

## LETTER TO SHAREHOLDERS



Royal KPN N.V.  
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The Netherlands

P.O. Box 30000  
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The Hague, 1 June 2012

Dear Shareholder,

Thank you for taking the time to read this letter, which contains important value and governance information regarding your shareholding in Royal KPN N.V. ("KPN" or the "Company").

### **América Móvil's Partial Offer**

On 8 May 2012, América Móvil S.A.B. de C.V. ("América Móvil") announced its intention to launch a partial offer to acquire up to 28% of the ordinary shares in KPN ("América Móvil's Partial Offer" or the "Partial Offer"). América Móvil further disclosed that it had already acquired a 4.8% stake in KPN through direct share purchases in the market.

On 29 May 2012, América Móvil's Partial Offer, which is unsolicited, was formally launched through the publication of an offer memorandum in respect of the Partial Offer. The Partial Offer entails an offer in cash for a number of ordinary shares that, together with all ordinary shares currently held or otherwise purchased by América Móvil outside the Partial Offer, will represent no more than approximately 27.7% of the total issued and outstanding ordinary shares of KPN at a price of € 8 per ordinary KPN share (cum dividend). América Móvil's Partial Offer is not subject to conditions to declare the offer unconditional. The acceptance period for América Móvil's Partial Offer is 30 days ending on 27 June 2012 at 17:30 hours CET, subject to a possible extension by América Móvil.

### **Recommendation: Take no action regarding América Móvil's Partial Offer**

KPN's Supervisory Board and Board of Management have carefully considered América Móvil's Partial Offer and unanimously recommend shareholders to take no action regarding the Partial Offer because:

- América Móvil is attempting to obtain significant influence over KPN at a low price and without offering a premium on all shares;
- América Móvil obtaining a 27.7% stake may have the effect of deterring third party offers for KPN and may deprive KPN's other shareholders of an M&A premium;
- América Móvil's Partial Offer of € 8 per ordinary KPN share is opportunistic and substantially undervalues KPN;
- The underlying intentions of América Móvil remain unclear and its interests may not be aligned with those of other KPN shareholders;

- América Móvil has not been willing to enter into a proposed shareholder agreement with KPN to address our concerns regarding significant influence in KPN's shareholders' meeting; and
- We are committed to maximize value for shareholders by successfully completing the transition year of our Dutch businesses and by exploring all strategic options for our German and Belgium operations to unlock superior value for all KPN shareholders.

### **Price too low for gaining significant influence**

Many strategic decisions are taken by means of simple majority voting in KPN's AGM. On average since 2003 only 44% of shareholder votes were present at KPN's AGM. Therefore, based on this historical AGM attendance, 27.7% ownership would have resulted in significant influence on the outcome of voting and could have been decisive on resolutions requiring a simple majority vote (i.e. 50% of the votes present).

Via this simple majority controlling vote, América Móvil could exercise significant influence on many strategic decisions that concern KPN's long-term interests including but not limited to:

- Strategy: potential acquisitions and divestments of large assets
- Financial position: capital structure and KPN's shareholder remuneration policy
- Governance: appointment of members of the Supervisory Board

By targeting only a 27.7% stake, América Móvil deliberately remains just below the 30% mandatory public offer threshold, thereby avoiding the requirement to make an offer for all outstanding KPN shares. Also, as stated by América Móvil in its offer memorandum, obtaining 27.7% ownership may have the effect of deterring offers by third parties to purchase some or all of KPN's shares, which consequently may deprive other shareholders of opportunities to receive an M&A premium.

The headline premium over the undisturbed share price of 7 May 2012 implied by the Partial Offer of € 8 per ordinary KPN share is just 23.5%<sup>1</sup> for 22.9% of KPN's outstanding ordinary shares. This represents a total premium of only ca. € 500m on KPN's total equity value at 7 May 2012 of ca. € 9.2bn, which is effectively a premium of only 5.4% if the headline premium is allocated pro rata to all outstanding ordinary shares, resulting in an implied share price of € 6.83.

The premium offered by América Móvil is significantly lower than the median precedent premia offered in public offers by strategic bidders in The Netherlands which is ca. 61%<sup>2</sup>. When compared to precedent comparable European telecom transactions, the implied LTM EV/EBITDA multiple of América Móvil's Partial Offer of 4.7x<sup>3</sup> represents a significant discount to the average LTM EV/EBITDA multiple of 7.2x<sup>4</sup>.

The Partial Offer is also low compared to historic trading levels and represents a headline premium of only 3.4% to the last 3 months volume weighted average KPN share price and a 2.9% headline discount to the last 6 months volume weighted average KPN share price.

