

Annual Results 2012

Aligning financial position with strategy

Highlights

2012 performance

- Mixed performances across the Group
- Stabilizing domestic market positions, strong growth in TV
- Highly valuable spectrum acquired in The Netherlands
- Financial outlook largely achieved, supported by asset disposals

Strategic review

- The Netherlands expected to stabilize towards 2014
- Next phase German strategy; service revenue growth expected at lower margin
- EUR 4bn rights issue supporting financial position and strategic flexibility
- Revised strategic market objectives

Group financials *	Q4 2012	Q4 2011	Δ y-on-y reported	FY 2012	FY 2011	Δ FY reported
<i>(In millions of euro unless indicated otherwise)</i>						
Revenues and other income	3,274	3,375	-3.0%	12,708	13,163	-3.5%
- Of which revenues	3,053	3,295	-7.3%	12,409	13,022	-4.7%
EBITDA	1,121	1,316	-15%	4,528	5,138	-12%
EBITDA margin	34.2%	39.0%		35.6%	39.0%	
Restructuring costs	90	22	>100%	173	130	33%
EBITDA (excl. restructuring costs)	1,211	1,338	-9.5%	4,701	5,268	-11%
Operating profit (EBIT)**	129	436	-70%	1,820	2,549	-29%
Profit for the period (net result)**	-160	176	n.m.	693	1,549	-55%
Earnings per share (in EUR)**	-0.11	0.13	n.m.	0.49	1.06	-54%
Cash flow from operating activities	930	1,390	-33%	3,007	4,003	-25%
Capital expenditures (PP&E and software)	-766	-652	17%	-2,209	-2,047	7.9%
Proceeds from real estate	479	81	>100%	519	156	>100%
Tax recapture at E-Plus	92	92	0%	335	337	-0.6%
Free cash flow	735	911	-19%	1,652	2,449	-33%

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

** Including impairment related to Corporate Market of EUR 314m in Q4 2012 (Q4 2011: EUR 298m)

Message from the CEO, Eelco Blok

"In 2012, KPN continued to face a challenging environment. The adverse macro-economic conditions continued to weigh on consumer confidence and on the investment plans of our business customers. Moreover, competition intensified in our mobile markets. The financial performance of our businesses in 2012 was largely within the outlook ranges, though supported by asset disposals and somewhat below our expectations at the start of the year. Operationally, we have made good progress in executing our strategy by taking steps to stabilize our domestic market positions; however we have seen a slow-down in revenue growth in Germany.

We are experiencing lower underlying profitability in each of our three main markets. Partly, this is a result of the sustained pressures described above. However, it additionally reflects the costs of positioning ourselves for the future by implementing our operational strategy - investments in customer acquisition and service, network and IT costs, and strategic investments including spectrum and fiber. In The Netherlands, we are approaching a new balance between a focus on market positions and achieving stable performance. In Germany and Belgium, the next phases in our Challenger strategy are being implemented to fuel underlying growth in 2013 and beyond.

In order to execute on our strategy and position KPN for future growth, we need to strengthen the balance sheet. In recent years, KPN's financial position has been impacted by rising debt levels combined with increased commercial investments. The EUR 4bn rights issue announced today and our earlier announcements of a lower dividend outlook will support our financial position in the coming years."

Strategic update

Striking the right balance in growth and profitability

Following a period of market share decline KPN has been able to stabilize its market positions in The Netherlands as a result of the 'Strengthen-Simplify-Grow' strategy outlined back in May 2011. In 2012, KPN's domestic market positions have stabilized, albeit at lower profitability as a result of increased investments. KPN operates in a challenging environment impacted by regulatory pressure, a slow macro-economy and strong competition in all mobile markets. The telecom sector is at a crossroads with new technologies maturing and potential increasing clarity as to European long-term regulation. Today, KPN covers ~18% of the Dutch population with FttH and operates an upgraded VDSL network, reaching ~70% of Dutch households with broadband speeds of at least 40Mbps. In mobile, KPN's goal is to realize nationwide coverage with 4G LTE in The Netherlands in 2014, while HSPA+ has largely been rolled out in Germany and Belgium. These networks are the platform for KPN to offer enhanced customer experience and, following the current period of increased commercial and infrastructure investments, the prospect of improved profitability in its different markets in the medium-term.

With the aim to further stabilize its leading domestic market positions as well as stabilize its financial performance in The Netherlands, KPN will focus on balancing profitability and market share objectives. The strategy in The Netherlands is based on a strong customer focus by providing the highest quality services, based on a full product range on best-in-class networks while striving for a lean operating structure. Consumer Mobile is facing a changing market structure but has the opportunity to differentiate itself from the competition by offering the best customer experience by combining 4G LTE with a nationwide fixed network. Consumer Residential has been successful in 2012 with its strategy to focus on selling an increasing number of products per customer driven by IPTV, combined with growing ARPUs and will continue to pursue this strategy. To address the increasing need to access information everywhere on all devices, as of 1 January 2013 KPN has integrated parts of Corporate Market with the Business segment into a one-stop shop for B2B, offering integrated packages with virtually all ICT & Telecom services.

In Germany, E-Plus was able to significantly grow its market share for several years accompanied by high profitability, however its market share growth has been less significant of late. In 2012, E-Plus experienced a slowdown in service revenue growth, but maintained a strong margin. In the past two years, E-Plus upgraded its network with HSPA+ reaching more than 85% of the German population. The upgraded network is the platform for the next phase in the Challenger strategy, which is intended to transform E-Plus into a data-centric Challenger and which is expected to provide new growth opportunities. Market share growth will be targeted in underpenetrated regions, based on a high quality network combined with expanding on- and off-line distribution capacity, increasing commercial activity and attractive customer propositions. This strategy is expected to lead to service revenue growth and market share growth, combined with lower margins in the short-term, and improving from such base in the longer term.

The Belgian mobile market has experienced a change in market structure in 2012. In Belgium, as in Germany, KPN's upgraded network forms the platform for the next phase of its Challenger strategy. KPN Group Belgium aims to realize growth through creating a competitive edge by network speed differentiation at low cost based on innovative partnerships. 4G LTE is expected to be available in the majority of the country by end-2014. This will be combined with a strong commercial focus via attractive propositions and increased presence in underpenetrated regions. In addition, KPN Group Belgium is seeing opportunities to challenge the fixed line market. This strategy is expected to lead to service revenue growth and market share growth combined, however, with lower margins.

Strategic market objectives

KPN revised its strategic market objectives to a level where the respective businesses are expected to operate at in the medium to longer term, taking into account the specific market dynamics surrounding the operations and striving for the right balance between growth and profitability.

The Netherlands:

- Minimum broadband market share >40%; long-term goal 45%
- Growing RGUs and ARPU per customer in Consumer Residential
- Minimum long-term total mobile market share >40%
- Leading business & ICT player with stable market positions
- Finalization 4-5k FTE reduction program end-2013; continued FTE cost efficiency in 2014 and onwards
- 40-45% medium-term EBITDA margin

International:

- Long-term market share goal 20% in Germany with 30%-35% medium-term EBITDA margin
- Long-term market share goal 25% in Belgium with 25%-30% medium-term EBITDA margin

Financial framework

Aligning financial position with strategy

In recent years, KPN's financial position has been impacted by rising debt levels combined with increased commercial investments. KPN's reported net debt / EBITDA has increased gradually over the last 12 months from 2.3x as of Q4 2011 to 3.0x as of Q4 2012, when including the payment of EUR 1,352m for the Dutch spectrum auction (paid in January 2013). When including the impact of the consolidation of Reggefiber (*ceteris paribus*) the ratio would be 3.2x. Looking ahead, KPN's strategy is based on further stabilizing its market positions and its financial performance in The Netherlands, using its recently acquired spectrum and upgraded nationwide fixed network, while the increasing commercial activity in Germany and Belgium is expected to lead to service revenue growth and renewed market outperformance, albeit at lower margins in the short term.

