Financial report Q2 2012, 24 July 2012

Half Year Results 2012

Highlights

- Confirming 2012 EBITDA, Capex and FCF outlook
- Maintaining prudent financial framework in challenging financial markets, dividend per share to EUR 0.35
- Important steps taken in reinforcing brand positioning Consumer Mobile
- Leading TV proposition in Dutch market, Fiber-to-the-Home penetration increasing
- Good progress in FTE reduction program
- Promising introduction of postpaid all-net flat propositions in Germany
- Continued strong profitable growth in Belgium, sale process started

Group financials*	**Q2 2012**	**Q2 2011**	**Δ y-on-y**	**HY 2012**	**HY 2011**	**Δ HY**
(In millions of euro unless indicated otherwise)			**reported**			**reported**
Revenues and other income	**3,192**	**3,290**	***-3.0%***	**6,383**	**6,525**	***-2.2%***
- Of which revenues	*3,154*	*3,276*	*-3.7%*	*6,312*	*6,471*	*-2.5%*
EBITDA	**1,139**	**1,308**	***-13%***	**2,243**	**2,577**	***-13%***
EBITDA margin	*35.7%*	*39.8%*		*35.1%*	*39.5%*	
Restructuring costs	51	13	*>100%*	70	23	*>100%*
EBITDA (excl. restructuring costs)	**1,190**	**1,321**	***-9.9%***	**2,313**	**2,600**	***-11%***
Operating profit (EBIT)	591	744	*-21%*	1,155	1,456	*-21%*
Profit for the period (net result)**	315	414	*-24%*	603	1.005	*-40%*
Earnings per share (in EUR)**	**0.23**	**0.28**	***-18%***	**0.43**	**0.67**	***-36%***
Cash flow from operating activities	948	1,200	*-21%*	1,346	1,665	*-19%*
Capital expenditures (PP&E and software)	-507	-515	*-1.6%*	-967	-897	*7.8%*
Proceeds from real estate	1	15	*-93%*	38	62	*-39%*
Tax recapture at E-Plus	92	92	*0.0%*	154	153	*0.7%*
Free cash flow	**534**	**792**	***-33%***	**571**	**983**	***-42%***

* All non-IFRS tems are explained in the safe harbor section at the end of the condensed financial report
** Profit for the period and earnings per share in HY 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

"KPN posted a satisfactory operational performance in the first half of 2012. In The Netherlands, despite the ongoing pressure on results from difficult market conditions, we are driving forward the accelerated investment strategy to strengthen our market positions across segments. In Consumer Mobile, our new propositions and enhanced distribution footprint are gaining good traction. In Consumer Residential, our TV market share and FttH penetration are increasing, benefiting from the investments in copper upgrades and FttH roll-out. In Germany and Belgium we maintained growth in service revenues and customers including postpaid, while continuing to extend our high speed networks and launch attractive new propositions to drive future growth.

In the second quarter, we concluded the strategic reviews of our German and Belgian businesses. We have an even stronger belief in the significant value of E-Plus. We have started the sale process for BASE in Belgium. BASE is a successful challenger with excellent momentum for continued upside; we expect a sale price to recognise that. Maximizing value for our shareholders remains the core of our approach to portfolio management and capital allocation.

Maintaining a prudent financial framework is essential in the current financial markets. We announce a reduction in the outlook for the full year 2012 dividend per share to EUR 0.35 and a 2013 dividend per share outlook of at least EUR 0.35. We will pay an interim 2012 dividend per share of EUR 0.12 in August. We don't take this pre-emptive step lightly. The economic prospects in The Netherlands continue to be difficult and we are outside our self-imposed financial framework range. Today, it is even more important to strike the right balance between a prudent financial framework, continued investments and sustainable shareholder remuneration. This will support our credit ratings and enhance our financial flexibility. Our EBITDA, Capex and free cash flow guidance for full year 2012 are confirmed.

To conclude, we will continue a constructive dialogue with our new large shareholder, América Móvil. We will explore diligently any potential areas of cooperation that are viable, value accretive, in line with our strategy and in the interests of all shareholders and other stakeholders."

Group review

Revenues and other income *(In millions of euro)*	Q2 2012	Q2 2011	Δ y-on-y reported	Δ y-on-y underlying[1]	HY 2012	HY 2011	Δ HY reported	Δ HY underlying[1]
- Consumer Mobile	444	490	*-9.4%*	*-8.8%*	871	970	*-10%*	*-8.6%*
- Consumer Residential	457	479	*-4.6%*	*-2.4%*	915	958	*-4.5%*	*-3.4%*
- Business	601	615	*-2.3%*	*0.3%*	1,199	1,229	*-2.4%*	*-0.7%*
- NetCo	635	684	*-7.2%*	*-6.1%*	1,299	1,382	*-6.0%*	*-5.1%*
- Other (incl. eliminations)	-519	-563	*-7.8%*	*-7.8%*	-1,040	-1,130	*-8.0%*	*-8.0%*
Dutch Telco business	**1,618**	**1,705**	***-5.1%***	***-2.9%***	**3,244**	**3,409**	***-4.8%***	***-3.0%***
- Corporate Market	366	439	*-17%*	*0.0%*	794	888	*-11%*	*-2.0%*
- Other gains/losses, eliminations	-77	-72	*6.9%*	*6.9%*	-155	-152	*2.0%*	*2.0%*
The Netherlands	**1,907**	**2,072**	***-8.0%***	***-2.7%***	**3,883**	**4,145**	***-6.3%***	***-3.0%***
iBasis	**261**	**246**	***6.1%***	***6.1%***	**516**	**472**	***9.3%***	***9.3%***
- Germany	842	803	*4.9%*	*2.9%*	1,636	1,576	*3.8%*	*2.8%*
- Belgium	207	194	*6.7%*	*13%*	398	380	*4.7%*	*9.6%*
- Rest of World	61	79	*-23%*	*-23%*	121	148	*-18%*	*-18%*
- Other (incl eliminations)	-28	-31	*-9.7%*	*-9.7%*	-53	-59	*-10%*	*-10%*
Mobile International	**1,082**	**1,045**	***3.5%***	***3.0%***	**2,102**	**2,045**	***2.8%***	***2.9%***
Other activities	**18**	**18**	***0.0%***	***0.0%***	**37**	**34**	***8.8%***	***8.8%***
Intercompany revenues	**-76**	**-91**	***-16%***	***-16%***	**-155**	**-171**	***-9.4%***	***-9.4%***
KPN Group	**3,192**	**3,290**	***-3.0%***	***0.3%***	**6,383**	**6,525**	***-2.2%***	***0.0%***

