

## Results Q3 2012

### Highlights

- Mixed performance across the group
- Domestic businesses on track to reach 2012 market share targets
- Upgrades of mobile and fixed networks to provide highest quality of services
- 4,000-5,000 FTE reduction program on track to be completed end 2013
- Price competition in Germany offsetting growth from new propositions
- Continued strong profitable growth in Belgium
- Outlook confirmed

Group financials *	Q3 2012	Q3 2011	Δ y-on-y reported	YTD 2012	YTD 2011	Δ YTD reported
<i>(In millions of euro unless indicated otherwise)</i>						
<b>Revenues and other income</b>	<b>3,051</b>	<b>3,263</b>	<b>-6.5%</b>	<b>9,434</b>	<b>9,788</b>	<b>-3.6%</b>
- Of which revenues	3,044	3,256	-6.5%	9,356	9,727	-3.8%
<b>EBITDA</b>	<b>1,164</b>	<b>1,245</b>	<b>-6.5%</b>	<b>3,407</b>	<b>3,822</b>	<b>-11%</b>
EBITDA margin	38.2%	38.2%		36.1%	39.0%	
Restructuring costs	13	85	-85%	83	108	-23%
<b>EBITDA (excl. restructuring costs)</b>	<b>1,177</b>	<b>1,330</b>	<b>-12%</b>	<b>3,490</b>	<b>3,930</b>	<b>-11%</b>
Operating profit (EBIT)	536	657	-18%	1,691	2,113	-20%
Profit for the period (net result)**	250	368	-32%	853	1,373	-38%
<b>Earnings per share (in EUR)**</b>	<b>0.17</b>	<b>0.26</b>	<b>-35%</b>	<b>0.60</b>	<b>0.93</b>	<b>-35%</b>
Cash flow from operating activities	731	948	-23%	2,077	2,613	-21%
Capital expenditures (PP&E and software)	-476	-498	-4.4%	-1,443	-1,395	3.4%
Proceeds from real estate	2	13	-85%	40	75	-47%
Tax recapture at E-Plus	89	92	-3.3%	243	245	-0.8%
<b>Free cash flow</b>	<b>346</b>	<b>555</b>	<b>-38%</b>	<b>917</b>	<b>1,538</b>	<b>-40%</b>

\* All non-IFRS terms are explained in the safe harbour section at the end of the interim financial statements

\*\* Profit for the period and earnings per share YTD 2011 were positively impacted by the one-off benefit of EUR 118m related to the innovation tax facilities for the period 2007 - 2010

### Message from the CEO, Eelco Blok

*"Against an uncertain and challenging macro environment we have seen mixed performance across the group. We are on track in The Netherlands to reach our 2012 market share targets, where we continue to upgrade our mobile and fixed networks in The Netherlands to provide the highest quality of service. Commitment to our customers forms an integral part of our strategy, mainly illustrated by rising Net Promoter Scores. However, in Germany, competition on price has intensified in recent quarters which is leading to a slow-down in E-Plus' top line growth. The growth from higher postpaid net adds is being offset by customers optimizing their tariffs. KPN Group Belgium performed strongly in 2012 year-to-date and has launched a number of initiatives to protect and enhance its market position.*

*At KPN, we are all focused to strengthen, simplify and grow our businesses and as such today confirm the outlook for the full-year 2012. At the same time we acknowledge that also in the coming period market conditions will remain challenging. We recognize that we are outside our self-imposed financial framework this quarter, and we expect that this situation could continue for the coming quarters. We will continue to strive for a balance between a prudent financial framework, investments in our business and shareholder remuneration."*

## Group review

Revenues and other income (In millions of euro)	Q3 2012	Q3 2011	Δ y-on-y reported	Δ y-on-y underlying <sup>1</sup>	YTD 2012	YTD 2011	Δ YTD reported	Δ YTD underlying <sup>1</sup>
- Consumer Mobile	422	473	-11%	-8.3%	1,293	1,443	-10%	-8.5%
- Consumer Residential	457	472	-3.2%	-3.2%	1,372	1,430	-4.1%	-3.3%
- Business	569	600	-5.2%	-3.6%	1,768	1,829	-3.3%	-1.7%
- NetCo	621	664	-6.5%	-7.3%	1,920	2,046	-6.2%	-5.9%
- Other (incl. eliminations)	-512	-558	-8.2%	-8.2%	-1,552	-1,688	-8.1%	-8.1%
<b>Dutch Telco business</b>	<b>1,557</b>	<b>1,651</b>	<b>-5.7%</b>	<b>-4.7%</b>	<b>4,801</b>	<b>5,060</b>	<b>-5.1%</b>	<b>-3.6%</b>
- Corporate Market	291	424	-31%	-3.3%	1,085	1,312	-17%	-2.4%
- Other (incl. eliminations)	-74	-80	-7.5%	-7.5%	-229	-232	-1.3%	-1.3%
<b>The Netherlands</b>	<b>1,774</b>	<b>1,995</b>	<b>-11%</b>	<b>-4.3%</b>	<b>5,657</b>	<b>6,140</b>	<b>-7.9%</b>	<b>-3.4%</b>
<b>iBasis</b>	<b>264</b>	<b>256</b>	<b>3.1%</b>	<b>3.1%</b>	<b>780</b>	<b>728</b>	<b>7.1%</b>	<b>7.1%</b>
- Germany	839	838	0.1%	0.5%	2,475	2,414	2.5%	2.0%
- Belgium	201	198	1.5%	6.9%	599	578	3.6%	8.7%
- Rest of World	52	81	-36%	-36%	173	229	-24%	-24%
- Other (incl. eliminations)	-19	-30	-37%	-37%	-72	-89	-19%	-19%
<b>Mobile International</b>	<b>1,073</b>	<b>1,087</b>	<b>-1.3%</b>	<b>-0.1%</b>	<b>3,175</b>	<b>3,132</b>	<b>1.4%</b>	<b>1.8%</b>
<b>Other activities</b>	<b>19</b>	<b>15</b>	<b>27%</b>	<b>27%</b>	<b>56</b>	<b>49</b>	<b>14%</b>	<b>14%</b>
<b>Intercompany revenues</b>	<b>-79</b>	<b>-90</b>	<b>12%</b>	<b>12%</b>	<b>-234</b>	<b>-261</b>	<b>10%</b>	<b>10%</b>
<b>KPN Group</b>	<b>3,051</b>	<b>3,263</b>	<b>-6.5%</b>	<b>-1.9%</b>	<b>9,434</b>	<b>9,788</b>	<b>-3.6%</b>	<b>-0.6%</b>

