

2011 EBITDA outlook adjusted downwards, free cash flow confirmed

Revenues in the Netherlands lower than expected, new strategy accelerated to strengthen the business

- Lower than expected revenues in the Netherlands
- New strategy and related investment plans accelerated to strengthen the Dutch businesses
- Germany firmly on track with profitable growth, despite MTA reductions
- 2011 EBITDA outlook adjusted downwards, free cash flow outlook confirmed partly due to cash contribution tax facility
- KPN confirms dividend proposal of \geq EUR 0.85 and EUR 1bn share repurchase program for 2011

KPN today announces an adjustment of its 2011 EBITDA outlook¹ to $>$ EUR 5.3bn². The reduction is caused by recent trends in the Netherlands and accelerated investments as part of the new strategy plans, to be announced 10 May, to strengthen the market positions of the Dutch businesses.

Q1 trends affecting the Netherlands

- Consumer wireless revenues lower than expected following accelerated change in customer behavior
- Business Segment under increasing pricing pressure and rationalization
- Cost reductions insufficient to offset decline in revenues on top of severe MTA impact

KPN is making significant wireless portfolio adjustments in the Netherlands to address SMS and voice substitution by moving from voice to data-centric portfolios to optimize the value per customer.

The existing guidance for 2011 free cash flow is confirmed today. This is supported by a cash contribution resulting from Dutch tax facilities which allows KPN to accelerate investments to strengthen its businesses.

Accelerating implementation of new strategy

- Enhance market positions of Consumer wireless and Business wireline
- Improve broadband and TV market share
- Expand distribution capability and upgrade VDSL network

To further lower the cost base in the Netherlands, a new reduction program of 4,000 - 5,000 FTE, around 20 - 25% of the workforce in the Netherlands, for the 2011-2015 period has been prepared of which the majority will consist of outsourcing and off-shoring back-office activities. The multi-year reorganization costs are expected to amount to EUR 250 - 300m. The 2011 part of this amount is not included in the 2011 EBITDA outlook.

Message from the CEO, Eelco Blok

"We face negative trends in the Netherlands. I'm pleased with the strong underlying growth in Germany and Belgium where we will continue to invest. I am firmly committed to making KPN the best service provider in the Netherlands and to grow our international businesses. To make our Dutch businesses more robust I have decided to accelerate the investments related to the new strategy. I'm confident that we are taking all necessary measures to strengthen and grow our businesses and I will share my detailed KPN Group plans during the 10 May Investor Day."

Outlook

Guidance metrics	Previous outlook 2011	Revised outlook 2011
EBITDA	Growth ¹	$>$ EUR 5.3bn ²
Capex	$<$ EUR 2bn	$<$ EUR 2bn
Free cash flow ³	Growth ⁴	Growth ⁴
Dividend per share	\geq EUR 0.85	\geq EUR 0.85

¹ "Growth" defined as growth compared to 2010 EBITDA, set on 26 January 2010 (EBITDA in 2010 was EUR 5,476m)

² Excluding 2011 part of reorganization costs

³ Free cash flow defined as cash flow from operating activities, plus proceeds from real estate, minus Capex and excluding tax recapture at E-Plus

⁴ "Growth" defined as growth compared to 2010 free cash flow, set on 26 January 2010 (free cash flow in 2010 was EUR 2,428m)

Group review

Group financials * <i>(In millions of euro, unless indicated otherwise)</i>	Q1 2011	Q1 2010	Δ y-on-y
Revenues and other income	3,235	3,277	-1.3%
- Of which revenues	3,195	3,271	-2.3%
EBITDA	1,269	1,323	-4.1%
EBITDA margin	39.2%	40.4%	
Operating profit (EBIT)	712	793	-10%
Profit for the period (net result)	591	449	32%
Earnings per share (in EUR)	0.39	0.28	39%
Cash flow from operating activities	465	229	>100%
Capital expenditures (PP&E and software)	-382	-335	14%
Proceeds from real estate	47	7	>100%
Tax recapture at E-Plus	61	327	-81%
Free cash flow	191	228	-16%

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

Revenues and other income <i>(In millions of euro)</i>	Q1 2011	Q1 2010	Δ y-on-y
KPN Group	3,235	3,277	-1.3%
- The Netherlands ¹	2,265	2,292	-1.2%
- Mobile International	1,000	999	0.1%

¹ The Netherlands includes Dutch Telco business, iBasis, Getronics and Other gains and losses including eliminations

EBITDA <i>(In millions of euro)</i>	Q1 2011	Q1 2010	Δ y-on-y
KPN Group	1,269	1,323	-4.1%
- The Netherlands ¹	935	954	-2.0%
- Mobile International	353	384	-8.1%

¹ The Netherlands includes Dutch Telco business, iBasis, Getronics and Other gains and losses including eliminations

Significant regulatory impact leading to declining revenues

KPN Group revenues and other income were down 1.3% y-on-y, including an impact of EUR 122m (3.7%) from regulatory tariff cuts for MTA and roaming. The total effect from acquisitions, disposals and one-offs did not impact the y-on-y Group revenue and other income comparison between Q1 2011 and Q1 2010. Revenue performance at the Group was a combination of declining revenues and other income in the Dutch Telco business (EUR 54m), stable revenues at Getronics and Mobile International and higher revenues at iBasis (EUR 33m).

