

## Good 2010 full-year results

Significant improvement in profitability across the Group

### Highlights

- 'Back to Growth' strategy 2008-2010 delivered good results, despite economic headwinds and regulation
- Continued increase in profitability at Dutch Telco
- Higher service revenue growth in Germany at strong margin
- 2010 dividend per share of EUR 0.80, EUR 1bn share repurchase program of 2010 completed
- Outlook 2011 confirmed, new EUR 1bn share repurchase program for 2011

Group financials <sup>1</sup> <i>(In millions of euro, unless indicated otherwise)</i>	Q4 2010	Q4 2009	Δ y-on-y	FY 2010	FY 2009	Δ YTD
<b>Revenues and other income</b>	<b>3,389</b>	<b>3,371</b>	<b>0.5%</b>	<b>13,398</b>	<b>13,509</b>	<b>-0.8%</b>
- Of which revenues	3,370	3,348	0.7%	13,324	13,451	-0.9%
<b>EBITDA</b>	<b>1,359</b>	<b>1,307</b>	<b>4.0%</b>	<b>5,476</b>	<b>5,192</b>	<b>5.5%</b>
EBITDA margin	40.1%	38.8%		40.9%	38.4%	
Operating profit (EBIT)	771	724	6.5%	3,250	2,850	14%
Profit for the period (net result) <sup>2</sup>	475	1,093	-57%	1,795	2,175	-17%
<b>Earnings per share (in EUR)</b>	<b>0.31</b>	<b>0.67</b>	<b>-54%</b>	<b>1.15</b>	<b>1.33</b>	<b>-14%</b>
Cash flow from operating activities	1,446	1,423	1.6%	3,808	3,776	0.8%
Capital expenditures (PP&E and software)	-663	-565	17%	-1,809	-1,767	2.4%
Proceeds from real estate	11	62	-82%	84	94	-11%
Tax recapture at E-Plus	18	16	13%	345	343	0.6%
<b>Free cash flow</b>	<b>812</b>	<b>936</b>	<b>-13%</b>	<b>2,428</b>	<b>2,446</b>	<b>-0.7%</b>

<sup>1</sup> All non-IFRS items are explained in the safe harbor section at the end of the condensed financial report

<sup>2</sup> Profit for the period in 2009 was impacted by an EUR 705m increase in deferred tax assets in Germany. Reference is made to note [4] income taxes in the condensed consolidated financial statements.

*"We are pleased with the 2010 results achieved despite economic headwinds and severe regulation. The increasing momentum of our 'Back to Growth' strategy 2008-2010 delivered strong operating results, robust cash generation and market-leading returns to our shareholders, whilst investing in networks and capacity for our customers. Dutch Telco generated strong EBITDA growth and both Getronics and iBasis positively contributed to the results. Mobile International EBITDA reached a record level while accelerating the roll-out of high speed data networks in Germany and Belgium. With our very sound financial base and the progress we are making in our businesses, we confirm our outlook for 2011. I have full confidence that, under the leadership of Eelco Blok, KPN will continue to go from strength to strength."*

Ad Scheepbouwer, CEO KPN

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## Group review

Revenues and other income (In millions of euro)	Q4 2010	Q4 2009	Δ y-on-y	FY 2010	FY 2009	Δ YTD
<b>KPN Group</b>	<b>3,389</b>	<b>3,371</b>	<b>0.5%</b>	<b>13,398</b>	<b>13,509</b>	<b>-0.8%</b>
- The Netherlands <sup>1</sup>	2,369	2,349	0.9%	9,333	9,445	-1.2%
- Mobile International	1,061	1,029	3.1%	4,185	4,078	2.6%

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

EBITDA (In millions of euro)	Q4 2010	Q4 2009	Δ y-on-y	FY 2010	FY 2009	Δ YTD
<b>KPN Group</b>	<b>1,359</b>	<b>1,307</b>	<b>4.0%</b>	<b>5,476</b>	<b>5,192</b>	<b>5.5%</b>
- The Netherlands <sup>1</sup>	999	939	6.4%	3,888	3,687	5.5%
- Mobile International	368	387	-4.9%	1,626	1,553	4.7%

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

### Good 2010 Group performance, Q4 revenues up 0.5% y-on-y

KPN Group revenues and other income were up 0.5% y-on-y for Q4 2010 and down 0.8% y-on-y for the full-year 2010. Excluding the effect from disposals (SNT Belgium & Netherlands, the fixed B2B and Carrier business in Belgium and parts of Getronics) revenue was up 1.1% y-on-y for Q4 2010 and flat for the full-year 2010. Revenue performance at the Group was a combination of declining revenues and other income at Dutch Telco (EUR 210m), Getronics (EUR 131m) and lower book gains from real estate disposals (EUR 31m) on the one hand and growing revenues at Mobile International (EUR 107m) and iBasis (EUR 193m) on the other hand. The difficult economic climate and a challenging competitive environment impacted Getronics and Business during the year. Regulatory tariff cuts for MTA had a negative impact on revenues at Group level of EUR 180m (~1.3%).

### Continued EBITDA growth resulting from continued focus on customer value and costs

The focus on EBITDA, free cash flow and market shares continued in 2010, resulting in an EBITDA growth of EUR 52m (4.0%) y-on-y for Q4 2010 and EUR 284m (5.5%) for the full-year 2010. In 2010, Dutch Telco showed continued EBITDA growth of EUR 124m (3.5%) y-on-y as result of the continued focus on customer value and cost, whilst absorbing regulatory pressure on tariffs (EUR 40m, or ~1.1%). At Getronics, EBITDA was up EUR 96m for the full-year 2010, in part because of substantial lower reorganization costs compared to 2009 (EUR 44m). The EBITDA of Mobile International was up EUR 73m (4.7%) y-on-y for the full-year 2010 driven by growth in Germany and Belgium and an improved EBITDA in Rest of World. In addition, Segment Other shows a y-on-y improvement of EUR 10m including a positive effect of approximately EUR 17m related to several one-offs. Regulatory tariff cuts for MTA had a negative impact on EBITDA at Group level of EUR 62m.

### Strong underlying net profit in 2010

Corrected for the EUR 705m positive one-off in deferred tax assets in 2009, the net profit after tax increased 22% from EUR 1,470m to EUR 1,797m. In addition, higher finance costs mainly relating to the bond tender in September 2010, were more than compensated for by higher profits from operations.

### FCF meeting full-year guidance of more than EUR 2.4bn

Full-year free cash flow amounted to EUR 2,428m (FY 2009: EUR 2,446m), which is in line with the outlook. Full-year EBITDA growth of EUR 284m and lower pension recovery payments of approximately EUR 80m were offset by higher interest payments (EUR 124m, mainly due to bond issues in 2009), higher income tax payments (EUR 83m mainly due to refunds received in 2009), a positive one-off in working capital in 2009 (~EUR 150m) and increased restructuring payments.