EBITDA (In millions of euro)	Q3 2012	Q3 2011	Δ y-on-y reported	Δ y-on-y underlying <sup>1</sup>	YTD 2012	YTD 2011	Δ YTD reported	Δ YTD underlying <sup>1</sup>
- Consumer Mobile	144	139	3.6%	9.8%	372	425	-12%	-10%
- Consumer Residential	98	124	-21%	-20%	284	389	-27%	-19%
- Business	194	210	-7.6%	-3.5%	591	607	-2.6%	3.4%
- NetCo	351	411	-15%	-13%	1,083	1,261	-14%	-13%
- Other (incl. eliminations)	-10	-4	>100%	>100%	-18	-13	38%	50%
<b>Dutch Telco business</b>	<b>777</b>	<b>880</b>	<b>-12%</b>	<b>-9.2%</b>	<b>2,312</b>	<b>2,669</b>	<b>-13%</b>	<b>-9.8%</b>
<i>EBITDA margin</i>	<i>49.9%</i>	<i>53.3%</i>			<i>48.2%</i>	<i>52.7%</i>		
- Corporate Market	12	-52	n.m.	-19%	40	-6	n.m.	-46%
- Other (incl. eliminations)	1	-1	n.m.	n.m.	1	-	n.m.	n.m.
<b>The Netherlands</b>	<b>790</b>	<b>827</b>	<b>-4.5%</b>	<b>-9.2%</b>	<b>2,353</b>	<b>2,663</b>	<b>-12%</b>	<b>-11%</b>
<i>EBITDA margin</i>	<i>44.5%</i>	<i>41.5%</i>			<i>41.6%</i>	<i>43.4%</i>		
<b>iBasis</b>	<b>9</b>	<b>7</b>	<b>29%</b>	<b>29%</b>	<b>23</b>	<b>24</b>	<b>-4.2%</b>	<b>-4.2%</b>
- Germany	323	355	-9.0%	-8.8%	961	990	-2.9%	-4.4%
- Belgium	74	73	1.4%	17%	208	194	7.2%	19%
- Rest of World	-2	1	n.m.	n.m.	-12	-5	>100%	>100%
- Other (incl. eliminations)	1	1	0.0%	0.0%	-	1	-100%	-100%
<b>Mobile International</b>	<b>396</b>	<b>430</b>	<b>-7.9%</b>	<b>-5.7%</b>	<b>1,157</b>	<b>1,180</b>	<b>-1.9%</b>	<b>-1.9%</b>
<i>EBITDA margin</i>	<i>36.9%</i>	<i>39.6%</i>			<i>36.4%</i>	<i>37.7%</i>		
<b>Other activities</b>	<b>-31</b>	<b>-19</b>	<b>-63%</b>	<b>-56%</b>	<b>-126</b>	<b>-45</b>	<b>&gt;-100%</b>	<b>&gt;-100%</b>
<b>KPN Group</b>	<b>1,164</b>	<b>1,245</b>	<b>-6.5%</b>	<b>-8.8%</b>	<b>3,407</b>	<b>3,822</b>	<b>-11%</b>	<b>-10%</b>

<sup>1</sup> The definition of underlying is explained in the safe harbor section at the end of the condensed financial report. For a detailed overview of underlying figures refer to page 8

**Group revenues decline due to sale Getronics International and performance in Dutch Telco**

KPN Group revenues and other income were 6.5% or EUR 212m lower y-on-y due to the sale of Getronics International (3.7% impact) and declining revenues in The Netherlands. The impact on Group revenues from regulation in Q3 2012 was EUR 40m y-on-y (1.2%). Underlying revenues and other income decreased by 1.9%.

Continued difficult market conditions and regulation were the primary reasons for the revenue decline in Dutch Telco. Consumer Mobile remained exposed to regulation and lower traffic volumes, resulting in lower service revenues. Revenues at NetCo decreased due to lower traffic across all Dutch Telco segments. The revenue decline at Corporate Market was mainly attributable to the sale of Getronics International. In Germany competition on price intensified and customers increasingly optimized tariffs, resulting in a slow-down in revenue growth. In Belgium underlying revenue growth remained strong at 6.9%.

**KPN Group profitability impacted by lower revenues and mixed performance across segments**

KPN Group EBITDA decreased by 6.5% or EUR 81m y-on-y. EBITDA was impacted by regulation by EUR 23m, and also restructuring costs of EUR 13m (Q3 2011: EUR 85m). In comparing Q3 2012 with Q3 2011, the net negative impact from other incidentals was EUR 15m. Underlying EBITDA decreased by 8.8%. EBITDA was negatively impacted by the performance of mainly NetCo, Consumer Residential and Germany. The decline at NetCo and Consumer Residential resulted partly from a decline in high margin traditional services. Next to this, the positive trends in IPTV and FttH activations continued, leading to higher costs. In Germany commercial initiatives to counter the increased price competition led to higher costs as well. Furthermore, pension costs were higher, mainly due to EUR 19m actuarial losses at Getronics UK and US pension funds. The total costs in 2012 related to the recognition of these actuarial losses is expected to amount to EUR 75m (YTD 2012: EUR 55m).

EBIT decreased by EUR 121m (-18%) y-on-y, due to the decrease in EBITDA and higher depreciation as a result of a one-off additional depreciation charge related to prior periods in Germany of EUR 42m. Net profit decreased by EUR 118m y-on-y to EUR 250m in Q3 2012.

**Free cash flow YTD at EUR 917m**

YTD 2012 free cash flow amounted to EUR 917m (YTD 2011: EUR 1,538m). The decrease compared to last year is explained by lower EBITDA (EUR 415m), higher tax payments (EUR 184m), more negative change in working capital (EUR 83m) and higher Capex (EUR 48m), partly offset by a less negative change in provisions (EUR 74m) and lower interest payments (EUR 66m). The higher tax payments are mainly the result of lower innovation tax facilities YTD 2012 (YTD 2011: EUR 237m, YTD 2012: EUR 36m). Within the cash flow line 'change in provisions' there was less cash out with respect to restructuring (EUR 8m), while less restructuring costs were made (EUR 25m). Additionally, more additions were made to the pension provisions (EUR 74m), mainly due to provisions for actuarial losses in the UK and US (EUR 55m).

**Capex YTD at EUR 1,443m**

YTD 2012 Capex was EUR 48m higher compared to the same period last year, due to increased investments to strengthen market positions in The Netherlands. The increase related mainly to customer driven investments (TV and FttH activations and handsets) and investments to improve quality in both the fixed and mobile businesses, partly offset by increased efficiency through quality improvements and procurement savings.

**Net debt to EBITDA<sup>2</sup> ratio at 2.7x**

Net debt at the end of Q3 2012 remained stable compared to Q2 2012, amounting to EUR 12.4bn. The stable net debt was mainly the result of FCF generation during the quarter, offset by the interim dividend payment in August and tax recapture payment. Combined with a lower EBITDA measured over the last twelve months, this resulted in an increase in the net debt to EBITDA ratio to 2.7x (Q2 2012: 2.6x).

KPN has a credit rating of Baa2 with a negative outlook by Moody's and BBB with a stable outlook by Standard & Poor's.

**KPN pension funds average coverage ratio at 104%**

At the end of Q3 2012, the average coverage ratio of the KPN pension funds in The Netherlands was 104% compared to 99% for Q2 2012. Approximately 3% of the increase was driven by the implementation of the ultimate

<sup>2</sup> Based on 12 month rolling total EBITDA excluding book gains, release of pension provisions and restructuring costs, when over EUR 20m

forward rate, which is a component of the discount rate for pension liabilities used by the Dutch pension regulator as of Q3 2012. In Q3 2012, pension recovery payments of EUR 19m were made. Based on the coverage ratios at the end of Q2 and Q3 2012, pension recovery payments of EUR 23m and EUR 19m are required in Q4 2012 and Q1 2013 respectively.

