2</b>
<b>Total comprehensive income for the year, net of tax</b>	<b>77</b>	<b>593</b>
Total comprehensive income attributable to:		
Owners of the parent	77	593
Non-controlling interest	-	-

## Unaudited Consolidated Statement of Financial Position

ASSETS <i>(In millions of euro)</i>	As at	
	31 March 2012	31 December 2011
<b>NON-CURRENT ASSETS</b>		
Goodwill	5,573	5,575
Licenses	2,438	2,495
Software	813	852
Other intangibles	269	290
<b>Total Intangible assets</b>	<b>9,093</b>	<b>9,212</b>
Land and buildings	699	705
Plant and equipment	5,749	5,704
Other tangible non-current assets	114	116
Assets under construction	1,025	1,008
<b>Total property, plant and equipment</b>	<b>7,587</b>	<b>7,533</b>
Investments in associates and joint ventures	252	261
Loans to associates	165	127
Available-for-sale financial assets	51	48
Derivative financial instruments	63	169
Deferred income tax assets	1,799	1,831
Other financial non-current assets	260	261
<b>Total non-current assets</b>	<b>19,270</b>	<b>19,442</b>
<b>CURRENT ASSETS</b>		
Inventories	154	123
Trade and other receivables	1,789	1,607
Current income tax receivables	2	1
Available-for-sale financial assets	-	-
Cash	1,267	990
<b>Total current assets</b>	<b>3,212</b>	<b>2,721</b>
<b>Non-current assets and disposal groups held for sale [6]</b>	<b>210</b>	<b>224</b>
<b>TOTAL ASSETS</b>	<b>22,692</b>	<b>22,387</b>

<b>LIABILITIES</b> <i>(In millions of euro)</i>	<b>As at</b>	
	<b>31 March 2012</b>	<b>31 December 2011</b>
<b>GROUP EQUITY</b>		
Share capital	344	344
Share premium	6,717	6,717
Other reserves	-338	-127
Retained earnings	-3,716	-4,004
<b>Equity attributable to owners of the parent</b>	<b>3,007</b>	<b>2,930</b>
Non controlling interest	-	-
<b>Total group equity</b>	<b>3,007</b>	<b>2,930</b>
<b>NON-CURRENT LIABILITIES</b>		
Borrowings [7]	11,880	11,641
Derivative financial instruments	383	229
Deferred income tax liabilities	661	793
Provisions for retirement benefit obligations	400	441
Provisions for other liabilities and charges	384	397
Other payables and deferred income	145	155
<b>Total non-current liabilities</b>	<b>13,853</b>	<b>13,656</b>
<b>CURRENT LIABILITIES</b>		
Trade and other payables	3,671	3,804
Borrowings [7]	1,609	1,458
Current income tax liabilities	245	218
Provisions (current portion)	130	129
<b>Total current liabilities</b>	<b>5,655</b>	<b>5,609</b>
<b>Liabilities directly associated with non-current assets and disposal groups classified as held for sale [6]</b>	<b>177</b>	<b>192</b>
<b>TOTAL EQUITY AND LIABILITIES</b>	<b>22,692</b>	<b>22,387</b>