### Net debt to EBITDA<sup>1</sup> comfortably within target range at 2.2x

Net debt at the end of Q4 2010 amounted to EUR 11.8bn, compared to EUR 12.2bn at the end of Q3 2010. The lower net debt in Q4 compared to Q3 results from an opposing cash trend through the year of operating cash flow versus

<sup>1</sup> 12 month rolling average excluding book gains, release of pension provisions and restructuring costs, all over EUR 20m

shareholder remuneration. The increased EBITDA and lower net debt in Q4 resulted in a slightly lower net debt to EBITDA ratio of 2.2x (Q3 2010: 2.3x), which is comfortably within KPN's financial framework target range of 2.0-2.5x. Following some capital market activity in 2010 (bond tender and issue in September and a bond redemption in October), KPN has improved its financial profile. The company reduced the average interest rate to 5.2% (Q4 2009: 5.4%), smoothed its redemption profile and extended the average maturity of its bond portfolio to 7.4 years at Q4 2010 (Q4 2009: 7.1 years). KPN has a solid financial profile and is 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).

#### **Substantial FTE reduction achieved**

At the end of Q4 2010 the total number of FTEs of KPN Group amounted to 30,599, which is 2,549 FTEs lower compared to 2009. The reduction in the Netherlands (excluding Getronics) was 1,160 FTEs compared to 2009, resulting in a total reduction since 2005 of 9,385 FTEs. Whilst KPN was not able to fully realize the ambition of reducing its permanent workforce by 10,000 FTEs in the Netherlands (excluding Getronics) between 2005 and 2010, this was more than compensated for by a substantial reduction in temporary staff since 2008.

#### **KPN pension funds average coverage ratio at 105%**

In Q4 2010, KPN's pension funds in the Netherlands benefitted from increasing interest rates and improving equity markets, resulting in an average coverage ratio of all KPN's pension funds of 105% (end of Q3 2010: 103%) using statutory coverage measurements. A negative impact due to updated mortality tables in Q4 2010 (~3%) is included. KPN has made an additional cash payment of EUR 11m in Q1 2011, based on the coverage ratio at end of Q3 2010 which was below the minimum required level of 105%. Because KPN's main pension fund had a coverage ratio of 104% at the end of Q4 2010, KPN will make an additional cash payment of EUR 19m in Q2 2011.

## Financial and operating review by Segment

### The Netherlands

Revenues and other income (In millions of euro)	Q4 2010	Q4 2009	Δ y-on-y	FY 2010	FY 2009	Δ YTD
- Consumer	990	1,004	-1.4%	3,940	4,095	-3.8%
- Business	609	624	-2.4%	2,424	2,491	-2.7%
- Wholesale & Operations (national)	680	714	-4.8%	2,799	2,879	-2.8%
- Other (incl. eliminations)	-539	-560	3.8%	-2,159	-2,251	4.1%
<b>Dutch Telco business</b>	<b>1,740</b>	<b>1,782</b>	<b>-2.4%</b>	<b>7,004</b>	<b>7,214</b>	<b>-2.9%</b>
- iBasis Group	234	163	44%	912	719	27%
- Getronics	538	537	0.2%	1,966	2,097	-6.2%
- Other gains/losses, eliminations	-143	-133	7.5%	-549	-585	6.2%
<i>of which Real estate</i>	2	22	-91%	8	39	-79%
<b>The Netherlands</b>	<b>2,369</b>	<b>2,349</b>	<b>0.9%</b>	<b>9,333</b>	<b>9,445</b>	<b>-1.2%</b>

EBITDA (In millions of euro)	Q4 2010	Q4 2009	Δ y-on-y	FY 2010	FY 2009	Δ YTD
- Consumer	293	241	22%	1,121	1,030	8.8%
- Business	210	195	7.7%	819	794	3.1%
- Wholesale & Operations (national)	420	432	-2.8%	1,719	1,742	-1.3%
- Other	15	8	88%	41	10	>100%
<b>Dutch Telco business</b>	<b>938</b>	<b>876</b>	<b>7.1%</b>	<b>3,700</b>	<b>3,576</b>	<b>3.5%</b>
<i>EBITDA margin</i>	53.9%	49.2%		52.8%	49.6%	
- iBasis Group	7	7	0%	32	22	45%
- Getronics	55	37	49%	158	62	>100%
- Other gains/losses	-1	19	n.m.	-2	27	n.m.
<i>of which Real estate</i>	-1	19	n.m.	-2	27	n.m.
<b>The Netherlands</b>	<b>999</b>	<b>939</b>	<b>6.4%</b>	<b>3,888</b>	<b>3,687</b>	<b>5.5%</b>
<i>EBITDA margin</i>	42.2%	40.0%		41.7%	39.0%	

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

Revenues and other income, down 2.4% y-on-y in Q4, continued to be impacted by the decline in traditional business, regulation (~1.7%) and a challenging environment in the business market. Dutch Telco achieved a solid EBITDA growth of EUR 62m (7.1%) y-on-y in Q4 2010 and EUR 124m (3.5%) y-on-y for the full-year 2010. EBITDA margin increased from 49.6% FY 2009 to 52.8% FY 2010. This resulted from a continued focus on maximizing market value as well as customer value, cost reductions through best-in-class benchmarking and selective price increases. In total, Dutch Telco revenues in 2010 included EUR ~64m of incidentals positively impacting revenues (2009: EUR ~1m) and EUR ~74m of incidentals positively impacting EBITDA (2009: EUR ~1m). The incidentals are further explained in the Segments below. During 2010, overall market shares were maintained with some downward pressure on the consumer broadband market share while TV market share has grown.

#### Strong EBITDA growth with improving revenue trend at Consumer Segment

Consumer segment showed an improving revenue trend in Q4 2010 in line with Q3 2010. Revenues and other income were down 1.4% y-on-y in Q4 2010, including a ~1.3% regulatory impact, caused by lower revenues from both wireless as well as voice wireline. KPN continued its focus on maximizing customer value whilst at the same time managing SAC/ SRC. EBITDA increased by 22% y-on-y in Q4 2010 and the margin increased to 29.6% (Q4 2009: 24.0%), including a EUR 5m positive impact from a release of provision.

Service revenues decreased by 5.1% y-on-y in Q4 including ~3% of regulatory cuts, whereas ARPU remained stable compared to Q3 2010 at EUR 25, supported by data growth and a mix effect due to fewer prepaid customers. The postpaid customer base increased by 22k and now represents 57% of the total customer base in a competitive environment. End of November, KPN successfully introduced the iPhone 4 resulting in a good uptake but also in slightly increasing SAC/SRC, which remained under control. Mobile data is one of the main growth drivers. At the moment 58% of new postpaid customers take a smartphone leading to a penetration rate of 39% of the postpaid base. All KPN brands will benefit from the further strengthened distribution, following completion of the rebranding of the 52 't for telecom' shops.

Whilst increasing ARPU of traditional voice, broadband and TV, net line loss was stable at 35k in Q4 2010 (excluding a clean up of the customer broadband subscriber base of 15k). Broadband market share decreased to 41%, for the larger part due to an upward revision of the Dutch broadband market by an external source, Telecompaper, and some cleaning of the customer broadband subscriber base. KPN saw a slight erosion of its broadband market share combined with a stable customer base, supported by growth of IPTV, the VDSL upgrade and Fiber-to-the-Home (FttH). KPN's TV subscriber base and market share continued to grow, the number of TV customers increased to 1.197 million, resulting in a 15% market share compared to 12% in Q4 2009. At the end of Q4 2010, KPN had 41k FttH homes activated with a positive trend in sales order intake. KPN confirms its 2012 ambition of 250k FttH homes activated.

