

## Third Quarter 2014 results

KPN shows another quarter of good strategic progress. The outlook is maintained.

- Continued progress in The Netherlands
  - Strong growth Consumer fixed-mobile bundles (+84k) and Business multi play seats (+37k)
  - Return to growth in broadband (+6k), good IPTV net adds (+49k)
  - High postpaid net adds in Consumer Mobile (+84k), >1.7m 4G customers in The Netherlands
- Simplification program well on track, YTD '14 savings ~EUR 100m y-on-y
- Strong improvement customer satisfaction, NPS well above market averages
- BASE Company showed good postpaid net adds (+18k)
- Sale of E-Plus successfully completed
- Dividend payments recommenced

### Key figures (from continuing operations)

Group financials* (unaudited)	Q3 2014	Q3 2013	Δ y-on-y	YTD 2014	YTD 2013	Δ y-on-y
<i>(in EUR m, unless stated otherwise)</i>						
Revenues	1,978	2,080	-4.9%	5,978	6,411	-6.8%
<b>Adjusted revenues**</b>	<b>1,978</b>	<b>2,080</b>	<b>-4.9%</b>	<b>5,956</b>	<b>6,374</b>	<b>-6.6%</b>
EBITDA	633	743	-15%	2,324	2,302	1.0%
<b>Adjusted EBITDA**</b>	<b>650</b>	<b>762</b>	<b>-15%</b>	<b>1,904</b>	<b>2,332</b>	<b>-18%</b>
<i>EBITDA margin</i>	<i>32.0%</i>	<i>35.7%</i>		<i>38.9%</i>	<i>35.9%</i>	
<b>Adjusted EBITDA margin</b>	<b>32.9%</b>	<b>36.6%</b>		<b>32.0%</b>	<b>36.6%</b>	
Operating profit (EBIT)	193	281	-31%	977	928	5.3%
Profit for the period (net profit)	-76	87	n.m.	276	401	-31%
<b>Capex</b>	<b>283</b>	<b>357</b>	<b>-21%</b>	<b>930</b>	<b>1,205</b>	<b>-23%</b>
<b>Free cash flow</b>	<b>250</b>	<b>63</b>	<b>&gt;100%</b>	<b>30</b>	<b>225</b>	<b>-87%</b>

\* All non-IFRS terms are explained in the safe harbor section

\*\* Adjusted revenues and adjusted EBITDA are derived from revenues (including other income) and EBITDA respectively, and are adjusted for the impact of restructuring costs and incidentals. Reconciliations to be found on page 8 to 11

### Financial performance

- Adjusted revenues -4.9% y-on-y versus -7.0% y-on-y in Q2 '14. Customer base growth was still offset by lower mobile price levels compared to last year and ongoing decline of the business market size
- Adjusted EBITDA decreased by 15% due to declining revenues and phasing out handset lease. Adjusted EBITDA excluding phasing out handset lease was down 12% y-on-y versus -13% y-on-y in Q2 '14
- Net profit (EUR -76m) was impacted by revaluation Reggefiber option (EUR -114m); excluding this impact net profit was EUR 38m
- Capex YTD '14 23% lower y-on-y driven by lower customer driven investments (incl. phasing out handset lease), lower network investments and Simplification
- Free cash flow YTD '14 reflects intrayear phasing, substantial free cash flow improvement realized in Q3 '14

## Message from the CEO, Eelco Blok

*“In the third quarter of 2014, we continued to make good strategic progress. In the consumer market we realized customer base growth for all our main services. The business market remained challenging, although we made good progress in growing multi play and 4G. We have significantly improved customer satisfaction to well above market averages in The Netherlands supported by our simplified product portfolio and client processes.*

*Due to the improved product portfolio and Simplification, our financial performance is gradually improving and we remain on track for growing free cash flow next year, supported by lower interest payments.*

*The sale of E-Plus has been completed and has given us a solid financial profile, which provides a strong platform to execute our strategy in The Netherlands and Belgium. We have recommenced dividend payments in respect of 2014, which we intend to grow in respect of 2015. The EUR 5bn cash proceeds increase our financial flexibility. The bond tender of up to EUR 2bn announced this morning is an important step to align our financial profile with the new company profile. We now also own an attractive 20.5% stake in Telefónica Deutschland and expect to benefit from substantial synergies and dividend payments.”*

## Outlook<sup>1</sup> and shareholder remuneration

The outlook below was announced on 4 February 2014 and is based on the continuing operations of KPN.