## Unaudited Consolidated Statement of Cash Flows

<i>(In millions of euro)</i>	For the three months ended 31 March	
	2012	2011
<b>Profit before income tax</b>	<b>371</b>	<b>558</b>
Adjustments for:		
- Net finance costs	187	155
- Share-based compensation	3	5
- Share of the profit of associated and joint ventures	6	-1
- Depreciation, amortization and impairments	540	557
- Other income	-32	-39
- Changes in provisions (excluding deferred taxes)	-58	-120
Changes in working capital relating to:		
- Inventories	-29	10
- Trade receivables	-7	65
- Prepayments and accrued income	-183	-191
- Other current assets	10	21
- Trade payables	-44	-142
- Accruals and deferred income	34	-29
- Current liabilities (excluding short-term financing)	-51	-13
<b>Change in working capital</b>	<b>-270</b>	<b>-279</b>
Dividends received	-	-
Taxes paid / received	-91	-115
Interest paid	-258	-256
<b>Net cash flow generated from operations</b>	<b>398</b>	<b>465</b>
Acquisition of subsidiaries, associates and joint ventures (net of acquired cash)	-4	-21
Disposal of subsidiaries, associates and joint ventures	-	7
Investments in intangible assets (excluding software)	-16	-
Investments in property, plant & equipment	-398	-316
Investments in software	-62	-66
Disposal of intangibles (excluding software)	-	8
Disposal in property, plant & equipment	3	1
Disposals of real estate	37	47
Other changes and disposals	-36	-30
<b>Net cash flow used in investing activities</b>	<b>-476</b>	<b>-370</b>
Share repurchase	-	-178
Dividends paid	-	-
Exercised options	-	3
Proceeds from borrowings	747	1
Repayments from borrowings and settlement of derivatives	-410	-20
Other changes in interest-bearing current liabilities	-	-
<b>Net cash flow used in financing activities</b>	<b>337</b>	<b>-194</b>
<b>Changes in cash</b>	<b>259</b>	<b>-99</b>
<b>Net cash at beginning of period</b>	<b>950</b>	<b>682</b>
Exchange rate difference	-	-2
Changes in cash	259	-99
<b>Net cash at end of period</b>	<b>1,209</b>	<b>581</b>
Bank overdrafts	90	363
Cash classified as held for sale	-32	-
<b>Cash at end of period</b>	<b>1,267</b>	<b>944</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 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	-	-	-	-	1	1	-	1
Exercise of options	-	-	-	3	-	3	-	3
Shares repurchased	-	-	-	-178	-	-178	-	-178
Shares cancelled	-44,358,475	-11	-489	500	-	-	-	-
Total comprehensive income for the period	-	-	-	2	591	593	-	593
<b>Balance as of 31 March 2011</b>	<b>1,528,251,409</b>	<b>366</b>	<b>7,695</b>	<b>-382</b>	<b>-3,760</b>	<b>3,919</b>	<b>-</b>	<b>3,919</b>
<b>Balance as of 1 January 2012</b>	<b>1,431,522,482</b>	<b>344</b>	<b>6,717</b>	<b>-127</b>	<b>-4,004</b>	<b>2,930</b>	<b>-</b>	<b>2,930</b>
Total comprehensive income for the period	-	-	-	-211	288	77	-	77
<b>Balance as of 31 March 2012</b>	<b>1,431,522,482</b>	<b>344</b>	<b>6,717</b>	<b>-338</b>	<b>-3,716</b>	<b>3,007</b>	<b>-</b>	<b>3,007</b>



# Notes to the Condensed Consolidated Financial Statements

## Company profile

KPN is the leading telecommunications and ICT provider in The Netherlands offering wireline and wireless telephony, broadband and TV to consumers and end-to-end telecom and ICT services to business customers. 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 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 Interim Financial Statements have been prepared in accordance with IAS 34, Interim Financial Reporting. As permitted by IAS 34, the condensed consolidated interim financial statements do not include all of the information required for full annual financial statements. In addition, the notes to these consolidated interim financial statements are presented in a condensed format. The applied accounting principles are in line with those as described in KPN's 2011 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 2011 Annual Report, including the determination of deferred tax assets for carry forward losses and the provision for tax contingencies, the determination of fair value less costs to sell and value in use of cash-generating units for goodwill impairment testing, the depreciation rates for the copper and fiber network, the assumptions used to determine the value of the call/put arrangements of Reggefiber Group, the assumptions used to determine the provision for retirement benefit obligations and 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 2011 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.

## Changes to organizational structure

As per 1 January 2012 KPN Group's organizational structure and reporting format have been changed. The changes to the reporting format were as follows:

- Consumer segment split into Consumer Mobile and Consumer Residential
- Wholesale & Operations ("W&O") and Dutch IT operations ("ITNL") merged into NetCo
- Telfort activities (previously included in Consumer) allocated to Consumer Mobile, Consumer Residential, Business and NetCo
- Other relevant changes
  - Customer Operations moved from W&O to Consumer Residential
  - iBasis no longer included in The Netherlands
  - Business segment revenues, as part of integrated contracts provided by KPN Corporate Market, will now be recognized as external revenues in the Business segment and are no longer part of KPN Corporate Market revenues following a governance change

The 2011 comparative figures have been restated. For details on the restatements reference is made to the separate press release issued on 13 March 2012 ([www.kpn.com/ir](http://www.kpn.com/ir)).

### [1] Revenues and other income

For a description of the activities of the segments, reference is made to the 2011 Annual Report. For operating profit reference is made to note [2] and for other segment information reference is made to note [8] in these Condensed Consolidated Interim Financial Statements.