To align its financial position with its strategy KPN has announced a EUR 4bn rights issue. The transaction will strengthen KPN's balance sheet and is intended to provide a stable financial position in the coming years. The proceeds will increase KPN's financial and strategic flexibility and will be used to continue to invest in KPN's operations and reduce KPN's net debt level. The EUR 4bn rights issue would lower KPN's reported net debt / EBITDA at the end of 2012 by approximately 0.9x. KPN targets net debt / EBITDA between 2.0 - 2.5x at the end of 2013. KPN believes that the rights issue will support its commitment to maintain an investment grade credit profile. The rights issue is subject to shareholder approval and therefore an EGM is convened for 19 March 2013. KPN may consider whether, subject to market conditions, part of the EUR 4bn capital raise could alternatively be raised through equity-linked or other capital instruments.

Outlook

Performance versus outlook 2012

Although the financial outlook was largely achieved, the overall performance in 2012 did not fully meet our expectations. The full-year Group EBITDA and free cash flow was supported by asset disposals and came at the lower end of the outlook range, primarily due to competitive pressure in all our mobile markets. Capex was at the higher end of the outlook range mainly due to continued investments in KPN's domestic market positions and the continued roll-out of mobile broadband networks in Germany and Belgium.

Following the half-year results in July, dividend per share was adjusted to EUR 0.35 as the economic prospects in The Netherlands continued to be difficult and KPN remained outside its self-imposed financial framework range. Following the results of the Dutch spectrum auction, the outlook for dividend per share was adjusted further in order to accommodate the vital strategic investment in frequency licenses. KPN announced it will not pay a final dividend for 2012; the interim dividend payment of EUR 0.12 per share was paid in 2012. Furthermore, the dividend per share outlook for 2013 was adjusted to EUR 0.03 per share.

Guidance metrics	Outlook 2012	Reported 2012
EBITDA ¹	EUR 4.7-4.9bn	EUR 4,701m
Capex	EUR 2.0-2.2bn	EUR 2,209m
Free cash flow ²	EUR 1.6-1.8bn	EUR 1,652m
Dividend per share	EUR 0.35	EUR 0.12

Outlook

- The Netherlands expected to stabilize towards 2014
- Next phase German strategy expected to lead to service revenue growth combined with lower EBITDA margin, especially in 2013
- Capex in 2013 below EUR 2.3bn and total planned Capex for the period 2013-2015 below EUR 7bn, including Reggefiber³
- DPS of EUR 0.03 in 2013 and 2014, thereafter return to DPS growth, subject to operational performance and financial position

¹ Excluding restructuring costs

² Free cash flow defined as cash flow from operating activities, plus proceeds from real estate, minus Capex and excluding tax recapture E-Plus

³ As from consolidation; Reggefiber not expected to be consolidated before H2 2014

Group review

Revenues and other income (In millions of euro)	Q4 2012	Q4 2011	Δ y-on-y reported	Δ y-on-y underlying ⁴	FY 2012	FY 2011	Δ FY reported	Δ FY underlying ⁴
- Consumer Mobile	414	457	-9.4%	-8.6%	1,707	1,900	-10%	-8.5%
- Consumer Residential	480	473	1.5%	-1.7%	1,852	1,903	-2.7%	-2.9%
- Business	584	604	-3.3%	-4.8%	2,352	2,433	-3.3%	-2.5%
- NetCo	701	734	-4.5%	-6.3%	2,621	2,780	-5.7%	-6.0%
- Other (incl. eliminations)	-535	-564	-5.1%	-5.1%	-2,087	-2,252	-7.3%	-7.3%
Dutch Telco business	1,644	1,704	-3.5%	-5.5%	6,445	6,764	-4.7%	-4.1%
- Corporate Market	320	499	-36%	-4.4%	1,405	1,811	-22%	-2.8%
- Other (incl. eliminations)	-89	-84	6.0%	6.0%	-318	-316	0.6%	0.6%
The Netherlands	1,875	2,119	-12%	-5.8%	7,532	8,259	-8.8%	-4.0%
iBasis	255	249	2.4%	2.4%	1,035	977	5.9%	5.9%
- Germany	929	829	12%	1.0%	3,404	3,243	5.0%	1.7%
- Belgium	205	203	1.0%	6.2%	804	781	2.9%	8.1%
- Rest of World	74	73	1.4%	-40%	247	302	-18%	-28%
- Other (incl. eliminations)	-12	-29	-59%	-59%	-84	-118	-29%	-29%
Mobile International	1,196	1,076	11%	1.1%	4,371	4,208	3.9%	1.7%
Other activities	20	13	54%	54%	76	62	23%	23%
Intercompany revenues	-72	-82	-12%	-12%	-306	-343	-11%	-11%
KPN Group	3,274	3,375	-3.0%	-2.4%	12,708	13,163	-3.5%	-1.0%
EBITDA (In millions of euro)	Q4 2012	Q4 2011	Δ y-on-y reported	Δ y-on-y underlying⁴	FY 2012	FY 2011	Δ FY reported	Δ FY underlying⁴
- Consumer Mobile	138	125	10%	10%	510	550	-7.3%	-5.4%
- Consumer Residential	83	108	-23%	-18%	367	497	-26%	-19%
- Business	167	179	-6.7%	-0.6%	758	786	-3.6%	2.5%
- NetCo	378	444	-15%	-13%	1,461	1,705	-14%	-13%
- Other (incl. eliminations)	0	-4	-100%	-100%	-18	-17	5.9%	7.1%
Dutch Telco business	766	852	-10%	-6.7%	3,078	3,521	-13%	-9.1%
<i>EBITDA margin</i>	<i>46.6%</i>	<i>50.0%</i>			<i>47.8%</i>	<i>52.1%</i>		
- Corporate Market	17	12	42%	-20%	57	6	>100%	-36%
- Other (incl. eliminations)	-1	1	n.m.	n.m.	0	1	-100%	-100%
The Netherlands	782	865	-9.6%	-7.6%	3,135	3,528	-11%	-9.9%
<i>EBITDA margin</i>	<i>41.7%</i>	<i>40.8%</i>			<i>41.6%</i>	<i>42.7%</i>		
iBasis	7	7	0.0%	0.0%	30	31	-3.2%	n.m.
- Germany	329	364	-9.6%	-26%	1,290	1,354	-4.7%	-10%
- Belgium	64	79	-19%	-12%	272	273	-0.4%	9.7%
- Rest of World	-13	13	n.m.	n.m.	-25	8	n.m.	n.m.
- Other (incl. eliminations)	-1	0	n.m.	n.m.	-1	1	n.m.	n.m.
Mobile International	379	456	-17%	-26%	1,536	1,636	-6.1%	-8.6%
<i>EBITDA margin</i>	<i>31.7%</i>	<i>42.4%</i>			<i>35.1%</i>	<i>38.9%</i>		
Other activities	-47	-12	>100%	>100%	-173	-57	>100%	>100%
KPN Group	1,121	1,316	-15%	-16%	4,528	5,138	-12%	-11%

⁴ The Definition of underlying is explained in the disclaimers section at the end of the condensed financial report. For a detailed overview of underlying figures refer to page 11

Group revenues declined due to sale Getronics International and performance in The Netherlands

KPN Group revenues and other income were 3.0% or EUR 101m lower y-on-y in Q4 2012 and decreased 3.5% or EUR 455m for the full-year due to the sale of Getronics International and declining revenues in The Netherlands. The negative impact on Group revenues from regulation in Q4 2012 was EUR 30m y-on-y (0.9%). Group revenues in Q4 2012 were also impacted by a net positive impact from incidentals of EUR 118m and net negative impact from disposals and acquisitions of EUR 115m. The incidentals in Q4 2012 related to the sale of mobile towers in Germany and The Netherlands totaling EUR 168m, a book gain on the sale of KPN Spain of EUR 36m and an additional provisions at Corporate Market of EUR 6m. Underlying revenues and other income decreased by 2.4% y-on-y in Q4 2012.

A continued difficult market environment was the primary reason for the revenue decline in The Netherlands, while Germany, Belgium and iBasis showed increased revenues. All Dutch Telco segments remained exposed to lower traffic volumes, especially Consumer Mobile. The revenue decline at Corporate Market was largely attributable to the sale of Getronics International in May 2012 as well as the continued adverse market conditions. In Germany revenue growth slowed in the fourth quarter primarily as a result of increased price competition. In Belgium underlying revenue growth remained strong at 6.2%.