### 2014

- Financial performance stabilizing towards the end of 2014
- Capex less than EUR 1.4bn<sup>2</sup>

### 2015

- Capex less than EUR 1.5bn, including Reggefiber<sup>2</sup>
- Free cash flow (excl. TEFD dividend)<sup>3</sup> growth expected in 2015
  - Limited tax cash out in The Netherlands in coming years due to tax loss on sale of E-Plus
  - Interest payments trending down due to reduction of gross debt in coming years
- Additional excess cash via potential dividend from 20.5% stake Telefónica Deutschland

Following the sale of E-Plus, KPN recommenced dividend payments. KPN declared an interim dividend in respect of 2014 of EUR 0.02 per share, or in total EUR 85m, which was paid on 13 October 2014. KPN intends to pay a total dividend per share of EUR 0.07 in respect of 2014. The dividend per share in respect of 2015 is expected to grow.

KPN remains committed to an investment grade credit profile and expects to utilize excess cash for operational and financial flexibility, (small) in-country M&A and/or shareholder remuneration.

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<sup>1</sup> The release of the pension provision and related one-off lump-sum payment are seen as incidentals and therefore excluded from the outlook

<sup>2</sup> Assuming Reggefiber consolidation per 31 December 2014

<sup>3</sup> Free cash flow outlook defined as cash flow from operating activities, plus proceeds from real estate, minus Capex and excluding potential Telefónica Deutschland dividend

All related documents can be found on KPN's website:

<http://www.kpn.com/ir>

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## 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 ('FCF'). 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 as adopted by the European Union. In the **Net Debt / EBITDA ratio**, KPN defines **Net Debt** as the nominal value of interest bearing financial liabilities excluding derivatives and related collateral, representing the net repayment obligations in Euro, taking into account 50% of the nominal value of the hybrid capital instruments, less net cash and short-term investments, and defines EBITDA as a 12 month rolling total excluding restructuring costs, incidentals and major changes in the composition of the Group (acquisitions and disposals). **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. **Revenues** are defined as the total of revenues and other income unless indicated otherwise. **Adjusted revenues** and **adjusted EBITDA** are derived from revenues (including other income) and EBITDA, respectively, and are adjusted for the impact of restructuring costs and incidentals. The term **service revenues** refers to wireless service revenues. **Underlying service revenues** are derived from service revenues adjusted for the impact of MTA and roaming (regulation) and incidentals. 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", "will", "may", "could", "should", "intends", "estimate", "plan", "goal", "target", "aim" 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 Integrated Annual Report 2013.*

## Financial and operating review by segment

### Consumer Residential

KPN implemented several commercial initiatives in the third quarter to support broadband and IPTV base growth. These included the introduction of a new integrated FttH / copper proposition, new fixed-mobile bundles for the KPN and Telfort brands and increased promotional activities to counter the ongoing promotional activities by competitors. Combined with the continued upgrades of the copper network, these measures have successfully supported broadband and IPTV trends in the third quarter.

Consumer Residential (in EUR m)	Q3 2014	Q3 2013	Δ y-on-y	YTD 2014	YTD 2013	Δ y-on-y
Revenues	477	489	-2.5%	1,436	1,470	-2.3%
<b>Adjusted revenues</b>	<b>477</b>	<b>489</b>	<b>-2.5%</b>	<b>1,436</b>	<b>1,457</b>	<b>-1.4%</b>
EBITDA	108	103	4.9%	308	275	12%
<b>Adjusted EBITDA</b>	<b>109</b>	<b>107</b>	<b>1.9%</b>	<b>315</b>	<b>278</b>	<b>13%</b>

Adjusted revenues decreased by 2.5% y-on-y, driven by the ongoing decline of traditional voice services and increased promotional activities to support broadband and IPTV base growth, partly offset by the price increase implemented on 1 July 2014. Adjusted EBITDA increased by 1.9% y-on-y as the effect of the revenue decline was offset by lower personnel costs. This resulted in an adjusted EBITDA margin of 22.9% (Q3 2013: 21.9%).

KPN's broadband customer base returned to growth (+6k) in Q3 2014. KPN showed continued good IPTV net adds (+49k), reaching more than 1.5 million IPTV customers. ARPU per customer grew by 2.3% y-on-y to EUR 44 in Q3 2014 (Q3 2013: EUR 43) driven by increased RGUs per customer. Fixed triple play penetration continued to increase, reaching 48%, 5%-points higher compared to Q3 2013. Supported by the successful introduction of new fixed-mobile bundles, the total number of fixed-mobile bundles (including quad play) showed a strong increase to 369k at the end of Q3 2014 (Q2 2014: 285k), representing 14% of the broadband customer base.

### Consumer Mobile

KPN is very well positioned in the mobile market with its nationwide 4G network, unique fixed-mobile bundles and a leading family proposition. This has led to lower churn across all brands and many new customers in the third quarter.