Revenues and Other income	For the three months ended 31 March 2012				For the three months ended 31 March 2011			
	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	773	1	20	794	751	1	21	773
Belgium	179		12	191	171		15	186
Rest of World	60			60	69			69
Other (incl. eliminations)	-		-25	-25			-28	-28
<b>Mobile International</b>	<b>1,012</b>	<b>1</b>	<b>7</b>	<b>1,020</b>	<b>991</b>	<b>1</b>	<b>8</b>	<b>1,000</b>
Consumer Mobile	405		22	427	448		32	480
Consumer Residential	427		31	458	446		33	479
Business	572		26	598	588		26	614
NetCo	147	32	485	664	139	34	525	698
Other (incl. eliminations)			-521	-521			-567	-567
<b>Dutch Telco business</b>	<b>1,551</b>	<b>32</b>	<b>43</b>	<b>1,626</b>	<b>1,621</b>	<b>34</b>	<b>49</b>	<b>1,704</b>
Corporate Market	378		50	428	392	5	52	449
Other (incl. eliminations)	-1		-77	-78	1		-81	-80
<b>The Netherlands</b>	<b>1,928</b>	<b>32</b>	<b>16</b>	<b>1,976</b>	<b>2,014</b>	<b>39</b>	<b>20</b>	<b>2,073</b>
<b>iBasis</b>	<b>199</b>		<b>56</b>	<b>255</b>	<b>175</b>		<b>51</b>	<b>226</b>
Other activities	19			19	15		1	16
Eliminations	-		-79	-79			-80	-80
<b>KPN Total</b>	<b>3,158</b>	<b>33</b>	<b>-</b>	<b>3,191</b>	<b>3,195</b>	<b>40</b>	<b>-</b>	<b>3,235</b>

KPN Group revenues and other income were 1.4% or EUR 44m lower y-on-y due to a decline in The Netherlands while Germany, Belgium and iBasis showed increased revenues. The negative impact on Group revenues from regulation in Q1 was EUR 31m y-on-y. The Netherlands continued to show a revenue decline as a result of difficult market conditions and regulation. Other income in Q1 2012 included a book gain on the sale of mobile towers of EUR 31m, whereas Other income in Q1 2011 included a book gain on the sale of mobile towers of EUR 33m. Other income at Corporate Market in Q1 2011 was related to the book gain from the sale of PharmaPartners. For more detailed information on revenues, reference is made to the Management Report.

## [2] Operating profit

	For the three months ended 31 March 2012			For the three months ended 31 March 2011		
	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	149	154	303	139	162	301
Belgium	23	37	60	25	32	57
Rest of World	-8	4	-4	-7	2	-5
<b>Mobile International</b>	<b>164</b>	<b>195</b>	<b>359</b>	<b>157</b>	<b>196</b>	<b>353</b>
Consumer Mobile	75	19	94	127	18	145
Consumer Residential	47	59	106	76	55	131
Business	168	29	197	167	28	195
Netco	180	207	387	212	216	428
Other (incl. eliminations)	-2	-1	-3	-2		-2
<b>Dutch Telco business</b>	<b>468</b>	<b>313</b>	<b>781</b>	<b>580</b>	<b>317</b>	<b>897</b>
Corporate Market	-22	26	4	-7	38	31
Other (incl. eliminations)					-1	-1
<b>The Netherlands</b>	<b>446</b>	<b>339</b>	<b>785</b>	<b>573</b>	<b>354</b>	<b>927</b>
<b>iBasis Group</b>	<b>2</b>	<b>5</b>	<b>7</b>	<b>2</b>	<b>5</b>	<b>7</b>
Other activities	-48	1	-47	-20	2	-18
<b>KPN Total</b>	<b>564</b>	<b>540</b>	<b>1,104</b>	<b>712</b>	<b>557</b>	<b>1,269</b>

KPN Group EBITDA decreased by 13% or EUR 165m y-on-y. EBITDA was impacted by regulation of EUR 11m and restructuring charges of EUR 19m. The decrease in EBITDA related to Dutch Telco and Corporate Market, resulting from a decline in high margin traditional services, investments to strengthen the domestic market positions and difficult market conditions. Furthermore, pension costs were EUR 34m higher y-on-y of which EUR 19m related to actuarial losses at the Getronics UK and US pension funds.

Operating profit decreased EUR 148m (21%) y-on-y, following the EBITDA decrease partly offset by lower depreciation and amortization (EUR 17m), mainly attributable to the prolonged economic life of fiber from 20 to 30 years as per 1 January 2012.

## [3] Finance income and expenses

Net finance costs at the end of Q1 2012 increased by EUR 32m y-on-y to EUR 187m. The increase was mainly related to a positive result on the ineffective portion of the USD fair value hedges in Q1 2011 and fair value movements on derivatives in Q1 2012, partly offset by a loss on the Reggefiber option in Q1 2011.