KPN Group profitability impacted by lower revenues and mixed performances across segments

KPN Group EBITDA decreased by 15% or EUR 195m y-on-y in Q4 2012 and decreased by 12% or EUR 610m for the full-year. In Q4 2012 EBITDA was impacted by regulation of EUR 17m, restructuring costs of EUR 90m (Q4 2011: EUR 22m) and net positive impact from incidentals of EUR 96m. Underlying EBITDA decreased by 16% and was mainly impacted by the performance of NetCo, Consumer Residential and Germany, partly supported by increased EBITDA at Consumer Mobile resulting from the new mobile propositions, which include a handset lease model. The decline at Consumer Residential was the result of investments in stronger market positions, such as a continuation of increased IPTV and FtH activations and a continued decline in high margin traditional services. In Germany, increased commercial initiatives also led to higher costs. Furthermore, pension costs were higher, mainly due to EUR 18m actuarial losses at Getronics UK and US pension funds. The total costs in 2012 related to the recognition of these actuarial losses amounted to EUR 73m.

Operating profit (EBIT) decreased by EUR 307m or 70% y-on-y in Q4 2012 as a result of lower EBITDA (EUR 195m) and higher depreciation and amortization (EUR 112m). The higher depreciation was caused by a one-off additional depreciation of assets under construction related to prior periods in Germany and higher depreciation related to handsets in The Netherlands and Germany. Net profit decreased by EUR 336m y-on-y to EUR -160m in Q4 2012 following the EBIT decline and increased finance costs resulting from the change in fair value of the Reggefiber call/put arrangements. Full-year net profit amounted to EUR 693m and decreased by EUR 856m or 55% y-on-y.

Free cash flow at EUR 1,652m in 2012

FY 2012 free cash flow amounted to EUR 1,652m (2011: EUR 2,449m). The decrease compared to last year is explained by lower EBITDA (EUR 610m), higher tax payments (EUR 255m), higher Capex (EUR 162m), less positive change in working capital (EUR 100m) mainly due to prepayments and other movements (EUR 89m, e.g. non-cash correction other income), in part offset by higher proceeds from sale of real estate (EUR 363m) and a less negative change in provisions (EUR 82m). The higher tax payments are mainly the result of lower innovation tax facilities in 2012 (2011: EUR 316m, 2012: EUR 26m). Within the cash flow line 'change in provisions' there was more cash out with respect to restructuring (EUR 26m), while higher restructuring costs were recorded (EUR 43m). Additionally, more additions were made to the pension provisions (EUR 27m), which is the net of higher pension expense due to actuarial losses in the UK and US (EUR 73m) and payment and prepayment of pension contributions in Q4 2012 (EUR 46m).

Capex at EUR 2,209m in 2012

Full-year Capex was EUR 162m higher compared to last year, due to increased investments to strengthen market positions in The Netherlands, including customer driven investments (mainly handset lease model and IPTV set-top boxes), and accelerated network roll-outs in Germany and Belgium. In The Netherlands, customer driven investments and investments in the mobile network to prepare for 4G LTE increased, partly offset by lower fixed network investments. IT Capex in Germany temporarily increased as part of a multi-year project to replace the IT platform.

Net debt to EBITDA⁵ ratio at 2.7x

Net debt at the end of Q4 2012 amounted to EUR 12.0bn, a decrease of EUR 0.4bn compared to Q3 2012. The decrease in net debt in Q4 2012 was mainly the result of seasonally strong FCF generation during Q4 and proceeds from tower sales, partly offset by the exercise of the first option to increase KPN's ownership in the Reggefiber JV. Combined with a lower rolling EBITDA over the last twelve months, this resulted in a stable net debt to EBITDA ratio of 2.7x (Q3 2012: 2.7x).

The net debt to EBITDA ratio at the end of Q4 2012 did not include the impact from the Dutch spectrum auction (payment took place in January 2013). When including the impact from the spectrum auction payment of EUR 1,352m, net debt to EBITDA would have been around 0.3x higher.

During Q4 2012, Moody's, Standard & Poor's and Fitch have made adjustments to their ratings and/or outlook on KPN. Following these adjustments, KPN's current credit ratings are Baa2 with rating under review for downgrade by Moody's, BBB with a credit watch negative by Standard & Poor's and BBB- with a stable outlook by Fitch.

KPN pension funds average coverage ratio at 104%

At the end of Q4 2012, the average coverage ratio of the KPN pension funds in The Netherlands was 104%, just below the minimum requirement of 105%. In Q4 2012, pension recovery payments of EUR 42m were made of which EUR 19m was due to be paid in Q1 2013; the total payment was related to the coverage ratios at the end of Q2 and Q3 2012. Based on the coverage ratio at the end of Q4 2012, a pension recovery payment of EUR 19m is required in Q2 2013.

Dutch spectrum auction

KPN obtained a highly attractive combination of 120MHz of frequency licenses in the Dutch spectrum auction. The acquired spectrum allows KPN to roll-out the next generation 4G LTE mobile technology across The Netherlands and maintain its strong 2G (GSM) and 3G (HSPA) positions. 4G LTE enables increased capacity and speed, with speeds up to ten times higher than over a 3G network. Since the summer of 2012 KPN has been preparing its network for the 4G LTE roll-out by swapping all antennas and installations to single RAN equipment. In addition, nearly all sites are connected to fiber. By mid-2013, KPN expects to have 4G LTE coverage of approximately 50% of the population of The Netherlands. Nationwide coverage is expected in the second half of 2014.

Financial and operating review by segment

Continued investments to strengthen market positions in The Netherlands

In Q4 2012 reported revenues and other income in The Netherlands decreased by 12% or EUR 244m, including a net negative impact from acquisitions and disposals of EUR 115m and a regulatory impact of EUR 9m. Underlying revenues declined by 5.8%, mainly as a result of the performance of Consumer Mobile, Business and lower traffic across all segments impacting NetCo's revenues. FY 2012 revenues and other income decreased by 8.8% or EUR 727m, full-year underlying revenues and other income decreased by 4.0%.

Reported EBITDA in The Netherlands for Q4 2012 was EUR 782m, 9.6% or EUR 83m lower y-on-y, and underlying EBITDA decreased by 7.6% y-on-y. Reported EBITDA was impacted by lower revenues, EUR 26m higher restructuring costs, EUR 15m higher incidentals and a regulatory impact of EUR 4m. The underlying EBITDA margin was 43.4% (Q4 2011: 44.3%). Margin pressure was driven by higher investments to strengthen the market positions in The Netherlands, higher marketing and sales costs at Consumer Residential and a continuing decline in high margin traditional services, partly offset by the introduction of the handset lease model in Consumer Mobile. FY 2012 EBITDA decreased by 11% or EUR 393m, full-year underlying EBITDA decreased by 9.9%.

FTE reduction program in The Netherlands on track

Since the start of the FTE reduction program in The Netherlands last year, EUR 257m restructuring costs have been recorded relating to approximately 2,800 FTEs. The FTE reduction program resulted in ~1,900 FTE exits since the start of the program. In 2012 the reported FTEs decreased by ~1,550, including a ~350 FTE increase due to the net effect of disposals and acquisitions and KPN's investments to strengthen its market positions (e.g. increase in customer facing staff including employees in shops and call centers).

⁵ Based on 12 month rolling total EBITDA excluding book gains, release of pension provisions and restructuring costs, when over EUR 20m

Broadband customer base increased at Consumer Residential

Underlying revenues and other income at Consumer Residential were 1.7% lower y-on-y in Q4 2012 due to continued decline of traditional voice services that was partly offset by increased IPTV and FttH revenues. Underlying EBITDA decreased 18% y-on-y as a result of higher marketing and sales costs, higher content costs and a continued decline in higher margin traditional services, resulting in an underlying EBITDA margin of 19.4% (Q4 2011: 23.3%).

In Q4 2012, KPN acquired four fiber service providers from Reggeborgh with a customer base of 126k FttH customers. The broadband customer base increased organically in Q4 2012 (35k) for the second consecutive quarter. The increase was driven by growth in the number of FttH activations and good performance of the Telfort brand. KPN's broadband market share increased to 41% (Q4 2011: 40%).