### **Continued EBITDA growth in the Business Segment**

In Q4 2010, the Business Segment continued to experience a decline in traditional services due to a difficult economic climate and a challenging competitive environment. Revenues and other income decreased 2.4% y-on-y in Q4 2010, including EUR 9m regulatory tariff cuts (~1.4%), a EUR 14m positive effect from the sale of part of the dark fiber business in Germany and a EUR 3m negative effect related to a reversal of deferred connection fees in Q1 2010. The revenue decrease was off-set by cost savings, resulting in an EBITDA increase of EUR 15m (or 7.7% y-on-y in Q4), including some EUR 10m of net positive incidentals. The EBITDA margin increased to 34.5% compared to 31.3% in Q4 2009.

Services revenues decreased 4.5% compared to Q4 2009 due to regulatory cuts of ~3.6%. The Business Segment saw continued mobile data growth in a competitive environment. Currently 53% of the customers use data services compared to 48% in Q4 2009.

While traditional services showed a stable decline in access lines and traffic revenues due to declining traffic and customer rationalization, Business DSL showed a good performance. The migration from traditional to new services continued steadily. In December 2010, KPN acquired Atlantic Telecom to strengthen KPN's market position in the SME market.

### **Continued cost reductions at Wholesale & Operations Segment**

Revenues and other income declined 4.8% y-on-y in Q4 2010, mainly as a result of regulation (~1.4%) and the ongoing decline in traditional services. The revenue decline was offset by cost reductions such as fewer FTEs following efficiency improvements in the operations. This resulted in a slightly higher EBITDA margin of 61.8% compared to an EBITDA margin of 60.5% in Q4 2009.

Through the Reggefiber joint-venture, further progress was made in Q4 with the FttH roll-out. At the end of Q4 2010, the number of homes passed reached 658k, with 186k homes activated in total. Reggefiber has a target of 1.1 to 1.3 million homes passed by the end of 2012. With an estimated Capex per home passed of EUR 1,000, this leads to an annual Capex of approximately EUR 250-300m for the joint-venture, based on the annual roll-out of 250-300k homes to reach the target.

In Q4 2010, Reggefiber obtained external financing for a total amount of EUR 285m through a project finance facility with five commercial banks (50%) and the European Investment Bank (50%). As at 31 December 2010, EUR 130m of the project finance facility was drawn and EUR 155m was available. The external financing was partly used to repay part of the shareholder loans (~EUR 31m repaid to KPN). The remaining amount of shareholder loans outstanding to Reggefiber at 31 December 2010 was EUR 107m, of which EUR 44m was provided by KPN and EUR 63m by Reggeborgh.

### **Structurally higher revenues and improved market share at iBasis**

Revenues increased by 44% y-on-y in Q4 2010, including a favourable currency effect of EUR 11m (~7%). Revenues were structurally higher in 2010 as a result of the sustained business focus following the full takeover by KPN in Q4 2009, with a focus on balancing revenues with profitability while improving cash flow. In Q4 2010, EBITDA was flat y-on-y at EUR 7m. Full-year EBITDA was EUR 32m, up 45% y-on-y. iBasis was able to improve its average revenue per

minute and market share in 2010 in terms of minutes. iBasis furthermore reinforced its position within the top 5 of the international voice traffic market.

### Getronics realized target of 8% EBITDA margin in 2010

Getronics is characterized by seasonality in its operational performance, with the fourth quarter traditionally the strongest. Overall market conditions remained challenging in Q4 2010 with price pressure and clients postponing investments. Getronics expects its market share to have remained stable in Q4 in a highly competitive market. Getronics reported flat revenues and other income y-on-y in Q4 2010, with the Netherlands showing a revenue decline of 6.5% y-on-y in Q4 2010, whilst International revenues were up 14% (including a positive currency effect of ~7%). In Q4 2010 Getronics realized an EBITDA of EUR 55m, resulting in a 10.2% EBITDA margin. For the full-year 2010, Getronics realized its 8% EBITDA margin target.

Getronics won a five-year contract with TNT Post in Q4 2010 for delivering and managing Workspace Online (a cloud solution) for 13,000 users in the Netherlands, Belgium and the United Kingdom. Furthermore in Q4, the first positive results of improved quality of service at lower cost were visible following offshoring of certain activities of the datacenters. Getronics is currently studying further offshoring opportunities to further improve quality and service at lower cost.

## Mobile International

Revenues and other income (In millions of euro)	Q4 2010	Q4 2009	Δ y-on-y	FY 2010	FY 2009	Δ YTD
- Germany	820	791	3.7%	3,241	3,181	1.9%
- Belgium	190	207	-8.2%	785	802	-2.1%
- Rest of World (incl. eliminations)	51	31	65%	159	95	67%
<b>Mobile International</b>	<b>1,061</b>	<b>1,029</b>	<b>3.1%</b>	<b>4,185</b>	<b>4,078</b>	<b>2.6%</b>

EBITDA (In millions of euro)	Q4 2010	Q4 2009	Δ y-on-y	FY 2010	FY 2009	Δ YTD
- Germany	322	331	-2.7%	1,374	1,333	3.1%
- Belgium	55	64	-14%	271	259	4.6%
- Rest of World	-9	-8	-13%	-19	-39	51%
<b>Mobile International</b>	<b>368</b>	<b>387</b>	<b>-4.9%</b>	<b>1,626</b>	<b>1,553</b>	<b>4.7%</b>
<i>EBITDA margin</i>	<i>34.7%</i>	<i>37.6%</i>		<i>38.9%</i>	<i>38.1%</i>	

### Continued service revenue growth at Mobile International with strong margins

Revenues and other income increased 3.1% y-on-y in Q4 2010. Service revenues were up 4.5% y-on-y in Q4 driven by continued growth in Germany and Rest of World, partly offset by declining service revenues in Belgium due to severe MTA impact. Full-year revenues and other income increased by 2.6% y-on-y, including a negative impact from MTA and roaming of about EUR 90m. Service revenues were up 4.3% in FY 2010 with all segments contributing to the growth.

In Q4 2010, EBITDA was down 4.9% y-on-y due to severe MTA cuts in Belgium and increased marketing and commercial investments in the German market. Profitability at Mobile International was good throughout 2010 with an EBITDA margin of 38.9% leading to a record full-year 2010 EBITDA of EUR 1,626m, up 4.7% y-on-y.

Mobile International is making good progress with its accelerated roll-out of high speed data networks in both Germany and Belgium. In Q4 2010 Mobile International successfully launched commercial data services in selected urban areas both in Germany and Belgium.

