

## Half Year Results 2011

### Highlights

- Q2 financial results down y-on-y; on track to realize outlook
- Progress made with strategic initiatives to strengthen the business in The Netherlands
- High underlying growth in Germany at strong margin
- First phase of restructuring plan is being implemented to optimize cost structure
- Outlook confirmed

Group financials*	Q2 2011	Q2 2010	Δ y-on-y reported	HY 2011	HY 2010	Δ HY reported
<i>(In millions of euro unless indicated otherwise)</i>						
<b>Revenues and other income</b>	<b>3,290</b>	<b>3,354</b>	<b>-1.9%</b>	<b>6,525</b>	<b>6,631</b>	<b>-1.6%</b>
- Of which revenues	3,276	3,348	-2.2%	6,471	6,619	-2.2%
<b>EBITDA</b>	<b>1,308</b>	<b>1,386</b>	<b>-5.6%</b>	<b>2,577</b>	<b>2,709</b>	<b>-4.9%</b>
EBITDA margin	39.8%	41.3%		39.5%	40.9%	
Restructuring costs	13	-8	n.m.	23	-1	n.m.
<b>EBITDA excl. restructuring costs</b>	<b>1,321</b>	<b>1,378</b>	<b>-4.1%</b>	<b>2,600</b>	<b>2,708</b>	<b>-4.0%</b>
Operating profit (EBIT)	744	839	-11%	1,456	1,632	-11%
Profit for the period (net result)	414	465	-11%	1,005	914	10%
<b>Earnings per share (in EUR)</b>	<b>0.28</b>	<b>0.29</b>	<b>-3.4%</b>	<b>0.67</b>	<b>0.57</b>	<b>18%</b>
Cash flow from operating activities	1,200	1,072	12%	1,665	1,301	28%
Capital expenditures (PP&E and software)	-515	-380	36%	-897	-715	25%
Proceeds from real estate	15	15	—	62	22	>100%
Tax recapture at E-Plus	92	—	n.m.	153	327	-53%
<b>Free cash flow</b>	<b>792</b>	<b>707</b>	<b>12%</b>	<b>983</b>	<b>935</b>	<b>5.1%</b>

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

### Message from the CEO, Eelco Blok

*"The market and regulatory headwinds that we have been experiencing in Q1 continued to affect our financial performance in the second quarter, notably in our domestic business. Since Q1 and the announcement of our 'Strengthen, Simplify and Grow' strategy, we made progress with our actions to strengthen the business in The Netherlands. We have announced new mobile propositions and multi-room IPTV and have accelerated the restructuring plan. In Mobile International we achieved high underlying service revenue growth in all regions with particularly strong margin performance in Germany. We remain on track strategically, are soundly financed and confirm our outlook for the year."*

## Group review

Revenues and other income (In millions of euro)	Q2 2011	Q2 2010	Δ y-on-y reported	Δ y-on-y underlying <sup>1</sup>	HY 2011	HY 2010	Δ HY reported	Δ HY underlying
<b>KPN Group</b>	<b>3,290</b>	<b>3,354</b>	<b>-1.9%</b>	<b>1.5%</b>	<b>6,525</b>	<b>6,631</b>	<b>-1.6%</b>	<b>2.2%</b>
- The Netherlands <sup>2</sup>	2,279	2,339	-2.6%	-1.6%	4,544	4,631	-1.9%	-0.6%
- Mobile International	1,045	1,038	0.7%	9.6%	2,045	2,037	0.4%	9.5%

<sup>1</sup> The definition of underlying is explained in the safe harbor section at the end of the condensed financial report. Details on reported and underlying analysis are provided on page 10

<sup>2</sup> The Netherlands includes Dutch Telco, iBasis, Getronics and Other gains and losses including eliminations

EBITDA (In millions of euro)	Q2 2011	Q2 2010	Δ y-on-y reported	Δ y-on-y underlying <sup>1</sup>	HY 2011	HY 2010	Δ HY reported	Δ HY underlying
<b>KPN Group</b>	<b>1,308</b>	<b>1,386</b>	<b>-5.6%</b>	<b>-1.0%</b>	<b>2,577</b>	<b>2,709</b>	<b>-4.9%</b>	<b>-1.1%</b>
- The Netherlands <sup>2</sup>	918	970	-5.4%	-4.4%	1,853	1,924	-3.7%	-3.6%
- Mobile International	397	422	-5.9%	8.1%	750	806	-6.9%	6.2%

<sup>1</sup> The definition of underlying is explained in the safe harbor section at the end of the condensed financial report. Details on reported and underlying analysis are provided on page 10

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### Impact from regulation leading to lower revenues for the Group, good performance Mobile International

KPN Group revenues were 1.9% or EUR 64m lower y-on-y in Q2 2011 with difficult market conditions in The Netherlands offset to some extent by a good Mobile International performance. Group revenues were y-on-y significantly affected by a regulatory impact of EUR 136m, net positive incidentals of EUR 19m and results from acquisitions of EUR 4m. Dutch Telco showed a revenue decline mainly due to continuing trends which were highlighted in Q1 such as regulation and difficult market conditions. Consumer wireless is dealing with an ongoing change in customer behavior and competition in the 'value for money' segment. In Consumer wireline the broadband base remained stable, with net line loss at manageable levels and PSTN / ISDN losses offset by TV additions. The Business Segment has maintained stable market shares despite continued price pressure. A continued difficult market for Getronics resulted in a y-on-y revenue decline. At Mobile International, underlying revenues increased 9.6% y-on-y in Q2 with Germany, Belgium and Rest of World all contributing. Both iBasis and Ortel Mobile showed a good performance in Q2.

### KPN Group profitability impacted by regulation, strong underlying EBITDA growth at Mobile International

KPN Group EBITDA decreased by EUR 78m (5.6%) y-on-y, whereby the underlying EBITDA decline was 1.0%. The EBITDA was negatively impacted by regulation of EUR 56m and net incidentals of EUR 10m. EBITDA in Dutch Telco declined in Q2 y-on-y as fixed cost reductions were not sufficient to mitigate the impact from regulation, changing customer behavior, higher SAC and price pressure in the Business Segment. On the other hand, the business in Germany showed a strong EBITDA margin of 41.8% in Q2 leading to 6.0% underlying EBITDA growth y-on-y. The restructuring plan in The Netherlands is being executed at Getronics to further optimize the cost structure. EBIT decreased EUR 95m (11%) y-on-y, as a result of lower EBITDA (EUR 78m) and higher amortization predominantly of licenses and software compared to last year (EUR 16m).

### Progress in strengthening Dutch Telco

The trends in Dutch Telco highlighted at the Q1 results continued in Q2. Within Consumer wireless the change in customer behavior, leading to the substitution of voice and SMS by data, and the competition in the 'value for money' segment remained visible in Q2. In the Business Segment price pressure and rationalization by customers continued. Short term measures and strategic initiatives to counter these trends have made progress. In Consumer wireless, actively upselling high 'out of bundle' customers is proving successful and new mobile propositions for the KPN and Hi brands will be introduced in Q3. In the 'value for money' segment, the focus is on customer retention management and brand improvement at Telfort. The Business Segment has successfully implemented new customer retention management to actively address the price pressure and rationalization. The first results of our quality program are becoming visible with decreasing call ratios across the board and shortened delivery times within Consumer wireline (e.g. fiber) and Business.