KPN's market leading IPTV proposition supported continued growth of IPTV net adds (183k in Q4 2012, including 60k resulting from the acquisition of the fiber service providers). This resulted in a TV market share of 23%, an increase of 6%-points compared to Q4 2011. The TV ARPU increased by 17% to EUR 14 in Q4 2012 due to the higher share of IPTV, more value added services and a price increase in Q3 2012. FttH activations accelerated, with 44k organic net adds in Q4 2012 and 170k net adds including the acquisition of the fiber service providers, resulting in 368k homes activated. The FttH penetration increased from 18% in Q3 2012 to 30% in Q4 2012 (Q4 2011: 13%).

IPTV is an important driver behind take-up of triple play packages and this resulted in an increase in Revenue Generating Units per customer to 2.07 (Q4 2011: 1.92). Triple play packages increased by 163k this quarter to a total of 979k. For the first time since 2008 KPN had an organic net line gain instead of line loss. Including the acquisition of the fiber service providers the net line gain in Q4 2012 was 130k, corrected for the acquisition the net line gain was 4k (compared to a net line loss of 40k in Q4 2011).

In 2013 and beyond, KPN intends to continue its successful strategy at Consumer Residential by leveraging its high quality networks and market leading IPTV proposition with the objective of further reducing churn in broadband on copper further and increasing the FttH penetration level. Furthermore, bundled fixed and mobile services are expected to improve KPN's propositions and ensure the best customer experience. KPN will target growing RGUs and ARPU per customer and will continue to expand its addressable market through the hybrid VDSL and FttH network strategy supported by a public Wi-Fi network through a strategic partnership with Fon.

Stabilizing market share in competitive environment in Consumer Mobile

Underlying revenues and other income at Consumer Mobile were down 8.6% y-on-y in Q4 2012, impacted by lower traffic volumes partly offset by higher committed revenues. Underlying EBITDA margin was 33.3% (Q4 2011: 27.6%), supported by the new commercial propositions, including the handset lease model.

In 2012, the postpaid base increased slightly to 3.5m customers while the prepaid base declined to 4.1m customers, impacted by the continued competition in the ethnic segment and migrations to postpaid. In Q4 2012, the retail postpaid net adds were 24k driven by SIM only subscriptions. At EUR 33, the retail postpaid ARPU was lower y-on-y (Q4 2011: EUR 36), partly due to an increased share of SIM only subscriptions. The percentage committed ARPU improved to ~67%, up 5%-points y-on-y driven by a higher share of the postpaid base that is now on the new portfolio (46%). Overall, the total Dutch mobile service revenue market share is stabilizing at around 45%.

A number of steps have been taken in 2012. Market share related to the number of postpaid customers in the base is stabilizing. The new access based portfolio is intended to reduce the risk of ARPU dilution, with ~67% of postpaid retail ARPU committed. KPN will further improve its propositions to increase customer value and will increase the focus on managing the existing customer base. Next to this, initiatives are planned to ensure a better alignment of the cost base of Consumer Mobile with the lower revenue profile of the business. All in all, KPN will have an increased focus on value going forward with customer lifetime value optimization as key priority.

KPN is offering differentiated propositions such as 4G and a bundled fixed-mobile offering. KPN's 4G proposition was launched on 15 January and, is commercially available from 4 February, making KPN the first mover on 4G in The Netherlands. KPN's 4G network will be the most reliable mobile network as indoor coverage is up to 3x better than via a 3G network and speeds are up to ten times higher. The highest speeds and the consistent overall 4G experience are intended to provide the best customer experience. It is KPN's objective to upsell customers to higher data bundles via the 4G proposition.

In January 2013, KPN introduced 'KPN Compleet', a first step towards offering quad play services. KPN's existing triple play and mobile customers, with subscriptions that started before 1 January 2013, can benefit from value added services, such as 45 additional TV channels, free unlimited calls within the family and a doubling of voice, SMS and data within a mobile subscription. As a next step towards fixed-mobile convergence, KPN will make 'KPN Compleet' accessible for all KPN's fixed and mobile customers in The Netherlands. As a further step KPN plans to introduce an integrated quad play offering, with integrated CRM, sales channel and customer service.

Stable market positions in Business segment

Underlying revenues and other income for the Business segment declined by 4.8% y-on-y in Q4 2012, driven by a continued decline in traditional services, lower traffic and price pressure, partly offset by good performance of the challenger brands Telfort and Yes Telecom. Underlying EBITDA decreased by 0.6% y-on-y, mainly as a result of higher subscriber acquisitions costs in Q4 2012. Market positions in the Business segment remained stable.

Despite growth in the wireless customer base of 76k in Q4 2012, the underlying service revenues declined 2.0% y-on-y. ARPU was lower y-on-y at EUR 36 (Q4 2011: EUR 41), 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 1.6% decline in revenues y-on-y. The negative impact of the continued rationalization was partly offset by the introduction of flat fee propositions.

Driven by the growing demand of clients for integrated ICT and telecom packages, certain parts of Corporate Market have been integrated within the Business segment, resulting in a new B2B organization as from 1 January 2013. The new B2B organization is uniquely positioned as a one-stop-shop for the B2B market. The remaining part of Corporate Market has been renamed IT Solutions, which will continue to focus on data centers, consulting services and workspaces solutions.

Continued network upgrades at NetCo

Underlying revenues and other income declined by 6.3% and underlying EBITDA decreased 13% y-on-y in Q4 2012, driven by the trends in the Consumer and Business segments. This resulted in a lower underlying EBITDA margin of 53.7% (Q4 2011: 57.7%).

In Q4 2012 KPN sold mobile towers at an attractive valuation which increased revenues and other income by EUR 65m in Q4 2012 (Q4 2011: EUR 67m).

NetCo continued upgrading the copper network in Q4 2012; at the end of 2012 ~70% of the Dutch market was covered with a minimum guaranteed speed of 40Mbps. The FttH roll-out, through the Reggefiber joint venture, continued as planned. The number of Homes Passed by the Reggefiber joint venture in Q4 2012 increased with 122k to 1,303k (2011: 951k). In November, the first Reggefiber option was exercised and KPN increased its ownership of Reggefiber by an additional 10% to 51%, for an amount of EUR 99m. This did not result in the consolidation of Reggefiber; consolidation will only be triggered if KPN owns 60% leading to control which is not expected to occur before H2 2014.

Continued price pressure and impairment at Corporate Market

Underlying revenues and other income at Corporate Market decreased by 4.4% y-on-y, as a result of continued price pressure due to overcapacity in the market and postponement of large investments by clients. Underlying EBITDA decreased by 20% y-on-y, mainly as a result of the lower revenues and continuous pressure on margins which was partially offset by lower personnel costs due to the accelerated FTE reduction program. Consequently, the underlying EBITDA margin declined from 11.7% in Q4 2011 to 9.8% in Q4 2012.

Triggered by the changes in the ICT market, continued adverse market conditions and fierce price pressure, the annual impairment testing led to an impairment of goodwill of EUR 314m. The remaining goodwill related to Corporate Market at the end of 2012 amounted to EUR 73m.

Increased revenues with stable margins at iBasis

Revenues and other income at iBasis increased by 2.4% y-on-y, including a favorable currency effect of 1.5%. The EBITDA margin in Q4 2012 was relatively stable at 2.7% due to focus on cost control offsetting margin pressure in the

market. The total number of minutes increased by 1.6% y-on-y and the average revenue per minute increased slightly to EUR 4.0 cents.

Focus on postpaid leading to increased postpaid net adds in Germany

Underlying revenues and other income in Germany increased by 1.0% y-on-y in Q4 2012, supported by an underlying service revenue growth of 0.4%. Service revenue growth slowed down in the second half of 2012 and as a result, E-Plus' market share in service revenues decreased to 15.6% (Q4 2011: 15.9%). This was mainly due to two factors. First, E-Plus' prepaid market share has grown fast over the last years resulting in the number one market position, however thereby also attracting more competition. Second, due to increased price competition in the postpaid market high value customers are trading down on their tariff plans leading to optimization and consequently to lower ARPU (Q4 2012: EUR 21; Q4 2011: EUR 22).