### Increased underlying service revenue growth in Germany

Revenues and other income in Q4 2010 increased by 3.7% y-on-y. Whilst service revenues were up 4.0% compared to Q4 2009, underlying service revenues were up 6.1% y-on-y when corrected for the positive impact from Multiconnect (EUR 12m) and the negative impact from regulation (EUR 26m). 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. E-Plus' market share is expected to have remained relatively stable y-on-y at 15.5%. With very strong postpaid net adds in Q4 of 177k and 351k prepaid net adds, total net adds amounted to 528k in the quarter, passing the 20m customer milestone.

Commercial high speed mobile data services were successfully launched in nine selected urban areas in Germany in Q4 2010. The data propositions are centered around a selection of smartphones including an internet flat fee at attractive pricing, supporting future service revenue growth. The initial take-up of data bundles looks promising with over 35% of 'Mein BASE' adds taking a data bundle as part of a promotional package in Q4 2010 versus less than 20% before Q4. E-Plus has the ambition to significantly increase its data market share from the current mid single digit percentage to fair share. E-Plus increased marketing efforts in Q4 2010, thereby successfully improving awareness of the BASE brand and proposition. The resulting EBITDA margin of 39.3% in Q4 2010 was in line with expectations. In FY 2010 E-Plus was able to achieve service revenue growth of 2.4% y-on-y, driven by the re-launch of the simple and transparent 'Mein BASE' proposition with positive customer experiences, a strong regional focus and good performance of its wholesale partnerships. E-Plus was able to increase operational efficiency resulting in a high EBITDA margin of 42.4% in 2010 leading to a record EBITDA of EUR 1,374m in 2010, up 3.1% y-on-y. The growth was supported by an improved network quality through timely investments and accelerated network build-out via multiple partners. The next 12 urban areas where E-Plus will offer high speed mobile data services will go live in Q1 2011 and clear plans are in place for further roll-out in subsequent quarters. By the end of 2011, E-Plus expects to be able to offer high speed mobile data services to 75% of its subscriber base.

### **Severe regulatory impact, good underlying service revenue growth in Belgium**

Revenues and other income in Belgium were EUR 17m (8.2%) lower compared to Q4 2009, impacted by the divestment of the fixed B2B and Carrier business (EUR 11m) and severe regulation (EUR 17m). Service revenues decreased by 2.3% y-o-y. Corrected for the impact of regulation and a positive incidental (EUR 4m), service revenues increased by 5.8% y-on-y. This is the combined result of 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 Q4 2010, KPN Group Belgium (BASE) is expected to have again outperformed the market. Service revenues for the full-year 2010 were up by 3.8% y-on-y. EBITDA decreased by 14% y-on-y in Q4 2010, affected by regulation (EUR 12m), partly compensated by a positive incidental (EUR 4m). The EBITDA margin for the full-year 2010 was solid at 34.5%.

Net adds amounted to 61k in Q4 2010, of which 17k postpaid and 44k prepaid net adds. Following acceleration of the high speed mobile data network roll-out, KPN Group Belgium started offering commercial high speed mobile data services in multiple selected urban areas and relevant hotspots. The initial demand for data bundles is promising, supported by new transparent pricing.

### **Continued growth at low cost in Rest of World**

Revenues and other income (including elimination of intercompany revenues) increased by 65% y-on-y in Q4 2010. External revenues increased 37% y-on-y in Q4 2010, with Spain, France and Ortel contributing. FY 2010 external revenues showed strong growth of 34% y-on-y translating into EUR 261m, for a large part fuelled by revenue inflection at Ortel that is driven by focused execution following full ownership by KPN. In line with the objectives set by Rest of World, Spain became EBITDA and cash flow positive in 2010, France is expected to achieve this by 2012.

In Spain, an increasing postpaid sales trend has driven the number of customers up to ~400k, while in France good performance of Ortel and Simyo increased the number of customers to ~400k.

In Q4 2010, a new international MVNE platform was launched to shorten the time-to-market at lower cost to serve for KPN's own brands and its wholesale partners.

# Outlook

## Evaluation 'Back to Growth' strategy 2008-2010

Over the past three years, KPN has made significant strategic progress. In 2008, following the 'Attack-Defend-Exploit' strategy, KPN entered its next phase with the 'Back to Growth' strategy 2008-2010. This strategy was based on a number of objectives including the Netherlands reaching revenue and EBITDA inflection, continued market outperformance and attractive margins at Mobile International and additional growth from recent acquisitions. Despite strong economic headwinds and regulatory pressure, KPN was able to deliver on all of the objectives, except for revenue growth. The Netherlands showed a strong improvement in profitability following EBITDA inflection already in 2008. This was the combined result of embedded cost programs across the Group and a continued focus on maximizing market value and customer value. Mobile International achieved profitable market outperformance both in Germany and Belgium and was able to expand its footprint into Spain and France. In May 2010, E-Plus acquired 70MHz of additional spectrum in the frequency auctions in Germany for EUR 284m, suiting the Challenger strategy. Additional growth from recent acquisitions was reached through the successful integration of Getronics and recent turnaround at iBasis following the full takeover by KPN. During the three years of the 'Back to Growth' period KPN was able to i) grow EBITDA by EUR 0.6bn from EUR 4.9bn to EUR 5.5bn, ii) grow free cash flow per share by 32% from EUR 1.17 to EUR 1.55 and iii) grow dividend per share by 48% from EUR 0.54 to EUR 0.80. KPN continued its track record of delivering industry-leading shareholder returns: in total EUR 3.2bn was paid in dividend and EUR 3.0bn in shares were repurchased since 2008.

## Performance versus outlook 2010

KPN showed a good performance in 2010 as a result of the 'Back to Growth' strategy, balancing profitability with market shares. Whilst revenues excluding disposals were flat compared to 2009, this should be measured against the backdrop of economic headwinds continuing their impact on the business markets and severe regulatory pressure on MTA and roaming revenues across the Group (EUR 180m for the Group in 2010). KPN has been able to mitigate revenue pressure by cost reductions, without compromising on quality of service. This has resulted in a large step up in EBITDA of EUR 284m, an increase of 5.5% y-on-y.

Across the Group, KPN has ongoing cost reduction programs. The continued focus on 'traditional cost' areas such as FTEs, procurement, and network & IT has resulted in significant Opex reductions, materializing over a multi-year period. Significant FTE reductions have been realized as a result of simplification of the organization, reducing the number of brands, delivery processes and networks. By implementing 'First-time-right' programs across the Group, the number of complaints has been reduced and with that, incoming calls to call centers and related costs. KPN has identified 'new cost' areas where additional cost savings can be achieved going forward. Examples include combined purchasing across the Group, a further simplification of the organization, for instance in project and product management, and cost reductions associated with billing systems and service delivery streets.

In 2010, Group Capex amounted to EUR 1.8bn which is relatively stable compared to previous years for both the Netherlands and Mobile International. In the Netherlands, KPN set up a Central Capex Board to increase investment efficiency, comparable to the efficiency improvements in Opex. Additional investments done in the core network, the mobile networks, IT and customers were offset by significantly lower equipment prices. The price effect also benefitted the capital spend at Mobile International, keeping Capex at a stable level despite an accelerated roll-out of the high speed mobile data network. Going forward, KPN will continue to upgrade its fixed and mobile networks across the Group.