KPN Group profitability impacted by regulation and changing customer behavior in Dutch Telco

KPN Group EBITDA decreased by 4.1% y-on-y to EUR 1,269m, including the impact of regulatory cuts (EUR 51m or 3.9%). This was partly compensated by a EUR 15m net effect from acquisitions, disposals and one-offs. EBITDA in Mobile International, Getronics and iBasis was in line with expectations and continued investments in growth. EBITDA y-on-y in Dutch Telco was lower than expected. Continued cost reductions, which were put in place to mitigate regulation were not sufficient to also mitigate i) lower than expected revenues in Consumer wireless following accelerated changing customer behavior and ii) increasing pricing pressure and continued rationalization in Business. EBIT decreased by EUR 81m (10%) y-on-y. This is the result of lower EBITDA (EUR 54m) and higher amortization of licenses and software compared to last year (EUR 28m).

Net profit of EUR 591m positively impacted by Dutch tax facilities

As KPN was close to reaching an agreement with the Dutch tax authorities with regard to the application of the so called "Innovation Box", retroactively to 1 January 2007, KPN recorded a one-off tax benefit of EUR 150m in Q1 2011. The innovation box is a facility under Dutch corporate tax law pursuant to which profits attributable to innovation are taxed at an effective rate of 5%. The positive effect related to the period 2007-2010. From 2011 onwards KPN expects the effective tax rate to decrease from 24% to approximately 21% (in 2011) and 20% after 2011, as long as this tax facility remains in place.

EUR 191m free cash flow

Free cash flow in Q1 2011 followed a regular seasonal pattern and amounted to EUR 191m, which is EUR 37m below last year (EUR 228m). Main reasons are lower EBITDA (EUR 54m), lower working capital improvements (EUR 82m) due to a strong Q1 2010 and higher Capex (EUR 47m). Furthermore, due to timing differences KPN faced higher pension premium payments (EUR 47m) compared to last year and a recovery payment in the Netherlands (EUR 11m).

These effects were partly compensated by lower tax payments in Q1 2011 (EUR 173m), mainly due to the decision to pay the preliminary tax assessment for 2011 in the Netherlands on a monthly basis instead of a prepayment of the full-year amount which occurred in Q1 2010.

Net debt to EBITDA² stable at 2.2x and well within target range

Net debt at the end of Q1 2011 remained stable at EUR 11.8bn, compared to net debt at the end of Q4 2010. This translates into a stable net debt to EBITDA ratio of 2.2x (Q4 2010: 2.2x), well within KPN's target financial framework of 2.0-2.5x net debt to EBITDA. At the end of Q1 2011, KPN's bond portfolio carried an average interest rate of 5.2% and had an average maturity profile of 7.2 years. KPN has a solid financial profile and remains committed to maintaining its prudent financing policy. KPN's credit ratings remained unchanged at BBB+ with a stable outlook (Standard & Poor's) and Baa2 with a stable outlook (Moody's).

KPN pension funds average coverage ratio at 109%

In Q1 2011, KPN's pension funds in the Netherlands kept benefitting from increasing interest rates and improving equity markets, resulting in an average coverage ratio for all KPN's pension funds of 109%. KPN has made additional cash payments of EUR 11m in Q1 2011, based on the coverage ratio at the end of Q3 2010 and a payment of EUR 19m on 1 April 2011, based on the coverage ratio at the end of Q4 2010. KPN is not obliged to make any additional recovery payments as long as the coverage ratio remains above the minimum required coverage ratio of 105%.

EUR 1bn share repurchase program 2011 started in February

On 26 January 2011, KPN announced its EUR 1bn share repurchase program for 2011. This program commenced on 21 February 2011. Under this program, until 31 March 2011, KPN repurchased 15.2 million shares at an average price of EUR 11.71, for a total amount of EUR 178m. To date, 24% of the share repurchase program has been completed.

² 12 month rolling average excluding book gains, release of pension provisions and restructuring costs, all over EUR 20m

Financial and operating review by Segment

The Netherlands

Revenues and other income (In millions of euro)	Q1 2011	Q1 2010	Δ y-on-y
- Consumer	941	969	-2.9%
- Business	600	634	-5.4%
- Wholesale & Operations (national)	676	704	-4.0%
- Other (incl. eliminations)	-513	-549	6.6%
Dutch Telco business	1,704	1,758	-3.1%
- iBasis Group	226	193	17%
- Getronics	472	474	-0.4%
- Other gains/losses, eliminations	-137	-133	-3.0%
of which Real estate	–	2	-100%
The Netherlands	2,265	2,292	-1.2%

EBITDA (In millions of euro)	Q1 2011	Q1 2010	Δ y-on-y
- Consumer	274	261	5.0%
- Business	194	223	-13%
- Wholesale & Operations (national)	421	427	-1.4%
- Other	8	6	33%
Dutch Telco business	897	917	-2.2%
EBITDA margin	52.6%	52.2%	
- iBasis Group	7	8	-13%
- Getronics	30	29	3.4%
- Other gains/losses	1	–	n.m.
of which Real estate	–	–	n.m.
The Netherlands	935	954	-2.0%
EBITDA margin	41.3%	41.6%	

Revenues at Dutch Telco lower than expected

Revenues and other income at Dutch Telco decreased by 3.1% y-on-y, including a negative regulatory impact of EUR 44m (2.5%) and EUR 22m net positive effects of one-offs and changes in composition of the Group. Underlying revenues and other income decreased 1.9% due to lower service revenues and a continued decline in traditional services, which were partially offset by higher product revenues from smartphone sales. EBITDA decreased by 2.2% y-on-y to EUR 897m, due to regulatory impact of EUR 9m (1.0%) and despite a net positive impact of incidentals (EUR 13m). This resulted in an EBITDA margin of 52.6%, slightly above the margin in Q1 2010 (52.2%).