To grow further in the postpaid market, E-Plus introduced all-net flat propositions in Q2 and re-launched the BASE brand supporting postpaid net adds of 246k⁶ in Q4 (Q4 2011: 111k). The increased focus on postpaid subscribers resulted in the highest number of postpaid net adds⁶ since 2006. In the prepaid segment the growth of net adds slowed down, mainly due to persistent competition in the ethnic segment. The prepaid net adds amounted to 171k⁶ in Q4 (Q4 2011: 458k). The underlying EBITDA decreased by 26% y-on-y and was impacted by higher subscriber acquisition costs and marketing expenses to support postpaid net adds. As a result the underlying margin decreased to 32.1% (Q4 2011: 43.8%).

Full-year underlying revenues and other income increased by 1.7%, underlying service revenues for the full-year increased 2.1%. The 2012 underlying EBITDA margin of 36.8% (2011: 41.7%) was mainly lower due to higher commercial investments.

In 2013 and beyond, E-Plus will move into the next phase of its strategy, towards a data-centric Challenger. In 2012, good progress has been made with the accelerated HSPA+ network roll-out; more than 85% of the population was covered with speeds up to 21Mbps. By mid-2013, the data network is expected to be on par with competition. In the coming period further steps will be taken to increase the quality of the network through increased capacity. The extended data network coverage is the corner stone of growing market share in underpenetrated regions. Distribution will be expanded in underpenetrated regions by optimizing the mix between online and off-line (shops), while the addressable market will be expanded by optimizing brand segmentation. Finally, improvements in the underlying cost structure are planned by reducing indirect costs as a percentage of revenues, which should enable investments in growth. In Q4 2012, E-Plus announced a restructuring program (restructuring costs of EUR 39m in Q4 2012) leading to FTE reductions and a reduction in the number of shops in highly penetrated regions.

Continued strong profitable growth in Belgium

Underlying revenues and other income in Belgium increased by 6.2% y-on-y in Q4 2012. Belgium continued to show strong underlying service revenue growth of 8.8%. Similar to previous quarters, the service revenue growth was driven by B2B, wholesale and data. In Q4 2012 further commercial initiatives such as BASE Check 25 in combination with a new service Spotify and Türk Telekom Mobile, were launched to counter the increasing competition. Net adds in Q4 amounted to 48k⁷ of which 7k were postpaid. Service revenue market share increased to ~20%. Underlying EBITDA declined by 12% due to increased marketing expenses and increased subscriber acquisition costs, resulting in an underlying EBITDA margin of 31.2% in Q4 2012 (Q4 2011: 37.8%).

Full-year underlying revenues and other income in 2012 were up 8.1% supported by strong underlying service revenue growth of 10%. The underlying EBITDA margin of 33.8% was slightly higher than 2011 (33.3%).

As in Germany, KPN Group Belgium will move into a next phase of its strategy, towards a mobile-centric Challenger. New innovative propositions are planned to be introduced, which are designed to improve customer experience through value added services and enforce smart price leadership. A competitive edge will be sought through speed differentiation, as the ambition is to have the majority of the country covered with LTE by end-2014. Further growth opportunities exist in underpenetrated regions in the south of Belgium and by focussing more on high value B2B customers. Furthermore, KPN Group Belgium is seeing an attractive opportunity to challenge the fixed-line market.

⁶ Excluding the effect of clean-up in Q4 2012 (576k inactive postpaid SIM cards and 439k inactive prepaid SIM cards)

⁷ Excluding the effect of clean-up in Q4 2012 (334k inactive prepaid SIM cards)

Aligning focus Rest of World

Underlying revenues and other income of Rest of World declined by 40% as a result of intense competition in the ethnic segment across the footprint and the sale of KPN France in Q4 2011. Underlying EBITDA in Q4 2012 decreased to EUR -9m (Q4 2011: EUR 3m).

In line with KPN's strategy to focus on its core markets, KPN Spain and Ortel Switzerland were sold in Q4 2012. The positive impact of these divestments on EBITDA was offset by a provision taken in Q4 2012.

Analysis of underlying results

Consolidated figures	Q4 2012			Q4 2011			Q4 2011			Δ y-on-y	Δ y-on-y
	Reported	Result		Underlying	Reported	Result		Underlying	Reported		
Revenues and other income	Reported	M&A	Incidentals	Underlying	Reported	Regulation	M&A	Incidentals	Underlying	Reported	Underlying
Germany	929		103	826	829	-11			818	12%	1.0%
Belgium	205			205	203	-10			193	1.0%	6.2%
Rest of World	74		36	38	73			10	63	1.4%	-40%
Other (incl. eliminations)	-12			-12	-29				-29	-59%	-59%
Mobile International	1,196		139	1,057	1,076	-21		10	1,045	11%	1.1%
Consumer Mobile	414			414	457	-4			453	-9.4%	-8.6%
Consumer Residential	480	15		465	473				473	1.5%	-1.7%
Business	584	12		572	604	-3			601	-3.3%	-4.8%
NetCo	701	16	65	620	734	-2		70	662	-4.5%	-6.3%
Other (incl. eliminations)	-535			-535	-564				-564	-5.1%	-5.1%
Dutch Telco business	1,644	43	65	1,536	1,704	-9		70	1,625	-3.5%	-5.5%
Corporate Market	320		-6	326	499		158		341	-36%	-4.4%
Other (incl. eliminations)	-89			-89	-84				-84	6.0%	6.0%
The Netherlands	1,875	43	59	1,773	2,119	-9	158	70	1,882	-12%	-5.8%
iBasis	255			255	249				249	2.4%	2.4%
Eliminations	-72			-72	-82				-82	-12%	-12%
Other activities	20			20	13				13	54%	54%
Revenues and other income	3,274	43	198	3,033	3,375	-30	158	80	3,107	-3.0%	-2.4%

Consolidated figures	Q4 2012			Q4 2011			Q4 2011			Δ y-on-y	Δ y-on-y
	Reported	Result		Underlying	Reported	Result		Underlying	Reported		
EBITDA	Reported	M&A	Incidentals ⁸	Underlying	Reported	Regulation	M&A	Incidentals ⁸	Underlying	Reported	Underlying
Germany	329		64	265	364	-6			358	-9.6%	-26%
Belgium	64			64	79	-7		-1	73	-19%	-12%
Rest of World	-13		-4	-9	13			10	3	n.m.	n.m.
Other (incl. eliminations)	-1			-1	-				-	n.m.	n.m.
Mobile International	379		60	319	456	-13		9	434	-17%	-26%
Consumer Mobile	138			138	125	-1		-1	125	10%	10%
Consumer Residential	83	-3	-4	90	108			-2	110	-23%	-18%
Business	167	4	-15	178	179	-3		-3	179	-6.7%	-0.6%
NetCo	378	2	43	333	444			62	382	-15%	-13%
Other (incl. eliminations)	-			-	-4				-4	-100%	-100%
Dutch Telco business	766	3	24	739	852	-4		56	792	-10%	-6.7%
Corporate Market	17		-15	32	12		8	-36	40	42%	-20%
Other (incl. eliminations)	-1			-1	1				1	n.m.	n.m.
The Netherlands	782	3	9	770	865	-4	8	20	833	-9.6%	-7.3%
iBasis	7			7	7				7	0.0%	0.0%
Other activities	-47		-3	-44	-12			9	-21	>100%	>100%
EBITDA	1,121	3	66	1,052	1,316	-17	8	38	1,253	-15%	-16%

⁸ Including restructuring costs

Condensed Consolidated Interim Financial Statements for the twelve months ended 31 December 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		For the twelve months	
	ended 31 December		ended 31 December	
	2012	2011	2012	2011
Revenues	3,053	3,295	12,409	13,022
Other income	221	80	299	141
Revenues and other income [1]	3,274	3,375	12,708	13,163
Own work capitalized	-30	-31	-113	-116
Cost of materials	215	285	901	1,005
Work contracted out and other expenses	1,150	1,127	4,545	4,503
Employee benefits	467	480	1,911	1,874
Depreciation, amortization and impairments	992	880	2,708	2,589
Other operating expenses	351	198	936	759
Total operating expenses	3,145	2,939	10,888	10,614
Operating profit [2]	129	436	1,820	2,549
Finance income	22	9	39	32
Finance costs	-183	-175	-732	-690
Other financial results	-109	-54	-151	-96
Finance income and expenses [3]	-270	-220	-844	-754
Share of the profit of associates and joint ventures, net of tax	3	-7	-13	-24
Profit before income tax	-138	209	963	1,771
Income taxes [4]	-22	-33	-270	-222
Profit for the period	-160	176	693	1,549
Profit attributable to non-controlling interest	2	0	2	0
Profit attributable to equity holders	-162	176	691	1,549
Earnings per ordinary share on a non-diluted basis (in EUR)	-0.11	0.13	0.49	1.06
Earnings per ordinary share on a fully diluted basis (in EUR)	-0.11	0.13	0.49	1.06
Weighted average number of shares on a non-diluted basis			1,418,808,437	1,460,869,236
Weighted average number of shares on a fully diluted basis			1,421,398,931	1,461,968,065