## [4] Income taxes

KPN benefits from the agreement with the Dutch tax authorities with regard to the application of the innovation tax facilities. Innovation tax facilities are facilities under Dutch corporate income tax law whereby profits attributable to innovation are taxed at an effective rate of 5%. Due to the application of the innovation tax facilities, KPN's effective tax rate in The Netherlands is reduced from the statutory tax rate of 25% to approximately 20%.

The effective tax rate for KPN Group in Q1 2012 amounted to 21.9% (Q1 2011: 20.9%) mainly due to the existence of non-deductible pension losses in 2012 for the UK and US Getronics pension funds. The effective tax rate for the Group is expected to be approximately 21-22% for the full year 2012 and 20% in the years 2013-2015.

## [5] Cashflow hedges

In Q1 2012, the cash flow hedge reserve decreased EUR 218 million (Q1 2011: EUR 9 million) resulting from changes in the valuation of the USD and GBP cross currency swaps. Because KPN applies hedge accounting, any change in swap value will result in an opposite movement in the cash flow hedge reserve, such that there is no income impact. The change in Q1 2012 is caused by the significant drop of the Euro interest rates compared to GBP and USD interest rates. Furthermore the amount of swaps for which KPN applies cash flow hedge accounting increased compared to last year.

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

As at 31 March 2012 and 31 December 2011 SNT Inkasso and Getronics International were classified as assets held for sale. In Q1 2012, KPN sold a number of mobile towers which were presented as assets held for sale as at 31 December 2011 as well.

## [7] Borrowings

On 22 February 2012, KPN issued a Eurobond for an amount of EUR 750m, with a 10-year maturity and a fixed coupon of 4.25%. The bond was issued under KPN's Global Medium Term Note program and has been listed on NYSE Euronext Amsterdam. The proceeds of this bond have been used for general corporate purposes.

As at the end of Q1 2012, the average bond maturity was 7.2 years (Q4 2011: 7.3 years). The average interest rate on the nominal bonds was 5.2% (Q4 2011: 5.3%).

## [8] Other segment information

	As at 31 March 2012		As at 31 December 2011		For the three months ended 31 March	
	Total assets	Total liabilities	Total assets	Total liabilities	2012 Capex	2011 Capex
<b>Assets, liabilities and Capex</b>						
Germany	10,554	26,751	10,451	26,766	111	93
Belgium	1,881	297	1,882	316	20	20
Rest of World	145	136	153	135	-	1
Other (incl. eliminations)	-15	-16	-16	-17	1	-
<b>Mobile International</b>	<b>12,565</b>	<b>27,168</b>	<b>12,470</b>	<b>27,200</b>	<b>132</b>	<b>114</b>
Consumer Mobile	956	678	2,571	2,367	30	13
Consumer Residential	1,344	1,228	1,135	1,070	76	47
Business	1,279	1,120	2,683	2,693	28	20
NetCo	5,960	5,787	8,867	8,868	173	159
Other (incl. eliminations)	-475	-470	-1,060	-1,043		1
<b>Dutch Telco business</b>	<b>9,064</b>	<b>8,343</b>	<b>14,196</b>	<b>13,955</b>	<b>307</b>	<b>240</b>
Corporate Market	2,479	1,913	2,406	1,826	18	25
Other (incl. eliminations)	-335	-335	-303	-303	-	-
<b>The Netherlands</b>	<b>11,208</b>	<b>9,921</b>	<b>16,299</b>	<b>15,478</b>	<b>325</b>	<b>265</b>
<b>iBasis</b>	<b>440</b>	<b>350</b>	<b>448</b>	<b>365</b>	<b>2</b>	<b>1</b>
Other activities	-1,521	-17,754	-6,830	-23,586	1	2
<b>KPN Total</b>	<b>22,692</b>	<b>19,685</b>	<b>22,387</b>	<b>19,457</b>	<b>460</b>	<b>382</b>

The increase in Capex of EUR 78m y-on-y was related to the accelerated high speed mobile data network roll-out in Germany and Belgium and increased Capex at Dutch Telco. At Dutch Telco the increase related to investments to strengthen the Dutch businesses such as continued upgrades of the fixed and mobile networks, increased spend on customer premise equipment and investments in IT.

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

At the end of Q1 2012 off-balance sheet commitments increased to EUR 4.6bn (31 December 2011: EUR 4.5bn), mainly due to an increase in purchasing commitments.