## Financial and operating review by segment

### Continued investments to strengthen market positions in The Netherlands

In Q3 2012 reported revenues and other income at Dutch Telco decreased by 5.7% or EUR 94m, including a regulatory impact of EUR 27m. Underlying revenues declined by 4.7% mainly as a result of the performance at Consumer Mobile and lower traffic across all segments impacting NetCo's revenues.

Reported EBITDA in Dutch Telco for Q3 2012 was EUR 777m, 12% or EUR 103m lower y-on-y. Underlying EBITDA decreased by 9.2%. Reported EBITDA was impacted by EUR 94m lower revenues, a regulatory impact of EUR 16m, the net negative impact from other incidentals of EUR 5m and EUR 2m higher restructuring costs. The underlying EBITDA margin was 50.8% (Q3 2011: 53.3%). Margin pressure is driven by investments to strengthen the market positions in The Netherlands and a continuing decline in high margin traditional services. Improvements in the underlying cost structure are planned to support the EBITDA margin.

### FTE reduction program in The Netherlands on track

Since the start of the FTE reduction program in The Netherlands last year, EUR 208m restructuring costs have been recorded relating to approximately 2,500 FTE. The FTE reduction program resulted in ~1,300 FTE exits since the start of the program. YTD 2012 the reported FTEs decreased by ~1,150, including a ~150 FTE increase as part of KPN's accelerated investment strategy (e.g. customer facing staff including employees in shops and call centres).

### Relatively stable market share in competitive environment in Consumer Mobile

Underlying revenues and other income in Consumer Mobile was down 8.3% y-on-y, impacted by lower traffic volumes, partly offset by higher committed revenues<sup>3</sup>. Underlying EBITDA margin was 34.4% (Q3 2011: 28.7%), supported by the introduction of new commercial propositions, including a handset lease model. The postpaid base remained stable at 3.5m customers as a result of a slightly smaller retail customer base offset by positive wholesale net adds. The prepaid base declined to 4.1m customers impacted by continued competition in the ethnic segment and migrations to postpaid SIM only. In Q3 2012, the retail postpaid net adds amounted to -14k due to aggressive promotions by competition following the new portfolio launches by Hi and Telfort in H1 2012 and relatively lower commercial activity by KPN in the beginning of Q3. Meanwhile, KPN has increased its commercial activity again. Following the earlier launch of the new portfolio for the Hi and Telfort brand, the new propositions for the KPN brand were launched on 30 July, including unlimited calling / SMS. The distribution footprint has been further expanded in Q3 2012 with 4 new multi-brand stores in rural areas and 3 XL shops.

At EUR 34, the retail postpaid ARPU was lower y-on-y (Q3 2011: EUR 37), partly driven by the increasing number of SIM only subscriptions within the mix and lower traffic volumes. The percentage committed ARPU improved to ~66%, up 7%-points y-on-y driven by the new propositions. The overall total Dutch service revenue market share was relatively stable at 44% in Q3 2012.

### Broadband customer base increased at Consumer Residential

Underlying revenues and other income at Consumer Residential was 3.2% lower y-on-y due to lower voice revenues, partly offset by higher TV and FttH revenues. Underlying EBITDA decreased 20% y-on-y as a result of declining revenues, an increased number of IPTV and FttH activations, higher content costs and a continued decline in higher margin traditional services, resulting in an underlying EBITDA margin of 21.9% (Q3 2011: 26.5%).

As targeted, the broadband market share is stabilizing at around 39%. The broadband customer base increased (18k) organically in Q3 2012 for the first time in several years. The increase was driven by growth in the number of FttH activations and a good performance by the Telfort brand. The broadband customer base increased while the ARPU per customer also slightly increased.

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<sup>3</sup> Recurring subscription fees

The positive development of FttH continued. FttH activations are growing steadily, with 34k net adds in Q3 2012. Homes Passed in KPN areas were 1,112k at the end of Q3 2012, with an increase in the FttH penetration level by 7%-points y-on-y to 18% in Q3 2012, supporting a growing take-up of higher value propositions. Q3 2012 showed strong IPTV growth with net adds at 88k, supporting the take-up of triple play and resulting in a TV market share of 20%, an increase of 3%-points compared to Q3 2011. In Q3 2012, KPN took another step to improve its market leading IPTV proposition by introducing IPTV on smartphone, leading to a further improving customer experience.

Revenue Generating Units per customer increased to 2.01 (Q3 2011: 1.89) reflecting the growth of triple play. Triple play packages increased by 63k this quarter to a total of 816k. Net line loss in Q3 2012 was lower (25k) compared to Q3 2011 (35k).

#### **Maintaining stable market positions in Business segment**

Underlying revenues and other income for the Business segment declined by 3.6% y-on-y, driven by a continued decline in traditional voice services and price pressure in wireless services, partly offset by good performance of the challenger brands Telfort and Yes Telecom. Underlying EBITDA decreased by 3.5% in Q3 2012 compared to Q3 2011 mainly as a result of lower revenues, while the underlying EBITDA margin remained stable at 34.1%. Market positions in the Business segment were also stable in Q3 2012.

Despite growth in the wireless customer base of 42k in Q3 2012, wireless service revenues declined 3.5% y-on-y, including a 3.9% regulatory impact. ARPU was lower at EUR 36 (Q3 2011: EUR 42), impacted by regulation, declining traffic, M2M growth and data mix effect.

Traditional wireline services showed a decline in both access lines and traffic volumes, leading to a 6.5% decline in revenues y-on-y. The negative impact of the continued migration from traditional to IP-based services was partly offset by the introduction of flat rate tariffs. Furthermore, KPN has strengthened its product offerings for SME through a strategic partnership with RoutIT.

#### **Continued network upgrades at NetCo**

Underlying revenues and other income at NetCo decreased by 7.3% y-on-y, fuelled by ongoing decline of traditional services and lower traffic across all segments in The Netherlands. Underlying EBITDA decreased 13% as a result of lower revenues and higher costs related to the growth in FttH activations, resulting in a lower underlying EBITDA margin of 58.5% (Q3 2011: 62.1%).

NetCo continued the copper network upgrades in Q3 2012; VDSL upgrades and roll-out of VDSL to the outer-rings are on track. The FttH roll-out, through the Reggefiber joint-venture, continued as planned. The number of Homes Passed by the Reggefiber joint-venture in Q3 2012 increased with 103k to 1,181k. Next to this, NetCo started to upgrade the mobile network to enable LTE.

KPN and Tech Mahindra signed an international partnership with the objective to further improve KPN's efficiency and effectiveness in its IT environment, and to jointly address strategic growth areas. Estimated cost savings from the partnership across the group are at least EUR 200m in a five year period, to be realized mainly in NetCo.

#### **Margin pressure at Corporate Market largely offset by FTE reductions**

Underlying revenues and other income at Corporate Market decreased by 3.3% y-on-y due to the continued adverse impact of the difficult macroeconomic environment. Underlying EBITDA decreased by 19% y-on-y, mainly as a result of continued price pressure and changing revenue mix. The underlying EBITDA margin declined from 8.6% in Q3 2011 to 7.2% in Q3 2012. The EBITDA margin was supported by lower personnel costs as a direct result of the FTE reduction program. Corporate Market has maintained its market leading position in The Netherlands in Q3 2012.