Consumer Mobile (in EUR m)	Q3 2014	Q3 2013	Δ y-on-y	YTD 2014	YTD 2013	Δ y-on-y
Revenues	354	375	-5.6%	1,055	1,157	-8.8%
<b>Adjusted revenues</b>	<b>354</b>	<b>375</b>	<b>-5.6%</b>	<b>1,055</b>	<b>1,150</b>	<b>-8.3%</b>
EBITDA	47	101	-53%	152	377	-60%
<b>Adjusted EBITDA</b>	<b>47</b>	<b>101</b>	<b>-53%</b>	<b>153</b>	<b>375</b>	<b>-59%</b>

Adjusted revenues at Consumer Mobile were down 5.6% y-on-y, driven by lower service revenues. Underlying service revenues decreased by 6.9% y-on-y, which is an improving trend compared to the second quarter (-9.3% y-on-y), driven by high retail postpaid net adds. Service revenues were still lower due to lower above bundle usage and lower price levels y-on-y. The adjusted EBITDA margin was lower at 13.3% compared to 26.9% in Q3 2013, mainly due to the phasing out of handset lease

(~EUR 21m), the impact of lower service revenues and higher retention and subscriber acquisition costs as a result of a higher number of new handset subscriptions.

In Q3 2014, KPN showed high retail postpaid net adds (+84k), driven by a good performance of the KPN and no frills brands, the increased uptake of fixed-mobile bundles and 4G. Consumer Mobile saw lower churn across all brands due to the strong focus on retention, fixed-mobile bundles and increased customer satisfaction. Retail postpaid ARPU was EUR 28, stable compared to the second quarter, but still lower compared to the same quarter last year (Q3 2013: EUR 31).

Consumer 4G subscriptions passed one million (1,100k) in Q3 2014, up from 845k at the end of Q2 2014. Driven by KPN's unique fixed-mobile proposition, 16% of retail postpaid customers were in fixed-mobile bundles at the end of the third quarter (Q3 2013: 4%).

## Business

The challenging market environment impacted the financial performance of the Business segment. The total size of the business market continued to decline as a result of ongoing customer rationalization and optimization. KPN made good strategic progress in Q3 by growing multi play and 4G. Following the acceleration of the Simplification program in the second quarter, KPN will implement additional cost measures to offset continued revenue pressure.

Business (in EUR m)	Q3 2014	Q3 2013	Δ y-on-y	YTD 2014	YTD 2013	Δ y-on-y
Revenues	706	759	-7.0%	2,168	2,419	-10%
<b>Adjusted revenues</b>	<b>706</b>	<b>759</b>	<b>-7.0%</b>	<b>2,163</b>	<b>2,396</b>	<b>-9.7%</b>
EBITDA	153	183	-16%	444	567	-22%
<b>Adjusted EBITDA</b>	<b>158</b>	<b>188</b>	<b>-16%</b>	<b>457</b>	<b>568</b>	<b>-20%</b>

Adjusted revenues at Business declined by 7.0% driven by the declining total market size, resulting in lower revenues from traditional services. This was the main reason for the 16% decrease in adjusted EBITDA as well. Subscriber acquisition costs as a percentage of revenues were higher y-on-y supporting KPN's stable market positions. This was partly offset by lower personnel expenses and several small positive one-offs. Consequently, the adjusted EBITDA margin declined to 22.4% (Q3 2013: 24.8%).

In Q3 2014, KPN made further progress with the execution of its Simplification program in the Business segment. The segment is moving towards a leaner operating model by optimizing end-to-end chains, actively reducing the total number of propositions and optimizing and rationalizing supplier contracts. In the third quarter this led to a cost reduction of approximately EUR 10m y-on-y related to external personnel and ~20% less inbound calls. In the first nine months of 2014, the Business segment realized a reduction of approximately 350 FTEs and expects a reduction of 400-500 FTE for the full year 2014.

The main strategic initiatives are showing good results. The 4G Business customer base increased to 612k in Q3 2014 (Q2 2014: 525k), and 36% of the wireless Business customer base is now on 4G. Multi play seats increased by 37k in Q3 2014 to 257k and at the end of the third quarter 12% of the wireless customer base was using multi play. However, the traditional services remained under pressure. The ongoing decline of traditional voice services due to rationalization and an ongoing migration towards VoIP saw access lines fall to 897k (Q3 2013: 1,027k). Traditional voice ARPU was somewhat lower y-on-y at EUR 51 (Q3 2013: EUR 52). Wireless single play ARPU remained under pressure and was lower y-on-y at EUR 42 (Q3 2013: EUR 45).