EBITDA *(In millions of euro)*	Q2 2012	Q2 2011	Δ y-on-y reported	Δ y-on-y underlying[1]	HY 2012	HY 2011	Δ HY reported	Δ HY underlying[1]
- Consumer Mobile	134	141	*-5.0%*	*-5.9%*	228	286	*-20%*	*-20%*
- Consumer Residential	80	134	*-40%*	*-19%*	186	265	*-30%*	*-19%*
- Business	200	202	*-1.0%*	*5.8%*	397	397	*0.0%*	*7.1%*
- NetCo	345	422	*-18%*	*-13%*	732	850	*-14%*	*-12%*
- Other (incl. eliminations)	-5	-7	*-29%*	*-50%*	-8	-9	*-11%*	*-38%*
Dutch Telco business	**754**	**892**	***-15%***	***-8.1%***	**1,535**	**1,789**	***-14%***	***-10%***
EBITDA margin	*46.6%*	*52.3%*			*47.3%*	*52.5%*		
- Corporate Market	24	15	*60%*	*-5.6%*	28	46	*-39%*	*-64%*
- Other gains/losses, eliminations	-	2	*-100%*	*-100%*	-	1	*-100%*	*-100%*
The Netherlands	**778**	**909**	***-14%***	***-8.4%***	**1,563**	**1,836**	***-15%***	***-11%***
EBITDA margin	*40.8%*	*43.9%*			*40.3%*	*44.3%*		
iBasis	**7**	**10**	***-30%***	***-30%***	**14**	**17**	***-18%***	***-18%***
- Germany	335	334	*0.3%*	*-4.5%*	638	635	*0.5%*	*-2.0%*
- Belgium	74	64	*16%*	*25%*	134	121	*11%*	*20%*
- Rest of World	-5	-2	*>100%*	*n.m.*	-10	-6	*67%*	*>100%*
- Other (incl. eliminations)	-2	1	*n.m.*	*n.m.*	-1	-	*n.m.*	*n.m.*
Mobile International	**402**	**397**	***1.3%***	***-2.0%***	**761**	**750**	***1.5%***	***0.3%***
EBITDA margin	*37.2%*	*38.0%*			*36.2%*	*36.7%*		
Other activities	**-48**	**-8**	**>100%**	**>100%**	**-95**	**-26**	**>100%**	**>100%**
KPN Group	**1.139**	**1.308**	**-13%**	**-9.3%**	**2,243**	**2,577**	**-13%**	**-11%**

[1] 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 10

Revenue decline The Netherlands partly offset by good performance at international businesses

KPN Group revenues and other income were 3.0% or EUR 98m lower y-on-y due to a decline in The Netherlands partly offset by increased revenues in Germany, Belgium and iBasis. Underlying revenues and other income increased by 0.3%. The impact on Group revenues from regulation in Q2 2012 was EUR 33m y-on-y (1.0%). Group revenues included a net negative impact from acquisitions and disposals of EUR 72m, mainly resulting from the sale of Getronics International. Incidentals in Q2 2012 included book gains from the sale of SNT Inkasso in Germany (EUR 16m), the sale of Getronics International (EUR 8m) and an adjustment of deferred revenues at Consumer Mobile (EUR 7m). In Q2 2011 the incidentals related to a release of deferred revenues at Consumer Residential (EUR 11m) and Business (EUR 10m) and a book gain on the sale of assets at NetCo (EUR 11m).

The Netherlands showed a revenue decline as a result of continued difficult market conditions and regulation. Consumer Mobile remained exposed to regulation and changing customer behavior, resulting in lower service revenues. In Consumer Residential, decline of the fixed voice customer base put pressure on revenues. Revenues at NetCo decreased due to lower traffic across all segments. The revenue decline at Corporate Market was fully attributable to the sale of Getronics International. Both Germany and Belgium showed healthy revenue growth driven by an increasing customer base.

KPN Group profitability impacted by lower revenues and investments to strengthen the Dutch businesses

KPN Group EBITDA decreased by 13% or EUR 169m y-on-y. Underlying EBITDA decreased by 9.3%. EBITDA was impacted by regulation of EUR 13m and restructuring costs of EUR 51m (Q2 2011: EUR 13m). Q2 2012 included book gains for the sale of SNT Inkasso in Germany (EUR 16m), the sale of Getronics International (EUR 8m), release of deferred revenues at Consumer Mobile (EUR 7m) and a release of an accrual at NetCo (EUR 5m), however the net positive effect of incidentals compared to Q2 2011 was only EUR 5m. EBITDA was impacted by the financial performance of Dutch Telco, resulting from a decline in high margin traditional services, investments to strengthen the domestic market positions and difficult market conditions. Furthermore, pension costs were EUR 22m higher y-on-y of which EUR 17m was related to actuarial losses at the 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. No further costs related to these losses are expected after 2012.

EBIT decreased by EUR 153m (21%) y-on-y, due to the decrease in EBITDA partly offset by lower depreciation and amortization. Net profit decreased by EUR 99m y-on-y to EUR 315m in Q2 2012 as a result of the EBIT decline, partly compensated by a lower tax expense in Q2 2012 compared to Q2 2011, when an adjustment of EUR -32m had been recorded relating to innovation tax facilities.

Free cash flow YTD at EUR 571m

Free cash flow for the first half of 2012 amounted to EUR 571m (compared to Q2 YTD 2011: EUR 983m). The decrease compared to last year is explained by lower EBITDA (EUR -334m), higher Capex (EUR -70m) and higher tax payments (EUR -187m), partly offset by less negative change in provisions (EUR 155m) and change in working capital position (67m). The higher tax payments are mainly the result of higher benefits resulting from the application of innovation tax facilities last year (EUR 237m in 2011 driven by a one-off, compared to EUR 36m in 2012). The change in provisions included lower restructuring payments (EUR 18m) and higher additions were made to the restructuring provision (EUR 47m). Furthermore, the impact from change in pension provisions was less negative (EUR 72m), mainly due to actuarial losses in the UK and US (EUR 36m).

Capex YTD at EUR 967m

Capex for the first half of 2012 was EUR 70m higher compared to the first half of 2011 driven by the continuation of the high speed data network roll-out in Germany and Belgium and increased investments to strengthen the Dutch market positions. At Dutch Telco, the increase related mainly to additional customer driven investments (TV and FttH activations and handsets) and investments to improve quality, partly offset by increased efficiency through quality improvements and better procurement terms.

Net debt to EBITDA[2] ratio at 2.6x

Net debt at the end of Q2 2012 amounted to EUR 12.4bn, compared to EUR 11.8bn at the end of Q1 2012. Net debt increased in Q2 2012, mainly as a result of the final dividend payment in Q2 2012 and cash phasing through the year.

[2] 12 month rolling total excluding book gains/losses, release of pension provisions and restructuring costs, when over EUR 20m

Combined with a lower EBITDA over the last twelve months, this resulted in an increase in the net debt to EBITDA ratio to 2.6x (Q1 2012: 2.4x). As outlined in the outlook section KPN is taking action to support its financial framework.

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 99%

At the end of Q2 2012, the average coverage ratio of the KPN pension funds in The Netherlands was 99% compared to 101% at the end of Q1 2012. The decrease in coverage ratio was driven by a decrease in interest rates. In Q2 2012, recovery payments of EUR 19m were made. Based on the coverage ratios at the end of Q1 and Q2 2012, recovery payments of EUR 22m and EUR 20m are required in Q3 and Q4 2012 respectively.

Financial and operating review by segment

Strategic progress in The Netherlands on track

The execution of the strategy for The Netherlands, which was announced at the Investor Day in May last year and re-emphasized in January 2012 is on track. Financial results continued to be impacted by difficult market conditions in The Netherlands, but a number of major strategic initiatives have been implemented to strengthen the Dutch market positions. In Q2 2012 reported revenues and other income at Dutch Telco decreased by 5.1% or EUR 87m, including a regulatory impact of EUR 23m. Underlying revenues declined by 2.9% mainly as a result of the ongoing change in customer behavior in Consumer Mobile and lower traffic across all segments impacting NetCo's performance.