**YTD net profit of EUR 1,005m**

Net profit decreased by EUR 51m y-on-y to EUR 414m in Q2 2011 following the EBIT decline. In Q2, KPN reached a principle agreement with the Dutch tax authorities with regard to the application of the innovation tax facilities resulting in a one-off tax benefit of EUR 118m YTD, of which EUR 150m has been recorded in Q1 and EUR -32m in Q2. The normalized effective tax rate for KPN Group is expected to amount to approximately 20% for 2011 onwards. YTD net profit amounted to EUR 1,005m, a 10% rise y-on-y mainly as a result of the overall positive effect of the innovation tax facilities.

**Free cash flow in Q2 at EUR 792m**

Free cash flow in Q2 2011 followed a regular seasonal pattern and amounted to EUR 792m, which is EUR 85m above last year. Main reasons are working capital improvements of EUR 108m and a tax refund received related to the innovation tax facilities in The Netherlands of EUR 248m (including interest), resulting in lower tax payments in 2011. This is partly offset by lower EBITDA (EUR -78m), higher Capex (EUR -135m) and the effect of the income tax prepayment in 2010 (EUR -49m). YTD free cash flow amounted to EUR 983m, which is EUR 48m above last year YTD (EUR 935m).

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

Net debt at the end of Q2 2011 amounted to EUR 12.5bn compared to EUR 11.8bn at the end of Q1 2011. The increase in net debt at the end of Q2 is the result of the EUR 795m final dividend 2010 payment (including dividend tax), the accelerated share repurchase program (EUR 496m), partly compensated by the tax refund of EUR 248m. Combined with a lower EBITDA over the last twelve months, this resulted in a net debt to EBITDA ratio of 2.4x (Q1 2011: 2.2x) which remains within KPN's target financial framework of 2.0 - 2.5x. 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 108%**

In Q2 2011, KPN's pension funds in The Netherlands remained stable, resulting in an average coverage ratio for all KPN's pension funds of 108%. KPN made an additional cash payment of EUR 19m in Q2 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%.

**Restructuring plan**

To further lower the cost base in The Netherlands, KPN announced an FTE reduction program of 4,000 - 5,000 FTE as part of its new strategy. For KPN Group restructuring costs of EUR 13m have been recorded in Q2. As part of the new FTE reduction program, in Q2 2011, Getronics announced a significant restructuring plan (incl. off-shoring) that will result in a staff reduction of 2,000 - 2,500 FTE. A part of the corresponding restructuring provision will be accounted for in H2 2011.

**New operational structure planned**

In accordance with the 'Strengthen-Simplify-Grow' strategy announced on 10 May 2011, KPN is preparing for a next step in aligning the operational structure with market dynamics, effective per 1 January 2012. In the new structure, segments in The Netherlands will be reporting as Consumer wireline, Consumer wireless, Business, Getronics and Wholesale & Operations. Outside The Netherlands, segments will be reporting as: Germany, Belgium / Rest of World and iBasis. All segments will directly report to the Board of Management to de-layer the operational structure.

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

## Financial and operating review by Segment

### The Netherlands

Revenues and other income (In millions of euro)	Q2 2011	Q2 2010	Δ y-on-y reported	Δ y-on-y underlying	HY 2011	HY 2010	Δ HY reported	Δ HY underlying
- Consumer	953	990	-3.7%	-2.2%	1,894	1,959	-3.3%	-1.1%
- Business	600	604	-0.7%	-2.7%	1,200	1,238	-3.1%	-2.4%
- Wholesale & Operations (national)	659	704	-6.4%	-5.4%	1,335	1,408	-5.2%	-5.9%
- Other (incl. eliminations)	-507	-539	5.9%	-6.1%	-1,020	-1,088	6.3%	-6.3%
<b>Dutch Telco business</b>	<b>1,705</b>	<b>1,759</b>	<b>-3.1%</b>	<b>-2.4%</b>	<b>3,409</b>	<b>3,517</b>	<b>-3.1%</b>	<b>-1.8%</b>
- iBasis Group	246	237	3.8%	3.8%	472	430	10%	9.8%
- Getronics	462	478	-3.3%	-2.1%	934	952	-1.9%	-1.1%
- Other gains/losses, eliminations	-134	-135	0.7%	-4.3%	-271	-268	-1.1%	-1.1%
of which Real estate	-	4	n.m.	n.m.	-	6	n.m.	n.m.
<b>The Netherlands</b>	<b>2,279</b>	<b>2,339</b>	<b>-2.6%</b>	<b>-1.6%</b>	<b>4,544</b>	<b>4,631</b>	<b>-1.9%</b>	<b>-0.6%</b>

EBITDA (In millions of euro)	Q2 2011	Q2 2010	Δ y-on-y reported	Δ y-on-y underlying	HY 2011	HY 2010	Δ HY reported	Δ HY underlying
- Consumer	271	289	-6.2%	-7.1%	545	550	-0.9%	0.4%
- Business	203	197	3.0%	-1.5%	397	420	-5.5%	-2.5%
- Wholesale & Operations (national)	414	424	-2.4%	-2.0%	835	851	-1.9%	-5.3%
- Other	6	9	-33%	-22%	14	15	-6.7%	-
<b>Dutch Telco business</b>	<b>894</b>	<b>919</b>	<b>-2.7%</b>	<b>-3.7%</b>	<b>1,791</b>	<b>1,836</b>	<b>-2.5%</b>	<b>-2.9%</b>
EBITDA margin	52.4%	52.2%			52.5%	52.2%		
- iBasis Group	10	9	11%	11%	17	17	-	-
- Getronics	15	40	-63%	-33%	45	69	-35%	-31%
- Other gains/losses	-1	2	n.m.	n.m.	-	2	n.m.	n.m.
of which Real estate	-	2	n.m.	n.m.	-	2	n.m.	n.m.
<b>The Netherlands</b>	<b>918</b>	<b>970</b>	<b>-5.4%</b>	<b>-4.4%</b>	<b>1,853</b>	<b>1,924</b>	<b>-3.7%</b>	<b>-3.6%</b>
EBITDA margin	40.3%	41.5%			40.8%	41.5%		

#### Trends in Dutch Telco continued, good progress made to strengthen business

Reported revenues and other income at Dutch Telco decreased by 3.1% or EUR 54m including a regulatory impact of EUR 54m, positive incidentals of EUR 29m (Q2 2010: EUR 5m) and acquisitions of EUR 21m (Q2 2010: EUR 4m). The Q2 '11 incidentals relate to a release of deferred revenues of EUR 21m, changing the revenue recognition period from estimated customer life-time to contract term and a EUR 11m book gain on the sale of assets. Underlying revenues declined by 2.4% mainly as a result of the ongoing change in customer behavior and increased competition in the 'value for money' segment of Consumer wireless.