## NetCo

The operational performance of NetCo continued to improve, driven by investments in networks and IT infrastructure, and a strong focus on quality improvements and process redesign. As part of its hybrid access network strategy, KPN accelerated the deployment of vectoring to further increase the available speeds on copper. KPN is on track to reach 100Mbps for 50% of Dutch households by the end of this year. In mobile, KPN started the deployment of 4G on the 1800MHz frequency band, further increasing the capacity of its 4G network.

NetCo (in EUR m)	Q3 2014	Q3 2013	Δ y-on-y	YTD 2014	YTD 2013	Δ y-on-y
Revenues	557	583	-4.5%	1,696	1,773	-4.3%
<b>Adjusted revenues</b>	<b>557</b>	<b>583</b>	<b>-4.5%</b>	<b>1,679</b>	<b>1,779</b>	<b>-5.6%</b>
EBITDA	302	317	-4.7%	920	984	-6.5%
<b>Adjusted EBITDA</b>	<b>304</b>	<b>319</b>	<b>-4.7%</b>	<b>906</b>	<b>975</b>	<b>-7.1%</b>

Adjusted revenues at NetCo declined by 4.5% in Q3 2014 mainly driven by the ongoing decline of traditional services, lower revenues across segments and lower wholesale traffic revenues. The adjusted EBITDA margin of 54.6% was in line with Q3 2013 as the loss of high margin traditional services was partly offset by cost savings from the Simplification program. NetCo made good progress in reducing network complexity leading to increased efficiency going forward. In the third quarter the mobile IP backbone networks were phased out and migrated to a fixed-mobile converged network. Obsolete DSLAMs and an Ethernet network were also phased out.

## iBasis

iBasis (in EUR m)	Q3 2014	Q3 2013	Δ y-on-y	YTD 2014	YTD 2013	Δ y-on-y
Revenues	243	248	-2.0%	700	737	-5.0%
<b>Adjusted revenues</b>	<b>243</b>	<b>248</b>	<b>-2.0%</b>	<b>700</b>	<b>737</b>	<b>-5.0%</b>
EBITDA	7	9	-22%	17	23	-26%
<b>Adjusted EBITDA</b>	<b>7</b>	<b>9</b>	<b>-22%</b>	<b>17</b>	<b>23</b>	<b>-26%</b>

Adjusted revenues at iBasis decreased by 2.0% y-on-y, mainly due to lower traffic. The adjusted EBITDA margin of 2.9% was lower y-on-y due to the revenue decline, which was partly offset by a continued cost focus. In Q3 2014, iBasis continued to expand the global reach of its LTE roaming service via peering partners and direct interconnections with mobile operators. Furthermore, iBasis successfully completed the first international VoLTE roaming calls in cooperation with KPN in The Netherlands and China Mobile.

## Germany (discontinued operation<sup>4</sup>)

Since Q3 2013, KPN has accounted for E-Plus as held for sale ('discontinued operation'). On 1 October 2014, KPN announced the completion of the sale of E-Plus to Telefónica Deutschland. E-Plus continued to be included in KPN's segment reporting until the end of the third quarter of 2014.

<sup>4</sup> Some small operations will not be sold and remain reported in continuing operations

Germany (in EUR m)	Q3 2014	Q3 2013	Δ y-on-y	YTD 2014	YTD 2013	Δ y-on-y
Revenues	834	799	4.4%	2,425	2,362	2.7%
<b>Adjusted revenues</b>	<b>834</b>	<b>799</b>	<b>4.4%</b>	<b>2,425</b>	<b>2,333</b>	<b>3.9%</b>
EBITDA	244	229	6.6%	732	699	4.7%
<b>Adjusted EBITDA</b>	<b>250</b>	<b>228</b>	<b>9.6%</b>	<b>736</b>	<b>627</b>	<b>17%</b>

Adjusted revenues in Germany increased by 4.4% y-on-y in Q3 2014. Adjusted EBITDA increased by 9.6% y-on-y resulting in an adjusted EBITDA margin of 30.0% in Q3 2014. In Q3 2014, 162k postpaid net adds were generated and postpaid ARPU was EUR 19. Prepaid net adds amounted to 311k.

## Belgium

In the third quarter, the Belgian mobile market showed the first signs of stabilization after a period of sustained price competition. Nevertheless, the mobile market remained competitive, with a strong focus on handset promotions.

BASE Company continued to be successful with its Challenger strategy, focusing on postpaid and data growth supported by high network quality, price leadership and service leadership. In Q3 2014, BASE Company continued to invest in its mobile network; the 4G network now covers approximately 63% of the Belgian population.