#### **Increased revenues with stable margins at iBasis**

Revenues and other income at iBasis increased by 3.1% y-on-y, including a favorable currency effect of 4.6%. The EBITDA margin in Q3 2012 was 3.4% due to focus on cost control offsetting margin pressure in the market. The total number of minutes increased by 1.5% y-on-y and the average revenue per minute remained stable at EUR 3.9ct.

#### **Strong growth from higher postpaid net adds offset by customer optimization in Germany**

Underlying revenues and other income in Germany increased slightly by 0.5% y-on-y, driven by underlying service revenue growth of 0.9%. Increased price-led competition in Germany in recent quarters has resulted in a slowdown in top line growth. Customers are increasingly receptive to and taking advantage of opportunities in the market to reduce

their costs and improve their tariffs. As a result, network operators have introduced new tariff plans with strong price focus in both the postpaid and prepaid markets. In the postpaid market, MVNOs have introduced low priced initiatives on competitor networks since the second half of 2011. In the prepaid market, competition has increased particularly in the ethnic segment. As a Challenger, E-Plus has adjusted to these developments by introducing new BASE tariffs, new all-net flat postpaid propositions and new prepaid propositions, in order to capture data growth in the wholesale market. However, the service revenue growth from higher postpaid net adds (Q3 2012: 210k, Q3 2011: 92k) is being offset by customers optimizing their tariff plans. Prepaid net adds decreased y-on-y, mainly as a result of increased competition in the ethnic segment and a value focus in customer acquisition. E-Plus' market share in service revenues remained relatively stable at 15.9%.

The underlying EBITDA margin in Q3 2012 was 38.5%, comparable to the previous quarter at 38.6%, but lower than the same quarter last year (42.4%), reflecting commercial investments to support the introduction of the new propositions.

#### **Continued strong profitable growth in Belgium**

Compared to Q3 2011, underlying revenues and other income in Belgium increased by 6.9% in Q3 2012. Belgium continued to show strong underlying service revenue growth of 9.0%. Similar to previous quarters, the strong service revenue growth was driven by B2B, wholesale and data. Underlying EBITDA growth remained very strong at 17%, driven by continued topline growth and cost containment, resulting in an underlying EBITDA margin of 36.8% in Q3 2012.

In Q3 2012, prepaid net adds corrected for clean-up grew to 234k. The prepaid clean-up contained the disconnection of 930k expired SIM cards leading to negative prepaid net adds of 696k. Postpaid net adds were 3k negative, due to higher churn caused by increased competition in the market. Service revenue market share is expected to have grown further to ~20%. In Q3 2012 a number of commercial initiatives were launched as a countermeasure to maintain price leadership in the Belgian market.

#### **Aligning focus Rest of World**

Underlying revenues and other income of Rest of World declined by 36% as a result of intense competition in the ethnic segment across the footprint and the sale of KPN France in Q4 2011. EBITDA of EUR -2m in Q3 2012 slightly improved q-on-q (Q2 2012: EUR -5m). The focus of Ortel Mobile will be aligned with KPN's core markets and KPN is assessing options for the other Ortel Mobile activities.

## Outlook

Guidance metrics	Outlook 2012	Outlook 2013
EBITDA <sup>4</sup>	EUR 4.7 - 4.9bn	
Capex	EUR 2.0 - 2.2bn	
Free cash flow <sup>5</sup>	EUR 1.6 - 1.8bn	
Dividend per share <sup>6</sup>	EUR 0.35	At least EUR 0.35

KPN is on track to reach its 2012 market share objectives in The Netherlands. Positive broadband net adds driven by FttH, IPTV and small acquisitions are supporting broadband market share. KPN's Dutch mobile market share is relatively stable at around 44-45% in a competitive environment and KPN's market positions in the Business segment remain stable. At the same time E-Plus is experiencing increased price competition in Germany, while Belgium shows continued strong underlying growth. KPN is on track to realize its full year 2012 outlook.

KPN is committed to strive for the right balance between a prudent financing policy, investments in the business and shareholder remuneration. KPN continues to target a net debt to EBITDA ratio between 2.0 - 2.5x and remains committed to minimum credit ratings of Baa2 and BBB by Moody's and Standard & Poor's respectively.

## 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 2011 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 the last quarter of 2012.

With respect to regulatory risk, reference is made to note [13] regulatory developments and with regard to related parties reference is made to note [14] related parties of the Condensed Consolidated Interim Financial Statements for the nine months ended 30 September 2012.

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<sup>4</sup> Excluding restructuring costs

<sup>5</sup> Defined as cash flow from operating activities, plus proceeds from real estate, minus Capex and excluding E-Plus tax recapture

<sup>6</sup> Subject to approval by the Annual General Meeting

## Analysis of underlying results

Consolidated figures	Q3 2012	Result		Q3 2012	Q3 2011	Result		Q3 2011	Δ y-on-y	Δ y-on-y	
Revenues and Other income	Reported	M&A	Incidentals	Underlying	Reported	Regulation	M&A	Incidentals	Underlying	Reported	Underlying
Germany	839			839	838	-3			835	0.1%	0.5%
Belgium	201			201	198	-10			188	1.5%	6.9%
Rest Of World	52			52	81				81	-36%	-36%
Other (incl. eliminations)	-19			-19	-30				-30	37%	37%
Mobile International	1,073			1,073	1,087	-13			1,074	-1.3%	-0.1%
Consumer Mobile	422			422	473	-13			460	-11%	-8.3%
Consumer Residential	457			457	472				472	-3.2%	-3.2%
Business	569			569	600	-10			590	-5.2%	-3.6%
NetCo	621	14		607	664	-4		5	655	-6.5%	-7.3%
Other (incl. eliminations)	-512			-512	-558				-558	8.2%	8.2%
Dutch Telco Business	1,557	14		1,543	1,651	-27		5	1,619	-5.7%	-4.7%
Corporate Market	291			291	424		123		301	-31%	-3.3%
Other (incl. eliminations)	-74			-74	-80				-80	7.5%	7.5%
The Netherlands	1,774	14		1,760	1,995	-27	123	5	1,840	-11%	-4.3%
iBasis	264			264	256				256	3.1%	3.1%
Eliminations	-79			-79	-90				-90	12%	12%
Other activities	19			19	15				15	27%	27%
Revenues and Other income	3,051	14		3,037	3,263	-40	123	5	3,095	-6.5%	-1.9%