Reported EBITDA in Dutch Telco Q2 2012 was EUR 754m, 15% or EUR 138m lower y-on-y. Underlying EBITDA decreased by 8.1%. Reported EBITDA was impacted by EUR 87m lower revenues, EUR 40m higher restructuring costs, net negative impact from incidentals of EUR 20m and a regulatory impact of EUR 8m. The EBITDA margin decreased to 46.6% (Q2 2011: 52.3%). Operating expenses excluding depreciation & amortization and restructuring costs in Dutch Telco were up 1.4% y-on-y as a result of investments to strengthen the market positions in The Netherlands.

Further improvements in the underlying cost structure for The Netherlands are planned. The expected cost savings are related to efficiency and quality improvements within the organization. Efficiency will be realized by delayering and simplifying the organizational model and by focusing on quality improvements within customer processes. On the other hand, customer facing staff is being expanded and improved to strengthen domestic market positions. Since the start of the FTE reduction program last year, EUR 195m restructuring costs have been recorded up to the end of Q2 2012 relating to approximately 2,500 FTE. This includes EUR 9m restructuring costs that have been recorded in Q2 related to the corporate center departments. The FTE reduction will be achieved through efficiency, outsourcing and off-shoring.

Capex in The Netherlands is being reallocated to increase the relative percentage of customer driven investments, such as TV and FttH activations, set top boxes and handsets, within the mix of total investments. A large scale roll-out of LTE will start this year, increasing the mobile network investments in The Netherlands. Furthermore, investments are being made to improve the quality of customer processes, which will lead to efficiency savings in the medium-term. The higher investments are partly offset by quality and procurement savings.

Consumer Mobile postpaid net adds growth supported by new propositions

Underlying revenues and other income were down 8.8% y-on-y, impacted by continued changing customer behavior, partly offset by higher data revenues. Underlying EBITDA margin is slightly up at 29.3% (Q2 2011: 28.4%), supported by the introduction of new commercial propositions, including a handset lease model. Retail postpaid net adds grew to 30k supported by the new propositions of Hi (launched in March) and Telfort (launched in April) and increased commercial activities. In total, the postpaid base ended the quarter with 3.5m customers, up 1% y-on-y, while the total Dutch service revenue market share remained stable around 45%. The prepaid market segment remained under pressure due to the continued competition in the ethnic segment and SIM only pressure. As a result the prepaid base declined to 4.1m customers, down 6.5% y-on-y. Retail postpaid ARPU was lower y-on-y at EUR 36, while the percentage committed ARPU improved to ~63%, up 8 percentage points y-on-y.

Consumer Mobile's strategic initiatives and objectives are on track. The market position was strengthened through the launch of new propositions, offering customers transparency, simplicity and flexibility. The handset lease model provides choice of handset without upfront cost. The customer feedback regarding the new Hi and Telfort propositions is positive; as evidenced by Hi, which received the customer centric DNA award 2012. The new propositions for the KPN brand will be launched on 30 July, offering unlimited calling / SMS. Furthermore new wholesale partnerships have been launched to target niche market segments.

The distribution footprint was strengthened further in the second quarter. The roll-out includes, in addition to two XL shops with a full service concept, the first three multi-brand shops targeting the more rural areas. The improved service of the KPN shops has been rewarded with the best telecom retailer 2012 awarded by Connexie[3]. Moreover, customer satisfaction is improving, underpinned by all-time high Net Promoter Scores (NPS). Various value added services such as Spotify, HD voice, Mobile Security and Cloud Services have been launched so far this year and continued improvements are being made through quality programs.

Market leading TV proposition supporting broadband market share at Consumer Residential

Underlying revenues and other income at Consumer Residential fell by 2.4% y-on-y due to declining voice revenues combined with pressure on broadband market share. Underlying EBITDA decreased 19% y-on-y as a result of declining revenues, increasing content costs for TV due to a shift from standard to premium packages, commercial investments and a continued decline in higher margin traditional services, resulting in an underlying EBITDA margin of 21.9% (Q2 2011: 26.3%). In Q2 2012, progress was made with the FTE reduction program to de-layer the organization and to increase the focus on business initiatives. Restructuring costs of EUR 20m have been recorded in Q2 2012. The FTE reduction program will result in accelerated FTE reductions in the second half of 2012, thereby structurally lowering the cost base.

IPTV and FttH activations continued to grow in Q2 2012. KPN has taken major steps to improve its TV proposition in the last years, evidenced by consumer feedback that KPN now has the market leading IPTV proposition in The Netherlands[4] resulting in a positive and increasing NPS score. The TV proposition is supported by value added services, improved user experience and enrichment of the TV packages. The IPTV net adds were 89k this quarter and resulted in a TV market share of 19%, up 3%-points y-on-y.

FttH activations accelerated in Q2 2012 with 39k net adds, partly supported by the acquisition of Lijbrandt (13k). The penetration level increased in all FttH areas, evidenced by successful demand aggregation in new fiber areas and penetration growth in existing areas. Overall the penetration level of FttH increased to 17% in Q2 2012[5], 7%-points higher y-on-y. FttH areas[6] continued to show good performance as the broadband market share development was 8%-points better after one year compared to the national average and the blended copper / FttH ARPU was approximately EUR 12 higher as a result of higher value packages in FttH areas.

Revenue Generating Units per customer increased to 1.97 (Q2 2011: 1.87) reflecting the continued growth in triple play propositions as a percentage of the total customer base. ARPU per customer remained relatively stable at EUR 39 supported by a shift from standard to premium packages.

The broadband customer base trend improved in Q2 2012, supported by an increasing triple play customer base (753k versus 565k in Q2 2011). The number of broadband customers remained stable, excluding the 12k additions when acquiring Lijbrandt. Stabilization of the broadband customer base is expected in the second half of 2012. Net line loss in Q2 this year was, at 20k, lower than in the same quarter last year (Q2 2011: 45k), supported by the acquisition of Lijbrandt. In order to enable the offering of enriched TV propositions to a wider customer base and further improving the user experience, KPN is continuously upgrading its copper network. The upgrades of the copper network are aligned with the regional market approach, as network upgrades are first implemented in target areas. The regional approach is on track and has yielded good initial results with improving broadband market share developments in targeted areas. The approach is continuously refined and acceleration is scheduled for the second half of the year.

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[3] Largest telecom magazine in The Netherlands
[4] Independent research by Blauw Research (June 2012)
[5] FttH penetration is defined as KPN FttH HA divided by KPN areas HP
[6] Based on all fiber areas, end of year 2011, which had been rolled-out for at least one year

Business impacted by decline traditional services

Underlying revenues and other income for the Business segment remained flat y-on-y in Q2 2012, mainly driven by continued decline in traditional wireline services and price pressure in the wireless services, offset by increasing revenues from wireless data and hardware sales. KPN has maintained its leading position in the business market by employing a multi-brand approach to address diverging needs of customers. The four brands, KPN, Telfort, XS4ALL and Yes Telecom, target the different customer segments: corporate clients, large enterprises, SME and SoHo, with unique propositions.