Belgium (in EUR m)	Q3 2014	Q3 2013	Δ y-on-y	YTD 2014	YTD 2013	Δ y-on-y
Revenues	176	181	-2.8%	531	547	-2.9%
<b>Adjusted revenues</b>	<b>176</b>	<b>181</b>	<b>-2.8%</b>	<b>531</b>	<b>547</b>	<b>-2.9%</b>
EBITDA	38	47	-19%	115	142	-19%
<b>Adjusted EBITDA</b>	<b>38</b>	<b>47</b>	<b>-19%</b>	<b>118</b>	<b>142</b>	<b>-17%</b>

Adjusted revenues in Belgium decreased by 2.8% y-on-y in Q3 2014. Underlying mobile service revenues decreased by 1.3% due to continued customer optimization, although the trend improved compared to the previous quarter (Q2 2014: -1.9% y-on-y) driven by a good postpaid performance. Adjusted EBITDA declined by 19% y-on-y due to lower revenues, higher traffic costs as a result of flat fee propositions and a provision for site taxes in the Walloon region of EUR 2m, resulting in an adjusted EBITDA margin of 21.6% (Q3 2013: 26.0%). Furthermore, BASE Company streamlined its distribution model by closing 27 shops in September 2014.

The BASE postpaid portfolio continued to deliver good results, leading to 18k postpaid net adds in Q3 2014. Postpaid ARPU is stabilizing compared to the last two quarters at EUR 31. Prepaid net adds were 75k in Q3 2014, driven by a strong performance of wholesale partners.

## Analysis of adjusted results Q3 2014

The following table shows the key items between reported and adjusted revenues. E-Plus continued to be included in KPN's segment reporting until the third quarter of 2014<sup>5</sup>.

Revenues (in EUR m)	Q3 2014 reported	Incidentals	Q3 2014 adjusted	Q3 2013 reported	Incidentals	Q3 2013 adjusted	Δ y-on-y reported	Δ y-on-y adjusted
Germany (incl. discontinued operations)	834	-	834	799	-	799	4.4%	4.4%
Belgium	176	-	176	181	-	181	-2.8%	-2.8%
Other	7	-	7	10	-	10	-30%	-30%
<b>Mobile International</b>	<b>1,017</b>	-	<b>1,017</b>	<b>990</b>	-	<b>990</b>	<b>2.7%</b>	<b>2.7%</b>
Consumer Mobile	354	-	354	375	-	375	-5.6%	-5.6%
Consumer Residential	477	-	477	489	-	489	-2.5%	-2.5%
Business	706	-	706	759	-	759	-7.0%	-7.0%
NetCo	557	-	557	583	-	583	-4.5%	-4.5%
Other	-529	-	-529	-545	-	-545	-2.9%	-2.9%
<b>The Netherlands</b>	<b>1,565</b>	-	<b>1,565</b>	<b>1,661</b>	-	<b>1,661</b>	<b>-5.8%</b>	<b>-5.8%</b>
iBasis	243	-	243	248	-	248	-2.0%	-2.0%
Other activities	19	-	19	22	-	22	-14%	-14%
Intercompany revenues	-61	-	-61	-68	-	-68	-10%	-10%
<b>KPN Group</b>	<b>2,783</b>	-	<b>2,783</b>	<b>2,853</b>	-	<b>2,853</b>	<b>-2.5%</b>	<b>-2.5%</b>
<i>Of which discontinued operations</i>	<i>805</i>	-	<i>805</i>	<i>773</i>	-	<i>773</i>	<i>4.1%</i>	<i>4.1%</i>
<b>KPN Group continuing operations</b>	<b>1,978</b>	-	<b>1,978</b>	<b>2,080</b>	-	<b>2,080</b>	<b>-4.9%</b>	<b>-4.9%</b>

There were no revenue incidentals in Q3 2014 and Q3 2013.

<sup>5</sup> For further information on this transaction and the impact on KPN's financial information refer to KPN's Integrated Annual Report 2013

The following table shows the key items between reported and adjusted EBITDA.