Reported EBITDA in Q2 was 2.7% lower y-on-y including a regulatory impact of EUR 12m and net positive incidentals of EUR 24m. Underlying EBITDA declined 3.7% y-on-y, as a reduction in fixed costs could not fully offset the investments for growth in Dutch Telco.

#### Consumer revenues under pressure following a continuation of trends at Consumer wireless

Underlying revenues and other income declined by 2.2% y-on-y. In line with Q1, revenues in wireless were impacted by changing customer behavior and competition in the lower value segment, partly offset by continued data growth. Wireline revenues showed a slight decline while market shares remained stable. Underlying EBITDA decreased 7.1% as a result of the revenue trend and higher handset subsidies. As a result the underlying EBITDA margin decreased y-on-y in Q2 to 27.6% in Q2 (Q2 2010: 29.1%).

### *Consumer wireless*

The Dutch wireless market remained challenging in Q2 with continued increase in usage of communication apps and free Wi-Fi hotspots, driven by an increase in the penetration rate of smartphones to 47%. The 'Hi' brand is most impacted by the change in customer behavior, due to the high number of early adopters; in the other KPN brands the impact is still limited. The resulting decrease in 'out of bundle' revenues is being partly countered by short term measures that have been taken such as upselling customers to larger (e.g. unlimited) SMS bundles and other bundles.

The structural step in moving the wireless portfolio from a voice to a data centric portfolio will be made at the beginning of September, as announced on 19 July. The new integrated data / voice / SMS bundles will be differentiated by quantity, speed and service with due observance of net neutrality. Data volume pricing will increase within the propositions and subscriber acquisition costs will be managed down. Transparent propositions have been developed that will provide customers with clear choices on type and quality of service.

KPN's Consumer wireless customer base remained almost stable at 5.5 million customers, of which 3.2 million are postpaid and 2.3 million prepaid. KPN's market share<sup>2</sup> was slightly down following competition in particular in the markets served by Telfort. Customer retention management at Telfort has been reinforced to protect its market share. The blended ARPU remained stable y-on-y. The share of non-voice in ARPU increased to 39% from 37%.

### *Consumer wireline*

The Dutch broadband market continued its gradual growth path. KPN's broadband market share remained under pressure at 41% as the 'value for money' segment in particular was sensitive to competition. Revenue Generating Units (RGUs) per customer increased y-on-y in Q2 to 1.9 RGU per customer following stable net line loss at 45k supported by an improvement in PSTN / ISDN loss and continued TV additions. IPTV remained one of the growth drivers of the broadband customer base and the new IPTV brand XS4ALL was successfully launched, further increasing the addressable market. In Q2, KPN added 56k new IPTV customers to its base and ended the quarter with 1.3 million TV subscribers, further growing its market share (16%). TV ARPU increased by 22% y-on-y to EUR 11 in Q2.

Improved customer propositions have been introduced that offer multi-room IPTV. Further improvements such as a new user-interface, more content and additional features will be introduced in the coming quarters. KPN is on track with the VDSL upgrades, including pair bonding, which will significantly increase the broadband bandwidth for subscribers and enable further commercial roll-out of multi-room HD TV. At the end of 2011, KPN will be able to deliver guaranteed speeds of >40 Mbps to around 40% of the Dutch households. To further expand the addressable market, as of Q3 2011 another KPN brand, Telfort, will start offering IPTV.

The positive trend in FttH sales order intake continued as demand aggregation in fiber areas was successful; 17 out of 19 areas started roll-out. This is only partly visible in the growth rate of the installed base, due to the time lag between order intake, fiber roll-out and activation. At the end of Q2, the number of FttH activated homes amounted to 61k. In Q4 2011, a new addition to the superior propositions on FttH will be added, the service will offer 500 Mbps up- and download speed.

### **Satisfactory performance at Business given the market conditions**

Underlying revenues and other income decreased by 2.7% y-on-y, driven by pressure on traditional services in wireline and competition in wireless services. The revenues benefited from increased hardware revenues due to the increased sale of smartphones y-on-y; however this affected EBITDA by increased SAC/SRC levels and as a result underlying EBITDA decreased by 1.5% y-on-y. The underlying EBITDA margin remained stable at 34%.

The wireless service revenues decreased 2.8% y-on-y as a result of a decrease in average revenue per customer. The decline was partly offset by the increase in data revenues driven by higher data usage and growth in the number of customers using data services. In Q2, 63% of customers used data services compared to 61% in Q1. Despite an increasingly competitive market, wireless service revenues market share was stable.

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<sup>2</sup> Market share in terms of service revenues

With regard to wireline, business DSL and managed data services showed a solid performance. The migration from traditional to new services continued steadily. The traditional wireline services showed a stable decline in access lines. New pricing schemes on these services had a positive impact on revenues. KPN continued to focus on customer retention to further strengthen its position in the business market.

#### **Continued cost reductions and pressure on revenue at Wholesale & Operations**

Underlying revenues and other income decreased by 5.4% as a result of the ongoing decline of the traditional services in the Consumer and Business Segments, partly offset by increased international wholesale traffic. Underlying EBITDA margin increased to 62.2% y-on-y, driven by cost reductions. Besides lower traffic costs, the main drivers of the cost reductions were FTE reductions and improved supplier conditions.

Through the Reggefiber joint-venture, further progress was made in Q2 2011 with the FttH roll-out. The roll-out continued as planned and in Q2 2011 the number of homes passed increased by 75k to 768k. Homes activated at Reggefiber increased by 17k and reached 215k.

#### **Difficult market for Getronics, restructuring plan accelerated**

In Q2, overall market conditions remained challenging with relatively low demand in managed services, price erosion on existing services and clients postponing new IT projects and investments. As a result, underlying revenue and other income decreased y-on-y by 2.1%. As a result of the lower revenues and increasing pressure on gross margins the underlying EBITDA declined y-on-y by 33%. Getronics realized an underlying 4.8% EBITDA margin in Q2 2011 adjusting for a restructuring provision of EUR 7m. Getronics has accelerated the implementation of its restructuring plan (incl. off-shoring) to further reduce its operating costs. Getronics is developing its business to play a leading role in cloud services aggregation.

#### **iBasis is balancing revenue growth with profitability**

Revenues at iBasis increased by 3.8% y-on-y in Q2 2011, despite a negative currency effect of 13%. In Q2 the EBITDA margin increased to 4.1%. Revenue growth is enhanced by new business wins and iBasis is focused on balancing revenues with profitability. Despite a competitive environment, iBasis continued to improve its market share and retained its top 5 position in the international voice traffic market.