Unaudited Consolidated Statement of Comprehensive Income

<i>(in millions of euro, unless indicated otherwise)</i>	For the three months ending 31 December		For the twelve months ending 31 December	
	2012	2011	2012	2011
Profit for the period	-160	176	693	1,549
Other comprehensive income:				
Cash flow hedges [5]:				
Gains or (losses) arising during the period	-111	101	-319	109
Tax	27	-26	78	-28
	-84	75	-241	81
Currency translation adjustments:				
Gains or (losses) arising during the period	1	-	3	-14
Tax	-	-	-	-
	1	-	3	-14
Fair value adjustment available for sale financial assets:				
Gains or (losses) through equity	-1	2	3	-5
Impairment through the income statement	-	-	-	13
	-1	2	3	8
Other comprehensive income for the period, net of taxes	-84	77	-235	75
Total comprehensive income for the year, net of tax	-244	253	458	1,624
Total comprehensive income attributable to:				
Owners of the parent	-246	253	456	1,624
Non-controlling interest	2	-	2	-

Unaudited Consolidated Statement of Financial Position

ASSETS <i>(in millions of euro)</i>	As at	
	31 December 2012 (unaudited)	31 December 2011
NON-CURRENT ASSETS		
Goodwill [7]	5,157	5,575
Licenses	2,191	2,495
Software	838	852
Other intangibles	272	290
Total Intangible assets	8,458	9,212
Land and buildings	671	705
Plant and equipment [8]	6,573	5,704
Other tangible non current assets	94	116
Assets under construction [8]	557	1,008
Total property, plant and equipment	7,895	7,533
Investments in associates and joint ventures [9]	326	261
Loans to associates and joint ventures [9]	227	127
Available-for-sale financial assets	35	48
Derivative financial instruments	233	169
Deferred income tax assets	1,822	1,831
Other financial non-current assets	291	261
Total non-current assets	19,287	19,442
CURRENT ASSETS		
Inventories	111	123
Trade and other receivables	1,696	1,607
Current income tax receivables	5	1
Cash	1,286	990
Total current assets	3,098	2,721
Non-current assets and disposal groups held for sale [10]	28	224
TOTAL ASSETS	22,413	22,387

	As at	
LIABILITIES	31 December 2012	31 December 2011
<i>(in millions of euro)</i>	<i>(unaudited)</i>	
GROUP EQUITY		
Share capital	344	344
Share premium	6,717	6,717
Other reserves	-361	-127
Retained earnings	-4,290	-4,004
Equity attributable to owners of the parent	2,410	2,930
Non controlling interest [12]	51	0
Total group equity	2,461	2,930
NON-CURRENT LIABILITIES		
Borrowings [11]	12,369	11,641
Derivative financial instruments	458	229
Deferred income tax liabilities	440	793
Provisions for retirement benefit obligations	314	441
Provisions for other liabilities and charges	387	397
Other payables and deferred income	122	155
Total non-current liabilities	14,090	13,656
CURRENT LIABILITIES		
Trade and other payables	3,857	3,804
Borrowings [11]	1,527	1,458
Derivative financial instruments	16	0
Current income tax liabilities	270	218
Provisions (current portion)	186	129
Total current liabilities	5,856	5,609
Liabilities directly associated with non-current assets and disposal groups classified as held for sale [10]	6	192
TOTAL EQUITY AND LIABILITIES	22,413	22,387

Unaudited Consolidated Statement of Cash Flows

<i>(in millions of euro)</i>	For the twelve months 31 December	
	2012	2011
Profit before income tax	963	1,771
Adjustments for:		
- Net finance costs	844	754
- Share-based compensation	-1	-15
- Share of the profit of associated and joint ventures	13	24
- Depreciation, amortization and impairments	2,708	2,589
- Other income	-258	-137
- Changes in provisions (excl. deferred taxes)	-127	-209
Changes in working capital relating to:		
- Inventories	19	14
- Trade receivables	5	24
- Prepayments and accrued income	37	64
- Other current assets	-15	12
- Trade payables	-66	150
- Accruals and deferred income	56	-151
- Current liabilities (excl. short-term financing)	-43	-20
Change in working capital	-7	93
Dividends received	19	1
Taxes paid / received	-486	-231
Interest paid	-661	-637
Net cash flow from operations	3,007	4,003
Acquisition of subsidiaries, associates and joint ventures (net of acquired cash)	-323	-23
Disposal of subsidiaries, associates and joint ventures	8	-2
Investments in intangible assets (excl. software)	-54	-27
Investments in property, plant & equipment	-1,780	-1,584
Investments in software	-429	-463
Disposal of intangibles (excl. software)	0	9
Disposal in property, plant & equipment	10	20
Disposal in software	1	1
Disposals of real estate	519	156
Other changes and disposals	-85	-73
Net cash flow used in investing activities	-2,133	-1,986
Share repurchase	0	-1,000
Share repurchases for option plans	0	0
Dividends paid	-979	-1,200
Exercised options	2	5
Proceeds from borrowings	1,640	2,159
Repayments of borrowings and settlement of derivatives	-1,526	-1,702
Other changes in interest-bearing current liabilities	-13	-10
Net cash flow used in financing activities	-876	-1,748
Changes in cash	-2	269
Net Cash at beginning of period	950	682
Exchange rate difference	-1	-1
Changes in cash	-2	269
Net Cash at end of period	947	950
Bank overdrafts	343	76
Cash classified as held for sale	-4	-36
Cash at end of period	1,286	990

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 attributable 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
Share based compensation	-	-	-	-	1	1	-	1
Exercise of options	-	-	-	7	-	7	-	7
Shares repurchased	-	-	-	-1,000	-	-1,000	-	-1,000
Dividends paid	-	-	-	-	-1,202	-1,202	-	-1,202
Shares cancelled	-141,087,402	-33	-1,467	1,500	-	-	-	-
Total comprehensive income for the period	-	-	-	75	1,549	1,624	-	1,624
Balance as of 31 December 2011	1,431,522,482	344	6,717	-127	-4,004	2,930	-	2,930
Share based compensation	-	-	-	-	2	2	-	2
Exercise of options	-	-	-	1	-	1	-	1
Dividends paid	-	-	-	-	-979	-979	-	-979
Acquisitions	-	-	-	-	-	-	49	49
Total comprehensive income for the period	-	-	-	-235	691	456	2	458
Balance as of 31 December 2012	1,431,522,482	344	6,717	-361	-4,290	2,410	51	2,461

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. KPN operates an efficient IP-based infrastructure with global scale in international wholesale through iBasis.

Accounting policies

Basis of presentation

The condensed consolidated financial statements do not include all of the information required for full annual financial statements. In addition, the notes to these consolidated financial statements are presented in a condensed format. The applied accounting principles are in line with those as described in KPN's 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 discount rates, 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

In June 2011, IAS 19 'Employee benefits' was amended (IAS19R) and became 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).

In addition, KPN has decided to present net interest cost as other financial results as of 1 January 2013.

IAS 19R will be applied in the (interim) financial statements 2013 with restatement of comparative 2012 numbers. At 1 January 2013, all unrecognized cumulative actuarial losses and past service costs will be recognized at once which will reduce equity attributable to equity holders with around EUR 1.1bn (net of tax), the net pension provision in the balance sheet will increase with around EUR 1.4bn and the deferred tax assets will increase with around EUR 0.3bn. Under IAS 19R, the pension provision in the balance sheet is equal to the defined benefit obligation less the fair value of plan assets of the defined benefit pension plans. The impact of IAS 19R on equity at 1 January 2012 is a reduction of around EUR 0.7bn (net of tax).