In wireless, data performance was good, with an increasing customer base and increased usage leading to mobile data revenue growth. ARPU decreased to EUR 39 (Q2 2011: EUR 43) as it was negatively impacted by regulation, SMS decline and the mix effect of voice versus M2M and data customers. To counter this negative trend KPN introduced a new mobile proposition for corporate clients, large enterprises and SME in June. The Business challenger brands (Telfort / Yes Telecom) showed good performance in Q2 2012.

Traditional wireline services showed a decline in access lines and traffic, leading to a 7.1% decline in revenues y-on-y. The migration from traditional to IP based services continued steadily, with lower prices and margins. KPN continued its focus on the performance of new portfolios, flat fee propositions, a granular market approach supported by verticals and its challenger brands.

Underlying EBITDA increased by 5.8% compared to Q2 2011 supported by lower operational costs. The underlying EBITDA margin increased to 33.4% (Q2 2011: 31.7%).

Continued network upgrades at NetCo

Underlying revenues and other income at NetCo decreased 6.1% y-on-y, caused by ongoing decline of traditional services and lower traffic across all segments. Underlying EBITDA decreased 13% as a result of lower revenues and higher costs related to the uptake of FttH activations, resulting in a decreased underlying EBITDA margin of 57.2% (Q2 2011: 61.5%). NetCo made good progress with its FTE reduction program and restructuring costs of EUR 17m were recorded in Q2 2012. The NetCo organization will be flattened resulting in FTE reductions, leading to an increased focus on business initiatives.

NetCo continued upgrading the copper network in Q2 2012. The copper network upgrades are on track with VDSL upgrades and roll-out of VDSL to the outer-rings and pair bonding started in June. At the end of 2012, 70% of the Dutch market will be covered with minimum guaranteed speeds of 40Mbps; Q2 2012 coverage was 53% of the Dutch market. The FttH roll-out, through the Reggefiber joint-venture, continued as planned. The number of homes passed in Q2 2012 increased to 1,078k (Q2 2011: 768k).

A large scale roll-out of LTE will start this year, as part of the mobile network upgrade. KPN's leading mobile network position is confirmed by the #1 position for both 2G voice quality and 3G coverage during the national benchmark.

Good progress FTE reduction program at Corporate Market

In Q2 2012 the sale of Getronics International was completed, resulting in a one-off book gain of EUR 8m. As of 1 May 2012 revenues and EBITDA of the international activities are no longer incorporated. Underlying revenues and other income was flat y-on-y. Underlying EBITDA decreased 5.6%, mainly as a result of continued price pressure. Underlying EBITDA margin declined from 5.0% in Q2 2011 to 4.7% in Q2 2012.

To maintain its leading market position, Corporate Market continued the implementation of its efficiency and off-shoring programs in order to further reduce its personnel costs and achieve more cost flexibility. The programs are expected to result in an overall FTE reduction of between 2,000 - 2,500 FTE. Total restructuring costs under the FTE reduction program amounted to EUR 100m recorded up to the end of Q2 2012 and related to around 1,450 FTE. The majority of the remaining restructuring costs are expected in the second half of 2012.

The adverse macro-economic situation persisted in 2012, negatively impacting the ICT markets. Clients continued to postpone larger investment decisions. More deals were closed in this quarter, however the trend for smaller deals continued. A positive exception is the transaction that Corporate Market closed with UWV[7], worth more than EUR 100m and ranked amongst the largest so far awarded this year in the Dutch ICT outsourcing market.

Despite pressure on revenues, Corporate Market expects to have maintained its market leading position in The Netherlands in Q2 2012 as revenue developments are in line with competition.

Increased revenues with stable margins at iBasis

Revenues and other income at iBasis increased by 6.1% y-on-y, including a favorable currency effect of 4.4%. Total number of minutes (6.3%) increased y-on-y. The EBITDA margin was stable at 2.7% compared to the last few quarters. iBasis retained its top 5 position in the international wholesale voice traffic market, despite challenging market conditions.

Promising introduction of postpaid all-net flat propositions in Germany

Compared to Q2 2011, underlying revenues and other income in Germany increased by 2.9% in Q2 2012 driven by underlying service revenue growth of 3.0%. Service revenue growth was fuelled by continued growth of customers at BASE, new propositions and the focus on data in the postpaid segment (data service revenue grew by 39% y-on-y). In Q2 2012, new all-net flat propositions were introduced to target a largely untapped market segment, the no-frills postpaid segment. These new propositions offer value for money all-net flat propositions and support further growth in data service revenues. In April, the new brand yourfone was introduced to be the first E-Plus brand to target the no-frills postpaid market, as part of the overall multi-brand strategy. The established brands simyo and Blau followed in respectively May and June with attractive all-net flat propositions. The propositions are based on simplicity and transparency with online as the key distribution channel.

The underlying EBITDA margin decreased from 41.6% in Q2 2011 to 38.6% in Q2 2012, impacted by commercial investments to support the introduction of the new propositions. These investments will continue to support further growth in Germany. The promising introduction of the all-net flat propositions was evidenced by significantly higher postpaid net adds of 179k in Q2 2012 (Q1 2012: 105k, Q2 2011: 102k). 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. In June, new Aldi talk tariffs were launched to exploit market leadership in voice / SMS towards voice / SMS / data. E-Plus' market share in service revenues slightly increased to 15.9% (Q2 2011: 15.8%) in the second quarter.

In Q2 2012, E-Plus continued with the accelerated roll-out of its high speed mobile data network. E-Plus' strategy is to build a high speed data network for the needs of the mass market. E-Plus is well positioned to achieve its strategic objective through a unique spectrum position with four blocks in a row in the 2.1GHz band, the highest of all German operators. An advantage of a high number of spectrum blocks is that it allows for capacity extension when demand increases with less than proportional extra costs. This spectrum position, in combination with supplier partnerships, allows for continued cost-leadership. The HSPA+ roll-out is on track to reach the target of more than 80% population coverage with speeds of up to 42Mbps by the end of 2012. The current focus is on HSPA+ and roll-out of LTE will depend on customer demand for data capacity and will start in the period 2013 - 2014. Furthermore, in June BNetzA announced that E-Plus is allowed to flexibly use all its 1.8GHz frequencies. This means the usage of these frequencies is no longer restricted to GSM, E-Plus may now also use them for other technologies including LTE.

Continued strong profitable growth in Belgium

Underlying revenues and other income in Belgium increased by 13% y-on-y. Underlying service revenues increased by 12% y-on-y to EUR 180m. The continued strong mobile service revenue growth was fuelled by mobile data, B2B, wholesale and interconnect traffic. Underlying EBITDA margin in Q2 2012 was strong at 35.7% and higher y-on-y (Q2 2011: 32.1%) driven by cost discipline in combination with growing revenues. Underlying EBITDA growth was very strong at 25%.

In Q2 2012, total net adds amounted to 136k with postpaid net adds of 4k and the prepaid base showing strong net adds of 132k. KPN Group Belgium is expected to have outperformed the market again, and to have reached a service revenue market share of >19%.