## Mobile International

Revenues and other income (In millions of euro)	Q2 2011	Q2 2010	Δ y-on-y reported	Δ y-on-y underlying	HY 2011	HY 2010	Δ YTD reported	Δ YTD underlying
- Germany	802	803	-0.1%	7.5%	1,575	1,571	0.3%	7.4%
- Belgium	194	201	-3.5%	7.8%	380	403	-5.7%	8.3%
- Rest of World (incl. eliminations)	49	34	44%	65%	90	63	43%	65%
<b>Mobile International</b>	<b>1,045</b>	<b>1,038</b>	<b>0.7%</b>	<b>9.6%</b>	<b>2,045</b>	<b>2,037</b>	<b>0.4%</b>	<b>9.5%</b>

EBITDA (In millions of euro)	Q2 2011	Q2 2010	Δ y-on-y reported	Δ y-on-y underlying	HY 2011	HY 2010	Δ YTD reported	Δ YTD underlying
- Germany	335	345	-2.9%	6.0%	636	666	-4.5%	4.4%
- Belgium	64	81	-21%	12%	121	148	-18%	12%
- Rest of World	-2	-4	50%	n.m.	-7	-8	13%	-50%
<b>Mobile International</b>	<b>397</b>	<b>422</b>	<b>-5.9%</b>	<b>8.1%</b>	<b>750</b>	<b>806</b>	<b>-6.9%</b>	<b>6.2%</b>
EBITDA margin	38.0%	40.7%			36.7%	39.6%		

### Revenue growth and good profitability at Mobile International

Reported revenues increased by 0.7% or EUR 7m despite a severe regulatory impact of EUR 82m. Compared to Q2 2010 underlying revenues and other income increased by 9.6%. Reported EBITDA decreased by 5.9% or EUR 25m, including a severe regulatory impact of EUR 44m in Q2 2011 and net negative incidentals in Q2 2010 (EUR 11m). Removing those impacts, underlying EBITDA increased by 8.1%.

### High underlying service revenue growth of 7.5% at strong margin in Germany

Underlying revenues and other income in Germany increased by 7.5% y-on-y. Underlying service revenues grew 7.5% y-on-y, driven by high postpaid net adds due to the successful BASE brand and wholesale, the regional focus and strong captive channel performance. With postpaid net adds in Q2 of 102k and 456k prepaid net adds, total net adds amounted to 558k in Q2. Despite the higher regulatory impact at E-Plus compared to its competitors, E-Plus' market share in service revenues is expected to have increased y-on-y to 15.8%. The underlying EBITDA margin was strong at 42% in Q2 2011 due to targeted marketing activities and cost efficiencies.

In Germany, the accelerated roll-out of its high speed mobile data network continued and currently covers more than 75% of E-Plus' subscribers (up to 21 Mbps) as site upgrades reach over 15 per day. In Q2 2011, E-Plus continued its marketing efforts, thereby successfully improving awareness of the BASE brand and its new propositions. E-Plus is actively marketing the BASE Lutea and the BASE tablet, both from ZTE, to make mobile data available to the mass market.

The uptake of data bundles has been encouraging in 'Mein BASE', the main proposition of E-Plus; as over 40% of new customers added a data bundle.

These positive developments will support the ambition to increase the data market share significantly from the current mid-single digit percentage to over 20% in 2015.

### Strong underlying service revenue growth of 8.9% in Belgium

Underlying revenues and other income in Belgium increased y-on-y by 7.8%. The increase in underlying service revenues by 8.9% y-on-y resulted 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 Q2 2011, BASE outperformed the market again reaching a market share of approximately 19%. The EBITDA margin was relatively stable at 33%.

KPN Group Belgium continued the roll-out of commercial high speed mobile data in more than 16 cities including the 6 major ones. Postpaid net adds amounted to 20k in Q2 2011 and the prepaid base showed net adds of 9k including a clean up of ~220k in Q2 (~114k in Q1).

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

External revenues increased by ~29% y-on-y with continued growth in all markets. EBITDA remained flat y-on-y as investments into Ortel Mobile growth were offset by improved financial performance of KPN Spain and KPN France. The total number of customers in Spain increased to ~550k (Q4 2010: ~400k), driven by strong growth of Ortel Mobile. In France, the customer base has grown to ~650k (Q4 2010: ~400k).

## Outlook

On the one hand, the Q2 results reflected some adverse trends in The Netherlands as highlighted in Q1. On the other hand, Q2 also saw the initial results of initiatives to fulfill the strategic objectives set at the Investor Day in May 2011. Within Consumer wireless the change in customer behavior, leading to the substitution of voice and SMS by data, and competition in the 'value for money' segment remained visible in Q2. In the Business Segment, price pressure and rationalization continued. These trends in Dutch Telco impacted the Q2 results, but at the same time progress has been made with short-term measures and strategic initiatives to mitigate the impact from these trends and to strengthen the businesses in The Netherlands. The increased costs resulting from strengthening The Netherlands have not been fully offset by reducing fixed costs. The first phase of the restructuring plan of 4,000 - 5,000 FTE is being implemented to optimize the cost structure. Getronics operates in a difficult market where its market share is stable. Mobile data is proving a success at Mobile International which continued its high underlying service revenues growth with strong margins. In summary, KPN is on track strategically, remains soundly financed and has made progress in Q2 in a challenging market environment.

KPN will continue to focus on EBITDA, cash flow generation and achieving its strategic market share objectives. An improving y-on-y EBITDA trend in the H2 2011, excluding restructuring costs, is expected. For the full year 2011, KPN expects to realize over EUR 5.3bn in EBITDA and confirms the outlook.

KPN remains committed to industry-leading shareholder returns. The interim dividend for 2011 has been set at EUR 0.28 and KPN confirms the dividend per share objective for 2011 of at least EUR 0.85.

Guidance metrics	Outlook 2011
EBITDA	> EUR 5.3bn <sup>3</sup>
Capex	< EUR 2bn
Free cash flow <sup>4</sup>	Growth <sup>5</sup>
Dividend per share	At least EUR 0.85

For 2012, KPN expects to achieve around EUR 2.4bn in free cash flow. Over the years 2012 and 2013, KPN targets a growing dividend per share of EUR 0.90 and EUR 0.95 respectively.

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<sup>3</sup> Excluding 2011 restructuring costs

<sup>4</sup> Free cash flow defined as cash flow from operating activities, plus proceeds from real estate, minus Capex and excluding tax recapture E-Plus

<sup>5</sup> "Growth" defined as growth compared to 2010 free cash flow, set on 26 January 2010 (free cash flow in 2010 was EUR 2,428m)