Service revenues impacted by regulation and changing customer behavior at Consumer

Revenues and other income declined by 2.9% y-on-y to EUR 941m, including a regulatory impact of EUR 19m (2.0%). The decrease is primarily caused by lower service revenues, as well as a continued decline in the traditional wireline business. EBITDA increased 5.0% y-on-y due to cost reduction initiatives. Service revenues³ decreased 8.1% y-on-y, including a regulatory impact of EUR 19m (4.4%). Around 2% of the service revenue decrease is explained by lower prepaid revenues as a result of a declining prepaid base. This was in line with the value focus to target a healthier prepaid customer base. The remaining ~2% service revenue decrease is a result from changing customer behavior.

In Q1 2011, accelerated changing customer behavior became visible amongst smartphone users. New popular 'apps' on smartphones offer alternative ways of communication beyond traditional voice and SMS. The increased usage of these 'apps' lead to decreasing SMS and voice usage resulting in lower service revenues. The usage of these 'apps'

³ Excluding Mobile Wholesale NL

also lead to increasing data usage; however KPN's current propositions are not sufficiently able to monetize on the data usage growth. Short term measures are taken to mitigate the impact on service revenues from these trends; these measures include personalized ARPU optimization and reduced discounts on data. Significant portfolio adjustments are planned for the medium term to monetize on the data usage growth. These adjustments include integrated voice, SMS and data bundles and lead the market by expanding volume based data pricing. In the longer term the wireless portfolio will move from a voice to a data-centric portfolio with quality of service and speed as differentiators.

These trends also affected postpaid ARPU. Although blended ARPU was at a relatively stable level of EUR 24, postpaid ARPU declined. As a result of the rising popularity of smartphones (e.g. iPhone), hardware revenues increased, partially offsetting the revenue decline. This has led to an increased penetration rate of smartphones of around 42%⁴ of the postpaid base, supporting data revenue growth to 50% y-on-y. In Q1 2011, the share of non-voice in ARPU increased to 37% compared to 35% in Q4 2010. KPN's postpaid base remained almost stable at 3.2 million customers, representing 58% of the total customer base, compared to 57% in Q4 2010.

In Q1 2011, net line loss was relatively stable at 50k. PSTN/ISDN outflow to wholesale line rental and cable was slightly higher than in previous quarters. Although the challenging market conditions are likely to continue, KPN expects that full year net line loss will be in line with 2010. The broadband base was fairly stable with market share under continued pressure at 41%. TV continued to be one of the growth drivers for KPN. In Q1 2011, KPN added 58k IPTV customers while the Digitenne base remained relatively stable. KPN ended the quarter with 1,242k TV subscribers, of which a growing percentage is IPTV customer. This brought KPN's TV market share to 16%. Approximately 50% of new TV subscribers are new broadband customers and about 75% of all IPTV customers choose a triple play package. TV ARPU increased by 22% y-on-y to EUR 11 in Q1 2011. There was a positive trend in FttH sales order intake due to demand bundling, however KPN only grew to 50k FttH activated homes at the end of Q1 2011 (Q4 2010: 41k). KPN confirms its 2012 FttH ambition of 250k homes activated.

Revenue pressure at Business from regulation, pricing pressure and customer rationalization

Revenues and other income decreased by EUR 34m or 5.4% to EUR 600m, including a regulatory impact of EUR 17m (2.7%) and net negative incidentals of EUR 3m. Revenues included increased hardware revenues due to the higher smartphone sales (e.g. iPhone), also affecting EBITDA by increased SAC/SRC levels. Furthermore, the business market faced increased pricing pressure in wireline and wireless services. In Q1, overall EBITDA decreased by 13% or EUR 29m y-on-y to EUR 194m. Service revenues declined 7.3% in comparison with last year, including the impact from regulation of EUR 17m (6.9%). The decline in voice revenues was only partly offset by growing data revenues. In Q1 2011, 61% of the customers used data services compared to 59% in Q4 2010.

Traditional wireline services showed a decline in access lines and traffic revenues due to declining traffic and customer rationalization in a competitive environment. Business DSL and managed data services showed a solid performance. Business wireline revenues decreased by EUR 27m (7.2%) y-on-y including a net negative impact from a release of deferred connection fees in Q1 2010 of EUR 22m and a positive impact from the acquisition of Atlantic Telecom of EUR 12m. The migration from traditional to new services continued steadily. KPN is adjusting its propositions in Business and putting continued focus on customer retention to further strengthen its position in the business market

Continued cost reductions mitigating revenue pressure at Wholesale & Operations Segment

Revenues and other income declined 4.0% y-on-y in Q1 2011, mainly as a result of the ongoing decline of traditional business in the Consumer and Business segments and regulation. The underlying revenue decline was partly compensated by a book profit of EUR 33m from the sale of mobile towers. Continued cost reductions were realized to mitigate the revenue decline. Besides lower traffic costs, further FTE decline and efficiency improvements were the main drivers of the cost reduction. Through the Reggefiber joint-venture, further progress was made with the FttH roll-out. At the end of Q1 2011 the number of homes passed at Reggefiber level reached 693k, with 198k homes activated in total.

iBasis is balancing revenue growth with profitability

Revenues at iBasis increased by 17% y-on-y in Q1 2011, including a positive currency effect of 2%. Revenues have been at a higher level as a result of the sustained business focus following the full takeover of iBasis by KPN in Q4

⁴ Q1 2011 figure based on January and February only

2009. As a consequence, underlying revenues are expected to grow⁵ slightly for the full year 2011 over 2010. In Q1 2011, the EBITDA margin was fairly stable q-on-q. iBasis continued to improve its market share and retained its top 5 position in the international voice traffic market, as total minutes were up 15% y-on-y.

