

# Reggefiber joint-venture paper

Date: 9 November 2011

## Reggefiber joint-venture agreement

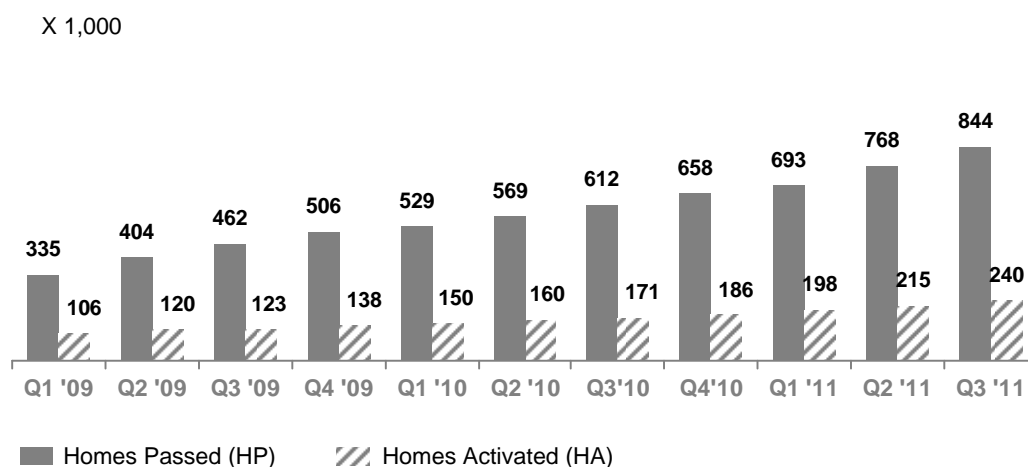
This paper provides further explanation on the amended Reggefiber joint-venture agreement, as referred to in the KPN press release dated 9 November 2011.

### Background

Since 2008, KPN has a minority stake of 41% in Reggefiber with Reggeborgh holding the remainder of the shares. Reggefiber is specialized in the construction and operation of fiber access networks ('FttH'). The initial joint-venture agreement was arranged to utilize and employ the synergies between the two parties. With the purchase of a 41% stake in the joint-venture, KPN acquired its share in the existing Reggefiber FttH infrastructure. It was also agreed at that time that KPN's future FttH roll-out would be done exclusively by Reggefiber. Option structures were put in place which could lead to an increase in KPN's share in the joint-venture and possibly full acquisition of Reggefiber over time, dependent on certain operational milestones. At the end of Q3 2011, Reggefiber had reached the following operational milestones:

- 844k Homes Passed (HP); homes passed refers to the number of homes passed in the FttH areas
- 687k Homes Connected (HC); homes connected refers to a home with a connected Fiber Terminating Unit without it necessarily having an active line. Typically between 80 and 90% of HP are also HC
- 240k Homes Activated (HA); homes activated refers to the number of activated lines

Graph 1: Development of HP and HA at Reggefiber



### Reasons for the amendment to the Reggefiber joint-venture agreement

Today, FttH forms a key component of KPN's wireline strategy and success is proven in the fiber areas. The joint-venture agreement has been amended in order to provide a clear roadmap toward KPN's ultimate control over Reggefiber's operations.

Under the terms of the amended structure, KPN holds options to increase ownership to 60% based on a pre-defined timeline alongside operational milestones. The option exercise prices are based on a fixed price structure. Furthermore, the financing for future roll-out of FttH is agreed between the shareholders.

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## Option structure

The option structure defines a path for KPN, over time, to increase the current 41% share to 60%. The details of the arrangements are as follows:

	Ownership stake	Option trigger	Exercise price	Conditions for exercise
<b>Option 1</b>	Additional 10% Leading to 51% ownership	Call/put vest earliest of: <ul style="list-style-type: none"><li>• 1.0m Homes Connected</li><li>• 31 December 2012</li></ul>	EUR 99m	
<b>Option 2</b>	Additional 9% Leading to 60% ownership	Call/put vest earliest of: <ul style="list-style-type: none"><li>• 1.5m Homes Connected</li><li>• 1 January 2014</li></ul>	EUR 116m - 161m, depending on Capex efficiency at Reggefiber	i) Exercise of option 1 required  ii) NMa approval required

Reggeborgh retains the option to sell the remaining 40% of its shares. This option can be exercised three and a half years after the second option has been exercised over a period of one and a half years, for EUR 647m. Based on the current anticipated roll-out plan, KPN expects that this option will not be exercised before 1 July 2017. Alternatively, this option can also be exercised at fair value for a period of seven years after the second option is exercised.

The exercise prices are compensation to Reggeborgh for investments and goodwill. The exercise prices are determined based on an agreed upon return on invested equity, taking into account a 'premium' of maximum EUR 45m depending on the realized Capex reduction (option 2 only). The joint-venture has developed an innovation plan to enable a reduction in the level of investment per HP.

## Financing

The financing need of the joint-venture is determined mostly by the roll-out speed and the costs per HP. The roll-out will be financed by the shareholders or by means of external financing, depending on the possibilities and attractiveness to attract external financing at the Reggefiber level. After the exercise of option 2 and consolidation, KPN expects to take over the shareholder loans of Reggeborgh and provide the shareholder financing for the FttH roll-out until 1 January 2019. For the period after 1 January 2019, KPN and Reggeborgh will look at the optimal financing structure at that time.

## Financial impact and accounting method

In KPN's consolidated financial statements, Reggefiber is currently accounted for as an associate. Under IFRS, associates are accounted for using the equity method. The equity method is a method of accounting whereby the investment in Reggefiber is initially recognized at cost and subsequently adjusted for the post-acquisition change in KPN's share of the net assets of Reggefiber. The profit of KPN includes KPN's share of the profit or loss of Reggefiber.

Under associate accounting, Reggefiber operations do not have a direct effect on KPN's EBITDA, Capex and Free Cash Flow (apart from possible dividend payments by Reggefiber). Only the Net Debt to EBITDA ratio is impacted by KPN's share in the shareholder financing of Reggefiber.

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## Consolidation

Exercise of the first call/put option would increase KPN's share in Reggefiber to 51%. However, due to the governance structure, this would not result in KPN obtaining full control over Reggefiber. Therefore Reggefiber would not be fully consolidated at such time and would continue to be accounted for as an associate.

In order to be able to increase the share to 60% the following criteria must be met:

- Option 2 must vest
- The Dutch Competition Authority ("NMa") must approve the increase of KPN's share in Reggefiber
- Option 1 must be exercised before option 2 can be exercised

The accounting treatment of the investment in Reggefiber will change at such time as the second call/put option vests and the NMa approves the increase of KPN's share in Reggefiber. The second call/put option vests at the earliest of 1.5m Homes Connected or 1 January 2014. At that moment, Reggefiber will be 100% consolidated in the financial statements of KPN with a liability which reflects the value of the commitment to acquire the remaining 40% of the shares owned by Reggeborgh in line with the conditions of the option. As from the moment that Reggefiber is consolidated in the financial statements of KPN, the Reggefiber operational performance and financial position will have a 100% effect on KPN's financials, including EBITDA, Capex, Free cash flow and the Net debt to EBITDA ratio.

This paper is subject to the disclaimer below.

*"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. Statements contained in this report regarding the accounting treatment are based on KPN's accounting policies as described in the Annual Report 2010. These accounting effects could differ if changes in the relevant IFRS standards occur."*