## Analysis of underlying results

Consolidated figures Revenues and other income	Q2 2011 Reported	Result of M&A Incidentals		Q2 2011 Underly- ing <sup>6</sup>	Q2 2010 Reported	Regulation <sup>7</sup> 2011	Result of M&A Incidentals		Q2 2010 Underly- ing	Δ y-on-y Reported	Δ y-on-y Underly- ing
Germany	802	4	-	798	803	-61	-	-	742	-0.1%	7.5%
Belgium	194	-	-	194	201	-21	-	-	180	-3.5%	7.8%
Rest of World	49	-7	-	56	34	-	-	-	34	44%	65%
<b>Mobile International</b>	<b>1,045</b>	<b>-3</b>	<b>-</b>	<b>1,048</b>	<b>1,038</b>	<b>-82</b>	<b>-</b>	<b>-</b>	<b>956</b>	<b>0.7%</b>	<b>9.6%</b>
Consumer	953	-	11	942	990	-27	-	-	963	-3.7%	-2.2%
Business	600	19	7	574	604	-17	-	-3	590	-0.7%	-2.7%
Wholesale & Operations (national)	659	2	11	646	704	-13	-	8	683	-6.4%	-5.4%
Other (incl. ITNL & eliminations)	-507	-	-	-507	-539	3	4	-	-540	5.9%	-6.1%
<b>Dutch Telco business</b>	<b>1,705</b>	<b>21</b>	<b>29</b>	<b>1,655</b>	<b>1,759</b>	<b>-54</b>	<b>4</b>	<b>5</b>	<b>1,696</b>	<b>-3.1%</b>	<b>-2.4%</b>
iBasis	246	-	-	246	237	-	-	-	237	3.8%	3.8%
Getronics	462	-	-	462	478	-	6	-	472	-3.3%	-2.1%
Other gains/losses, eliminations	-134	-	-	-134	-135	-	-	5	-140	0.7%	-4.3%
<b>The Netherlands</b>	<b>2,279</b>	<b>21</b>	<b>29</b>	<b>2,229</b>	<b>2,339</b>	<b>-54</b>	<b>10</b>	<b>10</b>	<b>2,265</b>	<b>-2.6%</b>	<b>-1.6%</b>
Eliminations	-52	-	-	-52	-47	-	-	-	-47	-11%	11%
Other activities	18	-4	-	22	24	-	-	-	24	-25%	-8.3%
<b>Revenues and other income</b>	<b>3,290</b>	<b>14</b>	<b>29</b>	<b>3,247</b>	<b>3,354</b>	<b>-136</b>	<b>10</b>	<b>10</b>	<b>3,198</b>	<b>-1.9%</b>	<b>1.5%</b>

Consolidated figures EBITDA	Q2 2011 Reported	Result of M&A Incidentals		Q2 2011 Underly- ing	Q2 2010 Reported	Regulation	Result of M&A Incidentals		Q2 2010 Underly- ing	Δ y-on-y Reported	Δ y-on-y Underly- ing
Germany	335	-	-	335	345	-31	-	-2	316	-2.9%	6.0%
Belgium	64	-	-	64	81	-13	-	11	57	-21%	12%
Rest of World	-2	-	-2	-	-4	-	-	-	-4	50%	n.m.
<b>Mobile International</b>	<b>397</b>	<b>-</b>	<b>-2</b>	<b>399</b>	<b>422</b>	<b>-44</b>	<b>-</b>	<b>9</b>	<b>369</b>	<b>-5.9%</b>	<b>8.1%</b>
Consumer	271	-	11	260	289	-10	-	-1	280	-6.2%	-7.1%
Business	203	1	7	195	197	-2	-	-3	198	3.0%	-1.5%
Wholesale & Operations (national)	414	1	11	402	424	-	-	14	410	-2.4%	-2.0%
Other (incl. ITNL & eliminations)	6	-	-1	7	9	-	-	-	9	-33%	-22%
<b>Dutch Telco business</b>	<b>894</b>	<b>2</b>	<b>28</b>	<b>864</b>	<b>919</b>	<b>-12</b>	<b>-</b>	<b>10</b>	<b>897</b>	<b>-2.7%</b>	<b>-3.7%</b>
iBasis	10	-	-	10	9	-	-	-	9	11%	11%
Getronics	15	-	-7	22	40	-	1	6	33	-63%	-33%
Other gains/losses, eliminations	-1	-	-1	-	2	-	-	4	-2	n.m.	-100%
<b>The Netherlands</b>	<b>918</b>	<b>2</b>	<b>20</b>	<b>896</b>	<b>970</b>	<b>-12</b>	<b>1</b>	<b>20</b>	<b>937</b>	<b>-5.4%</b>	<b>-4.4%</b>
Other activities	-7	-	5	-12	-6	-	-	4	-10	-17%	20%
<b>EBITDA</b>	<b>1,308</b>	<b>2</b>	<b>23</b>	<b>1,283</b>	<b>1,386</b>	<b>56</b>	<b>1</b>	<b>33</b>	<b>1,296</b>	<b>-5.6%</b>	<b>-1.0%</b>

<sup>6</sup> The definition of underlying is explained in the safe harbor section at the end of the condensed financial report

<sup>7</sup> To calculate the y-on-y regulatory impact for 2011, the 2010 revenues are adjusted using the 2010 volumes and 2011 tariffs

## **Condensed Consolidated Interim Financial Statements for the six months ended 30 June 2011 and 2010**

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## Unaudited Consolidated Statement of Income

<i>(In millions of euro, unless indicated otherwise)</i>	For the three months ended 30 June		For the six months ended 30 June	
	2011	2010	2011	2010
Revenues	3,276	3,348	6,471	6,619
Other income	14	6	54	12
<b>Revenues and other income [1]</b>	<b>3,290</b>	<b>3,354</b>	<b>6,525</b>	<b>6,631</b>
Own work capitalized	-30	-25	-59	-49
Cost of materials	232	199	490	404
Work contracted out and other expenses	1,136	1,144	2,242	2,260
Employee benefits	471	493	948	999
Depreciation, amortization and impairments	564	547	1,121	1,077
Other operating expenses	173	157	327	308
<b>Total operating expenses</b>	<b>2,546</b>	<b>2,515</b>	<b>5,069</b>	<b>4,999</b>
<b>Operating profit [2]</b>	<b>744</b>	<b>839</b>	<b>1,456</b>	<b>1,632</b>
Finance income	16	7	18	10
Finance costs	-174	-196	-343	-389
Other financial results	-22	-5	-10	-7
Finance income and expenses [3]	-180	-194	-335	-386
Share of the profit of associates and joint ventures, net of tax	-12	-11	-11	-21
<b>Profit before income tax</b>	<b>552</b>	<b>634</b>	<b>1,110</b>	<b>1,225</b>
Income taxes [4]	-138	-169	-105	-311
<b>Profit for the period</b>	<b>414</b>	<b>465</b>	<b>1,005</b>	<b>914</b>
Profit (loss) attributable to non-controlling interest	—	1	—	2
Profit attributable to equity holders	414	464	1,005	912
<b>Earnings per ordinary share on a non-diluted basis (in EUR)</b>	<b>0.28</b>	<b>0.29</b>	<b>0.67</b>	<b>0.57</b>
<b>Earnings per ordinary share on a fully diluted basis (in EUR)</b>	<b>0.28</b>	<b>0.29</b>	<b>0.67</b>	<b>0.57</b>
Weighted average number of shares on a non-diluted basis			1,494,173,616	1,585,961,990
Weighted average number of shares on a fully diluted basis			1,497,178,345	1,589,182,711