Relatively stable market position in challenging market at Getronics

In Q1 2011 revenues and other income at Getronics were relatively stable with a decline of 0.4% y-on-y. Revenues in the Netherlands showed a small decrease (0.5%) while International was up by 1.7% y-on-y. Revenues at International included a EUR 6m positive foreign exchange effect. Excluding the foreign exchange effect International showed a y-on-y revenue decline of 3.4%. EBITDA was stable at EUR 30m in Q1 2011, including a positive net one-off effect of EUR 9m (mainly a gain related to the pension plan in the UK). Getronics realized a 6.4% EBITDA margin, which was stable y-on-y supported by the positive one-off effect. Overall market conditions remained challenging with price pressure, clients postponing investments and markets showing no or limited growth. During Q1 2011, there were only a limited number of large deals in the market, causing the sales order intake to be under pressure. Getronics maintained its market position⁶ in a highly competitive market. In order to keep sustainable margins and to reduce costs Getronics will continue to study further off-shoring opportunities.

⁵ Excluding currency effect

⁶ Management estimate

Mobile International

Revenues and other income (In millions of euro)	Q1 2011	Q1 2010	Δ y-on-y
- Germany	773	768	0.7%
- Belgium	186	202	-7.9%
- Rest of World (incl. eliminations)	41	29	41%
Mobile International	1,000	999	0.1%

EBITDA (In millions of euro)	Q1 2011	Q1 2010	Δ y-on-y
- Germany	301	321	-6.2%
- Belgium	57	67	-15%
- Rest of World	-5	-4	-25%
Mobile International	353	384	-8.1%
<i>EBITDA margin</i>	35.3%	38.4%	

Service revenue growth and good profitability at Mobile International despite severe regulatory impact

Revenues and other income at Mobile International in Q1 2011 were stable compared to last year. Service revenues were up 2.0% including a negative regulatory impact of EUR 77m (8.3% on service revenues), driven by accelerating underlying growth in Germany and strong underlying growth in Belgium.

EBITDA was 8.1% lower than in Q1 2010, due to the regulatory effects in Germany and Belgium of EUR 42m (10.9%) and investments in the market through higher SAC/SRC, leading to an EBITDA margin of 35.3%.

Underlying service revenue growth in Germany accelerating to 7.9% y-on-y

Revenues and other income in Germany increased by 0.7% y-on-y. Service revenues were up 1.0% compared to Q1 2010. Underlying service revenues growth accelerated to 7.9% y-on-y when corrected for the positive impact from Multiconnect (EUR 10m) and the negative impact from MTA and roaming (EUR 56m). This positive underlying trend is driven by wholesale and a strong postpaid trend in net adds as a result of the successful relaunch of the BASE brand, the regional focus and a strong captive channel performance. With postpaid net adds in Q1 of 119k and 434k prepaid net adds, total net adds amounted to 553k in Q1. Because of the higher regulatory impact at E-Plus compared to its competitors, E-Plus' market share in service revenues is expected to have only slightly increased y-on-y to 15.2%.

E-Plus continued the accelerated commercial roll-out of high speed mobile data and added another 12 urban areas, bringing the total number of urban areas covered to 21 at the end of Q1 2011. The roll-out of the high speed mobile data network continues and is expected to cover 75% of E-Plus' subscribers by the end of 2011. In Q1 2011, E-Plus has increased its marketing efforts, thereby successfully improving awareness of the BASE brand and new propositions. E-Plus is actively marketing the Lutea, its BASE branded smartphone from ZTE, to make mobile data available to its target group. Furthermore, a strong focus of E-Plus' marketing activities was directed to 21 selected data areas to support its ambition to significantly increase the data market share from the current mid-single digit percentage to fair share. As a result of the regulatory impact and increased commercial activities, the EBITDA margin decreased to 38.9% in Q1 2011, in line with expectations.

Strong underlying service revenue growth in Belgium offset by regulatory impact

Revenues and other income in Belgium decreased EUR 16m (7.9%) y-on-y to EUR 186m, impacted by the divestment of the B2B and Carrier business (EUR 10m) and regulation (EUR 21m). Service revenues decreased by 5.3% y-on-y to EUR 160m. Adjusted for the impact of MTA tariff cuts (EUR 21m or 12.4%), underlying service revenues increased by 8.1% y-on-y, resulting from a strong regional focus with an increasing number of shops, good performance of the simplified BASE proposition and a good take-up of flat fee data bundles. In Q1 2011, BASE is expected to have again outperformed the market. EBITDA decreased by EUR 10m (15%) y-on-y, caused by EUR 14m (21%) regulatory impact. The resulting EBITDA margin was 30.6% in Q1 2011. Net adds in Q1 were 150k, of which 14k postpaid and 136k prepaid. The roll-out of commercial high speed mobile data continued and at the end of Q1 2011 16 larger cities and 17 small cities were covered. The speed that is offered after the roll-out is 21.6 Mbps, which is the highest available speed in Belgium. Furthermore, Belgium's number 1 consumer organization published the results of a market study showing that BASE has the best promoter scores in the Belgian mobile market.