[7] Dutch government agency responsible for social security

Q2 was an important quarter in which KPN Group Belgium introduced several commercial initiatives to further strengthen its challenger position. In May ‘Your Mobile Freedom’ was launched and a new proposition (BASE ID) was introduced in June. With the launch of ‘Your Mobile Freedom’, contract duration no longer exists for all current and future retail customers. This initiative further solidifies KPN Group Belgium’s already highest customer satisfaction rates. BASE ID is a new concept in the Belgian market, providing customers the freedom to compose their own bundle and thereby improving flexibility and transparency. Both commercial initiatives are expected to further support growth in Belgium.

KPN Group Belgium reached an important milestone by fulfilling and exceeding its 3G population outdoor coverage obligation of 85% (89.2%). Furthermore, new 3G sites were commercially opened in 60 cities / municipalities and business areas in Q2 2012. The continued high speed commercial data roll-out supported data growth via own and partner brands. The next step is to further improve data network coverage by accelerating the roll-out of HSPA via 900MHz.

Aligning focus of Rest of World

Revenues of Rest of World declined by 23%, EBITDA was EUR 5m negative, in line with the previous quarter, as a result of intense competition in the ethnic segment and the sale of KPN France in Q4 2011. Despite the tough competitive environment in which Ortel Mobile is operating, q-on-q EBITDA was relatively stable. 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
EBITDA[8]	EUR 4.7 - 4.9bn
Capex	EUR 2.0 - 2.2bn
Free cash flow[9]	EUR 1.6 - 1.8bn
Dividend per share[10]	EUR 0.35

2012 is an important year for KPN to strengthen its domestic market positions. KPN aims to stabilize its market share in Consumer Mobile and keep the Business market share stable, while it is expected that the broadband market share will bottom-out towards the end of 2012. The accelerated investment strategy in The Netherlands is on track, supporting sustainable profit levels from end-2012. Important steps have been taken in reinforcing the brand positioning in Consumer Mobile. Consumer Residential now has the leading TV proposition in the Dutch market and the FttH penetration is increasing, further supporting the broadband market share. In the international businesses KPN continues its challenger strategy with new innovative propositions introduced in Germany and Belgium. The financial results for the first half of 2012 are in line to realize the 2012 outlook on EBITDA, Capex and free cash flow. KPN is adjusting its dividend per share outlook to EUR 0.35 for 2012 to balance a sustainable dividend level with increased financial flexibility. KPN also announces a dividend per share outlook of at least EUR 0.35 for 2013. The economic outlook continues to be difficult and the net debt to EBITDA ratio in Q2 was outside the targeted range. Maintaining a prudent financial framework is essential in the current environment. Retained cash will be used to support the financial framework.

KPN is committed to shareholder value creation by striking the right balance between a prudent financing policy, investments and sustainable 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 beliefs that these risks similarly apply for the last six months of 2012.

With respect to regulatory risk, reference is made to note [12] regulatory developments and with regard to related parties reference is made to note [13] related parties of the Condensed Consolidated Interim Financial Statements for the six months ended 30 June 2012.

[8] Excluding restructuring costs
[9] Free cash flow defined as cash flow from operating activities, plus proceeds from real estate, minus Capex and excluding E-Plus tax recapture
[10] Subject to approval by the Annual General Meeting

Analysis of underlying results

Consolidated figures	Q2 2012	*Result*		Q2 2012	Q2 2011		*Result*		Q2 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	842		*16*	826	803				803	4.9%	2.9%
Belgium	207			207	194	*-10*			184	6.7%	13%
Rest Of World	61			61	79				79	-23%	-23%
Other (including eliminations)	-28			-28	-31				-31	-9.7%	-9.7%
Mobile International	**1,082**		***16***	**1,066**	**1,045**	***-10***			**1,035**	**3.5%**	**3.0%**
Consumer Mobile	444		*7*	437	490	*-11*			479	-9.4%	-8.8%
Consumer Residential	457			457	479			*11*	468	-4.6%	-2.4%
Business	601			601	615	*-6*		*10*	599	-2.3%	0.3%
NetCo	635	*9*		626	684	*-6*		*11*	667	-7.2%	-6.1%
Other (incl. eliminations)	-519			-519	-563				-563	-7.8%	-7.8%
Dutch Telco Business	**1,618**	***9***	***7***	**1,602**	**1,705**	***-23***		***32***	**1,650**	**-5.1%**	**-2.9%**
Corporate Market	366		*8*	358	439		*81*		358	-17%	0.0%
Other gains/losses, eliminations	-77			-77	-72				-72	6.9%	6.9%
The Netherlands	**1,907**	***9***	***15***	**1,883**	**2,072**	***-23***	***81***	***32***	**1,936**	**-8.0%**	**-2.7%**
iBasis	**261**			**261**	**246**				**246**	**6.1%**	**6.1%**
Eliminations	-76			-76	-91				-91	16%	16%
Other activities	18			18	18				18	0.0%	0.0%
Revenues and Other income	**3,192**	***9***	***31***	**3,152**	**3,290**	***-33***	***81***	***32***	**3,144**	**-3.0%**	**0.3%**

Consolidated figures	Q2 2012	*Result*		Q2 2012	Q2 2011		*Result*		Q2 2011	Δ y-on-y	Δ y-on-y
EBITDA	**Reported**	*M&A*	*Incidentals*[11]	**Underlying**	**Reported**	*Regulation*	*M&A*	*Incidentals*[10]	**Underlying**	**Reported**	**Underlying**
Germany	335		*16*	319	334				334	0.3%	-4.5%
Belgium	74			74	64	*-5*			59	16%	25%
Rest Of World	-5			-5	-2				-2	>100%	n.m.
Other (including eliminations)	-2			-2	1			*-2*	3	n.m.	n.m.
Mobile International	**402**		***16***	**386**	**397**	***-5***		***-2***	**394**	**1.3%**	**-2.0%**
Consumer Mobile	134		*6*	128	141	*-5*			136	-5.0%	-5.9%
Consumer Residential	80		*-20*	100	134			*11*	123	-40%	-19%
Business	200		*-1*	201	202	*-2*		*10*	190	-1.0%	5.8%
NetCo	345	*-1*	*-12*	358	422	*-1*		*11*	410	-18%	-13%
Other (incl. eliminations)	-5		*-2*	-3	-7			*-1*	-6	-29%	-50%
Dutch Telco Business	**754**	***-1***	***-29***	**784**	**892**	***-8***		***31***	**853**	**-15%**	**-8.1%**
Corporate Market	24		*7*	17	15		*4*	*-7*	18	60%	-5.6%
Other gains/losses, eliminations	-			-	2			*-1*	3	-100%	-100%
The Netherlands	**778**	***-1***	***-22***	**801**	**909**	***-8***	***4***	***23***	**874**	**-14%**	**-8.4%**
iBasis	**7**			**7**	**10**				**10**	**-30%**	**-30%**
Other activities	-48		*-9*	-39	-8			*-3*	-5	>100%	>100%
EBITDA	**1,139**	***-1***	***-15***	**1,155**	**1,308**	***-13***	***4***	***18***	**1,273**	**-13%**	**-9.3%**

[11] Including restructuring costs

Condensed Consolidated Interim Financial Statements for the six months ended 30 June 2012 and 2011