## Unaudited Consolidated Statement of Comprehensive Income

(In millions of euro)	For the three months ended 30 June		For the six months ended 30 June	
	2011	2010	2011	2010
<b>Profit for the period</b>	<b>414</b>	<b>465</b>	<b>1,005</b>	<b>914</b>
<b>Other comprehensive income:</b>				
Cash flow hedges:				
Gains or (losses) arising during the period	–	18	20	-2
Tax <sup>8</sup>	6	-4	-5	1
	6	14	15	-1
Currency translation adjustments:				
Gains or (losses) arising during the period	-2	1	-6	8
Tax	–	–	–	–
	-2	1	-6	8
Fair value adjustment available for sale financial assets:				
Unrealized gains or (losses) arising during the period	-1	-3	-4	-5
Impairment charge through P&L	11	-	11	-
	10	-3	7	-5
<b>Other comprehensive income for the period. net of taxes</b>	<b>14</b>	<b>12</b>	<b>16</b>	<b>2</b>
<b>Total comprehensive income for the year, net of tax</b>	<b>428</b>	<b>477</b>	<b>1,021</b>	<b>916</b>
Total comprehensive income attributable to:				
Owners of the parent	428	475	1,021	913
Non-controlling interest	–	2	–	3

<sup>8</sup> Following the in principle agreement reached regarding the application of tax facilities EUR 6m entry in Q1 has been reversed in Q2

## Consolidated Statement of Financial Position

ASSETS (In millions of euro)	As at	
	30 June 2011 (unaudited)	31 December 2010
<b>NON-CURRENT ASSETS</b>		
Goodwill	5,734	5,733
Licenses	2,651	2,818
Software	776	819
Other intangibles	348	385
<b>Total Intangible assets</b>	<b>9,509</b>	<b>9,755</b>
Land and buildings	847	875
Plant and equipment	5,528	5,619
Other tangible non current assets	121	130
Assets under construction	1,045	890
<b>Total property, plant and equipment</b>	<b>7,541</b>	<b>7,514</b>
Investments in associates and joint ventures	276	284
Loans to associates [5]	105	33
Available-for-sale financial assets	47	53
Derivative financial instruments	5	17
Deferred income tax assets	1,858	1,918
Other financial non-current assets	241	236
<b>Total non-current assets</b>	<b>19,582</b>	<b>19,810</b>
<b>CURRENT ASSETS</b>		
Inventories	151	153
Trade and other receivables	1,958	1,867
Current income tax receivables	50	27
Cash	1,124	823
<b>Total current assets</b>	<b>3,283</b>	<b>2,870</b>
<b>Non-current assets and disposal groups held for sale [6]</b>	<b>8</b>	<b>57</b>
<b>TOTAL ASSETS</b>	<b>22,873</b>	<b>22,737</b>

	As at	
<b>LIABILITIES</b> <i>(In millions of euro)</i>	<b>30 June 2011</b> <b>(unaudited)</b>	<b>31 December 2010</b>
<b>GROUP EQUITY</b>		
Share capital	366	377
Share premium	7,695	8,184
Other reserves	-860	-709
Retained earnings	-4,142	-4,352
<b>Equity attributable to owners of the parent</b>	<b>3,059</b>	<b>3,500</b>
Non controlling interest	-	-
<b>Total group equity</b>	<b>3,059</b>	<b>3,500</b>
<b>NON-CURRENT LIABILITIES</b>		
Borrowings [7]	11,192	11,359
Derivative financial instruments	379	250
Deferred income tax liabilities	996	956
Provisions for retirement benefit obligations [8]	481	608
Provisions for other liabilities and charges	406	404
Other payables and deferred income	146	225
<b>Total non-current liabilities</b>	<b>13,600</b>	<b>13,802</b>
<b>CURRENT LIABILITIES</b>		
Trade and other payables	3,777	3,982
Borrowings [7]	2,197	1,178
Derivative financial instruments (current liabilities)	2	1
Current income tax liabilities	166	152
Provisions (current portion)	72	106
<b>Total current liabilities</b>	<b>6,214</b>	<b>5,419</b>
<b>Liabilities directly associated with non-current assets and disposal groups classified as held for sale [6]</b>	<b>-</b>	<b>16</b>
<b>TOTAL EQUITY AND LIABILITIES</b>	<b>22,873</b>	<b>22,737</b>

## Unaudited Consolidated Statement of Cash Flows

(In millions of euro)	For the six months 30 June	
	2011	2010
<b>Profit before income tax</b>	<b>1,110</b>	<b>1,225</b>
Adjustments for:		
- Net finance costs	335	386
- Share-based compensation	-14	-18
- Share of the profit of associated and joint ventures	11	21
- Depreciation, Amortization and impairments	1,121	1,077
- Other income	-52	-8
- Changes in provisions (excluding deferred taxes)	-208	-166
Changes in working capital relating to:		
- Inventories	2	-9
- Trade receivables	-19	-71
- Prepayments and accrued income	-118	-155
- Other current assets	34	-12
- Trade payables	-42	121
- Accruals and deferred income	-107	-130
- Current liabilities (excluding short-term financing)	-16	-37
<b>Change in working capital</b>	<b>-266</b>	<b>-293</b>
Dividends received	1	1
Taxes paid / received	-22	-558
Interest paid	-351	-366
<b>Net cash flow generated from operations</b>	<b>1,665</b>	<b>1,301</b>
Acquisition of subsidiaries, associates and joint ventures (net of acquired cash)	-26	-66
Disposal of subsidiaries, associates and joint ventures	5	59
Investments in intangible assets (excluding software)	-16	-289
Investments in property, plant & equipment	-735	-575
Investments in software	-162	-140
Disposal of intangibles (excluding software)	8	-
Disposal in property, plant & equipment	1	15
Disposal in software	-	1
Disposals of real estate	62	22
Other changes and disposals	-55	-28
<b>Net cash flow used in investing activities</b>	<b>-918</b>	<b>-1,001</b>
Share repurchase	-667	-532
Dividends paid	-795	-733
Exercised options	5	12
Repayments from borrowings and settlement of derivatives	-30	-126
Other changes in interest-bearing current liabilities	1	-
<b>Net cash flow used in financing activities</b>	<b>-1,486</b>	<b>-1,379</b>
<b>Changes in cash</b>	<b>-739</b>	<b>-1,079</b>
<b>Net Cash at beginning of period</b>	<b>682</b>	<b>2,652</b>
Exchange rate difference	-2	6
Changes in cash	-739	-1,079
<b>Net Cash at end of period</b>	<b>-59</b>	<b>1,579</b>
Bank overdrafts	1,183	43
<b>Cash at end of period</b>	<b>1,124</b>	<b>1,622</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 attribu- table to owners of the parent	Non controlling interests	Total Group equity
<b>Balance as of 1 January 2010</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	–	–	–	–	2	2	–	2
Exercise of options	–	–	–	12	–	12	–	12
Shares repurchased	–	–	–	-557	–	-557	–	-557
Dividends paid	–	–	–	–	-733	-733	–	-733
Shares cancelled	-10,711,653	-3	-126	129	–	–	–	–
Total comprehensive income for the period	–	–	–	1	912	913	3	916
<b>Balance as of 30 June 2010</b>	<b>1,618,143,669</b>	<b>388</b>	<b>8,673</b>	<b>-785</b>	<b>-4,801</b>	<b>3,475</b>	<b>6</b>	<b>3,481</b>
<b>Balance as of 1 January 2011</b>	<b>1,572,609,884</b>	<b>377</b>	<b>8,184</b>	<b>-709</b>	<b>-4,352</b>	<b>3,500</b>	<b>–</b>	<b>3,500</b>
Exercise of options	–	–	–	7	–	7	–	7
Shares repurchased	–	–	–	-674	–	-674	–	-674
Dividends paid	–	–	–	–	-795	-795	–	-795
Shares cancelled	-44,358,475	-11	-489	500	–	–	–	–
Total comprehensive income for the period	–	–	–	16	1,005	1,021	–	1,021
<b>Balance as of 30 June 2011</b>	<b>1,528,251,409</b>	<b>366</b>	<b>7,695</b>	<b>-860</b>	<b>-4,142</b>	<b>3,059</b>	<b>–</b>	<b>3,059</b>