Continued growth at low cost in all markets of Rest of World

In line with Q4, external revenues further increased by 33% y-on-y supported by all markets and despite changes in the Group structure (transfer of Yes Telecom to Business as from 1 January 2011). EBITDA remained flat y-on-y, despite continuous investments in growth, which is mainly driven by more focused execution and improved economies of scale.

At KPN Spain and KPN France growth is mainly driven by the Simyo brand. Ortel is delivering strong growth with ~1,300 and ~600 gross adds per day in France and Spain respectively by addressing the underserved cultural segment with its distinctive marketing and sales approach.

Ortel Spain has been successfully launched on the new international MVNE platform, benefiting from shorter time-to-market and lower cost to serve.

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 2010 Annual Report. Those risk categories and factors are deemed incorporated and repeated in this report by this reference and KPN believes that these risks similarly apply for Q1 of 2011.

The current change in customer behavior seen at consumer wireless and discussed earlier in this report, is considered a result of the risk of "disruptive technologies" as set out in the 2010 Annual report. Smartphones and new "apps" change customer behavior and thereby negatively impact SMS and voice revenues. For a discussion of these developments reference is made to the section "Service revenues impacted by regulation and changing customer behavior at Consumer" earlier in this report.

With respect to regulatory risk, reference is made to note [11] regulatory developments of the consolidated interim financial statements of Q1 2011.

Condensed Consolidated Interim Financial Statements for the first quarter ended 31 March 2011 and 2010

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	
	2011	2010
Revenues	3,195	3,271
Other income	40	6
Revenues and other income [1]	3,235	3,277
Own work capitalized	-29	-24
Cost of materials	258	205
Work contracted out and other expenses	1,106	1,116
Employee benefits	477	506
Depreciation, amortization and impairments	557	530
Other operating expenses	154	151
Total operating expenses	2,523	2,484
Operating profit [2]	712	793
Finance income	2	3
Finance costs	-169	-193
Other financial results	12	-2
Finance income and expenses [3]	-155	-192
Share of the profit of associates and joint ventures, net of tax	1	-10
Profit before income tax	558	591
Income taxes [4]	33	-142
Profit for the period	591	449
Profit (loss) attributable to non-controlling interest	-	1
Profit attributable to equity holders	591	448
Earnings per ordinary share on a non-diluted basis (in EUR)	0.39	0.28
Earnings per ordinary share on a fully diluted basis (in EUR)	0.39	0.28
Weighted average number of shares on a non-diluted basis	1,511,545,751	1,600,477,661
Weighted average number of shares on a fully diluted basis	1,514,468,088	1,604,609,047

Unaudited Consolidated Statement of Comprehensive Income

<i>(In millions of euro)</i>	For the three months ended 31 March	
	2011	2010
Profit for the period	591	449
Other comprehensive income:		
Cash flow hedges:		
Gains or (losses) arising during the period	20	-20
Tax	-11	5
	<hr/>	<hr/>
	9	-15
Currency translation adjustments:		
Gains or (losses) arising during the period	-4	7
Tax	-	-
	<hr/>	<hr/>
	-4	7
Fair value adjustment available for sale financial assets:		
Gains or (losses) arising during the period	-3	-2
	<hr/>	<hr/>
Other comprehensive income for the period, net of tax	2	-10
	<hr/>	<hr/>
Total comprehensive income for the year, net of tax	593	439
Total comprehensive income attributable to:		
Owners of the parent	593	438
Non controlling interest	-	1

Consolidated Statement of Financial Position

ASSETS <i>(In millions of euro)</i>	As at	
	31 March 2011 (unaudited)	31 December 2010
NON-CURRENT ASSETS		
Goodwill	5,735	5,733
Licenses	2,734	2,818
Software	782	819
Other intangibles	371	385
Total Intangible assets	9,622	9,755
Land and buildings	864	875
Plant and equipment	5,585	5,619
Other tangible non current assets	124	130
Assets under construction	901	890
Total property, plant and equipment	7,474	7,514
Investments in associates and joint ventures	285	284
Loans to associates	73	33
Available-for-sale financial assets	49	53
Derivative financial instruments	9	17
Deferred income tax assets	1,885	1,918
Other financial non-current assets	242	236
Total non-current assets	19,639	19,810
CURRENT ASSETS		
Inventories	143	153
Trade and other receivables	1,959	1,867
Current income tax receivables	147	27
Available-for-sale financial assets	–	–
Cash	944	823
Total current assets	3,193	2,870
Non-current assets and disposal groups held for sale [5]	9	57
TOTAL ASSETS	22,841	22,737

LIABILITIES <i>(In millions of euro)</i>	As at	
	31 March 2011 (unaudited)	31 December 2010
GROUP EQUITY		
Share capital	366	377
Share premium	7,695	8,184
Other reserves	-382	-709
Retained earnings	-3,760	-4,352
Equity attributable to owners of the parent	3,919	3,500
Non controlling interest	–	–
Total group equity	3,919	3,500
NON-CURRENT LIABILITIES		
Borrowings [6]	11,217	11,359
Derivative financial instruments	347	250
Deferred income tax liabilities	905	956
Provisions for retirement benefit obligations [7]	518	608
Provisions for other liabilities and charges	401	404
Other payables and deferred income	225	225
Total non-current liabilities	13,613	13,802
CURRENT LIABILITIES		
Trade and other payables	3,688	3,982
Borrowings [6]	1,378	1,178
Derivative financial instruments (current liabilities)	2	1
Current income tax liabilities	156	152
Provisions (current portion)	85	106
Total current liabilities	5,309	5,419
Liabilities directly associated with non-current assets and disposal groups classified as held for sale [5]	–	16
TOTAL EQUITY AND LIABILITIES	22,841	22,737