In summary, KPN achieved good 2010 results and remains soundly financed. The full-year results met the revenue, EBITDA, Capex and free cash flow guidance, as presented in the table below.

In 2010, KPN continued its leading position in shareholder remuneration whereby a EUR 1bn share repurchase program was completed. The share repurchase supported the earnings per share, dividend per share and free cash flow per share growth. When correcting for the EUR 705m of deferred tax assets recognition in 2009, earnings per share increased by 28% in 2010.

The proposed dividend per share for 2010 is EUR 0.80, subject to AGM approval, which is also in line with guidance.



Guidance metrics	Outlook 2010	Reported 2010
Revenues and other income (existing)	In line with 2009 (EUR 13.4bn)	EUR 13.4bn
EBITDA	> EUR 5.5bn	EUR 5.5bn
Capex	< EUR 2bn	EUR 1.8bn
Free cash flow	> EUR 2.4bn	EUR 2.4bn
Dividend per share	EUR 0.80	EUR 0.80 <sup>2</sup>

### Outlook 2011

During 2010, significant MTA reductions have been implemented across the Group. The impact for 2011 is estimated at approximately EUR 500m on revenues and EUR 200m on EBITDA. In 2012, the step down in tariffs is less significant in the Netherlands and Belgium and there will be no tariff cut in Germany. This results in an expected regulatory impact of ~EUR 125m on revenues and ~EUR 50m on EBITDA for 2012.

In 2011, KPN will continue the current strategy under the leadership of the new CEO, Mr Eelco Blok, who will take over the helm at the AGM in April 2011 from Mr Ad Scheepbouwer. KPN confirms the previously announced outlook for 2011. KPN expects EBITDA and free cash flow growth with a Capex of up to EUR 2bn. Over the full-year 2011, KPN is targeting a dividend per share of at least EUR 0.85. KPN remains committed to delivering industry-leading shareholder returns and today announced a new EUR 1bn share repurchase program for 2011.

Guidance metrics	Outlook 2011
EBITDA	Growth
Capex	< EUR 2bn
Free cash flow	Growth
Dividend per share	At least EUR 0.85

<sup>2</sup> Subject to AGM approval

## **Condensed Consolidated Financial Statements for the year ended 31 December 2010 and 2009**

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## Unaudited Consolidated Statement of Income

<i>(In millions of euro, unless indicated otherwise)</i>	For the three months ended 31 December		For the twelve months ended 31 December	
	2010	2009	2010	2009
Revenues	3,370	3,348	13,324	13,451
Other income	19	23	74	58
<b>Revenues and other income [1]</b>	<b>3,389</b>	<b>3,371</b>	<b>13,398</b>	<b>13,509</b>
Own work capitalized	-28	-28	-101	-98
Cost of materials	281	213	911	852
Work contracted out and other expenses	1,140	1,136	4,560	4,686
Employee benefits	462	526	1,932	2,115
Depreciation, amortization and impairments	588	583	2,226	2,342
Other operating expenses	175	217	620	762
<b>Total operating expenses</b>	<b>2,618</b>	<b>2,647</b>	<b>10,148</b>	<b>10,659</b>
<b>Operating profit [2]</b>	<b>771</b>	<b>724</b>	<b>3,250</b>	<b>2,850</b>
Finance income and expenses [3]	-220	-240	-916	-808
Share of the profit of associates and joint ventures, net of tax	7		-31	-6
<b>Profit before income tax</b>	<b>558</b>	<b>484</b>	<b>2,303</b>	<b>2,036</b>
Income taxes [4]	-83	609	-508	139
<b>Profit for the period</b>	<b>475</b>	<b>1,093</b>	<b>1,795</b>	<b>2,175</b>
Profit (loss) attributable to non-controlling interest	1	1	3	-3
Profit attributable to equity holders	474	1,092	1,792	2,178
<b>Earnings per ordinary share on a non-diluted basis (in EUR)</b>	<b>0.31</b>	<b>0.67</b>	<b>1.15</b>	<b>1.33</b>
<b>Earnings per ordinary share on a fully diluted basis (in EUR)</b>	<b>0.31</b>	<b>0.68</b>	<b>1.15</b>	<b>1.33</b>
Weighted average number of shares on a non-diluted basis			1,561,730,185	1,638,558,191
Weighted average number of shares on a fully diluted basis			1,565,061,481	1,643,178,385

## Unaudited Consolidated Statement of Comprehensive Income

<i>(In millions of euro)</i>	For the three months ended 31 December		For the twelve months ended 31 December	
	2010	2009	2010	2009
<b>Profit for the period</b>	<b>475</b>	<b>1,093</b>	<b>1,795</b>	<b>2,175</b>
<b>Other comprehensive income:</b>				
Cash flow hedges:				
Gains or (losses) arising during the period	63	-8	30	-120
Tax	-17	1	-8	30
	46	-7	22	-90
Currency translation adjustments:				
Gains or (losses) arising during the period	-1	4	4	-
Tax	-	-	-	-
	-1	4	4	-
Fair value adjustment available for sale financial assets:				
Gains or (losses) arising during the period	-2	-5	-8	-1
<b>Other comprehensive income for the period, net of tax</b>	<b>43</b>	<b>-8</b>	<b>18</b>	<b>-91</b>
<b>Total comprehensive income for the year, net of tax</b>	<b>518</b>	<b>1,085</b>	<b>1,813</b>	<b>2,084</b>
Total comprehensive income attributable to:				
Owners of the parent	518	1,083	1,811	2,087
Non controlling interest	-	2	2	-3

## Consolidated Statement of Financial Position

ASSETS <i>(In millions of euro)</i>	As at	
	31 December 2010 (unaudited)	31 December 2009
<b>NON-CURRENT ASSETS</b>		
Goodwill	5,733	5,769
Licenses [5]	2,818	2,853
Software	819	783
Other intangibles	385	427
<b>Total Intangible assets</b>	<b>9,755</b>	<b>9,832</b>
Land and buildings	875	920
Plant and equipment	5,619	5,627
Other tangible non current assets	130	177
Assets under construction	890	799
<b>Total property, plant and equipment</b>	<b>7,514</b>	<b>7,523</b>
Investments in associates and joint ventures	317	267
Available-for-sale financial assets	53	51
Derivative financial instruments	17	8
Deferred income tax assets	1,918	2,135
Other financial non-current assets	236	231
<b>Total non-current assets</b>	<b>19,810</b>	<b>20,047</b>
<b>CURRENT ASSETS</b>		
Inventories	153	93
Trade and other receivables	1,867	1,895
Current income tax receivables	27	9
Available-for-sale financial assets	0	2
Cash	823	2,690
<b>Total current assets</b>	<b>2,870</b>	<b>4,689</b>
<b>Non-current assets and disposal groups held for sale [6]</b>	<b>57</b>	<b>115</b>
<b>TOTAL ASSETS</b>	<b>22,737</b>	<b>24,851</b>