## 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 in 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, 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 [10] in these Condensed Consolidated Interim Financial Statements.

Revenues and other income	For the six months ended 30 June 2011				For the six months ended 30 June 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	1,529	3	43	1,575	1,529	2	40	1,571
Belgium	351	1	28	380	374	–	29	403
Rest of World	145	-1	4	148	111	–	3	114
Eliminations	–	–	-58	-58	–	–	-51	-51
<b>Mobile International</b>	<b>2,025</b>	<b>3</b>	<b>17</b>	<b>2,045</b>	<b>2,014</b>	<b>2</b>	<b>21</b>	<b>2,037</b>
Consumer	1,826	–	68	1,894	1,875	–	84	1,959
Business	1,097	–	103	1,200	1,130	–	108	1,238
Wholesale & Operations (national)	290	46	999	1,335	328	2	1,078	1,408
Other (incl. ITNL & eliminations)	1	–	-1,021	-1,020	–	1	-1,089	-1,088
<b>Dutch Telco business</b>	<b>3,214</b>	<b>46</b>	<b>149</b>	<b>3,409</b>	<b>3,333</b>	<b>3</b>	<b>181</b>	<b>3,517</b>
iBasis Group	361	–	111	472	348	–	82	430
Getronics	837	5	92	934	874	1	77	952
Other gains/losses, eliminations	–	–	-271	-271	–	5	-273	-268
<b>The Netherlands</b>	<b>4,412</b>	<b>51</b>	<b>81</b>	<b>4,544</b>	<b>4,555</b>	<b>9</b>	<b>67</b>	<b>4,631</b>
Other activities	34	–	–	34	50	1	-1	50
Eliminations	–	–	-98	-98	–	–	-87	-87
<b>KPN Total</b>	<b>6,471</b>	<b>54</b>	<b>–</b>	<b>6,525</b>	<b>6,619</b>	<b>12</b>	<b>–</b>	<b>6,631</b>

KPN Group revenues and other income were down 1.6% y-on-y, including an impact of EUR 269m (4.1%) from regulatory tariff cuts for MTA and roaming. The total effect from acquisitions, disposals and incidentals positively impacted the y-on-y Group revenue and other income with EUR 25m in comparison between H1 2011 and H1 2010. Revenue performance at the Group was a combination of declining revenues and other income in the Dutch Telco business (EUR 108m) and Getronics (EUR 18m) and higher revenues at Mobile International (EUR 8m) and iBasis (EUR 42m).

Other income in Wholesale & Operations is related to book gains on the sale of mobile towers of EUR 33m in Q1 2011 and on the sale of real estate of EUR 12m in Q2 2011. 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 six months ended 30 June 2011			For the six months ended 30 June 2010		
	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	314	322	636	354	312	666
Belgium	57	64	121	88	60	148
Rest of World	-16	9	-7	-12	4	-8
<b>Mobile International</b>	<b>355</b>	<b>395</b>	<b>750</b>	<b>430</b>	<b>376</b>	<b>806</b>
Consumer	411	134	545	437	113	550
Business	341	56	397	374	46	420
Wholesale & Operations (national)	410	425	835	419	432	851
Other (incl. ITNL)	-9	23	14	-3	18	15
<b>Dutch Telco business</b>	<b>1,153</b>	<b>638</b>	<b>1,791</b>	<b>1,227</b>	<b>609</b>	<b>1,836</b>
iBasis Group	7	10	17	4	13	17
Getronics	-30	75	45	-6	75	69
Other gains/losses	1	-1	—	2	—	2
<b>The Netherlands</b>	<b>1,131</b>	<b>722</b>	<b>1,853</b>	<b>1,227</b>	<b>697</b>	<b>1,924</b>
Other activities	-30	4	-26	-25	4	-21
<b>KPN Total</b>	<b>1,456</b>	<b>1,121</b>	<b>2,577</b>	<b>1,632</b>	<b>1,077</b>	<b>2,709</b>

KPN Group EBITDA decreased by 4.9% y-on-y to EUR 2,577m, including the impact of regulatory cuts (EUR 112m or 4.1%). Operating profit decreased by EUR 176m (11%) y-on-y. This is the result of lower EBITDA (EUR 132m) and higher amortization of spectrum licenses and software compared to last year (EUR 44m).

## [3] Finance income and expenses

Net finance costs decreased by EUR 51m y-on-y to EUR 335m, mainly as a result of a lower bond portfolio 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 as a result of higher interest income on tax refunds, partly offset by an impairment charge related to unrealized losses on an available-for-sale financial asset at Getronics.

## [4] Income taxes

KPN has reached an agreement in principle with the Dutch tax authorities with regard to the application of the so called innovation tax facilities. Innovation tax facilities are facilities under Dutch corporate income tax law whereby profits attributable to innovation are taxed at an effective rate of 5%. The agreement has retroactive effect to 1 January 2007.

The application of the innovation tax facilities resulted in a one-off benefit of EUR 118m reflecting the period 2007 to 2010, based on management's best estimates.

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 tax facilities. The effective tax rate (adjusted for the innovation tax facilities 2007-2010) for the Group will be reduced to approximately 20% from 2011 onwards.

**[5] Loans to associates**

Loans to associates concern the shareholder loans provided to Reggefiber.

**[6] 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 30 June 2011 related to KPN's real estate disposal program.

**[7] Borrowings**

There have been no bond issues or redemptions in H1 2011. At the end of Q2 2011, KPN's bond portfolio carried an average interest rate of 5.2% and had an average maturity of 6.9 years.

**[8] Provisions for retirement benefit obligations**

Based on the coverage ratio of KPN's main pension fund at the end of Q4 2010, an additional cash payment of EUR 19m was made in Q2 2011. In Q2 2011, KPN's pension funds in The Netherlands remained stable, resulting in an average coverage ratio of all KPN's pension funds of 108%. 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%.

**[9] Share repurchases**

On 26 January 2011, KPN announced its EUR 1bn share repurchase program for 2011, which started on 21 February 2011. Under this program, until 30 June 2011, KPN repurchased 62.5 million shares at an average price of EUR 10.77, for a total amount of EUR 674m.