Unaudited Consolidated Statement of Income

(in millions of euro, unless indicated otherwise)	For the three months ended 30 June		For the six months ended 30 June	
	2012	**2011**	**2012**	**2011**
Revenues	3,154	3,276	6,312	6,471
Other income	38	14	71	54
Revenues and other income [1]	**3,192**	**3,290**	**6,383**	**6,525**
Own work capitalized	-29	-30	-57	-59
Cost of materials	236	232	500	490
Work contracted out and other expenses	1,142	1,136	2,285	2,242
Employee benefits	480	471	1,012	948
Depreciation, amortization and impairments	548	564	1,088	1,121
Other operating expenses	224	173	400	327
Total operating expenses	**2,601**	**2,546**	**5,228**	**5,069**
Operating profit [2]	**591**	**744**	**1,155**	**1,456**
Finance income	8	16	13	18
Finance costs	-181	-174	-359	-343
Other financial results	-4	-22	-18	-10
Finance income and expenses [3]	-177	-180	-364	-335
Share of the profit of associates and joint ventures, net of tax	-7	-12	-13	-11
Profit before income tax	**407**	**552**	**778**	**1,110**
Income taxes [4]	-92	-138	-175	-105
Profit for the period	**315**	**414**	**603**	**1,005**
Profit attributable to non-controlling interest	-	-	-	-
Profit attributable to equity holders	315	414	603	1,005
Earnings per ordinary share on a non-diluted basis (in EUR)	**0.23**	**0.28**	**0.43**	**0.67**
Earnings per ordinary share on a fully diluted basis (in EUR)	**0.23**	**0.28**	**0.43**	**0.67**
Weighted average number of shares on a non-diluted basis			1,418,808,437	1,494,173,616
Weighted average number of shares on a fully diluted basis			1,419,419,351	1,497,178,345

Unaudited Consolidated Statement of Comprehensive Income

(in millions of euro, unless indicated otherwise)	For the three months ending 30 June		For the six months ending 30 June	
	2012	**2011**	**2012**	**2011**
Profit for the period	**315**	**414**	**603**	**1,005**
Other comprehensive income:				
Cash flow hedges [5]:				
Gains or (losses) arising during the period	68	-	-222	20
Tax	-18	6	54	-5
	50	6	-168	15
Currency translation adjustments:				
Gains or (losses) arising during the period	-	-2	4	-6
Tax	-	-	-	-
	-	-2	4	-6
Fair value adjustment available for sale financial assets:				
Gains or (losses) through equity	-2	-1	1	-4
Impairment through the income statement	-	11	-	11
	-2	10	1	7
Other comprehensive income for the period, net of taxes	**48**	**14**	**-163**	**16**
Total comprehensive income for the year, net of tax	**363**	**428**	**440**	**1,021**
Total comprehensive income attributable to:				
Owners of the parent	363	428	440	1,021
Non-controlling interest	-	-	-	-

Unaudited Consolidated Statement of Financial Position

	As at	
ASSETS	**30 June 2012**	**31 December 2011**
(in millions of euro)	**(unaudited)**	
NON-CURRENT ASSETS		
Goodwill	5,590	5,575
Licenses	2,350	2,495
Software	795	852
Other intangibles	290	290
Total Intangible assets	**9,025**	**9,212**
Land and buildings	694	705
Plant and equipment	5,923	5,704
Other tangible non current assets	108	116
Assets under construction	1,047	1,008
Total property, plant and equipment	**7,772**	**7,533**
Investments in associates and joint ventures	247	261
Loans to associates	176	127
Available-for-sale financial assets	50	48
Derivative financial instruments	156	169
Deferred income tax assets	1,786	1,831
Other financial non-current assets	264	261
Total non-current assets	**19,476**	**19,442**
CURRENT ASSETS		
Inventories	132	123
Trade and other receivables	1,856	1,607
Current income tax receivables	1	1
Cash	878	990
Total current assets	**2,867**	**2,721**
Non-current assets and disposal groups held for sale [7]	**6**	**224**
TOTAL ASSETS	**22,349**	**22,387**

	As at	
LIABILITIES	**30 June 2012**	**31 December 2011**
(in millions of euro)	**(unaudited)**	
GROUP EQUITY		
Share capital	344	344
Share premium	6,717	6,717
Other reserves	-288	-127
Retained earnings	-4,209	-4,004
Equity attributable to owners of the parent	**2,564**	**2,930**
Non controlling interest		
Total group equity	**2,564**	**2,930**
NON-CURRENT LIABILITIES		
Borrowings [8]	12,079	11,641
Derivative financial instruments	233	229
Deferred income tax liabilities	623	793
Provisions for retirement benefit obligations	392	441
Provisions for other liabilities and charges	369	397
Other payables and deferred income	140	155
Total non-current liabilities	**13,836**	**13,656**
CURRENT LIABILITIES		
Trade and other payables	3,786	3,804
Borrowings [8]	1,760	1,458
Current income tax liabilities	259	218
Provisions (current portion)	144	129
Total current liabilities	**5,949**	**5,609**
Liabilities directly associated with non-current assets and disposal groups classified as held for sale [7]	-	192
TOTAL EQUITY AND LIABILITIES	**22,349**	**22,387**

Unaudited Consolidated Statement of Cash Flows

(in millions of euro)	For the six months 30 June	
	2012	**2011**
Profit before income tax	**778**	**1,110**
Adjustments for:		
- Net finance costs	364	335
- Share-based compensation	1	-14
- Share of the profit of associated and joint ventures	13	11
- Depreciation, amortization and impairments	1,088	1,121
- Other income	-58	-52
- Changes in provisions (excl. deferred taxes)	-53	-208
Changes in working capital relating to:		
- Inventories	-3	2
- Trade receivables	-14	-19
- Prepayments and accrued income	-140	-118
- Other current assets	28	34
- Trade payables	41	-42
- Accruals and deferred income	-52	-107
- Current liabilities (excl. short-term financing)	-59	-16
Change in working capital	**-199**	**-266**
Dividends received	1	1
Taxes paid / received	-210	-22
Interest paid	-379	-351
Net cash flow from operations	**1,346**	**1,665**
Acquisition of subsidiaries, associates and joint ventures (net of acquired cash)	-161	-26
Disposal of subsidiaries, associates and joint ventures	-2	5
Investments in intangible assets (excl. software)	-16	-16
Investments in property, plant & equipment	-822	-735
Investments in software	-145	-162
Disposal of intangibles (excl. software)	-	8
Disposal in property, plant & equipment	5	1
Disposals of real estate	38	62
Other changes and disposals	-43	-55
Net cash flow from investing activities	**-1,146**	**-918**
Share repurchase		-667
Dividends paid	-809	-795
Exercised options	2	5
Proceeds from borrowings	847	330
Repayments from borrowings and settlement of derivatives	-425	-30
Other changes in interest-bearing current liabilities	-4	1
Net cash flow used in financing activities	**-389**	**-1,156**
Changes in cash	**-189**	**-409**
Net Cash at beginning of period	**950**	**682**
Exchange rate difference	1	-2
Changes in cash	-189	-409
Net Cash at end of period	**762**	**271**
Bank overdrafts	116	853
Cash at end of period	**878**	**1,124**