LIABILITIES (In millions of euro)	As at	
	31 December 2010 (unaudited)	31 December 2009
<b>GROUP EQUITY</b>		
Share capital	377	391
Share premium	8,184	8,799
Other reserves	-709	-370
Retained earnings	-4,352	-4,982
<b>Equity attributable to owners of the parent</b>	<b>3,500</b>	<b>3,838</b>
Non controlling interest	-	3
<b>Total group equity</b>	<b>3,500</b>	<b>3,841</b>
<b>NON-CURRENT LIABILITIES</b>		
Borrowings [7]	11,359	12,502
Derivative financial instruments	250	511
Deferred income tax liabilities	956	1,275
Provisions for retirement benefit obligations [8]	608	717
Provisions for other liabilities and charges	404	414
Other payables and deferred income	225	337
<b>Total non-current liabilities</b>	<b>13,802</b>	<b>15,756</b>
<b>CURRENT LIABILITIES</b>		
Trade and other payables	3,982	3,990
Borrowings [7]	1,178	869
Derivative financial instruments (current liabilities)	1	51
Current income tax liabilities	152	100
Provisions (current portion)	106	211
<b>Total current liabilities</b>	<b>5,419</b>	<b>5,221</b>
<b>Liabilities directly associated with non-current assets and disposal groups classified as held for sale [6]</b>	<b>16</b>	<b>33</b>
<b>TOTAL EQUITY AND LIABILITIES</b>	<b>22,737</b>	<b>24,851</b>

## Unaudited Consolidated Statement of Cash Flows

<i>(In millions of euro)</i>	<b>For the twelve months 31 December</b>	
	<b>2010</b>	<b>2009</b>
<b>Profit before income tax</b>	<b>2,303</b>	<b>2,036</b>
Adjustments for:		
- Net finance costs	916	808
- Share-based compensation	-17	33
- Share of the profit of associated and joint ventures	31	6
- Depreciation, Amortization and impairments	2,226	2,342
- Other income	-66	-54
- Changes in provisions (excluding deferred taxes)	-336	-290
Changes in working capital relating to:		
- Inventories	-52	42
- Trade receivables	27	259
- Prepayments and accrued income	19	29
- Other current assets	-41	89
- Trade payables	246	-327
- Accruals and deferred income	-88	-209
- Current liabilities (excluding short-term financing)	-36	127
<b>Change in working capital</b>	<b>75</b>	<b>10</b>
Dividends received	1	3
Taxes paid / received	-589	-506
Interest paid	-736	-612
<b>Net cash flow generated from operations</b>	<b>3,808</b>	<b>3,776</b>
Acquisition of subsidiaries, associates and joint ventures (net of acquired cash)	-106	-180
Disposal of subsidiaries, associates and joint ventures	63	28
Investments in intangible assets (excluding software)	-337	-13
Investments in property, plant & equipment	-1,398	-1,354
Investments in software	-411	-413
Disposal of intangibles (excluding software)		10
Disposal of property, plant & equipment	19	19
Disposal of software	1	0
Disposals of real estate	84	94
Other changes and disposals	-64	-20
<b>Net cash flow used in investing activities</b>	<b>-2,149</b>	<b>-1,829</b>
Share repurchase	-1,000	-898
Share repurchases for option plans	0	-62
Dividends paid	-1,152	-1,039
Exercised options	13	22
Proceeds from borrowings	991	3,172
Repayments from borrowings and settlement of derivatives	-2,484	-1,249
Other changes in interest-bearing current liabilities	-2	-13
<b>Net cash flow used in financing activities</b>	<b>-3,634</b>	<b>-67</b>
<b>Changes in cash</b>	<b>-1,975</b>	<b>1,880</b>
<b>Net Cash at beginning of period</b>	<b>2,652</b>	<b>771</b>
Exchange rate difference	5	1
Changes in cash	-1,975	1,880
<b>Net Cash at end of period</b>	<b>682</b>	<b>2,652</b>
Bank overdrafts	158	38
<b>Cash classified as held for sale</b>	<b>-17</b>	<b>0</b>
<b>Cash at end of period</b>	<b>823</b>	<b>2,690</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 2009</b>	<b>1,714,362,792</b>	<b>411</b>	<b>9,650</b>	<b>-228</b>	<b>-6,103</b>	<b>3,730</b>	<b>29</b>	<b>3,759</b>
Share based compensation	-	-	-	16	-13	3	-	3
Exercise of options	-	-	-	22	-	22	-	22
Shares repurchased	-	-	-	-960	-	-960	-	-960
Dividends paid	-	-	-	-	-1,039	-1,039	-3	-1,042
Shares cancelled	-85,507,470	-20	-851	871	-	-	-	-
Purchased from minority interests	-	-	-	-	-5	-5	-20	-25
Total comprehensive income for the period	-	-	-	-91	2,178	2,087	-3	2,084
<b>Balance as of 31 December 2009</b>	<b>1,628,855,322</b>	<b>391</b>	<b>8,799</b>	<b>-370</b>	<b>-4,982</b>	<b>3,838</b>	<b>3</b>	<b>3,841</b>
Share based compensation	-	-	-	-	3	3	-	3
Exercise of options	-	-	-	14	-	14	-	14
Shares repurchased	-	-	-	-1,000	-	-1,000	-	-1,000
Dividends paid	-	-	-	-	-1,152	-1,152	-	-1,152
Shares cancelled	-56,245,438	-14	-615	629	-	-	-	-
Purchased from minority shares	-	-	-	-	-14	-14	-5	-19
Total comprehensive income for the period	-	-	-	18	1,793	1,811	2	1,813
<b>Balance as of 31 December 2010</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>



## 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, 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 2009 Annual Report. These condensed consolidated financial statements have not been audited or reviewed and are based on IFRS as adopted by the European Union. KPN's Annual Report 2010 is expected to be available by the end of February 2011.

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

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

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

#### *Critical accounting estimates and judgments*

The preparation of financial statements in conformity with IFRS requires management to make estimates and judgments that affect the reported amounts of assets and liabilities and the reported amounts of revenue and expenses during the period as well as the information disclosed. For KPN's critical accounting estimates and judgments, reference is made to the notes to the Condensed Consolidated Financial Statements contained in the 2009 Annual Report, including the determination of deferred tax assets for carry forward losses and the provision for tax contingencies the determination of fair value and value in use of cash-generating units for goodwill impairment testing, the depreciation rates for the copper and fiber network, the assumptions used to determine the provision for retirement benefit obligations and periodic pension costs (such as expected salary increases, return on plan assets and benefit increases) and the 'more likely than not' assessment required to determine whether or not to recognize a provision for idle cables, which are part of a public electronic communications network. Also reference is made to Note 29 'Capital and Financial Risk Management' to the Consolidated Financial Statements contained in the 2009 Annual Report which discusses KPN's exposure to credit risk and financial market risks.

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

## [1] Revenues and other income

Following a number of previously announced organizational changes that came into effect at the start of this year, KPN publishes its results in a new reporting format. The main changes that have taken place are that iBasis and book gains on real estate are both no longer part of Wholesale & Operations. iBasis will be reported as a separate segment according to IFRS 8 and book gains on real estate are included in 'Other gains/losses and eliminations' in the Netherlands. The transfer pricing has not been changed. The new reporting format will only have an impact on segment information, not on Group numbers. The reportable segments are based on KPN's internal structure and internal reporting to the CEO. For a description of the activities of these segments, reference is made to the 2009 Annual Report. For operating profit reference is made to note [2] and for other segment information reference is made to note [11] in these Condensed Consolidated Financial Statements.