**Cancellation of shares**

On 10 March 2011, KPN concluded the cancellation of 44,358,475 shares that were repurchased as part of the EUR 1.0bn share repurchase program of 2010. Following this cancellation, KPN has 1,528,251,409 ordinary shares outstanding as of 30 June 2011. KPN intends to cancel a large part of the shares, which were repurchased as part of the 2011 program, in Q3 2011.

## [10] Other Segment information

Assets, liabilities and CAPEX	As at 30 June 2011		As at 31 December 2010		For the six months ended 30 June	
	Total assets	Total liabilities	Total assets	Total liabilities	2011 CAPEX	2010 CAPEX
Germany	10,754	27,460	10,462	27,419	217	163
Belgium	1,809	306	1,969	348	55	25
Rest of World (incl. eliminations)	147	136	162	135	5	2
<b>Mobile International</b>	<b>12,710</b>	<b>27,902</b>	<b>12,593</b>	<b>27,902</b>	<b>277</b>	<b>190</b>
Consumer	2,798	2,207	3,152	2,955	143	160
Business	1,536	1,206	2,710	2,718	50	34
Wholesale & Operations (national)	6,536	6,149	9,178	9,178	336	266
Other (incl. ITNL & eliminations)	-393	-385	-348	-345	25	17
<b>Dutch Telco business</b>	<b>10,477</b>	<b>9,177</b>	<b>14,692</b>	<b>14,506</b>	<b>554</b>	<b>477</b>
iBasis Group	578	489	534	447	3	5
Getronics	2,732	1,778	2,904	1,930	62	38
Other gains/losses, eliminations	-703	-702	-657	-658	–	3
<b>The Netherlands</b>	<b>13,084</b>	<b>10,742</b>	<b>17,473</b>	<b>16,225</b>	<b>619</b>	<b>523</b>
Other activities	-2,921	-18,830	-7,329	-24,890	1	2
<b>KPN Total</b>	<b>22,873</b>	<b>19,814</b>	<b>22,737</b>	<b>19,237</b>	<b>897</b>	<b>715</b>

The EUR 182m 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.

## [11] Dividend

In Q2 2011, KPN paid the final dividend for 2010, for a total of EUR 795m (including dividend tax), or EUR 0.53 per share. This resulted in a total dividend over 2010 of EUR 1,214m (incl. dividend tax), or EUR 0.80 per share.

KPN declares an interim dividend for 2011 of EUR 0.28, up 3.7% compared to last year, payable in Q3 2011.

## [12] Off-balance sheet commitments

At the end of Q2 2011 off-balance sheet commitments increased to EUR 4.4bn (31 December 2010: EUR 4.3bn), mainly due to an increase in Capex purchasing commitments.

## [13] Regulatory developments

### Belgium: Update on MTA regulation

In its final decision in relation to market 7 ('MTA'), BIPT imposed an asymmetric glide path between Proximus (Belgacom), Mobistar and BASE. KPN Group Belgium 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 and Mobistar, instead of forcing them immediately to the pure LRIC-based MTA of EUR 1.08 ct/min, was overruled on the basis of formal grounds. The annulment procedure is currently pending and will be pleaded in December 2011.

### 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 (and numerous other operators including all MNOs) have started legal proceedings against these decisions.

#### **[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 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. On 16 June 2011, Capital Research and Management Company notified the AFM that they held 5.14% in KPN's ordinary share capital. To KPN's knowledge, no other shareholder owned 5% or more of KPN's outstanding shares as at 30 June 2011.

In the six months ended 30 June 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 six months of 2011 that have materially affected the financial position or the performance of KPN.

#### **[15] Subsequent events**

##### **KPN signs EUR 2.0bn revolving credit facility**

In July 2011, KPN has agreed a new committed revolving bank credit facility for EUR 2.0bn, with an initial 5-year term, with 14 banks to replace the EUR 1.5bn facility which has been in place since 2006. The increased facility reduces the required excess cash and negative carry. The facility will be used for general corporate purposes.

##### **Share repurchase after 30 June 2011**

As part of the share repurchase program for 2011, KPN repurchased 3.4 million shares at an average price of EUR 9.57, for a total amount of EUR 32.4m between 1 July and 26 July 2011. Until 26 July 2011 KPN completed approximately 71% of its 2011 share repurchase program following the acceleration in May 2011. The program is expected to be finalized around 1 October 2011.

### **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 H1 of 2011.

The change in customer behavior seen at Consumer wireless in Q1 remained visible in Q2 of 2011. The substitution of voice and SMS by data, driven by an increasing use of smartphones and new "apps" is considered a result of the risk of "disruptive technologies" and applicable for KPN Group, as set out in the 2010 Annual Report. Counter measures such as those mentioned in the Annual Report (e.g. new pricing models), have been initiated starting Q2 2011.

With respect to regulatory risk, reference is made to note [13] regulatory developments of the Condensed Consolidated Interim Financial Statements for the six months ended 30 June 2011.

### **Responsibility statement**

The Board of Management of the Company hereby declares that, to the best of their knowledge, the interim financial statements for the six months ended 30 June 2011, give a true and fair view of the assets, liabilities, financial position and income of the Company and the undertakings included in the consolidation taken as a whole, and the interim management report gives a fair review of the information required pursuant to section 5:25d, subsection 8 and, as far as applicable, subsection 9 of the Dutch Financial Markets Supervision Act (Wet op het financieel toezicht).

The Hague, 26 July 2011

E. Blok,  
C.M.S. Smits-Nusteling,  
J.B.P. Coopmans,

Chairman of the Board of Management and Chief Executive Officer  
Member of the Board of Management and Chief Financial Officer  
Member of the Board of Management

## **Safe harbor**

### **Non-GAAP measures and management estimates**

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

***Underlying revenues and other income** and **underlying EBITDA** are derived from revenues and other income and EBITDA, respectively, and are adjusted for the impact of MTA and roaming (regulation), changes in the composition of the group (acquisitions and disposals), restructuring costs and incidentals.*

*The term **service revenues** refers to wireless service revenues.*

*All market share information in this financial report is based on management estimates based on externally available information, unless indicated otherwise. For a full overview on KPN's non-financial information, reference is made to KPN's quarterly factsheets available on [www.kpn.com/ir](http://www.kpn.com/ir).*

### **Forward-looking statements**

*Certain statements contained in this financial report constitute forward-looking statements. These statements may include, without limitation, statements concerning future results of operations, the impact of regulatory initiatives on KPN's operations, KPN's and its joint ventures' share of new and existing markets, general industry and macro-economic trends and KPN's performance relative thereto and statements preceded by, followed by or including the words "believes", "expects", "anticipates" or similar expressions.*

*These forward-looking statements rely on a number of assumptions concerning future events and are subject to uncertainties and other factors, many of which are outside KPN's control that could cause actual results to differ materially from such statements. A number of these factors are described (not exhaustively) in the Annual Report 2010.*