Unaudited Consolidated Statement of Cash Flows

<i>(In millions of euro)</i>	For the three months 31 March	
	2011	2010
Profit before income tax	558	591
Adjustments for:		
- Net finance costs	155	192
- Share-based compensation	5	6
- Share of the profit of associated and joint ventures	-1	10
- Depreciation , Amortization and impairments	557	530
- Other income	-39	-5
- Changes in provisions (excluding deferred taxes)	-120	-84
Changes in working capital relating to:		
- Inventories	10	-9
- Trade receivables	65	-32
- Prepayments and accrued income	-191	-182
- Other current assets	21	-21
- Trade payables	-142	75
- Accruals and deferred income	-29	16
- Current liabilities (excluding short-term financing)	-13	-45
Change in working capital	-279	-198
Taxes paid / received	-115	-554
Interest paid	-256	-259
Net cash flow generated from operations	465	229
Acquisition of subsidiaries, associates and joint ventures (net of acquired cash)	-21	-48
Disposal of subsidiaries, associates and joint ventures	7	63
Investments in intangible assets (excluding software)	-	-44
Investments in property, plant & equipment	-316	-271
Investments in software	-66	-64
Disposal of intangibles (excluding software)	8	-
Disposal in property, plant & equipment	1	14
Disposal in software	-	1
Disposals of real estate	47	7
Other changes and disposals	-30	-23
Net cash flow used in investing activities	-370	-365
Share repurchase	-178	-101
Exercised options	3	6
Proceeds from borrowings	1	-
Repayments from borrowings and settlement of derivatives	-20	-101
Other changes in interest-bearing current liabilities	-	-
Net cash flow used in financing activities	-194	-196
Changes in cash	-99	-332
Net Cash at beginning of period	682	2,652
Exchange rate difference	-2	3
Changes in cash	-99	-332
Net Cash at end of period	581	2,323
Bank overdrafts	363	42
Cash at end of period	944	2,365

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
Balance as of 1 January 2010	1,628,855,322	391	8,799	-370	-4,982	3,838	3	3,841
Exercise of options	–	–	–	6	–	6	–	6
Shares repurchased	–	–	–	-103	–	-103	–	-103
Shares cancelled	-10,711,653	-2	-127	129	–	–	–	–
Total comprehensive income for the period	–	–	–	-10	448	438	1	439
Balance as of 31 March 2010	1,618,143,669	389	8,672	-348	-4,534	4,179	4	4,183
Balance as of 1 January 2011	1,572,609,884	377	8,184	-709	-4,352	3,500	–	3,500
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
Balance as of 31 March 2011	1,528,251,409	366	7,695	-382	-3,760	3,919	–	3,919

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 Financial Statements have been prepared in accordance with IAS 34, Interim Financial Reporting. As permitted by IAS 34, the condensed consolidated financial statements do not include all of the information required for full annual financial statements. In addition, the notes to these consolidated financial statements are presented in a condensed format. The applied accounting principles are in line with those as described in KPN's 2010 Annual Report. These condensed consolidated financial statements have not been audited or reviewed and are based on IFRS as adopted by the European Union.

Critical accounting estimates and judgments

The preparation of financial statements in conformity with IFRS requires management to make estimates and judgments that affect the reported amounts of assets and liabilities and the reported amounts of revenue and expenses during the period as well as the information disclosed. For KPN's critical accounting estimates and judgments, reference is made to the notes to the Consolidated Financial Statements contained in the 2010 Annual Report, including the determination of deferred tax assets for carry forward losses 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 2010 Annual Report which discusses KPN's exposure to credit risk and financial market risks.

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

[1] Revenues and other income

The reportable segments presented below are based on KPN's internal structure and internal reporting to the CEO. For a description of the activities of these segments, reference is made to the 2010 Annual Report. For operating profit reference is made to note [2] and for other segment information reference is made to note [9] in these Condensed Consolidated Interim Financial Statements.

Revenues and Other income	For the three months ended 31 March 2011				For the three months ended 31 March 2010			
	External revenues	Other income	Inter segment revenues	Total revenues and Other income	External revenues	Other income	Inter segment revenues	Total revenues and Other income
Germany	751	1	21	773	749	–	19	768
Belgium	171	–	15	186	189	–	13	202
Rest of World	69	–	–	69	52	–	1	53
Eliminations	–	–	-28	-28	–	–	-24	-24
Mobile International	991	1	8	1,000	990	–	9	999
Consumer	908	–	33	941	928	–	41	969
Business	549	–	51	600	579	–	55	634
Wholesale & Operations (national)	140	34	502	676	159	2	543	704
Other (incl. ITNL & eliminations)	–	–	-513	-513	–	–	-549	-549
Dutch Telco business	1,597	34	73	1,704	1,666	2	90	1,758
iBasis Group	175	–	51	226	156	–	37	193
Getronics	417	5	50	472	434	–	40	474
Other gains/losses, eliminations	-1	–	-136	-137	–	3	-136	-133
The Netherlands	2,188	39	38	2,265	2,256	5	31	2,292
Other activities	16	–	–	16	25	1	–	26
Eliminations	–	–	-46	-46	–	–	-40	-40
KPN Total	3,195	40	–	3,235	3,271	6	–	3,277

KPN Group revenues and other income were down 1.3% y-on-y, including an impact of EUR 122m (3.7%) from regulatory tariff cuts for MTA and roaming. The total effect from acquisitions, disposals and one-offs did not impact the y-on-y Group revenue and other income comparison between Q1 2011 and Q1 2010. Revenue performance at the Group was a combination of declining revenues and other income in the Dutch Telco business (EUR 54m), stable revenues at Getronics and Mobile International and higher revenues at iBasis (EUR 33m).