Consolidated figures	Q3 2012	Result		Q3 2012	Q3 2011	Result		Q3 2011		Δ y-on-y	Δ y-on-y
EBITDA	Reported	M&A	Incidentals <sup>7</sup>	Underlying	Reported	Regulation	M&A	Incidentals <sup>7</sup>	Underlying	Reported	Underlying
Germany	323			323	355	-1			354	-9.0%	-8.8%
Belgium	74			74	73	-6		4	63	1.4%	17%
Rest Of World	-2			-2	1			-1	2	n.m.	n.m.
Other (incl. eliminations)	1			1	1				1	0.0%	0.0%
Mobile International	396			396	430	-7		3	420	-7.9%	-5.7%
Consumer Mobile	144		-1	145	139	-7			132	3.6%	9.8%
Consumer Residential	98		-2	100	124			-1	125	-21%	-20%
Business	194			194	210	-9			201	-7.6%	-3.5%
NetCo	351	-1	-3	355	411			4	407	-15%	-13%
Other (incl. eliminations)	-10			-10	-4			-2	-2	>100%	>100%
Dutch Telco Business	777	-1	-6	784	880	-16		1	863	-12%	-9.2%
Corporate Market	12		-9	21	-52			-78	26	n.m.	-19%
Other (incl. eliminations)	1			1	-1				-1	n.m.	n.m.
The Netherlands	790	-1	-15	806	827	-16		-77	888	-4.5%	-9.2%
iBasis	9			9	7				7	29%	29%
Other activities	-31		-3	-28	-19			-1	-18	-63%	-56%
EBITDA	1,164	-1	-18	1,183	1,245	-23		-75	1,297	-6.5%	-8.8%

<sup>7</sup> Including restructuring costs



## **Condensed Consolidated Interim Financial Statements for the nine months ended 30 September 2012 and 2011**

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## Unaudited Consolidated Statement of Income

<i>(in millions of euro, unless indicated otherwise)</i>		For the three months ended 30 September		For the nine months ended 30 September	
		2012	2011	2012	2011
Revenues		3,044	3,256	9,356	9,727
Other income		7	7	78	61
<b>Revenues and other income [1]</b>		<b>3,051</b>	<b>3,263</b>	<b>9,434</b>	<b>9,788</b>
Own work capitalized		-26	-26	-83	-85
Cost of materials		186	230	686	720
Work contracted out and other expenses		1,110	1,134	3,395	3,376
Employee benefits		432	446	1,444	1,394
Depreciation, amortization and impairments		628	588	1,716	1,709
Other operating expenses		185	234	585	561
<b>Total operating expenses</b>		<b>2,515</b>	<b>2,606</b>	<b>7,743</b>	<b>7,675</b>
<b>Operating profit [2]</b>		<b>536</b>	<b>657</b>	<b>1,691</b>	<b>2,113</b>
Finance income		4	5	17	23
Finance costs		-190	-172	-549	-515
Other financial results		-24	-32	-42	-42
Finance income and expenses [3]		-210	-199	-574	-534
Share of the profit of associates and joint ventures, net of tax		-3	-6	-16	-17
<b>Profit before income tax</b>		<b>323</b>	<b>452</b>	<b>1,101</b>	<b>1,562</b>
Income taxes [4]		-73	-84	-248	-189
<b>Profit for the period</b>		<b>250</b>	<b>368</b>	<b>853</b>	<b>1,373</b>
Profit attributable to non-controlling interest					
Profit attributable to equity holders		250	368	853	1,373
<b>Earnings per ordinary share on a non-diluted basis (in EUR)</b>		<b>0.17</b>	<b>0.26</b>	<b>0.60</b>	<b>0.93</b>
<b>Earnings per ordinary share on a fully diluted basis (in EUR)</b>		<b>0.17</b>	<b>0.26</b>	<b>0.60</b>	<b>0.93</b>
Weighted average number of shares on a non-diluted basis		1,418,808,437		1,474,868,833	
Weighted average number of shares on a fully diluted basis		1,420,192,229		1,476,307,630	

## Unaudited Consolidated Statement of Comprehensive Income

<i>(in millions of euro, unless indicated otherwise)</i>	For the three months ending 30 September		For the nine months ending 30 September	
	2012	2011	2012	2011
<b>Profit for the period</b>	<b>250</b>	<b>368</b>	<b>853</b>	<b>1,373</b>
<b>Other comprehensive income:</b>				
Cash flow hedges [5]:				
Gains or (losses) arising during the period	14	-12	-208	8
Tax	-3	3	51	-2
	11	-9	-157	6
Currency translation adjustments:				
Gains or (losses) arising during the period	-2	-8	2	-14
Tax	-	-	-	-
	-2	-8	2	-14
Fair value adjustment available for sale financial assets:				
Gains or (losses) through equity	3	-3	4	-7
Impairment through the income statement	-	2	-	13
	3	-1	4	6
<b>Other comprehensive income for the period, net of taxes</b>	<b>12</b>	<b>-18</b>	<b>-151</b>	<b>-2</b>
<b>Total comprehensive income for the year, net of tax</b>	<b>262</b>	<b>350</b>	<b>702</b>	<b>1.371</b>
Total comprehensive income attributable to:				
Owners of the parent	262	350	702	1.371
Non-controlling interest	-	-	-	-

## Unaudited Consolidated Statement of Financial Position

	As at	
ASSETS (in millions of euro)	30 September 2012 (unaudited)	31 December 2011
<b>NON-CURRENT ASSETS</b>		
Goodwill	5,588	5,575
Licenses	2,278	2,495
Software	771	852
Other intangibles	277	290
<b>Total Intangible assets</b>	<b>8,914</b>	<b>9,212</b>
Land and buildings	680	705
Plant and equipment [7]	6,235	5,704
Other tangible non current assets	105	116
Assets under construction [7]	777	1,008
<b>Total property, plant and equipment</b>	<b>7,797</b>	<b>7,533</b>
Investments in associates and joint ventures	248	261
Loans to associates	184	127
Available-for-sale financial assets	51	48
Derivative financial instruments	266	169
Deferred income tax assets	1,747	1,831
Other financial non-current assets	280	261
<b>Total non-current assets</b>	<b>19,487</b>	<b>19,442</b>
<b>CURRENT ASSETS</b>		
Inventories	133	123
Trade and other receivables	1,770	1,607
Current income tax receivables	4	1
Available-for-sale financial assets	-	-
Cash	1,495	990
<b>Total current assets</b>	<b>3,402</b>	<b>2,721</b>
<b>Non-current assets and disposal groups held for sale [8]</b>	<b>19</b>	<b>224</b>
<b>TOTAL ASSETS</b>	<b>22,908</b>	<b>22,387</b>

	As at	
<b>LIABILITIES</b> <i>(in millions of euro)</i>	<b>30 September 2012</b> <b>(unaudited)</b>	<b>31 December 2011</b>
<b>GROUP EQUITY</b>		
Share capital	344	344
Share premium	6,717	6,717
Other reserves	-276	-127
Retained earnings	-4,129	-4,004
<b>Equity attributable to owners of the parent</b>	<b>2,656</b>	<b>2,930</b>
Non-controlling interest	-	-
<b>Total group equity</b>	<b>2,656</b>	<b>2,930</b>
<b>NON-CURRENT LIABILITIES</b>		
Borrowings [9]	12,387	11,641
Derivative financial instruments	288	229
Deferred income tax liabilities	540	793
Provisions for retirement benefit obligations	375	441
Provisions for other liabilities and charges	370	397
Other payables and deferred income	129	155
<b>Total non-current liabilities</b>	<b>14,089</b>	<b>13,656</b>
<b>CURRENT LIABILITIES</b>		
Trade and other payables	3,618	3,804
Borrowings [9]	2,124	1,458
Derivative financial instruments	16	-
Current income tax liabilities	261	218
Provisions (current portion)	139	129
<b>Total current liabilities</b>	<b>6,158</b>	<b>5,609</b>
<b>Liabilities directly associated with non-current assets and disposal groups classified as held for sale [8]</b>	<b>5</b>	<b>192</b>
<b>TOTAL EQUITY AND LIABILITIES</b>	<b>22,908</b>	<b>22,387</b>