	For the twelve months ended 31 December				For the twelve months ended 31 December			
	2010		2009		2010		2009	
Revenues and Other income	External revenues	Other income	Inter segment revenues	Total revenues and Other income	External revenues	Other income	Inter segment revenues	Total revenues and Other income
Germany	3,151	5	85	3,241	3,098	1	82	3,181
Belgium	725		60	785	744		58	802
Rest of World	261	1	5	267	195		11	206
Eliminations			-108	-108			-111	-111
<b>Mobile International</b>	<b>4,137</b>	<b>6</b>	<b>42</b>	<b>4,185</b>	<b>4,037</b>	<b>1</b>	<b>40</b>	<b>4,078</b>
Consumer	3,775	1	164	3,940	3,890	1	204	4,095
Business	2,189	15	220	2,424	2,219		272	2,491
Wholesale & Operations (national)	627	39	2,133	2,799	656	17	2,206	2,879
Other (incl. ITNL & eliminations)			-2,159	-2,159	2	-1	-2,252	-2,251
<b>Dutch Telco business</b>	<b>6,591</b>	<b>55</b>	<b>358</b>	<b>7,004</b>	<b>6,767</b>	<b>17</b>	<b>430</b>	<b>7,214</b>
iBasis Group	719		193	912	558		161	719
Getronics	1,796	6	164	1,966	1,948		149	2,097
Other gains/losses, eliminations		8	-557	-549	-1	39	-623	-585
<b>The Netherlands</b>	<b>9,106</b>	<b>69</b>	<b>158</b>	<b>9,333</b>	<b>9,272</b>	<b>56</b>	<b>117</b>	<b>9,445</b>
Other activities	81	-1	1	81	142	1		143
Eliminations			-201	-201			-157	-157
<b>KPN Total</b>	<b>13,324</b>	<b>74</b>		<b>13,398</b>	<b>13,451</b>	<b>58</b>		<b>13,509</b>

KPN Group revenues and other income were down 0.8%, caused by a decline of revenues in the Dutch Telco business and Getronics as well as disposals (SNT Belgium & Netherlands, the B2B and Carrier business in Belgium and parts of Getronics). Revenues at iBasis increased by 27% and Mobile International showed an increase of 2.6% which was attributable to growth in Germany and Rest of World.

Other income in Wholesale & Operations is related to a book gain on the sale of mobile towers of EUR 37m in Q3 2010 (2009: EUR 17m) and to the outsourcing of facility services in Q1 2010. Other income in Business is related to a book gain on the sale of part of the dark fiber business in Germany of EUR 14m in Q4 2010. Getronics other income includes the sale of a small part of the business of EUR 3m in Q3 2010. Furthermore, other income within Segment 'Other gains/losses, eliminations' in the Netherlands includes a book gain from the sale of real estate of EUR 8m in 2010 (2009: EUR 39m). For more detailed information on revenues, reference is made to the Management Report.

## [2] Operating profit

	For the twelve months ended 31 December 2010			For the twelve months ended 31 December 2009		
	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	713	661	1,374	645	688	1,333
Belgium	149	122	271	124	135	259
Rest of World	-27	8	-19	-52	13	-39
<b>Mobile International</b>	<b>835</b>	<b>791</b>	<b>1,626</b>	<b>717</b>	<b>836</b>	<b>1,553</b>
Consumer	866	255	1,121	742	288	1,030
Business	721	98	819	713	81	794
Wholesale & Operations (national)	861	858	1,719	850	892	1,742
Other (incl. ITNL)		41	41	-31	41	10
<b>Dutch Telco business</b>	<b>2,448</b>	<b>1,252</b>	<b>3,700</b>	<b>2,274</b>	<b>1,302</b>	<b>3,576</b>
iBasis Group	7	25	32	-15	37	22
Getronics	7	151	158	-90	152	62
Other gains/losses	-1	-1	-2	26	1	27
<b>The Netherlands</b>	<b>2,461</b>	<b>1,427</b>	<b>3,888</b>	<b>2,195</b>	<b>1,492</b>	<b>3,687</b>
Other activities	-46	8	-38	-62	14	-48
<b>KPN Total</b>	<b>3,250</b>	<b>2,226</b>	<b>5,476</b>	<b>2,850</b>	<b>2,342</b>	<b>5,192</b>

Total EBITDA for KPN Group was up 5.5% y-on-y, driven by revenue growth in Germany and at iBasis and through cost reductions in all segments. Dutch Telco EBITDA increased 3.5% y-on-y driven by Consumer and Business Segment and partly offset by a decline at Wholesale & Operations. Getronics EBITDA increased EUR 96m y-on-y mainly as a result of reorganization benefits and the absence of integration and restructuring costs (EUR 40m), as well as EUR 8m of additional pension costs in 2009. Operating profit for KPN Group increased EUR 400m compared to the twelve-month period in 2009.

Depreciation, amortization and impairments decreased EUR 116m y-on-y as a result of three effects. Firstly, the lifetime of mobile masts was changed from 14 to 20 years as of 1 January 2010, with an impact of EUR 80m y-on-y for the full-year 2010, secondly Q1 2009 included an impairment result of EUR 24m and lastly the asset base declined compared to former year.

## [3] Finance costs

Net finance costs increased by EUR 108m y-on-y to EUR 916m, mainly due to one-off costs related to a tender offer in September 2010 of EUR 97m (2009: 27m). Note [7] provides further detail on the tender offer and other borrowings. Furthermore, net finance costs increased y-on-y as a result of higher average gross debt compared to prior year (EUR 13m higher interest costs) and lower finance income (EUR 15m), partly offset by lower floating interest rates on bonds (EUR 15m).

## [4] Income taxes

At 31 December 2010, the valuation of the deferred tax assets at E-Plus was reassessed based upon the new methodology implemented in 2009 for the valuation of the deferred tax assets for loss carry forwards and tax deductible items at E-Plus. In Q4 2009 this led to an increase of the deferred tax assets with EUR 705m. The effective tax rate in 2010 amounted to 21.8% compared to 27% in 2009, adjusted for these tax gains. For a more detailed explanation of this methodology, reference is made to the tax paper published on KPN's website on 26 January 2010.

In Q1 2010 KPN settled the preliminary Dutch corporate income tax assessment for 2010 of EUR 549m by a net prepayment of EUR 543m to the Dutch tax authorities. KPN benefitted from a EUR 6m discount based on the applicable Dutch tax legislation for such a prepayment. In Q1 2009 KPN prepaid EUR 598m, benefitting from a EUR 10m discount. The discounts have been recorded as a reduction of interest paid in the Consolidated Statement of Cash Flows. Both in 2010 and 2009 an amount of EUR 327m of the prepayment was attributable to the E-Plus tax recapture.

#### **[5] Licenses**

In May 2010, E-Plus acquired licenses for additional spectrum in Germany for an amount of EUR 284m. Amortization started August 2010, as these licenses were available for use as from that date.