### **[10] Regulatory developments**

#### **The Netherlands: Spectrum auction**

On 6 January 2012 the auction rules for the auction of 800, 900, 1800MHz licenses were published. 2\*10MHz in the 800MHz and 2\*5MHz in the 900MHz band have been reserved for new market entrants. The Minister of Economic Affairs, Agriculture and Innovation announced its intention to start the auction in October 2012. Recently, the Minister announced an option for 900 and 1800MHz licensees to extend the existing licenses for a period of 21 months to avoid the risk of discontinuity of GSM services.

#### **The Netherlands: Status OPTA analysis fixed telecommunications markets**

At the end of December 2011 OPTA published the first decision resulting from market analysis it conducted for the period 2012-2014. In its decision of 29 December 2011 OPTA confirmed its conclusion that KPN still has significant market power on the market of unbundled access to its copper network and Reggefiber on the market of unbundled access to its fiber to the home network. KPN has to offer non-discriminatory unbundled access (MDF and SDF) based on published reference offers. The tariffs of existing services are regulated by means of a safety cap (tariffs of 2011 as maximum with inflation correction). The margin squeeze test has been amended. The regulation of unbundled access to Reggefibers fiber to the home networks remains unchanged.

On 20 December 2011, OPTA published its conclusion that the Dutch television markets will not be regulated. OPTA concluded that the (so called 'three criteria') test imposed by European regulation, which should be passed for ex-ante regulation, has not been fulfilled.

On the other relevant markets OPTA has notified draft decisions to the European Commission. OPTA intends to extend (with some amendments) regulation for KPN on wholesale fixed voice, high quality wholesale broadband and leased lines and reintroduce regulation (a margin squeeze test) on the retail markets for two and more than two simultaneous calls (ISDN 2, 15, 30 etc). OPTA further intends to withdraw regulation on the markets for FttO and low quality wholesale broadband access, however on 21 March the European Commission has ordered OPTA to suspend the intended decisions in relation to FttO and high quality wholesale broadband access and started a second phase investigation.

On 13 February the European Commission also decided to suspend the intended decision of OPTA to base fixed termination access tariffs on a cost methodology 'plus BULRIC' as decided earlier by the Dutch highest administrative court.

#### **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 European 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. In preliminary proceedings, the courts have so far left BNetzA's decisions unchanged. The main proceedings are still ongoing. On 18 April 2012, BNetzA published its draft regulatory orders which are the prerequisite for the MTA proceedings which will start in September 2012. BNetzA is expected to announce new MTA rates in November 2012.

#### **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 was pleaded in December 2011. A decision regarding the annulment procedure is expected in Q2 2012.

## **[11] Related party transactions**

### **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 2011 Annual Report, including major shareholders. In the three months ended 31 March 2012, there have been no changes in the type of related party transactions as described in the 2011 Annual Report that could have a material effect on the financial position or performance of KPN. Nor have any related party transactions taken place in the first three months of 2012 that have materially affected the financial position or the performance of KPN.

On 11 January 2012, Capital Research and Management Company notified that they held 15.11% of the voting rights related to KPN's ordinary share capital. On 25 January 2012, Capital Income Builder Inc. notified that they held 5.08% of KPN's ordinary share capital, excluding voting rights. To KPN's knowledge, no other shareholder owned 5% or more of KPN's outstanding shares as at 31 March 2012.

### **[12] Subsequent events**

At the AGM, held on 12 April 2012, a final dividend of EUR 0.57 per share for 2011 has been approved. An interim dividend of EUR 0.28 per share had already been paid in August 2011. The final net dividend over 2011 of EUR 809m (including dividend tax) will be paid on 24 April 2012, and dividend taxes will be paid in May 2012.

On 13 April 2012, the Dutch competition authority ("NMa") approved the acquisition of FttH service provider Lijbrandt, Glashart Media and Reggefiber Wholesale from Reggefiber. The acquisitions strengthen KPN's commitment to FttH and allow Reggefiber to focus solely on the roll-out of FttH and to operate an open access passive FttH network. The transactions are expected to be completed on 24 April 2012. In November 2011, KPN has also reached agreement to acquire FttH service providers Edutel, XMS and Concepts ICT from Reggeborgh. These acquisitions are still pending NMa approval.

On 16 April, KPN announced that it is exploring strategic options for KPN Group Belgium. KPN is continuously reviewing its alternatives in respect of executing its strategy. In this respect, KPN is conducting a comprehensive review of the strategic options in respect of its mobile operations in Belgium. At this stage however the outcome of this strategic review is not yet clear, and further announcements will be made, if and when appropriate.

## **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 2011 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 first quarter of 2012.

With respect to regulatory risk, reference is made to note [10] regulatory developments of the Condensed Consolidated Interim Financial Statements for the three months ended 31 March 2012.

## **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 total 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 2011.*