Other income in Wholesale & Operations is related to a book gain on the sale of mobile towers of EUR 33m in Q1 2011 and to the outsourcing of facility services in Q1 2010. Furthermore, other income at Getronics relates to the book gain from the sale of PharmaPartners in Q1 2011. For more detailed information on revenues, reference is made to the Management Report.

[2] Operating profit

	For the three months ended 31 March 2011			For the three months ended 31 March 2010		
	Operating profit	Depreciation, Amortization & Impairments (DA&I)	EBITDA	Operating profit	Depreciation, Amortization & Impairments (DA&I)	EBITDA
Operating profit, DA&I and EBITDA						
Germany	140	161	301	167	154	321
Belgium	25	32	57	38	29	67
Rest of World	-8	3	-5	-7	3	-4
Mobile International	157	196	353	198	186	384
Consumer	206	68	274	206	55	261
Business	166	28	194	200	23	223
Wholesale & Operations (national)	211	210	421	214	213	427
Other (incl. ITNL)	-3	11	8	-3	9	6
Dutch Telco business	580	317	897	617	300	917
iBasis Group	2	5	7	1	7	8
Getronics	-7	37	30	-7	36	29
Other gains/losses	1	-	1	1	-1	-
The Netherlands	576	359	935	612	342	954
Other activities	-21	2	-19	-17	2	-15
KPN Total	712	557	1,269	793	530	1,323

KPN Group EBITDA decreased by 4.1% y-on-y to EUR 1,269m, including the impact of regulatory cuts (EUR 51m or 3.9%). This was partly compensated by a EUR 15m net effect from acquisitions, disposals and one-offs. Operating profit decreased by EUR 81m (10%) y-on-y. This is the result of lower EBITDA (EUR 54m) and higher amortization of licenses and software compared to last year (EUR 28m).

[3] Finance income and expenses

Net finance costs decreased by EUR 37m y-on-y to EUR 155m, mainly as a result of a lower bond position following the tender and new issue transaction in September 2010 and the redemption of the USD bond in October 2010. Net finance costs also decreased due to a positive result on the ineffective portion of the USD fair value hedges in Q1 2011.

[4] Income taxes

KPN is close to reaching an agreement with the Dutch tax authorities with regard to the application of the so called "Innovation Box". The innovation box is a facility under Dutch corporate income tax law pursuant to which profits attributable to innovation are taxed at an effective rate of 5%. The agreement has retroactive effect to 1 January 2007. The application of the innovation box is expected to result in a one-off benefit of EUR 109m reflecting the period 2007 to 2010, based upon managements' best estimate. This benefit has been recorded in Q1 2011, since the cash inflow and tax benefit are considered to be virtually certain.

KPN's effective tax rate in the Netherlands will be reduced from the statutory tax rate of 25% to approximately 18% in the years 2011 to 2013 as a result of the application of the innovation box. The effective tax rate for the Group will be reduced to approximately 21% in 2011 and 20% from 2012 onwards. Certain Dutch deferred tax assets and liabilities will be realized in future years at a reduced effective tax rate. This has resulted in a one-off non-cash tax benefit of EUR 41m in Q1 2011.

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

In Q1 2011, KPN sold a number of mobile towers. These mobile towers were presented as held for sale as at 31 December 2010. Assets classified as held for sale as at 31 March 2011 related to the program of KPN to sell its real estate portfolio.

[6] Borrowings

In Q1 2011, KPN had no bond issues or redemptions. At the end of Q1 2011, KPN had an average interest rate of 5.2% (Q4 2010: 5.2%) and an average maturity profile of 7.2 years (Q4 2010: 7.4 years).

[7] Provisions for retirement benefit obligations

In 2010, the KPN pension funds in the Netherlands were predominantly negatively impacted by the use of updated mortality tables. As a result, the average coverage ratio of all KPN's pension funds decreased to just below 105% in 2010 under statutory coverage measurements. Based on the coverage ratio at end of Q3 2010, an additional cash payment of EUR 11m was made in Q1 2011 and due to the fact that KPN's main pension fund had a coverage ratio of 104% as at 31 December 2010, KPN has made an additional cash payment of EUR 19m on 1 April 2011. In Q1 2011, KPN's pension funds in the Netherlands kept benefitting from increasing interest rates and improving equity markets, resulting in an average coverage ratio of all KPN's pension funds of 109%. KPN is not obliged to make any additional recovery payments as long as the coverage ratio remains above the minimum required coverage ratio of 105%.

[8] Share repurchases

On 26 January 2011, KPN announced its EUR 1bn share repurchase program for 2011. This program commenced on 21 February 2011. Under this program, until 31 March 2011, KPN repurchased 15.2 million shares at an average price of EUR 11.71, for a total amount of EUR 178m.

Cancellation of shares

On 10 March 2011, KPN concluded the cancellation of 44,358,475 shares that were repurchased as part of the EUR 1.0 billion share repurchase program of 2010. Following this cancellation, KPN has 1,528,251,409 ordinary shares outstanding.