Unaudited Consolidated Statement of Changes in Group Equity

(Amounts in millions of euro, except number of shares)	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
Balance as of 1 January 2011	**1,572,609,884**	**377**	**8,184**	**-709**	**-4,352**	**3,500**	–	**3,500**
Exercise of options	–	–	–	7	–	7	–	7
Shares repurchased	–	–	–	-674	–	-674	–	-674
Dividends paid	–	–	–	–	-795	-795	–	-795
Shares cancelled	-44,358,475	-11	-489	500	–	–	–	–
Total comprehensive income for the period	–	–	–	16	1,005	1,021	–	1,021
Balance as of 30 June 2011	**1,528,251,409**	**366**	**7,695**	**-860**	**-4,142**	**3,059**	**–**	**3,059**
Balance as of 1 January 2012	**1,431,522,482**	**344**	**6,717**	**-127**	**-4,004**	**2,930**	**–**	**2,930**
Share based compensation	–	–	–	–	1	1	–	1
Exercise of options	–	–	–	2	–	2	–	2
Dividends paid [10]	–	–	–	–	-809	-809	–	-809
Total comprehensive income for the period	–	–	–	-163	603	440	–	440
Balance as of 30 June 2012	**1,431,522,482**	**344**	**6,717**	**-288**	**-4,209**	**2,564**	**–**	**2,564**

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 six months of 2012 will be approximately EUR 40m 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 six months of 2012, interest rates have further declined. Based on an estimate of the impact of the decline in interest rates on the obligations of the KPN pension funds in The Netherlands per 30 June 2012, and an estimate of the realized return on plan assets, actuarial losses related to these funds are expected to be approximately EUR 260m (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 six months of 2012 would result in a decrease of approximately EUR 220m.

In total, this would reduce equity attributable to equity holders at 30 June 2012 with approximately EUR 880m (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 June 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 [8] in these Condensed Consolidated Interim Financial Statements.

	For the six months ended 30 June 2012				For the six months ended 30 June 2011			
Revenues and other income	**External revenues**	**Other income**	**Inter segment revenues**	**Total revenues and other income**	**External revenues**	**Other income**	**Inter segment revenues**	**Total revenues and other income**
Germany	1,568	27	41	1,636	1,529	3	44	1,576
Belgium	369	1	28	398	351	1	28	380
Rest of World	122		-1	121	145	-1	4	148
Other (incl. eliminations	-		-53	-53	-		-59	-59
Mobile International	**2,059**	**28**	**15**	**2,102**	**2,025**	**3**	**17**	**2,045**
Consumer Mobile	825		46	871	905		65	970
Consumer Residential	854		61	915	893		65	958
Business	1,147		52	1,199	1,176		53	1,229
NetCo	296	34	969	1,299	289	46	1,047	1,382
Other (incl. eliminations)	1		-1,041	-1,040			-1,130	-1,130
Dutch Telco	**3,123**	**34**	**87**	**3,244**	**3,263**	**46**	**100**	**3,409**
Corporate Market	686	8	100	794	787	5	96	888
Other (incl. eliminations)			-155	-155	1		-153	-152
The Netherlands	**3,809**	**42**	**32**	**3,883**	**4,051**	**51**	**43**	**4,145**
iBasis	**409**		**107**	**516**	**361**		**111**	**472**
Other activities	35	1	1	37	34			34
Eliminations			-155	-155			-171	-171
KPN Total	**6,312**	**71**	**0**	**6,383**	**6,471**	**54**	**0**	**6,525**

KPN Group revenues and other income were 2.2% or EUR 142m lower y-on-y due to a decline in The Netherlands while Germany, Belgium and iBasis showed increased revenues. The negative impact on Group revenues from regulation was EUR 64m (1%). The Netherlands continued to show a revenue decline as a result of difficult market conditions and regulation. Other income in the first half of 2012 included a book gain on the sale of mobile towers of EUR 31m, the sale of SNT Inkasso of EUR 16m and book profit on the sale of Getronics International of EUR 8m. Other income in the first half year 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 six months ended 30 June 2012			For the six months ended 30 June 2011		
Operating profit, DA&I and EBITDA	**Operating profit**	**Depreciation, Amortization & Impairments (DA&I)**	**EBITDA**	**Operating profit**	**Depreciation, Amortization & Impairments (DA&I)**	**EBITDA**
Germany	325	313	638	311	324	635
Belgium	59	75	134	57	64	121
Rest of World	-14	3	-11	-13	7	-6
Mobile International	**370**	**391**	**761**	**355**	**395**	**750**
Consumer Mobile	187	41	228	249	37	286
Consumer Residential	66	120	186	157	108	265
Business	340	57	397	341	56	397
NetCo	320	412	732	414	436	850
Other (incl. eliminations)	-10	2	-8	-9		-9
Dutch Telco business	**903**	**632**	**1,535**	**1,152**	**637**	**1,789**
Corporate Market	-25	53	28	-29	75	46
Other (incl. eliminations)				1		1
The Netherlands	**878**	**685**	**1,563**	**1,124**	**712**	**1,836**
iBasis	**4**	**10**	**14**	**7**	**10**	**17**
Other activities	-97	2	-95	-30	4	-26
KPN Total	**1,155**	**1,088**	**2,243**	**1,456**	**1,121**	**2,577**

KPN Group EBITDA decreased by 13% or EUR 334m y-on-y. EBITDA was impacted by regulation of EUR 24m and restructuring costs of EUR 70m. The decrease in EBITDA was driven by The Netherlands, resulting from a decline in high margin traditional services, investments to strengthen the domestic market positions and difficult market conditions. Furthermore, pension costs were EUR 56m higher y-on-y of which EUR 36m related to actuarial losses at Getronics UK and US pension funds and EUR 10m related to an incidental in Q1 2011.

Operating profit decreased EUR 301m (21%) y-on-y, following the EBITDA decrease partly offset by lower depreciation and amortization (EUR 33m), mainly attributable to the prolonged economic life of fiber from 20 to 30 years as per 1 January 2012 and impairment of tangible and intangible assets.

[3] Finance costs, income and other financial results

Net finance costs increased by EUR 29m y-on-y to EUR 364m. The increase was mainly related to fair value movements on derivatives in 2012 and higher accrued bond interest due to increased outstanding bonds. Furthermore, the H1 2011 net finance costs benefited from 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 the agreement with the Dutch tax authorities with regard to the application of the 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 Q2 2012 amounted to 22.1% (Q2 2011: 24.5%), mainly due to the existence of non-deductible pension losses in 2012 for the UK and US pension funds. In Q2 2011 KPN recorded a one-off tax charge of EUR -32m relating to the application of the innovation tax facilities. The effective tax rate for the Group is expected to be approximately 21 - 22% for the full year 2012 and 20% in the years 2013 - 2015.

[5] Cash flow hedges

In the first six months of 2012, the cash flow hedge reserve decreased EUR 168m (2011: EUR 15m) resulting from changes in the valuation of the USD and GBP cross currency swaps. Because 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 in 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

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. with no remedies from Reggefiber Group B.V. (Joint venture of Reggeborgh and KPN, in which KPN holds a 41% stake).

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

During the first six 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.

[8] Borrowings

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

At the end of Q2 2012, the average maturity was 7.0 years (Q1 2012: 7.2 years). The effective interest rate on the nominal bonds was 5.2% (Q1 2012: 5.2%).