## Unaudited Consolidated Statement of Cash Flows

(in millions of euro)	For the nine months 30 September	
	2012	2011
<b>Profit before income tax</b>	<b>1,101</b>	<b>1,562</b>
Adjustments for:		
- Net finance costs	574	534
- Share-based compensation	-1	-9
- Share of the profit of associated and joint ventures	16	17
- Depreciation, amortization and impairments	1,716	1,709
- Other income	-59	-57
- Changes in provisions (excl. deferred taxes)	-105	-179
Changes in working capital relating to:		
- Inventories	-4	9
- Trade receivables	4	38
- Prepayments and accrued income	-59	-66
- Other current assets	17	39
- Trade payables	-145	-56
- Accruals and deferred income	-75	-161
- Current liabilities (excl. short-term financing)	-67	-49
<b>Change in working capital</b>	<b>-329</b>	<b>-246</b>
Dividends received	1	1
Taxes paid / received	-333	-149
Interest paid	-504	-570
<b>Net cash flow from operations</b>	<b>2,077</b>	<b>2,613</b>
Acquisition of subsidiaries, associates and joint ventures (net of acquired cash)	-170	-26
Disposal of subsidiaries, associates and joint ventures	-4	5
Investments in intangible assets (excl. software)	-38	-26
Investments in property, plant & equipment	-1,212	-1,112
Investments in software	-231	-283
Disposal of intangibles (excl. software)	-	9
Disposal in property, plant & equipment	4	2
Disposals of real estate	40	75
Other changes and disposals	-47	-90
<b>Net cash flow used in investing activities</b>	<b>-1,658</b>	<b>-1,446</b>
Share repurchase	-	-1,000
Dividends paid	-979	-1,200
Exercised options	2	5
Proceeds from borrowings	1,640	1,696
Repayments from borrowings and settlement of derivatives	-544	-1,027
Other changes in interest-bearing current liabilities	-5	-7
<b>Net cash flow used in financing activities</b>	<b>114</b>	<b>-1,533</b>
<b>Changes in cash</b>	<b>533</b>	<b>-366</b>
<b>Net Cash at beginning of period</b>	<b>950</b>	<b>682</b>
Exchange rate difference	-	-1
Changes in cash	533	-366
<b>Net Cash at end of period</b>	<b>1,483</b>	<b>315</b>
Bank overdrafts	12	330
<b>Cash at end of period</b>	<b>1,495</b>	<b>645</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 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	–	–	–	-1,000	–	-1,000	–	-1,000
Dividends paid	–	–	–	–	-1,202	-1,202	–	-1,202
Shares cancelled	-95,083,600	-23	-986	1,009	–	–	–	–
Total comprehensive income for the period	–	–	–	-2	1,373	1,371	–	1,371
<b>Balance as of 30 September 2011</b>	<b>1,477,526,284</b>	<b>354</b>	<b>7,198</b>	<b>-695</b>	<b>-4,181</b>	<b>2,676</b>	<b>–</b>	<b>2,676</b>
<b>Balance as of 1 January 2012</b>	<b>1,431,522,482</b>	<b>344</b>	<b>6,717</b>	<b>-127</b>	<b>-4,004</b>	<b>2,930</b>	<b>–</b>	<b>2,930</b>
Share based compensation	–	–	–	–	1	1	–	1
Exercise of options	–	–	–	2	–	2	–	2
Dividends paid	–	–	–	–	-979	-979	–	-979
Total comprehensive income for the period	–	–	–	-151	853	702	–	702
<b>Balance as of 30 September 2012</b>	<b>1,431,522,482</b>	<b>344</b>	<b>6,717</b>	<b>-276</b>	<b>-4,129</b>	<b>2,656</b>	<b>–</b>	<b>2,656</b>

# Notes to the Condensed Consolidated Financial Statements

## Company profile

KPN is the leading telecommunications and ICT provider in The Netherlands offering wireline and wireless telephony, broadband and TV to consumers and end-to-end telecom and ICT services to business customers. 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, KPN offers wireless services as an MVNO and 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 Interim Financial Statements have been prepared in accordance with IAS 34, Interim Financial Reporting. As permitted by IAS 34, the condensed consolidated interim financial statements do not include all of the information required for full annual financial statements. In addition, the notes to these consolidated interim financial statements are presented in a condensed format. The applied accounting principles are in line with those as described in KPN's 2011 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 2011 Annual Report, including the determination of deferred tax assets for carry forward losses and the provision for tax contingencies, the determination of fair value less costs to sell 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 value of the call/put arrangements of Reggefiber Group, 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 2011 Annual Report which discusses KPN's exposure to credit risk and financial market risks.

### *Change in accounting policies*

IAS 19, 'Employee benefits' was amended in June 2011 (IAS19R) and will become effective at 1 January 2013. The impact on KPN's financial statements will be as follows:

- elimination of the corridor approach and recognition of all actuarial gains and losses in Other Comprehensive Income as they occur;
- immediate recognition of all past service costs, and
- replacement of interest cost and expected return on plan assets with a net interest amount that is calculated by applying the discount rate to the net defined benefit liability (asset).

IAS 19R must be applied retrospectively with restatement of comparative numbers which means that all unrecognized actuarial losses and past service cost at 1 January 2012 will be recognized at once which will reduce equity attributable to equity holders initially with EUR 657m (net of tax).

Total estimated pension cost (including financing cost) in the first nine months of 2012 will be approximately EUR 60m lower under IAS 19R as the amortization of actuarial gains and losses is no longer applicable and the expected return on plan assets is lower.

In the first nine months of 2012, interest rates have declined further. Based on an estimate of the impact of the decline in interest rates on the obligations of the KPN pension funds in The Netherlands, and an estimate of the realized return on plan assets, actuarial losses related to these funds in the first nine months of 2012 are expected to be approximately EUR 220m (net of tax).

The effect of the above-mentioned actuarial losses and lower pension cost on Other Comprehensive Income and



Total Comprehensive Income in the first nine months of 2012 would be a decrease of approximately EUR 160m. In total, equity attributable to equity holders at 30 September 2012 would be reduced with approximately EUR 820m (net of tax).

Actual results in the future may differ from these 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. In the assessment of the impact of IAS 19R per 30 September 2012, changes in other key assumptions such as expected benefit increases and salary increases and other plans, have not been taken into account. The final impact of IAS 19R will be determined at the end of the year based on a full actuarial valuation of all pension plans, including a reassessment of all key assumptions.