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

At the end of Q1 2010 KPN closed a transaction with Mobistar regarding the sale of its fixed Belgian B2B and Carrier business, including the fiber network. This business was classified as held for sale at 31 December 2009.

In Q3 2010, KPN agreed to sell a number of mobile towers in two tranches. The first tranche has been completed in Q3 2010. The sale of the second tranche is expected to be completed Q1 2011. The mobile towers comprised in this second tranche are presented as held for sale as at 31 December 2010. The remaining part in assets held for sale relates to the program of KPN to sell its real estate portfolio.

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

In September 2010, KPN concluded a tender and new bond issue transaction, in which KPN repurchased parts of its 2011, 2012 and 2013 notes for a nominal amount of EUR 1.3bn. The tender was financed with a new EUR 1.0bn 10-year Eurobond with a coupon of 3.75% and with excess cash.

On 1 October 2010, KPN redeemed a USD 1,162m Global bond with a nominal amount outstanding of EUR 861m, in accordance with the regular redemption schedule.

As at 31 December 2010, the average maturity was 7.4 years (Q3 2010: 7.2 years). The average interest rate on the nominal bonds was 5.2% (Q3 2010: 5.3%) as a result of the tender offer, the bond issue and the redemption of the USD bond.

#### **[8] 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 from 1 January 2010. As a result, the average coverage ratio of all KPN's pension funds decreased to 105% in 2010 (31 December 2009: 111%) under statutory coverage measurements. In Q4 2010 an additional cash payment of EUR 11m was made and based on the coverage ratio at end of Q3 2010, an additional cash payment of EUR 11m in Q1 2011 is required. Due to the fact that KPN's main pension fund had a coverage ratio of 104% at the end of Q4 '10, KPN will have to make an additional cash payment of EUR 19m in Q2 2011.

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

On 26 January 2010, KPN announced a EUR 1bn share repurchase program for 2010, which started on 4 February 2010 and was completed on 10 December 2010. Under this program, KPN repurchased 89.9 million shares at an average price of EUR 11.12, for a total amount of EUR 1bn.

#### **Cancellation of shares**

On 23 March 2010, KPN concluded the cancellation of 10,711,653 ordinary shares that were repurchased as part of the EUR 1bn share repurchase program of 2009. On 10 August 2010, KPN cancelled a further 45,533,785 shares which were repurchased as part of the 2010 share repurchase program. Following the cancellations in March and August 2010, KPN has 1,572,609,884 ordinary shares outstanding.

The remaining 44,358,475 shares that were repurchased under the share repurchase program 2010 will be cancelled in Q1 2011.

#### **[10] Dividend**

In Q2 2010, KPN paid the final dividend for 2009, for a total of EUR 733m (including dividend tax), or EUR 0.46 per share, resulting in a total 2009 dividend of EUR 1,109m (incl. dividend tax) or EUR 0.69 per share. In Q3 2010, KPN paid the interim dividend for 2010, totaling EUR 419m (including dividend tax), or EUR 0.27 per share, up 17% compared to last year.

## [11] Other Segment information

	As at 31 December 2010		As at 31 December 2009		For the twelve months 31 December	
	Total assets	Total liabilities	Total assets	Total liabilities	2010 CAPEX	2009 CAPEX
<b>Assets, liabilities and CAPEX</b>						
Germany	10,462	27,419	10,342	29,180	501	450
Belgium	1,969	348	1,877	330	122	101
Rest of World (incl. eliminations)	162	135	144	146	22	4
<b>Mobile International</b>	<b>12,593</b>	<b>27,902</b>	<b>12,363</b>	<b>29,656</b>	<b>645</b>	<b>555</b>
Consumer	3,152	2,955	3,203	3,084	291	221
Business	2,710	2,718	2,956	2,963	86	113
Wholesale & Operations (national)	9,178	9,178	9,444	9,494	622	708
Other (incl. ITNL & eliminations)	-348	-345	-493	-492	35	49
<b>Dutch Telco business</b>	<b>14,692</b>	<b>14,506</b>	<b>15,110</b>	<b>15,049</b>	<b>1,034</b>	<b>1,091</b>
iBasis Group	534	447	429	311	12	5
Getronics	2,904	1,930	2,765	1,889	110	107
Other (incl. eliminations)	-657	-658	-513	-448	4	0
<b>The Netherlands</b>	<b>17,473</b>	<b>16,225</b>	<b>17,791</b>	<b>16,801</b>	<b>1,160</b>	<b>1,203</b>
Other activities	-7,329	-24,890	-5,303	-25,447	4	9
<b>KPN Total</b>	<b>22,737</b>	<b>19,237</b>	<b>24,851</b>	<b>21,010</b>	<b>1,809</b>	<b>1,767</b>

Increasing Capex of EUR 42m is a combination of decreasing Capex at Dutch Telco of EUR 57m and increasing Capex at Mobile International (EUR 90m), Getronics (EUR 3m) and iBasis (EUR 7m). The intercompany positions on the balance sheet of segments are eliminated through Segment Other.

## [12] Off-balance sheet commitments

At the end of Q4 2010 the off-balance sheet commitments increased to EUR 4.3bn (EUR 3.9bn at 31 December 2009), mainly due to an increase in purchasing commitments.

## [13] Regulatory Developments

### The Netherlands: MTA and FTA glide path implemented

KPN and several other market parties have started an annulment procedure, which is expected to be handled in Court in 2011. A request for suspension of the decision as interim relief was rejected by the Court on 5 November 2010.

### 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 800, 900 and 1800 spectrum simultaneously ultimately beginning 2012 for mobile communications. The 800 spectrum is currently still in use for digital video broadcast, but is expected to be made available by 2013 (or ultimately 2014). A specific part (2\*10 MHz) of the 800 spectrum could be reserved for new operators. The licenses will have a duration until 2030, in line with the 2.6 GHz licenses auctioned in 2010.

### 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 procedure has been pleaded end of October 2010, 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. A court decision is expected soon.

### **International Roaming**

On 8 December 2010 the European Commission started a public consultation on a review of the functioning of the current Roaming Regulation that is effective until July 2012. The intention of the Commission is that by 2015 differences between national tariffs and roaming tariffs should approach zero. The Commission seeks input from interested parties on options that may exist to realize this intention.

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

For a description of the related parties of KPN and transactions with related parties, reference is made to Note 32 of the Annual Report 2009, including major shareholders. Capital Research and Management Company notified the AFM on 7 January 2011 that they held 4.90% in KPN's ordinary share capital (previous notification of 9.98% shareholding on 20 April 2010). To KPN's knowledge, no other shareholder owned 5% or more of KPN's outstanding shares as at 31 December 2010.

In the twelve months ended 31 December 2010, there have been no changes in the type of related party transactions as described in the Annual Report 2009 that could have a material effect on the financial position or performance of KPN. Nor have any related party transactions taken place in the twelve months ended 31 December 2010 that have materially affected the financial position or the performance of KPN.

## **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](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 2009. KPN's Annual Report 2010 is expected to be available by the end of February 2011.*