EBITDA (in EUR m)	Q3 2014 reported	Incidentals	Restruc- turing	Q3 2014 adjusted	Q3 2013 reported	Incidentals	Restruc- turing	Q3 2013 adjusted	Δ y-on-y reported	Δ y-on-y adjusted
Germany (incl. discontinued operations)	244	-	-6	250	229	-	1	228	6.6%	9.6%
Belgium	38	-	-	38	47	-	-	47	-19%	-19%
Other Mobile International	-1	-	-	-1	-1	-	-	-1	-	-
	<b>281</b>	-	<b>-6</b>	<b>287</b>	<b>275</b>	-	<b>1</b>	<b>274</b>	<b>2.2%</b>	<b>4.7%</b>
Consumer Mobile	47	-	-	47	101	-	-	101	-53%	-53%
Consumer Residential	108	-	-1	109	103	-	-4	107	4.9%	1.9%
Business	153	-	-5	158	183	-	-5	188	-16%	-16%
NetCo	302	-	-2	304	317	-	-2	319	-4.7%	-4.7%
Other The Netherlands	-3	-	1	-4	-9	-	-7	-2	-67%	100%
	<b>607</b>	-	<b>-7</b>	<b>614</b>	<b>695</b>	-	<b>-18</b>	<b>713</b>	<b>-13%</b>	<b>-14%</b>
iBasis	7	-	-	7	9	-	-	9	-22%	-22%
Other activities	-18	-	-10	-8	-8	-	-1	-7	>100%	14%
<b>KPN Group</b>	<b>877</b>	-	<b>-23</b>	<b>900</b>	<b>971</b>	-	<b>-18</b>	<b>989</b>	<b>-9.7%</b>	<b>-9.0%</b>
<i>Of which discontinued operations</i>	<i>244</i>	-	<i>-6</i>	<i>250</i>	<i>228</i>	-	<i>1</i>	<i>227</i>	<i>7.0%</i>	<i>10%</i>
<b>KPN Group continuing operations</b>	<b>633</b>	-	<b>-17</b>	<b>650</b>	<b>743</b>	-	<b>-19</b>	<b>762</b>	<b>-15%</b>	<b>-15%</b>

There were no EBITDA incidentals in Q3 2014 and Q3 2013.

## Analysis of adjusted results YTD 2014

The following table shows the key items between reported and adjusted revenues. E-Plus continued to be included in KPN's segment reporting until the third quarter of 2014<sup>6</sup>.

Revenues (in EUR m)	YTD 2014 reported	Incidentals	YTD 2014 adjusted	YTD 2013 reported	Incidentals	YTD 2013 adjusted	Δ y-on-y reported	Δ y-on-y adjusted
Germany (incl. discontinued operations)	2,425	-	2,425	2,362	29	2,333	2.7%	3.9%
Belgium	531	-	531	547	-	547	-2.9%	-2.9%
Other	25	-	25	31	-	31	-19%	-19%
<b>Mobile International</b>	<b>2,981</b>	<b>-</b>	<b>2,981</b>	<b>2,940</b>	<b>29</b>	<b>2,911</b>	<b>1.4%</b>	<b>2.4%</b>
Consumer Mobile	1,055	-	1,055	1,157	7	1,150	-8.8%	-8.3%
Consumer Residential	1,436	-	1,436	1,470	13	1,457	-2.3%	-1.4%
Business	2,168	5	2,163	2,419	23	2,396	-10%	-9.7%
NetCo	1,696	17	1,679	1,773	-6	1,779	-4.3%	-5.6%
Other	-1,589	-	-1,589	-1,664	-	-1,664	-4.5%	-4.5%
<b>The Netherlands</b>	<b>4,766</b>	<b>22</b>	<b>4,744</b>	<b>5,155</b>	<b>37</b>	<b>5,118</b>	<b>-7.5%</b>	<b>-7.3%</b>
iBasis	700	-	700	737	-	737	-5.0%	-5.0%
Other activities	57	-	57	61	-	61	-6.6%	-6.6%
Intercompany revenues	-174	-	-174	-194	-	-194	-10%	-10%
<b>KPN Group</b>	<b>8,330</b>	<b>22</b>	<b>8,308</b>	<b>8,699</b>	<b>66</b>	<b>8,633</b>	<b>-4.2%</b>	<b>-3.8%</b>
<i>Of which discontinued operations</i>	<i>2,352</i>	<i>-</i>	<i>2,352</i>	<i>2,288</i>	<i>29</i>	<i>2,259</i>	<i>2.8%</i>	<i>4.1%</i>
<b>KPN Group continuing operations</b>	<b>5,978</b>	<b>22</b>	<b>5,956</b>	<b>6,411</b>	<b>37</b>	<b>6,374</b>	<b>-6.8%</b>	<b>-6.6%</b>

The following table specifies the revenue incidentals in more detail.

Revenue incidentals (in EUR m)	Segment	YTD 2014	YTD 2013
Sale of fixed assets (hardware)	Business	5	-
Change in provision	NetCo	17	-6
Book gain sale IS&P	Business	-	23
Adjustment deferred revenues	Germany, Consumer Residential, Mobile	-	49
<b>KPN Group</b>		<b>22</b>	<b>66</b>
<i>Of which discontinued operations</i>		<i>-</i>	<i>29</i>
<b>KPN Group continuing operations</b>		<b>22</b>	<b>37</b>

<sup>6</sup> For further information on this transaction and the impact on KPN's financial information refer to KPN's Integrated Annual Report 2013

The following table shows the key items between reported and adjusted EBITDA.