## [1] Revenues and other income

For a description of the activities of the segments, reference is made to the 2011 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 nine months ended 30 September 2012				For the nine months ended 30 September 2011			
	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	2,379	33	63	2,475	2,344	4	66	2,414
Belgium	566		33	599	533	1	44	578
Rest of World	173			173	226	-1	4	229
Other (incl. eliminations)	1		-73	-72			-88	-89
<b>Mobile International</b>	<b>3,119</b>	<b>33</b>	<b>23</b>	<b>3,175</b>	<b>3,103</b>	<b>4</b>	<b>25</b>	<b>3,132</b>
Consumer Mobile	1,223	-2	72	1,293	1,343		100	1,443
Consumer Residential Business	1,281		91	1,372	1,333		97	1,430
NetCo	1,693		75	1,768	1,749		80	1,829
Other (incl. eliminations)	443	36	1,441	1,920	433	51	1,562	2,046
<b>Dutch Telco</b>	<b>4,641</b>	<b>34</b>	<b>126</b>	<b>4,801</b>	<b>4,858</b>	<b>51</b>	<b>151</b>	<b>5,060</b>
Corporate Market	926	9	150	1,085	1,160	5	147	1,312
Other (incl. eliminations)			-229	-229			-232	-232
<b>The Netherlands</b>	<b>5,567</b>	<b>43</b>	<b>47</b>	<b>5,657</b>	<b>6,018</b>	<b>56</b>	<b>66</b>	<b>6,140</b>
<b>iBasis</b>	<b>616</b>		<b>164</b>	<b>780</b>	<b>558</b>		<b>170</b>	<b>728</b>
Other activities	54	2		56	48	1		49
Eliminations			-234	-234			-261	-261
<b>KPN Total</b>	<b>9,356</b>	<b>78</b>		<b>9,434</b>	<b>9,727</b>	<b>61</b>		<b>9,788</b>

KPN Group revenues and other income were 3.6% or EUR 354m lower y-on-y due to the sale of Getronics International (impact of 2.1%) and a decline in The Netherlands while Germany, Belgium and iBasis showed increased revenues. The negative impact on Group revenues from regulation was EUR 104m (1.1%). The Netherlands continued to show a revenue decline as a result of difficult market conditions and regulation. Other income in the first nine months of 2012 included book profits on the sale of mobile towers of EUR 31m, the sale of SNT Inkasso of EUR 16m and the sale of Getronics International of EUR 8m. Other income in the first nine months of 2011 included a book gain on the sale of mobile towers of EUR 33m. For more detailed information on revenues, reference is made to the Management Report.

## [2] Operating profit

	For the nine months ended 30 September 2012			For the nine months ended 30 September 2011		
		Depreciation, Amortization & Impairments			Depreciation, Amortization & Impairments	
Operating profit, DA&I and EBITDA	Operating profit	(DA&I)	EBITDA	Operating profit	(DA&I)	EBITDA
Germany	431	530	961	501	489	990
Belgium	93	115	208	90	104	194
Rest of World	-17	5	-12	-17	13	-4
<b>Mobile International</b>	<b>507</b>	<b>650</b>	<b>1,157</b>	<b>574</b>	<b>606</b>	<b>1,180</b>
Consumer Mobile	301	71	372	369	56	425
Consumer Residential	100	184	284	228	161	389
Business	505	86	591	524	83	607
NetCo	460	623	1,083	592	669	1,261
Other (incl. eliminations)	-19	1	-18	-13		-13
<b>Dutch Telco business</b>	<b>1,347</b>	<b>965</b>	<b>2,312</b>	<b>1,700</b>	<b>969</b>	<b>2,669</b>
Corporate Market	-40	80	40	-121	115	-6
Other (incl. eliminations)		1	1			
<b>The Netherlands</b>	<b>1,307</b>	<b>1,046</b>	<b>2,353</b>	<b>1,579</b>	<b>1,084</b>	<b>2,663</b>
<b>iBasis</b>	<b>8</b>	<b>15</b>	<b>23</b>	<b>9</b>	<b>15</b>	<b>24</b>
Other activities	-131	5	-126	-49	4	-45
<b>KPN Total</b>	<b>1,691</b>	<b>1,716</b>	<b>3,407</b>	<b>2,113</b>	<b>1,709</b>	<b>3,822</b>

KPN Group EBITDA decreased by 11% or EUR 415m y-on-y. EBITDA was impacted by regulation of EUR 47m and restructuring costs of EUR 83m. The decrease in EBITDA was driven by The Netherlands, resulting from a decline in high margin traditional services and investments to strengthen the domestic market positions. Furthermore, pension costs were EUR 75m higher y-on-y of which EUR 55m related to actuarial losses at Getronics UK and US pension funds and EUR 10m related to an incidental in Q1 2011.

Operating profit decreased by EUR 422m (20%) y-on-y, following the EBITDA decrease.

## [3] Finance costs, income and other financial results

Net finance costs increased by EUR 40m y-on-y to EUR 574m. The increase in 2012 is mainly related to higher accrued bond interest due to increased outstanding bonds and fair value movements on swaps. In 2011, net finance costs included a gain from ineffectiveness on the USD fair value hedges partly offset by a charge relating to the Reggefiber option liability.

## [4] Income taxes

KPN benefits from an agreement with the Dutch tax authorities with regard to the application of 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%. Due to the application of the innovation tax facilities, KPN's effective tax rate in The Netherlands is reduced from the statutory tax rate of 25% to approximately 20%.

The effective tax rate for KPN Group in Q3 2012 amounted to 22.7% (Q3 2011: 18.4%), mainly due to losses related to non-deductible pension expenses in 2012 for the UK and US pension funds. The effective tax rate for the Group is expected to be approximately 22% for the full year 2012 and 20% in the years 2013 - 2015.

**[5] Cash flow hedges**

In the first nine months of 2012, the cash flow hedge reserve decreased by EUR 157m (2011: increase of EUR 6m) resulting from changes in the valuation of the USD and GBP cross currency swaps. As KPN applies hedge accounting, any change in swap value will result in an opposite movement in the cash flow hedge reserve, such that there is no income impact. The change YTD 2012 is caused by the significant drop of the Euro interest rates compared to GBP and USD interest rates. Furthermore, the amount of swaps for which KPN applies cash flow hedge accounting increased compared to last year.

**[6] Business combinations and acquisitions**

On 13 April 2012, the Dutch competition Authority (NMa) approved KPN's acquisition of 100% of the shares in Lijbrandt Telecom Holding B.V., Glashart Media B.V. and Reggefiber Wholesale B.V. from Reggefiber Group B.V. (Joint venture of Reggeborgh and KPN, in which KPN holds a 41% stake).

In September 2012 KPN entered into a strategic partnership with GroupIT B.V. (RoutIT) and acquired a stake of 12.5%.

**[7] Plant and equipment, assets under construction**

In Q3 2012 assets under construction in relation to the mobile network in Germany were reclassified to plant and equipment for EUR 309m. As a result, a one-off additional depreciation related to prior periods of EUR 42m was recorded.

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

During the first nine months of 2012, KPN sold a number of mobile towers in The Netherlands, as well as SNT Inkasso (Germany) and Getronics International, which were presented as assets and disposal groups held for sale as at 31 December 2011. As per 30 September 2012 Multiconnect is classified as held for sale.