Pension cost (excluding net interest cost) in 2012 will be approximately EUR 111m lower as a result of the application of IAS 19R mainly due the elimination of amortization of actuarial gains and losses through the income statement (EUR 91m) and the replacement of interest cost and expected return on plan assets (EUR 20m expense under IAS 19) with a net interest amount which will be presented as other financial results. The net interest cost under IAS 19R relating to the pension provision amounts to EUR 36m in 2012.

In 2012, actuarial losses of around EUR 0.7bn were incurred (EUR 0.5bn net of tax) which under IAS 19R are recognized immediately in equity attributable to equity holders.

The effect on Other Comprehensive Income and Total Comprehensive Income in 2012 would have been a decrease of around EUR 0.4bn.

IAS 19R specifically addresses the incorporation in the valuation of the defined benefit obligation of risk sharing and shared funding between employer and employees (e.g. employee contributions) which are typical for Dutch pension arrangements and which would reduce the defined benefit obligation. From the current wording in IAS 19R, it is unclear how these elements should be included in the valuation of the defined benefit obligation. Therefore, the IFRS Interpretations Committee (IFRIC) is requested to provide additional guidance. The impact of risk sharing and shared funding on the defined benefit obligation under IAS 19R for KPN's Dutch pension plans is expected to be limited but will be further determined when additional guidance from the IFRIC becomes available. In the numbers mentioned above, the possible impact of risk sharing and shared funding is not included.

The amount of cash contributions to be paid to the pension funds will not be impacted due to the above-mentioned changes in accounting for pensions nor the investment policies of these funds as these are determined independently from KPN. KPN has no bank covenants which will be impacted by these new accounting policies nor will they have an impact on KPN's ability to meet its financial obligations.

[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 [13] in these Condensed Consolidated Interim Financial Statements.

Revenues and other income	For the twelve months ended 31 December 2012				For the twelve months ended 31 December 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	3,173	149	82	3,404	3,147	4	92	3,243
Belgium	768	0	36	804	722	1	58	781
Rest of World	214	35	-2	247	292	10	0	302
Other (incl. eliminations)	0	1	-85	-84	0	-1	-117	-118
Mobile International	4,155	185	31	4,371	4,161	14	33	4,208
Consumer Mobile	1,611	0	96	1,707	1,770	0	130	1,900
Consumer Residential	1,730	0	122	1,852	1,774	0	129	1,903
Business	2,253	0	99	2,352	2,321	4	108	2,433
NetCo	582	102	1,937	2,621	577	121	2,082	2,780
Other (incl. eliminations)	0	0	-2,087	-2,087	-1	0	-2,251	-2,252
Dutch Telco	6,176	102	167	6,445	6,441	125	198	6,764
Corporate Market	1,185	10	210	1,405	1,606	5	200	1,811
Other (incl. eliminations)	0	0	-318	-318	0	-1	-315	-316
The Netherlands	7,361	112	59	7,532	8,047	129	83	8,259
iBasis	820	0	215	1,035	750	0	227	977
Other activities	73	2	1	76	64	-2	0	62
Eliminations	0	0	-306	-306	0	0	-343	-343
KPN Total	12,409	299		12,708	13,022	141		13,163

KPN Group revenues and other income in 2012 were 3.5% or EUR 455m lower y-on-y mainly due to the sale of Getronics International (impact of EUR 362m) and a decline in The Netherlands while Germany, Belgium and iBasis showed increased revenues. The negative impact on Group revenues from regulation in 2012 was EUR 134m (1.0%). The Netherlands continued to show a revenue decline as a result of difficult market conditions and regulation. Other income in 2012 included book gains, most notably on the sale of mobile towers in Germany and The Netherlands of EUR 199m, the sale of SNT Inkasso of EUR 16m, the sale of Getronics International of EUR 8m and the sale of KPN Spain of EUR 36m, and other services of EUR 27m at Germany.

Other income in 2011 mainly included a book gain on the sale of mobile towers at NetCo and a book gain in Rest of World related to the sale of KPN France. For more detailed information on revenues, reference is made to the Management Report.

[2] Operating profit

	For the twelve months ended 31 December 2012			For the twelve months ended 31 December 2011		
	Operating profit	Depreciation, Amortization & Impairments (DA&I)	EBITDA	Operating profit	Depreciation, Amortization & Impairments (DA&I)	EBITDA
Operating profit, DA&I and EBITDA						
Germany	533	757	1,290	698	656	1,354
Belgium	111	161	272	133	140	273
Rest of World	-35	9	-26	-5	14	9
Mobile International	609	927	1,536	826	810	1,636
Consumer Mobile	390	120	510	472	78	550
Consumer Residential	111	256	367	275	222	497
Business	636	122	758	672	114	786
NetCo	626	835	1,461	818	887	1,705
Other (incl. eliminations)	-19	1	-18	-17	0	-17
Dutch Telco business	1,744	1,334	3,078	2,220	1,301	3,521
Corporate Market	-365	422	57	-445	451	6
Other (incl. eliminations)	0	0	0	0	1	1
The Netherlands	1,379	1,756	3,135	1,775	1,753	3,528
iBasis	12	18	30	11	20	31
Other activities	-180	7	-173	-63	6	-57
KPN Total	1,820	2,708	4,528	2,549	2,589	5,138

KPN Group EBITDA in 2012 decreased by 12% or EUR 610m y-on-y. EBITDA was impacted by regulation of EUR 64m and restructuring costs of EUR 173m (2011: EUR 130m). The decrease in EBITDA was driven by decreased revenues in The Netherlands, a continued decline in high margin traditional services and higher activation costs at Residential and NetCo. Furthermore, pension costs were EUR 101m higher y-on-y of which EUR 73m related to actuarial losses at the Getronics UK and US pension funds and EUR 28m related to The Netherlands.

Operating profit decreased by EUR 729m (29%) y-on-y, resulting from the EBITDA decrease and increased depreciation and amortization compared to last year (EUR 119m). In Germany EUR 101m higher depreciation charges were recorded, resulting from a total one-off depreciation of Assets Under Construction amounting to EUR 74m (of which related to prior periods: EUR 61m) and higher depreciation resulting from handset leases (EUR 25m). In The Netherlands the lower depreciation resulting from the extension of the economic life of fiber (EUR -40m) was more than offset by higher depreciation of customer driven investments (handset lease and IPTV modems, EUR 63m). Amortization of software increased at all Dutch Telco segments (EUR 21m). The deconsolidation of Getronics International resulted in EUR 44m lower depreciation charges.

Included in the depreciation and amortization was the impairment of goodwill of Corporate Market amounting to EUR 314m. The impairment was driven by the persistent continued adverse market conditions in the ICT market including fierce price pressure. In 2011 an impairment of EUR 298m was recorded (goodwill EUR 154m, property, plant and equipment 115m and intangible assets EUR 29m), also related to Corporate Market. The remaining goodwill related to Corporate Market at the end of 2012 amounted to EUR 73m.

[3] Finance costs, income and other financial results

Net finance costs increased by EUR 90m y-on-y to EUR 844m. Net finance costs increased in 2012 as a result of higher accrued bond interest and fair value movements on swaps, while in 2011 net finance costs included a gain from ineffectiveness on the USD fair value hedges. In addition, net finance costs are higher as a result of the change in value of the Reggefiber call/put arrangements of EUR 100m during the year, which is recorded as a loss under other financial results (2011: EUR 55m).

[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 the Group for the full-year 2012 is 27.6% (2011 non-adjusted: 10.9%, including the one-off innovation tax benefit for the years 2007 to 2010) and is expected to be approximately 20% in the years 2013-2015. The higher effective tax rate in 2012 compared to the expected 20%, is mainly due to the non-deductible goodwill impairment of Corporate Market, revaluation of the Reggefiber call/put arrangements and pension expenses in 2012 for the UK and US pension funds, partly offset by an increase in the deferred tax asset position at E-Plus.

[5] Cash flow hedges

In 2012, the cash flow hedge reserve decreased by EUR 241m (2011: increase of EUR 81m) 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 in 2012 is caused by the significant drop of the Euro interest rates compared to USD and GBP interest rates.