EBITDA (in EUR m)	YTD 2014 reported	Incidentals	Restruc- turing	YTD 2014 adjusted	YTD 2013 reported	Incidentals	Restruc- turing	YTD 2013 adjusted	Δ y-on-y reported	Δ y-on-y adjusted
Germany (incl. discontinued operations)	732	8	-12	736	699	66	6	627	4.7%	17%
Belgium	115	-	-3	118	142	-	-	142	-19%	-17%
Other	-5	-	-	-5	-6	-	-	-6	-17%	-17%
<b>Mobile International</b>	<b>842</b>	<b>8</b>	<b>-15</b>	<b>849</b>	<b>835</b>	<b>66</b>	<b>6</b>	<b>763</b>	<b>0.8%</b>	<b>11%</b>
Consumer Mobile	152	-	-1	153	377	7	-5	375	-60%	-59%
Consumer Residential	308	-	-7	315	275	13	-16	278	12%	13%
Business	444	5	-18	457	567	23	-24	568	-22%	-20%
NetCo	920	17	-3	906	984	16	-7	975	-6.5%	-7.1%
Other	-30	-	-2	-28	-29	-	-32	3	3.4%	n.m.
<b>The Netherlands</b>	<b>1,794</b>	<b>22</b>	<b>-31</b>	<b>1,803</b>	<b>2,174</b>	<b>59</b>	<b>-84</b>	<b>2,199</b>	<b>-17%</b>	<b>-18%</b>
iBasis	17	-	-	17	23	-	-	23	-26%	-26%
Other activities	402	451	-19	-30	-33	-	-5	-28	n.m.	7.1%
<b>KPN Group</b>	<b>3,055</b>	<b>481</b>	<b>-65</b>	<b>2,639</b>	<b>2,999</b>	<b>125</b>	<b>-83</b>	<b>2,957</b>	<b>1.9%</b>	<b>-11%</b>
<i>Of which discontinued operations</i>	<i>731</i>	<i>8</i>	<i>-12</i>	<i>735</i>	<i>697</i>	<i>66</i>	<i>6</i>	<i>625</i>	<i>4.9%</i>	<i>18%</i>
<b>KPN Group continuing operations</b>	<b>2,324</b>	<b>473</b>	<b>-53</b>	<b>1,904</b>	<b>2,302</b>	<b>59</b>	<b>-89</b>	<b>2,332</b>	<b>1.0%</b>	<b>-18%</b>

The following table specifies the EBITDA incidentals in more detail.

EBITDA incidentals (in EUR m)	Segment	YTD 2014	YTD 2013
Volume discount hardware	Germany	8	-
Change in provision	NetCo	17	4
Sale of fixed assets (hardware)	Business	5	-
Release of pension provision	Other	451	-
Adjustment deferred revenues	Germany, Consumer Residential, Mobile	-	49
Book gain sale IS&P	Business	-	23
Release of asset retirement obligation	NetCo, Germany	-	42
Release accruals	NetCo	-	7
<b>KPN Group</b>		<b>481</b>	<b>125</b>
<i>Of which discontinued operations</i>		<i>8</i>	<i>66</i>
<b>KPN Group continuing operations</b>		<b>473</b>	<b>59</b>

## Group review and other developments

### Group financial review (continuing operations)

Adjusted Group revenues were 4.9% lower y-on-y in Q3 2014 (Q2 2014: -7.0%). KPN was able to grow its customer base for all its main services. However, adjusted revenues continued to decline as a result of the competitive environment in all mobile markets which led to lower price levels compared to last year and a declining Business market size.

Adjusted Group EBITDA decreased by 15% y-on-y in Q3 2014 (Q2 2014: -19%) as a result of declining revenues and the phasing out of handset lease at all brands in The Netherlands, partly offset by the positive impact of Simplification. Adjusted EBITDA excluding the phasing out of handset lease in Q3 2014 was down 12% y-on-y (Q2 2014: -13%). The adjusted EBITDA margin for Q3 2014 decreased to 32.9% (Q3 2013: 36.6%).

Group operating profit (EBIT) decreased by 31% y-on-y in Q3 2014 due to lower EBITDA. Net profit from continuing operations decreased to EUR -76m in Q3 2014 due to the lower operating profit and higher finance costs as a result of the increase in the option liability for Reggefiber (EUR 114m), as KPN's best estimate for the likelihood of approval has been reassessed based on the progress of the approval process. Excluding the impact of the revaluation of the Reggefiber option net profit was EUR 38m.