[9] Other Segment information

	As at 31 March 2011		As at 31 December 2010		For the three months ended 31 March	
	Total assets	Total liabilities	Total assets	Total liabilities	2011 CAPEX	2010 CAPEX
Assets, liabilities and CAPEX						
Germany	10,549	27,398	10,462	27,419	91	74
Belgium	1,943	301	1,969	348	20	13
Rest of World (incl. eliminations)	151	131	162	135	3	1
Mobile International	12,643	27,830	12,593	27,902	114	88
Consumer	2,735	2,340	3,152	2,955	61	72
Business	1,272	1,115	2,710	2,718	20	17
Wholesale & Operations (national)	6,046	5,845	9,178	9,178	156	132
Other (incl. ITNL & eliminations)	-448	-445	-348	-345	5	1
Dutch Telco business	9,605	8,855	14,692	14,506	242	222
iBasis Group	532	446	534	447	1	2
Getronics	2,799	1,829	2,904	1,930	24	22
Other gains/losses, eliminations	-679	-678	-657	-658	-	-
The Netherlands	12,257	10,452	17,473	16,225	267	246
Other activities	-2,059	-19,360	-7,329	-24,890	1	1
KPN Total	22,841	18,922	22,737	19,237	382	335

The EUR 47m Capex increase is related to the accelerated high speed mobile network roll-out at Mobile International as well as the continued upgrades of the mobile and fixed networks at Wholesale & Operations. The intercompany positions on the balance sheet of segments are eliminated through Segment Other.

[10] Off-balance sheet commitments

At the end of Q1 2011 off-balance sheet commitments increased to EUR 4.5bn (31 December 2010: EUR 4.3bn), mainly due to an increase in purchasing commitments.

[11] Regulatory Developments

The Netherlands: Mobile spectrum

On 10 December 2010, the Minister of Economic Affairs, Agriculture and Innovation published a Strategy Note on mobile communications, in which the policy for reallocation of mobile spectrum is clarified. The Minister intends to auction 800MHz, 900 MHz and 1800 MHz spectrum simultaneously ultimately beginning 2012 for mobile communications. The 800 MHz spectrum is currently still in use for digital video broadcast, but is expected to be made available by 2013 (or ultimately 2014). Discussions with Parliament are ongoing, but a specific part (2*10 MHz) of the 800 MHz spectrum will in all likelihood be reserved for new operators. Otherwise, there will be no caps. The term of these licenses will end in 2030, in line with the 2.6 GHz licenses auctioned in 2010.

Belgium: Mobile spectrum auction

In February 2011, BIPT published two memoranda covering the 3G and the 4G auctions. According to BIPT's indicative time plan, the auction for spectrum in the 2.1 GHz band (3G) will take place on 6 June 2011 and is followed by an auction of the 2.6 GHz band (4G) in October 2011. During the first phase of the 2.1 GHz (3G) auction, the available spectrum will be auctioned to newcomers only. If any 2.1 GHz spectrum remains available after this phase, the existing operators can request to auction this spectrum. KPN Group Belgium has not yet decided whether it will participate in these auctions.

Belgium: Update on MTA regulation

On 29 June 2010, BIPT published its final decision in relation to market 7 ('MTA'). In its final decision, BIPT imposes an asymmetric glide path between Proximus, Mobistar and BASE. KPN Group Belgium has 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 (Belgacom) 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.

Germany: Update on MTA regulation

On 24 February 2011, BNetzA adopted its final MTA decisions, setting the rate for E-Plus at 3.36, slightly higher than its preliminary decision of 30 November 2010. In doing so, BNetzA nevertheless did not follow the EU Commission's comments which had questioned the asymmetric MTA rates (to the benefit of Deutsche Telekom). E-Plus is in the course of starting legal proceedings against these decisions.

[12] Related party transactions

For a description of the related parties of KPN and transactions with related parties, reference is made to Note 32 of the 2010 Annual Report, including major shareholders. On 8 March 2011, BlackRock Inc. notified the AFM that they held 5.01% in KPN's ordinary share capital. To KPN's knowledge, no other shareholder owned 5% or more of KPN's outstanding shares as at 31 March 2011.

In the three months ended 31 March 2011, there have been no changes in the type of related party transactions as described in the 2010 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 2011 that have materially affected the financial position or the performance of KPN.

[13] Subsequent events

EUR 0.53 final dividend for FY 2010, up 15%

At the AGM, held on 6 April 2011, the final dividend for 2010 of EUR 0.53 per share has been approved. An interim dividend of EUR 0.27 per share had already been paid in August 2010. The final dividend of EUR 0.53 per share was paid on 18 April 2011 (EUR 675m). Dividend taxes will be paid in May 2011 (EUR 120m).

Share repurchase after 31 March 2011

As part of the share repurchase program for 2011, KPN repurchased 5.0 million shares at an average price of EUR 11.82, for a total amount of EUR 59m between 1 April and 20 April 2011.

Safe harbor

Non-GAAP measures and management estimates

This financial report contains a number of non-GAAP figures, such as EBITDA and free cash flow. These non-GAAP figures should not be viewed as a substitute for KPN's GAAP figures.

*KPN defines **EBITDA** as operating result before depreciation and impairments of PP&E and amortization and impairments of intangible assets. Note that KPN's definition of EBITDA deviates from the literal definition of earnings before interest, taxes, depreciation and amortization and should not be considered in isolation or as a substitute for analyses of the results as reported under IFRS. In the **net debt/EBITDA ratio**, KPN defines EBITDA as a 12 month rolling average excluding book gains, release of pension provisions and restructuring costs, when over EUR 20m. **Free cash flow** is defined as cash flow from operating activities plus proceeds from real estate, minus capital expenditures (Capex), being expenditures on PP&E and software and excluding tax recapture regarding E-Plus.*

*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 2010.