In June 2012, KPN used an extension option for its EUR 2bn revolving credit facility. All fourteen 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.

[9] Other segment information

	As at 30 June 2012		As at 31 December 2011		For the six months 30 June	
Assets, liabilities and Capex	**Total assets**	**Total liabilities**	**Total assets**	**Total liabilities**	**2012 Capex**	**2011 Capex**
Germany	10,682	26,701	10,451	26,766	261	220
Belgium	1,872	308	1,882	316	41	55
Rest of World	125	117	153	135	-	1
Other (incl. eliminations)	-82	-34	-16	-17	1	1
Mobile International	**12,597**	**27,092**	**12,470**	**27,200**	**303**	**277**
Consumer Mobile	1,085	698	2,571	2,367	97	33
Consumer Residential	1,382	1,244	1,135	1,070	142	110
Business	1,604	1,277	2,680	2,688	51	50
NetCo	6,338	6,028	8,867	8,868	331	358
Other (incl. eliminations)	-460	-448	-1,059	-1,042	1	-1
Dutch Telco	**9,949**	**8,799**	**14,194**	**13,951**	**622**	**550**
Corporate Market	2,233	1,675	2,410	1,830	36	65
Other (incl. eliminations)	-297	-297	-303	-304	-	-
The Netherlands	**11,885**	**10,177**	**16,301**	**15,477**	**658**	**615**
iBasis	**447**	**353**	**448**	**365**	**3**	**3**
Other activities	-2,580	-17,837	-6,832	-23,585	3	2
KPN Total	**22,349**	**19,785**	**22,387**	**19,457**	**967**	**897**

The increase in Capex of EUR 70m y-on-y was related to the accelerated high speed mobile data network roll-out in Germany and Belgium and investments to strengthen the domestic market positions.

[10] Dividend

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

[11] Off-balance sheet commitments

At the end of Q2 2012 off-balance sheet commitments decreased to EUR 4.4bn (31 December 2011: EUR 4.5bn), mainly due to a decrease in purchasing commitments.

[12] Regulatory developments

The Netherlands: Mobile spectrum auction

On 6 January 2012 the auction rules for the auction of 800MHz, 900MHz, 1.8GHz licenses were published. 2*10MHz in the 800MHz and 2*5MHz in the 900MHz band have been reserved for new market entrants. The Minister of Economic Affairs, Agriculture and Innovation announced its intention to start the auction in October 2012. The Minister announced an option for 900MHz and 1.8GHz licensees to extend the existing licenses for a period of 21 months to avoid the risk of discontinuity of GSM services. Preparation for regulating this extension (including calculations of license fees for this period) has started.

The Netherlands: Status OPTA analyses fixed telecommunications markets

OPTA has finished the major part of the market analyses it 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 as maximum with inflation correction). 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 has 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 markets a price squeeze test is imposed. On the market for low quality wholesale broadband access, obligations for KPN have been lifted.

OPTA intended to withdraw regulation on the market for Fiber-to-the-Office (FttO), but has withdrawn the draft decision in relation thereto upon serious doubts that the European Commission expressed to OPTA's draft decision. OPTA announced to re-analyze the markets for FttO and high quality wholesale broadband access and publish new draft decisions in relation to these markets later in 2012.

On 20 December 2011, OPTA published its conclusion that the Dutch television markets will not be regulated. OPTA concluded that the (so called 'three criteria') test imposed by European regulation, which should be passed for ex-ante regulation, has not been fulfilled. Appeals to this conclusion are ongoing.

On 2 July 2012, OPTA published its decision to base fixed termination access tariffs on a cost methodology 'plus BULRIC', as decided earlier by the Dutch highest administrative court. The European Commission earlier had suspended the intended decision of OPTA, since by this decision OPTA is not following the Commission's recommendation to use a 'pure BULRIC' approach (leading to lower tariffs). OPTA concluded that the Court decision did not allow OPTA to use that approach. OPTA also started its fourth round of market analyses on fixed and mobile termination, in preparation of decisions for the period July 2013 - July 2016.

Germany: Update on MTA regulation

On 24 February 2011, BNetzA adopted its final MTA decisions, setting the rate for E-Plus at EUR 3.36 ct/min, slightly higher than its preliminary decision of 30 November 2010. In doing so, BNetzA did not follow the EU Commission's comments which had questioned the asymmetric MTA rates (to the benefit of Deutsche Telekom). E-Plus (and numerous other operators including all MNOs) have ongoing legal proceedings against these decisions. In preliminary proceedings, the courts have so far left BNetzA's decisions unchanged. The main proceedings are still ongoing. On 18 April 2012, BNetzA published its draft regulatory orders which are the prerequisite for the MTA proceedings which will start in September 2012. BNetzA is expected to announce new MTA rates in November 2012.

Belgium: Update on MTA regulation
In its final decision in relation to the market for call termination on mobile networks BIPT imposed an asymmetric glide path between Proximus (Belgacom), Mobistar and BASE. 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.

Belgium: BIPT issues positive decision on UMTS license requirements
Following measurements executed in the course of March and April 2012, BIPT confirmed in its final decision of 14 June 2012 that KPN Group Belgium complied with the 85% coverage requirement foreseen in the UMTS license.

Europe: a new Roaming regulation
On 1 July 2012 the new Roaming regulation entered into force. The tariff ceilings for roaming calls and SMS will be further decreased in 2012, 2013 and 2014 and a new tariff ceiling for data roaming was introduced. As of 1 July 2014 retail roaming services should be offered separately from other retail services (allowing customers to use separate offers from alternative roaming providers) and as of July 2012 MVNOs are allowed to the regulated wholesale roaming services and tariffs. These 'structural measures' are introduced to increase retail competition and be able to restrict tariff regulation in the future.

[13] 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 six months ended 30 June 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. Nor have any related party transactions taken place in the first six 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. On 21 June 2012, Capital Research and Management Company notified that they held 6.79% of the 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 June 2012.

[14] Subsequent events

On 21 June 2012, KPN announced that it has concluded the review of strategic options for BASE (KPN Group Belgium) and started the sale process in July 2012. BASE will only be sold for the right price. Further announcements will be made, if and when appropriate.

Today, KPN declares an interim dividend for 2012 of EUR 0.12 per share, or in total EUR 170m. The ex-dividend date for the dividend payment will be 26 July 2012 and the dividend will be paid on 3 August 2012.

Responsibility statement

The Board of Management of the Company hereby declares that, to the best of their knowledge, the interim financial statements for the six months ended 30 June 2012, give a true and fair view of the assets, liabilities, financial position and income of the Company and the undertakings included in the consolidation taken as a whole, and the interim management report gives a fair review of the information required pursuant to section 5:25d, subsection 8 and, as far as applicable, subsection 9 of the Dutch Financial Markets Supervision Act (Wet op het financieel toezicht).

The Hague, 24 July 2012

E. Blok	Chairman of the Board of Management and Chief Executive Officer
W.T.J. Hageman	Member of the Board of Management and Chief Financial Officer, ad interim
S. van Schilfgaarde	Member of the Board of Management and Chief Financial Officer, ad interim
T. Dirks	Member of the Board of Management and CEO Mobile International

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.

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.