**[9] Borrowings**

On 22 February 2012, KPN issued a EUR 750m Eurobond, with a 10-year maturity and a fixed coupon of 4.25%. On 25 July 2012, KPN issued a Eurobond for an amount of EUR 750m, with an 8.5-year maturity and a fixed coupon of 3.25%. These bonds were issued under KPN's Global Medium Term Note program and have been listed on NYSE Euronext Amsterdam. The proceeds have been used for general corporate purposes.

As at the end of Q3 2012, the average maturity on the bond portfolio was 6.8 years (Q2 2012: 7.0 years). The average interest rate on the nominal bonds decreased to 5.1% (Q2 2012: 5.2%).

In June 2012, KPN used an extension option for its EUR 2bn revolving credit facility. All 14 relationship banks agreed to a one year extension, which brings the maturity of the revolving credit facility to July 2017. The facility contains another one-year extension option in July 2013, which could extend the maturity to July 2018.

## [10] Other segment information

	As at 30 September 2012		As at 31 December 2011		For the nine months 30 September	
	Total assets	Total liabilities	Total assets	Total liabilities	2012 Capex	2011 Capex
<b>Assets, Liabilities and Capex</b>						
Germany	10,396	26,388	10,451	26,766	372	376
Belgium	1,880	306	1,882	316	73	79
Rest of World	113	97	153	135	1	2
Other (incl. eliminations)	-10	-11	-16	-17	-1	-1
<b>Mobile International</b>	<b>12,379</b>	<b>26,780</b>	<b>12,470</b>	<b>27,200</b>	<b>445</b>	<b>456</b>
Consumer Mobile	1,241	745	2,571	2,367	162	50
Consumer Residential	1,445	1,271	1,135	1,070	214	171
Business	1,912	1,424	2,680	2,688	74	79
NetCo	6,862	6,413	8,867	8,868	487	536
Other (incl. eliminations)	-419	-399	-1,059	-1,042	3	1
<b>Dutch Telco business</b>	<b>11,041</b>	<b>9,454</b>	<b>14,194</b>	<b>13,951</b>	<b>940</b>	<b>837</b>
Corporate Market	2,184	1,633	2,410	1,830	49	93
Other (incl. eliminations)	-284	-284	-303	-304	-1	1
<b>The Netherlands</b>	<b>12,941</b>	<b>10,803</b>	<b>16,301</b>	<b>15,477</b>	<b>988</b>	<b>931</b>
<b>iBasis</b>	<b>436</b>	<b>340</b>	<b>448</b>	<b>365</b>	<b>5</b>	<b>5</b>
Other activities	-2,848	-17,671	-6,832	-23,585	5	3
<b>KPN Total</b>	<b>22,908</b>	<b>20,252</b>	<b>22,387</b>	<b>19,457</b>	<b>1,443</b>	<b>1,395</b>

The increase in Capex of EUR 48m y-on-y was related to increased customer driven investments to strengthen the market positions in The Netherlands.

## [11] Dividend

In Q2 2012, KPN paid the final dividend for 2011, for a total of EUR 809m (incl. dividend tax), or EUR 0.57 per share. This resulted in a total dividend over 2011 of EUR 1,215m (incl. dividend tax), or EUR 0.85 per share. In Q3 2012, KPN paid the interim dividend for 2012 of EUR 170m (incl. dividend tax), or EUR 0.12 per share.

## [12] Off-balance sheet commitments

At the end of Q3 2012 off-balance sheet commitments decreased to EUR 4.3bn (Q4 2011: EUR 4.5bn), caused by a decline in purchasing commitments and leasing commitments.

## [13] Regulatory developments

### The Netherlands: Mobile spectrum auction

On 6 September 2012 the Minister of Economic Affairs, Innovation and Agriculture announced that the auction of 800MHz, 900MHz and 1.8GHz licenses will start on 31 October 2012, with five participants. 2\*10MHz in the 800MHz will remain reserved for new market entrants. Rules for an option for 900MHz and 1.8GHz licensees to extend the existing licenses, for a period of maximum 21 months to avoid the risk of discontinuity of GSM services, have been published.

### The Netherlands: Status OPTA analyses fixed telecommunications markets

OPTA has completed the major part of its market analyses conducted for the period 2012 - 2014. KPN is still designated as operator with significant market power on the markets of unbundled access to its copper network and the wholesale telephony market. On these markets access obligations and price squeeze tests are imposed. Tariff regulation on these markets is to a large extent based on safety caps (tariffs of 2011 corrected for inflation). Tariff regulation on the wholesale telephony market has been lifted except for the markets for two and more simultaneous calls (e.g. ISDN2 and more). Reggefiber Group B.V. is considered to have significant market power on the market of unbundled access to its Fiber-to-the-Home network. Furthermore, KPN has been designated as having significant market power on the retail telephony markets for two and more simultaneous calls, for which a price squeeze test is

imposed. On the market for low quality wholesale broadband access, obligations for KPN have been lifted. Appeals to some of the conclusions of OPTA are ongoing.

Draft decisions for the markets Fiber-to-the-Office (FttO) and Wholesale Broadband Access (high quality) and Leased Lines 2012 were published on 14 September 2012. Contrary to its earlier findings OPTA now intends to designate KPN as having significant market power on these markets. Appeals to OPTA's decision of 20 December 2011 to not regulate the Dutch television markets are ongoing.

#### **Germany: Update on MTA regulation**

On 30 November 2012, the current regulation of MTA will expire. BNetzA's preliminary decisions for the period as of 1 December 2012 are expected to be published on 16 November 2012.

#### **Belgium: Update on MTA regulation**

In its final decision in relation to MTA regulation BIPT imposed an asymmetric glide path between Proximus (Belgacom), Mobistar and KPN Group Belgium. Requests for suspension and annulment against the decision were both rejected by the relevant Court. In May 2012, the Brussels Court of Appeal overruled the substantive arguments raised by KPN Group Belgium and Mobistar in the annulment procedure, but has asked a prejudicial question to the Belgian Constitutional Court on formal issues.

#### **[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 2011 Annual Report, including major shareholders. In the nine months ended 30 September 2012, there have been no changes in the type of related party transactions as described in the 2011 Annual Report that could have a material effect on the financial position or performance of KPN. Neither have any related party transactions taken place in the first nine months of 2012 that have materially affected the financial position or the performance of KPN, apart from the acquisition of 100% of the shares in Lijbrandt Telecom Holding B.V., Glashart Media B.V. and Reggefiber Wholesale B.V. from Reggefiber Group B.V., in which KPN holds 41% of the shares.

On 28 June 2012, América Móvil, S.A.B. de C.V. notified that they held 27.47% of the shares and voting rights related to KPN's ordinary share capital. To KPN's knowledge, no other shareholder owned 5% or more of KPN's outstanding shares as at 30 September 2012.

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

On 17 October 2012, the Dutch competition authority ("NMa") announced the approval of the acquisition of FttH service providers Edutel, XMS, KickXL and Concepts ICT from Reggeborgh. The transactions were completed on 19 October 2012. The four fiber service providers have a customer base of ~120k FttH customers, leading to a ~1.8% increase in KPN's broadband market share to ~41%. Following completion of the transaction KPN will have a FttH customer base of more than 300k, significantly increasing FttH penetration in KPN's fiber areas to ~29%.

## **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 total 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 2011.*