[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 held a 41% stake at that time).

In September 2012, KPN entered into a strategic partnership with GroupIT B.V. (RoutIT) and acquired a stake of 12.5%, with a potential right to acquire the remaining stake and thus acquired control over GroupIT B.V.

On 17 October 2012, the Dutch competition authority (NMa) announced the approval of the acquisition of the fiber service providers Edutel, XMS, KickXL and Concepts ICT from Reggeborgh. The transactions were completed on 19 October 2012.

[7] Impairment Corporate Market

Triggered by the persistent continued adverse market conditions in the ICT market including fierce price pressure, the Q4 2012 impairment testing at Corporate Market led to an impairment of goodwill of EUR 314m. In 2011, impairment testing led to an impairment of tangible assets, goodwill and other intangible assets of EUR 298m. The remaining goodwill related to Corporate Market at the end of 2012 amounted to EUR 73m.

[8] Plant and equipment, assets under construction

In 2012 assets under construction in relation to the mobile network in Germany were reclassified to plant and equipment for EUR 451m. As a result, a one-off additional depreciation charge of EUR 74m (related to prior periods: EUR 61m) was recorded.

[9] Investments in associates and joint ventures, loans to associates and joint ventures

In October 2012, the first call/put option under the amended arrangements with Reggeborgh vested upon the reach of the milestone of 1.0 million Homes Connected. As a result of the exercise of this option, KPN acquired an additional 10% of the shares in Reggefiber, increasing its share to 51%, for an amount of EUR 99 million on November 8, 2012. The first option, with a fair value of EUR -25m, was exercised correspondingly.

In addition to the 51% share in Reggefiber, KPN provided shareholder loans to Reggefiber. In 2012, the shareholder loans provided by KPN increased by EUR 100m.

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

During the first half 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 31 December 2012 Multiconnect and Ortel Spain were classified as held for sale.

[11] Borrowings

On 1 March 2012, KPN issued a EUR 750m Eurobond, with a 10-year maturity and a fixed coupon of 4.25%. On 1 August 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.

On 13 November 2012, KPN redeemed the Eurobond 2007-2012 with an outstanding amount of EUR 957m, in accordance with the regular redemption schedule.

As at the end of Q4 2012, the average maturity of the bond portfolio was 7.0 years (Q3 2012: 6.8 years). The average interest rate on the nominal bonds remained stable at 5.1% (Q3 2012: 5.1%).

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. Per 31 December 2012, KPN had no drawings on its revolving credit facility (Q4 2011: EUR 400m).

In December 2012, KPN signed a EUR 500 million standby credit facility, which is available for drawdown until 31 March 2013 and which has a final maturity date 364 days after drawdown. This facility was undrawn at 31 December 2012.

[12] Non-controlling interest

In 2012, KPN entered into a strategic partnership with GroupIT B.V. (RoutIT) and acquired a stake of 12.5% and a potential right to the remaining stake and thus acquired control over GroupIT B.V. This resulted in a non-controlling interest of EUR 51m.

[13] Other segment information

	As at 31 December 2012		As at 31 December 2011		For the twelve months 31 December	
	Total assets	Total liabilities	Total assets	Total liabilities	2012 Capex	2011 Capex
Assets, liabilities and Capex						
Germany	10,520	26,398	10,451	26,766	643	609
Belgium	1,934	335	1,882	316	133	114
Rest of World	108	112	153	135	1	2
Other (incl. eliminations)	-44	-8	-16	-17	0	0
Mobile International	12,518	26,837	12,470	27,200	777	725
Consumer Mobile	1,646	1,381	2,571	2,367	263	74
Consumer Residential	1,817	1,746	1,135	1,070	309	243
Business	2,697	2,656	2,680	2,688	108	112
NetCo	9,069	9,071	8,867	8,868	661	760
Other (incl. eliminations)	-453	-453	-1,059	-1,042	5	1
Dutch Telco business	14,776	14,401	14,194	13,951	1,346	1,190
Corporate Market	1,808	1,603	2,410	1,830	73	116
Other (incl. eliminations)	-294	-294	-303	-304	0	1
The Netherlands	16,290	15,710	16,301	15,477	1,419	1,307
iBasis	458	358	448	365	9	9
Other activities	-6,853	-22,953	-6,832	-23,585	4	6
KPN Total	22,413	19,952	22,387	19,457	2,209	2,047

The increase in Capex of EUR 162m y-on-y was related to increased Capex in The Netherlands and the accelerated roll-out of the networks in both Germany and Belgium. In The Netherlands, customer driven investments (e.g. handsets, IPTV modems) and investments to modernize the mobile network and to prepare for LTE increased, partly offset by lower fixed network investments.

[14] 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.

On 14 December 2012, KPN announced an adjustment to its dividend outlook. KPN will not pay a final dividend over 2012 and the dividend outlook for 2013 has been set at EUR 0.03 per share.

[15] Off-balance sheet commitments

At the end of Q4 2012 off-balance sheet commitments increased to EUR 6.4bn (Q4 2011: EUR 4.5bn). The off-balance sheet commitments at the end of the year include the commitment related to the obtained frequency licenses in the Dutch spectrum auction amounting to EUR 1,352m, which has been paid in January 2013. Furthermore, leasing commitments increased resulting from the 2012 tower sales in Germany and The Netherlands.

[16] Regulatory developments

The Netherlands: Mobile spectrum auction

KPN obtained a highly attractive combination of 120MHz of frequency licenses in the Dutch spectrum auction at a total cost of EUR 1,352m. KPN obtained 2*10MHz of 800MHz, 2*10MHz of 900MHz and 2*20MHz of 1,800MHz and an additional 1*30MHz 2.6GHz spectrum for a period of 17 years. Furthermore, an additional 2*5MHz of 2.1GHz spectrum was acquired for a period of 4 years. This spectrum package guarantees continuation of existing and introduction of new services.

The Netherlands: Status OPTA analyses fixed telecommunications markets

OPTA has completed its third round of market analyses procedures in relation to the fixed telecommunications markets in The Netherlands by publishing decisions on the markets Fiber-to-the-Office (FtO) and Wholesale Broadband Access (high quality) and Leased Lines on 28 December 2012. OPTA designated KPN as having significant market power on these markets and imposed access obligations, price controls and non-discrimination obligations on KPN. Appeals to OPTA's earlier decisions in relation to the markets of unbundled access to its copper network, wholesale telephony and retail telephony for two and more simultaneous calls, on which KPN has been designated as having significant market power are ongoing. Appeals to OPTA's decision of 20 December 2011 not to regulate the Dutch television markets have been rejected by the relevant Court on November 5, 2012, contrary to its earlier findings.

Germany: Update on MTA regulation

In Germany, on 16 November 2012 BNetzA set preliminary new MTRs of 1,85 €ct/min for the period from 1 December 2012 to 30 November 2013 and of 1,79 €ct/min for the period from 1 December 2013 to 30 November 2014. These preliminary decisions are based on a bottom up cost model which identifies the cost of efficient service provision instead of the pure BULRIC recommended by the EU Commission. BNetzA's preliminary decisions still have to be notified with the EU Commission.

[17] 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 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 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 held at that time 41% of the shares. Furthermore, in 2012 KPN acquired a further 10% share in Reggefiber Group B.V.

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 31 December 2012.

[18] Subsequent events

On 9 January 2013, KPN made a payment of EUR 1,352m in relation to the frequency licences obtained in the Dutch spectrum auction that ended in December 2012. The purchase price was financed from existing cash balances and drawings under KPN's EUR 2 billion revolving credit facility.

Disclaimers

This announcement does not constitute an offer to sell, or a solicitation of offers to purchase or subscribe for, securities in the United States. The securities referred herein have not been, and will not be, registered under the US Securities Act of 1933 and may not be offered, exercised or sold in the United States absent registration or an applicable exemption from registration requirements.

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", "will", "may", "could", "should", "intends", "estimate", "plan", "goal", "target", "aim" or similar expressions.

These forward-looking statements rely on a number of assumptions concerning future events and are subject to uncertainties and other factors, many of which are outside KPN's control that could cause actual results to differ materially from such statements and speak only as of the date they are made. A number of these factors are described (not exhaustively) in the Annual Report 2011.