### **KPN's value potential is not reflected in the Partial Offer, making the timing opportunistic**

KPN has strong and highly profitable market positions in the wealthiest regions of Europe. Its operations in Germany and Belgium have track-records of strong growth and high margins and in The

<sup>1</sup> Compared to the 7 May 2012 "undisturbed" closing share price of € 6.48

<sup>2</sup> Partial Offer versus undisturbed share price for all public tender offers by strategic bidders in The Netherlands since 2007 with an equity value in excess of € 1,500m; excludes all real estate transactions and transactions with financial sponsor buyers

<sup>3</sup> Assuming the Partial Offer of € 8 per ordinary share is extended to all outstanding KPN shares

<sup>4</sup> Multiple based on the following transactions: OTE / Deutsche Telekom, Telecom Italia / Telefonica, Eircom / Babcock & Brown, TDC / NTC (Sponsors' consortium) and Cesky Telekom / Telefonica

Netherlands KPN has leading market positions. With strategies tailored to local markets, a multi-brand approach, a strong cost savings track-record, high-quality networks and a prudent financial framework, KPN has delivered strong shareholder remuneration, returning ca. € 11bn to shareholders via dividends and share buybacks in the last five years. In addition, KPN has a strategy in place to turn around its domestic businesses through an accelerated transition period that should lead to sustainable profit levels by the end of 2012 in The Netherlands.

KPN and its network are of vital importance to The Netherlands. The Netherlands has the highest broadband penetration rate and one of the highest smartphone penetration rates in Europe, which is supported by KPN's extensive and high-quality network. KPN is fully committed to continuously invest in Dutch infrastructure to ensure high quality of services for its customers.

Today, KPN is reconfirming its guidance for the full-year 2012.

### **Underlying intentions of América Móvil remain unclear**

The underlying intentions of América Móvil remain unclear and could, as stated in their offer memorandum, conflict with the interests of all other KPN shareholders.

*"[...] América Móvil may become the largest Shareholder in the Company and as such may be able to exercise significant influence over the Company's operations and may support strategies or transactions with which Shareholders disagree." Section 3.8.2 of América Móvil Offer Memorandum, page 11*

América Móvil's ability to significantly influence strategic decisions through KPN's shareholders' meeting following a successful Partial Offer may not be aligned with the best interests of KPN's other shareholders.

The potential consolidation of the German mobile market remains an important topic. The net present value of synergies from this in-market consolidation in Germany is estimated by equity research analysts at ca. € 4bn<sup>5</sup>, representing a significant value opportunity for all KPN shareholders. As strategic decisions, such as participating in German in-market consolidation, would require approval from KPN's shareholders' meeting, América Móvil could vote down such decisions as a 27.7% shareholder in KPN if the attendance rate remains similar to recent years.

In our view, América Móvil does not need to have a considerable shareholding in KPN, which gives significant influence, to jointly explore commercial opportunities. KPN is already fully committed to act in the best interests of and create value for all KPN shareholders.

Following the announcement by América Móvil on 8 May, KPN has expressed its concerns to América Móvil's management and has presented them with a specific proposal for a governance structure which would address KPN's concerns on significant influence in KPN's shareholders' meeting of América Móvil; and a shareholder agreement with KPN to define our relationship. So far América Móvil has not been willing to enter into a shareholder agreement. In the absence of a shareholder agreement which would include provisions on voting behaviour and drag along rights, KPN's ability to create value for all shareholders may be impaired.

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<sup>5</sup> Equity analyst estimates of E-Plus and O2 Germany synergies based on NPV calculations.

### **KPN is exploring all strategic options to unlock superior value**

As stated in our press releases of 8 May 2012 and 30 May 2012, KPN is continuing to explore all strategic options. Today, with the full support of the Supervisory Board, KPN announces a review of strategic options for E-Plus to unlock value embedded in the German business. KPN has already announced a comprehensive review of strategic options in respect of its mobile operations in Belgium and this process is ongoing. The overarching aim of exploring strategic options is to unlock superior value for the holders of all our shares.

The fundamental guiding principle on which we, as Supervisory Board and Board of Management of KPN, have based our recommendation as contained in this letter to you is to act in the best interests of KPN and its shareholders in respect of their shareholding and other stakeholders. Ultimately, you, as a shareholder of KPN, will have to form your own view on the merits of the Partial Offer, in particular as it is a partial public offer, and decide whether or not to tender your shares.

KPN will maintain an open dialogue with all its shareholders, including América Móvil. Finally, our formal position statement as required under Dutch public offer rules will be released in due course.

Yours sincerely,



Jos Streppel,  
Chairman of the Supervisory Board  
of Royal KPN N.V.  
1 June 2012



Eelco Blok,  
Chairman of the Board of Management and CEO  
of Royal KPN N.V.  
1 June 2012