Capex decreased to EUR 930m YTD 2014 compared to EUR 1,205m YTD 2013 mainly due to lower customer driven investments (incl. phasing out of handset lease) and network investments, and savings driven by the Simplification program (approximately EUR 50m).

KPN has made good progress with its Simplification program so far during 2014, reaching Capex and operating expenses savings of approximately EUR 100m y-on-y and approximately 475 FTE reductions by the end of the third quarter.

Free cash flow YTD 2014 reflects intrayear phasing and was EUR 195m lower y-on-y. This was mainly driven by EUR 429m lower EBITDA excluding the EUR 451m pension release in Q2 2014 and EUR 94m less cash from change in working capital as YTD 2013 was supported by EUR 167m prepayments made in Q4 2012. This was only partly offset by EUR 275m lower Capex and EUR 40m lower tax paid.

At the end of Q3 2014, the average coverage ratio of the KPN pension funds in The Netherlands was 110% (Q2 2014: 112%). No recovery payments are expected in the fourth quarter of 2014 and first quarter of 2015 based on the coverage ratios at the end of Q2 2014 and Q3 2014.

### Net debt to EBITDA

Pro forma net debt, including the sale of E-Plus and expected consolidation impact of Reggefiber, amounted to EUR 6.1bn at the end of Q3 2014, somewhat lower compared to Q2 2014 (EUR 6.3bn). The lower 12 months rolling EBITDA was only partly offset by the lower net debt, resulting in a pro forma net debt to EBITDA ratio of approximately 2.3x by the end of Q3 2014 (Q2 2014: approximately 2.2x).

KPN has credit ratings of Baa3 with a stable outlook by Moody's, BBB- with a stable outlook by Standard & Poor's and BBB- with a stable outlook by Fitch Ratings.

## Other developments

### Sale of E-Plus

On 1 October 2014, KPN announced that the sale of E-Plus to Telefónica Deutschland, as announced on 23 July 2013 and amended on 26 August 2013, had been completed.

KPN sold and transferred 100% of its interest in E-Plus to Telefónica Deutschland. KPN received EUR 5bn on a cash and debt free basis and a 20.5% stake in Telefónica Deutschland. The transaction will unlock estimated synergies of more than EUR 5bn, from which KPN will benefit through its 20.5% stake in Telefónica Deutschland.

The 20.5% stake in Telefónica Deutschland will be accounted for as an available for sale financial asset. The fair value of the stake will be based on Telefónica Deutschland's share price and adjusted quarterly. Fair value movements will be recorded in other comprehensive income; significant or prolonged value decreases will be booked as an impairment through the P&L within net finance costs. Dividends received on the stake will be reported in the P&L as finance income within net finance costs and will also be part of operating cash flow and free cash flow as dividends received. The dividends received and/or capital gains (proceeds above tax book value) realized on the stake will be subject to Dutch corporate income tax. KPN can utilize the deferred tax asset related to the sale of E-Plus to offset income related to the stake as well.

In Q3 2014, KPN recorded an additional impairment related to the sale of E-Plus of EUR 450m. Of this, EUR 336m is related to the development of the share price of Telefónica Deutschland, as the fair value of the 20.5% stake is based on the share price of Telefónica Deutschland on 30 September 2014. The tax book loss related to the sale of E-Plus increased to EUR 5.0bn, resulting in a total deferred tax asset of EUR 1,248m, an increase of EUR 106m compared to Q2 2014. This deferred tax asset will limit the tax cash out in The Netherlands in the coming years.

### Use of proceeds

KPN's strengthened financial position provides a solid platform to execute its strategy in The Netherlands and Belgium. KPN will use the majority of the cash proceeds of the sale of E-Plus to increase its financial flexibility. This includes a bond tender for an aggregate consideration of up to EUR 2.0bn, regular bond redemptions, the intended consolidation of Reggefiber, a EUR 200m one-off lump-sum payment related to the implementation of a Collective Defined Contribution pension plan for KPN's main pension plan. Next to that, KPN has recommenced dividend payments.

#### *Bond tender*

On 28 October 2014, KPN launched a bond tender for an aggregate consideration of up to EUR 2.0bn to reduce gross debt and realign its financial profile with the new company profile. The bond tender includes all EUR and GBP senior unsecured bonds with remaining maturities of up to 10 years. The tender period will be from 28 October 2014 until 4 November 2014.

#### *Interim dividend*

On 1 October 2014, KPN declared an interim dividend in respect of 2014 of EUR 0.02 per share, or in total EUR 85m. The interim dividend was paid on 13 October 2014.